SUBMISSION
TO THE SENATE
STANDING COMMITTEE ON NATIONAL FINANCE

THE CASE FOR REPEALING THE EXCISE DUTY ESCALATOR IMPOSED UNDER SECTION 42 OF BILL C-44

An Act to implement certain provisions of the budget tabled in Parliament on March 22, 2017 and other measures

BEER CANADA BIÈRE

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Ottawa, Ontario

Introduction

This submission offers arguments the Honourable members of the Senate Standing Committee on National Finance can use to repeal Section 42 of Bill C-44 which imposes excise duty rate increases automatically every year starting April 1, 2018. The term "escalator" has been coined to describe this policy mechanism that links excise duty rate increases to the rate of inflation.

Beer Canada is the voice of the people that brew our nation's beer. Our 45 domestic brewery members operate 57 facilities in Canada and account for 90% of the beer produced in the country. We have members from all 10 provinces and one territory.

Beer is a high value-add agricultural food product made with ingredients grown here in Canada. Malting barley is an established premium crop for farmers in the Prairies and a developing crop for farmers in Ontario and Quebec. In a typical year, Canadian brewers purchase 300,000 tonnes of Canadian-grown malting barley to brew 23 million hectolitres of beer. Approximately 10% of beer production is exported while Canadian brewers command an 85% share of their home market.

Brewing has been important to Canada's economic fabric for over 350 years. Today there are over 644 brewing facilities dotting local communities throughout the country. Domestic brewers directly employ 13,000 Canadians with an average annual salary of $71,000, 16.5% higher than the average for all food manufacturing. According to a 2013 Conference Board of Canada study, one out of every 100 Canadian jobs is supported by the sale of beer. Combined federal, provincial and municipal tax revenues from the sale of beer total $5.8 billion annually with an additional $14 billion added to Canada's Gross Domestic Product.

Budget 2017 imposed an immediate 2% increase to the federal excise duty rates for beer. The cost increase for brewers and the immediacy of the application of the higher rates were unnecessarily disruptive. A 30 or 60 day transition period would have been appreciated by domestic brewers who already remit approximately $650 million in excise duties to the Federal Government. While the 2% immediate increase to excise was unwelcome, the brewing community is focused on the more concerning proposal buried within Budget 2017 that will cause excise duty rates to escalate every year automatically by the rate of inflation.

This submission offers six arguments for repealing the excise escalator:

- The escalator is too rigid and insensitive to regional economic circumstances;
- Unnecessarily adds to a challenging and uncertain business outlook;
- Conceals future tax increases from Parliamentary oversight;
- Contradicts the Government's commitment to evidence-based decisions;
- Inconsistent with Canada's National Alcohol Strategy; and,
- Opposite from the direction recommended by the PM's Economic Advisory Panel.

The Escalator is too Rigid and insensitive to Regional Economic Differences:

Section 42 of Bill C-44 proposes to increase the excise duty rates applied to beer by the rate of inflation every year starting April 1, 2018. The rate of inflation will be determined using the Consumer Price Index (CPI). This index reflects the price movement of a fixed basket of commodities over time. It tells policy makers nothing about what is going on in any specific industry. The government's proposal would escalate excise costs automatically and reduce the brewers' ability to accommodate input cost increases for things required to brew and sell beer such as malt, hops hydro, natural gas, packaging and wages, to name a few.

Linking excise to CPI also ignores regional economic circumstances. Consider an example of how this tax policy would have played out in Atlantic Canada had it been in place over the last five years. Since 2012, the total volume of beer sold in Atlantic Canada has declined by 3.3%. CPI on the other hand increased by 5.5%. If the escalator had been in place, the Government would have automatically increased the tax on beer every year while Atlantic-based brewers struggled to adjust to lower demand. The escalator would have made a difficult situation in Atlantic Canada worse.

It is not appropriate for the Government to excuse itself from having to consider what is going on in a particular sector and allow excise duty increases to run automatically in the background. Government needs to give thought to how these policy decisions affect businesses, both large and small. The escalator tax on beer fails in this regard.

The Escalator Unnecessarily Adds to a Challenging and Uncertain Business Outlook:

There is no policy rationale for the escalator and the Government has introduced it at a time of significant uncertainty that is being factored into business forecasts and capital investment plans. The United States has provided formal notice it will renegotiate NAFTA. The Trump administration is offering incentives to attract manufacturing and repatriate jobs. The US is considering a Border Adjustment Tax. The Canada-EU Free trade agreement will come into force on July 1, as will the new Canada Free Trade Agreement. The Supreme Court has agreed to hear the Comeau case which could challenge the constitutionality of provincial liquor boards. Legislation has been tabled to legalize recreational marijuana.

All these issues and the uncertainty they entail must be factored into the business outlook for brewers. The escalator imposed by Budget 2017 adds to the mounting reasons to delay or avoid investing or hiring in Canada.

The Escalator Conceals Future Tax Increases from Parliamentary Oversight:

The escalator will result in annual tax increases on Canadian beer drinkers and Canadian brewers with no Parliamentary oversight. The endless tax increases will run in the background resulting in higher beer taxes every year. Section 53 of the Constitution Act requires that Bills for imposing any tax originate in the House of Commons. This, at least in principle, suggests that Government must bring forward and explain its need for tax increases.

The Escalator Contradicts the Government's Commitment to Evidence-Based Decisions:

As part of its policy platform, the Government committed to "use accurate data to make good decisions." On May 8th 2017, the Finance Canada official that appeared before the House Finance Committee to answer questions on Bill C-44 as it relates to excise, admitted no economic modelling or analysis was done to determine the short and long-term effect of the escalator.

On page six of the Supplementary Information circulated with Budget 2017, the Government forecasts it will take an additional $470 million in excise duties from beer, wine and spirits over the next 5 years as a result of the immediate 2% increase and the automatic escalator. The Government did not factor in the tax-on-tax effect of excise and the additional tax revenue it will derive from higher beer prices pushing up GST charges at retail and on-premise sales. Since excise is imposed on the producer, provincial liquor markups, provincial sales taxes and the goods and services tax are layered on top.

No one in the domestic beverage alcohol industry agrees with Finance Canada's assertion that the Government can anticipate status quo while it takes an additional half billion dollars in excise duties out of productive use when Canadian beverage alcohol taxes at the Federal and Provincial levels of Government are already punitive. The tax on beer in Canada is already the 3rd highest in the world and Canada's federal excise duty rate on beer is 56% higher than the US federal rate.

Inconsistent with Canada's National Alcohol Strategy:

Canada's own National Alcohol Strategy (NAS), which was referenced during Senate National Finance Committee hearings on May 16th, does not recommend indexing excise. The NAS, published in 2007, was developed through the partnering of the Canadian Centre on Substance Abuse, Health Canada and the Alberta Alcohol and Drug Abuse Commission, and multi-stakeholder engagement that included beverage alcohol industry experts, federal and provincial government officials, national not-for-profit organizations and health and addictions experts.

The NAS contains 41 recommended actions aimed at developing and supporting a culture of moderation, and reducing alcohol-related harm in Canada. Excise indexation was not included amongst the 41 recommendations.

The International Alliance for Responsible Drinking report, Taxation of Beverage Alcohol, indicates that while a public health rationale is often cited for the use of alcohol taxation as a policy lever to reduce harmful drinking, supportive evidence is mixed at best. In fact, research suggests that taxation does not effectively target heavy drinkers and heavy episodic drinkers.

The majority of Canadians drink in moderation and within the Low-Risk Alcohol Drinking Guidelines, according to Health Canada survey data. We note that binge drinking by Canadian youth fell from 27% in 2008/2009 to 13% according to the Canadian Student Tobacco, Alcohol and Drugs Survey. As well, Statistics Canada's 2016 crime statistics show that between 1991 and 2015 the rate of impaired driving declined by 58%.

These positive public health trends are the result of multi-stakeholder collaboration and targeted initiatives. They are not the result of indexing excise duty to the Consumer Price Index.

Opposite from the direction recommended by the PM's Economic Advisory Panel:

In its second report, Prime Minister Justin Trudeau's Economic Advisory Panel identified agriculture and agri-food as a key growth driver for Canada's economy. The report outlined how growth in Canada's agriculture and agri-food sectors could be amplified.

Beer is an agricultural product that Canada has a competitive advantage at producing. Beer is a high value-add beverage Canada is really good at manufacturing and is one of highest value-add food products within the entire food and beverage sector. Even with all the changes that have taken place in terms of global trade over the last 25 years, Canadian brewers still command 85% market share of their home market. A 2013 Conference Board of Canada study found that every $1 increase in beer sales increased Canada's GDP by $1.12, over and above the multiplier for government tax revenues. But there are trends that could be reversed to drive more wealth creation here at home. In the last 10 years, per capita consumption of beer has declined by 11% and Canadian beer exports have fallen from $327 million to $177 million.

The escalator works against growing the beer category by raising costs, suppressing demand with higher prices, and driving down growth, investment and jobs. To be consistent with the advice of the PM's Economic Advisory Panel, the escalator ought to be repealed.

CONCLUSION

While disruptive and unhelpful, Canadians brewers do not wish to challenge the policy rational behind the immediate 2% increase to excise duty rates. Our sole focus is on repealing the escalator, the mechanism proposed in Section 42 of Bill C-44 that links excise duty rates to the Consumer Price Index. Our objection to the escalator rests on six key arguments:

- The escalator is too rigid and insensitive to regional economic circumstances;
- Unnecessarily adds to a challenging and uncertain business outlook;
- Conceals future tax increases from Parliamentary oversight;
- Contradicts the Government's commitment to evidence-based decisions;
- Inconsistent with Canada's National Alcohol Strategy; and,
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Rather than automatic tax increases that darken the outlook for the beer category, we believe brewers can help the Government create more jobs, more wealth and more opportunities for Canadians but it starts with eliminating the escalator tax imposed under Budget 2017 and we are hopeful that the Senate Standing Committee on National Finance will help us secure this outcome.