Canada's National Brewers

Submission to the Standing Committee on Finance and Economic Affairs

July 6, 2020

Introduction

Thank you for the opportunity to provide comment

- We want to commend the government's commitment to addressing COVID challenges for our sector and appreciate the cooperative approach taken to assist our restaurant & bar partners and other small businesses:
  - Home delivery, re-opening restaurants/bars & expanded patios, other small business supports

- We want to continue to seek opportunities to work with government to re-build our sector and the Ontario economy

Ontario Brewing: A Significant Contributor to the Provincial Economy

Ontario's Beer Economy*

Canada's National Brewers (CNB):

- Over 2,500 Ontario employees
- Over $500 Million in purchases from over 765 suppliers/year in Ontario
- Generate ~80% of domestic beer industry economic activity
- Larger GDP contribution than wine & spirits combined – 80% domestically produced.

Over 50,000 Jobs

$5.2 Billion in GDP

$2.2 Billion in Government Taxes

* From *Brewing Up Benefits: The Economic Footprint of Canada's Beer Economy* Conference Board of Canada 2018. Taxes include direct federal and provincial commodity taxes as well as corporate and employee income taxes and municipal taxes.

TBS: Community Based Beer Retailer Since 1927

The Beer Store is low cost for brewers, which translates to low prices for consumers:

- Pre-tax prices 13% less than Quebec's;
- Lower retail costs than LCBO or grocery

BEER STORE

- Over 200 Brewers (30 Ontario-Based Owners)
  - Independent and small brewer directors on governing Board
- ~130 Ontario Craft Brewers
- 7,000+ employees
- 450 stores
- 5 Distribution Centres:
  - 20,000 Restaurants & Bars
  - Distribution to LCBO, grocers and agency stores
- 1.8 billion containers collected annually

Coping With COVID-19

- ***The Beer Store:***

  - COVID protection measures – education/screening, shields/gloves, adjusted hours

  - Assisted charities in raising over $1.2 million through community bottle drives and customer donations

- ***Breweries:***

  - COVID protection measures – education/screening, cleaning, supply chain disruptions higher overhead and employee costs

  - Hand sanitizer donations – food banks, nurses, bars and restaurants, police;

  - Restaurant gift card promotions – masks for restaurants and bars;

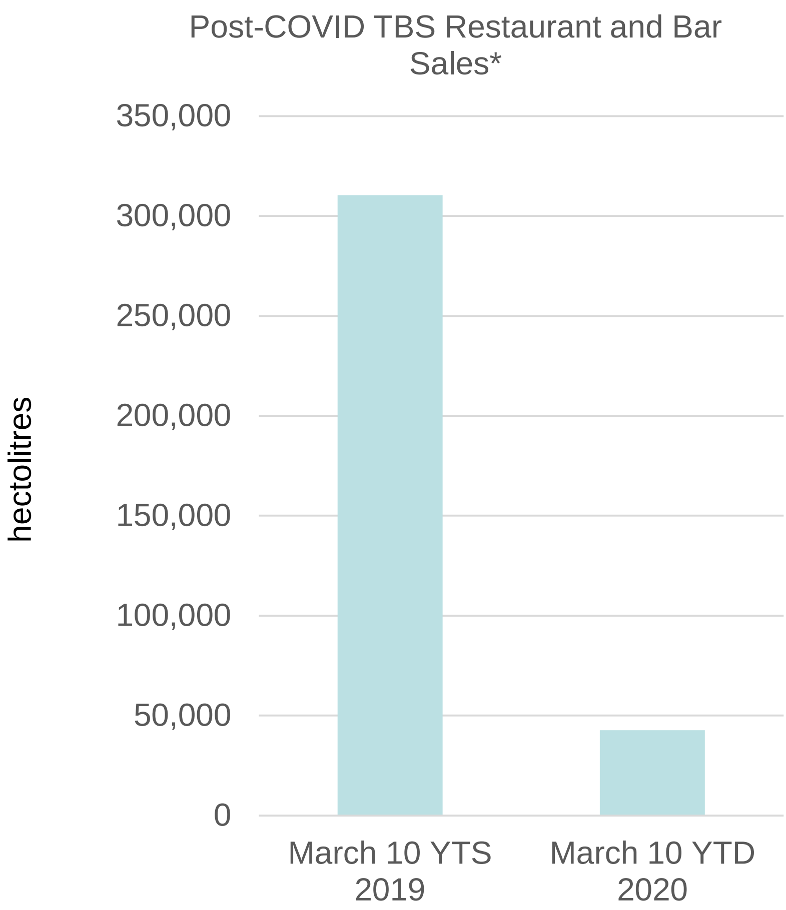
  - Support for COVID charities;

  - Founding partner - People Outside Safely Together

Brewers and TBS staff have been a priority throughout the COVID crisis.

No layoffs of permanent TBS staff – positions dedicated to serving bars and restaurants redirected toward COVID adjustment activities.

Bar and Restaurant Closures Have Damaged the Sector

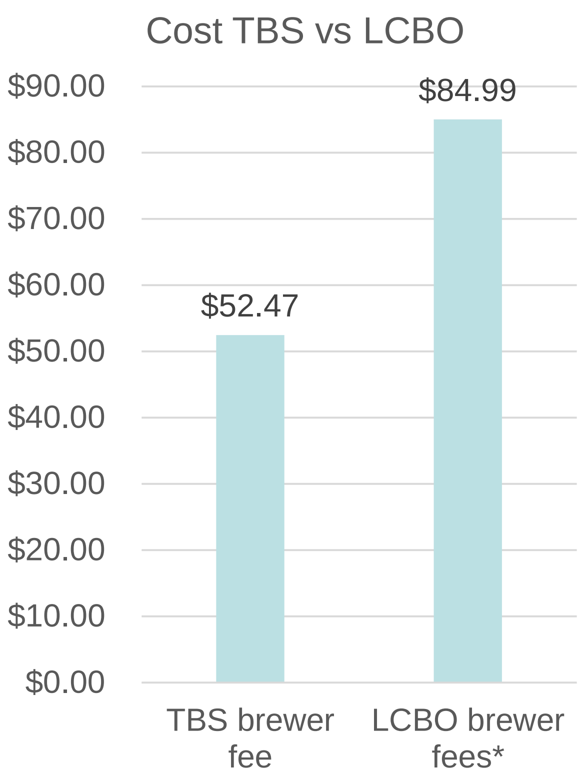


- TBS restaurant and bar sales down 86% Post-COVID - channel is a higher percentage of beer sales than either wine or spirits
- Seasonal support for beer sales associated with NBA/NHL playoffs gone
- Some lift in TBS consumer sales, but 2020 sales still well below historic sales levels.

* TBS Sales from March 10 to June 21 2019 vs 2020

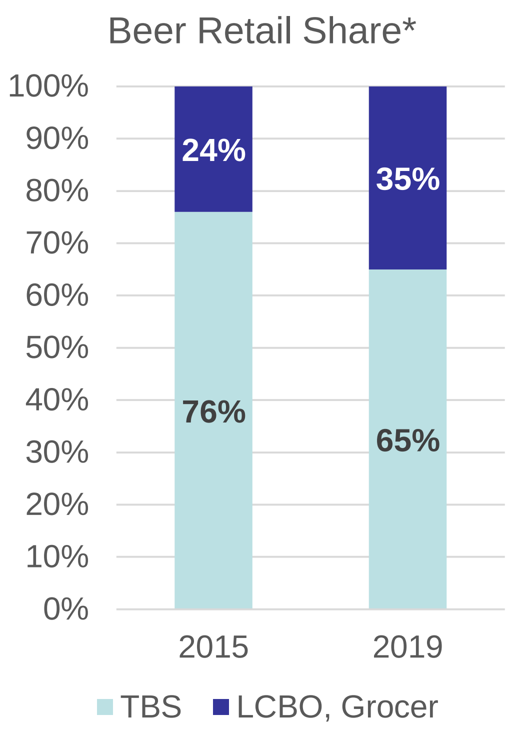
Expansion of Beer Sales to Grocery has Increased Industry Costs

Brewer service fees are 62% higher in LCBO and grocery



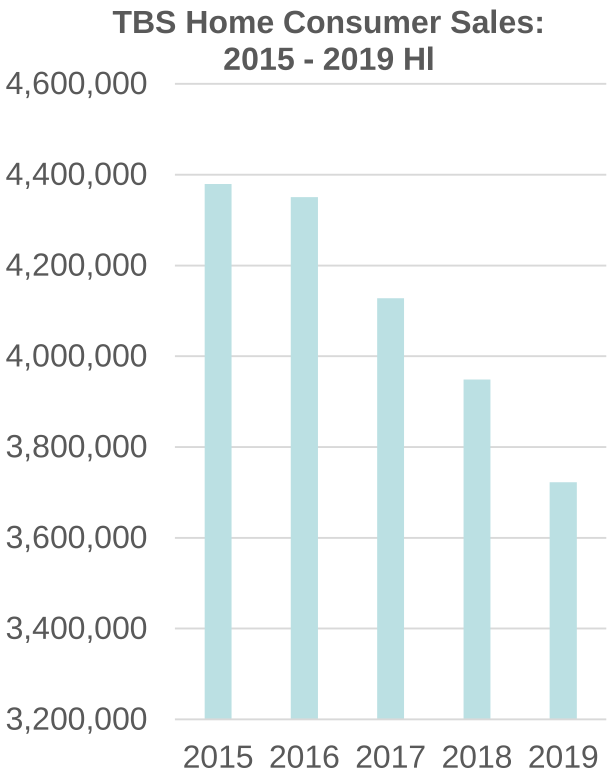
* Includes LCBO COS and TBS LCBO, grocer distribution fee.

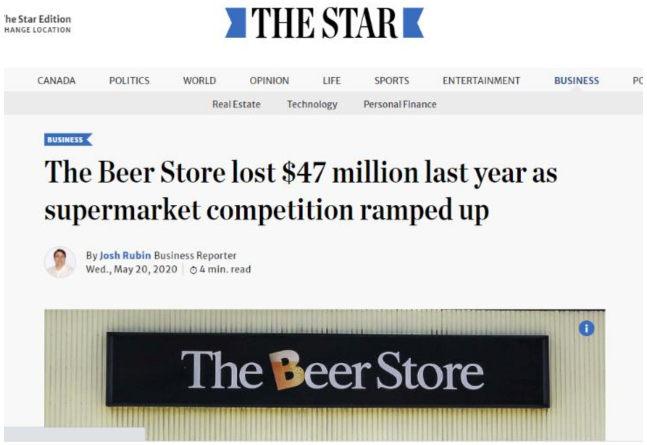
LCBO, grocer market share has increased by 10% points last five years



* Market share of shared beer retail market. Excludes LCBO combination stores and agency stores.

Declining TBS Sales Drive Up Costs for Brewers

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BUSINESS

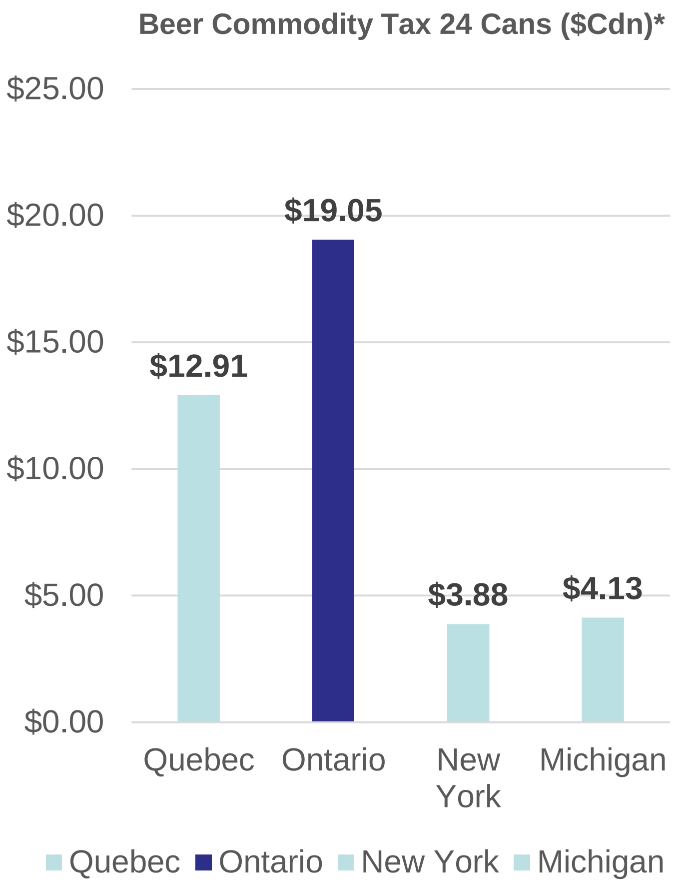
The Beer Store lost $47 million last year as supermarket competition ramped up

By Josh Rubin Business Reporter
Wed., May 20, 2020 | 4 min. read

- TBS retail sales down 15% since 2015;
- LCBO, grocer share growth represents an ~$20 million increase in annual brewer distribution and retailing costs

Higher retailing and distribution costs ultimately result in higher consumer prices

Ontario Beer Taxes Are Among the Highest in the World



- CNB appreciates the fiscal pressures created by Covid-19
- However, higher commodity taxes will suppress sales volumes and related economic activity
- Mainstream beer drinkers have been disproportionately affected by COVID-19 economic downturn:
  - Working Ontario beer consumers should not be subject to higher commodity taxes

* Ontario Quebec prices and taxes based on price of 24 cans mainstream brands week of June 8 (Quebec grocery, TBS) US taxes based on average state price from Simple Living Survey 2019. Conversion to Cdn $ based on Bank of Canada Exchange Rate June 8, 2020.

Re-building the Post-COVID Ontario Economy

- CNB recommended approach to sector policy:

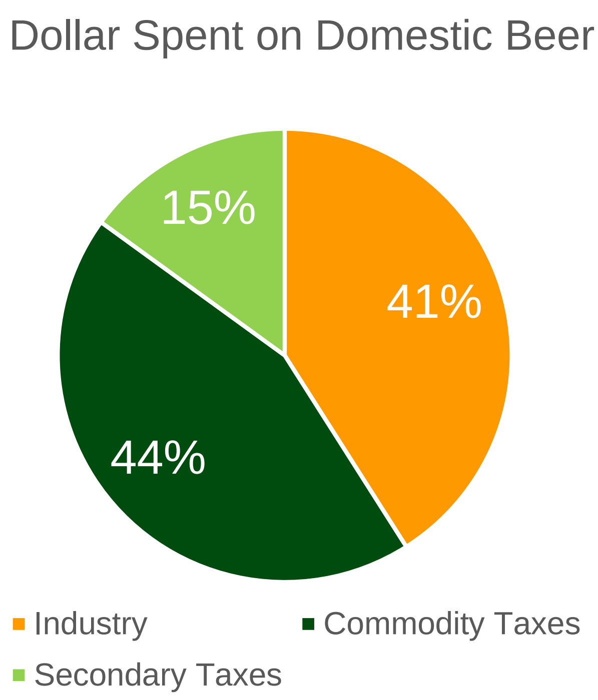
  - Do not overburden beer consumers and restaurants and bars with additional tax increases

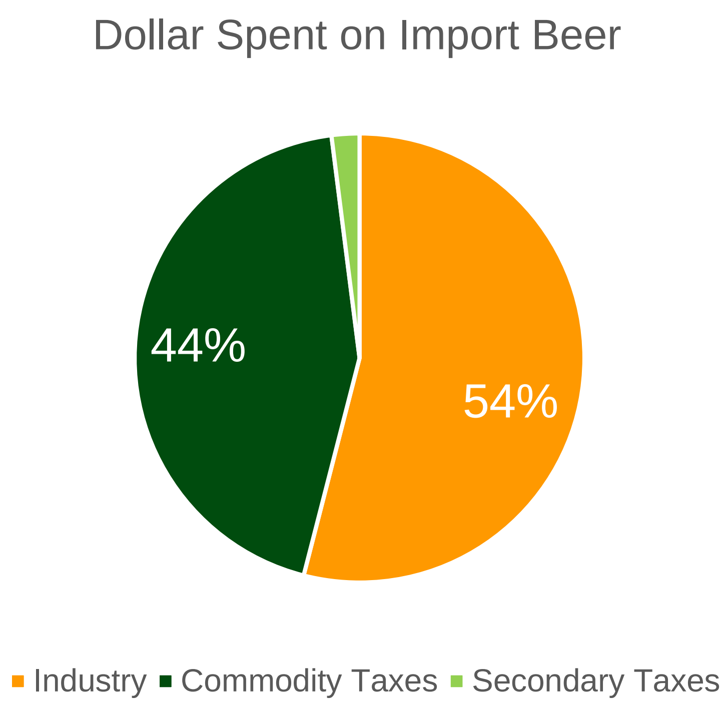
  - Support domestic industry growth & job retention/creation through reduced red tape and additional home delivery options

  - Broad-based initiatives that allow all industry participants to contribute to sector growth

Domestic Industry Growth Generates Additional Government Revenues

- **Ontario beer sales generate ~$1.7 billion in annual government commodity taxes.**
- **Beer produced in Ontario generates additional corporate tax, employee income tax, municipal taxes and payrolls taxes:**
  - **Approximately $500 Million per year in secondary taxes.**





Maintain a Tax Environment Conducive to Growth

- Eliminate automatic increase of basic beer tax scheduled for December 1, 2020

Rationale:

- Ontario beer consumers already pay among the highest beer taxes in the world:
  - Many lower and middle class consumers seriously affected by COVID economy
- Allow restaurants, bars and beer consumers to recover from COVID without higher commodity taxes:
  - Higher input costs for licensees will hinder COVID recovery

Beer consumers are already paying their fair share of taxes

Reduce Red Tape: Simplify Brewery Beer Tax Reporting

- Currently basic beer tax is not applied to beer sold in LCBO, agency or grocer store sales (equivalent charges are collected as LCBO markups);
- Ontario brewers have to submit complex paperwork to Ministry of Finance to reconcile basic beer taxes with markups collected by LCBO;
- Application of basic beer tax to all sales would eliminate significant paperwork for breweries related to reconciliation of LCBO markups and simplify the reporting and tax collection process.

Rationale:

- Streamlines government tax collection and reduces red tape for both small and large brewers;
- Improves government revenue flows and ensures the same amount of revenue collected regardless of sales channel.

Removal of red tape reporting requirements lowers industry costs for both large and small brewers

Reduce Red Tape: Improve Beer Distribution Efficiencies

- Streamline beer distribution in Ontario:

  - Today Ontario brewers must physically receive beer produced at their facilities in other provinces at their Ontario brewery prior to distribution to the marketplace. This is inefficient and adds unnecessary costs.

  - For example, beer destined for sale in Ottawa is shipped to other Ontario locations (Toronto, London) before being shipped back to Ottawa for distribution to market.

  - Allow brewers to deliver out-of-province beer directly to warehouses and distribution centres without the need to deliver to the brewery first. Make the interplant transfer a paper transaction rather than a physical one.

Rationale:

- Improves beverage alcohol distribution by eliminating costly brewery to brewery shipping requirement

Removal of red tape regulatory requirement lowers industry costs

Reduce Red Tape: Modernize Home Delivery & E-commerce Options

- E-commerce is accelerating but red tape inhibits growth:
  - Currently home delivery from retailers is inhibited by a complex set of regulatory requirements (see Appendix). Need to modernize as consumers shift to e-commerce in a post-COVID world.

- Brewers support making bar & restaurant alcohol takeout/delivery permanent.

- Red tape should also be removed to allow anyone (brewers, retailers, delivery apps) to invest in alcohol e-commerce with a few basic rules:
  - Alcohol must be purchased from a legal retail outlet – with consumers able to pay online (similar to food delivery);
  - Any persons involved in the sale or delivery of alcohol must complete Smart Serve training;
  - Alcohol cannot be sold or delivered to anyone under 19 years of age or who appears to be intoxicated;

Permit alcohol delivery to keep pace with expanding e-commerce environment

Reduce Red Tape:
Unnecessary E-commerce Alcohol Restrictions

- E-commerce platforms are restricted in collecting payments online:
  - Consumers must pay the individual licensed delivery person (i.e. the driver) directly, mandating payment at the door rather than online or "in-app";

- On-site brewery stores are subject to restrictions regarding product selection and delivery fees;

- Brewers are prohibited from investing in licensed alcohol delivery services.

Support Domestic Beer Sales at the LCBO

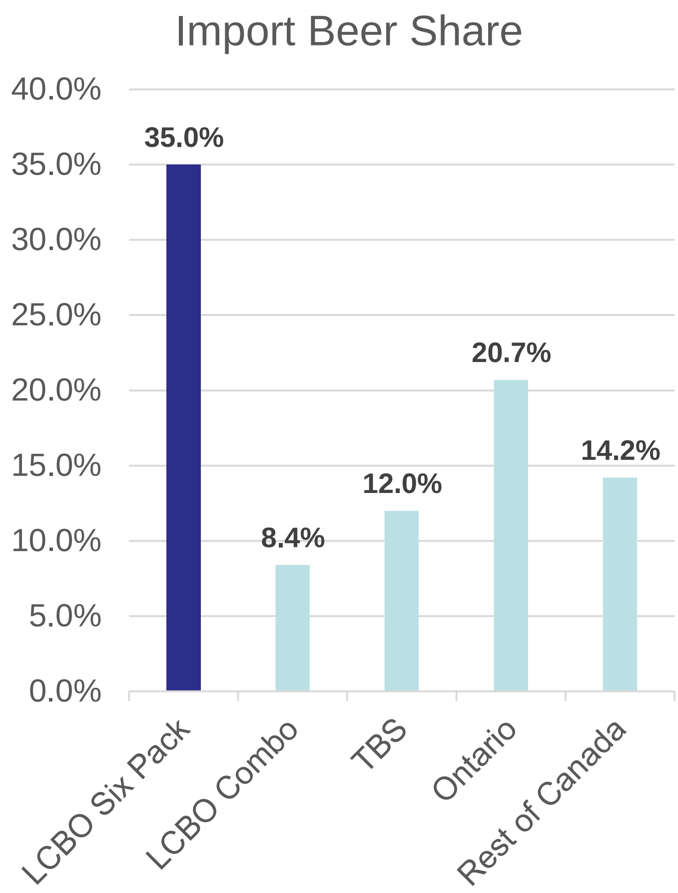
- Eliminate LCBO restriction on domestic listings for Ontario brewers:
  - Currently Ontario brewers face limitations re listings at LCBO stores (one in one out policy)
- Eliminate tax advantage for LCBO exclusive beer imports:
  - Currently LCBO funds exclusive beer import container costs by reducing taxes ~ annual $5 million subsidy for exclusive beer import sales.

Rationale:

- LCBO has an unusually high import share;
- Level playing field re LCBO policy will create additional production opportunities for all sizes of Ontario brewers;
- Government benefits with any share shift to domestic sales through additional indirect tax revenue and growth in jobs and investment and GDP.

Important to focus on domestic production during COVID crisis

Eliminate LCBO restrictions on domestic listings and level the playing field for domestically produced beer



- Difference in Ontario and national import share equivalent to:
  - 500,000 hectolitres annually; or
  - 6 million cases of beer.

- LCBO six-pack stores have the highest import share of any retailer in North America:
  - Lack of container charges on exclusive imports results in lower prices for those products;
  - LCBO listing policies favour imports.

- Change in LCBO policies will support more Ontario production from both large and small breweries.

Conclusion

Recommendations:

- Support Industry Including Bars and Restaurants through Reduced Red Tape

- Benefit Hard Hit Beer Drinkers:
    - Improved Convenience;
    - No new taxes

- Support Government Revenue Growth Through Enhanced Domestic Production