



Executive Offices

Association of Canadian Distillers

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Members of the House of Commons Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa, ON, K1A 0A6

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Dear Members:

Spirits Canada welcomes the opportunity to share the Spirits Industry's priorities for the 2012 federal budget.

Spirits Canada is the only national trade association representing the interests of Canadian Spirits manufacturers. Spirits manufacturing consists primarily of mashing, fermenting and distilling quality cereal grains sourced from local farmers. And, in the case of the Industry's signature product of Canadian Whisky, store the resulting distillate in small wooden barrels then, set those aside from 3 to 30 years before bottling and shipping around the world to discerning consumers.

Canada, renown internationally for its clean, pure water and quality farming, makes some of the very finest whiskies, gins, rums and vodkas in the world.

However, Canada has yet to reach its full potential due to a heavy and unsustainable fiscal burden imposed on spirits in our domestic market. It is to address this strategic imperative that we are seeking support for a modest reduction of \$1.00 in federal excise duties imposed on spirits to be enacted in the 2012 federal budget.

INDUSTRY REQUEST

Reduction in spirits federal excise duties from \$11.696/laa to \$10.696/laa. The initial cost to the federal Treasury of this investment is estimated at \$55 million (3.8% of beverage alcohol excise duty revenues), and would be fully recovered in 4 years with volume growth.

ADDITIONAL INFORMATION

We have attached to this letter two documents that may be of interest to Members in their consideration of the Industry's request; 1) a one-page summary of key economic factors ascribed to the Canadian Spirits Industry and 2) a summary of the considerable benefits associated with a spirits excise duty rate reduction.

Sincerely,



Jan H. Westcott
President & CEO



Summary Canadian Spirits Industry Key Facts

A. Canada Excise Duty Structure

Product Category	Excise Per Standard Drink
Canadian Whisky	20 cents
Other Spirits	20 cents
Canadian Wine	NIL
Other Wine	9 cents
Canadian Beer	1½ cents to 10½ cents
Other Beer	10½ cents

Notes: 1) a standard drink contains 17 ml of pure alcohol whether in the form of 1½ ounces of 40% abv spirits, 5 ounces of 12% abv wine or 12 ounces of 5% abv beer. 2) beer excise duty reduction available on first 7,500,000 litres produced and packaged in Canada each year.

B. Key Economic Data

Direct Employment	1,240
Total Employment	9,000
Salaries & Wages	\$77 million
GDP	\$580 million
Export Intensity	55%
Agricultural Purchases	\$85 million

C. Each Additional \$1 million in Spirits exports generates:

Value-added income	\$1,140,000
Economic Activity	\$1,660,000
Employment	7.8 FTEs
Salaries & Wages	\$317,508

D. Value of International Whisk(e)y Trade (\$USD)

Canadian Whisky	\$246.3 million
Irish Whiskey	\$239.4 million
American Whiskey	\$941.1 million
Scotch Whisky	\$5,442.7 million
Total	\$6,869.4 million



Top Reasons for Spirits Excise Reduction



Grow International Exports

Spirits already represent over 56% of overall Canadian beverage alcohol exports (with wine representing less than 6%). Revenues generated in the home market must fund the development of new export markets that are needed to diversify existing international sales. Canadian spirits margins generated in Canada lag far behind those of our major international competitors in the UK and USA.

A number of newly liberalized international markets provide the Industry with a time sensitive opportunity to further diversify beyond traditional markets.

Treasury Revenue Increase

Over time, overall federal excise duty revenues from the sale of beverage alcohol are estimated to grow as a result of a lower excise duty for spirits, as spirits production grows. A reduced rate, reinvested in the business, can be a catalyst for new sales and enhanced revenues.

Spur Investment

Improved supplier gross margins are needed to fund new industry investment in capacity expansion, improved infrastructure, productivity enhancements as well as in domestic and international market support and expansion. Critical areas for investment include additional whisky maturation barrels and warehouses, fermentation tanks, bottling and packaging equipment, energy efficiency improvements, amongst many others.

Help for Farmers

Lower excise duties on spirits will help invigorate spirits sales here and abroad. Canadian spirits manufacturers transform the highest quality local cereal grains grown in Alberta, Saskatchewan, Ontario and Quebec, into premium Canadian Whisky, Gin, and Vodka enjoyed by discerning consumers around the world. Growth in Canadian spirits manufacturing means tangible support for Canada's grain and cereal farmers.

Help for Hospitality & Tourism

Spirits are a key profit driver for over 50,000 licensed bars, restaurants and lounges across the country. Licensed operators rely on their spirits manufacturing partners to help drive their businesses and deliver value to their patrons through sponsorships, theme events and product expertise.

Top Reasons for Spirits Excise Reduction



Instil Fairness

Canada has previously eliminated all excise duties on wines made from 100% Canadian-sourced grapes or fruit and has reduced the excise duty rate imposed on the first 7,500,000 litres of beer manufactured each year. The only category subject to an increase in overall federal duties in recent years has been spirits.

It is time to signal that Canada is interested in nurturing this truly world-class beverage alcohol category.

Encourage Innovation

Canada's high spirits excise rates (both in absolute and relative terms) hinder necessary investment in innovation and new product development. Canada's signature product of Canadian Whisky, for example, has not enjoyed the same level of financial support in recent decades as that deployed against American Bourbon or Irish Whiskey.

Enhanced Competition

Beer, wine and spirits actively compete for their fair share of consumption occasions. Widely disparate tax burdens across competing consumer products tilt the playing field and distorts competition. For example, current television media is nearly saturated with a Molson 67 campaign targeting spirits cocktail consumption occasions, a campaign partly funded by federal excise duty breaks on first 7,500,000 litres packaged and produced each year.

Health and Safety Support

Lower excise duties on beer and wine than those imposed on spirits inadvertently undermine the key health community message of a "drink is a drink". Reduced tax rates are interpreted by some as a license to consume certain alcoholic drinks and then engage in activities requiring skill and attention.

Moreover, provincial minimum price policies for spirits ensure that lower spirits excise duties will have little or no effect on the lowest priced products available in a given market mitigating any potential misuse or abuse.

Help for Families

Nearly 9,000 Canadian families rely on spirits manufacturing for their livelihoods. A more competitive excise duty rate for spirits is key to sustaining and growing employment here in Canadian operations.

Top Reasons for Spirits Excise Reduction



Productivity Gains

The productivity ranking of the Canadian beverage alcohol manufacturing sector is well below that of international leaders such as those of the EC or USA. A contributing factor is the serious misallocation of financial resources due to distorting effect of federal and provincial commodity tax policies.

Discourage Cross Subsidization

Certain wine, beer and cider manufacturers are using preferential excise duty rates imposed on their core businesses to subsidize their entry into the distilled spirits ready-to-drink "cooler" market, suppressing prices and profitability.

Traditional Product Definitions Blurring

Traditional legal definitions for beer, wine and spirits are losing their relevance to consumers as new products and technologies are developed. Products currently classified as beer (or malt liquors) that have undergone secondary manufacturing processes such as reverse osmosis, ultra-filtration, crystallization, centrifugation, or ion exchange are nearly indistinguishable from similar products subject to distillation. The goal of each of these processes is identical: to concentrate and increase the alcohol level while removing impurities and other remnants of the original fermentation; yet, only distillation attracts a higher excise duty.

Support Matured Canadian Whisky

A very significant characteristic of whiskies is that they are typically aged between 3 and 30 years before being bottled, sold and enjoyed. The economic reality of this delay is that it costs more to bring a Canadian Whisky onto the market than many other alcohol products whether a beer, wine or other spirit. The 2006 spirits excise increase, about to impact premium 6 year old Canadian Whiskies, is particularly damaging to the Industry.

Embrace Equity

Excise duties are imposed on beverage alcohol because of the specific nature of alcohol. Yet, current federal excise duties have been eliminated on many Canadian wines, are imposed at a rate equivalent to 9 cents per drink on other wines, 10 ½ cents on beer, and 20 cents on spirits, where each drink contains exactly the same amount of alcohol.