



Why excise parity with the new US federal excise rate is essential during this COVID crisis to not only save the entire domestic distilling sector but also to grow Canada's domestic economy and to stimulate Canadian jobs in the aftermath of this pandemic

- ✓ **Increase Canadian Employment**
- ✓ **Increase Canadian Agricultural Production**
- ✓ **Increase Small Business Productivity and Success**
- ✓ **Increase Agri-tourism revenue in Canada**
- ✓ **Increase revenue to the Provinces and the Federal Government**
- ✓ **Re-balances the newly created marked trade imbalance**
- ✓ **A great news story of Government supporting Canadian entrepreneurship and authentically "Made in Canada" products that we can proudly export to the World**

How a very small change will stimulate huge domestic growth:

In the US, the government slashed their domestic small producers Federal excise rate in an effort to stimulate growth in their domestic distilling sector and to increase domestic employment. They did this in a very smart way that attained the domestic economic stimulus they sought, while also protecting themselves against incurring the potential for large revenue losses. **Their plan was simple!** They lowered the excise rate on producers of distilled spirits on their first 100,000 proof gallons annually...roughly 400,000L), while keeping the existing rate in place for all producers on volumes that exceeded that relative small initial level. This low volume level of 100,000 proof gallons was chosen as it is a realistic level for a successful small to medium level domestic distillery to strive for and surpass, but a mere drop in the bucket for large multinational producers. Their goal was to give a bit of help to small volume domestic US producers that would free up move funds for them to grow themselves and the industry along with them. A goal that in turn helped the federal government also benefit by stimulating job growth and domestic investment in domestic production which would almost entirely utilize domestic local crops in the production of those domestic distillery's premium Craft US Local Spirits. The US excise rate was already lower than ours, but their new program means we pay more than 7 times their rate. Their change has led to a massive increase in distillery start-

ups (now over 2000 across the US) and has allowed small distilleries already in place to flourish and grow into larger players where they then contribute more to Federal excise when their volumes increase. **At current we pay \$12.610/L (due to the escalator tax) and our US counterparts now only pay an equivalent of \$1.77/L!**

The explanation for why the US decreased their rate instead of implementing an escalator increase to excise like was done here in Canada

The US rationale was simple, and now also proven to be massively effective both to the domestic economy, and to domestic job growth. The US made such a significant decrease in the first 100,000 proof gallons of production per year for a distillery because they correctly predicted that by giving up the first relatively small amount of revenue that would previously have come in as taxable excise volume, they would massively stimulate excitement and growth in their own domestic distilling sector right across all 50 States and thus more than mitigate the initial loss on a nation wide scale. In fact, instead of a revenue forfeit for government, the initiative south of the border is proving to be markedly revenue positive. The best part is that distilleries can function just about everywhere, so this leads to job growth and distillery start-ups in just about all regions imaginable, with the added benefit that the relatively small to medium sized domestic “Craft Distilleries”, are almost entirely dependent on using local grains and fruits because “local” is the their only marketing advantage over the multinationals who compete against them at much lower price points. The same multi-nationals, who contribute almost nothing of value to the domestic economy.

Why it is absolutely essential that the government act quickly and decisively to implement this change now:

It is absolutely essential to act quickly to implement this matching of the US rate to provide immediate relief to Canadian Distilleries who not only are haemorrhaging badly but who are also pitching in to battle COVID 19 on a totally voluntary basis using their own funds to do so in the production of much needed hand sanitizer. Without relief many of most will have to lay off staff just to save themselves for the possibility of not going totally into insolvency.

In the medium term during the recovery phase from this crisis, the implementation of this small but essential change will allow the industry to gear up in a more aggressive fashion and thus power the domestic economy in a substantial fashion.

Our proposal is that the Canadian government act swiftly to match the 2017 federal government small distillery rate in the US, a brilliant domestic small industry stimulating initiative. Wouldn't it look great if the Canadian government could get credit for not only stimulating the cross country domestic economy but could also show that they were decreasing taxes to make Canadian business more competitive on the world market while also showing everyone that they are acting decisively during this crisis? With how hard the Canadian Agricultural Sector has been hit over these last few years, and with how many Canadians feel that we always are at a trade disadvantage to the Americans, our thinking is that the timing for forward thinking change could not be better.

Sincerely,

Tyler Dyck
President
Craft Distiller's Guild of BC

This pressing issue is essential both immediately and for the recovery phase and without the immediately mirroring the US excise reduction program Canadian Distillers will not only not be in a position to compete internationally with export but also will not be able to help power the local Canadian economy.

This action leaves a few more dollars in the pockets of struggling distilleries during this difficult time so they will be more likely not to go under and also more capable of keeping staff employed for production. It also biases the powering of the domestic Canadian agricultural high grain and fruit value sector as smaller to mid size distilleries that benefit most from this dependence of selling the "terroir" around them. The government will literally give up one dollar in hand (by giving up a portion of excise on the first small volume of anisotropic production and sales) but will gain 3-4 dollars in the boom in domestic value added agri production and the spin off support industries, not to mention the expansion of thousands to tens of thousands of great paying local jobs... best part is that this job and economic boom is spread across all parts of Canada and not just biased to one or two regions (like when they axed excise on Canadian wine production to help grow that sector..., predominantly helped Niagara and the Okanagan)... this would help all regions as distilleries can and do function almost anywhere.

And last... without matching what the US put in place 3 years ago (which has led to reportedly close to a thousand new distillery upstarts and hundreds of thousands of jobs created) this government will have left us behind and at a total trade disadvantage, practically dooming Canadian Craft distilleries to remain obscure and irrelevant and also ensuring us never to be able to compete in the export to the world of fine Canadian Craft Spirits.

I hope that we can talk more about this important issue and what a juggernaut our sector could be in creating thousands of great Canadian paying jobs, and powering millions of acres of Canadian agricultural production.

Tyler

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President
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