WINE GROWERS CANADA

VIGNERONS CANADA

2021 Pre-Budget Consultations in Advance of the Upcoming Federal Budget

August 7, 2020

Recommendation 1: WGC recommends that the federal government immediately implement the Wine Growers Value Add Program (WGVAP) in the next Federal Budget as a replacement for the forthcoming repeal of the legislated excise duty exemption on 100% Canadian wine.

Introduction

The wine industry is a critically important agriculture economic driver in Canada. More than 37,000 Canadian jobs are created by the wine and grape industry including direct, indirect, and induced employment.

Importantly, these jobs have been created across Canada, primarily in rural, agricultural areas. In 2020, it is estimated that direct and indirect wine and grape employment will generate $2.1 billion in wages, $1.4 billion in taxes, and $11.4 billion in total economic activity. More than just a premium value-add agriculture product, the wine industry is incredibly important to the long-range economic prosperity of Canada.

Despite having world class wine producing regions that are producing award winning wine, the share of 100% Canadian wine consumed in Canada is just 12%, and wines blended and bottled in Canada with Canadian grape content an additional 21% wine sales market share. This compares to Australia 78%, Italy 96%, Spain 99%, South Africa 99%, and Argentina 99%. This is alarming, as these other world class wine regions primarily consume domestically produced wine while Canada primarily consumes imported wine. Imagine if Quebec imported maple syrup, Prince Edward Island imported lobster, or BC imported lumber products over local.

Canada's excise rate on wine falls towards the upper end range of major wine producing countries. For example, excise rates in France and the US (after rebate) are at least 22 times lower than Canada, while other major wine producing countries like Italy and Germany pay zero excise tax. The excise duty exemption on 100% Canadian wines introduced in Budget 2006 has been the most effective tax measure in the history of the Canadian wine industry. At a rate of 66.5 cents per litre, the value of the excise exemption is currently $40 million annually supporting 700 grape wineries with required cash flow for investments in priority areas.

Over the period 2006-2018, the excise exemption on 100% Canadian wines has supported investment in more than 400 new wineries and 300 winery modernizations, stimulating 39 million litres of 100% Canadian wine sales growth. This growth in premium wine production stimulated an additional $3.5 billion in annual economic impact in 2018, at a cost of less than $40 million in foregone excise revenue.

On July 27th, Canada announced its negotiated settlement reached with the Government of Australia regarding the WTO complaint (WT/DS537: Canada – Measures Governing the Sale of Wine), which will see the excise exemption on 100% Canadian wine repealed within two years.

If there is no federal replacement for the loss of the excise exemption there would be an immediate and significant negative impact on the entire Canadian wine industry, in the form of winery closures, reduced wine and grape production, investment, jobs, and economic benefits. WGC members have already confirmed that several million dollars of investment have been placed on hold, pending a federal commitment to replace the excise exemption with a permanent, trade legal program.

Uncertain Environment for Investment

The past few years, have created a high level of investment uncertainty. This uncertainty is linked to the negotiation of CETA and CPTPP, followed by the renegotiation of NAFTA, which together have provided tariff free access to 92% of wine imports. This was followed by a two year WTO challenge led by Australia on federal and provincial wine measures, and now the industry is facing the unprecedented and devastating impacts of the COVID-19 pandemic which is not only impacting wine sales, but also wine country tourism, which attracts more than 4 million tourists and contributes more than $1.5 billion per year to the national economy.

Repeal of the excise duty exemption on 100% Canadian wines with no replacement will result in the closure of not only wineries, but wine regions across Canada, which will be further impacted by the now legislated annual inflation indexation of the excise duty on April 1st of each year. Failure to announce a replacement in the next Budget will result in stalled investments, restricted bank financing, lost jobs, and the demise of wine regions across Canada.

Annual Economic Value of the Excise Duty Exemption in 2020-21

Annual Wine Sales (Litres)	Excise Exemption Value
1,000,000	$665,000
750,000	498,750
500,000	332,500
250,000	166,250
100,000	66,500
50,000	33,250

To compete in an intensely competitive market and improve both our future growth prospects and the sustainability of the wine sector and its value chain, WGC prepared and submitted for government consideration a trade legal, permanent excise duty replacement program called the Wine Growers Value Add Program (WGVAP).

Wine Growers Value Add Program (WGVAP)

WGC's objective in proposing WGVAP is to create a program that is fully consistent with Canada's trade obligations, and would provide fair and reasonable benefits for all Canadian wineries that use Canadian grape content in wine produced in Canada.

Given that Canadian wineries will be required to pay excise duty upon repeal of the excise exemption, WGVAP would operate on the following basis:

- Federal monthly payments would be made to permanent licensed winery establishments in Canada to support winery cash flow, investment and job creation;

- The payment would be based on Canadian wine sales/grape tonnage used to produce and sell wine in Canada regardless of whether the grapes are used to produce 100% Canadian or International Domestic Blend (IDB) wines;

- WGVAP would be calculated on the average volume (litres) of wine produced from a metric tonne of Canadian grapes;

- WGVAP would be indexed to inflation annually to align with the legislated excise duty indexation; and,

- Record keeping and reporting requirements would be those set out in regulation and based on provincial wine sales records for individual wineries to remove duplication and reduce costs.

WGC has calculated WGVAP on an estimated 103,200 metric tonnes (2018) of Canadian grapes used to produce 72.2 million litres of Canadian content wine sold in Canada. Pending future inflation adjustment, the average WGVAP value per metric tonne of Canadian grapes would initially be calculated at:

- 85 cents per litre for 100% Canadian wine ($595 per metric tonne)

- 55 cents per litre for Canadian wine content in blended wines ($385 per metric tonne)[1]

By way of example, 10,000 litres of Canadian content wine sold in the previous month would be assessed for WGVAP payment as follows:

- 10,000 litres / 700 litres per tonne = 14.29 tonnes x $595 per tonne = $8,500 (100% Canadian wine)

- 10,000 litres / 700 litres per tonne = 14.29 tonnes x $385 per tonne = $5,500 (IDB Wine)

[1] Based on a sliding scale, an IDB wine with 25% Canadian wine content would receive 13.75 cents for the grape content used in the blend

In total, the WGVAP is estimated to cost $57.8 million annually:

Canadian Content	Metric Tonnes of Canadian Wine Grapes used in Wine Sold in Canada	Canadian Wine Content used in Wine Sold in Canada (Million Litres)	Litres of Canadian Wine per Metric Tonne of Canadian Grapes	WGVAP Value per Metric Tonne of Canadian Grapes	Total WGVAP Cost ($Million)
100% Canadian Wine	85,900	60.13	700	$595	$51.11
IDB Wine	17,300	12.11	700	$385	$6.66
Total	103,200	72.24			$57.77

WGVAP- An Investment in Value-Add Agri-Food

All Canadian wine regions are developing depth and authenticity based solidly on provenance and regional strengths. Innovation has and will give us ongoing benefits, but the growing maturity of winemakers working to achieve excellence in their regions will continue to pay dividends.

WGVAP is estimated to cost $57.8 million annually or $17.8 million more than the benefits provided by the existing excise exemption on 100% Canadian wines, in support of ongoing industry growth and COVID recovery.

Like the current excise exemption, WGVAP is meant to provide maximum investment flexibility so that wineries can maintain winery cash flow and support investment capital investment and innovation, domestic promotion and tourism, energy management, labour, transportation etc.