

**PRE-BUDGET SUBMISSION  
TO THE  
HOUSE OF COMMONS  
STANDING COMMITTEE ON FINANCE**

**THE CASE FOR A  
REDUCTION TO THE  
EXCISE DUTY ON BEER**



February, 2016  
Ottawa, Ontario

## INTRODUCTION

The purpose of this document is to support a formal request for an excise duty reduction on beer that is fair and consistent with the Federal Government’s desire to foster growth and create good paying middle class jobs. Specifically:

- **Reduce the tiered excise duty rates on beer by 13.5 percent in Budget 2016 to restore the excise differential between beer and coolers.**

This action would reduce the excise duty burden on the brewing industry by an estimated \$76 million, correct the tax bias enjoyed for some years by the wine and spirit based single-serve products (coolers) and fulfill a recommendation under Canada’s National Alcohol Strategy.

The proposal that follows in this document is submitted by Beer Canada on behalf of its 37 members:

BEER CANADA MEMBERSHIP		
Alley Kat Brewing Company Bierbrier Brewing Inc. Brick Brewing Co. Limited Calabogie Brewing Company Cassel Brewery Company Drummond Brewing Company Ltd. Fort Garry/Russell Brewing Co. Garrison Brewing Co. Great Western Brewing Company Howe Sound Brewing Co. Ltd. Kichesippi Beer Co. King of Springs Brewery Ltd.	Kwantlen Polytechnic University Labatt Breweries of Canada Lake of the Woods Brewing Co. Magnotta Brewery Mash Paddle Brewing Co. Molson Coors Canada Moosehead Breweries Limited Muskoka Brewery Inc. Nelson Brewing Company Ltd Niagara College Teaching Brewery Olds College Brewery Perth Brewery Company	Picaroons Traditional Ales Prince Edward Island Brewing Co. Pump House Brewery Quidi Vidi Brewing Company Red Truck Beer Company Rideau Valley Brewery Sleeman Breweries Ltd. Storm Brewing in NFLD Tree Brewing & Fireweed Brewing Vancouver Island Brewery Village Brewery Wellington County Brewery Inc. Yukon Brewing Co.

Founded in 1943, Beer Canada is a voluntary national trade association, mandated to advocate on behalf of member brewing companies. The 51 brewing facilities operated by our members span the country and account for more than 90 percent of domestically produced beer.

Beer is a sensible beverage. It is low in alcohol, with 85 percent of sales in portion-controlled single-serve containers. Beer is also the most popular beverage alcohol product enjoyed by Canadian adults, making up 44 percent of combined sales across the beer, wine and spirits categories.

A 2013 Conference Board of Canada study found that the beer economy generates over \$14 billion in economic activity. Domestic brewing companies account for 85 percent of all beer sold in the country, one of the few Canadian food industries that has a significant share of its home market.

Supporting growth in the beer category would generate good jobs. Statistics Canada most recent data reveals Canadian brewers directly employed 11,685<sup>1</sup> Canadians in 2014 with a total compensation bill of \$975 million. The average compensation per job in Canadian brewing is \$83,000, almost 40 percent higher than the average for the food and beverage manufacturing industry as a whole.

Beer Canada's proposal to reduce the excise rate on beer by 13.5 percent is fair and consistent with the Federal Government's desire to foster growth and create good paying middle class jobs. It also alleviates some of the tax inequity introduced in 2006 through the elimination of duty on qualifying wines and wine products including coolers. Finally, it fulfills a recommendation under Canada's National Alcohol Strategy.

### EXCISE DUTY RATE CHANGES

Since 1975, except when excise duty increases were tied to changes in the beverage alcohol price index between 1980 and 1985, most excise duty changes have eroded the tax differential between beer and the other beverage categories. The consequence has been to increase the tax burden on the lowest alcohol content beverage, beer, and away from the higher strength alcohol products. The last two changes in 1991 and 2006 were substantial.

#### Last Two Excise Duty Changes Eroded the Differential Between Beer and Other Beverages

Beverage Category	1991 Excise Increase %	2006 Excise Increase %
Beer	44.8	11.6
Wine (100% Canadian)	17.0	Duty Eliminated
Wine (non 100% Canadian)	17.0	18.5
Spirits	3.1	5.7
Coolers	14.5	20.0

### SINGLE-SERVE COMPETITION

Initially coolers were taxed higher than beer on a per package basis at \$0.2024 per litre compared to beer at \$0.1858. The relationship reversed in 1991, with the cooler duty falling to \$0.03 per litre below the duty on beer. The duty on coolers was set at \$0.25 per litre compared to beer at \$0.28.

A lower excise rate on wine and spirit coolers continued after the 2006 rate changes but effectively was cut further as a result of the duty exemption on wines made with Canadian-only ingredients, an exemption that applies also to wine coolers, all fruit wines and ciders.

Following the change, exempt coolers have increased from about 8 percent of the domestic wine cooler market in 2007 to 40 percent in 2014. This growth reduced the effective rate of duty on domestic wine coolers and on the duty spread between them and beer. The effective cooler rate is now almost 60 percent lower than the effective excise duty on beer, or approximately \$0.11 per litre below the beer rate.

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<sup>1</sup> Statistics Canada CANSIM 383-0030

**Comparison of Effective Rates of Duty on Domestic Wine Coolers and Beer  
Duties per litre**

	Effective Rate <sup>(1)</sup> of Duty on Domestic Wine Cooler Segment	\$ Difference from 2006	Effective Rate <sup>(1)</sup> of Duty on Domestic Beer	\$ Difference in Duty Domestic Coolers vs Beer
2006	.295	-	.312	-.017
2007	.272	.023	.306	-.030
2008	.227	.068	.304	-.077
2009	.225	.070	.303	-.078
2010	.257	.038	.302	-.045
2011	.245	.051	.302	-.058
2012	.219	.076	.299	-.080
2013	.183	.112	.296	-.113
2014	.177	.118	.287	-.110

<sup>1</sup> Effective rate equals total tax revenues from domestic sales divided by total domestic volumes. In 2006, wine made with 100 percent Canadian agricultural product became exempt from federal excise. A progressive tiered federal excise schedule was introduced for beer the same year but all Canadian brewers pay excise for every litre of beer they produce.

Although spirits coolers do not benefit from the exemption provisions, they have held their majority share of the combined cooler market since at least 2007 and remain at a lower rate of excise than beer.

**PROPOSAL**

Canada's brewers recognize that every level of government requires tax revenue to deliver services, to build hospitals, schools and to invest in infrastructure. We believe that the federal excise duty crowds out private sector job creation and capital investment. As an immediate action, Canada's brewers request that the federal government restore the excise differential between beer and coolers that existed prior to 1991 in the next budget by reducing the progressive excise rates for beer by 13.5 percent.

The following table outlines the excise rates that would be in place today had the federal government sustained the differential between beer and coolers that existed prior to 1991.

**Proposed Rate of Excise Duty on Beer Above 2.5 percent Alcohol by Volume  
Brewed by Domestic Brewers**

Annual Production Hectolitres (hL)	Current (\$/hL)	Proposed (\$/hL)
0 to 2,000	3.122	2.70
2,001 to 5,000	6.244	5.40
5,001 to 15,000	12.488	10.80
15,001 to 50,000	21.854	18.90
50,001 to 75,000	26.537	22.95
Greater than 75,000	31.220	27.00

Canada's Brewers would also welcome an opportunity to consult with government on the economic benefits that would ensue from an excise structure tied to Canadian inputs (i.e., western-grown malting barley) as is now provided to the domestic wine industry.

## **RATIONALE**

### **Social Policy**

Beer, with an average alcohol content below 5% alcohol by volume (abv), is subject to an excise rate six percent higher than competing single-serve products sold by distillers and vintners, which often contain higher concentrations of alcohol. A National Alcohol Strategy Working Group, chaired by Health Canada, the Alberta Alcohol and Drug Abuse Commission, and the Canadian Centre on Substance Abuse, in 2007 published and released "[Reducing Alcohol-Related Harm: Toward a Culture of Moderation – Recommendations for a National Alcohol Strategy](#)". This document advocates incentives to encourage a shift in consumption to lower alcohol content beverages.

### **Economics**

In 2006, for the first time in recent history, Finance Canada appeared to take economic health of the sectors into account when it provided brewers with a tiered progressive excise duty schedule and Canadian vintners with a duty exemption on qualifying wines.

Since the measures were introduced, both the number and sales of brewing companies with production volumes under 100,000 hectolitres have more than doubled, suggesting that the tiered structure is successfully encouraging growth in this segment.

The duty exemption on qualifying wines also caused shifts in the sector within a growing market overall. Since the change, domestic wine sales have increased by 47.5 percent (2014 compared to 2006), with virtually all of the growth coming from wines made with Canadian-only ingredients. The volume of sales of these wines has increased almost six fold, from 11.5 million litres in 2006 to 67 million litres by the end of 2014. A fair excise rate on beer is important because:<sup>2</sup>

- Canadian brewers buy 300,000 tonnes of Canadian malting barley annually and produce 85 percent of the beer consumed in Canada;
- One out of every 100 Canadian jobs is supported by the beer economy;
- Beer sales generate a combined \$5.8 billion in federal, provincial and municipal taxes;
- One additional dollar spent on beer generates \$1.12 in gross domestic product, over and above the contribution to tax revenues.

Government promotion of the Canadian brewing industry through a sensible tax structure has the potential to significantly multiply these economic benefits for the Canadian economy.

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<sup>2</sup>The Conference Board of Canada, "[From Farm to Glass: The Value of Beer in Canada](#)", November 2013.

## **Fairness**

The economic benefits generated by the Canadian brewing industry far outweigh those generated by the wine sector, yet in 2006 government completely eliminated duty on wines made using only Canadian grown ingredients only.

Given the success of this measure in the wine and wine cooler markets, in the longer term, Beer Canada would welcome an opportunity to explore taxation models unique to brewing that recognize both Canadian agricultural content and the value added inherent to the brewing process - such as conversion of barley to malt.

## **IMPACT**

According to Public Accounts of Canada 2014-15, Canada Revenue Agency collected \$563 million in excise duty from beer. A 13.5 percent reduction to the progressive excise duty would reduce the tax burden on brewers by an estimated \$76 million.

This amount is proportionate to the value of the wine benefit when the difference in the sector size is taken into account (i.e. the value of the wine duty exemption now stands at an estimated \$44 million).

A reduction in the tax burden for brewers will increase their capacity for reinvestment. This will result in potential offsets by way of greater contributions to GDP and expanded job opportunities.

## **SUMMARY**

For many years, revenue generation has been the principle objective for changes to the rates of excise duties on beer, spirits and wine. These changes have ignored, and in fact conflicted, with social policy objectives in that the highest rates of increase have been applied to the lowest alcohol containing beverage.

Beer Canada's proposed measure to lower the excise rate on beer represents a step toward aligning with the National Alcohol Strategy's objectives aimed at reducing alcohol related harm.

In 2006, the government initiated excise duty changes aimed at stimulating growth and investing in the economic welfare of two important sectors - beer and wine. The proposal to correct a bias introduced in 1991 would build on the successes of those initiatives.

## **TIMING**

Beer Canada recommends that the reduction to the excise duty on beer supported in this paper be considered for announcement and implementation in the 2016-17 budget.

Beer Canada also proposes that the government initiate a consultative process on introduction of a beer excise scheme aimed at promoting Canadian content, as was done for the wine sector in 2006.

The excise duty reduction proposal contained in this paper represents a correction that would enable the Canadian brewing industry to participate actively in growing Canada's economy and adding private sector jobs.