



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

August 2020

Recommendations

- **Recommendation 1:** We recommend that the Government of Canada eliminate excise tax on the first 10,000 hectolitres of beer brewed to fund craft breweries hiring more people, purchasing more raw materials and generally accelerating their economic recovery.
- **Recommendation 2:** We recommend that the Government of Canada allow the 10 million litres of craft beer that became unfit for use while the economy was shut down to qualify for a refund of excise duty paid or a credit against future excise duties owing.
- **Recommendation 3:** We recommend that the Government of Canada provide funding to support the work being done by Canadian Craft Brewers Association (CCBA) members to use their status and visibility in their communities to lead the effort to combat anti-Indigenous, anti-Black and anti-POC racism that exists in all corners of society.
- **Recommendation 4:** We recommend that the Government of Canada provide funding to support the Independent Craft Seal of Authenticity™ awareness campaign to encourage consumers to buy “made in your community” Canadian craft beer.

Introduction

The craft brewing industry has more production facilities in more communities in Canada than any other manufacturing sector in the country.

Craft beer has gained widespread market acceptance in Canada over the past decade. Since 2010, over 1,000 craft breweries have opened in every province and territory in Canada, and of those over 700 are five years old or less. Presently, approximately 20% of all beer produced in Canada is the product of an independently owned and operated small craft brewery. Canadian craft breweries have added approximately 15,000 jobs to the economy in the past decade by opening hundreds of new manufacturing facilities in cities and towns across the country. This “rural renaissance” has been created by a combination of community involvement, support for local suppliers, and a redefining of the Canadian beer drinking experience. From Quidi Vidi, Newfoundland and Labrador to Powell River, British Columbia, and from Iqaluit, Nunavut to Baie-Saint-Paul, Québec, craft breweries have become important economic drivers of the communities they call home.

The COVID-19 pandemic dramatically impacted the craft brewing industry. Positioned at the intersection of manufacturing, retail and tourism, breweries were vulnerable to the changes in consumer behaviour necessitated by the shutdown. 72% of staff were laid off as entire customer segments and revenue streams disappeared. Breweries were forced to find new ways to sell and deliver their beer. Although these short-term measures, aided by provincial governments temporarily amending liquor laws, were helpful, they in no way came close to replacing lost revenues. Breweries will struggle to recover from this business interruption for years to come.

On the positive side, as the Canadian economy begins to recover, consumers will lean heavily toward supporting their local businesses. We believe that craft breweries will see a wave of support from community-minded consumers eager to reward and help reboot their small local companies. By partnering with the federal government, we believe that 2021 can be the strongest revenue year for Canadian craft beer yet.

1. Support for Breweries During Their Pre-Profit Years

Of the 1,100 craft breweries in Canada, none exceed \$50,000,000 in annual revenue, and most are well below \$1,000,000. These businesses are small manufacturing companies requiring significant capital investment long before their first batch of beer is brewed. The vast majority of them are less than 5 years old, and the vast majority of those are not yet profitable. Investment capital is hard to come by, and the owner-operator is rarely able to attract equity investors other than friends and family. Cashflow is important, as it is in all small manufacturing environments, and these young companies are in constant need of more raw materials, more capital equipment, and more employees.

We are asking the federal government to consider modifying the excise duty structure on beer to exempt all Canadian breweries from paying duty on the first 10,000 hectolitres brewed in any given year. This change would benefit all breweries large and small equally in terms of excise tax dollars saved, but the savings realized by the smaller, newer breweries would be the most impactful. The additional dollars would not flow to corporate retained earnings, but instead be reinvested in the upstart business.

The following chart shows the overall investment being requested of the federal government in the form of excise duty reductions:

Brewery Size (annual hectolitres produced)	Number of Craft Breweries in Canada	Total Volume from Sector (annual hectolitres produced)	Total Annual Excise Duty	Proposed Reduction in Excise Duty
< 2K	684	557,460	\$ 1,672,380	\$ 1,672,380
2K - 5K	216	626,400	\$ 2,656,800	\$ 2,656,800
5K - 10K	108	810,000	\$ 6,696,000	\$ 6,696,000
> 10K	92	2,335,880	\$ 43,309,000	\$ 8,924,000
Totals	1,100	4,329,740	\$ 54,334,180	\$ 19,949,180

Recommendation 1

We recommend that the Government of Canada eliminate excise tax on the first 10,000 hectolitres of beer brewed to fund craft breweries hiring more people, purchasing more raw materials and generally accelerating their economic recovery.

2. Eliminating Unintended Double Taxation in the Excise Act

When business closures began in March 2020, a large amount of kegged, canned and bottled beer was sitting in inventory at tens of thousands of licensed establishments and liquor retail stores across the country, waiting for customers that never came. An additional amount of beer destined for those outlets sat in brewery warehouses, waiting for orders that never came.

The unique characteristic of craft beer is that almost none of it is pasteurized. By contrast, almost all non-craft beer is pasteurized, including kegged product. Craft beer, like all food products that need refrigeration, is perishable, and during the spring and summer months of 2020, approximately 10 million litres of it perished.

Section 174(2) of the Excise Act of 1985 provided for “the destruction of beer that has become unfit for use, in storage tanks, bottles, kegs or other containers, before it was shipped from the brewery, or in containers in which it was shipped from the brewery, and for the refunding to the brewer, in whole or in part, of the duty paid on beer so destroyed.”

Although the Act was rewritten in 2001 and Section 174 now deals with refunds in a more general sense, clearly the original intent was to relieve breweries from paying tax on beer that could not generate revenue. Unfortunately, due to the pandemic, craft breweries have had to bear the costs of reclaiming and destroying 10 million litres of beer, in many cases reimburse the customer, and brew new beer to replace the beer that became “unfit for use”. We believe it is not the government’s intent to further penalize breweries for losses that are out of their control.

The following chart shows the extent of the losses associated with unfit beer:

Brewery Size (annual hectolitres produced)	Number of Craft Breweries in Canada	Approximate Total Spoiled Litres	Approximate Total Revenue Loss	Approximate Excise Duty Refund or Credit
< 2K	684	1,094,400	\$ 8,645,760	\$ 32,832
2K - 5K	216	1,642,896	\$ 9,578,084	\$ 115,003
5K - 10K	108	2,463,048	\$ 12,487,653	\$ 344,827
10K - 15K	37	1,077,627	\$ 5,280,372	\$ 150,868
15K - 25K	26	1,616,442	\$ 7,920,566	\$ 387,946
25K - 50K	14	1,290,296	\$ 5,483,758	\$ 309,671
50K - 75K	9	1,151,019	\$ 4,604,076	\$ 333,796
> 75K	6	383,673	\$ 1,496,325	\$ 145,796
Totals	1,100	10,719,401	\$ 55,496,594	\$ 1,820,738

Recommendation 2

We recommend that the Government of Canada allow the 10 million litres of craft beer that became unfit while the economy was shut down to qualify for a refund of duty paid or a credit against future duties owing.

3. Using Craft Breweries' Status in Communities to Combat Racism and Discrimination

The Canadian Craft Brewers Association (CCBA) has initiated a multi-year project aimed at combating racism and discrimination and promoting diversity and inclusiveness in our industry. We have sought the advice of diversity professionals and built a comprehensive plan which, when fully implemented, will positively impact the culture and attitudes and behaviours that exist in our 1,100 member businesses across the country.

An important element of our plan is to use the special status that craft breweries enjoy in their communities, and the unique relationship that craft breweries have with Canadians in all parts of the country, to bring about change. With millions of brewery visitors and social media followers that identify with craft beer culture, our members are in a position to influence attitudes and behaviours well beyond their breweries' four walls.

We have begun discussions with financial institutions, educational institutions, and other potential partners in our initiative. The project will be executed on a national scale and employ innovative programs that we are developing. Our goal is to create an approach and action plan that is not only groundbreaking and effective, but which can be emulated and adopted by other industries in Canada.

Now is the time to make these investments, which we are doing, but adding the federal government as a partner in this initiative will allow us to go deeper, wider and faster.

Recommendation 3

We recommend that the Government of Canada provide funding to support the work being done by Canadian Craft Brewers Association members to use their status and visibility in their communities to lead the effort to combat anti-Indigenous, anti-Black and anti-POC racism that exists in all corners of society.

4. Encouraging Canadians to Buy Local and Recognize Authenticity

Now more than ever consumers want to support their local businesses. Beer drinkers want to support their “own” local breweries. Craft beer has been steadily gaining market share in the beer sector because it combines new flavour profiles and quality standards with community building and the satisfaction of “buying Canadian”.

To ensure that consumers can differentiate between authentic Canadian craft beer and other market entries that attempt, through advertising and packaging, to imitate craft, the CCBA has followed the lead of many other countries including the United States, Great Britain, France, Germany, Australia and others in introducing its own Independent Craft Seal of Authenticity™. When viewed on a can or bottle, the consumer will know they are buying and drinking authentic Canadian craft beer, developed and brewed in Canada by an independent Canadian-owned company.

The Seal combines symbols representing the core components of the craft beer industry and it is shown below:



Observing that consumers are more inclined than ever to support their neighbourhood small businesses by “buying local”, provincial liquor boards are helping Canadian producers by launching promotional campaigns and allocating shelf space to made-in-Canada products.

The Seal is the industry’s mechanism to communicate with consumers who want to buy Canadian. It allows them to be 100% confident that their purchase dollars are staying in Canada to support small, independent owner-operated breweries.

The Seal was recently introduced and some of the larger craft breweries have licensed it. Unfortunately, the vast majority of breweries are short on discretionary funds and will likely wait until next year. With the federal government's support, every craft brewery will have access to the Seal and consumer awareness will heighten at a time when it is most important. Through an investment of \$147,500, the Government of Canada can ensure that every craft brewery is able to access and use the Seal to help consumers buy local.

Recommendation 4

We recommend that the Government of Canada provide funding to support the Independent Craft Seal of Authenticity™ awareness campaign to encourage consumers to buy “made in your community” Canadian craft beer.

About the CCBA

The Canadian Craft Brewers Association (CCBA) is the national voice of Canadian craft beer. We represent the interests of over 1,100 small and independent craft breweries and their supplier partners from every province and territory in Canada. The Association is a federation of provincial craft brewers' associations and advocates on behalf of them and their member breweries. The CCBA owns and licenses the Independent Craft Seal of Authenticity™.