

In the Spirit of Business

Submitted by: The Prince Edward County Chamber of Commerce

Sponsored by: Peterborough and the Kawarthas Chamber of Commerce, 1000 Islands Gananoque Chamber of Commerce, Brockville and District Chamber of Commerce, Guelph Chamber of Commerce, Port Hope and District Chamber of Commerce, Belleville Chamber of Commerce, Quinte West Chamber of Commerce

Issue

Currently, the policy regime applied to craft brewery and winery industries is not aligned with the one applied to the craft distillery industry, resulting in challenges for growth and sustainability of the sector as an integral part of Ontario's economy.

Background

Craft distilling is an industry in rapid growth. Distillers are creating jobs and boosting economies in large and small centres. The segment supports 6000 jobs in Ontario and annually contributes \$1.5 billion to Ontario's Gross Provincial Product, while craft distillers and the spirit industry generate over \$2.5 billion in annual sales.

The spirits industry works closely with local farmers, connects to tourism and hospitality industries, and contributes to the economic growth of rural areas across Ontario.

However, significant challenges still need to be addressed, *i.e.*, **tax at craft distillery tasting rooms is 61.5%, which is 10 times what Ontario wineries pay**. Additionally, craft distilleries do not receive recognition for using ingredients produced in Ontario.

For these reasons the craft distillery industry should be considered in policymaking.

In its 2019 report, "Refreshing the Sale of Beverage Alcohol in Ontario", the Ontario Chamber of Commerce (OCC) identifies several positive economic results from the industry that would only be enhanced by parity with the other sectors of beverage alcohol, including:

- The spirits industry and craft distillers in Ontario generate over \$2.5 billion in annual sales.
- The spirits industry supports 6,000 jobs across the province and contributes \$1.5 billion to Ontario's Gross Provincial Product every year.
- Ontario is currently home to 45 spirit distillers (as of December 2021). There has been an increase in the number of small and artisan distillers that specialize in niche products across Canada.
- The spirits industry works closely with local farmers and contributes to the economic growth of rural areas across Ontario.

The report also connects the beverage alcohol industry to several adjacent industries, including farming, tourism, and hospitality. The power of beverage alcohol to be a force for economic development – particularly rural economic development – should, therefore, be reflected in policymaking.

The province of Nova Scotia continues to be a leader in the spirits industry since the government opened the door to growth in 2014 by reducing the mark up by 60-80% with another 10% mark down if distillers use provincially grown agriculture products. The government cut the license fee from \$2000 to \$500,

increased production threshold, and introduced a graduated mark up based on annual production. These measures allowed craft distillers to thrive. In British Columbia, since the introduction of a graduated tax system, the industry has grown from 17 to 48 distilleries in the province.

Craft spirits are considerably more laborious to produce than large-scale industrial spirits and are also marketed at higher prices. Any short-term revenue reductions from lower LCBO mark ups and tasting room taxes will be surpassed by the increased revenue from higher employment and consumers supporting local premium spirits that will come from a thriving craft distillery industry.

In the past few years there has been some movement towards parity with other craft alcohol industries, such as:

- Allowing craft distillers to distribute their products to bars and restaurants.
- Allowing craft distillers to open “Pop-up” retail stores via Special Occasion Permits; and
- The continuation of “The Small Cidery and Small Distillery Program” for a three-year commitment (expires in 2025).

Craft distillers believe these changes are a step in the right direction, but additional changes are required to reach parity with other craft alcohol industries in Ontario. For example, the update to “Canada’s Guidance on Alcohol and Health” recognizes that the consumption of beverage alcohol is equivalent across different categories, therefore craft distillers believe it is possible to have all regulations regarding alcohol align to the same standards.

This call for change is not only coming from the chambers of commerce and boards of trade but also from Craft Spirits Ontario.

Recommendations

The Ontario Chamber of Commerce urges the Government of Ontario to:

1. **Remove the LCBO fees applied to sales from Craft Distilleries directly to licensees.** (Currently the LCBO receives a fee for any direct sale from a craft distillery to a licensee. The craft distiller makes the spirit, generates the sale, packages the product, ships the product, and bills the licensee but the LCBO receives a fee. Even if the craft spirit is not available through the LCBO).
2. **Align the craft distiller’s regulations with the craft beer and wine industry by raising the rebate rate in “The Small Cidery and Small Distillery Program” to have an equivalent net tax on wine and spirits.** (Nova Scotia and British Columbia are the leaders in the industry offering graduated tax rates. Ontario should consider a similar program so craft distillers across Canada are treated equally. New craft distilleries are choosing NS and BC to start their businesses rather than Ontario).
3. **Lower the LCBO markup on spirits made primarily with Ontario ingredients from small Ontario facilities to be equivalent to microbreweries, graduated by production method and volume.**