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Report to the Honourable Marc Lalonde, Minister of Finance of the Task Force on Alcohol and Tobacco Indexation.

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Ministère des Finances
Canada

Communiqué

Ottawa, May 11, 1984
84-72

TASK FORCE REPORT ON ALCOHOL AND TOBACCO TAX INDEXATION RELEASED

The Honourable Marc Lalonde, Minister of Finance, today made public the report of the Task Force on Alcohol and Tobacco Tax Indexation.

"As a result of the Task Force's efforts," the Minister said, "we in government now have a better understanding of the challenges faced by the manufacturers and retailers of alcoholic beverages and tobacco products.

"At the same time, the industry has a better appreciation of government policy and the tight federal fiscal situation. I want to thank the Task Force members for contributing to a constructive dialogue between the industry and the federal government."

The Task Force, established by the Minister in November 1983, was asked to investigate the present method for indexing the excise taxes and duties on alcoholic beverages and tobacco products and recommend an alternative mechanism that would better meet the objectives of both government and industry. The Task Force was comprised of representatives from the beer, spirits, wine and tobacco industries and chaired by Dr. Douglas Peters, who is currently serving as Clifford Clark Visiting Economist with the Department of Finance.

The majority report of the Task Force recommends that the excise levies on these products be indexed to the total consumer price index (CPI) rather than the present system of indexing to the CPI alcoholic beverage and tobacco products subgroups. The effect of this change would be to reduce federal revenues by some $100 million for the 12 months beginning in September 1984, the date of the next indexing adjustment.

Ottawa, Canada K1A 0G5
613 992-1573

The Minister indicated he is sympathetic to the legitimate concerns raised in the Task Force's report and that he would study the document and its recommendations very closely.

In the interim, the Minister noted that provincial markups and taxes constitutes a substantial portion of the retail prices of these products. "The federal share of total government revenues on alcoholic beverages has declined from 40 per cent ten years ago to 31 per cent today. On a typical bottle of spirits, federal taxes amount to some 25 per cent of the retail price, while provincial taxes and markups are in the 50 to 60 per cent range."

The Minister added: "I am hopeful that provincial budgets in Quebec and Ontario, expected this month, will consider the state of the industry and take these facts into account."

Mr. Lalonde indicated that his response to the Task Force report would be influenced by these upcoming provincial budgets.

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REPORT

to the

Honourable Marc Lalonde

Minister of Finance

of the

Task Force on Alcohol and Tobacco Indexation

April, 1984.

Task Force Members:

Mr. K.M. Campbell, President,
Association of Canadian Distillers,

Mr. K.R. Lavery, President,
Brewers Association of Canada,

Mr. N.J. McDonald, President,
Canadian Tobacco Manufacturers'
Council,

Mr. R. Mitchell, Chairman,
Canadian Wine Institute.

Chairman:

Dr. D.D. Peters,
Clifford Clark Visiting Economist,
Department of Finance Canada.

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REPORT OF THE TASK FORCE ON ALCOHOL AND TOBACCO TAX INDEXATION

I. SUMMARY AND RECOMMENDATIONS

The excise taxes and duties on alcoholic beverages and tobacco products are expressed not as a percentage of sale price but rather as specific amounts per unit of product. With the objective of maintaining the real value of these taxes and duties, the Minister of Finance, in the October 1980 budget, announced the introduction of an indexing system which would automatically increase the excise levies on these products in accordance with movements in the respective CPI subgroups for alcoholic beverages and tobacco products.

From the outset, important concerns about the indexing system were raised by the alcoholic beverage and tobacco products industries. In recognition of these concerns, the Honourable Marc Lalonde, Minister of Finance, on November 7, 1983 announced the establishment of a Task Force, chaired by Dr. D.D. Peters, Clifford Clark Visiting Economist with the Department of Finance, and comprised of representatives from each of the spirits, beer, wine and tobacco industries. The Task Force was asked to examine the present indexing mechanism and determine if another mechanism could be used which would better meet the objectives of both industry and government.

Over the following months, the Task Force, with the research assistance of the C.D. Howe Institute, examined the present indexing scheme and a number of alternative systems. In addition, numerous briefs and letters were received from interested groups and individuals and considered in the course of the investigation.

In their examination of the present system, the Task Force identified the existence of certain problems in the technical operation of the system. In particular, concerns were raised over the linkages of federal and provincial taxes on these products, the implications of price increases in one alcoholic beverage industry for the taxes and prices of the other alcoholic beverage industries, and the effects of the time lags in the operation of the present indexing mechanism.

In addition, while the indexing adjustments under the current system are based on movements of the retail prices of these products, they have outpaced the overall rate of inflation during the period. As of September 1983, the cumulative increases in federal taxes and duties under the present system have amounted to 46 per cent and 49 per cent for alcoholic beverages and for tobacco respectively. During the same period, the overall level of prices, measured by the total consumer price index (CPI) rose by only 35 per cent. If the present system is maintained, this gap between the overall rate of inflation and the increases in the excise levies through indexation will grow wider in the next year.

In light of these concerns, the Task Force, with the assistance of the C.D. Howe Institute, examined a number of alternatives to the present system. Among those schemes considered were: indexing to the total CPI and to the GNE implicit deflator for consumer expenditures, indexing of the levies on each product group to the separate Industry Selling Price (ISP) indexes, as well as no indexing.

After examining the present indexing scheme and the alternative schemes noted above, the Task Force members are unanimous that the current system of indexing to the alcoholic beverages and tobacco products subgroups of the CPI be replaced with a different system. The majority of the Task Force (with the exception of the representative of the Association of Canadian Distillers) recommend replacement with a system of indexing to the total CPI. Three of the members making this recommendation, Mr. McDonald of the Canadian Tobacco Manufacturers' Council, Mr. Lavery of the Brewers Association of Canada, and Mr. Mitchell of the Canadian Wine Institute also recommend that the present indexing factors used in adjusting the excise tax and duty rates be recomputed as if the total CPI had been used as the indexing base since the introduction of indexing and the present excise tax and duty rates be maintained at the present levels until such time as the levies computed using the total CPI based system exceed the present rates.

The dissenting opinion of Mr. Campbell, President of the Association of Canadian Distillers, forms Section X of this report.

II. INTRODUCTION

The excise taxes and duties on alcoholic beverages and tobacco products are expressed not as a percentage of sale price but rather as specific amounts per unit of product. Hence, in a period of inflation and without adjustment, the real value of these levies decreases. In the October 28, 1980 budget, the Minister of Finance announced the introduction of an automatic indexing system for the excise levies, indicating that the scheme would maintain the real value of these taxes and duties. As introduced, the scheme was to apply quarterly with the first adjustment becoming effective on April 1, 1981. Under the system, the quarterly adjustments to the excise levies on alcoholic beverages and tobacco products were to be based on respective changes in the 12-month moving averages in the Consumer Price Index (CPI) subgroups for alcoholic beverages and tobacco products. At that time, in response to industry and other representations on a number of issues concerning the proposed system, the indexing scheme was modified to apply annually each September.

Important concerns over the operation of the indexing system and over the levels of taxation were raised by the alcoholic beverage and tobacco products industries. In recognition of these concerns, the Honourable Marc Lalonde, on July 29, 1983, announced that a Task Force would be set up to examine the present automatic method of adjusting the excise taxes and duties on these products. Subsequently, the beer, spirits, wine, and tobacco industry associations were asked to be represented on the Task Force chaired by Dr. Douglas Peters, Clifford Clark Visiting Economist with the Department of Finance. On November 7, 1983, the Minister announced that the Task Force had been established and was meeting for the first time on that date. The members of the Task Force were announced as Messrs. Kenneth Campbell, President of the Association of Canadian Distillers; Richard Mitchell, Chairman of the Canadian Wine Institute; Kenneth Lavery, President of the Brewers Association of Canada; and Norman McDonald, President of the Canadian Tobacco Manufacturers' Council.

In his announcement of November 7, 1983 the Minister indicated that the Task Force would examine the present indexing system and investigate if there were alternative mechanisms that would better serve the objectives of both government and industry. The Minister also announced that to expedite its work, the Task Force would be assisted by the C.D. Howe Institute in analyzing the impact of the current and alternative indexing systems. It was later clarified that the Task Force was only to examine alternative indexing schemes. Therefore, issues other than indexing, such as the relative burdens of taxation on the various products and the overall levels of taxation on alcoholic beverages and tobacco products, while important in their own right, were not within the mandate of the Task Force. The public was invited to make representations to the Task Force and a list of those representations is attached as Appendix B.

This Report of the Task Force on Alcohol and Tobacco Indexation sums up our discussions over the past months and states our recommendations. Section III outlines the terms of reference of the Task Force and Section IV provides background information describing how the present scheme works, the indexing adjustments that have occurred under the present system and a brief description of the industries and their recent market conditions. In Section V, the problems that have been identified in the current indexing scheme are discussed. Section VI lists and describes each of the indexing schemes that was considered as a possible alternative to the present system. Section VII summarizes the Report of the Research Group and Section VIII considers the options. Section IX contains the recommendations of the Task Force. Section X contains the reasons for the dissent of the representative of the Association of Canadian Distillers.

III. TERMS OF REFERENCE

The Task Force's terms of reference were set out in the Minister of Finance's press release of July 29, 1983.

> The Honourable Marc Lalonde, Minister of Finance, today announced that a task force will be established to examine the current automatic method of adjusting excise taxes on alcohol and tobacco products.
>
> .....
>
> The task force is being established in response to industry concerns about the technical operation of the indexing system under which the tax adjustments are computed.
>
> .....
>
> "I recognize that some important technical issues have been raised," said Mr. Lalonde. "The task force will have the opportunity to explore the subject thoroughly and recommend improvements in the system."
>
> .....
>
> "Clearly, a mechanism was and is required to maintain a reasonable share of these important revenue sources for the national government." Mr. Lalonde said. "The task force will be addressing the question of how this goal can be achieved in the most effective and fair manner."

In a further press release on November 7, 1983, announcing the Task Force membership, the terms of reference were stated as follows:

> The Honourable Marc Lalonde, Minister of Finance, announced today that a task force has been established to examine the current method of indexing the excise taxes on alcohol and tobacco products...
>
> The task force is being established in response to industry concerns about the technical operation of the indexing system, which was approved by Parliament in 1980 to ensure that final tax rates on alcohol and tobacco would be in line with the final selling price of the products.
>
> The task force will examine the present indexing system and investigate if there are alternative mechanisms that would better serve the objectives of both government and industry.

In the House of Commons on March 12, 1984 the Parliamentary Secretary to the Minister of Finance commenting on the Task Force's mandate, stated that the Task Force was

> ... to examine the current indexing mechanism and to consider whether other such systems can be devised to better meet the objectives of both government and industry.

IV. BACKGROUND

Revenue Structures - Federal and Provincial

Federal and Provincial taxes are a major component of the price consumers pay for alcoholic beverages and tobacco products. These taxes are important sources of revenue for both the federal and provincial governments. The federal levies are imposed first and thus have a key role in that provincial markups and levies are imposed on a base that includes the federal levies. In addition to the 12 per cent sales tax (which is higher than the general level of the federal manufacturers' sales tax), the federal government imposes specific excise levies on these products. As of September 1, 1983, these excise levies amounted to $2.74 per 710 ml bottle of distilled spirits, $1.42 per case of 24 341 ml bottles of beer, $0.30 per 750 ml bottle of wine and $0.45 per pack of 25 cigarettes. These excise levies are adjusted every September 1, in accordance with the increase over the year in the Consumer Price Index (CPI) subgroups for alcoholic beverage and tobacco products.

Provincial revenues on these products are derived from a variety of sources. Distribution of alcoholic beverages is controlled by provincial liquor boards. Distilled spirits are solely marketed through provincial liquor boards, and wine, except in the case of grocery store distribution in Quebec and winery-operated retail stores in Ontario, is sold primarily through provincial liquor boards. The markups applied to these

alcoholic beverage sales are very high and thus generate substantial profits for the provinces. Spirits and wine markups are generally in the 110 per cent to 150 per cent range, although in some provinces markups of 50 to 60 per cent are applied to domestic wines. These markups include the cost of distribution.

In most provinces beer is sold through private systems or through a combination of systems comprised of private distributors and provincial liquor boards. The provinces collect taxes and licence fees on beer sold through these systems. Provincial liquor boards that sell beer, apply markups in the 50 to 75 per cent range on domestic beer. In provinces where the liquor board has little or no involvement in the sale of beer, the various provincial taxes collected are usually lower than when there is involvement reflecting the lack of distribution and retailing costs by those provincial liquor boards.

In addition, in nine of the provinces and the Yukon Territory, general sales taxes are imposed on the sale of alcoholic beverages (Quebec does not apply a retail sales tax on beer sold off premise). In some cases, the rates applied to alcoholic beverages are higher than the general sales tax rate. Lastly, a number of special charges and license fees are levied by the provinces on licensed premises.

With respect to tobacco, where all distribution is undertaken by the private sector, each of the ten provinces levies special taxes on cigarettes, cigars, and other tobacco products. In Ontario, Quebec, Newfoundland, and New Brunswick, these levies are expressed as percentages of a surveyed average retail price. In British Columbia, specific taxes are levied on tobacco products and are indexed semi-annually to the movements in the Vancouver CPI tobacco products subgroup. The remaining five provinces all impose specific levies on tobacco products. These taxes are subject to periodic discretionary increases. In general, cigarettes and tobacco products are not subject to the general provincial sales taxes. The exceptions to this are Ontario, Newfoundland, and Prince Edward Island.

Table 1 illustrates the revenues specifically derived from alcoholic beverages and tobacco products by the federal and provincial levels of government for fiscal year 1982-3.

Table 1

Government Revenues from Alcoholic Beverages and Tobacco
(Excludes Federal and Provincial Sales Taxes)
(Fiscal 1982-83)

	Federal ($ millions)	Provincial ($ millions)	Both Levels ($ millions)
Alcoholic Beverages	985[e]	2117[e]	3102
Tobacco Products	1035	1128[e]	2163
Total	2020	3245	5265

Note: The above amounts include only revenues derived specifically from alcoholic beverages and tobacco products and thus do not include general sales taxes collected on these products.

e - indicates the amounts are estimates.

Source: Report of the Department of National Revenue - Fiscal Year 1982-83, Statistics Canada, Public Finance Division, Department of Finance Estimates.

Components of Retail Price

The components of the average consumer price of various products for Canada are shown in Table 2. It should be noted that there are some peculiarities in the table because the figures are cross-country averages and the provinces differ in their pricing structure. (For example, the private sector retail markups on beer apply only in a few provinces and the $1.64 amount represents the dollar figure weighted for all Canada. Thus, in the provinces where they apply, the actual private sector markups would be much higher.) The revenue shares are also noted in Table 2 with the combined Federal and Provincial governments' share being 83.5 per cent for spirits, 41.5 per cent for beer, 66.7 per cent for wine, and 66.4 per cent for tobacco.

Table 2

Components of the Consumer Price of
Spirits, Beer, Wine, and Tobacco -- Canada
December 1983

	Spirits	Beer	Wine	Tobacco
Manufacturer's price***	$2.13	$7.04	$1.40	$3.74
Federal levies				
excise duty/tax	$2.74	$1.42	$0.30	$3.61
sales tax	.58	.88	.20	.67
Price before provincial markups and taxes	$5.45	$9.34	$1.90	$8.02
Provincial taxes				
product tax (Mark-up)	$6.40	$2.95	$1.96	$4.69
Prov. Sales Tax	1.05	.89	.34	.41
Private Retailer's Markups	-	$1.64	-	$1.01*
Consumer Price (retail store)	$12.90	$14.82	$4.20	$14.13*
Shares of final price (%)				
Manufacturer	16.5%	47.5%	33.3%	26.5%
Federal Government	25.7	15.5	11.9	30.3
Provincial Government	57.8	26.0	54.8	36.1
Total Government	83.5	41.5	66.7	66.4
Other	--	11.0**	--	7.1

* The price used here represents the sale price of a carton of cigarettes sold in large grocery stores. The private retailer markups are higher for sales of single packages in small stores and other outlets.

** The private sector retailer markups vary substantially and apply only in some provinces. The number indicated is the average over the whole country including the four provinces where no markups apply.

*** Figures relate to a 710 ml bottle of spirits, to a 750 ml bottle of wine, to a case of 24 341 ml bottles of beer, and to a carton of 200 cigarettes. The shares of final price among the alcoholic beverages are not necessarily comparable.

Sources: Individual Alcoholic Beverages and Tobacco Industry Associations.

Present Indexing System

Under the present system, the base rates of federal excise levies on alcoholic beverages and tobacco products are adjusted each September 1st by factors computed by taking the ratio of the averages in the CPI subgroups for alcoholic beverages and tobacco products respectively for the 12-month period ending June in the year, to the averages for the corresponding subgroups for the 12-month period ending in June 1980. Effectively, the increases in the tax rates on alcoholic beverages and tobacco products each September reflect the changes in the respective 12-month averages for the CPI subgroups for alcoholic beverages and tobacco products over the previous 12-month averages.

The following table outlines the increases in excise duties and tax rates that took place under the indexing system since its inception.

Table 3

Increases Under Indexing
1981-1983

	Alcoholic Beverages	Tobacco Products
	%	%
April 1981	3.1	3.1
Sept. 1981	8.6	8.3
Sept. 1982	15.2	15.4
Sept. 1983	13.3	15.8
Change Nov/80 to Sept/83	46.2	49.2

As indicated in Table 3, excise levies have increased 46.2 per cent for alcoholic beverages and 49.2 per cent for tobacco products under the present indexing system. In terms of the individual products, this has resulted in an increase in federal excise levies of $0.87 per 710 ml bottle of spirits, $0.45 per case of 24 341 ml bottles of beer, $0.10 per 750 ml bottle of wine, and $0.15 per package of 25 cigarettes.

The Alcoholic Beverage, Tobacco Products, and Related Industries

The alcoholic beverage and tobacco products manufacturing industries constitute a significant portion of the Canadian economy. Shipments of alcoholic beverages in 1982 amounted to some $2,700 million. Of this, sales by brewers were $1,670 million, distillers $810 million, and vintners $220 million. Shipments by tobacco products manufacturers for 1982 exceeded $1,160 million.

These industries also provide a significant source of employment for Canadians. In 1982 direct employment in the alcoholic beverage industries amounted to nearly 20,000 jobs, of which almost 13,000 were employed by breweries, 5,300 by distilleries and 1,300 by wineries. In total wages and salaries for these employees exceeded $550 million in 1982. Tobacco manufacturers employed almost 8,000 individuals in 1982 and paid out in excess of $200 million in wages and salaries. It should be noted that the above figures relate only to the sales and direct employment by alcoholic beverage and tobacco products manufacturers. These industries also purchase substantial amounts of agricultural products, and machinery and equipment from their suppliers and hence are responsible for a significant portion of those sales and employment in those industries as well. In addition the distribution of the products both through the private sector and provincial liquor boards provides substantial employment in Canada.*

During the 1970s, sales of alcoholic beverages and tobacco products experienced steady and moderate growth rates. In recent years, however, sales of alcoholic beverages and tobacco products have either declined or experienced reduced growth. A number of elements have contributed to this change: higher prices resulting from federal and provincial tax increases and other factors, the severe recession of 1981 and 1982, and perhaps, changes in consumer tastes and preferences. While it is not possible to precisely identify the relative importance of each of the above factors, it is evident that the downward trend in sales has caused considerable difficulty for the affected industries. Table 4 illustrates the recent trends in sales of alcoholic beverages and tobacco products.

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* The statistics used in this paragraph are from various Statistics Canada publications.

Table 4

Alcoholic Beverages and Tobacco Products Industries
Growth Rates in Volume of Domestic Sales

	1960 -1970	1970 -1975	1975 -1980	1981	1982	1983
	(per cent at annual compound rates)					
Spirits (total)	5.4	9.4	2.2	+0.3	-4.3	-6.4
(domestic produced only)	5.7	9.4	2.4	-0.3	-5.3	-7.2
Beer (total)	3.7	4.8	+0.7	+3.8	-2.9	+1.7
(domestic produced only)	3.8	4.8	+0.2	+5.0	-2.2	+1.1
Wine (total)	8.2	9.7	11.1	4.0	3.1	1.9
(domestic produced only)	7.1	5.6	8.2	2.3	3.4	3.0
Tobacco (domestic produced)	3.8	3.0	2.3	3.1	-0.3	-5.0

Source: Individual Alcoholic Beverage and Tobacco Industry Associations.

These changes in sales have had adverse implications for both alcoholic beverages and tobacco products manufacturers and for related industries. Two such related industries, represented by the Tourism Industry Association of Canada and the Canadian Restaurant and Foodservices Association presented submissions to the Task Force outlining their concerns.

V. PROBLEMS OF PRESENT INDEXING SYSTEM

A number of problems have been identified with the present system of indexation. These problems stem largely from the choice of the indices used in the present system - the CPI alcoholic beverages subgroup and the CPI tobacco products and smokers' supplies subgroup. In this section, the make-up of these two subgroups is outlined and the problems that derive from the use of these indices as the basis for indexation are analyzed. Lastly, the serious implications of these problems for the alcoholic beverage and tobacco industries are discussed.

Description of Subgroups

The CPI alcoholic beverage subgroup accounts for 3.65 per cent of the total CPI. The six components which comprise the subgroup and their individual expenditure weights are listed in Table 5.

Table 5

Components of Alcoholic Beverages Subgroup of the CPI

Component	Weight in Total CPI (%)	Weight in Subgroup (%)
Beer purchased from stores	0.93	25.5
Beer purchased from licensed premises	0.55	15.1
Spirits purchased from stores	1.07	29.3
Spirits purchased from licensed premises	0.48	13.2
Wine purchased from stores	0.47	12.9
All other alcoholic beverages (unpublished)	0.15	4.1
Total Subgroup	3.65	100.0

Source: Statistics Canada, Consumer Price Index, Concepts and Procedures Updating Based on 1978 Expenditures (cat. 62-553)

With respect to the components entering into the CPI alcoholic beverages subgroup, it is interesting to note briefly what elements are not included in the index. Imported wine, although accounting for approximately 50 per cent of total wine sales in Canada, is not included in the sample of wine prices in the CPI. Similarly, no sampling of prices of any wine purchased in licensed premises, either domestic or imported, is undertaken in deriving the index.

The tobacco products and smokers' supplies subgroup of the CPI accounts for 1.74 per cent of the total CPI. It is comprised of three components:

- Cigarettes and cigarette tobacco;
- Other tobacco products; and
- All other tobacco products and smokers' supplies

The component for cigarettes and cigarette tobacco dominates this subgroup covering 96 per cent of the expenditure weight attributed to the subgroup.

Problems

General Nature of Present System

The present indexing system uses the CPI alcoholic beverages and tobacco products subgroups as the basis for the indexing adjustments on alcoholic beverages and tobacco products respectively. In considering aspects of the technical operation of the indexing system, two main features of the choice of indexing bases arise: (1) they are based on retail prices, and (2) in the case of alcoholic beverages, they are based on a weighted average of the prices of beer, spirits, and wine. The overall effect produced by the use of these indexing bases is that a complex system is created whereby each of the components of retail prices of alcoholic beverages and tobacco products respectively is interrelated with all of the other components. That is, as the adjustments each September 1 are based on movements in the retail prices, all the elements that enter into any of the retail prices - manufacturers' prices, excise levies, federal sales taxes, private distribution margins (transportation, wholesale, retail, licensed premises), provincial product taxes, markups, and sales taxes, have an influence on the size of the indexing adjustment. For example, increases in one province's markups on spirits push up the CPI component for spirits which raises the entire index for the CPI alcoholic beverages subgroup. This generates an increase in the excise levies on all alcoholic beverages. In this fashion, a change in any one of the elements that comprise part of the retail price of these products generates an effect which works through the system, affecting the taxes, and therefore the prices, of all of the goods included in the respective subgroups.

With regard to the above general description of the interrelated structure of the indexing system, three specific problems can be identified. These are:

(i) the self-feeding effects of the lag structure of the system,
(ii) the linkage of price structures and federal and provincial taxes, and
(iii) the cross-industry effects.

These are discussed in turn below.

(i) Self-feeding Effects of Lag Structure of Indexing System

The present indexing system creates a connection between the prices of one period and the taxes of the next. Anything that gives rise to an increase in the relevant CPI value in one year gives rise to a tax increase in the next year, which affects the subsequent year's CPI, and so on. This connection of past price changes to future taxes and prices is viewed as a significant negative feature of the present system and warrants further elaboration.

Under the present system, indexing adjustments are calculated each September on the basis of the change in the average of the relevant CPI subgroup for the period ending June in the year, over the average for the preceding 12 months. Thus, changes in the various components of the retail prices, such as the manufacturer's price, the federal sales tax, and provincial markups and taxes, do not translate immediately into increased federal excise levies. Rather, each single factor affecting the retail price is reflected in the indexing adjustments made on September 1st of subsequent years. The federal levies are then automatically increased in line with the indexing adjustment. The adjustments in the federal levies give rise to further price increases. In effect, a single one-time increase in any of the components of retail price will, because of the indexing system currently applied, result in a series of diminishing future price and tax increases.* The ultimate effect of a single price increase on the index is dependent on whether the retail price increase is occasioned by a manufacturer's price increase, an increase in the province's rate of tax or an increase in the federal rate of tax. Other key determinants are the proportion of tax in the end price of the product and the extent to which provincial taxes on the product are ad valorem.

To illustrate further how current price changes affect future price levels, consider the example of a one-time increase in the manufacturer's price of a product. The manufacturer's price increase has no immediate impact on the federal excise tax or duty on the product. The resulting percentage increase in the retail price will therefore initially be less than the manufacturer's percentage price increase. The indexing adjustment in the following year, as it is based on retail price increases in

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* It is useful to note that because some of the base period used in the indexing scheme (July, 1979-June, 1980) predates the tax and duty increases of April 22, 1980, a portion of the subsequent indexing adjustments can be attributed to those excise levy increases of April, 1980.

the preceding year, will similarly be less than the initial increase in the manufacturer's price. This indexing adjustment, however, gives rise to a further price increase which itself generates a subsequent but smaller indexing adjustment. The resulting chain of retail price and tax increases takes several years to work through the system.

A related factor affecting the length of the time lags under the current indexing system concerns the use of 12-month averages to determine the size of the indexing adjustments. Such averages may be necessary to provide an accurate view of the movement in the retail prices in one year compared to the next. But, with the use of 12-month averages, price changes as far back as two years have an impact on the adjustments in the federal excise levies, and thus on other prices and markups through the system.

The major drawback of such time lags is that prices and taxes in the future depend on price movements up to several years in the past. This has particularly negative implications during periods of falling inflation rates. In this scenario, tax increases stemming from previous years' retail price increases continue to flow through the system, thereby counteracting the lower rates of price increases which would have been expected to occur with the reduced inflation rates.

To put into perspective the effect of past price increases on future prices and taxes, it is useful to consider what will happen to the retail price of one of the products subject to indexation, cigarettes, over the period 1984-1990 even if there are no further changes in manufacturer's prices or provincial or federal tax rates after April 1, 1984. Under this scenario, it is estimated that retail prices of cigarettes would, under the present indexing scheme, increase by 11.3 per cent by December 1985, further increments in tax would push the total increase to 14.6 per cent by December 1987, and a total of 15.7 per cent by December 1990.

(ii) Linkage of Price Structures and Federal and Provincial Taxes

The previous example illustrated how a price increase in one period can lead to tax and price increases several years following. It must be noted that under the present system, as indexing adjustments are based on retail prices, a change in any of the components that make up retail prices over which the manufacturers have no control generate an increase in the excise levies. For example, increases in the margins of licensed premises and independent retailers of cigarettes and beer, can have a significant impact on the CPI subgroups for alcoholic beverages and tobacco products and hence on the indexing adjustments computed for these products.

A major influence on retail prices of alcoholic beverages and tobacco products is the markup and taxation policies of provincial governments. Provincial markups and taxes are frequently the largest single component of the the retail prices of these products. Under the present system, a linkage is created between the provincial markups and taxes and the indexed federal excise levies. Increases in provincial markups and taxes can significantly raise retail prices and as such generate increases in federal levies in the subsequent period through the operation of the indexing system. These increases in the federal levies are compounded by the fact that the provincial markups and taxes, which succeed the federal levies in the pricing equation, are generally ad valorem in nature. The resulting retail price increases generate further indexing adjustments in subsequent years. As a consequence, therefore, of an initial increase in markups at the provincial level, a chain reaction of federal and provincial increases is set into motion. This situation can be exacerbated if, as a result of the declining sales volumes precipitated by the initial markup or tax increase, a further discretionary increase, by either level of government, is implemented to attempt to meet budgetary requirements.

(iii) Cross-Industry Effects

The third major problem of the present indexing scheme concerns the fact that pricing actions in one sector of the alcoholic beverage industries affect the levies, and hence, the prices of its competitors. This is the essence of the cross-industry effect of the present indexing system. The indexing adjustments for all alcoholic beverages are computed on the basis of movements in the alcoholic beverage subgroup of the CPI. Because the index used relates to all alcoholic beverages, price increases for any one product can lead to an increase in the levies on all products. The levy increase will generate price increases of different magnitudes -- the higher the tax component of price, the greater the impact on final price. In this way, the actions by one industry can directly affect the levies imposed on its competitors.

Although, all alcoholic beverage industries are affected by the actions of the other alcoholic beverage manufacturers, this situation is most relevant for the distilling industry. When coupled with the ad valorem levies imposed later in the marketing chain (i.e. the federal sales tax, provincial markups and sales taxes) an indexed increase in excise levies for all alcoholic beverages of, say, 10 per cent translates into an immediate retail price increase of about 6 per cent for spirits and 2 per cent for beer and wine. Taking into consideration the subsequent indexing adjustments arising from these price increases, the overall price increase for spirits will be 8 per cent (for beer and wine the comparable increase is over 2 per cent). Thus, while price increases by the brewers and wineries can have a substantial impact on the price of spirits, distillers' price

increases have a smaller effect on the prices of beer and wine. In recent years, increases in the manufacturer's price of beer (because of its large weight in the index) have contributed significantly to the increase in the CPI alcoholic beverage subgroup and hence, to the size of the indexing adjustment. This factor, combined with the fact that a given tax increase has a greater impact on the retail price of spirits vis-à-vis beer, has effectively increased the relative price of spirits (compared to beer) above that which would have prevailed in the absence of the indexing system (and any discretionary increase in distillers' prices).

Relative Importance of Factors Contributing to Indexed Increases

To put into perspective the relative importance of the self-feeding effects of the lag structure, the linkages of federal and provincial taxes, and the cross-industry effects, it is useful to examine the impact that each of the various factors that enter into the retail prices of these products have had on the CPI alcoholic beverage and tobacco products subgroups and hence on the size of the indexing adjustments. Table 6 sets out the factors in the change in the CPI subgroup index that gave rise to the increases in the federal excise levies.

A number of points can be taken from Table 6. First, of the 46 per cent increase in alcoholic beverage subgroup, just over a quarter accrued to the manufacturers, with the brewers accruing over half of the manufacturers share. This high share for brewers is the result of their relatively large share in the subgroup as well as their higher increases. About one-quarter of the 49 per cent increase in the tobacco subgroup accrued to the tobacco manufacturers.

About one-eighth of the total 46 per cent increase in the alcoholic beverage index accrued to the federal government. This increase resulted from the ad valorem manufacturers sales tax and the indexation of excise levies as well as the earlier tax increases introduced in April, 1980. About one-quarter of the increase in the tobacco products subgroup accrued to the federal government.

For both the alcoholic beverage and tobacco products subgroups something less than half of the increases accrued to provincial governments. This is the result of both the application of ad valorem markups and sales taxes to increases occurring earlier in the pricing process as well as discretionary increases in those markups and sales taxes and numerous discretionary increases in specific levies imposed in certain provinces on tobacco products.

Licensed premises obtained about one-sixth of the total increase in the alcoholic beverage subgroup through their markups.

Table 6

Components of Increases in CPI Alcoholic Beverage and Tobacco Products Subgroups 1981 to 1983

	Portion of Increase	%
Alcoholic beverages		
- Manufacturers		
spirits	1.9	4
beer	7.3	16
wine	3.2	7
subtotal	12.4	27
- Federal	5.8	13
- Provincial	20.5	44
- Licensees	7.5	16
Total Alcoholic Beverages	46.2	100
Tobacco Products		
- Manufacturers	11.8	24
- Federal	12.3	25
- Provincial	18.2	37
- Wholesaler/ Retailers	6.9	14
Total Tobacco	49.2	100

Notes:

(1) The above figures indicate the portions of the increases in the subgroups accruing to each level. The federal, provincial and licensee shares include amounts arising from the application of ad valorem taxes and markups to increases occurring earlier in the marketing chain.

(2) Due to the limited availability of information, the above figures are approximations only.

The overall increase in the retail price of spirits accounted for about one-third of the increase in the alcoholic beverage subgroup, beer just under half, and wine about one-fifth.

The interaction of the various facets of the indexing system was demonstrated in the September 1983 indexing adjustment. As a result of the lag structure effects, the federal-provincial tax linkages and the cross industry effects, the distillers experienced a 13.3 per cent increase in federal levies even though their manufacturing prices had not increased since April, 1982. Similarly, had there been no increase in beer prices at the manufacturer's level, the brewers would have experienced an 11.8 per cent increase in federal excise duty because of these same lag effects.

It is also interesting to note that had there been no manufacturers' price increases throughout the indexing period that by September, 1983 the federal levies on alcoholic beverages would still have increased by 25 per cent. That increase would have occurred as a result of discretionary tax and markup charges by both the federal and provincial governments (as well as licensed premises) that occurred just before or during the current indexing period in conjunction with the linkages of federal and provincial taxes and the lag effects previously noted.

The system is obviously extremely complex and Table 6 only partially conveys that complexity. It does illustrate, however, how each component (manufacturers, federal government, provincial government and licensed premise operators) interacts to generate increases in prices and how the increases have accrued to the various sectors from the price increases paid by the consumer.

Implications to Date and for the Future

The indexing scheme was introduced to maintain the real value of the federal excise levies on alcoholic beverages and tobacco products. With the effects of the above-noted problems, the indexing increases have considerably exceeded the rate of inflation during the period. As of September 1983, the taxes on alcoholic beverages and tobacco products had increased by 46 per cent and 49 per cent respectively under the indexing system. During the same period, the overall level of prices in the economy, measured by the total CPI, rose by only 35 per cent, considerably less than the increase in the excise levies through indexation.

Problems arising from the present indexing scheme do not appear to be lessening in the immediate future either. If the present system is allowed to continue, the September 1984 increases will pose further difficulties for the alcoholic

beverage and tobacco industries. Despite the major decline in inflation over the past year, under the current scheme the alcoholic beverage industries will be facing excise levy increases of approximately 10 per cent in September 1984. The cumulative increase since April 1981 would be close to 60 per cent compared with an overall inflation rate over the same period of approximately 43 per cent.

In the case of tobacco, the impending tax increase under the present indexing scheme is even higher. Primarily as a result of major provincial tax increases in 1983, the projected September 1984 indexed increase will be about 17 per cent. In other words, since April 1981 federal taxes on tobacco products will have increased by 75 per cent by September 1984 while the total CPI will have increased by approximately 43 per cent. Moreover, because of lag structure effects of the existing mechanism, the September 1, 1984, 17 per cent increase will itself generate a further 10 per cent tax increase over the next two years.

VI. ALTERNATIVE INDEXING METHODS

In the terms of reference the Task Force was asked to look at alternative indexing mechanisms and we considered:

1. indexation with industry selling prices
2. indexation using the Gross National Expenditure Implicit Price Index for personal expenditures on consumer goods and services
3. indexation using the total Consumer Price Index

1. Indexation Using the Industry Selling Price Index: - This index is compiled by Statistics Canada for a variety of industries and indicates changes in the manufacturers' selling prices in those industries. The index is published monthly and a new index is being developed with a 1981 base year. Using such an index would allow the federal levies to be kept in a constant relationship to the manufacturer's prices. The index is, however, subject to occasional revision and is not particularly well known to the general public.

2. Indexation with GNE Implicit Price Index: - The broadest price index for consumer expenditures is the implicit price index for personal expenditures on consumer goods and services. This index is part of the System of National Accounts and is published quarterly by Statistics Canada. Such an index would clearly be representative of the general level of inflation in Canada and has the advantage of adjusting to the changed composition of goods purchased by consumers. It has, however, a disadvantage in that it is subject to a number of revisions over the years, some of which have been substantial. Thus, for example, the index for

the second quarter of 1984 might be revised when the third quarter figures are available, again when the annual adjustments are made in the next year and again subject to historical adjustments. To tie tax changes to such an index would thus be quite difficult. In addition, the index when revised has usually not differed materially with the inflation rates indicated by the total Consumer Price Index.

3. Indexation Using the Total Consumer Price Index: - This index is the most commonly used measure of inflation and is used for indexation purposes in many government programs, labour contracts, pensions, etc. The total index measures overall consumer price inflation not the changes in specific products. It is certainly the best known measure of general inflation and has the advantage of not being subject to revisions.

In deciding which indexing mechanisms to use in the experiments produced by the Research Group, the GNE implicit price index (consumer sector) was eliminated because it so closely tracked the CPI and there would be little advantage in examining both. Thus, each of the total Consumer Price Index and the Industry Selling Price Index was looked at by the Research Group as a possible alternative to the present indexing mechanism.

VII. SUMMARY OF REPORT OF RESEARCH GROUP

The Research Group Report focuses on two main points: it examines the present system to identify the existence of any problems inherent in the scheme; and it examines to what extent the two alternative schemes reduce these problems and under what conditions would one system be preferred over the others.

The basic approach employed by the Research Group was to examine the present indexing system and alternative schemes under a variety of scenarios relating to future price movements, federal and provincial taxation policies and the responsiveness of products' demand to price. The Research Group examined the two options referred to it by the Task Force, namely indexing to the total CPI, and indexing of the excise levies on each of the products to the separate Industry Selling Price (ISP) indexes. In addition, the Research Group examined a scenario whereby indexing is completely removed and the excise tax and duty rates are maintained at their current levels indefinitely.

The model that the Research Group used to analyze the present and alternative schemes incorporated pricing equations for each product for every province. Three sets of elasticities of demand for the products (high, standard and low) were chosen and an analysis of the sensitivity of the results of the model to the Research Group's choice of elasticities was performed.

To ensure that all effects were worked through the system in the analysis, a 10-year time frame was employed.

A total of twelve scenarios were examined. These included different rates of price increases for each of the industries, and discretionary federal and provincial tax changes. The twelve experiments were performed for the present system and the alternative schemes for each industry and province under the three sets of elasticities. In each case the resulting theoretical effects on industry, federal, and provincial revenues were computed.

The conclusions of the Research Group with respect to the current system are incorporated in Section V of this Report. In short, the Research Group's simulations identified the existence of the effects of the lag structure of the present system, and showed how several years are required for price shocks to be effectively worked through the system. The Research Group also identified the federal and provincial tax linkages under the current system. Lastly, the Research Group demonstrated the relative cross-industry effects that each of the alcoholic beverage industries can have on its competitors.

In their examination of the alternative schemes, the Research Group concluded that both the total CPI option and the separate ISP option effectively eliminated the problems of self-feeding and cross-industry effects associated with the present scheme. With regard to the total CPI option, because the alcoholic beverages and tobacco products together comprise only 5 per cent of the expenditure weight of the total CPI, changes in the prices of these products whether resulting from federal or provincial tax increases or increases in any of the manufacturers' prices have a negligible impact on the index. Thus, the self-feeding effects of the lag structure, the linkage between provincial tax changes and the federal levy, and the cross-industry effects are all but rendered insignificant.

The use of a separate ISP index as the base for indexing the levies on each of the products was also found to effectively eliminate these problems. Because this index is based on manufacturer's prices, not retail prices, the self-feeding effects and federal-provincial tax linkages do not arise. In addition, as separate indexes would be used for each product group, the problem of cross-industry effects arising from the grouped treatment of the taxes on these products would be eliminated.

The problems of the current system were also found to be non-existent in the no-indexing scenario under which it was assumed for the purpose of the experiment that federal tax and duty rates did not increase.

The Research Group also drew a number of conclusions relating to the conditions under which one system would be preferred over the others. First, it was assumed that the alternative system preferred by each industry would depend on its expectations of future price movements. It should be underlined that such a judgment is inherently difficult and in this instance is further complicated by the fact that taxes constitute such a large percentage of the retail price of the products involved and that changes in the retail prices are often induced by discretionary tax changes which are, of course, difficult to predict.

In an environment of generally rising prices, each of the industries would prefer to have the indexing system removed. If all prices were expected to increase at the same rate, and the effect of past inflation on future prices were eliminated from the equation, each of the alternative indexing schemes would have the same implications for each industry - namely, no change in real terms. In these circumstances, if one industry anticipated that its manufacturer's price would increase less rapidly than other prices, it would prefer a more narrowly defined index (such as the industry selling price index). On the other hand, an industry anticipating more rapid price increases than its competitors or the general rate of inflation would prefer a broader index (such as the overall CPI).

If the future pattern of manufacturers' price increases in the alcoholic beverage sector resembles the historical experience over the period 1973 to 1983, the preferences of indexing systems by each of the industries are found to differ. During that period, the manufacturer's price of spirits increased at a relatively low rate, below general inflation levels, while increases in the manufacturer's price of wine were slightly above the general rate of inflation, and increases in the manufacturer's price of beer were higher still. Under this scenario, the first preference would be the removal of all indexing provisions under the implicit assumption in the analysis that excise levels would remain fixed in nominal terms. (Preferences were based on the level of revenues accruing to the industries only. Volume changes or other considerations were not taken into account.) The industry groups would then rank the indexing schemes as follows:

distillers	-	ISPI, CPI, current
brewers	-	CPI, current, ISPI
vintners	-	CPI, ISPI, current

Therefore, while all manufacturers within the alcoholic beverages group would prefer a change from the current scheme, the brewers and the vintners would most prefer the CPI, while the distillers would most prefer the ISP index. All manufacturers, however, would prefer the CPI to the current scheme under this scenario.

The Research Group's Report concludes that there are strong reasons for replacing the current indexing scheme with one which avoids the self-feeding and cross-industry effects prevalent under the current system. The report also notes, however, that the basis for choosing between a narrowly defined index (such as the ISP index) which would be applied separately to the levies in each industry and a broadly defined index (such as the total CPI) which would be applied to all the levies, is not self-evident.

The Report of the Research Group addresses the implications for prices and manufacturers', federal and provincial governments' revenues. Although it does not examine the economic implications of the indexing schemes with respect to employment in the industries, revenues to suppliers, and many other factors, it does provide an analysis of the problems with the current system and the degree to which these problems are corrected under each of the two alternative indexing schemes.

VIII. CONSIDERATION OF THE OPTIONS

In considering the two alternative indexing options examined by the Research Group, the overall CPI and the ISP index, a number of important points were raised. The Task Force concurs with the Research Group that the problems of self-feeding, provincial-federal tax linkages, and the cross-industry effects are substantially eliminated under either the CPI or ISPI alternatives.

Several points emerged during the Task Force's consideration of these two alternatives which resulted in general, but not unanimous, agreement that the CPI option was most preferred. First, the Task Force considered the federal government's objective of maintaining the real value of excise levies and concluded that this goal would be best achieved if the excise levies were indexed to the general rate of inflation, that is, to the overall consumer price index. Second, using the ISPI as the indexing base relates tax changes to changes in manufacturers' prices. If manufacturers' costs are rising pushing up their prices then this system compounds the increase by increasing taxes further pushing up retail prices. At a time when a manufacturer is trying to recover from an increase in input prices he is faced with a further tax increase and the consumer with further price increases.

It must be noted, however, that the above conclusions were not shared by the representative of the distillers.

IX. RECOMMENDATIONS

The Task Force was "established to examine the current automatic method of adjusting excise taxes on alcohol and tobacco products." Any system of indexation adjusts the federal excise taxes and duties on these products based on changes in the retail prices of these products (as at present) or some general measure of inflation such as the total consumer price index.

The Task Force was asked specifically to report on indexing methods. We have carefully considered the problems with the current system and have concluded that to correct these problems and achieve the objective of "maintaining the real value of federal revenues" indexation of the federal specific excise taxes and duties should be done using the total consumer price index. Had this been done in the tax change made in 1980, when indexing was introduced, the federal excise taxes and duties would have increased by 35.5 per cent including the increase in September, 1983. The actual increases under the present system have been 49.2 per cent for tobacco and 46.2 per cent for alcoholic beverages. The Task Force recommends that the indexation should be changed to the total consumer price index. Three members of the Task Force* recommend that the indexation to the total Consumer Price Index should be dated back to 1980 and that further increases in the specific federal excise taxes and duties be delayed until the rise in the total consumer price index has equalled the present amounts of increases already enacted.

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* The three members are Mr. K.R. Lavery of the Brewers Association of Canada, Mr. N.J. McDonald of the Canadian Tobacco Manufacturers' Council and Mr. R. Mitchell of the Canadian Wine Institute.

X. DISSENTING VIEW OF THE REPRESENTATIVE OF THE ASSOCIATION OF CANADIAN DISTILLERS

The representative of the Association of Canadian Distillers concurs with the Task Force's analysis of the present system of adjusting excise duties and also with the conclusion that this system should be changed. However, for a number of reasons, it has not been possible to concur with the recommendations of the majority report for an indexation system tied to the overall C.P.I.

As the Task Force Report mentions there have been declining sales or slower growth in all the beverage alcohol industries in recent years. The distilling industry, however, has, since 1980, been particularly hard hit. The declines have affected their employees, suppliers and investors. The sales declines are shown on Table 4 (page 11) and have in total amounted to over 2.7 million cases (12 x 750 ml) since mid-1981. The situation is extremely serious.

Concern over the adverse industry consequences is shared not only by the industries represented by my fellow Task Force members but also reinforced by the submissions of the Canadian Restaurant and Foodservices Association of Canada and the Tourism Association of Canada. All of these have articulated the negative effects of the high prices of Canadian beverage alcohol products on their businesses.

While the federal excise duty is only one in a series of four federal and provincial taxes on beverage alcohol products, it is the first in the chain. Moreover, the following three compound it by various percentages. Thus, an increase in the federal excise duty results in an increase in the federal sales tax, the provincial mark-up, and the provincial sales tax (the latter is not applicable in Alberta).

My fellow Task Force members share the distillers' concern that the burden of taxation on beverage alcohol and tobacco products in Canada is high. Table 2 on page 8 shows that duties and taxes represent a significant portion of the retail price. Thus increases in the excise duty (or in any of the taxes) are critical to the retail pricing of beverage alcohol and tobacco products and particularly to that of distilled spirits.

In these circumstances, a system of indexation, which for the foreseeable future would automatically increase the excise duty each year, is not consistent with the price stability distillers require in order to check the decline in sales volumes. This is one of the reasons for our dissent.

The Task Force did not examine the present structure of beverage alcohol taxation in Canada. The distillers feel that there are significant disparities here and that at some time in the future the structure should be reviewed. An automatic system of indexation of the present rates of federal excise, as recommended by the Task Force, would, in our view, preclude such a review and that is another of the reasons for our dissent.

The majority report states that the Task Force was to recommend specifically on indexing methods. I contend, however, that the phrase "alternative mechanisms that would better serve the objectives of both government and industry" does not exclude the possibility of a recommendation which does not involve automatic indexation.

The distillers of Canada expect their products to be taxed by government, but expect the tax burden imposed to be fair in terms of the industry's ability to bear it without damage to its economic viability, as well as fair in terms of the taxes imposed on competing products.

The system of adjusting excise duties should be such that it can take account of the economic state of the industries being taxed. Furthermore, government should be able to take into account the state of overall government revenues in a declining spirits market.

I therefore recommend:

1. That the present system be replaced by a system based on discretionary management of excise rates, including criteria for judging the appropriateness of future adjustments. These would include, inter alia, the impact of the rates on the industry sector, on government revenues and on broader economic factors.

2. That the excise duty rates be reduced to those in force at August 31, 1983 until sales volumes recover to previous levels.

APPENDIX "A"

PRESS RELEASES

Department of Finance
Canada

Ministère des Finances
Canada

Release

Communiqué

Immediate Release

Ottawa, July 29, 1983
83-105

TASK FORCE TO STUDY ALCOHOL, TOBACCO TAX ADJUSTMENT MECHANISM

The Honourable Marc Lalonde, Minister of Finance, today announced that a task force will be established to examine the current automatic method of adjusting excise taxes on alcohol and tobacco products.

At the same time, the Minister confirmed that adjustments scheduled for Sept. 1 will take effect in accordance with provisions of the Excise Tax Act and the Excise Act.

The task force is being established in response to industry concerns about the technical operation of the indexing system under which the tax adjustments are computed.

Membership of the task force will be announced in the near future.

"I recognize that some important technical issues have been raised," said Mr. Lalonde. "The task force will have the opportunity to explore the subject thoroughly and recommend improvements in the system."

The Minister pointed out that the Sept. 1 adjustments will merely maintain the relationship of federal excise taxes to the final selling price of the products in accordance with the mechanism approved by Parliament in 1980.

He also noted that the federal government obtains only 31 per cent of revenues collected by all governments from sales of alcoholic beverages, down from 40 per cent 10 years ago. The federal share of tobacco taxes dropped even more sharply from 70 to 47 per cent in the same period.

Federal taxes on alcohol and tobacco are generally less than those levied by provinces. For example, on a 750-ml bottle of spirits federal taxes would amount to some 30 per cent of the retail price while provincial taxes and markups would be in the range of 50-60 per cent. Similarly, in the case of cigarettes, provincial levies would range around 35 per cent of the retail price while federal taxes would amount to some 25 per cent.

"Clearly, a mechanism was and is required to maintain a reasonable share of these important revenue sources for the national government," Mr. Lalonde said. "The task force will be addressing the question of how this goal can be achieved in the most effective and fair manner."

(over)

Ottawa, Canada K1A 0G5
613 992-1573

The Sept. 1 adjustments are illustrated in the following table:

Product	Current Levy $	Value Sept. 1, 1983 $	Tax Change $
Spirits, per 750 ml. bottle	2.56	2.90	.34
Table Wine, per 750 ml. bottle	.27	.31	.04
Beer, per case of 24 bottles	1.25	1.42	.17
Cigarettes, per pack of 25	.39	.45	.06

These increases represent approximately 3 per cent of the price of a bottle of spirits, 1 per cent of the price of a bottle of wine and a case of beer, and 3 per cent of the price of a package of cigarettes. The actual retail price increases are expected to be larger because of increased provincial government mark-ups and taxes.

The adjustments were obtained by dividing the average Consumer Price Index for the alcohol and tobacco sub-groups for the 12-month period ending June 30, 1983 by the corresponding average for the preceding 12-month period ending June 30, 1982. They are thus directly proportional to the average increase in retail prices for all of these products.

Under this formula, the average CPI increased by 15.8 per cent for tobacco products and 13.3 per cent for alcoholic beverages during the 12-month period in question.

For further information, contact:

B. Wurts
Tax Analysis and Commodity Taxes
(613) 992-3113

Department of Finance
Canada

Ministère des Finances
Canada

Release Communiqué

Immediate release

Ottawa, November 7, 1983
83-163

TASK FORCE TO STUDY INDEXING OF ALCOHOL AND TOBACCO TAXES

The Honourable Marc Lalonde, Minister of Finance, announced today that a task force has been established to examine the current method of indexing the excise taxes on alcohol and tobacco products. The task force meets today, November 7, for the first time.

The five-member task force will be chaired by Dr. Douglas Peters, Senior Vice-President and Chief Economist for the Toronto-Dominion Bank who is currently serving a two-year appointment as Clifford Clark Visiting Economist with the Department of Finance. The other members are Kenneth Campbell, President of the Association of Canadian Distillers; Richard Mitchell, Chairman of the Canadian Wine Institute; Kenneth Lavery, President of the Brewers Association of Canada; and Norman McDonald, President of the Council of Canadian Tobacco Manufacturers.

The task force is being established in response to industry concerns about the technical operation of the indexing system, which was approved by Parliament in 1980 to ensure that tax rates on alcohol and tobacco would be in line with the final selling price of the products.

The task force will examine the present indexing system and investigate if there are alternative mechanisms that would better serve the objectives of both government and industry. To expedite its work, the task force will be assisted by the C.D. Howe Institute in analyzing the economic and quantitative impact of the current and alternative indexing systems.

.../2

Ottawa, Canada K1A 0G5
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Individuals and associations wishing to make written submissions to the task force should send them direct to Dr. Peters at the Department of Finance.

For further information, contact:

B. Wurts
Tax Analysis and Commodity Taxes
(613) 992-3113

APPENDIX "B"

List of Briefs and Representations Received

- Briefs
- Representations

Briefs

Mr. G. C. Campbell,
President and Chief Executive Officer,
Tourism Industry Association of Canada,
Ottawa, Ontario.

Mr. Robert Spencer, President,
Mr. Douglas Needham, Executive Vice-President,
Canadian Restaurant and Foodservices Association,
Toronto, Ontario.

Representations Received

The Honourable John Roberts, P.C., M.P.,*
Minister of Employment and Immigration,
House of Commons,
Ottawa, Ontario.

Mr. Don Blenkarn, M. P.,
(Mississauga South)
House of Commons,
Ottawa, Ontario.

Mr. Maurice Bossy, M. P.,*
(Kent)
House of Commons,
Ottawa, Ontario.

Dr. T. A. Bradley, M. P.,*
(Simcoe)
House of Commons,
Ottawa, Ontario.

Dr. Bruce Halliday, M. P.,*
(Oxford)
House of Commons,
Ottawa, Ontario.

Mr. A. MacBain, M. P.,
(Niagara Falls)
House of Commons,
Ottawa, Ontario.

Mr. James Barlow,
Windsor, Ontario.

Mrs. Gwen Batke,
Windsor, Ontario.

Mr. F. Buehner,
Simcoe, Ontario.

Janet Chisholm,
Cambridge Chamber of Commerce,
Cambridge, Ontario.

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* Attached several letters from constituents.

Mrs. Becky Connor,
Windsor, Ontario.

Mr. Kenneth and Mrs. Marjorie DeVos,
Langton, Ontario.

Mr. George A. Demeyere,
Chairman,
The Ontario Flue-Cured Tobacco Growers' Marketing Board,
Tillsonburg, Ontario.

Betsy DeRose,
Executive Director,
Region Niagara Tourist Council,
Thorold, Ontario.

Dr. William F. Forbes,
President,
Canadian Council on Smoking and Health,
Ottawa, Ontario.

Mr. R. G. Gauvreau,
Regional Director, Tobacco Sector,
Bakery, Confectionary and Tobacco Workers International Union,
Montreal, Quebec.

Mr. Samuel F. Hughes,
President,
The Canadian Chamber of Commerce,
Ottawa, Ontario.

Mr. T. W. Jackson,
The Scotch Whisky Association,
Edinburgh, Scotland.

Mr. Tony Kovac,
Palliser Distillers Limited,
Lethbridge, Alberta.

Terry and Mary Lou Lambert,
Courtland, Ontario.

Mr. Raymond A. McCready,
Windsor, Ontario.

Mr. Rob't. J. Mills,
Executive Director,
Hotel Association of Saskatchewan,
Regina, Saskatchewan.

Mrs. Sandra O'Halloran,
Hamilton, Ontario.

Mr. Clifford Page,
Downsview, Ontario.

Mr. Ray P. Parkes,
National President,
National Association of Tobacco and Confectionary Distributors,
Montreal, Quebec.

Mr. F. R. Quance,
President,
The Grape and Wine Institute of British Columbia.

Mary Ragany,
Simcoe, Ontario.

Mr. Michael Rosenberg,
Vanessa, Ontario.

Mr. Barry D. Snider,
Snider Cole Chartered Accountants,
Burnaby, British Columbia.

Mr. Steve Svirida,
Vienna, Ontario.

Evelyn Unicume,
President,
R. E. Unicume Ltd.,
Brandon, Manitoba.

Mr. Walter Van Laeken,
Langton, Ontario.

Mr. Nicholas Waloff,
President,
CAMRA Canada,
Ottawa, Ontario.

Ms. Diana Wickham,
Assistant Editor,
Canadian Trend Report,
Montreal, Quebec.