

# **Written Submission for Pre-Budget Consultations in Advance of the 2021 Budget**

**Submitted by: Beer Canada**

**August 7, 2020**



**RECOMMENDATION #1:**

**That the Government eliminate inflation-indexed federal excise duties on beer by repealing from the Excise Act: Section 170.2 clauses 1, 2, 3 and 4, and 1(b), 2(b) and 3(b) of Part II of the Schedule in order to:**

- Help ensure Canadian brewers and the interconnected hospitality, tourism, agriculture and transportation sectors are positioned to recover from the economic impacts of COVID-19 and hire back or maintain jobs and job growth for the women and men working in these sectors.

**RECOMMENDATION #2:**

**That the Government recalibrate beer's excise duty alcohol strength thresholds to:**

- Stimulate innovation, investment, and growth in Canada's low and no-alcohol beer market, thereby increasing overall industry competitiveness.
- Respond to recommendations under Canada's National Alcohol Strategy and the World Health Organization's Global Alcohol Strategy.
- Align with the Council of the European Union provisional agreement on modernizing the way alcohol products are taxed.
- Help give Canadians interested in low and no-alcohol products as part of their lifestyle more choices.

On behalf of our members, Beer Canada appreciates the opportunity to contribute to the Finance Committee's consultations in advance of the 2021 Budget. We are asking the Finance Committee to include our two recommendations in their Pre-Budget Report as a way to help rebuild Canada's economy and ensure the women and men whose jobs directly or indirectly rely on the production and sale of beer remain employed as we all work to recover from the unprecedented impacts of the COVID-19 pandemic.

Beer Canada is the national voice of domestic brewers with 48-member brewing companies that have facilities and operations across the country. Canadian brewers directly employ 15,000 Canadians whose jobs rely on the industry in large and small communities, while the sale of beer supports 149,000 Canadian jobs including many in the restaurant, hospitality, tourism, agriculture and transportation sectors.

COVID-19 has had a profound impact on Canadian beer makers and by extension, the many jobs and industries the production and sale of beer directly supports. From March-May, total beer sales on a volume basis declined by 4% compared to the same three-month period in 2019. During that same period, brewers were grappling with how to manage the elimination of beer sales through restaurants, bars, tap rooms, festivals and events, and the returning and disposal of untapped keg beer from their on-trade customers.

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Canadian brewers were very disappointed that on April 1<sup>st</sup>, the government chose to move forward with another beer tax increase despite our requests to the Prime Minister, the Finance Minister and other government officials that it be paused. The economic concern around this annual excise escalator which we have raised in the past is that it is too insensitive to the realities of the marketplace. As a case in point, this most recent increase occurred in the midst of a pandemic when millions of Canadians were losing their jobs.

Beer and other beverage alcohol appear to be the only food commodities in Canada on which the federal government increased taxes during the COVID-19 pandemic. Annual beer tax increases are unparliamentary; and we, as an industry, have and will continue to oppose this kind of rigid and inflexible approach to taxation, especially given the current economic crisis and the need to create and maintain jobs to keep Canadian women and men employed.

The April 1<sup>st</sup> increase reduces cash liquidity during a very challenging time, while raising the cost of beer for hard working middle-class Canadians and the struggling hospitality sector, which employs a significant portion of young women and men, and which was one of the hardest hit by this pandemic.

The Finance Minister has stated that "raising taxes to climb out of the fiscal hole would be the wrong approach right now", (*source: news conference, July 8, prior to Fiscal and Economic Snapshot address*). We agree with the Minister that raising taxes is the wrong approach, yet beer excise was raised just four months ago, and another excise duty increase remains scheduled for April 1<sup>st</sup>, 2021.

For the beer industry, and more importantly, Canadian beer drinkers and the hard-working, women and men who make a living from the wages and tips associated with selling beer in bars, restaurants and tap rooms across the country, the level of taxation on beer is unsustainable. The continued increases must stop if brewers are to contribute to Canada's workforce and economic recovery, including the recovery of the foodservice, hospitality, tourism, agriculture and transportation industries, which are all interconnected with our sector. Automatically increasing a production tax on an agri-food industry like beer, which faces higher input costs and declining sales, goes against the federal government's goal of helping Canada's workforce and industries grow and recover from the economic impact of the COVID-19 pandemic.

The repeal of the automatic escalator on beer is urgently needed.

## **RECOMMENDATION #2:**

### **That the Government recalibrate beer's excise duty alcohol strength thresholds.**

At this time, brewers are contemplating how to position themselves so they can continue to contribute to the Canadian economy and our communities through job creation and community support. An area of potential growth is in Canada's low and no-alcohol beer market. The government can help increase overall industry competitiveness by stimulating innovation, investment and growth in this segment, through small changes to the excise duty rates that apply to beer products at or below 3.5% abv. The Finance Committee in its February 2020 Pre-Budget Report, [\*Canadian Ideas: Leveraging our Strengths\*](#), recommended that the government:

*"...encourage Canadians to lead healthy lifestyles by reducing the excise duty rates applicable to beer products at or below 3.5% abv and exempting non-alcoholic beer products from excise duties in order to stimulate growth and investment in this underdeveloped space of Canada's beer market." (Recommendation #66)*

We are asking the Finance Committee to reaffirm or restate in its pre-budget report for Budget 2021, its above recommendation on low and no-alcohol beer products.

Canada's current beer excise duty system has been in place for generations and does not reflect or account for current market realities and changing consumer tastes. Under this system, brewers are required to pay excise duty on no-alcohol beer while wine and spirits no-alcohol products carry zero excise. Regular rates of excise being applied to beer greater than 2.5% alcohol by volume are a barrier to overall industry competitiveness, where market innovation and potential growth in the low and no-alcohol beer category has the potential to help Canadian brewers create more jobs and position their businesses for future success.

Canada's low and no-alcohol beer market is underdeveloped compared to other countries. This past year, low and no-alcohol beer (3.5% abv or less) accounted for less than 2% of total beer sales. This market is expected to grow, but the current excise rate structure remains an impediment to the strength of that growth.

The proposed changes we are seeking for low and no-alcohol beer are outlined in Table 1:

Table 1	
Excise Duty Rates	
Alcohol by Volume	\$ / Hectolitre (hL)
<b><i>Current Excise Duty Rates for Beer</i></b>	
≤ 1.2%	\$2.794
> 1.2% - ≤ 2.5%	\$16.83
> 2.5%	\$33.66
<b><i>Proposed Excise Duty Rates for Beer</i></b>	
≤ 0.5%	\$0.00
> 0.5% - ≤ 2.5%	\$8.415 (25% of full rate)
>2.5% - ≤ 3.5%	\$16.83 (50% of full rate)
>3.5% - 11.9%	\$33.66

These excise calibration readjustments are supported by Parliament’s Beer Industry Caucus, brewing companies, barley farmers and many businesses along beer’s supply chain, and require a small initial government investment of an estimated \$2.5 million (see Annex 1) which can be mitigated over time by growth in Canadian beer sales.

In addition, Canada’s National Alcohol Strategy, the World Health Organization’s Global Alcohol Strategy and individual public health experts all acknowledge that tax measures which promote the production and marketing of lower alcohol products can be helpful in reducing the harms related to alcohol.

In June, the Council of the European Union announced a provisional agreement ([\*Excise Duty: Provisional Agreement on Modernized Taxation Rules for Alcohol\*](#)) that will raise the eligibility threshold for a reduced excise tax rate on lower strength beer from 2.8% to 3.5% abv. The Council noted that “this change provides incentives for consumers to choose low-strength alcoholic drinks over stronger ones, thereby reducing alcohol intake. It also encourages brewers to be innovative and create new products of lower alcoholic strength”.

## Conclusion

Brewers across Canada are working hard to counteract the negative trends that impact beer, especially as a result of the COVID-19 crisis. It is in the federal government’s interest to see the domestic brewing industry strengthen and grow, at a time when the economy is vulnerable and the creation of good jobs in large and small communities across the country is critical to ensuring a strong workforce for Canadian women and men. Declining beer sales not only hurt brewers, but also beer’s wider supply chain, including farmers, maltsters, can and bottle manufacturers, drivers, warehouse workers, servers and bar and restaurant owners and countless others connected to the beer sector.

We kindly urge members of the Finance Committee, as they consider priorities for Budget 2021 aimed at recovery, job creation and rebuilding Canada’s economy, to recommend to the government that the two measures brought forward by Beer Canada in this submission be implemented. This will help beer and the

hospitality sector not only get through this challenging period, but also contribute to a strong recovery and a sound economic future.

***Annex 1 – Estimated Investment Required to Make the Proposed Changes to Excise Duty Alcohol Strength Thresholds***

Current ABV Excise Duty Tiers	≤1.2% abv		>1.2% - ≤ 2.5% abv		>2.5% - ≤11.9% abv		Total		
Sales Volume (2019 hL)	247,899		47,462		21,363,700		21,659,061		
Excise Rate (2020 \$/hL)	\$2.79		\$16.83		\$33.66				
Excise Duty Remitted	\$	692,629.25	\$	798,783.02	\$	719,102,138.95	\$	720,593,551.22	
Proposed ABV Excise Duty Tiers	≤0.5% abv		>0.5% - ≤2.5% abv		>2.5% - ≤3.5% abv		>3.5% - 11.9% abv		Total
Sales Volume (2019 hL)	247,605		47,756		83,848		21,279,852		21,659,060
Excise Rate (2020 \$/hL)	\$0.00		\$8.42		\$16.83		\$33.66		
Excise Duty Remitted	\$	-	\$	402,103.42	\$	1,411,158.13	\$	716,279,822.69	\$ 718,093,084.24
TOTAL INVESTMENT								\$	2,500,466.98