



Brewers of Canada

Howard W. Collins
President & CEO

650-100 Queen Street
Ottawa, Ontario
K1P 1J9 (613) 232-9090
hcollins@brewers.ca

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Senator Michael Kirby, Chair
Senate Standing Committee on
Social Affairs, Science and Technology
The Senate
Ottawa
K1A 0A4

Dear Senator Kirby:

We are writing with regard to the May 9th report from the Senate Standing Committee on Social Affairs, Science and Technology entitled "Out of the Shadows At Last" (hereafter referred to as the "Senate Report").

The Brewers Association of Canada (BAC) is the national association representing brewers from coast to coast licensed to operate in Canada. Our 16 member companies account for over 97 per cent of domestic beer sales in Canada. In addition, as ordinary citizens who wish to make a difference in their communities, the 150,000 Canadians whose jobs directly and indirectly rely on a viable and healthy industry also have an important stake in the issues addressed in the report.

One of the key issues facing the Canadian health care system today is mental health. We applaud the Senate Standing Committee on Social Affairs, Science and Technology for taking on this pressing social concern of interest to all Canadians.

For the reasons stated in further detail below, however, we oppose a key recommendation of the Senate Committee that, *"in order to raise additional revenue to pay for federal investments in mental health, mental illness and addiction initiatives, the Government of Canada should raise the excise duty on alcoholic beverages by a nickel a drink, that is by 5 cents a standard drink"*.

The Senate Report also recommends a reduction in excise duty by 5 cents a drink on light beer (2.5 per cent-4 per cent alcohol by volume) and the elimination of excise duty on extra light beer (under 2.5 per cent).

We fail to understand how the proposed changes in special taxes on alcoholic beverages have any linkage to these pressing issues. We are of the view that the Senate Report is off strategy in its call for a tax increase on certain products to solve a public problem that is not of the making of the consumers of these products. There is also no certainty that the additional revenues raised would even be directed to the problem at hand.

We also wish to express our disappointment that neither the Association nor our member companies were consulted in bringing forward these far-reaching recommendations. The Privy Council Office in *Government of Canada Regulatory Policy 1999* establishes the process for consultation which requires government to engage in "timely and thorough consultations with interested parties". In addition, "the consultation effort should be proportional to the impact of the proposed regulatory change". While this policy is directed at government, the principles are tried and sound and, we believe, are relevant in this instance.

The Canadian Beer Consumer is Already Heavily Taxed

At 51 per cent of the retail price, Canadian beer is the second highest taxed in the world. The 10,000,000 Canadian consumers who enjoy our product already shoulder an enormous tax burden imposed by both the federal and provincial governments. The Senate Committee is asking the Canadian consumer to bear an even higher tax burden.

The report estimates that the nickel excise increase on regular strength beer (>4.1 per cent alcohol by volume) would result in additional revenue of \$268,454,534. This represents a hike of 33 per cent above current revenues. Exclusive of other taxes, this works out to an increase in price to the consumer of 3.3 per cent per case of 24.

In its revenue estimations, the Senate Report fails to take into account the nature of the Canadian alcoholic beverage taxation system, which unlike the Australian model referenced, extends to the sub-national level. In Canada, the provinces have control over the sale and distribution of alcoholic beverages and are the "larger players" in how this commodity is priced, distributed and sold.

A provincial tax is imposed on alcoholic beverages in the form of a markup on the price inclusive of the excise. This "tax on tax" is taken one step further on application of a provincial retail sales tax and the federal GST. As a result, we estimate that a federal excise increase of a nickel a bottle will in fact generate an additional \$323,170,325 in revenue and not the figure of \$268,454,534. Due to the ad valorem structure of the markup in the Maritimes, beer consumers in these provinces would experience the most drastic impact with the price of beer increasing by an average of almost 7 per cent per case of 24.

Finally, contrary to what is stated in the Senate Report, the excise duty increase that came with the introduction of GST was not revenue neutral. Finance

Canada had maintained that the January 1991 increase of 45 per cent in federal excise duties was intended to "replace" the revenues that would be "lost" by the substitution of the 19 per cent Federal Sales Tax (FST) with the 7 per cent GST. In fact, as a result of these changes federal beer tax revenues increased by \$226 million annually. The upcoming increase, again positioned as being revenue neutral because of a 1 per centage point decrease in the GST rate, will also not be neutral.

Policy Framework Required Before Funding Issues Can Be Considered

There is no doubt that Canadians with mental health problems face challenges, as does every other person involved with the Canadian health system. However, in our view, the key question to ask is: how effective are the federal government and provincial governments in their stewardship of health revenue resources currently allocated and spent on mental health today?

According to the Canadian Alliance on Mental Illness and Mental Health (CAMIMH) less than 4 per cent of research funding currently goes to mental illness and mental health even though about 16 per cent of health care expenditures are accounted for by psychiatric disorders.

Given these circumstances, it is difficult for us to understand how the Senate Committee can reach the conclusion that the panacea for addressing the all-too-real and pressing mental health issues facing Canadians resides with implementing an excise increase rather than address the more fundamental policy issues. We also believe that history would demonstrate that the provincial jurisdictions would not necessarily adjust their pricing policies to accommodate the objectives the Senate Committee wishes to achieve through proposed excise changes.

The Brewing Industry Is Doing Its Part

There is only a superficial examination of alcohol problems in Canadian society and yet the Senate Report suggests that impaired driving or other alcohol-related issues can be dealt with by encouraging the consumption of lower alcohol beer. In fact, the rate of impaired driving incidents in Canada over the past two decades has declined by 65 per cent. According to the Traffic Injury Research Foundation of Canada it is the hard core drinking driver often with blood alcohol over twice the legal limit that poses the greatest threat.

The alcohol research community, NGOs and Health Canada currently are working on a national framework for action on substance abuse. The brewing industry is an active participant in this process. Potential benefits include:

- providing an impetus for focused and ongoing discussions between all players;
- allowing all stakeholders to have a role in creating and managing a national strategic alcohol policy;

- allowing all parties to align and establish key national priorities thereby maximizing impact;
- facilitating a discussion on roles and responsibilities and allowing input on federal government impact; and,
- allowing the pooling of resources on certain issues thereby enhancing effectiveness.

The Canadian brewing industry has long recognized its duty to promote the responsible consumption of its products. Our Association and member companies voluntarily commit significant financial and other resources to the objective of reducing Fetal Alcohol Spectrum Disorder (FASD), the misuse of alcoholic beverages, and impaired driving through programs that not only actively inform but also encourage changes in societal attitudes and behaviours. Over the past 20 years the industry has sponsored programs to promote responsible consumption with a value of more than \$120 million.

Conclusion

In view of the importance of the issue at hand, we urge the Committee to reconsider its well-intentioned recommendations and the appropriate funding mechanism to address them. Our association feels that it is not fair or appropriate to arbitrarily impose a tax increase, without consultation, that would affect only one particular consumer in the absence of any proven justification.

We would be pleased to meet with you to discuss any of the above issues in further detail at your earliest convenience.

Kind regards,

A handwritten signature in black ink, appearing to read "Howard Bellin", followed by a small flourish or mark.