

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

By: Beer Canada



October 4, 2022

Recommendations

Recommendation 1: That the government freeze federal beer excise duties at 2022 rates for fiscal years 2023 and 2024, and until inflation returns to the Bank of Canada's 1% to 3% target range.

Canadian brewers are facing unprecedented economic challenges that pose a direct threat to the prosperity and viability of the domestic beer industry and those throughout its value-chain. Since the start of 2021, input and operating costs for domestic brewers have risen at levels not seen in over three decades. The price of key brewing ingredients like malt barley is up by 75%¹, packaging materials by 25%², and the price of the fuel required to transport the packaged beer to market is up by 70%³.

These rising production costs are increasingly flowing through to higher beer prices for Canadian consumers and hospitality businesses, with the prices for beer purchased at restaurants and bars and beer purchased at retail reaching 30-year highs from just a year ago in recent months⁴.

While Canadian brewers adjust business plans in response to ongoing inflationary pressures and diminishing profit margins, beer sales continue to decline. In the first 7-months of 2022, domestic sales were down by 6.4% from just a year ago⁵. There are several factors causing this decline, including rising prices and hospitality sector labour shortages, both of which are playing a direct role in volume beer sales at restaurants and bars, which are operating at more than 30% below pre-pandemic levels in major Canadian markets.

Under these unique current circumstances, Beer Canada urges the federal government not to make the operating environment worse by continuing with automatic annual beer excise duty rate increases that are tied to and fuel inflation.

The federal government cannot continue to take a “business-as-usual” approach to the domestic brewing industry - an important contributor to Canada’s economy producing nearly 90% of all beer purchased and consumed in Canada⁶ and directly employing 20,000 Canadians⁷ with good-paying middle-class jobs, many of which are unionized.

Why defer upcoming scheduled increases to beer excise duties and maintain the 2022 rates for at least the next two years, or until inflation returns to approved target levels?

In 2017, the federal government passed legislation that automatically increases excise duty rates on beer every year on April 1. The annual excise duty rate increase is determined using an inflation-indexing formula that compares the difference in average inflation over a previous two-year period. Using this formula, prescribed under the Excise Act, Beer Canada is forecasting an

¹ Statistics Canada. Table 32-10-0077-01 Farm Product prices, crops and livestock

² Statistics Canada. Table 18-10-0265-01 Industrial product price index, by major product group, monthly

³ Statistics Canada. Table 18-10-0001-01 Monthly average retail prices for gasoline and fuel, by geography

⁴ Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

⁵ Beer Canada, Monthly Beer Sales Report

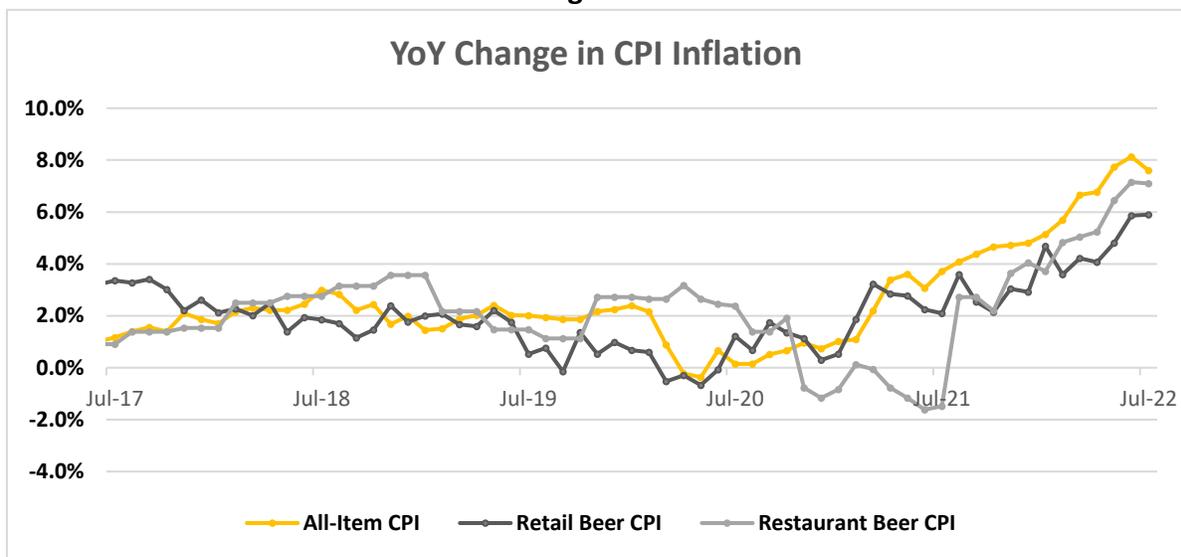
⁶ Beer Canada 2022 Annual Industry Trends Report

⁷ Statistics Canada. Table 36-10-0489-01 Labour Statistics consistent with the System of National Accounts by job category and industry

excise duty rate increase of nearly 6.5% on April 1, 2023 - **the largest one-time increase to beer excise duty rates in the past 40-years.**

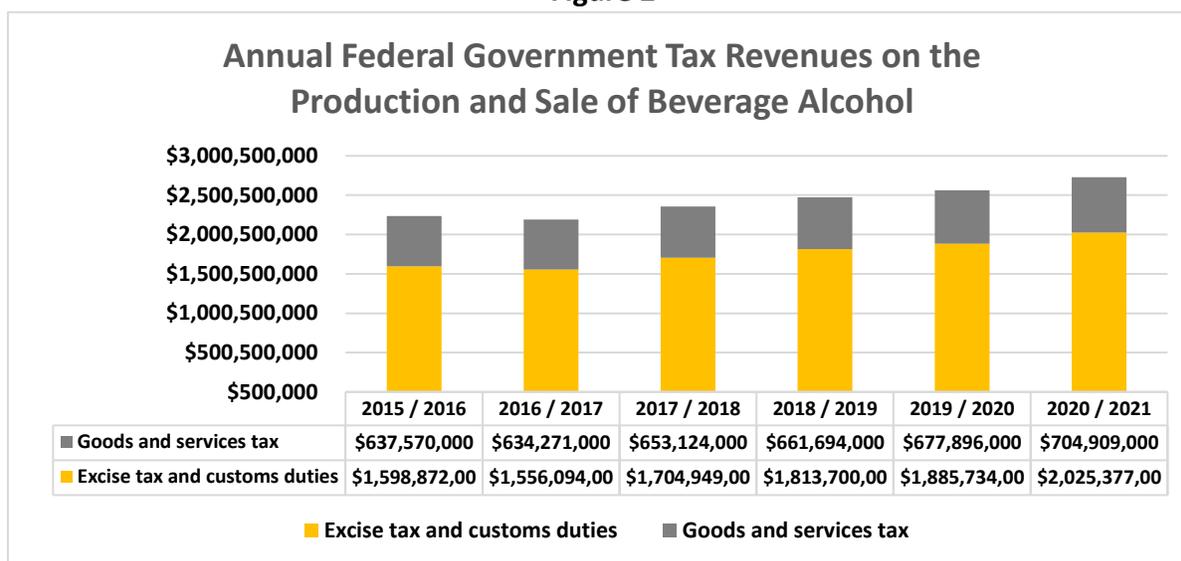
An increase of this magnitude on a production tax imposed at the start of the price chain is further magnified by down-stream sales taxes and liquor board markups and will fuel higher consumer beer prices through the imposition of an estimated \$50 million in new federal beer taxes. New taxes are simply not appropriate at a time when beer prices are already rising at a historically high rate, and the government continues to collect higher beverage alcohol tax revenues through excise duty and the GST on the sale of higher priced beer and other beverage alcohol as reflected in the two figures below.

Figure 1



Source: Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted

Figure 2



Source: Statistics Canada. Table 10-10-0012-01. Net Income of Liquor Authorities and government revenue from sale of alcoholic beverages

Beer Canada is confident that the Department of Finance did not envision the current inflationary environment when this tax mechanism was imposed in 2017, and we are asking the Standing Committee on Finance to recommend in their Pre-Budget Report a pause to future scheduled excise duty rate increases on beer for the following reasons:

- Beer production costs and consumer beer prices are already rising at rates not seen in decades, impacting Canadian consumers, as well as beer and hospitality sector businesses
- The additional tax revenue collected on the GST of higher priced beer products more than makes up for the deferral of upcoming beer excise duty rate increases
- In 2020, Statistics Canada reported that only 43% of Canadian SMEs brewing companies were profitable⁸ and since then brewers profit margins have continued to be squeezed due to inflationary pressures
- Freezing beer excise duties at current rates will allow Canadian brewers to be more competitive globally, specifically with our American counterparts who in 2018 received significant excise duty relief from their government
- Hospitality and tourism sectors still struggling from the pandemic are dependent on access to affordable beer to sustain their businesses
- Many everyday working Canadians are finding it a challenge to afford an occasional beer due to cost-of-living increases from groceries to gasoline to rent or mortgages.

⁸ Statistics Canada. Financial Performance Data.

CONCLUSION

The beer industry contributes important social and economic benefits to communities across Canada and is one of the oldest industries in our country's history. To this day, Canadian brewers continue to make most of the beer purchased and consumed in Canada, but sales are in decline. While brewers are working hard to innovate and reverse this trend, the government can also do its part by not raising taxes.

In this submission, we have presented supporting rationale for one very simple, low-cost measure that can help brewers respond to inflationary pressures and improve the operating environment for the beer industry in Canada. Putting a pause on automatic annual excise duty rate increases would show federal leadership and be wholly consistent with the government's objective of supporting jobs, economic recovery, and growth.

On behalf of brewers and beer consumers across Canada, we request that members of the Standing Committee on Finance include this very simple recommendation as part of their 2023 Pre-Budget Report.