

**Finance Canada Pre-Budget Consultations
in Advance of Federal Budget 2022**

Beer Canada Submission

February 24, 2022



RECOMMENDATIONS

Recommendation 1: That the Government defer the April 1st 2022 and 2023 federal beer excise duty increases to respond to the unique economic challenges facing Canadian brewers, the broader hospitality sector and consumers

Recommendation 2: That the Government eliminate alcohol excise duties on non-alcoholic beer, to support healthy lifestyle choices, promote socially responsible health policy, encourage investment, improve product selection and provide non-alcoholic beer with the same excise exemption already afforded non-alcoholic wine and spirits

Recommendation 3: That the Government reduce by 50% the excise duty rates applicable to draught beer primarily sold in restaurants, bars and taprooms across Canada to help mitigate the rising food and beverage costs across the hospitality sector and help these businesses successfully recover from the pandemic

EXECUTIVE SUMMARY

Beer Canada appreciates the opportunity to contribute to the Finance Department's consultations in advance of the 2022 Federal Budget. On behalf of our members, our brief includes three beer tax policy recommendations in support of the government's focus on jobs, growth and making life more affordable.

INTRODUCTION

Beer Canada is the only national inclusive voice of domestic brewers with 46 members across the country. Our membership collectively accounts for 90% of the beer produced in Canada.

Canadian brewers are a vital part of Canada's economy and create valued jobs in communities and regions across Canada. Nearly 85% of the beer sold here is produced and packaged in a Canadian brewery, often by unionized highly skilled Canadian workers. Prior to the pandemic, Canadian brewing companies directly employed nearly 19,000 Canadians¹, and the sale of beer in Canada supported 149,000 jobs across the sector's value-chain, contributing \$13.6 billion to Canada's GDP, which represents three-quarters of the value-added economic activity of the entire beverage alcohol sector.² Our industry also is there for Canadians when they need it, whether it is providing support to help Canadians and businesses during the pandemic or donating to relief efforts, including during last year's flooding and mudslides in Western Canada.

Beer is a beverage that brings adult Canadians together in social settings, and the limitations placed on social gatherings over the last two years have heavily impacted the category. In 2020, due in large part to the intermittent closure of restaurants and bars, draught beer sales declined by 55%, with total overall beer sales declining by 1.4%.³ During that same period, both wine and spirits saw substantial sales growth.

Beer industry sales volume declines accelerated in 2021, with overall sales falling a further 1.9% for the first 11 months of 2021 in relation to 2020.⁴ At the same time, rapidly rising inflation is making beer more costly to produce and increasing prices for consumers and the hospitality and tourism sectors, negatively impacting these businesses and the vulnerable workers that depend on them. Annual automatic increases in federal excise duty is making this worse, with over \$100 million in estimated additional costs for industry and consumers from 2017-2021.

In 2022, as brewers and our restaurant and bar customers prepare to emerge from the devastating impacts of COVID-19, the federal government can help by adopting targeted beer tax relief measures to address inflationary pressures, help offset rising input costs and provide brewers with the additional resources necessary to fund investment in packaging alternatives to plastic ring carriers,⁵ as well as keeping beer affordable for Canadian consumers. In addition, we are recommending the elimination of alcohol taxes on non-alcoholic beer to encourage investment, expand consumer choice and align federal excise policies with Canada's major trading partners and Canadian provinces.

¹ Statistics Canada. Table 36-10-0489-01 Labour statistics consistent with the System of National Accounts (SNA), by job category and industry

² Conference Board of Canada. Brewing Up Benefits: The Economic Footprint of Canada's Beer Economy, January 15, 2018

³ Beer Canada Annual Industry Trends Report

⁴ Beer Canada Monthly Sales Report

⁵ Single-Use Plastics Prohibition Regulations, Canada Gazette Part 1, Volume 155, Number 52, December 25, 2021

COMMENTS

DEFERRING UPCOMING FEDERAL BEER EXCISE DUTY INCREASES

The COVID-19 pandemic has accelerated a trend in declining beer sales volumes in Canada that was already underway prior to the pandemic (Figure 1). The rigid policy approach to “automatic” annual increases to federal beer excise duties introduced in Budget 2017 failed to respond to the dramatic impact of the intermittent closure of restaurants and bars over the past two years – a retail channel that typically accounts for 20% of all beer sales. For perspective, over the past five years (2017-2021), the federal government imposed over an estimated \$100 million in new beer taxes while beer sales declined by 5.2%. In a recent survey, Canadian brewers reported input costs for packaging materials (cans, bottles, cardboard) and ingredients (barley, wheat, flavours) that have increased by up to 25%, and order lead times that have nearly tripled since the start of 2021. Brewers across Canada have also allocated an estimated \$75 million to eliminate the use of plastic ring carriers and convert to alternative packaging types. This one-time industry cost is limited to the alternative machinery and does not include the ongoing higher costs of the alternative packaging types, namely cardboard.

As the beer industry continues to struggle with higher operating costs and logistical challenges, it would be irresponsible to not defer the scheduled April 2022 and April 2023 scheduled beer tax increases. Moreover, Budget 2017, which introduced the excise escalator, had anticipated an average 1.9% inflationary environment for the 2016-2021 period. That analysis is no longer relevant as Statistics Canada is now reporting CPI inflation rates as high as 5.1% in recent months.

Without action, the next two increases scheduled for 2022 and 2023 will result in the imposition of a total of \$70 million more than 2021 in new taxes on an industry that is facing declining sales and unprecedented rising costs as reflected in recent Statistics Canada CPI Data (Figure 2).

In addition to these domestic challenges, the gap between U.S. and Canada federal excise duty rates continues to widen every year and as a result Canada’s competitiveness and position in the global beer market continues to weaken (Figure 3). In 2021, a national-sized Canadian brewer remitted over double the amount of federal excise duty in comparison to a U.S. brewer of equivalent size.

We urge the federal government to defer the upcoming federal beer tax increases over the next two years to account for the changes in our industry’s operating environment, including rising costs, resurgent inflation, brewer investments required to eliminate plastic ring carriers and supply chain disruptions. If allowed to proceed, automatic annual beer excise tax increases would actually futher stoke inflation making life less affordable for many Canadians.

ELIMINATING EXCISE ON NON-ALCOHOLIC BEER

Beer Canada is also requesting that the 2022 federal budget include clarification that malt-based beverages with an alcohol content less than or equal to 0.5% abv are outside the scope or application of alcohol excise duties imposed under the Excise Act.

The 0.5% abv alcohol threshold already applies to wines and spirits under the Excise Act (2001) and extension of this threshold to beer would bring equity across all categories and better align federal policies with those of Canadian provinces, as well as with our major trading partners.

In addition to providing fair treatment across beverage alcohol categories, eliminating excise duty on non-alcoholic beer also represents an opportunity for the government to respond to recommendations of the House of Commons Finance Committee⁶ and Canada's National Alcohol Strategy,⁷ which call for government implementation of measures that promote the production and marketing of lower and non-alcohol beer options, in support of healthy lifestyles and socially responsible health policy.

While Canada's non-alcoholic beer market is growing, it remains relatively small accounting for less than 2% of all Canadian beer sales. Because of its small share of the market, eliminating excise duty will have a minimal impact on government revenues – for perspective, in 2021, non-alcoholic beers share of the nearly \$700 million in federal excise revenue collected on beer was \$1.3 million.

We are not aware of any public policy rationale for why the federal government continues to apply excise duty to non-alcoholic beer, the only country to do so among major trading partners, and we are requesting that this excise anomaly be addressed in the short-term as part of the upcoming federal budget.

REDUCING EXCISE DUTY ON DRAUGHT BEER

Neighborhood restaurants and bars across Canada are facing unprecedented debt levels and the scheduled withdrawal of emergency support measures from the federal and provincial governments places these businesses at risk. Without continued support, many will close permanently, which would have devastating impacts on some of the most vulnerable members of the Canadian workforce.

A lower commodity tax on draught beer - a key profit driver for bars and restaurants - can be an important targeted support measure for these local businesses and will help encourage Canadians to return to their favourite neighbourhood bars and eateries.

We estimate a 50% reduction in the excise duty rates applied to draught beer would reduce federal government excise revenues by approximately \$35 million for calendar year 2022 if licensee draught sales return to pre-pandemic levels (Figure 4). However, full recovery of these on-premise sales would also generate growth of an estimated \$63 million in additional federal GST revenues, for a net \$28 million gain for the Treasury.

Our proposal to reduce draught beer excise duty rates by 50% will benefit restaurants and bars, Canadian consumers and domestic brewers of all sizes who produce nearly 90% of all draught beer sold in Canada in a typical year. It would also provide targeted support for many smaller breweries who typically have higher ratios of product sold in kegs in both restaurants and in their own on-site taprooms.

There is precedent for this measure in other countries and jurisdictions. For example, in Australia, the excise rate on draught beer already is reduced relative to packaged beer by 30% to 80% depending on alcohol content, while the UK in its Budget 2021 announced a reduction in the excise duty rate for draught beer. Bars and restaurants, local brewers and tourism regard draught beer excise relief as a positive support measure.

⁶ Recommendation referenced in Report of the Standing Committee on Finance, Investing in Tomorrow: Canadian Priorities for Economic Growth and Recovery, February 2021, 43rd Parliament, 2nd Session.

⁷ Canadian Centre on Substance Use and Addiction, Reducing Alcohol-Related Harm in Canada: Toward a Culture of Moderation, 2007.

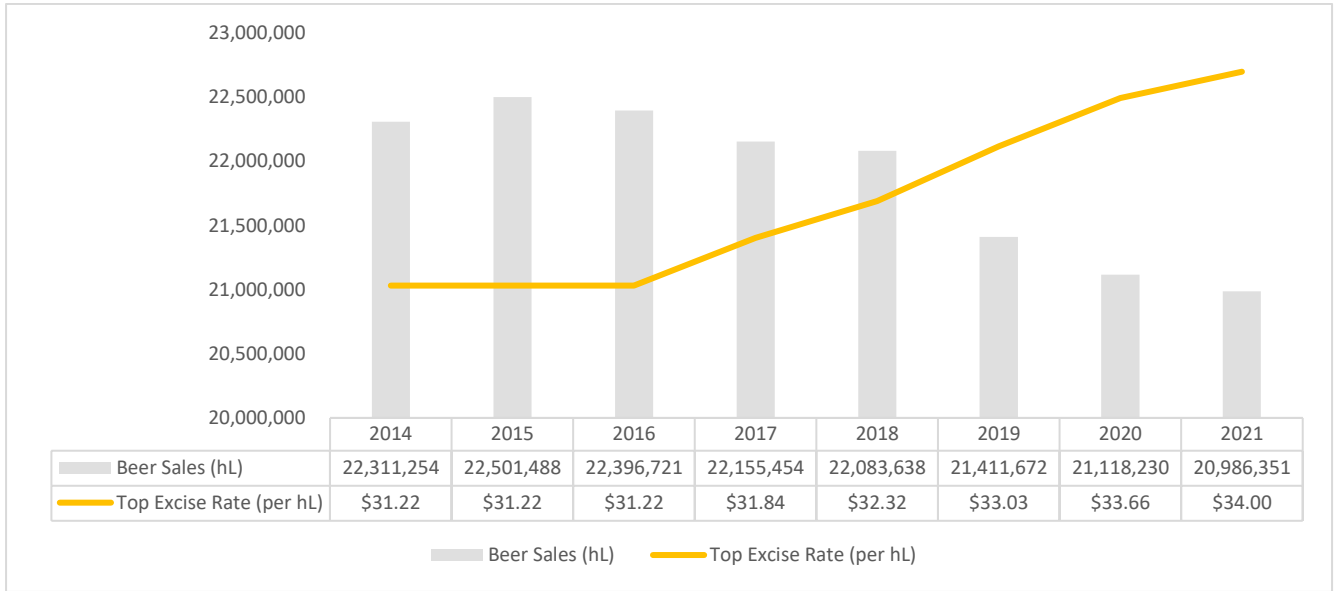
CONCLUSION

Brewers across Canada look forward to the adoption of these targeted beer tax relief measures as part of Budget 2022.

We thank you again for the opportunity to provide our priority recommendations, and believe if these are adopted they will contribute positively to jobs, growth and greater affordability for Canadian businesses and consumers. Please don't hesitate to contact us if there is anything else we can provide.

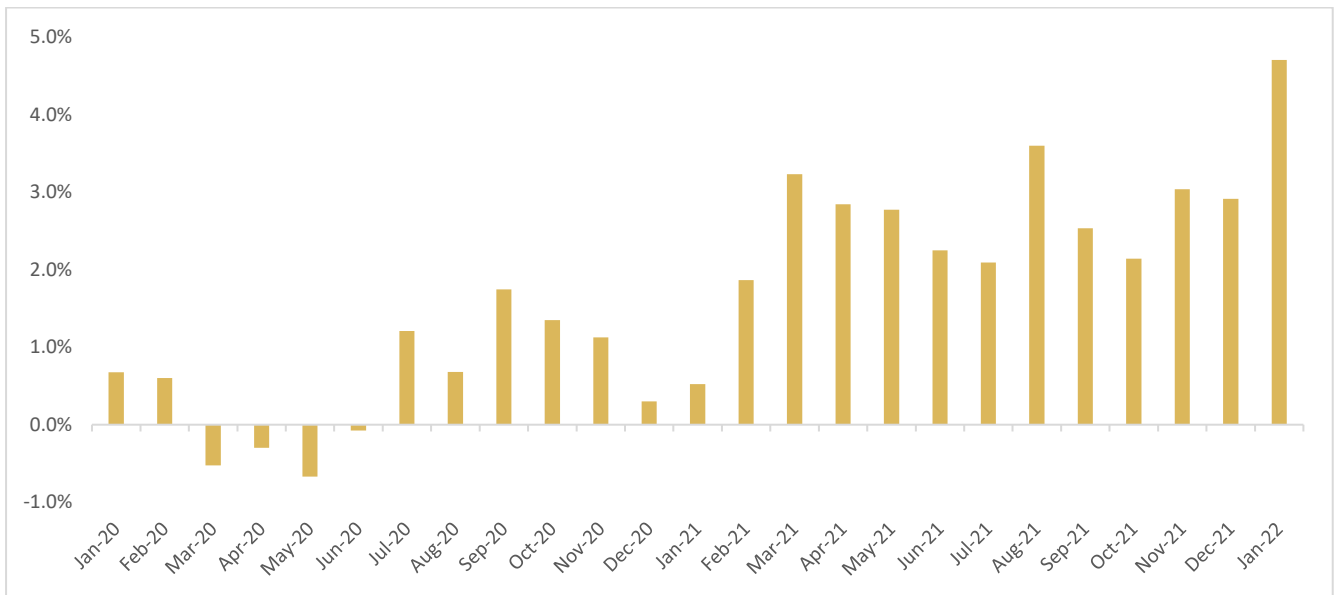
APPENDIX ITEMS

Figure 1. Annual Volume Beer Sales Vs. Excise Duty Rates



Source: Beer Canada Monthly Sales Data, Canada Revenue Agency Website

Figure 2. Change in CPI for Beer Sold at Stores (current period vs. previous period)



Source: Statistics Canada, Table 18-10-0004-01

Figure 3. Canada vs. U.S. Excise Duty Comparison



Figure 4. Estimated Cost Impact of Proposed Changes to Beer Excise Duty Rates

Current ABV Excise Duty Tiers		≤1.2% abv	>1.2% - ≤2.5% abv	>2.5% - ≤11.9% abv	Draught Beer (>3.5% abv)	Total
Sales Volume (2019 hL)		378,289	55,825	19,060,074	2,174,093	21,668,281
Excise Rate (2021 \$/hL)		\$2.67	\$16.09	\$32.20	\$32.20	
Excise Duty Remitted		\$1,010,032	\$898,224	\$613,734,383	\$70,005,795	\$685,648,433
Proposed ABV Excise Duty Tiers	≤0.5% abv	>0.5% - ≤1.2%	>1.2% - ≤2.5% abv	>2.5% - 11.9% abv	Draught Beer (>3.5% abv)	Total
Sales Volume (2019 hL)	378,289	0	55,825	19,060,074	2,174,093	21,668,281
Excise Rate (2021 \$/hL)	\$0.00	\$2.67	\$16.09	\$32.20	\$16.10	
Excise Duty Remitted	\$0	\$0	\$898,224	\$613,734,383	\$35,002,897	\$649,635,504
Difference		\$1,010,032	\$0	\$0	\$35,002,897	
TOTAL INVESTMENT	\$36,012,929					

*Note that figure 4 estimates are based on a blended rate, calculated using market share data