

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



August 2017
Ottawa, Ontario

Beer Canada is the voice of the people that brew our nation's beer. Our 45 members operate 57 brewing facilities across the country and account for 90 per cent of the beer produced in Canada. We work with members, governments, stakeholders and the public to improve the marketplace for beer.

This pre-budget submission responds to the Finance Committee's request for input on "***what federal measures would help Canadian businesses to be more productive and competitive.***"¹

Canada has the third highest beer taxes in the world.² Commodity specific taxes on a 24 pack of beer accounts for, on average, 50 per cent of the retail price.³ While the federal portion of the tax load on beer is lower than the provincial load, Canada's federal excise duties, which are levied at the point of production, are punishingly high compared to, for example, the US. At today's exchange rate, the Canadian federal excise duty on beer is 64 per cent higher than the US federal excise duty.⁴

High taxes suppress demand and reduces a domestic brewers' ability to invest in the productivity of its people and operations and the competitiveness of its brands.

It is in the country's economic interests to foster a strong and growing domestic brewing industry. The Conference Board of Canada, in a 2013 study, found beer generates \$14 billion in economic activity, \$5.8 billion in combined federal, provincial and municipal tax and supports 163 thousand Canadian jobs.⁵ Canada is internationally recognized for high quality malting barley grown primarily in Alberta and Saskatchewan. Malting barley is a high value crop for producers and an essential ingredient in beer. Domestic brewers annually purchase 300 thousand tonnes of premium quality Canadian malting barley.

The federal government can help Canadian brewers be more productive and competitive by repealing legislative provisions that will automatically increase the excise duty on beer every year regardless of market conditions.

The federal government introduced tiered excise duty rates on beer in 2006.⁶ That was the first time in Canadian history excise rates were altered to generate economic activity. The impact was positive. By 2015, employment in the domestic brewing sector grew by 3,835 jobs and total compensation from all brewery jobs grew by \$295 million.⁷ In the 10 years following the change, 507 brewing facilities were added to the domestic brewing industry's footprint.⁸ And domestic brewers continue to be leaders in environmental stewardship. Through innovation, domestic brewer are reducing their water use and lowering their energy consumption. In 2015, domestic brewers used 57 per Cent less energy producing a hectolitre of beer compared to the amount of energy used per hectolitre in 1990.⁹

In Budget 2017, the federal government reverted back to viewing beer solely as a source of tax revenue rather than a source of domestic value-add economic prosperity. It introduced a mechanism that will

¹ FINA Committee News Release, June 2, 2017.

² Impact Databank Review and Forecast, 2012 ed., Page 43.

³ Ibid.

⁴ Excise duty on beer in Canada is \$31.84/hL; in the USA it is \$15.38/hL. Exchange rate on Aug. 3, 2017 = 1.2570.

⁵ From Farm to Glass, the Value of Beer in Canada, Conference Board of Canada, 2013.

⁶ Budget 2006, page 217.

⁷ CANSIM 383-0033

⁸ Canada Revenue Agency special order. See Beer Canada Industry Trends Report www.industry.beercanada.com

⁹ CIEEDAC database accessed Aug. 3, 2017.

automatically increase excise duty rates every year by the rate of inflation regardless of marketplace conditions. The first automatic increase is set for April 1, 2018.

Excise duty is a tax on brewers the government expects will be passed onto consumers. As an increase in federal excise moves through the price chain, it causes provincial liquor board mark-ups and sales taxes to increase as well. The impact of annually escalating excise duty and other taxes will not be neutral.

As tax policy, increasing excise duty automatically every year is too rigid, especially under already challenging market conditions. Per capita beer sales have declined 8.5 litres (10%) in the last 10 years and beer's share of the beverage alcohol market has dropped 6.4 percentage points in dollar terms.¹⁰ At 83.6% of total domestic beer sales, Canadian brewers remain strong in their home market but their domestic sales in volume terms have dropped 4.2 per cent since 2007.¹¹ Canadian beer exports are down \$156 million from ten years ago and Canada's trade balance is now a negative \$587 million.¹²

A mechanism that is set to automatically increase excise duties is inappropriate tax policy because it will not account for all the uncertainty domestic face. On top of being faced with higher excise duty rates coming into effect April 1, 2018, brewers have to account for the new Canadian Free Trade Agreement, NAFTA renegotiations, CETA coming into force, carbon taxes and higher payroll taxes. It also not clear what impact, if any, legal marijuana will have on beer but the federal government is giving marijuana producers an advantage by pledging to keep marijuana taxes low¹³ while beer taxes are set to automatically increase.

Taxes on beer are already too high in Canada. The federal government's legislated annual excise duty increases will leave domestic brewers with less to invest in the productivity of their people and operations and weaken their ability to compete in a challenging and uncertain marketplace.

Beer Canada requests the Finance Committee, in its pre-budget consultation report to the Finance Minister, recommend repealing legislation set to automatically increase excise duty on beer every year starting April 1, 2018.

¹⁰ CANSIM 183-0023

¹¹ CANSIM 183-0024

¹² Trade Data Online, Innovation, Science and Economic Development Canada

¹³ Globe & Mail, June 18, 2017, Morneau wants to keep taxes on legalized marijuana low, by Barry McKenna