

CIDER CANADA


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Budget 2022
Pre-Budget Consultation Submission
Finance Canada

August 2021

Recommendation

That the Government of Canada immediately:

- announce the design of the wine support program announced in Budget 2021, to align with the Wine Growers Quality Enhancement Program (WGQEP), as a replacement for the pending loss of the excise duty exemption on wine (Which is currently applicable to cider);
- confirm that year one funding announced in Budget 2021 will be increased to align with the volume of cider/wine produced in Canada at the existing excise duty rate;
- extend the 2-year funding program (2022-2024) announced in Budget 2021, to a 10-year program (2022-2032), to provide industry certainty and support smart investments which will create jobs and contribute to an economic recovery across Canada.

Preface

As drafted by our friends at Wine Growers Canada, the following information is applicable to Cider, though does not include cider-specific statistics. Our national association is in the infancy of its start, and as such, we do not have similar statistical information.

The comments made by WGC also apply to the cider producers across Canada, and as a result, the impacts are even more impactful to the Canadian market.

Canadian Cider Industry

The Canadian cider industry has seen exponential growth in the past five years. Currently, there are just under 370 cider producers in Canada, with 1-2 new companies coming online every month in 2021. The concerns addressed by WGC are possibly more impactful as the cider industry is still in its infancy and is threatened with a sharp stop in growth, and possible large declines in producers, if the issues below are not addressed.

Cider is produced similar to wine, however, is often produced year-round with the ability to keep juice and apples longer than wine. As such, rebates under the proposed WGC program would need to address the production cycle as the 2022-2023 budget would not cover both cider and wine growers.

Canadian Wine Industry

The vertical integration of the Canadian wine industry captures more revenue than any other value-added agri-food product in the world. From vineyard development and grape cultivation to the final sale, wine production is a highly complex process that involves numerous suppliers,

distributors and service providers throughout the value chain, compounding the economic benefits.

Canada's 700 grape wineries and 1,800 independent grape growers are rooted to Canadian soil, producing 72 million litres of grape wine in six provinces, while supporting over 37,000 high paying jobs, and contributing more than \$9 billion annually to the national economy.

Since the introduction of the federal excise duty exemption in Budget 2006, more than 400 new wineries were constructed and strategic investments were undertaken to modernize, grow and enhance the quality of wines produced in Canada. Today, the annual government cost of the excise duty exemption is \$40 million in foregone revenue, but it has stimulated an additional \$4.6 billion per year for the national economy based on 40 million litres of 100% Canadian wine sales growth.

Wineries across Canada depend on farmgate, retail, and hospitality sales in bars, restaurants and hotels. Most small wineries have limited listings at provincial liquor retail stores, and depend heavily on farmgate and hospitality sales. The pandemic removed or severely constrained sales, international tourists disappeared and domestic winery visits were down significantly. Bars and restaurants were closed, resulting in significant economic impacts. The economic challenges have not ended, and wineries across Canada continue to reap the negative sales impacts of COVID-19, and require long term certainty given the pending loss of the excise duty exemption on July 1, 2022.

Executive Summary from WGA

Canada is a small wine producing country by global standards. Canada represents less than one percent of global wine production, but is the fifth largest wine importer by value and the eighth largest wine importer by volume, making Canada one of the most attractive wine sales markets in the world. Imported wines represent 67% of all wine sold in Canada, making Canadian consumers more price responsive and Canadian wineries price takers in our home market.

The Canadian wine industry is at a crossroad. At an excise duty rate of C\$0.672 per litre, Canadian wine growers pay among the highest wine excise duty rates in the world, and the only agricultural product to pay excise duty. In addition, Budget 2017 legislated excise duty rates to increase annually by the rate of inflation. By comparison, US excise duty rate on wine have not increased since 1991, and effective January 1, 2021, the US government legislated excise duty reductions on wine to as low as C\$0.02 per litre.

The July 2020 WTO negotiated settlement between Canada and Australia will result in the repeal of the excise duty exemption by July 1, 2022. Canada's commitment to a winery support program to address the loss of the exemption is vital, but the design and implementation of the program is vital. Without a replacement program, the Canadian grapewine industry would face

the following direct economic impacts, where revenues lost represent the entire supply chain losses triggered by the reduction of 100% Canadian wine volume and revenues¹:

- 6.9 million litre reduction in 100% Canadian wine sales (11.5% of total sales);
- \$380 million in lost business revenue;
- 2,400 lost full time equivalent jobs;
- \$72 million in lost wages;
- 330 winery closures² and resulting job loss;
- \$425.2 million loss in total economic impact, and;
- \$9.1 million net federal gain.

The repeal of the excise duty exemption will see the introduction of a \$0.69 per litre excise duty on more than 700 grape wineries, which will add at least \$1.50 per litre increase to final consumers, as the excise duty moves through the price chain. The loss of the excise duty exemption will have a very large effect on wineries, vineyards and allied industries, compared to the retail sector.

The economy will lose more than \$425 million in annual national economic impact in return for a \$9.1 million federal net gain.³ Given the impacts, this would result in the closure of virtually every grape winery and vineyard in Quebec, New Brunswick, Nova Scotia and Prince Edward Island, as well as smaller wineries and grape growers in Ontario and British Columbia. This is happening at a time when our sector has witnessed unprecedented economic hardship for Canadian wineries of all sizes due to the pandemic.

Budget 2021

Budget 2021 announced a winery support program to replace the pending loss of the excise duty exemption that takes effect on July 1, 2022. The Budget confirmed the following:

- The program will support jobs in the Canadian wine sector
- The program must align with Canada's international trade obligations
- The proposed \$101 million for the winery support program will be delivered over two fiscal years
 - \$35 million in 2022-23
 - \$66 million in 2023-24
- The program will be launched on July 1, 2022, aligning with the legislated repeal of the excise duty exemption on June 30, 2022.

Wineries across Canada are very thankful for the federal commitment towards a winery support program, but the funding allocation announced for the first year of the program falls far short as

¹ "Effects of Removing Excise Duty Exemption and Potential Subsidy on Wine Production for Canadian Wineries on Canadian Wine Industry Economic Impact," January 2021, Economic Forensics and Analytics, Inc.

² Based on winery size averaging 21,000 litres of annual production

³ Excise duty revenue less lost government revenue due to fewer taxable transactions and lower incomes in Canada from the wine industry supply chain.

a replacement for the excise duty exemption based on the total volume of wine produced and sold in Canada.

The definition of wine in the *Foods and Drugs Act* is the alcoholic fermentation of grapes, berries, other fruit, honey, and apple juice. Based on the 2021-22 excise duty rate of 67.2 cents per litre, and roughly 72 million litres of Canadian grape wine production, year one funding would not be sufficient to cover the approximate \$50 million in required grape wine support, let alone the volume of cider and other wines produced in Canada. As such, year one funding is roughly 50% below the level of funding support required to neutralize the impact of the excise duty which will become payable on July 1, 2022. The \$66 million in program funding allocated to year two (2023-24), more closely aligns with total wine and cider production in Canada.

It is important to understand that it takes an average 3-5 years before a grapevine matures to the point of producing wine. Sparkling and red wines take three or more years of aging before they are ready to be released for sale. Unlike beer and spirits, wine has only one vintage per year, and the entire vintage is fermented into wine in November-December of each year. These are important considerations, as wineries are currently finalizing their business plans for vintage 2022, which includes arranging financing, contracting grape purchases, planting vines, and ordering bottles, labels, corks, etc.

With less than a year before the Canadian wine industry loses the excise duty exemption, the lack of information on the program design (WGQEP, excise duty inflation indexation, wine produced before but sold after the repeal of the excise duty exemption etc.), and winery support program funding limited to 21-months, is creating significant investment uncertainty and needs to be quickly resolved so that wineries across Canada can make their business plans to ensure they are at the forefront of the post-pandemic economic recovery.

Canadian wineries have had to re-think their workforce, re-imagine tourism activities, cope with difficult domestic and global economic challenges, and refocus attention toward Canadian tourists, domestic markets and sales channels. It could take several years before our country and our industry rebounds from the full impacts of this pandemic.

Canada's 2020 Industry Strategy Council report, ***Restart, Recover and Reimagine Prosperity for all Canadians***, proposed an ambitious and transformative three-phase action plan, which recommends that the government stabilize the hardest-hit sectors and provide assistance that meets the needs of these various sectors to preserve hundreds of thousands of jobs and thousands of businesses. The report notes that the Council is convinced that the investment required to protect the hardest-hit sectors is considerably less than the financial and human costs impacting the economic and social fabric of entire regions and sectors in Canada.

In response to Canada's 2020 Industry Strategy Council report the government should implement the WGQEP program as a long-term investment in our farms, rural communities, wine growers and domestic tourism. The excise duty exemption has to date provided a \$4.6 billion annual return on investment for the Canadian government. The WGQEP program will further plant the seeds for economic growth, investment stability and economic certainty.

ANNEX:

Wine Growers Quality Enhancement Program

How will the Wine Growers Quality Enhancement Program Work?

Supported by grape and wine associations from across Canada, the Wine Growers Quality Enhancement Program (WGQEP) is proposed to replace the excise duty exemption in Budget 2021, and would be established for a 10-year period (2022-2032), with the possibility of renewal pending an economic review.

To qualify for WGQEP, wine⁴ must be fermented in Canada from domestic or imported fresh fruit (e.g., grapes, berries, apples, other fruit, honey, dandelions and rice), which is owned by a licensed Canadian winery. Extending the program to imported⁵ fresh fruit ensures the program is trade legal.

Canadian Bulk Wine Inventory

All wine licensees producing wine in Canada are required to file monthly with the Canada Revenue Agency, Form B265, *Excise Duty Return – Wine Licensee*.

Additions to inventory will be reported by litres of wine using the following excise duty thresholds:

- Containing more than 7% alcohol by volume;
- Containing more than 1.2%, but not more than 7% alcohol by volume; and,
- Containing not more than 1.2% alcohol by volume.

[Please note that cider is often produced around the 6-8% mark, so a 7% split has a dramatic impact on cider producers, and in fact, could encourage cider producers to add in sugar to increase alcohol levels as a way to receive a larger rebate. This would need to be addressed in the roll-out of the WGC program]. One possible solution is to separate Cider and Wine under the excise duty in Canada, by giving cider its own alcohol designation.

Reporting

- WGQEP would be paid to the responsible wine licensee after the wine produced in Canada is reported as an addition to Canadian bulk wine inventory.
- The responsible wine licensee claiming the allowance must maintain adequate books and records to support the claim.
- If a wine licensee is unable to support its claim, it would be subject to an assessment or re-assessment of the payment.

⁴ Wine is defined in Part B.02.100 – B.02-106 (wine) and Part B.02.120 – B.02.123 (cider) of the Food and Drugs Act Regulations and Section 2 of the Excise Act, 2001 (including cider, wine coolers, fruit wines and sake),

⁵ Imported fresh fruit must adhere to all federal import regulations established by the Canadian Food Inspection Agency; including required import permits, certification, maximum residue limits for pesticide residue, sulphites, etc.

- Records may include, but are not limited to maintaining production records sufficient to trace the domestic and imported fresh fruit, the resultant bulk wine additions produced in Canada, and maintaining inventory records and records of transactions (e.g., shipping/import documents, invoices).

Wine Produced prior to July 1, 2022

- All 100% Canadian wine produced, packaged and sold before July 1, 2022, will be excise exempt.

Wine Produced after July 1, 2021

- All wine that was produced in Canada after July 1, 2021, would be eligible for the WGQEP.
- All 100% Canadian wine inventory produced prior to June 30, 2022, but sold after July 1, 2022, will be excise exempt and count towards the draw-down/rebate of a wine licensee's specific excise exempt inventory pool.

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