BC Commercial Distillery Taxation Review

March 2018
why we are here

- small BC commercial distillers are taxed at parity to global distilleries that produce brands like Smirnoff, Bacardi, Crown Royal
- BC commercial distilleries run the identical business model to BC craft breweries and yet work under a very different and much more punitive taxation
- BC commercial distillers drive more revenue selling their products in AB, ONT and internationally than in their home province
- large brands control 67% of the global spirits market today, up from 58% in 1998 • Citigroup
our goal

the BC Independent Distilling Association are seeking a volume based graduated taxation model that promotes growth for small, BC based commercial distilleries:

- drives re-investment into BC distillery infrastructure
- increases spend against BC jobs and skills training
- opportunity to grow made in BC product into global hero brands
- alignment of BC spirit mark-up with national and international markets
- allows growing distilleries to price competitively and attract local consumers
- respect for international and inter-provincial trade agreements
current mark-up comparison

<table>
<thead>
<tr>
<th>BC Beer - Volume Based</th>
<th>BC Spirits - % Mark-Up Based</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume</strong></td>
<td><strong>Duty Paid</strong></td>
</tr>
<tr>
<td>&lt; 15,000 HL</td>
<td>&lt; $21.00</td>
</tr>
<tr>
<td>15,001 HL - 350,000 HL</td>
<td>Next $8.20</td>
</tr>
<tr>
<td>&gt; 350,000 HL</td>
<td>Next $8.20</td>
</tr>
<tr>
<td></td>
<td>&gt;$37.49</td>
</tr>
<tr>
<td><strong>Tax Rate</strong></td>
<td></td>
</tr>
<tr>
<td>$.40/L</td>
<td></td>
</tr>
<tr>
<td>$.41 - $.99/L</td>
<td></td>
</tr>
<tr>
<td>$1.08/L</td>
<td></td>
</tr>
</tbody>
</table>

beer model encourages growth through mark-up increases **only** as volume increases

Spirits model encourages super-premium pricing reducing consumer adoption
spirits vs beer - current situation

Red Racer ipa (6-pack)
- paid to mfr: 56.0%
- prov. markup: 6.9%

Lohin McKinnon whisky (750ml)
- paid to mfr: 24.2%
- prov. markup: 34.4%

beer paid to brewer = 56.0% vs spirits paid to distiller = 24.2%
both BC made at the same facility using the identical malt bill
beer nets almost 2.5x more
**beer vs spirits mark-up - proposed**

- Volume based on global production (L) of abs. alcohol
- ** 100,000L ~ 26,500 9L cases

<table>
<thead>
<tr>
<th>BC Beer</th>
<th>Tax Rate</th>
<th>BC Spirits (Proposed)</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td></td>
<td></td>
<td>Volume*</td>
</tr>
<tr>
<td>&lt; 15,000 HL</td>
<td>$.40/L</td>
<td>&lt; 4286 L</td>
<td>$27.76/L</td>
</tr>
<tr>
<td>15,001 HL – 350,000 HL</td>
<td>$.41 – $.99/L</td>
<td>4,287 L – 100,000 L</td>
<td>$28.45/L – $68.70/L</td>
</tr>
<tr>
<td>&gt; 350,000 HL</td>
<td>$1.08/L</td>
<td>&gt; 100,000 L**</td>
<td>$74.95/L</td>
</tr>
</tbody>
</table>

*proposed spirits model encourages growth through mark-up increases only as volume increases – just like beer*

*critical to understand that distiller mark-up moves to a volume based markup*
proposed beer vs spirits markup

Beer Markup

- BC Beer Markup
- Macro Beer

Spirits Markup

- Proposed Markup
- Current Markup

beer mark-up schedule
proposed spirits mark-up schedule
replication of beer mark-up model for BC commercial distilleries
spirits vs beer proposed situation

Red Racer IPA 6-pack

- beer paid to brewer = 56.0%
- spirits paid to distiller = 45.8%
- both BC made at the same facility using the identical malt bill

Lohin McKinnon whisky (proposed)

- paid to mfr. 45.8%
- prov. markup 12.7%

prov. markup 6.9%
beer vs spirits mark-up - proposed

Lohin McKinnon:
Current Markup

Consumer End Price: $69.07
- Container Deposit: $0.10
- 5% GST: $2.99
- 10% PST: $5.99

Retail: $59.99

Wholesale: $45.01
- Recycling Fee: $0.10
- 63%: $5.72
- 124%: $19.53
- Duty Paid: $20.74

Lohin McKinnon:
Proposed Markup

Consumer End Price: $69.07
- Container Deposit: $0.10
- 5% GST: $2.99
- 10% PST: $5.99

Retail: $59.99

Wholesale: $45.01
- Recycling: $0.10
- Proposed Markup: $8.95
- Duty Paid: $35.96
proposed mark-up change impact

*Data displayed represents national sales of top six BC Commercial Distilleries as reported in November 2017 ACD Data...20 Commercial Distilleries in BC

<table>
<thead>
<tr>
<th>BC Commercial Distillery*</th>
<th>9L Cases</th>
<th>Absolute Ethyl Alcohol (L)</th>
<th>Mark-up $ (Proposed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arbutus Distillery Inc.</td>
<td>109</td>
<td>422</td>
<td>11,709.02</td>
</tr>
<tr>
<td>Central City Brewing Company L</td>
<td>655</td>
<td>2,535</td>
<td>70,361.56</td>
</tr>
<tr>
<td>G &amp; W Distilling Inc. Dba G&amp;w</td>
<td>9,812</td>
<td>37,972</td>
<td>1,317,533.56</td>
</tr>
<tr>
<td>Long Table Distillery Limited</td>
<td>1,298</td>
<td>5,023</td>
<td>142,919.90</td>
</tr>
<tr>
<td>Victoria Distillers Inc. Dba</td>
<td>1,284</td>
<td>4,969</td>
<td>141,378.39</td>
</tr>
<tr>
<td>Victoria Caledonia Distillery</td>
<td>162</td>
<td>627</td>
<td>17,402.40</td>
</tr>
<tr>
<td>Total Proposed Spirit Mark-up</td>
<td></td>
<td></td>
<td>1,701,304.82</td>
</tr>
<tr>
<td>Current Spirits Mark-up</td>
<td></td>
<td></td>
<td>2,273,787.71</td>
</tr>
<tr>
<td>Variance</td>
<td></td>
<td></td>
<td>(572,482.89)</td>
</tr>
</tbody>
</table>

The BC government invests only $572,000 to create lasting change and a global impact
mirroring brewery success

# of Breweries in BC

- 2005
- 2010
- 2016
- 2018 (Estimate)

BCLDB Legislation Change

10
54

*brewery rule and markup changes fostered the growth of over 100 new breweries with many exported globally*
proven success abroad

2018 USA spirits tax changes
- USA invested $97 Million in US distillery taxation reductions to build upon 27.4% compound annual growth from 2010 to 2015. This investment is in the form of a graduated volume mark-up schedule.

2015 United Kingdom taxation changes
- A 2% decrease in distillery taxation by volume led to a £96 Million increase in taxes paid to UK treasury.

2014 NSLC spirits taxation changes
- Dropping spirits volume mark-up by 50% drove 256% growth in local spirit volume from 10 distilleries.
our ask

the BC Independent Distilling Association wants to help the BC government achieve its stated goals by seeking a volume based commercial distilling graduated mark-up mirroring the BC beer model.

- how will this help the grow BC, feed BC & buy BC platform?
  - re-investment into BC distillery infrastructure
  - increased spend against BC jobs growth and skills training
  - opportunity to develop global brands made in BC
  - alignment of BC spirit mark-up with national and international markets
  - allows growing distilleries to benchmark their retail prices competitively to international brands and attract local consumers
  - respect for international and inter-provincial trade agreements
Thank You