

Assessment of Canada's Beer Excise Escalator

Key Findings and Recommendations



Policy context

Canada introduced its automatic beer excise escalator in 2017 to increase federal beer excise taxes annually in line with inflation. Our assessment finds that the policy has delivered limited fiscal and public health benefits while operating during a period of considerable change and pressure in Canada's brewing sector.

Since 2017, federal beer excise rates have risen by roughly 20 per cent, compared with an increase of about 30 per cent in retail beer prices. The excise adjustment accounts for only a portion of this broader price growth. Rising production and distribution costs, higher provincial markups, sales taxes, regulatory requirements, and retail margins have all contributed to the overall increase in consumer prices.

Industry conditions and market trends

The escalator has operated during a challenging period for Canadian breweries. Beer consumption has declined for almost a decade, consumers have shifted toward alternative beverages and non-alcoholic products, and competition has intensified. At the same time, breweries have faced substantial increases in labour, material, energy, and financing costs.

Although the craft beer expansion drove strong growth in brewery numbers for many years, recent trends point to fewer breweries, weaker profitability, and slower employment growth.



Fiscal performance

The policy's fiscal performance has been mixed. Excise rates have continued to rise, but federal beer excise revenues have remained relatively stable at approximately \$600 million annually since 2020. Declining production and consumption have constrained growth in the tax base and limited the escalator's ability to maintain government revenues in real terms.

Public health effects

Our analysis suggests that the escalator has only a limited effect on alcohol consumption. Beer demand appears relatively insensitive to price changes. Under a scenario in which excise taxes continue to rise with inflation over the next decade, annual beer consumption could decline by an estimated 0.5 million to 1.2 million litres, or less than 0.1 per cent of annual sales.

Automatic indexation alone is therefore unlikely to produce meaningful changes in drinking behaviour or generate substantial public health benefits.

Economic impact

The broader economic effects remain modest at the national level but fall disproportionately on breweries and related industries. Based on our low- and high-impact scenarios, over a 10-year period, continued automatic indexation could:

- reduce GDP by \$18.2 million to \$46.1 million;
- affect between 187 and 462 jobs;
- reduce labour income by \$10.8 million to \$27.2 million;
- reduce government revenues from other sources by \$10.8 million to \$18.3 million, partially offsetting additional excise tax revenue.

Policy considerations

Our analysis identifies the design of the mechanism, rather than the scale of its economic effects, as the central policy concern. The current framework increases excise rates automatically regardless of economic conditions, while any adjustment requires government intervention. The federal government has already capped scheduled increases and extended relief measures on several occasions, which suggests that the existing approach does not respond well to changing market conditions.

Key recommendations

Establish a regular review process

Introduce a review process every three years, or at another predetermined interval, to determine whether excise rates should change based on economic conditions, industry performance, fiscal priorities, and public health objectives.

Require economic impact assessments

Require economic impact assessments before implementing major excise tax changes. These assessments would examine effects on prices, consumption, employment, investment, competitiveness, and regional economies.

Align tax policy with broader objectives

Align excise tax policy with broader government priorities, including productivity growth, innovation, industry competitiveness, public health outcomes, and the sector's long-term adaptation to changing consumer preferences.

For the full research, see our impact paper [*Canada's Beer Excise Escalator: An Economic and Policy Assessment*](#).

