CANADIAN VINTNERS ASSOCIATION

ASSOCIATION DES VIGNERONS DU CANADA

Submission to the House of Commons Standing Committee on Finance Pre-Budget 2020 Consultations

Solutions to Advance the Competitiveness and Sustainability of the Canadian Wine Sector

August 2, 2019

List of Recommendations

Recommendation 1: That the Government of Canada amend the *Excise Tax Act* to eliminate the annual inflation indexation of the excise duty on wine to ensure that any future tax change is included in the budget implementation bill and subject to a vote in Parliament.

Recommendation 2: That the Government of Canada legislate a permanent annual investment of $10 million annually to support the promotion of Canadian wines across Canada and an annual increase of two percent as an index too protect the fund against inflation.

OVERVIEW

Canada is the fifth largest global wine importer by value and the eighth largest wine importer by volume, making Canada one of the most attractive wine markets in the world. Imported wines, including imported content in wines blended in Canada, represent roughly 85% of all wine volume sold across Canada. Due to free trade agreements with some of the world's largest wine producing countries (CETA, CPTPP, NAFTA), roughly 91% of wine import enter Canada free of import tariffs. With the ratification of the Canada-Mercosur free trade agreement, the volume of imported wine entering Canada tariff free will rise to 97%.

By global standards, Canadian vintners are subject to both the highest excise duty rates and the lowest import tariff protection of any wine producing country in the world. So while Argentina, Chile and Spanish wines represent an almost 100% wines sales market share in their home countries, 100% Canadian wines represent a mere 11.3% wine sales market share. In total, wine produced in Canada represent 33% and imports 66% of wine sales in Canada.

The Canadian wine industry, provides an annual economic impact of $9 billion[1], which is a fraction of its potential value. Regulatory reforms to liberalize interprovincial market access is critical to industry growth and sustainability as is excise tax relief to support growth and competitiveness.

INTRODUCTION

As the federal government aims to achieve its 2025 target of increasing agri-food exports to $75 billion annually[2], it is important to understand that the vertical integration of the Canadian wine industry captures greater revenue than any other value-added agri-food product, by not only crushing grapes and producing wine, but also through packaging, marketing and sales. From vineyard development and grape cultivation to the final sale, wine is a highly complex process that involves numerous suppliers, distributors and service providers throughout the value chain, compounding the economic benefits.

Canada's 700 grape wineries and 2,500 grape growers are rooted to Canadian soil and support over 37,000 jobs across Canada. Wine is the highest value-added agricultural

[1] Frank, Rimerman + Co. LLP., The Economic Impact of the Wine and Grape Industry in Canada, 2015
[2] Advisory Council on Economic Growth, "Unleashing the Growth Potential of Key Sectors", February 2017

product in the world, and unlike the manufacturing sector, these investments cannot be transplanted to another country

Our industry produces premium 100% Canadian and value-priced quality wines to meet the demands of all consumers. Every 750ml bottle of Canadian premium wine made from 100% Canadian grown grapes generates $89.99 of economic impact per bottle, compared to $15.73 for imported wine.

The last major federal initiative to support Canadian wine growth was in Budget 2006, by exempting 100% Canadian from paying excise duty. This single initiative supported millions of dollars of investment in existing winery modernization and the construction of more than 400 new wineries in six wine producing provinces across Canada. This investment has stimulated 22 million liters of VQA wine sales growth, which today is contributing an additional $2 billion in national economic impact annually.

The level of government financial support extended to Canadian wine producers is modest at best, considering the industry's stage of development, and far less generous than that in place in other wine producing countries. The sheer level of public financial support extended to other more mature wine producing industries allows these larger competitors to better leverage this support to deliver significant added economic benefits to industry.

A younger, smaller agri-food sector such as the Canadian wine industry, with high import competition, requires higher relative levels of public support to compete and grow compared to our competitors whose infrastructure, including intangible assets such as brands and reputation, are already well established.

Taking action would enable the Canadian wine industry to seize upon opportunities arising from rapidly expanding markets across Canada and beyond our borders; create an improved environment for private sector investment; and enhance long-term drivers for jobs and economic growth.

OPPORTUNITY & RECOMMENDATIONS

Every $1 million increase in Canadian wine sales contributes a minimum $3.4 million increase in gross output – revenues, taxes, jobs and wages across the wine industry value chain. Growth in sales across Canada will help stimulate the future growth of wine exports, allowing the Canadian wine industry to take advantage of the opportunities that free trade agreements have to offer.

To compete in an intensely competitive market and improve both our future growth prospects and the sustainability of the wider industry, our 2020 pre-budget submission strongly recommends the following:

Remove Legislated Wine Excise Duty Indexation

The Budget 2017 legislated annual inflation indexation of the wine excise duty rate has, and will continue to negatively impact Canada's wine value chain. Not only do economic circumstances vary across Canada, but the Canadian wines have a one-third market share and are price takers when competing with thousands of import brands. If Canadian wines pass the annual excise duty increase to our consumers, we risk losing that consumer to a cheaper imported wine. The unintended consequence is a government imposed producer tax.

Budget 2007 legislated indexation will have increased the excise duty by roughly 8% on April 1, 2020, representing a 5 cent per litre increase, representing 50 cents per 750ml bottle of wine. At the end of the price chain, the excise duty of $0.50 represents $0.97 to the consumer price. The producer is not only facing inflation in his/her operations, they are not consuming a producer tax of 10 cents per bottle or risk losing their consumer.

The Australian government has confirmed disappointment with legislated indexation in its WTO challenge against Canadian wine measures, including the federal excise exemption for 100% Canadian wines. What is clear is that an offer to repeal the legislated indexation would likely end the WTO challenge, protecting the excise exemption and provincial measures which are a clear and present threat to the future growth and success of Canada’s highest value-added agricultural industry.

It is important to note that repealing legislated indexation would not stop the federal government from making future adjustments to the excise duty, it would simply return any decision on future excise duty increases to the time honored tradition of Parliamentarians voting on tax changes as part of the Budget Implementation Act process.

Recommendation 1: That the Government of Canada amend the *Excise Tax Act* to eliminate the annual inflation indexation of the excise duty on wine to ensure that any federal tax increase is subject to a vote in Parliament.

Create a Domestic Wine Promotion Fund

Canada has signed trade agreement with the largest wine producing countries in the world, and the past decade has seen imported wines capture roughly 75% of total wine sales growth.

To take advantage of the new NAFTA, CETA, CPTPP and future trade agreements we must support and protect the growth of Canadian wine sales in our home market, before we can shift a greater focus on export sales growth.

CVA proposes that the federal government provide similar treatment to the Canadian wine industry as provided to the Federation of Canadian Municipalities (FCM) through the Federal Gas Tax Fund (GTF). The GTF provides Canadian municipalities with permanent, indexed, predictable, long term funding. The federal government legislated a permanent annual investment of $2 billion in municipal infrastructure through the GTF in Budget 2011 and an annual increase of two percent was applied as an index to protect the fund against inflation in 2014-15

As of 2011, the GTF became completely independent from government revenues from fuel sales, and in Budget 2019, the Liberal government included a one-time doubling of the GTF, transferring an additional $2.2 billion to Canadian communities.

Wine sales in Canada have grown to 505.8 million litres of which bottled imported wines represent 337 million litres. Further the federal government collected $315 million in wine excise duty in 2017-18. Using the GTF as a model, the CVA proposes that the federal government:

- Legislate a permanent annual fund valued at $10 million dedicated to supporting the promotion of Canadian wines with Canadian consumers in major centers across Canada.
- $10 million in annual funding is equivalent to investing 2 cents for every liter of wine sold in Canada in 2018.
- Increase the fund by two percent annually as an index too protect the fund against inflation.

Recommendation 2: That the government legislate a permanent annual investment of $10 million annually to support the promotion of Canadian wines across Canada and an annual increase of two percent as an index too protect the fund against inflation.