In the Spirit of Business

Greater Peterborough Chamber of Commerce, Prince Edward County Chamber of Commerce, Quinte West Chamber of Commerce, Belleville Chamber of Commerce

Issue:

Aligning the craft distillery industry with the policy regimes of the craft brewery and winery industry will help it become a positive growth sector for the Ontario economy.

Background:

Craft distilling is a growth industry that has the potential to create jobs and boost economies in large and small centres alike. It is an industry in which there is demand. According to the LCBO's annual report, in 2015-2016 Ontario craft distillers saw strong sales growth, up 63.7 per cent to $3.7 million. However, recent legislation under Bill 70 seeks to challenge the fledgling industry instead of building it up. And there is a case for building it up.

In Nova Scotia, the government opened the door to growth in the industry in 2014 by reducing the government 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 and increased production threshold and introduced a graduated markup based on annual production. This has 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.

Currently in the United States, Florida is considering opening up its liquor laws to give more freedom to craft distillers around production and sale. In Kentucky, the Cabinet for Economic Development has announced 77 spirits-related investments since 2010 for a total investment of more than $1 billion in the industry.

Here in Ontario, the outlook for the industry is not as positive. After three years of consultations with the provincial government, craft distillers were hoping to see a graduated tax system based on litres produced, similar to craft breweries and wineries.

As such, the fledgling distillery industry continues to have the following concerns:

- The 61.5% tax is 10 times what Ontario wineries pay
- Beer is taxed by the litre, and spirits are taxed by the list price. This means that distilleries pay more tax on aged products that require a higher list price, but breweries do not
- Craft breweries and large breweries are taxed at different rates, whereas craft distilleries and large distilleries do not enjoy the same distinction

When Bill 70 was released in November 2016 and passed third reading on December 8th, distilleries saw a 61.5% tax on the retail price of their product. The tax replaces the 139.7% markup for the LCBO that was previously in place. So it could be argued that Ontario is opening the door halfway. There have also been comments around distillers now being able to distribute directly to bars and restaurants under Bill 70, but the plan on how that will work and be governed has not been revealed. As it stands now, craft distillers must sell their product to the LCBO. The LCBO then sells the craft product to the licensee (bar or restaurant).

RECOMMENDATIONS:

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

1. Align the craft distillers regulations with the craft beer and wine industry by:
    a. Introducing a graduated tax system for craft distillers and ensure that it applies to liters produced, by 2018
    b. Immediately allowing craft distillers to distribute all products directly to bars and restaurants
    c. Adding an additional markdown for using provincially produced products

Estimated Financial Impact to the Province (For AGM discussion-purposes only – will not appear in final compendium)

Given the current economic climate, solutions to create a smarter, more fiscally sustainable government are a priority.

- Create a cost-savings for the government
- Be cost-neutral to the government
- Entail a small cost to government (less than $10M)
- Entail a medium cost to government (between $10M and $200M)
- Entail a large cost to government (higher than $200M)