Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget by:

Craft Distiller's Guild of BC

Recommendation 1:

Match excise parity with the massively successful 2017 US Small Distillers Excise agreement in order to stimulate domestic jobs and spur domestic value added agri-production.

Body of Submission

My name is Tyler Dyck and I am writing to you in my capacity as President of the Craft Distiller's Guild of BC to ask for your support on behalf of one of our association, and also on behalf of entire domestic Canadian distilling sector. The crushing economic fallout of the Covid-19 pandemic has highlighted the need for a recovery approach that will stimulate job creation through the expansion of local agricultural production and domestic distilleries, including in your riding. And with your support, Canadian Farm-to-Flask Distillers can be a significant catalyst in Canada's economic recovery.

We ask that you call on the Canadian government to immediately match excise parity with the 2017 Small Distillers Excise agreement in the U.S. In 2017, the U.S. government wanted to stimulate domestic job growth and also support their domestic grain and fruit producers so they adopted a new framework for a reduced excise rate on the first small amount of alcohol that a domestic U.S. distillery produces (the first 100,000 proof gallons or essentially one days production at Jack Daniel's Distillery).
In essence, the U.S. government gave up a little upfront excise revenue that was dearly needed by their small to medium sized domestic distilleries if they were to be able to compete and thrive. They did this not because they wanted to give up tax revenue, but so they could in-turn, reap much larger financial and job creation gains downstream. It worked fantastically well in the U.S., with almost 1,000 new distillery upstarts and countless other distillery expansions since its implementation, and tens of thousands of jobs created.

Unfortunately at around the same time the U.S. its excise rate on that first small volume of annual production to one-seventh the Canadian excise rate, the Canadian government introduced an escalator tax increase to our already cripplingly high excise rate. At present, we pay $12.610/L and in the U.S., they pay approximately $1.77/L.

This massive cross-border tax excise imbalance has essentially made it impossible for the Canadian domestic distilling industry to compete and has stunted our domestic distillery and agricultural sector growth potential.

This is where you come in. Canadian distilleries desperately need your support so they can help power our local, and national economy one bottle at a time. Particularly, every bottle they produce comes from local grain or fruit producers in ridings across Canada, and distilleries employ dozens of local residents who support their families. With your support, those dozens of employees can turn into hundreds of employees if distilleries are allowed to grow and flourish. To highlight how much of a driver every community's local distillery could potentially be; each distillery requires approximately 10 times the volume of locally grown agricultural inputs per litre of liquid that it produces compared to that of a

brewery. That means every distillery in Canada essentially represents 10 breweries of equal end volume production size, requiring roughly four to eight times the staff.

We believe there is a large opportunity for all elected leaders in Canada to help foster the domestic reconstruction of the distilling sector and the economy as a whole as recovery from the pandemic begins.

We ask you to act to match the framework of the reduced small distillers excise rate that has proven to be so successful in the U.S., therefore allowing our sector to expand Canadian job creation and Canadian Agricultural development. This is something everyone can stand behind regardless of party membership, especially considering that we all need to stand with our domestic entrepreneurs if we are to survive the economic fallout from this pandemic.

What we are asking for is extremely easy to achieve as the model has already been proven successful south of the border.

This model also protects against any risk of a trade compliance complaint as it has already been tried and tested in the U.S. and it is not linked directly to a benefit that is applied if a distillery uses only local agricultural material (it is based on giving the benefit to all distilleries on the first portion of their production volume, but it should also be noted that Craft Distilleries utilize almost entirely local agricultural inputs as it is the fundamental marketing advantage they have over their multi-national competitors so the positive agricultural effects are felt in every region that a Canadian Distillery operates). It should also be pointed out that in September 2019, delegates at the Canadian Chamber of Commerce conference supported a resolution from the Vernon, BC Chamber that urges the federal government to match the excise rate in the U.S.

Given the collective need to recover our economy, we believe this would be an ideal time to act and give the public positive news about creating well paying jobs while promoting value-added agriculture.

Thank you for consideration of this important matter and please contact us if we can provide additional information or be of assistance in any way.

Tyler Dyck
President
Craft Distiller's Guild of BC,
and on behalf of the 250-plus Craft Distillers of Canada

<u>Why excise parity with the US federal excise rate is essential during this COVID crisis</u>

- ✓ **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**

<u>How a very small change will stimulate huge domestic growth:</u>

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.

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 he 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.