

**REVIEW OF  
LIQUOR MARK-UP STRUCTURE  
AND RELATED POLICIES**

**Findings and  
Recommendations**

February 20, 2003

# REVIEW OF LIQUOR MARK-UP STRUCTURE AND RELATED POLICIES

## Findings and Recommendations

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# **A. EXECUTIVE SUMMARY**

## **Introduction**

This report contains the stakeholder input, findings and recommendations from a review of the liquor mark-up structure and related issues initiated by the Commission in July 2002. The review was the first comprehensive examination of the liquor mark-up structure and related policies since liquor retailing was privatized in Alberta in 1993. It aims to bring the pertinent policies up to date by addressing a range of issues raised by stakeholders and the Commission respecting the matters under review. Various terms used in this report are defined in the glossary (see Appendix 1).

## **Review Process**

The Commission distributed to stakeholders a discussion paper identifying various liquor mark-up and related issues (see Appendix 3). Stakeholders were invited to respond to the issues or raise other related ones by written submission and/or verbal presentations to a Commission panel (see Appendix 2).

The submissions were reviewed by a technical committee of the Commission. The committee took into account the views of stakeholders prior to arriving at its recommendations for consideration by the Board of the Commission. The Board approved the 27 recommendations in January 2003 and referred the 12 recommendations pertaining to the liquor mark-up structure to the Minister of Gaming for Ministerial Policy Direction under section 7(1) of the Gaming and Liquor Act. This report reflects the direction of the Board and the policy direction received from the Minister of Gaming in February 2003.

## **Stakeholder Input**

Fifty stakeholders in the liquor industry and those interested in entering the industry received the discussion paper. Of these stakeholders, thirty or 60% of the total responded by making submissions (see Appendixes 4 and 5).

## **General Observations**

Stakeholders provided a range of positions or views on the issues identified. Most relied on their experiences and observations to support their views.

Stakeholders generally express strong support of the province's model for liquor retailing and the simplicity and transparency of the liquor mark-up structure in Alberta.

## **Common Theme**

One theme appeared to resonate with stakeholders across all issues. It is that there should be a level playing field for those in the liquor marketplace or those wishing to enter it. However, stakeholders tend to view a level playing field from the perspective of their vested interest. This level playing field theme could be broken down into the following topics or sub-themes.

**Size of Manufacturer**

Smaller manufacturers and prospective small vintners and distillers wishing to operate in Alberta desire liquor policies which allow them to compete on a more level playing field with larger manufacturers, which possess greater economies of scale and more financial resources. Typically, these smaller manufacturers or prospective manufacturers request lower mark-up rates on their products to help them remain viable and further develop the market for their products.

The large national brewers feel all beer products should be subject to identical mark-up rates regardless of the size of the manufacturer producing them. They feel this was the case with the graduated mark-up rates that existed prior to the mark-up adjustment of April 2002. They also believe out-of-country suppliers whose products are assessed a lower beer mark-up are manufacturing beer in larger quantities and should be assessed the higher mark-up. The large brewers feel these same suppliers are also unfairly exploiting the Alberta market by introducing what they call “low-priced” products, which they contend are eroding the sales of their mainstream products.

**Policies Respecting Small-Scale Manufacturers**

A number of stakeholders would like the Commission to introduce policies similar to other jurisdictions respecting small-scale or cottage manufacturers. This includes assessing lower mark-up rates on the products they manufacture and introducing policies which allow for small-scale wine and spirits industries, for example, lower maximum production requirements.

**Treating Liquor Products Equally**

Spirits manufacturers feel all liquor products should be assessed mark-up based directly and proportionately on the level of alcohol in the product. They feel the products of their industry are “subsidizing” the beer industry by assuming a proportionately larger share of the mark-up burden (the large national brewers feel their products “subsidize” smaller brewers for essentially the same reason). On the other hand, some brewers contend jurisdictions throughout the world tax spirits more highly than beer for public policy reasons, related mainly to the potential abuse of higher-alcohol content products.

**Original Ground Rules for Brew Pubs**

Most stakeholders support existing policies for brew pubs, and generally oppose policies allowing them to sell to any licensees they choose. These stakeholders feel if brew pubs wish to operate like other manufacturers they should obtain a Class E Manufacturer Licence (Beer) and operate under its requirements.

**Intent of U-brews/U-vins**

Most stakeholders oppose U-brews/U-vins. The opponents of U-brews/U-vins feel these operations are simply a way to avoid paying a liquor mark-up. They feel these operations would be unfair because they compete with commercial manufacturers whose product is assessed liquor mark-up rates, and also harm the private liquor retailing model of the province. Stakeholders who favour these operations feel they complement commercial liquor retail stores and, among other benefits, contribute to increased sales of finer wine products from liquor retailers by educating consumers about wine and beer.

### **Buy/Sell and Exclusivity Agreements**

A number of stakeholders feel the policies respecting buy/sell agreements and product exclusivity are extremely difficult to enforce. While most support these policies despite this inherent difficulty, there are a few stakeholders who would like the policies to be eliminated and the free market allowed to take its course. The latter stakeholders feel, since they follow the rules, they operate at a disadvantage when compared to non-complying competitors.

The input of stakeholders is captured in more detail in the main body of the report under the section Stakeholder Input.

## **Analysis**

The views of stakeholders were analysed based on how well they were supported, and whether they were within the parameters of the review, and consistent with the legislative, regulatory and general policy framework and government direction for liquor activities in the province. These were considered by the technical committee as it sought to recommend ways in which to bring the relevant liquor policies up to date.

## **Recommendations**

Twenty-seven recommendations were made as follows. The rationale for each recommendation is provided in detail in the body of the report under the section Recommendations.

### **LIQUOR MARK-UP STRUCTURE**

#### **Clarifying Mark-up Criteria for Beer**

- 1. In determining the mark-up rate for a manufacturer's or liquor supplier's beer product, the Commission will consider the total annual worldwide production of liquor, liquid products containing alcohol, and non-liquor beverages in the facility or facilities where the liquor manufacturer or supplier is obtaining its beer product (using previous year volumes). This total number will be used to assess the appropriate mark-up rates. The facility or facilities in this recommendation includes a facility or facilities owned, contracted or leased by the manufacturer or liquor supplier.**

#### **Small Breweries**

- 2. To establish a more level playing field for small-scale brewers, and to promote the development of small breweries in the province, the beer products of brewers whose annual worldwide production of beer is 10,000 hl or less per year will be assessed a lower rate than the rate which applies to products of brewers whose annual worldwide production of beer is greater than 10,000 hl and up to 200,000 hl.**

#### **Mark-up Rates for Brewers**

- 3. In combination with the two previous recommendations, the specific mark-up rates for beer will be as follows:**
  - The common mark-up rate of 98 cents per litre for beer products of manufacturers/liquor suppliers with annual worldwide production of more than 200,000 hl;**

- 40 cents per litre for beer products of manufacturers/liquor suppliers with annual worldwide production of more than 10,000 hl and up to 200,000 hl; and
- 20 cents per litre for beer products of manufacturers/liquor suppliers with annual worldwide production of up to 10,000 hl.

These rates will be effective as of March 21, 2003.

4. The Commission is committed to maintaining the flat mark-up system for liquor products, and the simplicity and transparency of the flat mark-up system.
5. In the interest of maintaining a retail price advantage for beverage alcohol products in Alberta, the Commission will analyse the rationale and impacts of manufacturers' landed costs for the products they sell in Alberta when compared to the landed cost of the same products they sell in other jurisdictions. In particular, this analysis will examine why some products sold in Alberta have significantly higher landed costs than the same products sold in other provinces.

#### Monitoring Sales and Provincial Revenue from Beer Sales

6. The Commission will continue to closely monitor the volume and sale of beer products to determine the impact of the liquor mark-up structure on provincial liquor revenue.

#### Equivalency Argument

7. The Commission will conduct research into public policy rationale in Canada and globally respecting the tax or mark-up rates established for spirits compared to those for beer and wines. This is to determine the potential social and financial implications that may result from adjustments in the relative mark-up rates between spirits and other lower alcohol products sold in Alberta.

#### Higher-Alcohol Spirits Products

8. Mark-up rates for spirits with alcohol content of greater than 60% will be assessed a higher mark-up rate than the rate for products with lower levels of alcohol.
9. Mark-up rates for spirits with alcohol content of greater than 60% will be assessed a liquor mark-up of \$17.87 per litre rather than the current rate of \$13.30 per litre, effective March 21, 2003

#### Ready-to-Drink, Cocktails, Coolers & Ciders

10. For purposes of assessing a liquor mark-up, the Commission will establish a single category of liquor product that captures ready-to-drink beverages and coolers. The category will be called Refreshment Beverages and be defined to clearly distinguish it from the other categories of liquor products.
11. The Commission will assess one mark-up rate for Refreshment Beverages containing more than 1% and up to 8% alcohol by volume, and a higher rate for those containing more than 8% and less than 16% alcohol by volume.
12. The Commission will assess Refreshment Beverages with more than 1% and up to 8% alcohol by volume the current rate applied to coolers (\$1.35 per litre) and those with more than 8% and up to 16% alcohol by volume the current rate applied to ready-to-drink products (\$4.05 per litre). These adjustments will take effect starting March 21, 2003.

## Summary of Recommended Liquor Mark-up Rates

The following table is a summary of the liquor mark-up rates based on the recommendations made regarding the liquor mark-up structure.

### Recommended Liquor Mark-up Rates (Summary Table)

PRODUCT	RECOMMENDED MARK-UP RATES (\$/LITRE)	CURRENT MARK-UP RATES (\$/LITRE)	CHANGE (\$/LITRE)
Spirits (greater than 60% alcohol by volume)	17.87	13.30	+ 4.57
Spirits (greater than 22% alcohol by volume and less than or equal to 60%)	13.30	13.30	-
Spirits (less than or equal to 22% alcohol by volume)	9.90	9.90	-
Wine (greater than 16% alcohol by volume)	6.10	6.10	-
Wine (less than or equal to 16% alcohol by volume)	3.45	3.45	-
Refreshment Beverage – new category (greater than 8% alcohol by volume and less than 16%)	4.05	4.05	(current Spirits Ready -to-Drink rate)
Refreshment Beverage – new category (greater than 1% alcohol by volume and less than or equal to 8%)	1.35	1.35	(current Cooler rate)
Beer (common rate*)	0.98	0.98	-
Beer (greater than 10,000 hl and less than or equal to 200,000 hl annual worldwide production**)	0.40	0.40	-
Beer (less than or equal to 10,000 hl annual worldwide production**)	0.20	0.40	- 0.20

\* The common rate is assessed on approximately 92% of the volume of beer sold in Alberta.

\*\* Annual worldwide production would include the volume of all liquor products, liquids containing alcohol, and non-liquor product manufactured in the facility or facilities where the beer is produced. This is to address the issue of economies of scale.

## BUY/SELL AGREEMENTS

- 13. The Commission will retain the existing policy model for buy/sell agreements.**
- 14. The Commission will continue to conduct investigations into specific stakeholders' allegations that buy/sell agreements are being contravened.**
- 15. The Commission will increase penalties for the contravention of policies related to buy/sell agreements. The penalties will be based on the merits of the case and range from warnings and monetary penalties to prohibition from entering into buy/sell agreements.**

## **EXCLUSIVITY AGREEMENTS**

16. The Commission will retain the existing policy model for exclusivity agreements.
17. The Commission will continue to conduct investigations into specific stakeholders' allegations that exclusivity agreement policies are being contravened.
18. The Commission will advise stakeholders it has streamlined the administration of the exclusivity agreement policy by delegating to Commission staff the responsibility to approve or reject exclusivity agreements with a total annual value of less than \$1 million. Any exclusivity agreements with an annual value of \$1 million or more will continue to be taken to the Board for its review and decision.
19. Exclusivity agreements that must be approved in advance by the Board will be required to be provided by manufacturers or liquor suppliers to the Commission at least 60 days prior to the anticipated implementation/effective date of the agreement.

## **DEFINITION OF A MANUFACTURER**

### **Class E Manufacturer Licence (Wine)**

20. The Commission will retain the current Class E Manufacturer Licence (Wine) policy model, subject to the recommendations which follow regarding small-scale winery operations.
21. The Commission will support in principle the concept of small-scale winery operations in the province.
22. A detailed and carefully-considered business case should be developed by interested stakeholders for small-scale winery operations in the province. This business case and the appropriate supporting research will be considered by the Commission, working in close cooperation with Alberta Agriculture, Food and Rural Development, when developing specific policies for small-scale wineries in the province.

### **Class E Manufacturer Licence (Spirits)**

23. The Commission will maintain the current Class E Manufacturer Licence (Spirits) policy model.

### **Class E Manufacturer Licence (Beer)**

24. The Commission will retain the current Class E Manufacturer Licence (Beer) policy model.

### **Class E Manufacturer Licence (Brew Pub)**

25. The Commission will retain the current Class E Manufacturer Licence (Brew Pub) policy model.

### **U-vin / U-brew (Brew-on-Premises) Establishments**

26. Without sufficient evidence respecting the legislative, financial and social implications of U-vin/U-brew operations in Alberta, the Commission will not institute a licence class and policy model to allow for U-vin/U-brew establishments to operate in Alberta.
27. The Commission will undertake further research into the various implications of establishing U-vin/U-brew operations in the province, including the legislative, financial and social implications.



## **Conclusion/Acknowledgments**

The Commission acknowledges and thanks the stakeholders who took valuable time from their busy schedules to make submissions to the review. The candid comments and perspectives of stakeholders in their submissions were appreciated. These perspectives were carefully considered in arriving at the recommendations.

With the Board's approval and direction, the Commission is prepared to work with the liquor industry to implement the recommendations in this report, including consultation with stakeholders on the various matters requiring further study.

## **B. INTRODUCTION**

### **1. Background**

This report contains the findings and recommendations from a review of the province's liquor mark-up structure and related policies, initiated by the Alberta Gaming and Liquor Commission ("Commission") in July 2002.

The review is first comprehensive examination of the liquor mark-up and related policies since liquor retailing was privatized in Alberta in 1993.

The review presented an opportunity to put "on the table" all the mark-up and related policy issues raised by industry stakeholders recently or over the past few years. For this purpose, a Discussion Paper was prepared by the Commission to guide the discussion among stakeholders (see Appendix 3). The parameters of the review are captured in a terms of reference, included in the discussion paper as an appendix. These terms of reference identify the purpose, objective and scope of the review.

As stated in the terms of reference, key parameters of the review are that the liquor mark-up structure or related policies must meet the requirements of consumers, the financial needs of the Government of Alberta, and the requirements of stakeholders in the liquor industry. These requirements are described in further detail in the Analysis section of this report.

See Appendix 1. Glossary for the definitions of various terms used in this report.

## **C. PROCESS OF REVIEW**

### **1. Main Steps & Timeframe**

The process of the review of liquor mark-up and related policies began in July 2002. Stakeholders in the province's liquor industry received notice of the review and were advised they would be invited to provide input based on a discussion paper identifying the key issues to be addressed.

A discussion paper was prepared and distributed in September 2002 to the stakeholder list identified in the discussion paper (Appendix 3). Stakeholders were also invited to comment on any other related issues, other than those discussed in the paper. A number of additional stakeholder groups and liquor licensees learned of the review, expressed interest in it, and were subsequently added to the stakeholder mailing list and their input also invited.

Written submissions were invited by October 18, 2002. Stakeholders were also invited to provide verbal presentations of their submissions at a general meeting open to all industry stakeholders in Calgary on October 31 and in Edmonton on November 1, 2002. See appendixes 4 and 5.

Stakeholder input from the review is summarized in this report.

The positions and views of stakeholders were analysed by a technical committee of the Commission in November and December 2002. The committee examined the positions of stakeholders against the main criteria of the review, described under section E. Analysis of this report. The written report and recommendations were presented to the Board of the Commission in December 2002. In January 2003 the Board approved the report and the 27 recommendations and referred the 12 recommendations pertaining to the liquor mark-up rates to the Minister of Gaming for Ministerial Policy Direction under section 7(1) of the Gaming and Liquor Act. This report and the recommendations reflect the direction provided by the Board and the policy direction received from the Minister of Gaming.

## D. STAKEHOLDER INPUT

### 1. General Observations

#### Stakeholders

Fifty stakeholders received the discussion paper. Of these stakeholders, 30 or 60% of the total responded by submitting their views. The stakeholders who provided their input to the review may be categorized as follows:

STAKEHOLDER CATEGORY	DESCRIPTION	SUBMISSIONS RECEIVED
<b>Manufacturers/suppliers and associations</b>	Those who manufacture liquor products and representative associations	12 (8 beer; 2 spirits; 1 wine, beer and spirits; 1 wine)
<b>Licensees and associations</b>	Those who sell liquor products to consumers in Alberta (e.g., retail liquor stores, restaurants, bars, lounges) and representative associations	9
<b>Prospective manufacturers and associations</b>	Individuals interested in manufacturing liquor products in Alberta and representative associations*	7
<b>U-Brew/U-Vin Proponents and Associations</b>	Those interested in operating U-Vin/U-Brew establishments in Alberta and representative associations	2

\* An official with Alberta Agriculture, Food and Rural Development also supplied a submission regarding cottage wineries using locally grown fruit.

#### Praise for “Alberta Model”

Stakeholders generally appreciated the opportunity to participate in the liquor mark-up review.

Most stakeholders think highly of the Alberta Model for liquor retailing. The flat mark-up structure, an integral feature of this model, is applauded by both large and small manufacturers and by representative licensee groups. Stakeholders generally feel the liquor mark-up structure is simple, clear and easy to understand, and support its continued simplicity and transparency.

Some stakeholders see the review as an opportunity for the Commission to introduce progressive policies to assist the smaller manufacturers in the province. Others challenge the Commission to play a lead role in adjusting what they regard as historical inequities in mark-up rates.

While all issues identified received at least some response from stakeholders, the liquor mark-up structure received the greatest attention by them.

### **Stakeholders Focus on Areas of Interest**

Stakeholders responded to the issues or questions in the review that were of most interest to them. None of the stakeholders responded to all the questions in the discussion paper.

### **Opinions, Perspectives and Analysis**

Stakeholders responded to the discussion paper questions in various ways. Some stakeholders provided research or other information to support their views. However, opinions were often given by stakeholders without supporting research, or qualitative or quantitative analysis. These opinions appear to be based on stakeholders' observations, anecdotal information, or best guesses.

For example, large brewers contend the liquor mark-up adjustment of April 2002 resulted in Alberta being the "dumping ground for low priced or deep discounted beer." When challenged by the Commission on this claim during a verbal submission, a brewery representative indicated its numbers respecting the higher volumes of lower-priced beer sold in the province since the adjustment were based on assumptions and its own observations. The representative deferred to the Commission regarding the actual volumes of sales, indicating the Commission has more reliable sales information.

In another example, one brewer suggested there would be negative long-term consequences of the liquor mark-up adjustment introduced in April 2002 for beer products. The brewer indicated in its written submission: "If only 10% of the current Alberta beer category mix shifts to the low costs products of sub 200,000 hl brewers the negative impact to the Commission's revenue would be approximately \$13 million." There was no evidence or analysis provided to indicate a 10% shift would occur as was suggested. Nevertheless, the stakeholder went on to present the various impacts of the current liquor mark-up on beer to the brewing industry and Commission revenues based on the unsubstantiated 10% shift.

### **Predominant Theme of Review**

One main theme appeared to resonate among all stakeholders across all issues. It is that there should be a *level playing field* for those in Alberta's competitive marketplace, including those who may wish to enter this marketplace. The discussion paper refers to the flat mark-up structure as providing a level playing field for manufacturers and suppliers.

Stakeholders feel the flat mark-up is a good tool to create a level playing field. However, a number of stakeholders, in particular larger brewers and distillers, feel the current liquor mark-up rates, as they are structured, are not conducive to a level playing field for their respective industries. Proponents of small wineries, breweries or distilleries felt the same way about the policies respecting who may be a manufacturer in Alberta.

## **Interpretations of “Level Playing Field”**

What constitutes a level playing field? While stakeholders believe the playing field should be level, there is no consensus among stakeholders as to what this means in practice. Rather, the responses of stakeholders have varied depending on their current perspective and vested interest.

As stated earlier, a number of stakeholders presented scenarios of the impact of the liquor mark-up rates on their segment of the liquor industry. Some stakeholders expressly support policies which further their interests or provide them an advantage, while arguing other policies which appear to give competitors an unfair advantage do not contribute to a level playing field.

The verbal presentations made to the Commission panel were particularly useful. Since stakeholders were asked to keep their presentations relatively brief, they had to distill their views to the Commission panel and the industry members who attended the presentations. Stakeholders' most critical arguments or positions were put forward. A number of stakeholders chose to summarize the key points of their more lengthy written submissions. The verbal presentations gave the Commission panel an opportunity to challenge or question the presenters on their opinions, calculations or conclusions.

In some cases, stakeholder responses to verbal questions revealed varying levels of knowledge of the liquor business. For example, a prospective small-scale vintner in Alberta was asked about the investment required to start making fruit wines. The respondent indicated up to \$50,000 was needed, and stipulated the precise amount would depend upon, among other things, whether plastic or stainless steel vats were to be used for fermentation; the respondent indicated a building shell has already been erected for this purpose. Another prospective small-scale vintner in Alberta indicated after the presentations in Edmonton that the investment to set up a small-scale winery would be in the order of \$500,000 for the wine-making plant and surrounding structure.

A clear understanding of the required investment, commitment and marketplace is critical when the vision of some stakeholders is to create a wine industry similar to that of B.C., attracting tourists and generating revenue from farm-gate sales. The prospective small-scale vintners wishing to use locally-produced fruit appear to lack specific business plans or an overarching detailed plan for their industry. Even so, some of these stakeholders said if the Commission approved the policies they sought by May 2003, they then could begin to grow the fruit needed in 2003 to begin an on-site fruit-wine business.

### **Sub-themes**

What is a level playing field? Following are some of the sub-themes or criteria underlying stakeholders' views on this topic.

### **Sub-theme: Size of Manufacturer**

- A number of stakeholders believe the Commission must consider the size and production capacity of a manufacturer when determining appropriate liquor mark-up policies. They feel these should be taken into account to ensure a level playing field, particularly between smaller manufacturers versus the larger national or international manufacturers who possess the advantage of economies of scale and greater financial resources.
- Large national brewers feel the earlier mark-up rate, prior to April 2002, provided a level playing field to all brewers because it allowed the larger brewers to take advantage of the lower rates in a graduated system designed mainly to help support smaller brewers. The large brewers also paid the higher rate for higher volumes of beer that small brewers could not attain due to their relatively small market share and limited production capacity.
- National brewers also feel the adjustment to the beer mark-up of April 2002 is unfair because it “subsidizes” mid-sized brewers, in particular a mid-sized brewer in the province which they assume is the intended main beneficiary of the policy. They contend the adjustment has inadvertently resulted in the introduction of many new U.S. low-priced beers to the Alberta market which has eroded sales of their products; has given the lower mark-up rate to small foreign brewers whose product is made under contract by large facilities, contrary to the intent of the liquor mark-up policy; and, has resulted in Alberta having the highest beer prices in the country for the better-selling products.
- The large national brewers also take the opportunity to make the point that, due to their size and scope of operations in the province, they provide enormous economic benefit to the Alberta economy, and the new mark-up rate jeopardizes jobs and investment in the province.
- Small brewers operating in the province feel they should not be subject to the same mark-up as the province’s mid-sized brewer or the large national brewers. Rather, they feel they should pay a lower rate.
- A mid-sized brewer in the province feels it should not be subject to the same mark-up as two large national brewers, which it refers to as a “duopoly” due to the huge share they enjoy of the province’s total beer market which is estimated by the mid-size brewer to be 90%. It argues the large national brewers already enjoy advantages smaller brewers cannot obtain, and that various liquor policies in the province give further advantage to the larger brewers. The brewer feels the large national brewers, by virtue of their size and ties to multi-national corporations, possess economies of scale which threaten the competitiveness and viability of smaller or mid-sized brewers in the province and throughout the country.
- Small and mid-sized brewers contend the province’s liquor policies give the large national brewers advantages unavailable to them. This includes buy/sell agreements and exclusivity agreements which they maintain are clearly dominated by the large national brewers.

- A mid-sized brewer, although supportive of retaining the Commission's policies allowing for buy/sell agreements and exclusivity agreements, contends these policies further the interests of large brewers at the expense of small and mid-sized brewers. The stakeholder says these policies, despite favouring the large national brewers, at least provide some restraint in what the large brewers may do.
- One small brewer in the province indicated it is unable to participate in most of Edmonton's festivals and all of Edmonton's sporting venues because of brand exclusivity agreements these festivals and venues hold with the larger manufacturers.
- In effect, the small brewers view the beer mark-up rates of April 2002 as a way to help small brewers survive in the marketplace.
- Further, the small brewers believe the mark-up they pay on their products should be lower still (for example, one small brewer suggests a five cent per litre mark-up for 5,000 hl or less of beer production). One small brewer believes, while large national brewers may support a flat mark-up, a flat mark-up imposes a disproportionately higher burden on breweries making smaller volumes of beer, assuming equivalent wholesale mark-up.

#### **Sub-theme: Policies Respecting Small-Scale Manufacturers**

- Some prospective manufacturers claim other provinces give special consideration to small manufacturers operating in the respective provinces. Accordingly, they feel that to level the playing field it is appropriate and fair for Alberta to provide similar consideration for its small manufacturers or prospective new small manufacturers.
- For example, some prospective small manufacturers argue the minimum allowable quantities for smaller distillers or vintners are lower in other provinces than in Alberta, and this province should lower its minimum quantities accordingly. It is also felt other provinces give their small manufacturers reduced mark-up rates, or waive a mark-up altogether, as an incentive, and similar considerations should be given to small manufacturers in this province.
- Stakeholders contend that the favourable differential liquor taxes paid by small manufacturers in the other provinces, and the less onerous manufacturer policies, have resulted in vibrant small-scale brewery industries in those provinces, unlike the situation in Alberta.
- Some stakeholders also feel other jurisdictions restrict or prevent Alberta products from entering their markets while Alberta's open market allows the products made by manufacturers operating outside Alberta. This gives the manufacturers in other provinces a distinct advantage because this treatment is not reciprocated to manufacturers operating in Alberta. For example, a mid-sized brewer in the province felt compelled to purchase two small breweries in B.C. to gain access to the B.C. market while B.C. manufacturers may market their products in Alberta without being required to make similar investments or take similar measures in this province.



### **Sub-theme: Treating Liquor Products Equally**

- Spirits manufacturers feel all liquor products should be subject to a liquor mark-up based on the level of alcohol in the product. They contend this is the fairest way to treat liquor products, saying “a drink is a drink is drink” (referring to the fact a standard bottle of beer, glass of wine, or 1-1/2 ounces of spirits all contain an equal amount of alcohol).
- A distillers’ association suggests a rate of \$25.95 per litre of absolute alcohol be established in place of the current liquor mark-up structure; this specific rate, it is felt, would be revenue neutral to the province or at least not negatively affect the government’s revenue from liquor sales. The association argues the relatively lower mark-up for beer products compared to the mark-up rate for spirits “subsidizes” brewers well in excess of \$60 million per year. The association further states: “Provided with 2-1/2 times the gross margins afforded Spirits suppliers, beer suppliers are thus virtually guaranteed an important competitive advantage in the Alberta market through public policy.”
- A brewers’ association and large national brewer feel there are social issues related to the consumption of spirits, or hard liquor, as compared to beer which justifies a relatively higher mark-up rate for spirits. They argue that jurisdictions throughout the world set higher rates or taxes for spirits than for beer as a matter of public policy; brewers in particular argue more abuse arises from consumption of spirits than from consumption of beer. Research or analysis to support this claim may be available; however, it was not provided during the review by stakeholders who hold this position.

### **Sub-theme: Original Ground Rules for Brew Pub**

- Most stakeholders with an opinion on brew pub policies oppose giving brew pubs the opportunity to sell their beer to on-premise licensees, other than to the licensed premises the brew pubs own and operate. They feel the original intent of brew pub policy was simply to allow these manufacturer/licensees to produce a unique beer for their own customers, in their licensed premises for on-premises consumption.
- The stakeholders believe allowing brew pubs to sell beer to other licensees is unfair because the brew pub business is supplemented or supported by on-premises alcohol sales, food services, can restrict other beer products from their premises, etc.
- Stakeholders feel if brew pubs wish to operate as manufacturers they should be required to obtain a Class E Manufacturers Licence (Beer) rather than be given unfair advantages such as selling their product to all other licensees. Small brewers in the province feel strongest about this, contending they are small manufacturers and feel brew pubs are competing directly with them in the specialty or premium beer market.

### **Sub-theme: Intent of U-brews/U-vins**

- Most stakeholders oppose policies which would allow for U-brews or U-vins in the province similar to those operating in B.C. and Ontario. They believe these establishments simply produce product in large quantity for consumers and avoid paying a liquor mark-up.
- Supporters of U-brews/U-vins believe U-vin establishments benefit retail liquor stores by educating consumers about wines and ultimately lead to more commercial sales of wine by U-vin customers.
- Many stakeholders feel U-brews/U-vins are unfair because they compete with commercial manufacturers whose product is assessed the full mark-up rates.
- Opponents believe the customer of a U-brew/U-vin has minimal or negligible participation in the making of the product (thus skirting the normal process in the making of home-made product). They maintain these establishments are difficult to regulate, cheating is rampant since virtually all the work to produce the home-made wine or beer is performed by the establishment operator, and the product finds its way into commercial establishments and liquor permit functions.
- Many stakeholders believe these establishments, if allowed in the province, would erode the sales of commercial product. They feel if residents want to make such products, they can already do so in their homes.
- Proponents of U-brews/U-vins contend these operations help educate consumers about wine and beer products, there are extremely few cases of abuse involving U-brew/U-vin products, and customers are encouraged to buy commercial products as part of becoming more knowledgeable about wines and beer. Thus, they believe these establishments are beneficial to both commercial manufacturers and U-brew/U-vin establishments.

### **Sub-theme: Buy/Sell and Exclusivity Agreements**

- One retail liquor store operator and a retail liquor store chain believe buy/sell agreements should be scrapped altogether because they feel the Commission cannot monitor all situations where such agreements exist or should exist. Many accounts, they allege, do not follow the rules. The two stakeholders feel this places those who follow the rules at a disadvantage with their non-complying competitors. Both believe the free market should take its course in this regard, and that there should be no prohibited relationships.
- Conversely, liquor manufacturers generally tend to support buy/sell agreements and product exclusivity policies. They also recognize it is difficult for the Commission to fully regulate this type of activity. Small brewers feel these rules protect them to some extent; otherwise, large brewers would dominate the beer market even further, given their “deep pockets” to enter into buy/sell agreements and product exclusivity arrangements.

- The large national brewers support the current policies.
- The sports venues and major event sponsors which benefit from exclusivity arrangements generally support the policies that allow for them.

## 2. Specific Stakeholder Input

The specific stakeholder input in response to the questions in the discussion paper is provided in this part. This part simply contains the views and perspectives stakeholders and does not analyse or assess the merits of this input.

The input in this part is provided according to the main issues and further divided according to the following stakeholders:

**Manufacturers/Suppliers & Associations** – include those who manufacture liquor products and representative manufacturer associations.

**Licensees & Associations** – include those who sell liquor products to consumers in the province (for example, retail liquor stores, restaurants, bars and lounges) and associations that represent licensees.

**Prospective Manufacturers & Associations** – include individuals interested in manufacturing liquor products in Alberta, associations that represent them, and an official with Alberta Agriculture, Food and Rural Development who supplied a submission in support of liquor policies to allow for cottage wineries.

**U-Brew/U-Vin Proponents** – include those interested in operating U-Vin/U-Brew establishments in Alberta and associations that represent them.

### LIQUOR MARK-UP – STAKEHOLDER INPUT

Most of the responses on the liquor mark-up structure were provided by manufacturers and licensees.

1. **Do you feel that changes are required to Alberta’s mark-up structure? If so, what changes would you recommend and why? If not, why?**

#### **Manufacturers/Suppliers & Associations**

Of the 11 manufacturers or representative groups who responded, six thought changes should be made and five felt no changes were needed. Based on their responses, some stakeholders regarded the “structure” as the general approach to the liquor mark-up rates, while others considered this to refer to specific liquor mark-up rates.

Those who thought no changes were needed in the general approach included small and mid-sized brewers. These brewers support the differential in the beer mark-up based on volume (200,000 hl worldwide production). They

believe this allows them to be competitive, create jobs, and be viable small businesses. They claim it levels the playing field with the large brewers.

A mid-sized distiller feels the present structure is satisfactory, but suggested the relatively high mark-up rates applied to spirits give an advantage to, or favours, beer and wine products.

A national vintners' association views the mark-up rates to favour higher end wine products and feels they should remain as they are because most wineries in the country are either producing higher end (premium) wines or moving in that direction.

Two large national brewers and a national mid-sized brewer suggest the mark-up rates just prior to the adjustment of April 2002 should be reintroduced. They view these earlier rates as fair because, as brewers, they benefited from the lower graduated rates on their initial production volumes, while paying the higher rates for the later (higher) production volumes.

One small brewer believes the mark-up structure should change to provide a lower cut-off rate and respective mark-up for the small brewers of the province (for example, five cents per litre on the first 5,000 hl sold). They feel the 200,000 hl cutoff does not reflect the much smaller scale of their operations.

A distillers' association feels the mark-up structure should be based on alcohol content. The association argues the current structure discriminates against distillers and favours brewers and vintners.

A beverage importer council feels slightly lower mark-up rates would help address concerns about the effect of the mark-up on lower priced products. In this regard, the council cites the possible loss of revenue when Albertans buy the cheaper lower priced products in B.C. rather than buying such products in Alberta.

### **Licensees & Associations**

Two licensees responded. One feels no changes are needed.

A liquor store association feels at least the existing beer mark-up structure needs revision, echoing some of the views of large national brewers.

### **Prospective Manufacturers & Associations**

A fruit growers' association and market gardeners' association feel changes should be made to the mark-up structure to enable small wineries to develop and grow to large commercial wineries. One of the stakeholders asks for 0% mark-up for farm-gate sales; 50% mark-up for small wineries with annual production up to 45,000 litres with product distributed through the Commission; full mark-up for production over 45,000 litres with product distributed through the Commission.

- 2. Would Alberta’s liquor mark-up structure benefit from having more cutoff points in each category of liquor product and different mark-ups at the different cutoff points? Please explain.**

**Manufacturers/Suppliers & Associations**

Four respondents answered yes and five no.

The five respondents who answered no want to retain a simple system. One mid-sized brewer suggested having more cutoff points might lead to a more cumbersome and unwieldy structure, questioning whether the enhanced precision and therefore complexity is “worth the effort.” A mid-sized distiller, a distillers’ association and an alcohol beverage council stated similar positions. Another mid-sized brewer wanted the present structure to remain in place for at least two years to allow the Commission to assess its impact, while supporting a possible lower rate for small brewers (under 5,000 hl production per year).

Among those who answered yes was a mid-sized brewer, which wants the pre-April 2002 mark-up rates to apply. Two small brewers favour a lower mark-up for their operations. A vintners’ association supports having a tiered system for wine whereby lower-priced wines would be subject to lower mark-up rates.

**Licensees & Associations**

One respondent said yes, the other no.

One licensee believes there is no appreciable selling price between light beer and regular beer in most on-premises locations anyway, so does not favour more cutoff points.

The liquor store association notes that the experience with the spirits and wine category shows that fair, transparent cut-off points permit innovation and consumer opportunity.

- 3. Do you believe liquor mark-ups should be spread more evenly across all beverage alcohol categories? If yes, on what basis and how? If not, why?**

**Manufacturers/Suppliers & Associations**

The 10 stakeholders who responded to this question were split, five answering yes and five no.

A vintner’s association supports the current structure despite the criticism by some manufacturers. One mid-sized brewer supports the current system, indicating the disparity among the categories, despite arguments of equivalency (“a drink is a drink”) have not been reconciled in the federal taxation structure. A small brewer believes the structure is in place to limit public use of alcohol, while another small brewer feels the mark-up should be

based on size of operation, that is its sales, with smaller brewers paying a lower rate.

A brewers' association supports the current structure over adjusting the mark-up rates. The association discusses at length the shortcomings of distillers' arguments respecting drink equivalencies, or "a drink is a drink" argument. The brewers' association also outlines its views about the mark-up rates and economic contribution of brewers versus distillers.

Among those answering yes to the question is a beverage alcohol importers council which believes spirits are penalized for their alcohol content and a reduction to the mark-up for spirits is in order. A mid-sized brewer in the province says any changes must be gradual to provide for a transition time to allow all stakeholders to adjust in an orderly way. Key questions are whether the Commission would maintain its revenue and how that would occur: at the expense of the brewery sector?

The distillers' association believes the current mark-up structure in Alberta, as in other jurisdictions, discriminates against distillers. It believes it subsidizes other liquor products (for example, it contends the current lower beer rate in Alberta is equal to a subsidy to brewers of more than \$60 million), and fails to create and foster a dynamic, competitive market. The association proposes a mark-up rate of \$25.94 per litre of absolute alcohol. It believes this rate is revenue neutral to the Commission or at least does not negatively affect its revenue from liquor sales, and more fairly distributes the burden among categories, reducing the gap in gross supplier margins between categories from over 25% to less than 10%.

A mid-sized distiller believes the mark-up should be based on alcohol content and implemented over five years, maintaining revenue to the government.

A large national brewer wants a return to the pre-April 2002 mark-up rates for beer products, which it feels were more equitable than the current ones.

### **Licensees & Associations**

One respondent said no, the other yes.

A licensee indicated spirits should always be taxed higher than lower alcohol beverages like wine or beer, drinks which the licensee suggests have a greater "social" value ("social" value is not elaborated upon).

A liquor store association feels the spirits, wine, cooler and ready-to-drink categories should reflect the level of absolute alcohol, while beer should be based on production. The cut-off points for beer should address both revenue generation and provincial policy objectives of strengthening the Alberta Advantage.

4. It has been suggested Alberta should consider a sliding-scale mark-up system based on alcohol content. Under such a system, the lowest alcohol content products, for example, would be assessed the lowest mark-up and the highest alcohol content products assessed the highest mark-up. Would you support such a system? Why or why not? What implications would this type of mark-up system have on your segment of the industry?

#### **Manufacturers/Suppliers & Associations**

Two respondents favour the described sliding scale mark-up system, three oppose it, and three are unclear in their position.

The distillers' association favours this system, based on products assessed based on alcohol, as they have suggested elsewhere (that is, all paying an equal amount based on absolute alcohol), and that it is revenue neutral for government.

A small brewer feels it should be assessed a mark-up at a fraction of what the mid-sized brewer pays, the amount being proportionate to size. In this case, it is claimed the mid-sized brewer produces 60 times the amount of beer they produce, thus the small brewer feels it should be assessed a mark-up at 1/60 of the rate paid by the mid-sized brewer.

Those who opposed the suggested system include a vintners' association, which feels an adjusted system might further favour beer over table wines that range in alcohol content from 8% to 14%. A beverage alcohol importer council feels adopting such a system would make it too complicated and also compel Alberta customers to travel to B.C., for example, to buy lower priced wines.

A mid-sized brewer outside Alberta opposes the system because it feels the correlation between the alcohol and mark-up would not be clear. It would however be inclined to support a system where the scale begins at something other than 0% alcohol. That is, each product should have a different reference point for where the mark-up begins or is set (e.g., mainstream beer is 5% and common wine around 13%). Using this approach, the government can better ensure it reaches its revenue projections without heavily penalizing a higher alcohol beer, for example, which generally accounts for a small percentage of market sales.

Three responses were unclear. One mid-sized brewer said all provinces follow the principle that higher alcohol contents products pay the highest mark-up, and lower alcohol contents, a lower mark-up. A small brewer thought the suggestion favourable if it fits within the overall philosophy of liquor regulation and taxation in Alberta, otherwise, it would be an administrative headache. A large brewer reiterated its previously mentioned position: to return to the pre-April 2002 mark-up rates for brewers.

## Licensees & Associations

A liquor store association believes “a fair taxation model is needed that acknowledges the Alberta Advantage and ensure the transparent taxation objectives are implemented. A sliding scale based on alcohol content has merit if provincial production credits are introduced.” The association says domestic production of wine, spirits and beer should be given tax credits based on production, without elaborating further.

### 5. Should a differentiated mark-up for beer be continued in Alberta to assist small-scale manufacturers in the province? Why or why not?

#### Manufacturers/Suppliers & Associations

This question drew six yes responses, and two no responses.

A distillers’ association maintains brewers pay only 40% of the liquor mark-up burden paid by distillers, making it hard for distillers to compete with brewers. Feeling distillers have been treated inequitably, the association expressed little sympathy for beer manufacturers regardless of their size. It is amenable to working with the Commission to arrive at a system across categories to help make manufacturers of all sizes competitive in the marketplace.

A beverage alcohol importers council feels everyone should compete under the same mark-up. If brewers should receive differentiated mark-ups, shouldn’t small scale distillers and vintners also receive them? The council asks: where should the line be drawn in defending arguments of favouritism?

A mid-sized distiller favours differentiation, and thinks it should also apply to smaller distillers to allow them to compete with large multinational distillers.

Two small brewers favour a differentiated mark-up for them. One argues small brewers are less efficient and have higher labour and material costs than large brewers. A flat mark-up hurts them. It argues small brewers hire more local staff and use local resources and thus more greatly benefit the local economy. They argue the provinces with mark-ups at lower levels for smaller brewers have vibrant small or micro-brewing industries, whereas those which do not do this lack such industries in their provinces.

A mid-sized brewer in Alberta supports differentiation, saying it is perhaps one of the few things that will help it to survive in the marketplace against the domination of the two large multi-national brewing companies.

A mid-sized brewer outside Alberta says the current differentiated system allows brewers an opportunity, but not a guarantee, for success. It feels this is the way it should be. It also feels there has been a great transfer of wealth to Alberta from its province, Saskatchewan, when the large national brewers closed their operations there and consolidated in Alberta. A lower mark-up rate for its products in Alberta is viewed as a form of reciprocity. It also feels the definition of who is eligible for the lower beer mark-up should apply only



to pure brewers, and exclude multi-faceted beverage companies with “other sources of volume and revenue who do not participate to the same extent in the mark-up reduction because they are not dedicated to brewing alone.”

### **Licensees & Associations**

The respondents again were split, one answering yes, the other no.

The liquor store association states it “supports the need to strengthen provincial production – both large and small, therefore we would support a mark-up structure that directly benefits all Alberta production fairly.” They feel the recent beer mark-up adjustment has made this province a dumping ground for all types of off-shore and import low-cost beer products to the detriment of large and small brewers.

A licensee feels a differentiated mark-up for beer is needed to encourage the development of small breweries.

### **6. Please note any other comments, issues or suggestions regarding the province’s liquor mark-up system with your rationale for these views.**

#### **Manufacturers/Suppliers & Associations**

There were nine respondents. Most of them reiterated positions provided to earlier questions related to the liquor mark-up structure, some elaborated further.

A large national brewer says the current mark-up for beer creates winners and losers. It feels an uneven playing field is created that penalizes customers of beer made by major brewers; promotes dumping from outside the province; encourages predatory pricing; and discourages long-term growth. The brewer feels these issues would be addressed if the pre-April 2002 beer mark-up rates were reintroduced. They also feel the 200,000 hl limit is high when compared with definitions of smaller brewers in other provinces. This limit in effect puts brewers in one of two broad bands, rather than acknowledge small, medium and large brewers and the respective volumes that distinguish each of these from the others. It is also argued the government collects less revenue from many products being introduced at the lower mark-up rate. It indicates it must reduce its investment in Alberta to make up for the loss it feels it is incurring as a result of the current mark-up structure compared to the previous one.

A mid-sized brewer in the province says the lower mark-up rate is essential for its survival. It also feels the definition of who may qualify for the lower beer mark-up must define the parameters or answer the critical questions. It goes on to propose such parameters, raising questions about what percentage of the facility’s product must be beer and how much non-beer in the case of beverage companies; how much beer may be co-packed by the facility for other parties; an eligible facility should be in the business of manufacturing and selling, and have control over the distribution of its proprietary brands; it must operate a fully functional small brewery; it must not brew beers under

contract for other beer companies; and it must agree to regular Commission audits.

A brewers' association contends the new beer mark-up has distorted the market and led to the growth of what it refers to as the deep discount beer category, "fueled by dumping of cheap product by out of province brewers or tied establishments." It believes this deep discount product has captured 4% of the total market and is predicted to reach 10% , and continue to erode government revenue. The association states about 36 such products have been introduced since the current mark-up took effect in April 2002. The association also believes the availability of cheap alcohol is a problem for younger people; it also argues spirits are more likely to be abused than beer and it makes sense these are marked up at a higher rate than beer.

The distillers' association feels a more equitable liquor mark-up structure for spirits results in more positive policy implications. These include responsible use (research shows from a public health perspective an optimum tax structure includes equalization across all alcoholic beverages); international trade (trade agreements apply to like products and effects on competition between "directly competing and substitutable products"); cross subsidization (brewers, funded by their beer products, have introduced spirit-based coolers intended to compete with distillers' products head on) ; and export (relatively low supplier margins in Canadian domestic markets minimize the financial resources available and places Canadians distillers at a competitive disadvantage versus its major competitors in foreign markets). The association cites public opinion research in which most Canadians (53%) endorse equal taxation for all beverage alcohol and only 35% support some form of differential approach. Support in Western Canada stands at 57%.

### **Licensees & Associations**

Four respondents provided comments.

A national restaurant chain franchise feels the "two-tiered" beer pricing is punitive to most consumers. It argues the market should have a standard pricing system and consumers should decide which products to buy or where to buy them. The system "should not be any different than it is for other spirits."

A restaurant association expressed concern about beer mark-ups. Members of the association feel all levels of beer production should be taxed equitably. The association also feels this issue needs more in-depth analysis than allowed through the liquor mark-up review, for example, hospitality members meeting with liquor suppliers to review the questions in the discussion paper.

A hotel association wants fewer liquor mark-up increases. It claims increases in the mark-up hurts sales and hopes any further increases are curtailed. The association believes made in Alberta products should benefit from the Alberta Advantage (though this term or meaning in this context is not elaborated upon). It believes the beer mark-up needs balancing, and does not want the

province to be the dumping ground for out of province product dumping; tax concessions should only apply to Alberta beer.

The liquor store association says the Commission should not use the taxation system to distort the market place. It claims close to \$6 million was lost in the retail sector from the beer mark-up adjustment of April 2002 as a result of the presence low-cost off-shore imports, although the association did not elaborate on how it arrived at this calculation. It feels neither the association nor Commission can any longer claim the province has the most competitive liquor prices, aside from those of high-end unique brands.

## **BUY/SELL AGREEMENTS - STAKEHOLDER INPUT**

- 1. In your view, under Alberta's privatized model of liquor retailing, is it appropriate to retain the existing policy model for buy/sell agreements or should the free market be allowed to take its course? Why or why not?**

### **Manufacturers/Suppliers & Associations**

Six respondents would like to retain buy/sell agreements, one is against retaining it, and one respondent was unclear.

Those who favour buy/sell agreements include a mid-sized brewer outside Alberta (arguing these agreements give greater assurance that the value of inducements are reasonable and benefit the consumer); beverage alcohol importers council (stating where there are no rules the market is lopsided in favour of larger manufacturers, e.g., in United Kingdom); mid-sized brewer in the province (believes opening the market would jeopardize product selection and service, and only largest manufacturers would benefit from it); distiller (feels these agreements minimize abuses, level the playing field for all distillers, big or small); distillers' association (argues the current model helps create more level playing field for large and small suppliers and retailers); and vintners' association (feels there is room for more flexibility in such agreements, e.g., greater collaboration between buyers and sellers rather than just promotional giveaways or contests).

One mid-sized brewer opposes buy/sell agreements. The brewer believes buy/sell agreements allow the larger manufacturers to secure prime space in the retail network, to maintain their market share in the mainstream segment, and to squeeze out smaller manufacturers in the premium/specialty segment. The brewer says the question about the free market being allowed to take its course is a moot one, since commercial relationships between supplier and licensee will continue in one form or another regardless of whether they are prohibited or not.

A small brewer feels these agreements are for larger companies, not them. They say they cannot afford the level of inducements to influence the sales of their product. As such, the issue remains irrelevant to them.

### **Licensees & Associations**

Of respondents, two answered no and three yes.

A retail liquor store operator feels the existing policy is unmanageable for the Commission because it believes the policy cannot be policed. The store argues the policy is unfair to those who follow the rules because it put them at a disadvantage with those who make under the table deals with suppliers. The store favours a free market system.

A liquor store chain expressed similar views.

A liquor store association supports the existing policy.

A licensee believes the policy may be adapted but not eliminated. Without controls, the licensees feel small players will be ignored by suppliers. The high volume retailers (especially on-premise retailers) will always be chased by manufacturers. High volume bars and nightclubs create the most social problems with overcrowding, service to minors, intoxicated patrons, fights, disturbances, forcible evictions, etc. The licensee questions why policy would allow such operators to legally be induced to sell more alcohol.

An exhibition association supports the existing policy model. The association argues this policy model allows for benefits to consumers. It also notes the relatively unregulated food service provides more choice to consumers.

### **Prospective Manufacturers & Associations**

A prospective small scale distiller believes a free market approach *cannot* apply to the liquor industry. The liquor industry is regulated to allow for smaller local manufacturers. The prospective small-scale distiller feels a free market would simply make it easier for larger multinationals in the marketplace and hurt small independents or cottage style distillers.

- 2. Are there any benefits in eliminating the provisions of the Commission policies respecting buy/sell agreements? In other words, is there merit in allowing parties to offer or accept inducements to sell a particular brand or type of liquor without regulatory restrictions? Why or why not?**

### **Manufacturers/Suppliers & Associations**

Eight respondents responded no to this question, and one was unclear.

A distillers' association says eliminating the provisions simply transfers benefits to licensees rather than consumers, to result, in the long run, in reduced investment in the market and less choice for consumers. A beverage importers council feels changes would play into hands of large operators and multinationals; smaller "interesting products" would go by the wayside.

A large brewer said deregulation would force it to focus on growth and volume potential, while smaller manufacturers would have difficulty competing for shelf space. Over the long run this would result in fewer products from smaller manufacturers and retail chains would be favoured in the retail network.

Another large national brewer calls the buy/sell agreements one of the most positive developments in the area of liquor regulation in a long time. They appreciate being accountable for their agreements, as are all other suppliers, and see these agreements as an effective enforcement tool. A mid-sized distiller holds similar views. A vintners' association feels there is merit in a transparent, equitable and reasonable regulatory structure for such agreements. A mid-sized brewer opposes changing the policy; even so, the brewer feels

these agreements benefit major suppliers due to their deep pockets, and do not benefit smaller brewers.

One small brewer has mixed feelings on the subject. They are content to live with “the devil they know,” and therefore support the current model, even though they feel it does not benefit them.

### **Licensees & Associations**

Three respondents answered no and two yes.

The hotel association believes present policies help keep the industry clean, which is critical to ongoing profitability and the goodwill of the public.

The liquor store association answers “absolutely not” without further explanation.

A licensee reiterated their response to the first question in supporting the current policy.

A retail liquor store operator believes elimination of the prohibition is the way to go, feeling this approach would result in a type of practice common in other commodities such as general merchandise and groceries, part of a free market system. The licensee cannot think of a single thing wrong with allowing the free market to take its course. A retail liquor store chain holds similar views.

### **Prospective Manufacturers & Associations**

A prospective small-scale distiller feels eliminating the provisions would lead to the death knell of the few small independent producers in the country and small retail suppliers. The respondents feel the only beneficiaries to the elimination of buy/sell agreements and allowing a more liberal approach to inducements would be large retailers and large foreign multinationals.

- 3. Do you believe a liquor supplier should be authorized to enter into an agreement with a company operating a national chain of licensed premises in which the amount of support to be provided is based on the purchase of a given volume of product? Why or why not?**

### **Manufacturers/Suppliers & Associations**

Three answered no, four yes, and one was unclear.

A small-scale distiller says changing the policy would preclude regional suppliers from doing business with national chains. The vintners’ association opposes these types of arrangements. A mid-sized brewer said this sort of agreement is occurring in the marketplace now; it feels to allow it formally would freeze them out from high volume accounts such as franchised operations and national chains.

One small brewer wonders why this would apply to national chains versus local or provincial ones, or individual establishments. It argues if volume pricing is allowed, it should be allowed for everyone, not just national chains.

The distillers' association supports such agreements since it feels these are designed to reflect the value of the individual supplier/licensee relationship and potential value of a given merchandising program.

A beverage alcohol importers council feels as long as a business agreement does not contravene the regulation, it is okay.

A mid-sized brewer outside Alberta said it would support such agreements if large brewers would be limited to no more than 45% of the listing in a national account. It is not suggesting purchases be restricted, but that listings should be restricted so consumers have product choices. Such arrangements would, in the brewer's view, go a long toward dispelling the perception the national agreements are largely exclusivity arrangements.

A large national brewer supports such agreements if the support complies with local regulations. It sees dealing with national accounts as an efficient means of driving business growth.

### **Licensees & Associations**

Two of the respondents answered no and three yes.

A liquor store association answered no, feeling the rules for national accounts must be exactly the same as those of individual accounts operating in the province. All benefits must flow only to the consumer, not to the licensee.

A hotel association expressed similar view, feeling that no chain or franchise should be exempt from present buy/sell agreements; if one group is allowed to operate outside the buy/sell agreements rules, everyone in the business will be at a real disadvantage.

A retail liquor store operator says, why not? This is common in other commodities, why not in liquor?

A retail liquor store chain believes this is occurring now. If it were allowed, it would simply be more transparent. Since it is happening, and benefits both parties, it should be permitted as a natural part of the business relationship.

A licensee said liquor is a provincial jurisdiction. What national chains do out of Alberta should not be relevant, unless it directly affects their operations in Alberta.

### **Prospective Manufacturers & Associations**

A prospective small-scale distiller says no. He argues there are very few small producers ("the country is built on small businesses"), and the number would shrink further if larger producers had free rein in deal making.

**4. What changes, if any, do you believe should be made to the policies respecting buy/sell agreements? Please explain why.**

**Manufacturers/Suppliers & Associations**

Four respondents support no change, three would like change, and one response was unclear.

Those who feel no change is needed include the distillers' association, a mid-sized distiller, a mid-sized brewer outside Alberta, and a beverage alcohol importers council.

A small brewer has mixed feelings with these agreements, but says volume pricing, if allowed, should be allowed for everyone.

One large national brewer would like the rules to allow for supplier funding of legitimate licensee travel. The example cited is a beer institute of the brewer located in Vancouver, which it feels should be permitted to provide educational support for the hospitality trade (licensees) in Alberta.

A vintners' association supports easing restrictions on placement of displays, merchandise and point of sales material within specific premises, while retaining limits on how much business a supplier can "buy" through such a system.

One mid-sized brewer would like buy/sell agreements to be prohibited, but concedes "the genie is out of the bottle."

**Licensees & Associations**

Two respondents feel no changes are needed, and two suggest changes.

The liquor store association says the buy/sell agreement is relatively new and no changes should be made until more experience is documented. The hotel association supports the existing model.

A retail liquor store chain believes buy/sell agreements serve no useful purpose and should be eliminated. Only the legitimate transactions are monitored. The free market approach would make buy/sell agreements unnecessary. A co-op liquor store expressed similar views in this matter.

**Prospective Manufacturers & Associations**

A prospective small scale distiller feels the rules should be stricter. Echoing its earlier comments, the respondent feels small businesses must be protected from being eliminated by large multinationals. There were no suggestions provided as to how the rules should be made stricter.



**5. Please note any other comments, issues or suggestions you may have regarding buy/sell agreements.**

**Manufacturers/Suppliers & Associations**

One mid-sized brewer feels there must be diligent enforcement of the existing regulation. A vintners' association would like to consult directly with the Commission on this or, if such consultations were not to proceed, retain the status quo. A large brewer feels buy/sell agreements offer more opportunities for business of all sizes and hence creates a level playing field; the challenge is for the Commission to enforce compliance with the rules.

The distillers' association suggests eliminating buy/sell agreements (in favour of unregulated arrangements) would give to federal authorities an invitation to "immerse themselves in a previously exclusive provincial jurisdiction."

The brewers' association supports retaining buy/sell agreements.

**Licensees & Associations**

A licensee suggested the penalties be increased, monitoring be beefed up, and the law enforced. Penalties should be based on the magnitude of the offence.

A co-op liquor store reiterates support of a free market system, as does the retail liquor store chain.

A liquor store association feels that with all benefits flowing to the consumers, domination by those with deepest pockets remains in check.

A restaurant association indicates it was informed by ALIRT of difficulties with the current system but is unable to ascertain what those problems are. It does feel rules must be enforced. Without knowing the issues, the association feels out of place to respond further. It asks: If the system has been in place for some time, what changes could be made to allow more flexibility and direct benefits to the consumer?

A restaurant chain feels buy/sell agreements have created an administrative headache for the Commission. A market driven system is suggested.

**Prospective Manufacturers & Associations**

A prospective small-scale distiller believes the Commission must be fair. It also believes "success story" manufacturers want to eliminate start-up businesses and competition; the distiller believes one way they can do this is to buy ("bribe") retailers through buy/sell agreements.

## **PRODUCT EXCLUSIVITY - STAKEHOLDER INPUT**

### **1. Do you feel Division 4 – Prohibited Relationships of the *Gaming and Liquor Regulation* should be retained or eliminated? Please explain.**

#### **Manufacturers/Suppliers & Associations**

All seven respondents to this question favour retaining Division 4.

A mid-sized brewer supports retaining the division, but believes little would change in the industry whether it is retained or eliminated. It believes, with buy/sell agreements and increasing the value of big-ticket items suppliers may give to its best customers, the Commission has perhaps unwittingly allowed liquor businesses to operate much like the consumer goods industry.

A mid-sized brewer outside Alberta feels regulation in this area is needed.

A distillers' association supports the clear distinction between manufacturers and licensees. Otherwise, consumers tend to have less choice and the overall market becomes less dynamic, competitive and transparent.

A beverage alcohol importers council feels the regulation protects small businesses from deep-pocketed competitors.

A mid-sized distiller says removing the regulation would allow anti-competitive behaviour which works against smaller distillers and favours multinationals.

#### **Licensees & Associations**

Three respondents support retention and one favours elimination.

A licensee supports retention, feeling it is always the big players that want and benefit from exclusivity. It feels smaller manufacturers and retailers lose out as does the consumer. The licensee notes: "Avoid monopolies, encourage free and open competition."

The liquor store association says the existing framework is fundamental to the continuation of the Alberta Model. It agrees the Board should decide on a case by case basis whether to grant a specific waiver and permit a relationship for community events or select sporting venues only.

An exhibition association states the exclusivity arrangements are critical for the success of its community events and sporting venues, including Canadian Finals Rodeo, Klondike Days, Canadian Derby, and home of the Edmonton Oilers.

A retail liquor store chain favours elimination since a relationship between a supplier and retailer should be defined by the parties involved.

2. Do you feel section 85 under Division 4 – Prohibited Relationships of the *Gaming and Liquor Regulation* should be retained or eliminated? Please explain. If you believe it should be retained, what changes, if any, do you believe should be made to this section relating to exclusivity?

### **Manufacturers/Suppliers & Associations**

Of respondents, five feel the section should be retained, one supports its elimination, and the views of another respondent were unclear in the matter.

A mid-sized brewer outside Alberta believes section 85 is a control point for determining the appropriateness of exclusivity agreements. Any changes should look at the frequency of requests and how onerous reviewing these agreements is for the Commission.

Another mid-sized brewer, which favours retaining the section, suggests the Commission consider the intent of section 85. It asks: Did the legislation intend there would be two-tier inducements in the Alberta liquor industry – namely, legal inducements (expensive ticket to major events) and illegal inducements (less expensive hotel accommodation)?

A distillers' association understands buy/sell agreements to be approved under section 85 and therefore supports its retention.

A vintners' association supports retention.

The only respondent supporting elimination was a mid-sized distiller. Specifically, it supports eliminating Board power to approve such arrangements.

### **Licensees & Associations**

One respondent supports retention and one supports elimination.

A licensee who supports retention explained that the Stampede, Eskimos, Oilers and Flames need all the help they can get, as do most charities.

A retail liquor store chain believes the section should be eliminated. Clauses in the section restrict opportunities suppliers or retailers have to work efficiently together. The stakeholder feels this is against the natural evolution of the industry, and thus encourages participants to operate outside the regulation. This activity is very hard to police and they believe it is subject to frequent abuse. It feels it is in everyone's best interest that there should be no prohibited relationships.

**3. Do you feel the existing policy model for exclusivity in Alberta should be retained? If so, why? If not, why?**

**Manufacturers/Suppliers & Associations**

Five respondents support retaining the policy model and one supports its elimination.

Those supporting retention include the beverage alcohol importers council, two mid-sized brewers (one in and one outside Alberta), the vintners' association and the distillers' association.

A mid-sized distiller favours eliminating the policy because it fosters the misconception that distillers make a lot of money from spirits sales; thus the distiller feels exclusivity agreements should be discouraged altogether.

**Licensees & Associations**

Both the liquor store association and a licensee support retaining the policy model for exclusivity.

**4. What changes, if any, do you suggest should be made to the policy respecting exclusivity agreements? Please explain why.**

**Manufacturers/Suppliers & Associations**

Five respondents suggest changes, while two believe no changes are required.

The vintners' association and beverage alcohol importers council support the current policy.

A mid-sized brewer outside Alberta feels one change should be made given recent developments in the industry. Specifically, it feels the policy should distinguish between products supplied under exclusivity agreements and controlled/private label products. The latter are not widely available to the market and there is separation between ownership of the brand and supplier who manufactured the product. Exclusivity inhibits choice, whereas controlled/private label products provide additional choice.

Another mid-sized brewer comments that product exclusivity and near-exclusivity promotes anti-competitive industry practices. These do not benefit the small brewery sector and provide major breweries additional advantages.

A mid-sized distiller reiterated its position on the previous question to respond to this question.

The distillers' association believes the prohibition of exclusivity should be extended to all events, to maximize the positive benefits of competition including consumer choice.

A large national brewer feels it takes too long to obtain approval from the Board for exclusivity agreements. It suggests the Commission set out in detail the rules and delegate approving authority to Commission staff. It can then discuss the agreements with staff as they develop and conclude with confidence they will be approved.

### **Licensees & Associations**

The sole respondent, a licensee, does not suggest any changes and feels the policy is working now, though concedes he has little knowledge of the details.

## **5. Please note any other comments, issues or suggestions you may have regarding exclusivity agreements.**

### **Manufacturers/Suppliers & Associations**

There were five respondents.

A small brewer suggests exclusive sponsorship of events be permitted but that brand exclusivity be prohibited. It feels it is unable to participate in most of Edmonton's festivals and all its sporting venues because of brand exclusivity arrangements in place with larger manufacturers.

A mid-sized distiller again reiterated its response to the third question respecting exclusivity agreements to respond to this item.

A distillers' association says it is unaware of any public policy or economic rationale for retaining the current exemption for the "otherwise prohibited use of exclusivity provisions."

A large brewer says exclusivity agreements help them to keep involved in community-based activities. It submits the Commission should maintain and enforce existing regulations.

### **Licensees & Associations**

There were three respondents with new or different positions from those already stated.

A restaurant chain does not have an exclusive arrangement with any liquor supplier so does not see much benefit to allowing exclusive relationships. It feels free enterprise should rule when choosing a supplier partnership. The customer dictates what it does. It feels regulating the supplier relationship does not provide benefit to their business or customers.

A restaurant association believes addressing the issues means having the right people on the Commission with the right tools to do their job, equipping them to make the decisions required of them.

The hotel association supports the policy as is. It believes exclusivity agreements must be transparent and well documented.

## **DEFINITION OF A MANUFACTURER - STAKEHOLDER INPUT**

### **Class E Manufacturer Licence (Wine) – Stakeholder Input**

- 1. Do you feel the existing policy model respecting wine production levels in Alberta should be retained? Why or why not?**

#### **Manufacturers/Suppliers & Associations**

A vintners' association and an importers council both support retaining the current wine production level policy.

#### **Licensees & Associations**

A liquor store association supports retaining the current wine production level policy.

#### **Prospective Manufacturers & Associations**

Two prospective manufacturers and one association of prospective manufacturers oppose retaining the current wine production level policy, as they feel it is prohibitive to the development of small-scale wineries. The association feels the current policy is a roadblock to entrepreneurs, agricultural diversification and economic development. One prospective manufacturer feels there should be an opportunity for estate wineries to produce fruit wines from Alberta grown products.

#### **Government**

An official with Alberta Agriculture, Food and Rural Development opposes retaining the current wine production level policy, since it is felt the policy is prohibitive to the development of small-scale wineries.

- 2. Do you believe the existing policy requirement of vinifying 80% of wine production on-site (vinification requirement) should be retained? Why or why not?**

#### **Manufacturers/Suppliers & Associations**

A vintners' association and importers council both support retaining the existing policy requirement of vinifying 80% of wine production on-site. The vintners' association feels the vinification requirement ensures the legitimacy of wine production. The importers association feels the vinification requirement protects the consumer through a guarantee of a product's origin.

#### **Licensees & Associations**

A liquor store association supports retaining the existing policy requirement of vinifying 80% of wine production on-site. The association feels the vinification requirement ensures the legitimacy of the winery.

A restaurant association expresses support for changing the 80% vinifying policy to encourage the creation of new blending and bottling operations in Alberta.

### **Prospective Manufacturers & Associations**

One prospective manufacturer and an association of prospective manufacturers are in favour of retaining the existing policy requirement of vinifying 80% of wine production on-site. Both respondents feel that wine should be produced from product grown by the grower/farmer. The association feels that the vinification requirement prevents the importing of product and thus prevents confusion in the issue of product identity.

One prospective manufacturer opposes retaining the existing policy requirement of vinifying 80% of wine production on-site. The respondent feels the vinification requirement is prohibitive to prospective manufacturers wishing to manufacture wine using grapes and augmenting with berries.

- 3. In your view, should licensees be allowed to complete only a portion of the wine production process such as blending and bottling, without having to ferment the product? Why or why not?**

### **Manufacturers/Suppliers & Associations**

A vintners' association and importers council both oppose allowing licensees to complete only a portion of the wine production process such as blending and bottling, without having to ferment the product.

### **Prospective Manufacturers & Associations**

Two prospective manufacturers and an association of prospective manufacturers responded to this question. A prospective manufacturer feels licensees should be allowed to complete only a portion of the wine production process, such as blending and bottling without having to ferment the product. This position is in contrast to those of the other respondents. Another prospective manufacturer supports all wine production activities being required to take place in facilities that are owned and operated by the grower. The association of prospective manufacturers feels that the entire wine-making process should take place in the facilities owned and operated by the grower/small-scale winery owner.

### **Government**

An official with Alberta Agriculture, Food and Rural Development supports on-site vinification and other production process activities in order to attract tourists to the small-scale winery. It is felt the connection to the land is very important for fruit wine market development to promote agri-tourism and create other economic spin-offs.

**4. Do you believe some of the required wine-making activities should be mandatory and others optional? Please explain.**

**Manufacturers/Suppliers & Associations**

A vintners' association supports the existing requirement that all wine-making steps are mandatory.

**Prospective Manufacturers & Associations**

Two prospective manufacturers and an association of prospective manufacturers responded to this question. The association supports the mandatory completion of the whole range of wine-making activities. A prospective manufacturer feels the mandatory requirements are necessary to guarantee a high quality product and industry. Another prospective manufacturer feels some of the required wine-making activities should be mandatory and others optional.

**5. Do you feel Alberta should pursue the development of a policy for cottage wineries, to enable small-scale winery operations to manufacture wine in Alberta? Please explain.**

**Manufacturers/Suppliers & Associations**

A vintners' association and an importers council responded to this question. The vintners' association states they would not support a policy which discriminates against traditional wine producing regions in Canada. The importers council supports small-scale winery policy development if competitive guarantees are included (that is, a level playing field).

A mid-sized regional brewer from outside of Alberta supports the general concept of small-scale wineries since it feels they may be able to introduce innovative products.

A small brewer supports policy change which would encourage the growth of a small-scale winery industry in Alberta.

**Licensees & Associations**

A liquor store association states it may support small-scale winery policy development if a fair and transparent regime of taxation and rules are in place.

**Prospective Manufacturers & Associations**

Two prospective manufacturers and an association of prospective manufacturers support small-scale winery policy development. They point out the economic benefits and spin-off effects, such as agri-tourism and value-added use of Alberta grown fruit.

One respondent strongly supports policy development which would enable the establishment of small-scale wineries. The group foresees economic benefits for the province in additional revenues, job creation and increased tourism. It



is felt the farm-based wineries value-added benefits would be five times the value of fresh fruit sales. The group supports the current requirement of vinifying 80% of product on-site with all wine-making activities being mandatory. A minimum actual annual production of 1,000 litres is supported in conjunction with a flexible start-up period of three years. The use of Alberta grown fruit (75% initially and decreasing to 50%) would be specified in policy. The group believes five acres of land owned and producing fruit should be instituted as a requirement for small-scale wineries.

### **Government**

An official with Alberta Agriculture, Food and Rural Development expresses support for policy development which would enable small-scale winery operations to manufacture wine in Alberta. It is felt that small-scale wineries would generate economic spin-offs such as increasing agri-tourism, contributing to provincial revenues and sustaining rural communities.

- 6. Should the minimum annual production capacity requirement be altered by instituting a multi-tiered (graduated or scaled) production capacity requirement which spans a longer time frame to encourage small wineries? Please explain.**

### **Manufacturers/Suppliers & Associations**

A vintners' association opposes policy change to institute a multi-tiered production capacity requirement spanning a longer time frame.

### **Prospective Manufacturers & Associations**

Two prospective manufacturers and an association of prospective manufacturers responded to this question. One prospective manufacturer and the association support a lower level of production. Another prospective manufacturer supports the minimum annual production capacity being altered by instituting a multi-tiered production capacity requirement that spans six years (versus the current 18 month timeframe).

- 7. Do you think the production capacity requirement should be altered to require an actual (versus capacity) production level to be achieved? Why or why not?**

### **Manufacturers/Suppliers & Associations**

A vintners' association opposes policy change to require an actual (versus capacity) production level to be achieved.

### **Prospective Manufacturers & Associations**

A prospective manufacturer supports policy change to require an actual level of production in order to stabilize product availability in the market.

## **Government**

An official with Alberta Agriculture, Food and Rural Development expresses support for a lower and reasonably flexible minimum (actual or capacity) annual production level.

- 8. Do you believe small-scale manufacturers should contribute to provincial revenues through a provincial mark-up on sales? Why or why not?**

## **Manufacturers/Suppliers & Associations**

Three respondents (a manufacturer, a vintners' association and an importers council) all support the application of provincial mark-up on the sales of a small-scale manufacturer.

A mid-sized brewery from outside of Alberta suggests the preferred approach might be to structure and differentiate mark-up relative to the size or scale of the manufacturer.

## **Licensees & Associations**

A liquor store association and a liquor industry association support the fair application of provincial mark-up on sales of a small-scale manufacturer.

## **Prospective Manufacturers & Associations**

Two prospective manufacturers and an association of prospective manufacturers responded to this question. The association is supportive of small-scale wineries and feels no mark-up should be applied to on-farm sales. The association feels farm-gate sales, with no mark-up, will generate other economic benefits for the province. For off-farm sales and retail sales at a production level below 45,000 litres per year, a reduced mark-up rate (50%) is suggested. One prospective manufacturer does not support the application of mark-up on sales through small-scale wineries, to encourage growth of the industry. Another prospective manufacturer feels small-scale manufacturers should contribute to provincial revenue through a provincial mark-up on sales.

## **Government**

An official with Alberta Agriculture, Food and Rural Development supports the application of a reduced mark-up rate for farm-gate sales (zero percent or a minimal level). The official feels small-scale wineries would contribute to provincial revenues through increased tourism activity and business, as well as increased wine sales through retail liquor outlets.

- 9. If small-scale manufacturers were to be established in the province, should there be a differentiation in the mark-up applied to wine of small-scale manufacturers? Please explain.**

#### **Manufacturers/Suppliers & Associations**

An importers council and a vintners' association are not in favour of a differentiated mark-up rate applied to small-scale manufacturers' product.

#### **Licensees & Associations**

A liquor store association and a liquor industry association are not in favour of a differentiated mark-up rate being applied to small-scale manufacturers' product.

A restaurant association suggests that differentiation should only occur during the initial phase of the sector's development. It feels once the new small manufacturing segment of the industry is established and mature enough to compete with products from larger manufacturers, a level playing field must be restored.

#### **Prospective Manufacturers & Associations**

Two prospective manufacturers and an association of prospective manufacturers responded to this question. One prospective manufacturer and the association of prospective manufacturers support a differentiated mark-up rate being applied to small-scale manufacturers' product. They suggest that no mark-up should be applied on farm-gate sales in order to encourage the growth of the industry. As well, the association feels that the mark-up rate should be only 50% for off-farm sales (annual production below 45,000 litres) and a full mark-up for off-farm sales for wineries producing at or above the 45,000 litre level. Another prospective manufacturer contrasts this position by opposing a differentiation in the mark-up applied to sales of wine by small-scale manufacturers.

#### **Government**

An official with Alberta Agriculture, Food and Rural Development supports a reduced mark-up rate for farm-gate sales (zero percent or a minimal level). The official notes there are differentiated mark-ups in other jurisdictions in Canada. It is believed that small-scale wineries in other jurisdictions could not exist economically if they were to fall under the same mark-up system as commercial operations.

- 10. Please note any other comments, issues or suggestions you may have regarding wineries in the province.**

#### **Manufacturers/Suppliers & Associations**

A vintners' association does not support a small-scale winery mark-up structure based on provincial financial incentives if climatic, commercial and economic considerations do not favour its establishment. The association

feels wineries utilizing imported grapes, juice or concentrate should be assessed an equitable mark-up rate.

The importers council supports the equitable application of rules to all manufacturers (that is, a level playing field).

### **Licensees & Associations**

A liquor store association supports innovation and entrepreneurship in Alberta wine production if a fair taxation and regulatory structure is adopted.

A hotel association supports encouragement of the tourism industry. It feels small-scale wineries could be considered a tourism product. It is expected tax concessions would be among the possible policy considerations to encourage the growth and development of small-scale wineries.

A restaurant association suggests differentiation in production requirements and mark-up levels should only occur during the initial phase of the sector's development. It feels once the new small manufacturing segment of the industry is established and mature enough to compete with products from larger manufacturers a level playing field must be restored.

A licensee suggests small-scale wineries be required to use fruit grown on their land, fermented from scratch, and bottled on-site.

### **Prospective Manufacturers & Associations**

A prospective manufacturer supports small-scale wineries using Alberta grown fruit. The respondent feels a 4,500 litre minimum annual production capacity requirement would be appropriate. Wine fortification is also supported as an approved wine production activity. The respondent envisions on-site retail stores for farms associated with five acre orchards. It is also felt there should be minimal mark-up applied on product sales occurring on-site, with full mark-up being applied on off-site sales.

An association of prospective manufacturers requests a timely decision regarding small-scale winery policy development. It states it is important the growers have a decision early in 2003 at the very latest.

## **Class E Manufacturer Licence (Spirits) – Stakeholder Input**

- 1. Do you feel the policy model respecting distilleries in Alberta should be retained? Why or why not?**

### **Manufacturers/Suppliers & Associations**

A manufacturer and a distillers' association support retaining the current policy model for distilleries. An importers council suggests the current production level could be revised.

### **Licensees & Associations**

A liquor store association supports retaining the current policy model for distilleries.

### **Prospective Manufacturers & Associations**

A prospective manufacturer does not favour the current policy model for distilleries, as it is felt to be too restrictive. It is felt the current production requirements make it impossible for a small-scale distillery to be economically feasible. The respondent considers the current policy model as contrary to the “Alberta Advantage.”

## **2. In your view, should Alberta pursue the development of a policy for cottage distilleries, to enable small-scale distillery operations to manufacture spirits in Alberta? Why or why not?**

### **Manufacturers/Suppliers & Associations**

A mid-sized distiller opposes the development of small-scale distillery policy to enable small-scale distillery operations to manufacture spirits in Alberta. The distiller feels the market share is too small for small-scale Alberta-based and controlled distilleries. The respondent is concerned about the fragmentation of the market creating quality and regulatory control problems.

A distillers’ association opposes the development of cottage distillery policy to enable small-scale distillery operations to manufacture spirits in Alberta. The association feels the current minimum 2,500 hl minimum annual production capacity is the lowest level sufficient for long-term economic viability.

An importers council supports the development of a small-scale distillery policy to encourage small business growth.

A mid-sized regional brewery from outside of Alberta supports the general concept of cottage distilleries since it feels they may be able to introduce innovative products.

A small brewery supports policy change which would encourage the growth of a small-scale distillery industry in Alberta.

### **Licensees & Associations**

A licensee is supportive of small-scale distilleries if the market warrants the operations.

### **Prospective Manufacturers & Associations**

A prospective small-scale distiller strongly supports policy development which would enable the establishment of small-scale distilleries. The respondent seeks a decreased minimum annual production capacity requirement to 50 hl or less of alcohol of any strength. The current policy

requirement of producing absolute alcohol is opposed because this requirement necessitates the use of a tower still. The individual is concerned about quality and regulatory control of product and offers to serve as a small-scale distillery pilot project.

**3. How would policies allowing cottage distilleries affect existing larger-scale commercial distilleries or the possibility of such larger-scale distilleries being established in Alberta in the future?**

**Manufacturers/Suppliers & Associations**

A manufacturer expresses doubts that small-scale distilleries would impact large-scale commercial distilleries. A distillers' association expresses concern for any special policy consideration afforded to a particular group of distillers and not available to all distillers. An importers council encourages more competition if standards and protection of consumers is maintained.

**Prospective Manufacturers & Associations**

A prospective small-scale distiller does not foresee small-scale distilleries having much impact on established distilleries. The respondent expresses concern about the monopoly enjoyed by large-scale distilleries.

**4. If policies allowed for cottage distilleries, do you believe these distilleries should be required to contribute to provincial revenues through a provincial mark-up on sales? Why or why not?**

**Manufacturers/Suppliers & Associations**

All five respondents support the application of provincial mark-up on the sales of small-scale distilleries' product.

**Licensees & Associations**

A liquor store association and a liquor industry association support the application of mark-up.

**Prospective Manufacturers & Associations**

A prospective small-scale distiller supports the application of mark-up.

**5. If you responded yes to Question 4, do you believe there should be a differentiation in the mark-up on spirits to assist the profitability of small-scale manufacturers? Why or why not?**

**Manufacturers/Suppliers & Associations**

Five stakeholders responded. Four of the se expressed support for the equitable application of provincial mark-up on the sales of small-scale distillery products. One manufacturer supports a differentiated mark-up for small-scale distilleries.

A mid-sized distiller suggests a mark-up rate reduction for all smaller Alberta-based distilleries.

A distillers' association suggests provincial mark-up on beverage alcohol should be applied on the product and not based on the size of the producer. The association feels discrimination among suppliers based on their manufacturing size is a counterproductive government intervention in the market.

An importers council supports the equitable application of mark-up based on fairness.

A large national brewer questions the fairness for larger manufacturers who have a substantially greater investment and have created more jobs. In contrast, a mid-sized regional brewery from outside of Alberta suggests the preferred approach might be to structure and differentiate mark-up relative to the scale of the manufacturer.

### **Licensees & Associations**

A liquor store association strongly supports fairness in the application of mark-up. A liquor industry association supports a level playing field with respect to the application of mark-up.

A restaurant association suggests differentiation should only occur during the initial phase of the sector's development. It feels once the new small manufacturing segment of the industry is established and mature enough to compete with products from larger manufacturers, a level playing field must be restored.

### **Prospective Manufacturers & Associations**

A prospective small-scale distiller supports an equitable application of mark-up with commercial distillers. However, it is felt large manufacturers enjoy economies of scale, therefore reduced mark-up for small manufacturers can "level the playing field."

## **6. Please note any other comments, issues or suggestions you may have respecting cottage (small-scale) distilleries in the province.**

### **Manufacturers/Suppliers & Associations**

A mid-sized distiller supports the equitable application of rules (provincial policy requirements) for new competitors entering the marketplace.

An importers council supports the setting of standards and quality assurances to protect the consumer.

### **Licensees & Associations**

A liquor store association opposes any regulatory or taxation policies which place provincially-based distilleries at an unfair disadvantage in their attempts to compete with off-shore operations.

A restaurant association suggests differentiation in production requirements and mark-up levels should only occur during the initial phase of the sector's development. It feels once the new small manufacturing segment of the industry is established and mature enough to compete with products from larger manufacturers a level playing field must be restored.

### **Prospective Manufacturers & Associations**

A prospective small-scale distiller stresses the need to support small business growth and offers to serve as a small-scale distillery pilot project. The respondent would like change in policy requirements which hinder the development of small scale businesses in Alberta.

## **Class E Manufacturer Licence (Beer) – Stakeholder Input**

### **1. Do you feel the existing policy model for a Class E Manufacturer Licence (Beer) should be retained? Why or why not?**

#### **Manufacturers/Suppliers & Associations**

Six manufacturers responded. Five support retaining the existing policy for Class E Manufacturer Licence (Beer) manufacturers.

A large national brewer and a mid-sized brewer both support the existing policy model.

A small brewer considers the start-up, operating conditions and timelines of the Class E Manufacturer Licence (Beer) licence to be reasonable and fair.

A mid-sized regional brewery from outside of Alberta supports the existing policy model. It feels the policy defines an entity intent on being a genuine resident brewer as it requires a nominal physical presence.

An Alberta mid-sized regional brewer supports a reduction in the minimum production requirements to 1,000 to 2,000 hl per year for craft or small breweries.

A small brewer expresses opposition to any changes which would affect the competitiveness of the brewery in relation to other breweries and/or brewpubs.



## Licensees & Associations

A liquor store association supports retaining the existing policy model for Class E Manufacturer Licence (Beer) manufacturers.

- 2. Do you believe the minimum annual production capacity requirement should be altered by instituting a multi-tiered (graduated or scaled) production capacity requirement spanning a longer time frame, to give microbrewers a chance to grow to larger-scale brewers? Please explain.**

## Manufacturers/Suppliers & Associations

Two breweries support instituting a multi-tiered production capacity requirement spanning a longer time frame. Two breweries oppose instituting such a policy change.

A mid-sized regional brewery outside of Alberta supports instituting a multi-tiered production capacity requirement since it feels this may give smaller brewers a chance to grow.

A mid-sized regional brewery within Alberta supports instituting this policy change if a realistic business plan is first approved by the Commission. The brewery suggests a reasonable timeframe may be two years.

One small brewer opposing this policy change feels the current timeframe is not onerous and also ensures those entering the industry are serious participants.

Another small brewer opposing this policy change feels the most important consideration to support the growth of small breweries is an appropriate mark-up rate. The small brewer would prefer a mark-up rate of five cents per litre on the first 5,000 sold rather than a more lenient production capacity requirement.

- 3. Do you feel a licence class for microbreweries should be established which would entail a decreased level of minimum annual production capacity to encourage smaller brewers? Why or why not?**

## Manufacturers/Suppliers & Associations

Five breweries responded to this question with two supporting and one opposing policy change to establish a microbrewery or small brewery licence class.

A large national brewery, while not supporting or opposing this policy change, expresses support for production capacity (versus actual output) if a microbrewery licence class is established.

A small brewer, not supporting or opposing this policy change, would prefer a lower mark-up rate for small-scale manufacturers.

A mid-sized regional brewery outside of Alberta opposes this policy change. It is felt that it is not necessary to establish a different class of licence if actual (versus capacity) annual production is used.

A mid-sized regional brewery within Alberta supports instituting this policy change to promote small business growth in the beer industry.

A small brewer supports this policy change to recognize the unique character of small provincial breweries. It feels this policy change would include a more formal definition of a small brewer/brewery. The separate brewery licence is envisioned to include a realistic level of mark-up such as five cents per litre on the first 5,000 hl sold to complement the existing realistic production capacity and start-up requirements.

**4. In your view, should the production capacity requirement be altered to require an actual (versus capacity) production level to be achieved by a brewer? Why or why not?**

**Manufacturers/Suppliers & Associations**

Four breweries responded to this question with two supporting and two opposing policy change to require actual (versus capacity) production levels for a brewer.

Two small brewers oppose this policy change: one feels it would not have any beneficial impact while the other small brewer prefers a lower mark-up rate for small-scale manufacturers.

A mid-sized regional brewery within Alberta supports instituting this policy change conditionally based on a minimal level of production being achieved within a reasonable time period.

A mid-sized regional brewery outside of Alberta supports instituting this policy change. It feels an actual production level might help ensure a brewer does not destabilize the marketplace by seeking to achieve a capacity requirement.

**5. Please note any other pertinent comments, issues or suggestions regarding the province's policy model for beer production levels.**

**Manufacturers/Suppliers & Associations**

A small brewer expresses concern for changes to the Class E Manufacturer Licence (Brew Pub) which has a direct effect on the Class E Manufacturer Licence (Beer).

**Licensees & Associations**

One licensee provided a submission expressing support for a free market environment.

A liquor store association feels “taxation or regulatory modifications that will strengthen our Alberta Advantage should be adopted” in relation to retail product sales in the “deep discount” beer category. Of particular concern to the association is perceived favourable treatment of out-of-province and off-shore product.

## **Class E Manufacturer Licence (Brew Pub) – Stakeholder Input**

### **1. Do you believe the existing policy model for brew pubs in Alberta should be retained? Why or why not?**

#### **Manufacturers/Suppliers & Associations**

Six breweries and one distillers’ association responded to this question. All but one of the respondents support retaining the current policy model for brew pubs.

A large national brewery supports retaining the existing policy model for brew pubs.

Two small brewers support retaining the existing policy model as it differentiates between small breweries and brew pubs.

A mid-sized brewery supports retaining the existing policy model for brew pubs.

A mid-sized regional brewery outside of Alberta would support policy change but only if the industry is severely underdeveloped and requiring support.

A distillers’ association supports retaining the current policy model which allows for consumer demand for products produced on-site.

One mid-sized regional brewery within Alberta does not feel the existing policy model for brew pubs should be retained. It feels brew pubs should be allowed to compete in all licensed premises. This new market opportunity is conditional on the brew pub owner/operator being subject to new rules where they cannot be both in the brew pub business and microbrewery business while also expanding their restaurant chain.

#### **Licensees & Associations**

A liquor store association supports retaining the existing brew pub policy model and strongly recommends no change to the existing framework.

A hotel association supports retaining the existing brew pub policy model. It feels further extension of their market will impact the return on investment for other breweries with relatively greater investment.

- 2. In your view, should the maximum annual production volume level for a brew pub or any other production requirement be changed? Why or why not?**

**Manufacturers/Suppliers & Associations**

Four breweries and one distillers' association responded to this question. Three respondents (two small brewers and a regional brewer outside of Alberta) oppose a change in the maximum annual production volume level for a brew pub. A mid-sized regional brewer in Alberta does not support an increase in the current annual production level. The distillers' association suggests brew pubs should be allowed to produce to the level required to satisfy customers at that location.

**Licensees & Associations**

A liquor store association opposes any change to production requirements for brew pubs.

- 3. Should the restriction be removed which requires a brew pub to only transfer beer it manufacturers to other licensed premises it operates which are at least 80% owned and operated by the brew pub licensee? Why or why not?**

**Manufacturers/Suppliers & Associations**

Of the four respondents, two support and two oppose removing the requirement that a brew pub to only transfer beer it manufacturers to other licensed premises it operates which are at least 80% owned and operated by the brew pub licensee.

A distillers' association supports removing this restriction since it feels a brew pub should not be allowed to transfer any product to any other establishment, whether under similar ownership or not. The respondent feels consumers expect brew pub product to be manufactured on-site.

A mid-sized regional brewer inside of Alberta supports removing this restriction since it feels the requirement is somewhat arbitrary and can be circumvented through "silent partners."

A regional brewer outside of Alberta opposes removing this restriction since the restriction as it stand is felt to mitigate risk of mark-up "leakage" on sales, possible transfer pricing issues and lack of accountability to the Commission.

A small brewer opposes removing this restriction since it feels the ability to transfer product is an enormous benefit to brew pub operators.

**Licensees & Associations**

A liquor store association opposes removing the requirement that a brew pub may only transfer beer it manufacturers to other licensed premises it operates which are at least 80% owned and operated by the brew pub licensee.

**4. Should brew pubs be allowed to sell the beer they manufacture to all licensees, to select classes of licensees, or to a particular class of licensee? Please explain your views in this regard.**

**Manufacturers/Suppliers & Associations**

A large national brewer opposes allowing brew pubs to sell beer it manufactures to licensees or the retail sale of brew pub beer to consumers for off-site consumption. It feels brew pubs should only sell their product on-premises to consumers on-site at a licensed brew pub establishment.

A distillers' association opposes allowing brew pubs to sell beer it manufactures to licensees, since it feels they would then be beer manufacturers.

A regional brewer from outside of Alberta opposes allowing brew pubs to sell beer it manufactures to all licensees.

A small brewer opposes allowing brew pubs to sell beer it manufactures to licensees, since it feels they would thereby become small breweries. The respondent elaborates on the policy benefits for brew pubs that enjoy multiple revenue streams without mark-up being applied (for example, food) in contrast to the situation with small breweries.

Another small brewer supports the current system which maintains the differentiation between brew pubs and small breweries. The respondent feels the current policy provides brew pubs with wide latitude for sales.

A mid-sized regional brewer inside of Alberta supports allowing brew pubs to sell beer it manufactures to all licensees. The brewers feel this new market opportunity must be conditional on the brew pub owner/operator being subject to new rules where they cannot be both in the brew pub business and microbrewery business while also expanding their restaurant chain. The respondent suggests it may be time to reclassify brew pubs which do not include a combined on-site brewing facility/restaurant operation to a microbrewery class of licence. The brewer feels brew pubs should not be allowed to gain additional concessions/opportunities and place craft/microbreweries in jeopardy.

**Licensees & Associations**

A liquor store association strongly opposes allowing brew pubs to sell beer it manufactures to licensees.

A liquor industry association, during a verbal presentation, supported brew pubs adhering to the original concept requiring operations to be brew-on-premise only.

A restaurant association is opposed to price advantages provided to brew pubs over other breweries or other licensees if they are able to sell their product to other licensees.

A licensee supports requiring each brew pub to have a “brewery” in each pub. The respondent feels brew pubs should not be allowed to sell their product as off-sales to the general public, other licensed establishments, or retailers. The respondent feels a brew pub is a specific, limited combination of manufacturer and retailer at one site. It feels that allowing the brew pub to expand its capacity through broader distribution negates the validity of the original concept.

**5. What growth or contraction in the market share for brew pubs, microbreweries and commercial breweries do you foresee for the future? Please identify sources or methodology used for this forecast.**

**Manufacturers/Suppliers & Associations**

A mid-sized regional brewer outside of Alberta foresees brew pubs and microbreweries enjoying a measure of success because of local relevance. Based on the year ended July 2002, the beer consumption in Alberta grew by 6.5% (source: Brewers Association of Canada Sales Bulletin).

A regional brewer foresees less than 1% growth or contraction in the market share for brew pubs, microbreweries and commercial breweries. It feels any growth of the major brew pub operator could be at the expense of craft/microbreweries.

A small brewer suggests the small brewery industry would expand if the mark-up rate was reduced to a more manageable level for small breweries only.

Another small brewer suggests the impact of government regulation and taxation strongly influences the success or failure of a brewery.

**6. Please provide any other comments, issues or suggestions regarding brew pubs in the province.**

**Manufacturers/Suppliers & Associations**

A brewers’ association is opposed to allowing any further expansion of production limits, packaged or draft distribution and/or sales through retail or licensee channels. The association feels a brew pub operates in a lower cost structure than a brewer, thus bestowing a competitive price and distribution cost advantage. It believes a clear separation between licensee and manufacturer must be maintained. The current policy is believed to offer competitive choice for the consumer based on quality, price and service. The association feels that if brew pubs wish to enter the marketplace as manufacturers they should adhere to the regulations that relate to manufacturers. As well, the respondent raises quality control concerns, environmental concerns and tied house selling issues related to brew pub products.

A small brewer believes brew pubs have benefited from recent policy changes. It feels brew pubs should be treated differently than small breweries. The brewer feels the differentiation should include paying a higher level of

mark-up (that is, brew pub product should be assessed a mark-up of 40 cents per litre up to 10,000 litres annually and small breweries assessed a mark-up of five cents per litre up to 5,000 hl sold).

## **U-vin/U-brew (Brew-on-Premises) Establishments – Stakeholder Input**

### **1. Do you feel a licence class and policy model should be created to allow for U-vin/U-brew establishments to operate in Alberta? Why or why not?**

#### **Manufacturers/Suppliers & Associations**

Of the eight respondents, five oppose and two support creating a licence class to allow for U-vin/U-brew establishments. The response of one respondent was unclear.

One mid-sized regional brewery from outside of Alberta does not express support or opposition. The respondent stresses that the provinces that have U-vin/U-brew provisions are not privatized and a higher mark-up structure believed to affect the wine category in particular. The respondent feels the provinces where these operations have been allowed have been challenged from the standpoint of tax compliance and quality assurance risks.

A small brewer supports creating a licence class and policy model for U-vin/U-brew operations if mark-up is applied on their products, as is the case with small breweries, and if small brewery owners/operators are allowed to own/operate a U-vin/U-brew on or off the premises.

Two large national breweries oppose any regulatory changes which would allow for the development of U-vin/U-brew operations.

A mid-sized regional brewer in Alberta opposes any policy changes which would allow for the development of U-brew operations. The stakeholder feels experiences in British Columbia and Ontario have been negative for both government revenues and the brewery sector.

A small brewer opposes creating a licence class and policy model for U-vin/U-brew operations. It feels U-vins/U-brews are “merely a consumer dodge of federal taxes and provincial mark-ups.”

A brewers’ association opposes the creation of U-vin/U-brew operations in Alberta. The respondent feels U-vin/U-brew operations exist largely to allow consumers to avoid paying tax.

A vintners’ association opposes creating a licence class and policy model for U-vin/U-brew operations. This respondent feels the experience in Ontario and British Columbia has demonstrated widespread abuse of the tax free status of the operations.

A distillers' association opposes creating a licence class and policy model for U-vin/U-brew operations. It is believed that the motivation of U-vin/U-brew patrons is avoidance of mark-up on alcohol product. The respondent feels the product should carry the same fiscal burdens as commercial beer and wine products.

### **Licensees & Associations**

A liquor store association and a hotel association strongly oppose creating a licence class and policy model for U-vin/U-brew operations.

A liquor industry association is opposed to creating a licence class and policy model for U-vin/U-brew operations. During the verbal presentation, the association asked that Alberta's existing manufacturers of spirits and beer not be undermined. They expressed concerns during the verbal presentation relating to possible future increases in mark-up rates for manufacturers due to provincial revenue pressure.

A restaurant association supports U-vin/U-brew operations being licensed and covered by similar legislative, regulatory and mark-up rules that apply to other manufacturers.

A licensee is opposed to creating a licence class and policy model for U-vin/U-brew operations.

### **Prospective Manufacturers & Associations**

A prospective small-scale distiller shared experience as a former brew-on-premise (U-vin/U-brew) owner in B.C. The respondent believes adhering to regulatory controls is difficult because "it is almost impossible to follow the rules." He feels "policing these businesses is difficult" with various regulatory issues such as the customer's role, sampling on premises, product exchange and storage being detailed. The issue of brew-on-premise product being sold in commercial establishments was also raised. The provincial revenue loss is considered to be substantial and weighed against employment generated, corporate taxes received and freedom of choice for consumers.

### **U-vin/U-brew Proponents**

Two U-vin/U-brew associations support creating a licence class and policy model allowing for U-vin/U-brew establishments in Alberta. They perceive a public demand in Alberta for these services, supported through reports of Albertans using these services in B.C. They cite economic benefits such as job creation and purchases of high-quality commercial product in responding to criticisms mark-up revenue would be lost.

A prospective U-vin operator supports creating a licence class and policy model to allow for U-vin/U-brew establishments to operate in Alberta. The respondent feels there is a strong consumer demand for U-vins/U-brewns in Alberta, based on anecdotal information about Albertans traveling to B.C. to use such services.



**2. What impact do you believe U-vin/U-brew establishments would have on the sale of commercially-produced wine and beer? Please indicate any sources or methodologies used to arrive at your response.**

**Manufacturers/Suppliers & Associations**

A large national brewer estimated that in fall 1996 U-vins/U-brews accounted for as much as 35% of the wine sold in British Columbia (source: BC Wine Institute) and as high as 9.5% of the beer industry (source: WBA). The high volume of participation is believed to reflect a perception about high levels of taxation which were lost due to the U-vin/U-brew sector.

Another large national brewer believes U-brews would threaten the private retail model for Alberta's liquor industry.

A mid-sized regional brewery in Alberta believes allowing U-brew establishments would result in negative consequences for the independent small brewery sector, retailers and on-premise operators seeking to maintain modest market shares.

A mid-sized regional brewer outside of Alberta considers U-vin/U-brew operations to represent a real competitive threat at the value end of the market. A small brewer states the effect is unknown. The respondent opposes U-vin/U-brew operations on the basis they compete with existing microbreweries and commercial breweries without mark-up being applied.

A brewers' association states U-brew operations account for 14.9 million litres of beer; representing 5.74% of the domestic beer market. U-vin production is believed to approach 33% of all wine consumed in British Columbia (25 million litres) or one in three glasses of wine. Lost government revenue on estimated volumes of untaxed U-vin/U-brew production is believed to approach \$100 million annually if equivalent mark-ups are applied. The inventory of home product is believed to affect retail and on-premises sales through stay at home consumption patterns and also the gifting of product previously purchased through licensees.

A vintners' association believes "U-vins would have a definite negative impact on the sale of commercially produced and legitimately taxed wine, as has been the experience in Ontario and British Columbia."

A distillers' association states "the reality is that products produced at U-vins/U-brews, in contrast to home-made products, are produced in a commercial establishment for profit and are no different from other commercial operations."

**Prospective Manufacturers & Associations**

A prospective small-scale distiller who is a former owner of a brew-on-premise establishment believes the beer and wine produced through a U-vin/U-brew is of high quality and relatively low price. Due to these factors the respondent believes the product is likely to find its way in commercial

establishments such as neighbourhood “mom and pop” pizza restaurants. The respondent asks: What is the role of brew-on-premise owners if they know product was sold in a commercial establishment? The stakeholder feels this poses a dilemma for them. The impact on the beer market is believed to be minimal as the process requires a time span of two weeks. The respondent states “although selling a brew-on-premise product is against the rules, it is very difficult to police.”

### **U-vin/U-brew Proponents**

Two U-vin/U-brew associations feel there would be market expansion with U-vin/U-brew product. They feel the wine market in Alberta is of sufficient size for both consumer-made and commercially-purchased product. They believe the wine consumer is educated through U-vin/U-brew service providers and thus encourage purchase of higher quality product through commercial retailers. They conclude the amount of beer produced in brew-on-premises in Ontario and B.C. has substantially declined while the production of wine has increased. They believe brew-on-premises continue to cater to a niche in the market of individuals consuming wine.

A prospective U-vin operator is uncertain, but believes the impact on existing liquor stores and manufacturing facilities would be minimal.

### **3. Please note any other comments, issues or suggestions you may have regarding U-vin/U-brew establishments in the province?**

#### **Manufacturers/Suppliers & Associations**

A large national brewery opposes any regulatory changes which would allow for the development of U-vin/U-brew operations. They state “extensive consumer research reinforced our view that U-brews and U-vins are nothing but sanctioned means of engaging in tax avoidance.”

A large national brewer strongly opposes the development of U-brew establishments. The respondent expresses concern for provincial revenues due to the loss of mark-up and the possible shift in consumer purchasing habits impacting the profitability of Alberta’s liquor retailers.

A brewers’ association is concerned for regulatory control. The respondent says the product “is found at homes, receptions, businesses, underage parties, weddings and other special events despite the law prohibiting consumption by anyone other than the producer.” Regulatory control concerns are expressed in relation to cost and manpower restraints.

A vintners’ association opposes the establishment of U-vin/U-brew operations. The respondent discusses federal registration requirements and believes U-vin operations are being brought under greater provincial scrutiny.

## **U-vin/U-brew Proponents**

A U-vin/U-brew proponent association believes the regulatory framework initiated by the industry has been very successful. The respondent believes the sector continues to create jobs and provide facilities for consumers who make their own wine or beer for personal consumption and not for commercial use.

Another U-vin/U-brew proponent association believes there is a strong public demand for U-vin/U-brew services. The association believes revenues to the province would be generated as new and existing businesses grow resulting in expansions, hardware improvements, leaseholds, and job creation. Revenues from licensing fees are projected to offset the costs incurred by the necessary inspection process of operations. During the initial period of establishing operations, the association believes licensing should be limited to existing retail wine kit businesses.

The two U-vin/U-brew proponent associations stress the need to develop a training program for U-vin/U-brew operators to address any concerns the government may have regarding the operations of the facilities. During the verbal presentation, a prospective operator forecast 50 operations being established in the first year of licensing, growing to 75 operations in the second year and 100 operations in the third year.

A prospective U-vin operator believes the operations would create employment and mitigate customers traveling to B.C. to use the services. During the verbal presentation, the prospective operator expressed support for the application of mark-up if economically feasible.

# E. ANALYSIS

## 1. How Input was Analysed

Views or positions presented during the review were analysed by addressing the following questions:

- Is the position well supported? Consider:
  - Sources or methods used (verified);
  - Accuracy of information provided (verified);
  - Completeness.
- Is the position within the parameters of the liquor mark-up review?
- Does the position meet the requirements of consumers, the financial needs of the Government of Alberta and the needs and requirements of stakeholders in the liquor industry? These are specifically as follows:
  - Requirements of consumers:
    - Competitive prices
    - Product selection
    - Convenience (retail outlets)
  - Financial needs of Government:
    - Does not contemplate reductions to Commission's revenue target of \$546 million for 2002-03
  - Needs and requirements of stakeholders (that is, existing or prospective manufacturers, suppliers, and retailers, and parties interested in U-Brew/U-Vin operations):
    - Level-playing field
    - Equitable access to the market
    - Fair and equal treatment under policy
    - Consistently-enforced rules
- Is the stakeholder's position consistent with the government's direction, as reflected in the Gaming Department's and Commission's visions, missions, legislation, core businesses and goals?
- If the position favours a change in policy, what is the expected impact (financial, social or otherwise)?
- Is the stakeholder's position shared by other stakeholders? If there are differing views, what is the apparent basis for the difference? Can the differences be reconciled?
- Would implementing the position be in the best interest of the industry as a whole? Is it in the broader public interest?

## F. RECOMMENDATIONS

### 1. Process to Arrive at Recommendations

The technical committee of the Commission applied the questions in Section E. Analysis to determine the merits of stakeholder views and perspectives.

A view or position that met the basic requirements, as set forth in the parameters of the review, was considered further. If it did not meet these requirements, the position was set aside. If a view or position also met the other considerations of the analysis, then it was considered further in recommendations.

#### Restating Liquor Mark-up Policies

What are the objectives of liquor mark-up policies? The discussion paper gives the parameters. These may be restated as follows:

- To serve consumers
- To generate revenue for the province
- To provide a level playing field for stakeholders
- To balance choice and responsibility in the liquor industry
- To effectively enforce the rules and regulate the industry

It was also useful during the review process to keep in mind the vision statement and mission statement of the Commission, and the Ministry's guiding principles for liquor activities.

#### Commission's Vision

*A province that strives to balance choice and responsibility in its gaming and liquor industries, uses revenues derived from these activities for the benefit of Albertans, and provides opportunity for competition and enhanced services in its liquor and gaming industries.*

#### Commission's Mission

*To ensure that gaming and liquor activities in Alberta are conducted with integrity and social responsibility and to maximize long term economic benefit for Albertans.*

## **Guiding Principles for Liquor Activities**

*The Ministry of Gaming has adopted the following guiding principles for liquor activities in Alberta. These guiding principles, as stated here, are adapted from the full set of guidelines which apply to both liquor and gaming activities. These guidelines are subject to review to ensure they continue to reflect Albertans' values.*

- 1. The integrity of liquor activities will be ensured.*
- 2. Liquor policies will reflect a commitment to social responsibility.*
- 3. Liquor policies will be supported by sound research and consultation with the public and stakeholders.*
- 4. The collection and use of liquor revenue will be open and accountable.*
- 5. Alberta's liquor industry will continue to be among the most progressive and competitive in the country and continue to lead the nation in terms of supply, distribution, pricing and customer service.*

## **2. Recommendations**

### **LIQUOR MARK-UP STRUCTURE**

#### **Clarifying Mark-up Criteria for Beer**

A concern of some domestic brewers is the product of some beer manufacturers/suppliers is assessed the lower mark-up rate even though these products are produced under contract in large foreign facilities with the economies of scale generally unavailable to small brewers. Thus, domestic brewers feel these manufacturers are benefiting from the lower mark-up rate while operating outside the intent of the mark-up structure, which they believe is to assist small brewers, particularly those operating in the province.

Moreover, some stakeholders believe these suppliers are also selling their product at discounted rates, further distorting the playing field and unfairly competing with other brewers who are operating within the intent and spirit of the mark-up policies.

Some stakeholders also believe the products of such manufacturers/suppliers are produced in facilities manufacturing total quantities of beer in excess of 200,000 hl. As such, stakeholders feel these manufacturers/suppliers operate with the economies of scale of large brewers, yet are being assessed a lower mark-up rate not available to large national brewers.

In its research regarding a specific manufacturer/supplier cited by stakeholders, and whose product is obtained from a facility in the United States, the Commission determined stakeholder claims are not entirely accurate. The beer supplier whose product is assessed the lower mark-up rate of 40 cents per litre is contracting its beer manufacturing to a production facility which produces beer and non-beverage products in total quantities significantly exceeding 200,000 hl. However, the beer produced in the facility is less than this amount. Nevertheless,

there is an economy of scale available through the facility in the production of beer which is generally unavailable to smaller brewers operating from their own manufacturing facilities.

Some stakeholders also feel so-called “low-priced” beers imported to Alberta, including those of the manufacturer/supplier discussed above are eroding their sales and unfairly increasing the sales of these beer products. The stakeholders do not define what they mean by “low-priced” or “discount” beer products. However, it appears the term “low priced” beer refers to specific beer products which possess the following characteristics:

- they are typically imported products manufactured in larger scale facilities operating with economies of scale unavailable to the typical small scale brewer operating from its own facility;
- they are assessed the lower 40 cent beer mark-up rate;
- their landed cost is lower than most other beer products marketed in Alberta and thus their wholesale cost is also lower; and
- they are subsequently sold at relatively low prices in retail liquor stores, after the retailers apply their own mark up on the product.

Some stakeholders estimate these “low-priced” beers now comprise 4% of the total beer market. The Commission’s year-to-date sales volume numbers paint a different picture. These numbers indicate 92.3% of all beer products sold in the province between April and October 2002 were assessed the higher mark-up rate of 98 cents per litre. The remaining 7.7% of products, assessed the lower mark-up rate of 40 cents per litre, break out as follows:

- 4.8%, or more than 60% of these products, were made in Alberta;
- 1.6% were made in other provinces; and
- 1.3% were imported.

Thus, the imported products assessed the lower mark-up is a relatively small portion of all beer sold in the province.

The made-in-Alberta products assessed the lower beer mark-up rate are typically premium beers and thus generally sell at premium beer prices. In other words, products referred to as “low-priced” beers are generally not produced by the smaller (small and mid-sized) brewers in Alberta.

At this stage, stakeholders’ projections that so-called low-priced beers subject to the 40 cent per litre mark-up will grow to 10% of the market appear to be highly overestimated. Moreover, it appears that large manufacturers are responding to this situation by introducing lower priced products of their own which, from a purely consumer’s perspective, is a positive development for competitive pricing.

However, the issue remains that a liquor supplier may take advantage of the lower mark-up rate through contract brewing in facilities with considerable economies of scale, thus circumventing the intention or purpose of the mark-up differentiation policy. To brewers manufacturing and marketing their products in Alberta, this is a level-playing field issue.

## **Recommendation – Liquor Mark-up Structure**

- 1. In determining the mark-up rate for a manufacturer's or liquor supplier's beer product, the Commission will consider the total annual worldwide production of liquor, liquid products containing alcohol, and non-liquor beverages in the facility or facilities where the liquor manufacturer or supplier is producing or obtaining its beer product (using previous year volumes). This total number will be used to assess the appropriate mark-up rates.**

*Explanation* - Beer made in facilities operating at economies of scale unavailable to small or mid-sized brewers should not be entitled to mark-up rates intended for products of small or mid-sized brewers operating from their own facilities.

In this discussion economies of scale arise when, for example, a facility producing beer is equipped to:

- Manufacture large quantities of beer products; and/or
- Handle common steps for beer production and the production of other liquor products (for example, wine and spirits), liquid products containing alcohol (for example, ethanol), and non-liquor beverages (for example, soft drinks and juice). Examples of such common steps in the production process are bottling and packaging.

This recommendation reflects an objective of the beer mark-up structure, to provide small and mid-sized brewers a more level playing field in the province through a lower mark-up rate. This lower mark-up rate is not intended for products of large brewers or liquor suppliers contracting the production of beer products in large-scale production facilities.

The recommendation does not otherwise alter the original intent of the beer mark-up adjustment which came into effect in April 2002.

Under the recommendation, the total volume of liquor, liquid products containing alcohol, and non-liquor beverages obtained by a manufacturer or liquor supplier from its own facility and/or from all contracted or leased facilities where its beer is produced over the previous fiscal year would be counted in the supplier's total production of liquor. Accordingly, this volume would be used to determine the appropriate mark-up rate for the supplier's beer products.

For example, the beer products of a liquor supplier whose total annual worldwide production of beer, spirits, wine and soft drinks manufactured in a common facility exceeds 200,000 hl should be assessed the full mark-up of 98 cents per litre. On the other hand, if the total annual worldwide production of these products is less than this amount of volume, using the same criteria, a lower mark-up rate should apply.



## **Small Breweries**

A common theme in the liquor mark up structure for beer relates to the importance of a level playing field among beer manufacturers. Brewers generally acknowledge the economic disadvantages faced by small brewers when compared to the economies of scale under which their large brewer counterparts operate , and when considering the financial resources available to large brewers.

For example, a large national brewer feels the current mark-up structure accommodates only the mid-sized and large brewers. The brewer notes the mark-up structure uses 200,000 hl of worldwide production as the cut-off point to determine which products are assessed the 40 cents per litre mark-up rate and those assessed the rate of 98 cents per litre. The national brewer contends other jurisdictions accommodate small or craft brewers, which produce beer in much lower quantities, a fraction of what is produced by the mid-sized or large brewers. In effect, the brewer notes other jurisdictions accommodate three bands or tiers of brewers: small, medium, and large. The products of small brewers are assessed lower mark-ups in other jurisdictions.

A mid-sized brewer in Alberta believes smaller brewers, or craft brewers, should be assessed a lower mark-up rate, to acknowledge the relative disadvantages they face in the competitive liquor marketplace in the province. In Alberta, all small brewers produce less than 10,000 hl of beer per year. Currently, their product is subject to the same mark-up of mid-sized brewers who manufacturer up to 200,000 hl of beer.

### **Recommendation – Liquor Mark-up Structure**

- 2. To establish a more level playing field for small-scale brewers, and to promote the development of small breweries in the province, the beer products of brewers whose annual worldwide production of beer is 10,000 hl or less per year will be assessed a lower rate than the rate which applies to products of brewers whose annual worldwide production of beer is greater than 10,000 hl and up to 200,000 hl.**

*Explanation* – A number of other jurisdictions in Canada impose a lower mark-up on the products of small or craft brewers in their respective jurisdictions.

For example, in B.C. the products of brewers producing less than 75,000 hl of beer are marked up as follows: 80% of the percentage mark-up on the first 15,000 hl of production plus marginal additional costs (per unit depending on type and size of container); and 90% of the percentage mark-up on the next 60,000 hl plus marginal additional costs (per unit depending on type and size of container).

Regional brewers in B.C. also pay a lower rate based on production of 75,000 to 200,000 hl. The mark-up in this case is 53% to 83% of various costs of a product depending on its alcohol content.

In Ontario, the products of brewers producing less than 100,000 hl of beer are marked-up as follows: 66% of 51 cents per litre plus out-store and in-store cost of service for the first 25,000 hl of beer produced; 90% of 51 cents per litre plus similar costs on the next 50,000 hl of beer produced; and 100% of 51 cents plus out-store and in-store cost of service on the next 24,999 hl of beer produced

The recommended cut-off of 10,000 hl respecting small brewers is also the maximum annual production volume allowed for brew pubs in Alberta under the Class E Manufacturer Licence (Brew Pub).

### **Mark-up Rates for Brewers**

A concern of large national brewers is the 58 cent “gap” per litre between the beer mark-up rates for products of manufacturers or liquor suppliers producing 200,000 hl of beer or less and those producing more than this amount. Since their products are assessed the higher mark-up rate, the large brewers feel they are in effect subsidizing mid-sized and small brewers, whose products are assessed a lower mark-up rate. One large national brewer feels the differentiated mark-up structure picks winners and losers because the lower mark-up rates are not also applied to the first 200,000 hl of their products.

Mid-sized brewers support the lower rate in differentiated mark-ups to help create a more level playing field for them, to compete against considerably larger national brewers. Small brewers support a still lower mark-up rate to acknowledge the much smaller scale of their operations relative to both mid-sized and large brewers.

After the deadline for review submissions passed, the large and mid-sized brewers which sell more than 95% of the domestic beer in Alberta provided to the Commission a joint submission as members of the Western Brewers Association. In their submission, the brewers indicated support of a differentiated mark-up for beer products. The brewers favour a reduction in the mark-up rate for products of large brewers and a differentiation of 52 cents rather than the current 58 cents between the rate for products of large brewers and those of mid-sized or smaller brewers. The submission also recommended a social reference price to be imposed on each litre of product as a minimum wholesale price, to be annually indexed using the Alberta Consumer Price Index.

### **Recommendation – Liquor Mark-up Structure**

- 3. In combination with the two previous recommendations, the specific mark-up rates for beer will be as follows:**
  - **The common mark-up rate of 98 cents per litre for beer products of manufacturers/liquor suppliers with annual worldwide production of more than 200,000 hl;**
  - **40 cents per litre for beer products of manufacturers/liquor suppliers with annual worldwide production of more than 10,000 hl and up to 200,000 hl; and**

- **20 cents per litre for beer products of manufacturers/liquor suppliers with annual worldwide production of up to 10,000 hl**  
**These rates should be effective as of March 21, 2003.**

*Explanation* - The recommendation remains consistent with the intention of the differentiated mark-up in respect of maintaining a level playing field.

Under the recommendation, the common mark-up rate and the rate for the products of mid-sized brewers do not change. The common mark-up rate remains the same to meet a key requirement of the liquor mark-up review process: that no reduction is contemplated to provincial revenue.

The common or full mark-up rate would continue to be applied to more than 94% of beer volume sold in the province, while the reduced rate for mid-sized brewers would be applied to about 4% of the volume of beer sold in the province.

The recommendation also attempts to promote the development of smaller scale brewers to operate in a privatized marketplace which is more competitive than that of any other jurisdiction in Canada. The intention is for small brewers to operate on a more level playing field with larger manufacturers or suppliers which operate with greater economies of scale and other financial advantages unavailable to the small brewers. The recommended mark-up rate for the products of small brewers operating in Alberta is reduced to 20 cents per litre from 40 cents per litre. This rate would apply to approximately 1.5% of the volume of beer products sold in the province.

Since the products offered by small Alberta brewers comprise a small percentage of total volumes sold in Alberta, the recommended mark-up rates would result in a relatively small decrease in revenue to the province when using 2001-02 beer volumes for this purpose.

The social reference price, as recommended by some stakeholders, would be determined externally by the consumer price index and, if it were implemented, add complexity to the flat mark-up system for liquor products, and, in essence, set an artificial floor for the landed costs of beer products. This would effectively eliminate low-cost beer products. It was not considered appropriate for the Commission to interfere in the retail competitive process. Thus this notion is not considered in the recommendation.

As stated earlier, most other provinces assess a percentage of the full beer mark-up on the products of smaller scale brewers operating within their borders. Moreover, other jurisdictions in Canada administer and operate their own retail store networks; in doing so, they may choose which products they wish to sell in the liquor stores within their respective jurisdictions. They list the beer products of small brewers manufacturing beer within their respective jurisdictions and may at their discretion list, or

refuse to list, the beer products of small brewers manufacturing beer in other jurisdictions.

In Alberta, private liquor store retailers choose which products they will sell to their consumers regardless of the regional or national origin of the products. There is no policy requiring the sale of made in Alberta products by liquor retailers in Alberta. In this regard, small or mid-sized manufacturers whose product may be assessed a lower beer mark-up rate than large manufacturers are not guaranteed success in the Alberta market

### **Flat Mark-up System**

The flat mark-up system for liquor products, introduced with the privatization of liquor retailing in the province, is highly regarded by stakeholders in the province. The flat mark-up system is simple, clear and transparent. It is a commitment of the Commission to keep the system simple and transparent for the benefit of the liquor industry as a whole.

Some manufacturers have indicated they are pursuing a flat mark-up model in other provinces which currently use other liquor mark-up assessment systems.

### **Recommendation – Liquor Mark-up Structure**

- 4. The Commission is committed to maintaining the flat mark-up system for liquor products, and the simplicity and transparency of the flat mark-up system.**

### **Manufacturers' Landed Cost**

Some large brewers feel the province may no longer claim an Alberta Advantage in competitive pricing for beer products when compared to the retail prices of various mainstream beer products in other jurisdictions. They believe the retail prices of such products in a number of other provinces are lower than those in Alberta. The brewers attribute their position in this regard to the current mark-up structure for beer products.

However, the brewers fail to discuss how the landed cost of their products is a major ingredient in the final wholesale price of the province. Manufacturers or liquor suppliers set the landed cost of their product at their discretion. Curiously, the landed cost for identical beer products varies across provincial jurisdictions; in some cases the variation is dramatic. In effect, the landed cost of the same product sold in another province may be higher or lower than the landed cost in Alberta. The influence of the landed cost on the final retail price of beer product should not be underestimated.

The following table gives the landed costs of a few popular products in four provinces in November 2002.

PRODUCT	AB	BC	SK	ON
Labatt Blue (6-pack cans)	\$5.13	\$4.18	\$5.07	\$7.84
Molson Canadian (6-pack cans)	\$5.13	\$4.18	\$5.09	\$7.84
Corona (6-pack bottles)	\$6.06	\$4.97	\$4.98	\$6.72
Crown Royal (750 ml)	\$11.20	\$8.40	\$8.88	\$9.30
Smirnoff Vodka (750 ml)	\$8.07	\$6.65	\$7.09	\$7.27
Le Piat D'or Red (750 ml)	\$4.28	\$3.55	\$3.66	\$3.20

The Commission has also observed that an adjustment in the liquor mark-up does not always translate into an equal adjustment in the product's wholesale price. For example, all previous adjustments in the beer mark-up since privatization of liquor retailing have been downward adjustments, or a decrease in the mark-up rates. There have been situations where a decrease in the liquor mark-up rate for beer was met by an equal increase in the landed cost of various beer products. Thus the intent of a lower mark-up, specifically a decrease in the wholesale price, may be effectively negated by a manufacturer's/supplier's increase in the landed cost of the liquor product. Consequently, there is no decrease in the wholesale price of the product, the price paid by liquor retailers for the liquor product before it reaches their shelves.

#### **Recommendation – Liquor Mark-up Structure**

- In the interest of maintaining a retail price advantage for beverage alcohol products in Alberta, the Commission will analyse the rationale and impacts of manufacturers' landed costs for the products they sell in Alberta when compared to the landed cost of the same products they sell in other jurisdictions. In particular, this analysis will examine why some products sold in Alberta have significantly higher landed costs than the same products sold in other provinces.**

*Explanation* Alberta's liquor marketplace is open, accessible and transparent. It is also a highly competitive marketplace, encouraging competitive prices, selection and convenience in response to consumer demand. The experience of the province in this regard has been, and continues to be, of interest to jurisdictions throughout Canada which continue to operate government-run retail store networks. In addition, the economic growth and development of the province, and the growth of its population, has created new opportunities for many industries, including the liquor industry.

The view of some stakeholders that the prices of mainstream beer products in Alberta are not the lowest when compared to the retail prices of these products in some other jurisdictions in Canada warrants further analysis.

The feeling among some stakeholders is the current liquor mark-up rates for beer have led to this result. In part, the recommended analysis would be aimed at establishing the effect of another key ingredient of the wholesale price to the retail price; this ingredient is the landed cost on liquor products set at the discretion of manufacturers/suppliers. The analysis would also examine the affect of the retailer margin on the final retail price of liquor products in Alberta.

For example, as shown in the table above, the landed costs of two different 6-pack brands of mainstream beer are 19% lower in B.C. than in Alberta. There are similar examples among liquor products in other categories, including spirits and wine in which the landed cost varies in other jurisdictions. In some cases they are higher, in others lower.

Based on a preliminary survey of manufacturers conducted during the review process, the landed cost of a product depends upon the objectives of the manufacturer or supplier. For example, one manufacturer indicated the differences in the landed cost of its products from one province to another are based on attempting to maintain a relatively consistent retail price across Canada for the same product, despite the markedly different mark-up systems in the different jurisdictions. Another manufacturer indicates the landed cost of its products is the result of establishing a competitive position for the product in each respective provincial market, and includes factors such as price sensitivity and marketing investment. A third manufacturer identifies a range of factors that influence the landed cost of its products, including the costs of raw materials, labour, utilities, production and freight/distribution; number of retailers; package mix; cost of containers management, handling fees and return; etc.

This subject, given its complexity, requires further and careful analysis.

### **Monitoring Sales and Provincial Revenue from Beer Sales**

There was concern expressed by some stakeholders that the current system of liquor mark-ups will negatively affect provincial revenue from liquor sales. This was based mainly on anecdotal information respecting the market share of so called “low-priced” beers (estimated to be 4% of all beer sales) and their expected growth (to an estimated 10% of beer sales). A large national brewer who presented this estimate acknowledged the Commission has more accurate sales figures of beer products.

The Commission’s figures, as stated earlier in this Recommendations section, reveal the share of “low-priced” out-of-country beer products on private retail liquor store shelves which were assessed the lower mark-up rate of 40 cents per litre comprises less than 1.3% of the total year-to-date beer sales volume in Alberta in 2002-03.

Some stakeholders view the current liquor mark-up structure as jeopardizing the liquor revenue to the province from beer sales. The Commission has determined the revenue generated from beer sales in the province using the current mark-up structure is about \$23 million higher than the revenue that would have been

generated if the previous mark-up rates and structure were used (\$131.8 million compared to \$108.7 million, respectively, based on beer sales from April 5, 2002 to October 31, 2002).

### **Recommendation – Liquor Mark-up Structure**

- 6. The Commission will continue to closely monitor the volume and sale of beer products to determine the impact of the liquor mark-up structure on provincial revenue.**

### **Equivalency Argument**

Distillers argue all liquor products should be taxed equally and proportionately based on the amount of alcohol they contain. This argument possesses merit on the surface. It is difficult to dispute that taxing all products a uniform rate based on absolute alcohol would at least create the appearance of a more level playing field. However, the matter is less clear cut.

A concern raised by a few stakeholders, other than distillers, is that spirits generally are taxed at higher rates than beer or wine in jurisdictions throughout the world. The stakeholders believe these higher rates are based on the concerns of potential abuse of higher alcohol products. Thus, the stakeholders feel there is a public policy interest in maintaining higher rates for spirits compared to those for beer and wine. While those who present this view have a vested interest in the matter, their position may well be valid.

Distillers, on the other hand, present arguments suggesting there would be less abuse of alcohol if authorities recognized that standard servings of alcoholic beverage all contain similar amounts of alcohol. They contend all products are subject to abuse, beer and wine as much as spirits. Moreover, just as large brewers feel they “subsidize” smaller brewers whose products are assessed a lower mark-up rate, distillers argue they unfairly “subsidize” brewers by paying higher mark-up rates to satisfy revenue requirements of liquor authorities. The distillers’ association suggests there should be a single mark-up rate based on absolute alcohol; it feels this would further simplify the flat mark-up system of the province.

The evidence presented in this matter is not definitive. It is important to have better information than what has been presented in the review to establish sound, long-term policy direction in this matter.

## Recommendation – Liquor Mark-up Structure

- 7. The Commission will conduct research into public policy rationale in Canada and globally respecting the tax or mark-up rates established for spirits compared to those for beer and wines. This is to determine the potential social and financial implications that may result from adjustments in the relative mark-up rates between spirits and other alcohol products sold in Alberta.**

*Explanation* – The distillers’ position in this matter is of longstanding. Distillers continue to present the equivalency argument in their efforts to convince liquor jurisdictions throughout the world of the merits of their case.

The province has taken some steps to reduce the mark-up “gap” between spirits and other alcoholic beverages. As stated in the liquor mark-up review discussion paper: “Prior to the recent adjustments in Alberta’s mark-up structure on April 5, 2002, the mark-up for spirits was 14.2 times that of beer in the province. Following the adjustments, the mark-up for spirits is 13.6 times that of beer.”

Based on the input obtained during the liquor mark-up review, it is apparent more evidence is required to more clearly establish the reasons for the global approach of imposing higher taxes on spirits products. The evidence presented during the review is not definitive in the matter.

It is in the public interest to carefully assess the potential effect of reducing the liquor mark-up on spirits. For example, if spirits were assessed lower mark-ups based on a single rate per litre of absolute alcohol, would the consumption patterns of alcohol consumers change? If so, how? What impact if any would this have on the abuse of alcohol products in the population? How would provincial revenues from liquor sales be affected?

It would be valuable in addressing this matter to examine the experience in other jurisdictions domestically and internationally, and public policy research in this subject.

Furthermore, if the distillers’ recommendation to impose a flat rate for alcoholic beverages based on absolute alcohol were to be implemented, assuming there were no public policy issues in doing so, the effect on wholesale prices of spirits and wine would be dramatic. The following table shows the current mark-up rates for liquor products and compares these to the rates proposed by distillers (based on \$23.74 per litre of absolute alcohol, an estimated rate using 2001-02 liquor sales volumes and revenues). Such an adjustment, if it were to be adopted in policy in the future, would have to be implemented strategically and carefully over an extended period of time to avoid an immediate dramatic impact on liquor suppliers and retailers operating in the province.



Category	Current Mark-up Rate (\$/litre)	Mark-up Rate Based on Mark-up of \$23.74/litre of Absolute Alcohol* (\$/litre)	Change	
			(\$/litre)	(%)
Spirits (>22%)	13.30	9.35	-3.95	-30%
Spirits (less than or equal to 22%)	9.90	3.89	-6.01	-61%
Wine (>16%)	6.10	4.34	-1.76	-29%
Wine (less than or equal to 16%)	3.45	2.68	-0.77	-22%
Coolers	1.35	1.50	+0.15	+11%
Beer	0.98	1.09	+0.11	+11%

\* This is an estimated rate using 2001-02 provincial liquor sales volumes and revenues.

Mark-up Rate Based on Mark-up of \$23.74/litre of Absolute Alcohol (\$/litre)

### **Higher-Alcohol Spirits Products**

Currently spirits products are assessed a mark-up based on alcohol content: those products with less than or equal to 22% alcohol by volume are assessed a lower rate than products with more than 22% alcohol. In this regard, the distiller's general position respecting assessing a mark-up based on alcohol content is applied to some extent in these spirits products.

In keeping with this rationale under the current mark-up structure, the Commission is concerned that the sole cut-off point for spirits of 22% disregards the spirit products with significantly higher alcohol content available for sale. For example, there have been products listed in Alberta with up to 99% alcohol by volume. Currently, these high alcohol spirits would be assessed at the same mark-up rate as those spirits products with more than 23% alcohol by volume.

Although these higher alcohol products constitute a relatively small share of liquor sales in the province, they do raise the issue of social responsibility and accessibility. In the absence of evidence to suggest higher rates for spirits are unjustifiable from a policy perspective, there is some concern that such products may well be subject to more abuse than others. Who would purchase such products? Are these products more likely to be subject to abuse by consumers than lower-alcohol spirits products? If so, how?

The minimal action in this regard is to increase the mark-up rate for higher alcohol content products to lessen their accessibility. Alternatively, or in addition, consideration should be given to establishing policy to restrict products with significantly high levels of alcohol, up to 99% alcohol, from liquor store shelves while ensuring they remain available to those requiring them, for example, for medical purposes (such as in medical laboratories).

## **Recommendations – Liquor Mark-up Structure**

- 8. Mark-up rates for spirits with alcohol content of greater than 60% will be assessed a higher mark-up rate than the rate for products with lower levels of alcohol.**
- 9. Mark-up rates for spirits with alcohol content of greater than 60% will be assessed a liquor mark-up of \$17.87 per litre rather than the current rate of \$13.30 per litre, effective March 21, 2003.**

*Explanation* – The recommended mark-up rate for spirits with alcohol content greater than 60% is 34% higher than the rate for spirits with more than 22% alcohol by volume. This is the same percentage difference in the current liquor mark-up rates between the products with 22% or less alcohol by volume and those with more than this amount.

The recommended rate would apply to a relatively small percentage of spirits products. These products comprised 1.6% of the total volume of spirits sold in the province from April to October 2002 (412 hl out of a total of 25,326 hl of spirits). The intent of this adjustment is a social responsibility matter. There would be a marginal increase in provincial revenue from the sales of these products under the new mark-up rate if the volume of sales is unchanged (estimated at \$323,000 using volume sales of products with greater than 60% alcohol by volume in fiscal year 2001-02).

### **Ready-to-Drink, Cocktails, Coolers & Ciders**

The Commission has identified an issue arising from the relatively new “Ready-to-Drink” beverage category. As more ready-to-drink beverages enter the market, the distinctions between these and cooler products become less clear.

Currently, all coolers, regardless of alcohol content, are assessed a mark-up rate of \$1.35 per litre (they generally contain less than 8% alcohol by volume). Ready-to-drink beverages, those with greater than 8% and less than 16% alcohol by volume, are assessed a rate of \$4.05 per litre.

Spirits-based coolers generally contain from 5% to 7% alcohol, but certain coolers may contain more than this amount of alcohol. If a cooler were to contain more than 8% alcohol, would it then be considered a ready-to-drink product?

The situation is further confused if a ready-to-drink style beverage containing alcohol by volume of 8% or less were to be introduced. Would this product be assessed the Ready-to-Drink mark-up rate (\$4.05 per litre) or cooler rate (\$1.35 per litre)? For example, a whiskey-based pre-mixed product has been introduced to the province. It contains less than 8% alcohol by volume. It would normally be considered a ready-to-drink product, but due to its alcohol content has been categorized as a cooler and will be assessed a mark-up at the cooler rate.

Another issue relates to social responsibility. If higher alcohol content coolers were available and cost as much or less than the other coolers with less alcohol, would they appeal to minors? Are minors attracted to cheaper, higher-alcohol

content products? While the practice is illegal, minors obtain liquor products through legal-age adults willing to purchase them for the minors.

### **Recommendations – Ready-to-Drink, Cocktails, Coolers & Cider**

- 10. For purposes of assessing a liquor mark-up, the Commission will establish a single category of liquor product that captures ready-to-drink beverages and coolers. The category will be called Refreshment Beverages and defined to clearly distinguish it from the other categories of liquor products.**
- 11. The Commission will assess one mark-up rate for Refreshment Beverages containing more than 1% and up to 8% alcohol by volume, and a higher rate for those containing more than 8% and less than 16% alcohol by volume.**
- 12. The Commission will assess Refreshment Beverages with more than 1% and up to 8% alcohol by volume the current rate applied to coolers (\$1.35 per litre) and those with more than 8% and up to 16% alcohol by volume the current rate applied to ready-to-drink products (\$4.05 per litre). These adjustments will take effect starting March 21, 2003.**

*Explanation* – The recommendations are intended to simplify the administration of two types of product categories, each of which is becoming more difficult to distinguish from the other, other than by alcohol content.

It is recommended the two categories be combined in one for purposes of assessing a liquor mark-up rate (recognizing that consumers may, for example, continue to refer to flavoured carbonated alcohol beverages as coolers and to ready-to-drink products as mixed drink beverages or cocktail beverages).

It continues to be important and necessary that a definition be provided for refreshment beverages to clearly distinguish this new category of product from the other liquor products.

The impact of the recommendations on liquor revenue to the province is expected to be marginal.

### **Summary of Recommended Liquor Mark-up Rates and Revenue Implications**

The following table is a summary of the liquor mark-up rates recommended under this part of this report.

## Recommended Liquor Mark-up Rates (Summary Table)

PRODUCT	RECOMMENDED MARK-UP RATE (\$/LITRE)	CURRENT MARK-UP RATE (\$/LITRE)	CHANGE (\$/LITRE)
Spirits (greater than 60% alcohol by volume)	17.87	13.30	+ 4.57
Spirits (greater than 22% alcohol by volume and less than or equal to 60%)	13.30	13.30	-
Spirits (less than or equal to 22% alcohol by volume)	9.90	9.90	-
Wine (more than 16% alcohol by volume)	6.10	6.10	-
Wine (less than or equal to 16% alcohol by volume)	3.45	3.45	-
Refreshment Beverage – new category (more than 8% alcohol by volume and less than 16%)	4.05	4.05	(current Spirits Ready-to-Drink rate)
Refreshment Beverage – new category (up to 8% alcohol by volume)	1.35	1.35	(current Cooler rate)
Beer (common rate*)	0.98	0.98	-
Beer (greater than 10,000 hl and less than or equal to 200,000 hl annual worldwide production**)	0.40	0.40	-
Beer (up to 10,000 hl annual worldwide production**)	0.20	0.40	- 0.20

\* If applied today, the common rate as recommended would be assessed on approximately 95% of the volume of beer sold in Alberta.

\*\* Annual worldwide production includes the volume of all liquor products, non-liquor beverages and liquid containing alcohol produced in the facility or facilities where the beer is produced. This is to address the matter of economies of scale.

## BUY/SELL AGREEMENTS

The policy allowing for buy/sell agreements was introduced in 2000 following consultations with industry stakeholders. The Commission committed to review the policy in 2001. However, this review had not occurred in 2001. As a result, this liquor mark-up review by default has included the review of buy/sell agreements.

Generally, stakeholders support the current policies which allow for buy/sell agreements. A number of stakeholders believe these agreements primarily benefit consumers, as they are intended to do. Some stakeholders, particularly small or mid-sized brewers accept these types of agreements because they are transparent, even though they feel these mainly benefit the large brewers with more financial resources available to them.

The main issue related to buy/sell agreements is related to allegations of contraventions. The Commission suspects these may include, among other alleged contraventions, inaccurate or incorrect information being provided in the agreements and agreements being reached without following the policy for written contracts between the manufacturers and licensees. A liquor store retailer and liquor store retail chain allege retailers abuse the requirements, and violations are occurring which puts them, since they follow the policy, at a disadvantage.

Stakeholders desire stricter enforcement of the policy.

### **Recommendations – Buy/Sell Agreements**

- 13. The Commission will retain the existing policy model for buy/sell agreements.**
- 14. The Commission will continue to conduct investigations into specific stakeholders' allegations that buy/sell agreements are being contravened.**
- 15. The Commission will increase penalties for the contravention of policies related to buy/sell agreements. The penalties will be based on the merits of the case and range from warnings and monetary penalties to prohibition from entering into buy/sell agreements.**

## **PRODUCT EXCLUSIVITY**

Generally, stakeholders support the policies respecting exclusivity agreements. All of the large national brewers support them. Most small and mid-sized brewers acknowledge that requiring these transparent agreements is preferable to not having them in place.

One mid-sized regional brewer would prefer exclusivity agreements not exist at all, however, accepts the difficulty in enforcing policies that would prohibit them completely. The stakeholder feels it is better to make such agreements transparent than having to enforce prohibited, under-the-table arrangements between manufacturers and licensees. A small brewer supports these agreements, even though it feels it is unable to enter into such agreements with festivals or sports venues in the province due to approved agreements between them and larger manufacturers.

A mid-sized distiller who opposes these agreements contends they leave the false impression with retailers that manufacturers have considerable financial resources at their disposal to enter into such agreements with major community events and sports venues.

One administrative or procedural matter was raised regarding the agreements. Some stakeholders, specifically large national brewers, are concerned with the time it takes for exclusivity agreements to be reviewed by the Commission and approved. They contend this approval process takes 30 days or more. This is the typical amount of time to approve an exclusivity agreement, from the time the

agreement is submitted to the Commission, reviewed in detail by Licensing Division, discussed further with the manufacturer to clarify any terms in the agreement or address insufficient information etc., and forwarded to the Board for its review and final approval at a Board meeting. Given that Board meetings will soon be held monthly rather than semi-monthly, affected stakeholders feel the concern is heightened, a shorter timeframe or more expedient process to approve exclusivity agreements is preferred.

The Commission has streamlined the approval process. It is now delegating approval to staff of the Commission for agreements whose total annual value is less than \$1 million. Thus, there is one less step in the approval process for exclusivity agreements with the noted value. The Board will continue to approve exclusivity agreements with an annual value of greater than \$1 million.

### **Recommendations – Exclusivity Agreements**

- 16. The Commission will retain the existing policy for exclusivity agreements.**
- 17. The Commission will continue to conduct investigations into specific stakeholders' allegations that exclusivity agreement policies are being contravened.**
- 18. The Commission will advise stakeholders it has streamlined the administration of the exclusivity agreement policy by delegating to Commission staff the responsibility to approve or reject exclusivity agreements with a total annual value of less than \$1 million. Any exclusivity agreements with an annual value of \$1 million or more will continue to be taken to the Board for its review and decision.**
- 19. Exclusivity agreements that must be approved in advance by the Board will be required to be provided by manufacturers or liquor suppliers to the Commission at least 60 days prior to the anticipated implementation/effective date of the agreement.**

*Explanation* - Most stakeholders, including smaller manufacturers, wish to maintain the current policy for exclusivity despite the view among smaller manufacturers that such agreements principally benefit large manufacturers. Offsetting this concern is their view that such agreements are at least transparent and accountable.

The Commission has also responded to the concerns of large brewers respecting the length of time to approve exclusivity agreements, particularly those with an annual value of less than \$1 million. For their part, liquor manufacturers or liquor suppliers who wish to enter into exclusivity agreements must ensure their marketing plans take into account the required approval process and timeframe. Thus, it is recommended the agreements that must be approved by the Board be submitted to the Commission at least 60 days prior to the agreement taking effect.

## DEFINITION OF A MANUFACTURER

### Class E Manufacturer Licence (Wine)

Manufacturers, suppliers, licensees and related associations generally support retaining the existing policy model respecting the wine production level in Alberta. However, there is also general support for the concept of small-scale wineries which would manufacture wine at a lower level of production than is required under the current policy.

A prospective manufacturer prefers a revision to the minimum production capacity requirement related to the manufacture of wine. The stakeholder asks that the policy be altered to allow for a scaled (or graduated) development through a decreased (1,500 hl) minimum annual production capacity.

Stakeholders generally oppose altering the minimum annual production capacity requirement through a multi-tiered (graduated or scaled) production capacity requirement which would span a longer time frame to encourage small wineries.

Small-scale manufacturers could benefit from entering the market at a decreased level of investment than is required under current policy. This would entail a scaled policy model or multi-tiered production requirements, which in turn adds complexity to the regulation and administration of the policy. Increased regulation would be needed at each stage of this form of policy to allow for scaled production and ensure compliance at each stage. Scaling production requirements may increase administrative requirements, be confusing, and thus result in less regulatory control.

The existing policy requirement of vinifying 80% of wine production on-site (vinification requirement) is supported generally by stakeholders. Stakeholders generally oppose a winery policy that separates the wine-making activities to allow for blending only (no fermentation). One individual would favour having policy allowing a vintner to blend and bottle product without the required vinification activity. However, stakeholders generally oppose policy which would allow licensees to complete only a portion of the wine production process, such as blending and bottling, without having to ferment the product.

There is minimal and mixed interest by stakeholders in changing the production capacity requirement to require an actual (versus capacity) production level to be achieved.

### **Recommendation – Class E Manufacturer Licence (Wine)**

**20. The Commission will retain the current Class E Manufacturer Licence (Wine) policy model, subject to the recommendations which follow regarding small-scale winery operations.**

Stakeholders generally support the development of a policy for small-scale wineries to enable small-scale winery operators to manufacture wine in Alberta. Prospective manufacturers have expressed interest in establishing land-based small-scale wineries to manufacture fruit wine on a small-scale utilizing Alberta

grown fruit. Policy change would be required to allow for the establishment of small-scale winery operations. The production requirement for a Class E Manufacturer Licence (Wine) is currently 2,500 hl minimum annual production capacity. This level of production is prohibitive to prospective small-scale wineries.

### **Recommendations – Class E Manufacturer Licence (Wine)**

**21. The Commission will support in principle the concept of small-scale winery operations in the province.**

**22. A detailed and carefully-considered business case should be developed by interested stakeholders for small-scale winery operations in the province. This business case and the appropriate supporting research will be considered by the Commission, working in close cooperation with Alberta Agriculture, Food and Rural Development, when developing specific policies for small-scale wineries in the province.**

*Explanation* - A well thought out policy respecting small scale winery operations is highly desirable. It warrants further research and business case analysis for the industry as a whole. Prospective small-scale winery operators should provide a thorough business case to demonstrate the economic feasibility of a small-scale winery industry in Alberta.

The importance of a business case should not be underestimated. A business case can help stakeholders arrive at a realistic assessment of the market and production requirements to properly inform them of what is needed for success before investing in small-scale wineries. In this regard, the prior experience of wine-making in the province should be taken into account. It is recognized, for example, the climate in the province is not conducive to the growth of grapes, the most common fruit used in making wine. Nevertheless, some Alberta businesses had attempted to develop and operate viable wineries in the province using alternative approaches. For example, a small winery in Grande Prairie produced fruit wines using locally grown fruit for a short period in the late 1980s and early 1990s, but the winery is no longer in business. Similarly, a small winery operating out of Stony Plain, and which imported juices in its wine making process, closed its doors in 2001. A large national wine manufacturer operated a winery in Calgary, but the facility also closed in 2001. The track record for wineries in the province, unlike the situation in B.C. and Ontario, has been mixed at best, and currently there are no wineries in the province.

A decision relating to policy development should be based on business case analysis including the demand of Albertans for products from small-scale wineries in the province. Interested proponents of small-scale winery operations should work closely with the Alberta Agriculture, Food and Rural Development, which supports the value-added use of Alberta-grown product in the production of fruit wines. Furthermore, the Commission should work closely with the agriculture ministry to develop the specific wine manufacturing policy for small-scale wineries, taking into account the business case developed by stakeholders.



The following elements, among other elements, should be included in the small-scale winery industry business case:

- economic benefits to the Alberta economy from the value-added usage of Alberta agricultural product, employment generated, and agri-tourism;
- forecast number of small-scale winery operations to be established in the province;
- forecast sales volumes;
- impact on the commercial wine market of the province;
- minimum annual production capacity for small-scale winery operations;
- how flexible policy should be respecting the requirement for locally grown fruit, particularly in the event of poor growing seasons ;
- minimum percentage of site-grown fruit, Alberta-grown fruit, imported fruit, and blended wine that may be used to produce wine ;
- acreage requirement for fruit-producing farm land adjacent to the winery;
- allowable acreage limit which can be contracted by a winery operator;
- mark-up applicable to sales of wine;
- proposed sales channels of wine;
- standards and testing methodology to be utilized;
- regulatory and enforcement procedures; and
- procedures to wind-down a small-scale winery business (due to business failure or if the vintner fails to meet key policy requirements).

There are a few considerations respecting assessing a mark-up on the products of small-scale winery operations, if these operations were to be accommodated in policy. For example, stakeholders generally believe small-scale manufacturers should contribute to provincial revenues through a provincial mark-up on sales. However, the application of a differentiated mark-up rate relative to the scale of the manufacturer, or during the initial phase in the development of the small-scale winery sector, is also suggested.

Prospective small-scale vintners suggest no provincial liquor mark-up should be applied to on-farm sales. Stakeholders also suggest a reduced mark-up (50%) for off-farm sales and retail sales at a production level below 45,000 litres per year.

A recent enactment of the federal excise tax exemption for small scale producers means small-scale winery operations would pay less in federal duties or no federal duties, thus enhancing their economic viability. Duties would not be applicable on wine produced and packaged by a wine licensee if the sales of wine by the licensee did not exceed \$50,000 in the preceding year (*Excise Act, 2001*).

## **Class E Manufacturer Licence (Spirits)**

A manufacturer, liquor supplier, licensee and related association generally support retaining the existing policy model respecting distilleries in Alberta. Stakeholder support weakens for the development of policy to enable small-scale distilleries to manufacture spirits in Alberta.

A prospective small-scale distiller would favour having policy allowing for small-scale distilleries to be established and manufacture spirits at a lower production level than currently required under policy.

The current production level requirement respecting the manufacture of spirits has received mixed support and opposition from stakeholders. Policy change relating to the current production level requirement has been suggested to allow for small-scale distillery operations. Stakeholders express general support to pursue the development of a policy for small-scale distilleries to enable small-scale distillery operations to manufacture spirits in Alberta. Stakeholders do not foresee small-scale distilleries as having any serious impact on large-scale commercial distilleries. The market impact of small-scale distillery operations in Alberta is forecast to be minimal, with concerns expressed for the long-term economic viability of such operations if policies were to accommodate them.

All stakeholders support the application of provincial mark-up on the proposed sales of small-scale distilleries' product. The proposed benefits to Alberta (such as mark-up revenue, innovative product development, and small business growth) are somewhat persuasive.

Numerous additional implications in the manufacturing of spirits must be addressed. One stakeholder raised the issue of "market fragmentation" creating quality and regulatory control problems. As well, there are considerable public safety implications related to the manufacture of spirits.

The issues of social responsibility, social safety, and product safety, quality and control are of paramount concern with the manufacturing of spirits. Licensing of distilleries demands meticulous attention to administrative and regulatory compliance. Strict enforcement and control are necessary.

A prospective small-scale distiller favours policy allowing for pot stills to be used in manufacturing spirits rather than a tower still, as required under current policy, since pot stills are considerably less expensive. There is a case to be made for the relative costs of the two types of stills. From a public policy perspective, the tower still requirement serves important regulatory and safety purposes. It is used for quality-controlled production of absolute alcohol. On the other hand, pot stills are subject not only to health concerns from failing to scrupulously follow proper manufacturing procedures, but also inconsistent batches of product.

Furthermore, if small-scale distillers were permitted under provincial policies, and were thus permitted to use pot stills, there is a strong possibility the use of pot stills would proliferate throughout the province, creating further concerns and issues respecting their effective or proper regulation and control.

### **Recommendation – Class E Manufacturer Licence (Spirits)**

**23. The Commission will maintain the current Class E Manufacturer Licence (Spirits) policy model.**

### **Class E Manufacturer Licence (Beer)**

Stakeholders generally support retaining the existing policy for Class E Manufacturer Licence (Beer). There are no serious concerns or issues in this regard.

Some stakeholders support and others oppose policy change related to the minimum annual production capacity requirement being altered by instituting a multi-tiered (graduated or scaled) production capacity requirement spanning a longer time frame. It is felt such a change may give small brewers a chance to grow to become larger-scale brewers within a suggested timeframe of two years (versus the current 18 month timeframe). Another stakeholder believes the current timeframe under policy is not onerous and ensures that those entering the industry are serious participants.

Again, some stakeholders support and others oppose policy change to establish a licence class for small breweries which would entail a decreased level of minimum annual production capacity to encourage smaller brewers. It is felt this may give small brewers a chance to grow in the beer industry.

Stakeholder interest in changing the production capacity requirement to require an actual (versus capacity) production level to be achieved is minimal and mixed. One stakeholder feels an actual production level might help ensure a brewer does not destabilize the marketplace by seeking to achieve a capacity requirement.

### **Recommendation – Class E Manufacturer Licence (Beer)**

**24. The Commission will retain the current Class E Manufacturer Licence (Beer) policy model.**

### **Class E Manufacturer Licence (Brew Pub)**

Stakeholders generally support retaining the existing policy model for brew pubs in Alberta. Stakeholders also generally support retaining the current maximum annual maximum annual production volume level for a brew pub and other production requirements.

Some stakeholders support and others oppose policy change which entails removing the restriction requiring a brew pub to transfer the beer it manufactures only to other licensed premises it operates which are at least 80% owned and operated by the brew pub licensee.

Stakeholders generally oppose allowing brew pubs to sell the beer it manufactures to all licensees, to select classes of licensees, or to a particular class of licensee.

The current policy maintains a separation of primary business (manufacturer/retailer). Brewpub operations are limited in available sales channels, in consideration of the business interests of other beer manufacturers. In 2000, the Board did not approve the request of brew pubs to be allowed to sell to other licensees for the following reasons:

- brew pubs entered the market knowing the limitations in place;
- sales to licensees will have an effect on existing small brewers or microbreweries; and
- sales may require a more stringent system to ensure that the mark-up is obtained.

### **Recommendation – Class E Manufacturer Licence (Brew Pub)**

**25. The Commission will retain the current Class E Manufacturer Licence (Brew Pub) policy model.**

### **U-vin/U-brew (Brew-on-Premises) Establishments**

Stakeholders generally oppose establishing a licence class and policy model to allow for U-vin/U-brew establishments to operate in Alberta. The concerns in this regard relate to federal taxes, provincial revenues, regulatory controls, quality assurances, and effects on liquor manufacturers and retailers.

In addition to policy change, legislative change would also be required to allow for U-brew/U-vin establishments in Alberta. Section 86 of the *Gaming and Liquor Act* allows an adult to make a limited amount of wine, beer and cider, but only in the person's residence. Section 88 of the *Gaming and Liquor Regulation* limits the amount of homemade wine, beer or cider in the person's residence.

Proponents of U-vin/U-brew establishments support creating a licence class and policy model to allow for these establishments to operate in Alberta. They perceive there is a public demand in Alberta for the services of these establishments and feel the market for commercial wine products will expand with U-vin/U-brew operations. The proponents believe U-vin/U-brew establishments are small businesses which create economic benefits, such as job creation.

Proponents of these establishments also stress the need to develop a training program for U-vin/U-brew operators to address any concerns the government may have regarding operations of the establishments. A U-vin/U-brew association supports the regulatory framework for U-vin/U-brew operations in British Columbia and Ontario.

Other stakeholders express concern relating to adherence by U-vins/U-brewns to the regulatory framework. One stakeholder provided information relating to various regulatory control issues such as the role and actual participation of the customer in making their wine or beer product; sampling of liquor on premises; product exchange s for customers; and storage of product. The issue of U -vin/U-brew product being sold in commercial establishments was also raised.

Many respondents express concern related to the loss of government revenues since mark-up revenue is not generated on U-vin/U-brew products and services. The production from U-vins/U-brews is presumably made by individual customers for their own personal consumption; therefore mark-up revenue is not generated for the province. There are concerns that the operations would erode government revenues, due to the volume of untaxed beverage alcohol that would be produced. Currently, the two Canadian provinces which license U-vins/U-brews do not assess a liquor mark-up on the U-vin/U-brew products and thus do not obtain provincial liquor revenue from these products.

British Columbia and Ontario are the only provinces with legislative frameworks relating to U-vin/U-brew establishments. Both provinces require the operators of these establishments to be licensed as of April 1, 2000. British Columbia and Ontario are able to collect a sales tax on U-vin/U-brew products and services; there is no sales tax in Alberta, thus no revenue would be collected in Alberta from the sales in these establishments.

Some stakeholders feel any loss of provincial revenue must be weighed against employment generated, corporate taxes received and freedom of choice for consumers. The support for small business opportunities in Alberta, and the economic contribution through sales and employment, appears to be a valid argument.

However, there also are valid concerns about U-vin/U-brew establishments. Some stakeholders feel these establishments would result in reduced sales of wine and beer from commercial establishments, for example, the retail liquor stores in the province. They would thus contribute to a deterioration of the existing liquor retail and distribution model.

Evidence exists that the production of wine and beer at U-vin/U-brew establishments is substantial. Various market figures are supplied by stakeholders. One stakeholder believes U-vin/U-brew operations accounted for as much as 35.0% of the wine sold in British Columbia and as much as 9.5% of beer. Another stakeholder believes U-vin/U-brew operations approach 33.0% of all wine consumed in British Columbia and account for 5.7% of the domestic beer market.

The Alberta Alcohol and Drug Abuse Commission (AADAC) recently conducted a survey to determine the prevalence of consumer alcohol production in Alberta. The AADAC Consumer Produced Alcohol Study was completed in October 2001. The random sample of 1,000 adult Albertans identified 80 home producers. Of those surveyed, 8% reported making their own beer, wine or cider at home in the previous year. Of the home brewers, 84% reported making wine, 28% reported making beer and 4% reported making cider in the previous year. Based on the research findings, AADAC estimates that 204,838 adult Albertans produce alcohol in their homes.

Ultimately, the impact of U-vin/U-brew establishments in Alberta is unknown. It is not possible to forecast all the implications if the province were to allow U-vin/U-brew operations. It is difficult to analyze the various implications for manufacturers, retailers, distributors, and consumers of wine and beer.

The British Columbia situation provides an example of the extent of the market for wine and beer produced in U-vins/U-brews. “British Columbia Liquor Control and Licensing Branch, U-brew/Uvin Production Reporting Summary, April 1, 2000 to September 30, 2000” quantifies the completed production volumes during the first six months of licensing as follows:

- Wine – 4,733,675 litres
- Beer – 2,168,982 litres
- Cider/Coolers – 378,909 litres

From these figures, an estimated market impact of the establishments can be calculated. If the U-vin/U-brew volume data were to be considered as commercial liquor sales, the percentage of all produced beer, wine, cider and coolers manufactured in a U-vin/U-brew during the time period would constitute the following percentages of the total British Columbia market:

- Wine: 21.98%
- Beer: 1.54%
- Cider/Coolers: 3.59%

Manufacturers, suppliers, licensees and related associations generally feel that U-vin/U-brew operations provide a means to avoid assessment of mark-up on liquor product. The actual impact to government revenue if U-vin/U-brew operations are allowed to establish in Alberta is not known.

Several liquor industry stakeholders who support U-vin/U-brew operations in the province also feel a mark-up should apply on their product. For example, such a mark-up could be based on the mark-up rates applied to wine and beer products produced by commercial manufacturers.

### **Recommendation – U-vin/U-brew Establishments**

**26. Without sufficient evidence respecting the legislative, financial and social implications of U-vin/U-brew operations in Alberta, the Commission will not institute a licence class and policy model to allow for U-vin/U-brew establishments to operate in Alberta.**

**27. The Commission will undertake further research into the various implications of establishing U-vin/U-brew operations in the province, including the legislative, financial and social implications.**

## **G. CONCLUSION/ACKNOWLEDGMENTS**

Alberta has progressive laws and policies respecting the importation, administration, and private sector warehousing and retailing of liquor products. The experience of the province in this regard has been, and continues to be, of interest to jurisdictions throughout Canada which continue to operate government-run retail store networks.

The interest to do business in Alberta is evident by the greatly expanded selection of liquor products since the privatization of liquor retailing in 1993. These products have been introduced by manufacturers and liquor suppliers in Canada and elsewhere throughout the world. This province's liquor marketplace is open, accessible and transparent. It is also a highly competitive marketplace, encouraging competitive prices, selection and convenience in response to consumer demand. In addition, the economic growth and development of the province, and the growth of its population, has created new opportunities for many industries, including the liquor industry.

The liquor mark-up review has been an opportunity to examine how to bring policies respecting the liquor mark-up structure and related matters up to date, while addressing the various issues respecting these policies. The review was the first occasion since privatization was initiated in 1993 to comprehensively examine these policies in consultation with industry stakeholders.

### **Stakeholder Submissions**

The Commission acknowledges and thanks the stakeholders who took valuable time from their busy schedules to make submissions to the review. These stakeholders are identified in Appendixes 4 and 5. They include representatives of liquor manufacturers and suppliers, liquor licensees, representative industry associations, and individuals or their associations seeking new business opportunities in the province. The candid comments and perspectives of stakeholders in their submissions were appreciated.

### **Recommendations**

The Commission carefully considered the views of stakeholders and responded within the parameters of the review. For example, stakeholders strongly support the flat mark-up system of the province for its simplicity, clarity and transparency. The Commission is committed to the flat mark-up system and not recommending any changes to this concept. Nor is the Commission recommending changes to the policy models related to the manufacture of liquor in the province.

Rather, the recommendations in this report deal mainly with specific elements of the liquor policies under review. For example, it is recommended the policy respecting the liquor mark-up on beer products be clarified. The current liquor mark-up structure for beer products was intended to provide smaller brewers or liquor suppliers a more level playing field to compete with larger brewers with greater economies of scale. Thus it is recommended the total annual worldwide volumes of beer from the facility manufacturing beer should include the volume of non-liquor products and liquids containing alcohol being manufactured in the facility. This is to ensure the beer products from large production facilities which contract the manufacture or otherwise produce the beer products are assessed the appropriate mark-up rate.

It is also recommended there should be differentiated mark-up rates for beer products of mid-sized brewers as well as those of small or craft-style brewers.

The equivalency argument of the distilling industry continues to be of interest to the Commission. This argument is that a standard serving of beer, spirits and wine each contains the same amount of alcohol. The distilling industry recommends that liquor products be assessed a mark-up based directly and proportionately on alcohol content. However, the views presented during the review for and against such a change were not definitive. More research should be conducted respecting the policy rationale of many jurisdictions throughout the world to apply a relatively higher mark-up on these products as compared to beer and wine. Then the Commission would be in a much better position to assess the implications of moving further in this area.

Based on stakeholder input, it is recommended a number of the policies under review remain essentially as they are or with minor revisions. These include policies respecting buy/sell agreements and exclusivity agreements. These policies also include the general policies for the manufacture of spirits, wine and beer in the province which cover requirements for the manufacture, packaging and distribution of liquor products by manufacturers licensed by the Commission.

The Commission is recommending to the Board the concept of a small-scale winery industry in Alberta should be supported in principle. It is recommended more research be done in this area and a business case for a small-wine industry be prepared by the industry to give all parties involved a realistic picture of the opportunities in this area. Then the Commission - in close cooperation with Alberta Agriculture, Food and Rural Development - should develop the appropriate policies for small-scale wineries.

It is recommended the concept of U-vin/U-brew establishments requires further research as to their possible implications in the Alberta market. While such establishments would have appeal for a certain segment of the Alberta market, it is clear from the review the extent of the legislative, financial and social implications of approving policies to allow for such establishments is unknown, and requires further study.

With the Board's approval and direction, the Commission is prepared to work with the liquor industry to implement the recommendations contained in this report, including consultation with stakeholders on the matters requiring further study.



# Appendix 1. Glossary

Following is a glossary of terms used in this report.

**ALIRT** means the Alberta Liquor Industry Roundtable, a forum for industry members to discuss issues facing the beverage alcohol industry in Alberta.

**Brew pub** means a facility that manufactures beer primarily for consumption in an adjoining Class A licensed premises operated by the brew pub licensee with a maximum annual production volume of 10,000 hl.

**Brewer** means, unless otherwise specified in this report, a company that manufactures or supplies beer for sale in Alberta.

**Cooler** means a beverage alcohol of less than 8% by volume produced from a base of wine(s), spirit(s), beer(s) and/or cider(s) as defined in the *Food and Drugs Act* and Regulations which has been added:

- i. fruit juices,
- ii. artificial flavouring,
- iii. water,
- iv. mineral water,
- v. carbon dioxide

either individually or in any combination. A product does not fall within the definition of a “cooler” simply by the addition of water to a base product.

**Common mark-up rate** means the mark-up rate applied to most beer products sold in Alberta. This rate is distinguished from the rate applied to a relatively small percentage of beer products manufactured or supplied by small or mid-sized brewers.

**Cottage distillery** means a small-scale distillery which manufactures, blends and packages beverages containing distilled spirits with an annual production capacity below 2,500 hl of absolute alcohol. Current liquor policy does not allow for cottage distillers in the province.

**Cottage winery** means a small-scale winery which manufactures, blends and bottles wine obtained by the fermentation of the natural sugar contents of fruit, including grapes, apples, berries or any other agricultural product containing sugar including honey and milk with an annual production capacity below the level of 2,500 hl. Current liquor policy does not allow for cottage wineries in the province.

**Distiller** means, unless otherwise specified in this report, a company that manufactures or supplies spirits for sale in Alberta.

**Large brewer** means a brewer whose total annual worldwide production of beer is more than 200,000 hl, and includes larger-scale national and international brewing companies.

**Liquor** means any wine, beer, cider, spirits or other product that is intended for human consumption in which the percentage of alcohol by volume exceeds 1%, unless the product is excluded from the definition of liquor by board regulations under section 130 of the *Gaming and Liquor Act*.

**Liquor agency** means a corporation or individual who is in the business of representing a liquor supplier in the sale of the supplier's liquor.

**Liquor licence** means a licence that authorizes the manufacture, import, purchase, sale, transport, giving, possession, storage, consumption or use of liquor.

**Liquor supplier** means

- i. a manufacturer,
- ii. a person who operates an establishment for making liquor outside Alberta,
- iii. a person, other than the Commission, who is a distributor of liquor, and
- iv. any person who has a connection, as specified in the regulations, to a manufacturer or a person described in subclause (ii) or (iii).

**Mid-sized brewer** means a brewer whose total annual worldwide production of beer is more than 10,000 hl and up to 200,000 hl.

**Small brewer** means a brewer whose total annual worldwide production of beer is 10,000 hl or less. Other terms used to refer to a small-scale brewer include cottage brewer and microbrewer.

**Small scale** means, when referring to a winery or vintner and distillery or distiller, a cottage winery or cottage distillery, respectively.

**Spirits** means any product that contains alcohol obtained by distillation.

**U-vin/U-brew** means an establishment that provides goods, facilities or services to persons producing or manufacturing wine, beer or cider in the establishment for their own consumption or consumption at no charge by others.

**Vintner** means, unless otherwise specified in this report, a company that manufactures or supplies wine for sale in Alberta.

## **Appendix 2. Letter Inviting Stakeholder Response**

September 25, 2002

Dear

**Re: Review of Liquor Mark-up Structure and Related Policies**

Further to my letter of August 9, 2002 regarding the review of the Liquor Mark-up Structure and related issues, I am pleased to enclose a discussion paper for your review.

The discussion paper is organized into four main sections:

- The level of provincial mark-up including the effects of federal taxation on the provincial mark-up structure
- Policies regarding buy/sell agreements
- Policies regarding exclusivity agreements, and
- The definition of a manufacturer, including the concept of U-Brews and U-Vins.

A summary of the background and the current situation is provided for each issue. Comparisons with other jurisdictions are also provided as appropriate. Each section concludes with a series of key questions for your consideration. You are welcome to respond to all of the questions or to a selection of those that are of direct interest to you. We also welcome any additional input that you might wish to provide over and above your responses to the questions posed in the discussion paper.

Please e-mail your written submission to [ana.lougheed@aglc.gov.ab.ca](mailto:ana.lougheed@aglc.gov.ab.ca) by **October 18, 2002**. You may also provide your written submission via the above noted mailing address or fax number if you prefer.

As indicated in the terms of reference, depending upon the nature of the input received, follow up meetings may be held to allow stakeholders to clarify their input or expand upon their point of view. If you believe you may be interested in attending such a meeting, please let me know as soon as possible (and by October 18, 2002 at the latest), and meeting times will be scheduled.

I wish to thank you for your interest and look forward to hearing from you.

Yours very truly,

Lana Lougheed  
Director, Business Management

Copy: Norman C. Peterson, Chairman and Chief Executive Officer  
Ron Crosby, Executive Director, Finance and Administration

## **Appendix 3. Discussion Paper**

**Review of  
Liquor Mark-up Structure  
and Related Policies**

**Discussion Paper**

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# DISCUSSION PAPER

## Review of Liquor Mark-up Structure and Related Policies

### INTRODUCTION

The Chairman of the Board and Chief Executive Officer of the Alberta Gaming and Liquor Commission (“Commission”) informed stakeholders in a letter dated July 5, 2002 of a review of the liquor mark-up structure in the province and issues related to this mark-up structure. The issues related to the mark-up include:

- The level of provincial mark-up, including the effects of federal taxation on the provincial mark-up structure;
- Policies relating to buy/sell agreements;
- Policies relating to exclusivity agreements; and
- The definition of a manufacturer, including the concept of U-Brews and U-Vins.

The review provides an opportunity to address concerns expressed by stakeholders or identified by the Commission regarding the liquor mark-up structure or related issues. Some of the concerns are long standing, while others have been raised more recently.

The purpose of the review is to update the mark-up structure and policies affecting the mark-up structure to meet the requirements of consumers, the financial needs of the Government of Alberta and the needs, and requirements of stakeholders in today’s liquor industry. A copy of the Terms of Reference for the review, which includes a list of stakeholders, scope of the review, and a detailed project timeline, is attached as Appendix 1.

This discussion paper provides a brief history and the current situation respecting the identified issues. Comparisons with other jurisdictions are provided as appropriate. Key questions are asked in this paper to help guide the discussion. Stakeholders are invited to respond to all the questions or those of direct interest. Any additional input or comment to further elaborate or present a position on each issue is welcome.

Please provide written submissions by **October 18, 2002 to:**

Lana Lougheed  
Director, Business Management

*By Mail:* 50 Corriveau Avenue  
St. Albert, Alberta T8N 3T5

*By Fax:* 780-447-8933

*By E-mail:* [лана.лугхед@аglс.gov.ab.ca](mailto:лана.лугхед@аglс.gov.ab.ca)

# LIQUOR MARK-UP

## Background

A flat mark-up system for liquor products was established in Alberta with the privatization of liquor retailing in 1993. Prior to 1993 the province used an ad valorem mark-up system for liquor products, which most other provinces also used at the time and still do today.

With privatization in Alberta, it became apparent the ad valorem system of marking up products and the setting of retail prices would not ensure that government revenues would be maintained while allowing suppliers and retailers to price their products according to free market conditions.

Consequently, the flat mark-up system was established. It was designed to be applied to each litre of liquor product based on the type or category of product. It was also designed initially to meet the following objectives:

- To ensure government revenues were maintained at pre-privatization levels;
- To simplify the system of calculating mark-up;
- To remove the opportunity for “creative invoicing” to affect the amount of mark-up collected, the wholesale price of products, or the retail price of products;
- To remove all hidden or discriminatory cost elements to avoid future disputes under trade agreements (as occurred in 1991 with the General Agreement on Tariffs and Trade (GATT) findings on beer);
- To correct an ever widening price range among product categories caused by the ad valorem mark-up system; and
- To minimize the Alberta Liquor Control Board’s (ALCB’s) role in influencing wholesale prices to retailers and retail prices to consumers (the ALCB was the liquor authority in the province at the time and was continued as the Alberta Gaming and Liquor Commission in 1996).

When privatization began, a commitment was made to Albertans and the industry that the net income of the government from liquor sales after privatization would be essentially the same as it was prior to privatization. This policy, which was referred to as “revenue neutrality,” was formally terminated by Treasury Board Decision in 1999. Treasury Board determined that the average annual net income from liquor would be allowed to increase in line with volume, consumption or other growth factors.

Generally, the liquor products industry has supported the flat mark-up system mainly because it creates a “level playing field” for liquor companies competing in the Alberta marketplace, and because the flat mark-up system is fully transparent to manufacturers, retailers and consumers.

As a result of the privatization of liquor sales and the absence of a provincial sales tax, consumers of liquor products in Alberta enjoy competitive pricing as well as an increased selection of products. Alberta’s flat mark-up system supports these benefits and is estimated to contribute \$546 million to provincial revenues in 2002-03.

As Table 1 illustrates, liquor mark-ups, when considering each category of liquor product, were reduced five (5) times since the initial flat mark-up rates were established in 1993.

**Table 1 - History of Liquor Mark-ups Since Privatization (1993-2001)**

Date	Spirits Greater than 22%	Spirits Equal or less than 22%	Wine Equal or greater than 16%	Wine Less than 16%	Coolers/ Ciders	Beer
	\$/litre	\$/litre	\$/litre	\$/litre	\$/litre	\$/litre
November 26, 1993	14.95	14.95	6.20	4.35	2.10	1.06
August 8, 1994	*12.95	*12.95	*5.50	*3.30	*1.50	*0.92
May 15, 1995	12.95	12.95	5.50	3.30	1.50	0.92
January 8, 1996	12.50	12.50	5.50	3.20	1.50	0.89
September 16, 1997	12.50	9.50	5.50	3.05	1.25	0.88
May 1, 1999	12.50	9.50	5.50	3.05	1.25	0.50 first 50,000 hl 0.60 next 20,000 hl 0.75 next 30,000 hl 0.88 over 100,000 hl

\*Surcharge of 10% applied if Landed Cost exceeded:

Spirits (greater than 22% alcohol by volume)	\$9.60/litre
Spirits (equal or less than 22% alcohol by volume)	\$9.60/litre
Wine (equal or greater than 16% alcohol by volume)	\$7.50/litre
Wine (less than 16% alcohol by volume)	\$4.60/litre
Coolers/Ciders	\$2.75/litre
Beer	\$1.95/litre

The surcharge was then reduced by 1% every four weeks until it was eliminated

## Current Situation

Alberta's current mark-up rates, which are applied at the wholesale level, are amongst the most competitive in Canada. This mark-up system is relatively easy to administer when compared to the mark-up systems of most other provinces and the previous ad valorem system used in Alberta.

The first increase in Alberta's liquor mark-up structure under the privatized retail model took effect on April 5, 2002. In addition to the changes to the mark-up, the graduated mark-up for beer was eliminated and a provision was added to allow small brewers (those with annual worldwide production of less than 200,000 hectolitres (hl)) a reduced mark-up. The current mark-up applied to beer based on estimated current-year annual worldwide production is:

- \$ 0.40/litre for production less than 200,000 hl
- \$ 0.98/litre for production greater than 200,000 hl

The change in the mark-up structure to differentiate between small and large brewers was introduced, in part, to help level the playing field between large and small brewers competing in the Alberta marketplace. This is consistent with the practices in other provinces where small brewers receive reduced mark-up rates. In many cases, in other provinces small brewers are also given additional market opportunities such as product listings and advantageous shelf placements, which are not guaranteed to any manufacturers under Alberta's privatized system.

Table 2 provides a summary of Alberta’s current mark-up structure as well as the increase-per-litre from the previous rates.

**Table 2 – Alberta’s current mark-up structure**

<b>Product</b>	<b>Mark-Up (April 5, 2002)</b>	<b>Increase (from previous mark -up)</b>
	<b>\$/litre</b>	<b>\$/litre</b>
Spirits (greater than 22% alcohol by volume)	\$13.30	\$0.80
Spirits (less than or equal to 22% alcohol by volume)	\$9.90	\$0.40
Spirits Ready to Drink (greater than 8% and less than 16% alcohol by volume)	\$4.05	\$1.00
Wine (greater than 16% alcohol by volume)	\$6.10	\$0.60
Wine (equal to or less than 16% alcohol by volume)	\$3.45	\$0.40
Coolers	\$1.35	\$0.10
Beer (over 200,000 hl annual worldwide production)	\$0.98	\$0.10
Beer (under 200,000 hl annual worldwide production)	\$0.40	\$(0.10) to \$(0.48)

In a post-privatization review, it was noted that Alberta’s flat mark-up system implemented in 1993 “... addressed historical inequities (caused by the permutations of the previous ad valorem system, minimum profit and cost of service differentials).” Despite this, the review noted that “... the “taxing” of liquor products at both the federal and provincial levels continues to be an issue within the industry – particularly within the spirits industry where products are “taxed” disproportionately by both the federal and provincial governments in comparison with other products.” (*A New Era in Liquor Administration*, 1994).

For example, spirits, and to a lesser extent wine, have historically been marked up at a much higher rate than beer based on alcohol content. If the mark-up were to be based strictly on alcohol content, the mark-up on spirits would be approximately eight times that of beer. Prior to the recent adjustments in Alberta’s mark-up structure on April 5, 2002, the mark-up for spirits was 14.2 times that of beer in the province. Following the adjustments, the mark-up for spirits is 13.6 times that of beer.

## **Federal Taxation**

The price of liquor products is influenced by federal taxes as well as the provincial mark-up. The relevant federal legislation that applies to the manufacture and movement of liquor products in Canada are the following:

- *Importation of Intoxicating Liquors Act*;
- *Excise Tax Act*;
- *Excise Act*; and
- *Customs Act* - Customs Tariff

These acts are discussed in more detail in the following pages.

## Importation of Intoxicating Liquors Act

The *Importation of Intoxicating Liquors Act* requires that liquor deemed intoxicating by the law of the province may be imported only by a board, commission, officer, or governmental agency vested with the right of selling intoxicating liquor. Specifically, Section 3(1) of this act states that:

Notwithstanding any other Act or law, no person shall import, send, take or transport, or cause to be imported, sent, taken or transported into any province from or out of any place within, or outside Canada, any intoxicating liquor, except such as has been purchased by or on behalf of, and that is consigned to Her Majesty or the executive government of, the province into which it is being imported, sent, taken or transported, or any board, commission, officer or other governmental agency that, by the law of the province, is vested with the right of selling intoxicating liquor.

Under the requirements of the *Gaming and Liquor Act*, the Commission is the governmental agency vested with the right of selling intoxicating liquor. The Commission is the importer of liquor products into Alberta and is responsible for compliance with all of the federal laws related to the movement of liquor products. The Commission holds an excise licence and a customs licence for bonded warehousing.

## Excise

Excise taxes and excise duties are two types of federal commodity levies on products manufactured or produced in Canada, or imported into Canada. These levies are applied to a limited range of products at different rates and in different ways, depending on the product. Wine is subject to the *Excise Tax Act* and spirits and beer are subject to excise duty under the *Excise Act*. Excise tax and excise duty apply to the products before the GST/HST is added.

## Excise Tax Act

When certain goods are manufactured in Canada, excise tax is payable when the goods are delivered to the purchaser. When certain goods are imported, excise tax is payable by the importer when the goods are actually imported.

Among liquor products produced in Canada, the *Excise Tax Act* applies only to wine. Under this act, the excise tax is payable on wine when the goods are delivered to the purchaser. When wine is imported, excise tax is payable by the importer when the goods are actually imported unless the product is stored in a customs-bonded warehouse. In the latter case, the excise tax is payable when the goods are delivered to the purchaser.

The *Excise Tax Act* sets out the rates of tax. The following excise taxes must be imposed, levied and collected on wines:

- (a) a tax of \$0.0205 per litre on wines of all kinds containing not more than 1.2% of absolute ethyl alcohol by volume;
- (b) a tax of \$0.2459 per litre on wines of all kinds containing more than 1.2% of absolute ethyl alcohol by volume but not more than 7% of absolute ethyl alcohol by volume; and
- (c) a tax of \$0.5122 per litre on wines of all kinds containing more than 7% of absolute ethyl alcohol by volume.

The excise taxes imposed by the *Excise Tax Act* are payable as follows:

- (a) in the case of wines imported into Canada, shall be paid in accordance with the provisions of the *Customs Act* by the importer, owner or other person liable to pay duties under that Act;
- (b) in the case of wines manufactured or produced in Canada, shall be payable by the manufacturer or producer at the time when the goods are delivered to a purchaser thereof; and
- (c) in the case of wines imported or purchased by a licensed wholesaler who is deemed by section 55(2) of the *Excise Tax Act* to be a bona fide wholesaler or jobber, shall be payable by that person at the time when the goods are delivered by him to a purchaser thereof.

The Commission is the importer of all liquor products coming into Alberta and is responsible to report to Canada Customs and Revenue Agency (CCRA) all movement of the product. All movement of product subject to excise tax must be reported weekly and the levies collected must be remitted monthly. Failure to meet deadlines results in penalties.

### **Excise Act**

Excise duties are charged on spirits and beer manufactured in Canada. The *Excise Act* sets out the rates of duty for these goods. Excise duty is charged on *beer* products at the point of manufacture rather than sale. Excise duty is charged on *spirits* at the point of manufacture or, if it is stored in an excise-bonded warehouse, deferred until it is transferred to a purchaser.

The following excise duty rates are applicable to spirits and beer manufactured in Canada (referred to as domestic products).

#### **Domestic Spirits**

- (a) Spirits – \$11.066/litre of absolute alcohol
- (b) Spirit Coolers (not more than 7% alcohol by volume) – \$0.2459/litre of absolute alcohol
- (c) Spirit Coolers (more than 7% alcohol by volume) – \$11.066/litre of absolute alcohol

To calculate litres of absolute alcohol, multiply the number of litres of product in a case by the alcohol content. For example, 12 bottles/case (X) 0.750 litres/bottle (X) 40% alcohol by volume (=) 3.6 litres of absolute alcohol per case.

All movement of spirits must be reported monthly and the levies must be remitted to CCRA monthly. Failure to meet deadlines results in penalties.

#### **Domestic Beer**

- (a) Beer (more than 2.5 % alcohol by volume) – \$27.985 per hl
- (b) Beer (not less than 1.2% or not more than 2.5% alcohol by volume) – \$13.990 per hl
- (c) Beer (not more than 1.2% alcohol by volume) – \$2.591 per hl

Excise duty is payable by the brewer based on the volume of beer produced. Produced beer is deemed to be beer that is put into packages. Brewers are allowed a production loss of up to 5% during packaging. The production loss for every brewery is ascertained as the difference between the quantity of beer taken for packaging and the quantity of beer actually packaged. Production is reported and the duty submitted to CCRA based on an established production period.

The *Excise Act* was recently the subject of a comprehensive review undertaken jointly by the Department of Finance Canada and the CCRA. Extensive consultations were held with industry associations and members, provincial liquor boards, federal and provincial enforcement agencies, and other stakeholders. This was followed by draft legislation, Bill C-47, introduced in the House of Commons on December 6, 2001. Bill C-47 provides a framework for the taxing of spirits, wine and tobacco. The new legislation received Royal Assent on June 13, 2002. Bill C-47, called the *Excise Act 2001*, will take effect on a date to be fixed by order of the Governor in Council which is expected to be July 2003.

Under the *Excise Act 2001* the duty on spirits will be payable at the time the spirits are packaged. Duty will be payable by the person responsible for the bulk spirits immediately before they were packaged. However, duty *may be deferred* if immediately after packaging the spirits are placed in an excise warehouse, in which case the licensee of the excise warehouse becomes liable for the duty.

Similarly, under the *Excise Act 2001* the duty on wine will be payable at the time the wine is packaged. Duty will be payable at the time of packaging by the person responsible for the wine immediately before packaging. However, payment of duty *may be deferred* if immediately after packaging the wine is entered into an excise warehouse, in which case the licensee of the excise warehouse becomes liable for the duty.

A significant change related to wine produced in Canada is that the duty will neither be imposed on wine produced and packaged by an individual for the individual's personal use, nor on wine produced and packaged by a wine licensee, if the sales of wine by the licensee did not exceed \$50,000 in the preceding 12 months.

The beer industry requested that no changes be made and beer is not included in the *Excise Act 2001*. Beer will continue to be subject to *excise duty* under the existing *Excise Act* and *Customs Act*.

The Brewers Association of Canada has submitted a proposal to the House of Commons Standing Committee on Finance advocating excise duty relief for Canada's small brewers. This proposal is attached as Appendix 2.

### **Customs Act – Customs Tariff**

The *Customs Act* establishes the functions or duties related to *importing* goods into Canada. All duties or taxes levied on imported goods under the *Customs Tariff*, the *Excise Tax Act*, the *Excise Act*, the *Special Import Measures Act* or any other law relating to customs are binding on a province in respect of any goods imported by or on behalf of Her Majesty. Spirits, wine and beer or malt liquor are included in the designated list of imported goods. The *Customs Tariff* provides the tariff treatments and tariffs applicable to imported products.

The Canadian *customs tariff* includes 12 separate tariff treatments. Goods imported into Canada may be subject to one of these 12 separate tariff treatments. These treatments have been established as the result of trade agreements (such as the North American Free Trade Agreement, or NAFTA) negotiated with Canada's trading partners. Some treatments have been established unilaterally for various reasons, such as granting preferential duty treatment to developing countries.

Goods imported into Canada from countries that do not have an agreement with Canada are subject to Most Favoured Nation Tariff which is greater than the preferential tariff treatment. Rules of origin are used to determine if goods qualify for a particular tariff treatment. To get the benefits of a preferential tariff treatment, suppliers of spirits and wine must provide a Certificate of Origin to meet CCRA certification requirements. Customs tariff changes may occur annually; therefore Certificates of Origin must be obtained annually by the importer from the suppliers to ensure the appropriate tariffs are applied.

The following levies and tariffs are applicable to imported beer, wine and spirits.

### **Imported Beer**

The excise duty imposed on imported beer is the same as that imposed on domestic beer (\$27.985 per hl). The customs tariff does not apply to beer made from malt. The excise duty on imported beer is reported and remitted under the *Customs Act* rather than the *Excise Act*, even though the rates under both acts are the same.

### **Imported Wine**

The excise tax imposed on imported wine is the same as that imposed on domestic wine. A customs tariff may also apply depending on the country of origin and whether the supplier has provided a valid certificate of origin. The customs tariff ranges from being zero-rated to \$0.374/litre for imported wine depending on the type of wine and applicable agreements and certificates of origin.

The excise taxes and customs tariffs on imported wine are reported and remitted under the *Customs Act* rather than the *Excise Tax Act*.

### **Imported Spirits**

The excise duty imposed on imported spirits is the same as that imposed on domestic spirits. A customs tariff may also apply depending on the country of origin and whether the supplier has provided a valid certificate of origin. The customs tariff ranges from being zero-rated to \$0.2456/litre of absolute alcohol for imported spirits depending on the type of spirit and applicable agreements and certificates of origin.

The *Excise Taxes* and *Customs Tariffs* on imported spirits are reported and remitted under the *Customs Act* rather than the *Excise Act*.

The customs tariffs collected and remitted on imported wine and spirits are minimal yet require a great deal of administration by the provinces as well as the federal government to appropriately apply and remit to the CCRA. At a recent meeting between CCRA representatives and representatives of provincial liquor jurisdictions to discuss revisions to the *Excise Act*, a suggestion was made to the CCRA (to take to the Federal Department of Finance) that it consider abandoning the application of customs tariffs on imported wine and spirits. The discussion is ongoing.



## Cross Jurisdictional Comparison

Most other provinces use an ad valorem mark-up system, which is often just one component of a more complex pricing regime that includes additional rules covering, for example, minimum or maximum display prices or profits per unit. As a result, comparisons among mark-up systems in different jurisdictions can be misleading, particularly if Alberta is in the comparison. Alberta's mark-ups are lower than those of other provinces in part because Alberta does not operate or pay for warehousing, distribution or retailing costs. All other provincial liquor boards/commissions continue to operate and pay for most of the costs associated with these activities. In general, Alberta's flat mark-up regime is simple to understand and administer, and is generally perceived as a fairer method of assessing mark-up on liquor products.

The pricing structures for Alberta, British Columbia, Saskatchewan, Manitoba and Ontario are described in Appendix 3. Tables 3, 4, 5, and 6 provide a high level summary of the mark-ups for spirits, wine and for beer of large and small brewers in these provinces.

**Please note the mark-up information detailed in Appendix 3 and Tables 3, 4, 5 and 6 was compiled using information obtained from other jurisdictions. Other than the Alberta mark-ups, the writer cannot guarantee the completeness or accuracy of other jurisdictions' mark-ups depicted in these tables.**

**Table 3 – Cross Jurisdictional Comparison of Mark-ups for Spirits**

Province	Mark-up
Alberta	\$13.30/litre (greater than 22% alcohol by volume) \$9.90/litre (equal to or less than 22% alcohol by volume)
British Columbia	159% of (Landed Cost* + \$0.12/litre of Volume Mark-up) + \$0.31/litre or \$0.39/litre – Cost of Service Differential (import only) + \$0.01/unit to \$0.04/unit depending on type – Cost of Container
Saskatchewan	162% of Landed Cost* or Minimum/Maximum Mark-up depending on type and size
Manitoba	152% of Landed Cost* or Minimum Mark-up depending on size + \$0.317/litre – Surcharge (former Per-Package Surcharge) + \$0.25/package or \$0.30/package – Per-Package Surcharge + \$0.39/litre to \$0.443/litre depending on origin – Commercial Consideration
Ontario	131% to 145.1% of Landed Cost* depending on liquor type

\*Landed Cost = Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty

**Table 4 – Cross Jurisdictional Comparison of Mark-ups for Wine**

<b>Province</b>	<b>Mark-up</b>
Alberta	\$6.10/litre (greater than 16% alcohol by volume) \$3.45/litre (equal or less than 16% alcohol by volume)
British Columbia	110% or 129% of (Landed Cost* + \$0.12/litre of Volume Mark-up) + \$0.56/litre – Cost of Service Differential (import only) + \$0.01/unit to \$0.04/unit depending on type – Cost of Container
Saskatchewan	121% to 184% of Landed Cost* or Minimum/Maximum Mark-up depending on type and size
Manitoba	91% of Landed Cost* or Minimum Mark-up + \$1.441/litre – Surcharge (former Per-Package Surcharge) + \$0.200/package to \$1.030/package depending on size – Per-Package Surcharge + \$0.204/litre or \$0.349/litre depending on origin – Commercial Consideration
Ontario	56% to 64% of Landed Cost* depending on type and origin

\*Landed Cost = Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty

**Table 5 – Cross Jurisdictional Comparison of Mark-ups for Beer of Large Brewers**

<b>Province</b>	<b>Mark-up</b>
Alberta	\$0.98/litre
British Columbia	57% to 87% of (Landed Cost* + \$0.06/litre of Volume Mark-up + \$0.10/litre of Distribution Charge) depending on type and alcohol content or Minimum Mark-up + \$0.24/litre – Cost of Service Differential (import only) + \$0.0003/unit to \$0.0124/unit depending on type – Cost of Container
Saskatchewan	\$1.200/litre – bottles + \$0.204/unit or \$0.327/unit depending on number of units per package – Cost of Service (imports only)  \$1.441/litre – cans + \$0.204/unit or \$0.327/unit depending on number of units per package – Cost of Service (imports only)  \$0.942/litre – kegs + \$3.75/keg – Cost of Service (SLGA special orders only)
Manitoba	75% of Landed Cost* or Minimum Mark-up depending on size + \$0.071/litre to \$0.581/litre depending on size – Surcharge (former Per-Package Surcharge) + \$0.512/package to \$4.19/package depending on size and origin – Commercial Consideration
Ontario	\$0.5105/litre + \$0.164/litre – Out-store Cost of Service + \$0.606/litre – In-store Cost of Container

\*Landed Cost = Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty

**Table 6 – Cross Jurisdictional Comparison of Mark-ups for Beer of Small Brewer**

Province		Mark-up
Alberta		Less than 200,000 hl worldwide production \$0.40/litre
British Columbia	Cottage	Less than 75,000 hl production First 15,000 hl production 80% of Percentage Mark-up <sup>1</sup> + \$0.0037/unit to \$0.0124/unit depending on type and size – Cost of Container  Next 60,000 hl production 90% of Percentage Mark-up <sup>1</sup> + \$0.0037/unit to \$0.0124/unit depending on type and size – Cost of Container  <sup>1</sup> Percentage Mark-up = 58% to 83% of (Landed Cost* + \$0.04/litre of Volume Mark-up + \$0.10/litre of Distribution Charge) depending on alcohol content
	Regional	75,000 to 200,000 hl production 53% to 83% of (Landed Cost* + \$0.04/litre of Volume Mark-up + \$0.10/litre of Distribution Charge) depending on alcohol content + \$0.24/litre – Cost of Service Differential (import only) + \$0.0037/unit to \$0.0124/unit depending on type and size – Cost of Container
Saskatchewan	Regional	Less than 75,000 hl production \$0.950/litre – Bottle + \$0.204/unit to \$0.327/unit depending on number of units per package – Cost of Service (imports only)  \$1.191/litre – Can + \$0.204/unit to \$0.327/unit depending on number of units per package – Cost of Service (imports only)  \$0.692/litre – Keg + \$3.75/keg – Cost of Service (SLGA special orders only)
	Brewpub	Less than 2,000 hl production \$0.17/litre
Manitoba		75% of Landed Cost* or Minimum Mark-up depending on size + \$0.071/litre to \$0.581/litre depending on size – Surcharge (former Per-Package Surcharge) + \$0.512/package to \$4.19/package depending on size and origin – Commercial Consideration
Ontario		Less than 100,000 hl production First 25,000 hl production 66% of \$0.5105/litre + \$0.164/litre – Out-store Cost of Service + \$0.606/litre – In-store Cost of Container  Next 50,000 hl production 90% of \$0.5105/litre + \$0.164/litre – Out-store Cost of Service + \$0.606/litre – In-store Cost of Container  Next 24,999 hl production 100% of \$0.5105/litre + \$0.164/litre – Out-store Cost of Service + \$0.606/litre – In-store Cost of Container

\*Landed Cost = Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty

## Key Questions

1. Do you feel that changes are required to Alberta's mark-up structure? If so, what changes would you recommend and why? If not, why?
2. Would Alberta's liquor mark-up structure benefit from having more cutoff points in each category of liquor product and different mark-ups at the different cutoff points? Please explain.
3. Do you believe liquor mark-ups should be spread more evenly across all beverage alcohol categories? If yes, on what basis and how? If not, why?
4. It has been suggested Alberta should consider a sliding-scale mark-up system based on alcohol content. Under such a system, the lowest alcohol content products, for example, would be assessed the lowest mark-up and the highest alcohol content products assessed the highest mark-up. Would you support such a system? Why or why not? What implications would this type of mark-up system have on your segment of the industry?
5. Should a differentiated mark-up for beer be continued in Alberta to assist small-scale manufacturers in the province? Why or why not?
6. Please note any other comments, issues or suggestions regarding the province's liquor mark-up system with your rationale for these views.

## BUY/SELL AGREEMENTS

### Background

In 1995 and 1996, the Board of the Commission operated under policy that allowed the approval of arrangements between liquor suppliers and liquor licensees. The arrangement allows liquor licensees to promote a particular brand or type of liquor.

Similar arrangements are common in the grocery and other retail businesses. For example, manufacturers of products for these businesses would pay for shelf space in a retailer's outlet. Or these manufacturers would pay for a portion of a retailer's advertising costs related to the manufacturer's product and in exchange the retailer would provide brand exclusivity or product listing.

In 2000, representatives from the liquor industry requested a policy allowing buy/sell agreements in Alberta. Buy/sell agreements allow liquor suppliers and licensees to enter into agreements where particular brands or types of liquor are purchased and sold by the licensees. The Commission consulted with the industry about the potential policy changes. As a result, the Commission established policy regarding buy/sell agreements effective July 1, 2000.

### Current Situation

The current policy respecting buy/sell agreements in Alberta is as follows:

1. A liquor supplier and a liquor licensee may enter into a buy/sell agreement which allows the liquor supplier to give items to the licensee in return for the promotion of specific brands or types of liquor by the licensee. Promotional items must conform with existing legislation and these guidelines, and must be directed to the consumer.
2. All agreements between a liquor supplier and a liquor licensee must be documented, verifiable and include the following:
  - a. name of liquor supplier;
  - b. name of licensed premises;
  - c. duration of agreement (may not exceed a 12-month period);
  - d. list of items provided including their retail value; and
  - e. the terms of the agreement, e.g., the applicable brands or products and any quantities must be stipulated
3. No liquor product, other than currently allowed for within these guidelines (e.g., sampling), may form part of a buy/sell agreement. No cash (cheques, etc.) may form part of a buy/sell agreement.
4. A buy/sell agreement between a liquor supplier and a liquor licensee (including all shareholders, directors, management and staff), may not exclude, bar or otherwise prohibit any competitor's product(s), unless specifically approved by the Board of the Commission.
5. All promotional items provided to a licensee by a liquor supplier must be subject to a buy/sell agreement.
6. Buy/sell agreements complying with these guidelines do not have to be submitted to the Commission for approval.

7. True copies of all buy/sell agreements must be retained in the licensed premises and provided to the Commission immediately upon request. Liquor Suppliers must also retain true copies of all buy/sell agreements to which they are party and must be provided to the Commission immediately upon request. Buy/sell agreements between liquor suppliers and licensees with multiple licensed premises (locations) are to be held in the provincial offices of the liquor supplier and at each location in which the actual liquor licence is posted.
8. All other Commission policy guidelines pertaining to Product Promotion in Licensed Premises and Liquor Advertising for Liquor Suppliers, Liquor Agencies and Licensees must be met.
9. The only acceptable type of buy/sell agreement is included as Appendix 4. This buy/sell agreement must be used by all liquor suppliers and licensees.

## Cross Jurisdictional Comparison

Buy/sell agreements are unique to Alberta.

## Key Questions

1. In your view, under Alberta's privatized model of liquor retailing, is it appropriate to retain the existing policy model for buy/sell agreements or should the free market be allowed to take its course? Why or why not?
2. Are there any benefits in eliminating the provisions of the Commission policies respecting buy/sell agreements? In other words, is there merit in allowing parties to offer or accept inducements to sell a particular brand or type of liquor without regulatory restrictions? Why or why not?
3. Do you believe a liquor supplier should be authorized to enter into an agreement with a company operating a national chain of licensed premises in which the amount of support to be provided is based on the purchase of a given volume of product? Why or why not?
4. What changes, if any, do you believe should be made to the policies respecting buy/sell agreements? Please explain why.
5. Please note any other comments, issues or suggestions you may have regarding buy/sell agreements.

## PRODUCT EXCLUSIVITY

### Background

Section 85 of the *Gaming and Liquor Regulation* allows the Board of the Commission to approve an arrangement between a liquor supplier and liquor licensee to promote a particular brand or type of liquor. This authority has been in place, previously under section 64(b) of the *Liquor Administration Regulation*.

The Board set a policy in this regard in March 2000 that exclusivity agreements between liquor suppliers and liquor licensees would only be permitted at community events and select sporting venues. No other product exclusivity arrangements would be allowed.

### Current Situation

Current policy respecting exclusivity is as follows:

- The Board of the Commission may approve exclusivity agreements between liquor suppliers/liquor agencies and licensees for community events and select sporting events.
- Exclusive sponsorship is permitted, however exclusivity of a specific brand of product at any event or activity is only permitted with approval of the Board.

Exclusivity agreements are routinely submitted by liquor suppliers and liquor agencies to the Commission for the Commission's approval.

### Cross Jurisdictional Comparison

Although other Canadian jurisdictions, other than Newfoundland and Quebec, have acknowledged they have legislation allowing for such exclusivity activities, none has pursued a requirement for exclusivity or similar agreements to be prepared and submitted to the liquor authority for approval.

### Key Questions

1. Do you feel Division 4 - Prohibited Relationships of the *Gaming and Liquor Regulation* should be retained or eliminated? Please explain.
2. Do you feel section 85 under Division 4 – Prohibited Relationships of the *Gaming and Liquor Regulation* should be retained or eliminated? Please explain. If you believe it should be retained, what changes, if any, do you believe should be made to this section relating to exclusivity.
3. Do you feel the existing policy model for exclusivity in Alberta should be retained? If so, why? If not, why?
4. What changes, if any, do you suggest should be made to the policy respecting exclusivity agreements? Please explain why.
5. Please note any other comments, issues or suggestions you may have regarding exclusivity agreements.

## DEFINITION OF A MANUFACTURER

### Introduction

The policies discussed in this section pertain to the manufacture of liquor in Alberta under a Class E Manufacturer Licence issued by the Commission. A separate Class E Manufacturer's Licence is required for each manufacturer's "subclass" (beer, brew pub, wine and spirits). Each licence specifies various requirements related to the manufacture of the liquor product covered by the licence. This includes the minimum annual production capacity requirements and the packaging and sale of liquor products. These are discussed in further detail in this section.

Various issues have arisen regarding the Class E Manufacturer's policies. These issues are identified in the numbered parts in this section. Stakeholders are invited to provide their input on these issues or related matters.

### **Class E Manufacturer Licence**

A Class E Manufacturer Licence is required for a vintner, distiller, or brewer to manufacture liquor in Alberta. This licence authorizes the licensee:

- (i) to manufacture liquor in the licensed premises;
- (ii) to possess and store the manufactured liquor in the licensed premises;
- (iii) to sell the manufactured liquor to the Commission; and
- (iv) to provide, in accordance with policy, manufactured liquor to its employees and their guests for consumption in the licensed premises.

Class E Manufacturers must meet the policy requirements for their specific respective subclass (wine, spirits, beer and brew pub). The following definitions apply to the four specific subclasses discussed here:

- A **vintner** is a company that commercially manufactures, blends and packages beverages containing wine at a permanent facility located within Alberta.
- A **distiller** is a company that commercially manufactures, blends and packages beverages containing distilled spirits at a permanent facility located within Alberta.
- A **brewer** is a company that commercially manufactures, blends and packages beverages containing beer at a permanent facility located within Alberta.
- A **brew pub** is a facility that manufactures beer primarily for consumption in an adjoining Class A licensed premises operated by the brew pub licensee.

This review also includes the consideration of U-vin/U-brew establishments. Under current policies, these establishments may not be licensed or operate in the province of Alberta. A U-vin/U-brew is defined as an establishment that provides goods, facilities or services to persons producing or manufacturing wine, beer or cider in the establishment for their own consumption or consumption at no charge by others.



## Issues

The policy issues are divided into five main subject areas, as follows:

1. **Class E Manufacturer Licence (Wine)** – respecting the production level requirements for a vintner related to the minimum annual production capacity of 2,500 hl. The vinification policy requires that 80% of wine produced must be vinified on site. Current policy does not allow for the licensing and operation of small-scale (or cottage) wineries manufacturing at a lower level of minimum annual production capacity.
2. **Class E Manufacturer Licence (Spirits)** – respecting the production level requirements for a distiller related to the minimum annual production capacity of 2,500 hl of absolute alcohol. Current policy does not allow for the licensing and operation of small-scale (or cottage) distilleries manufacturing at a lower level of minimum annual production capacity.
3. **Class E Manufacturer Licence (Beer)** – respecting the production level requirements for a brewer related to the minimum annual production capacity of 5,000 hl. Current policy does not allow for the licensing and operation of microbreweries manufacturing at a lower level of minimum annual production capacity.
4. **Class E Manufacturer Licence (Brew Pub)** – respecting the production level requirements and sales channels for beer manufactured by a brew pub.
5. **U-vin/U-brew (Brew-on-Premises) Establishments** – current policy does not allow for the licensing and operation of U-vin and U-brew (also called brew-on-premises) establishments. This peripheral issue differs in principle from the Class E Manufacturer Licence issues identified above. Owners of these establishments would not manufacture liquor; rather, they would provide goods, facilities or services to support individuals manufacturing beer or wine for personal use.

Each subject area is discussed in further detail as follows.

## 1. Class E Manufacturer Licence (Wine)

### Background

A vintner is defined as a company that commercially manufactures, blends and packages beverages containing wine at a permanent facility located within Alberta. A Class E Manufacturer Licence (Wine) authorizes a vintner to commercially manufacture wine in Alberta. To be considered for a Class E Manufacturer Licence (Wine), the prospective licensee must meet the following production requirements:

- a minimum annual production capacity of 2,500 hl;
- 80% of the wine production must be vinified on site (vinify means the conversion of a sugar containing solution such as fruit juice into wine by fermentation; this process can start with the fruit, for example, grapes, the juice itself or juice concentrate);
- tanks for fermentation, maturation and storage with a minimum capacity of 10 hl each; and
- an adequate number or size of storage tanks to accommodate the annual production capacity, including the products requiring aging.

Licensees are allowed 18 months from the start of operation under the Class E licence to reach the minimum production levels.

Currently, there are no wineries operating in the province of Alberta. In addition, current policy does not allow for the licensing and operation of small-scale (or cottage) wineries manufacturing at a lower level of minimum annual production capacity.

Interest has been expressed in importing bulk wine for the purpose of marketing the product following bottling and labeling. Currently, a vintner must vinify 80% of the wine production on-site. Importation of finished product by a licensed vintner would contravene the current policy requiring vinification. A Class E Manufacturer Licence (Wine) is not intended to support individuals seeking to blend wine which has been produced by another manufacturer. A change in policy would be needed for a licensee to complete only a portion of the required wine-making activities, such as blending or bottling.

Prospective small-scale manufacturers of wine have expressed interest in an adjustment to the minimum annual production capacity required by policy. Fruit and honey producers have indicated their interest in a policy change which would allow for small-scale (or cottage) wineries to be established.

Fruit growers in Alberta believe cottage winery operations could be sustained by the availability of fruit and honey in Alberta. It is felt the value-added usage of Alberta agricultural product, specifically farm-produced fruit or honey, would be economically beneficial to Alberta and generate employment and support agri-tourism. The cottage wineries could support small-business growth in the province with only a negligible impact on the commercial wine market. It is suggested that export sales by cottage wineries would be minimal, with local (farm-gate) sales likely being the primary marketing method.

## Cross Jurisdictional Comparison

### British Columbia

In British Columbia, a winery may do one or more of the following: produce or manufacture wine; store and keep the wine; use the wine for prescribed purposes; sell the wine to another licensed winery; purchase wine from another licensed winery; and/or sell the wine and wine produced by other licensed wineries for consumption at the winery.

The minimum annual production requirement for a winery is 4,500 litres of product fermented by the manufacturer. The manufactured wine derived from provincial fruit and sold directly to consumers is exempted from mark-up. On-site sales and special-order sales direct to licensees are exempted from a mark-up in British Columbia. Sales to licensees occur through a special order process in which the licensee contracts with a manufacturer for product and the product is shipped directly to the licensee. Imported wine and all sales through liquor stores are subject to the full mark-up in British Columbia.

### Saskatchewan

In Saskatchewan, vintners can import product for blending. Up to 35% of wine, sourced from outside the province, may be blended to complete the final product.

A Saskatchewan cottage winery manufactures wine and cider from grapes and non-grape products grown in the Prairie Provinces. The minimum annual production requirement is 4,500 litres for a cottage winery. Production of less than 45,000 litres per year warrants a cottage winery mark-up subsidy (a quantity above this amount is deemed commercial production and the full mark-up is applied).

### Manitoba

In Manitoba, wineries must be commercial grade facilities that ferment and/or bottle wine. The minimum production requirement for a cottage winery is 1,000 litres per year manufactured or packaged on-site.

## Ontario

In Ontario, wineries are required to purchase and manufacture each year an amount or quota of Ontario grapes as established by the Wine Council of Ontario.

## Key Questions

1. Do you feel the existing policy model respecting wine production levels in Alberta should be retained? Why or why not?
2. Do you believe the existing policy requirement of vinifying 80% of wine production on-site (vinification requirement) should be retained? Why or why not?
3. In your view, should licensees be allowed to complete only a portion of the wine production process such as blending and bottling, without having to ferment the product? Why or why not?
4. Do you believe some of the required wine-making activities should be mandatory and others optional? Please explain.
5. Do you feel Alberta should pursue the development of a policy for cottage wineries, to enable small-scale winery operations to manufacture wine in Alberta? Please explain.
6. Should the minimum annual production capacity requirement be altered by instituting a multi-tiered (graduated or scaled) production capacity requirement which spans a longer time frame to encourage small wineries? Please explain.
7. Do you think the production capacity requirement should be altered to require an *actual* (versus *capacity*) production level to be achieved? Why or why not?
8. Do you believe small-scale manufacturers should contribute to provincial revenues through a provincial mark-up on sales? Why or why not?
9. If small-scale manufacturers were to be established in the province, should there be a differentiation in the mark-up applied to wine of small-scale manufacturers? Please explain.
10. Please note any other comments, issues or suggestions you may have regarding wineries in the province.

## **2. Class E Manufacturer Licence (Spirits)**

### Background

A distiller is defined as a company that commercially manufactures, blends and packages beverages containing distilled spirits at a permanent facility located within Alberta. A Class E Manufacturer Licence (Spirits) authorizes a distiller to commercially manufacture spirits in Alberta. To be considered for a Class E Manufacturer Licence (Spirits), the prospective licensee must meet the following production requirements:

- a minimum annual production capacity of 2,500 hl of absolute alcohol (yielding approximately 6,250 hl in finished products at 40% alcohol by volume);
- distill at least 80% of spirits on site;
- fermentation tanks with a minimum capacity of 10 hl per tank;
- an adequate number and sizes of storage tanks to accommodate the production capacity; this includes tanks or barrels for aging; and

- a bonded warehouse for aging on the same site as the manufacturing plant.

Licensees are allowed 18 months from the start of operation under the Class E Manufacturer Licence (Spirits) to reach the minimum production requirements.

Interest has been expressed in establishing a small-scale (or cottage) distillery in the province. The policy requirements regarding producing absolute alcohol and distilling 80% of the spirits on-site are considered prohibitive to prospective small-scale distillers. Cottage distillers would produce lower volumes of spirits than is currently allowed for distillers in the province.

A prospective small-scale manufacturer of spirits has requested a policy change relating to the minimum annual production capacity of 2,500 hl of absolute alcohol. Cottage distilleries could support the value-added usage of Alberta agriculture product for the production of absolute alcohol. Quality control and regulatory control are of paramount concern in the manufacture of spirits.

### **Cross Jurisdictional Comparison**

Only Alberta and Nova Scotia have instituted a prescribed minimum production requirement for distilleries. Nova Scotia requires distilleries to meet a 25 hl minimum annual production capacity. Alberta differs from other provinces in its minimum annual production capacity requirement of 2,500 hl of absolute alcohol. As well, Alberta is the only province with a policy requirement related to fermentation tanks. Distillers in Alberta must utilize tanks or barrels for aging which have a minimum capacity of 10 hl each.

Generally, the application process to obtain a distiller's licence in other provinces is based on market need and the applicant's background and financial resources (for example, business experience, financial assets, etc.).

#### **Saskatchewan**

A distiller may do any or all of the following: manufacture spirits; sell and deliver its manufactured product to the provincial authority; and export its manufactured product as authorized. The distiller must continue to satisfy specified conditions relating to the manufacturer's location, construction, equipment, operation and management. Production standards are maintained through inspections of the manufacturing process and the raw materials used for the manufacture of spirits. Saskatchewan has not instituted a minimum production level for distilleries.

#### **Manitoba**

A distiller's production and hospitality activities are monitored through inspections of the distiller's records. Manitoba has not instituted a minimum production level for distilleries.

### **Key Questions**

1. Do you feel the policy model respecting distilleries in Alberta should be retained? Why or why not?
2. In your view, should Alberta pursue the development of a policy for cottage distilleries, to enable small-scale distillery operations to manufacture spirits in Alberta? Why or why not?
3. How would policies allowing cottage distilleries affect existing larger-scale commercial distilleries or the possibility of such larger-scale distilleries being established in Alberta in the future?

4. If policies allowed for cottage distilleries, do you believe these distilleries should be required to contribute to provincial revenues through a provincial mark-up on sales? Why or why not?
5. If you responded yes to Question 4, do you believe there should be a differentiation in the mark-up on spirits to assist the profitability of small-scale manufacturers? Why or why not?
6. Please note any other comments, issues or suggestions you may have respecting cottage distilleries in the province.

### **3. Class E Manufacturer Licence (Beer)**

#### **Background**

A brewer is defined as a company that commercially manufactures, blends and packages beverages containing beer at a permanent facility located within Alberta. A Class E Manufacturer Licence (Beer) authorizes a brewer to commercially manufacture beer in Alberta. To be considered for a Class E Manufacturer Licence (Beer), the licensee must meet the following production requirements:

- minimum annual production capacity of 5,000 hl;
- all beer must be manufactured on site;
- fermentation, maturation and storage tanks with a minimum of 10 hl capacity per tank; and
- there must be a weekly minimum of 50 hl overall fermentation, maturation and storage capability and space available to add additional tanks to achieve overall annual capacity.

Licensees are allowed 18 months from the start of operation under the Class E Manufacturer Licence to reach the minimum production levels.

Prospective microbrewers have expressed interest in an adjustment to the minimum annual production capacity required by policy. In March 2001, the Board rejected an application by a brewing company to convert from a Class E Manufacturer Licence (Brew Pub) to a Class E Manufacturer Licence (Beer). In its decision, the Board took into account the brew pub's failure to meet the required 5,000 hl minimum annual production capacity, and its request to continue to operate the existing Class A licensed premises. The Board's decision was upheld by a Hearing Panel of the Board in April 2001.

#### **Cross Jurisdictional Comparison**

##### **Saskatchewan**

In Saskatchewan, a regional brewer must produce at least 2,000 hl of beer each year, and a national brewer at least 75,000 hl per year. Regional breweries can produce between 2,000 hl and 75,000 hl annually and enjoy a reduced mark-up rate.

##### **Manitoba**

In Manitoba a brewer producing less than 17,600 hl of beer annually is classified as a microbrewery. The microbrewer may distribute beer for on-premises consumption and/or sell beer for off-premises consumption at the microbrewery. If production exceeds 17,600 hl annually, the brewery may distribute the beer province-wide.

##### **Ontario**

In Ontario a manufacturer of beer which produces less than 100,000 hl of beer per year pays a reduced mark-up as follows: 66% for the first 25,000 hl and 90% for the next 50,000 hl.

## Key Questions

1. Do you feel the existing policy model for a Class E Manufacturer Licence (Beer) should be retained? Why or why not?
2. Do you believe the minimum annual production capacity requirement should be altered by instituting a multi-tiered (graduated or scaled) production capacity requirement spanning a longer time frame, to give microbrewers a chance to grow to larger-scale brewers? Please explain.
3. Do you feel a licence class for microbreweries should be established which would entail a decreased level of minimum annual production capacity to encourage smaller brewers? Why or why not?
4. In your view, should the production capacity requirement be altered to require an *actual* (versus *capacity*) production level to be achieved by a brewer? Why or why not?
5. Please note any other pertinent comments, issues or suggestions regarding the province's policy model for beer production levels.

## 4. Class E Manufacturer Licence (Brew Pub)

### Background

A brew pub is defined as a facility that manufactures beer primarily for consumption in an adjoining Class A licensed premises operated by the brew pub licensee.

In 1997 and 1998, Class E Manufacturer (Brew Pub) licensees requested approval to sell their beer to other licensees. The Board rejected the requests. The Board maintained the policy prohibiting brew pubs from selling product brewed on the premises to other licensees for the following reasons:

- A brew pub is a facility that manufactures beer primarily for consumption in an adjoining Class A licensed premises operated by the brew pub licensee.
- The Board had already revised the brew pub policy to allow for off-sales to the general public and special event licensees. Brew pubs were originally authorized for on-premises consumption only; off-sales to the general public or special event licensees, prior to the revision, were not permitted.
- Selling to other licensees, other than special event licensees, would impact the sales of beer produced by microbreweries and large manufacturers, which have significantly larger investment in their production facilities and distribution process than brew pubs do in theirs.

In February 1999, the Board decided not to increase the number of wholly-owned licensed premises to which the brew pub could transfer beer. As well, it decided not to increase the allowable production capacity for brew pubs. The Board recognized breweries enjoy wider distribution than brew pubs, but they also have higher investments in equipment due to packaging requirements. The Board reaffirmed the basic principle that a brew pub is an adjunct to the licensee's Class A licensed premises.

The Board again reviewed the existing brew pub policy in 1999 and stated it was satisfied the existing policy was in the best interest of the industry as a whole and allows manufacturers, microbrewers and brew pubs to operate on a level playing field. The Board felt any changes to, or relaxing of, policy would give brew pubs a competitive advantage over the small microbrewery which has a significantly larger investment than the brew pub in its manufacturing operation.

In October 2000, the Board approved:

- The transfer of beer manufactured by a brew pub to other licensed premises which the brew pub licensee operates and in which the licensee holds at least 80% ownership. Previous policy authorized transferring beer to a maximum of two other licensed premises in the same municipality which were wholly owned by the licensee.
- An increase in the maximum annual production to 10,000 hl from 5,000 hl.
- A reduction in the tank-size requirements to 2 hl from 5 hl if the weekly minimum capacity of 10 hl of overall fermentation, maturation and storage is maintained.

At the same time the Board rejected an amendment which would have allowed brew pubs to sell manufactured beer to other liquor licensees for the following reasons:

- Brew pubs entered the market knowing the limitations in place. They have the option of increasing production capacity by obtaining a Class E Manufacturer (Beer) Licence.
- Sales to licensees would have an affect on existing breweries and microbreweries, although the affect may be minimal due to limited production.
- Sales by brew pubs would likely require a more stringently regulated system to ensure the provincial mark-up is obtained for all sales.

In March 2001, the Board rejected a Class E Manufacturer (Brew Pub) licensee's application for a Class E Manufacturer Licence (Beer). In this case, the brew pub licensee sought to continue to operate the existing Class A licensed premises with the Class E Manufacturer Licence (Beer). The Board's decision was based on the licensee's failure to meet the minimum production capacity required for a Class E Manufacturer Licence (Beer). The Board's decision was upheld by a Hearing Panel of the Board in April 2001.

As indicated, a brew pub is defined as a facility that manufactures beer primarily for consumption in an adjoining Class A licensed premises operated by the brew pub licensee. A Class E Manufacturer Licence (Brew Pub) authorizes a brew pub operator to manufacture beer primarily for consumption in a Class A establishment that is in the same building as the brew pub brewing facility. Currently, to be considered for a Class E Manufacturer Licence (Brew Pub), the licensee must meet the following production requirements:

- all beer must be manufactured on site;
- fermentation, maturation and storage tanks must each have a minimum capacity of 2 hl;
- there must be a weekly minimum capability for 10 hl of overall fermentation, maturation and storage;
- a brewery must be a complete system capable of producing beer from raw materials (grain or extract) by way of mash tun and/or kettle through to bright beer tank; and
- the maximum annual production volume for a brew pub is 10,000 hl.

The brew pub policy initially intended that the product would be manufactured for on-premises consumption only, as an adjunct to the directly affiliated Class A licensed premises. Brew pub operators would like to be able to sell their beer to all licensees. Under current policy, a brew pub licensee may not sell any beer it manufactures to other licensees, except to special event licensees. A brew pub licensee may transfer beer it manufactures to other licensed premises it operates which are at least 80% owned and operated by the brew pub licensee.

## **Cross Jurisdictional Comparison**

### **British Columbia**

On April 10, 2000, a British Columbia Supreme Court decision allowed sales by brew pubs to other licensees, although the government retains the authority to disallow sales by regulation. Following the British Columbia Supreme Court decision, the government announced that brew pubs would be allowed to sell their beer in liquor stores, cold beer stores, wine stores and licensed establishments. This policy change was expected to impact the market only minimally. Data from the Liquor Distribution Branch in British Columbia dating from 1995 indicates that provincial brew pub sales have increased annually, from \$851,000 in 1995 to \$3.5 million in 1999. In 1999, brew pubs sold 12,473 hl, representing 0.5% of the British Columbia market for beer.

### **Saskatchewan**

Saskatchewan currently allows brew pubs to sell to special occasion permit holders. The matter of brew pubs selling to licensees is currently under review. To sell to another licensee, the order must be processed as a special order by the liquor authority. A special order is a purchase of beer from the brew pub followed by a sale with a mark-up to the licensee. In terms of production, Saskatchewan requires a minimum tank size of eight (8) hl for fermentation, maturation and dispensing tanks and specifies a maximum annual production limit of 2,000 hl per year.

### **Manitoba**

Manitoba allows brew pubs to sell to other licensees (for example, restaurants and lounges) for on-premise consumption.

### **Ontario**

In Ontario a brew pub can sell to one other licensed premise in which the brew pub holds a majority interest. As well, Ontario allows brew pubs to sell beer under a catering endorsement. A catering endorsement permits the sale and service of beer to an event that is held in an unlicensed area and not at the licensed establishment. The catered event must be sponsored by a group or individual other than the licensee, include light meals, and not exceed ten days in duration.

## **Key Questions**

1. Do you believe the existing policy model for brew pubs in Alberta should be retained? Why or why not?
2. In your view, should the maximum annual production volume level for a brew pub or any other production requirement be changed? Why or why not?
3. Should the restriction be removed which requires a brew pub to only transfer beer it manufacturers to other licensed premises it operates which are at least 80% owned and operated by the brew pub licensee? Why or why not?
4. Should brew pubs be allowed to sell the beer it manufactures to all licensees, to select classes of licensees, or to a particular class of licensee? Please explain your views in this regard.
5. What growth or contraction in the market share for brew pubs, microbreweries and commercial breweries do you foresee for the future? Please identify sources or methodology used for this forecast.
6. Please provide any other comments, issues or suggestions regarding brew pubs in the province.



## **5. U-vin / U-brew (Brew-on-Premises) Establishments**

### **Background**

U-vin/u-brew/brew -on-premises are prohibited in Alberta. However, there has been interest expressed in establishing U-vin/U-brew facilities which would offer services, equipment and space to Albertans who wish to make their own beer, wine and/or cider for personal consumption.

The fundamental principle of a U-vin/U-brew operation is that the customer is responsible for making his or her own product for personal consumption. An important requirement of U-vin/U-brew establishments is that the customer completes all of the primary manufacturing tasks. Since the liquor production is by individuals for their consumption, a mark-up would not apply and thereby revenue would not be generated for the province from these operations.

Mark-up revenue is not derived on U-vin/U-brew products. British Columbia and Ontario are able to collect a sales tax on U-vin/U-brew products and services. If these establishments were allowed in Alberta, under current legislation and regulation no revenue would be collected from the sales (as a sales tax) or liquor products (as a mark-up) produced in these establishments. This is because Alberta does not have a provincial sales tax and there is no legislative or regulatory provision to assess a mark-up on liquor produced for personal consumption only.

### **Cross Jurisdictional Comparison**

British Columbia and Ontario are the only provinces with legislative frameworks relating to U-vin/U-brew establishments. Both provinces require the operators of these establishments to be licensed as of April 1, 2000.

#### **British Columbia**

British Columbia defines a U-vin/U-brew as an establishment that provides goods, facilities or services to persons producing or manufacturing wine, beer or cider in the establishment for their own consumption or consumption at no charge by others. An annual licence is required to operate a facility in which customers manufacture beer, wine, cider or coolers for consumption off-site. Distilled products may not be manufactured at a U-vin/U-brew establishment. Licensees are subject to terms and conditions respecting matters such as: services that may be provided by the licensee; role of the customer; days and hours of operation; the prohibition against liquor sales; limitations on sampling; rules on advertising; and requirements on storing product.

The operations were established in the province partly because the earlier legislation did not require homemade liquor to be produced in a residence. The high tax environment for commercial liquor products is believed to have also played a role in the growth of U-vin/U-brew establishments. Up until 1995 there were about 25 U-vin/U-brew establishments in British Columbia. Five years later, when licensing for these establishments was implemented, approximately 300 licences were issued. Currently, there are about 350 licensees in the province; the breakdown by type is as follows: approximately 250 wine-only operations, 100 wine and beer operations, and one (1) beer-only operation.

The volume of product from U-vin/U-brew establishments in British Columbia is considerable. The “Liquor Control and Licensing Branch U-brew/U-vin Production Report Summary: April 1, 2000 - September 30, 2000,” issued by the British Columbia Ministry of Public Safety and Solicitor General, details the market impact of the establishments. For example, if the U-vin/U-brew data for the volume completed is considered for these purposes to be a commercial liquor sale, the percentage of all produced beer, wine, cider and coolers manufactured in a U-vin/U-brew during the time period would constitute the following percentages of the total market in British Columbia:

- Wine: 21.98%
- Cider/Coolers: 3.59%
- Beer: 1.54%

### **Ontario**

Ontario defines a brew-on-premise facility as a premise where equipment for the making of beer or wine on the premises is provided to individuals. Operators must not keep for sale, or offer to sell, beer or wine which belongs to and was made by a customer. As well, operators cannot give beer or wine, or permit the exchange of product, made on the premises. Customers are prohibited from manufacturing beer or wine on behalf of others.

Currently, there are about 650 brew-on-premise licensees in Ontario. The number of licensees has been stable since the licence requirement was instituted on April 1, 2000. The breakdown by type of operation is as follows: 80% wine-only operations, 18% wine-and-beer operations, and 2% beer-only operations. There are no figures available for production amounts, since Ontario licensees are not required to report this information.

### **Key Questions**

1. Do you feel a licence class and policy model should be created to allow for U-vin/U-brew establishments to operate in Alberta? Why or why not?
2. What impact do you believe U-vin/U-brew establishments would have on the sale of commercially-produced wine and beer? Please indicate any sources or methodologies used to arrive at your response.
3. Please note any other comments, issues or suggestions you may have regarding U-vin/U-brew establishments in the province?

**Appendix 1 – Terms of Reference**  
**Alberta Gaming and Liquor Commission**  
**Review of Liquor Mark-up Structure and Related Policy**

**Purpose**

To conduct a review of the Alberta Gaming and Liquor Commission (“Commission”) liquor mark-up structure and policies that are complementary to or may affect how liquor mark-ups are structured in Alberta.

**Objective**

To arrive at a liquor mark-up structure and policies affecting that mark-up structure that meet the requirements of consumers, meets financial needs of the Government of Alberta and meets the needs and requirements of stakeholders in the liquor industry.

**Scope**

The findings of the review will be reported to the Board of the Commission. The Board of the Commission will, subsequent to their review, report their findings to the Minister of Gaming. The scope of the review will include the following:

1. The review will include all stakeholders including, but not limited to:
  - a. large beer manufacturers
  - b. small beer manufacturers
  - c. distillers
  - d. vintners
  - e. major licensee groups such as the Alberta Hotel and Lodging Association, the Alberta Liquor Store Association, and the Alberta Restaurant and Food Services Association.
2. The review will not contemplate reductions to the Commission revenue target for 2002-2003 of \$546 million.
3. The review will include other issues relevant to liquor mark-up structure including, but not limited to:
  - a. The effects of federal taxation on the provincial liquor mark-up structure
  - b. Policies relating to buy/sell agreements
  - c. Policies relating to exclusivity agreements
  - d. The definition of a manufacturer, including the concept of U-Brews and U-Vins.
4. Other matters as directed by the Board of the Commission.

## Appendix 1 – Terms of Reference

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### Appendix 1 – Stakeholder Listing *(Updated as of September 25, 2002)*

Alley Kat Brewing Company	Canadian Council of Grocery Distributors
Big Rock Brewery Ltd.	Canadian Home Wine Trade Association
Brewster's Brew Pub & Brasserie (Alta) Inc.	Fruit Growers Society of Alberta
Labatt Breweries	Alberta Agriculture, Food and Rural Development
Molson Canada	Boston Pizza International Inc.
Sleeman Breweries Ltd.	Calgary Exhibition and Stampede
The Great Western Brewing Company Limited	Earls Restaurant Ltd.
The Grizzly Paw Brewing Co.	Edmonton Eskimos Green and Gold Dinner Club
Western Brewers Association	McMahon Stadium/Chuckwagon Caterers
Wild Rose Brewery Ltd.	Northlands Park
Wildwood Brewing Co.	Pengrowth Saddledome
Highwood Distillers	Ranchman's Restaurant
Association of Canadian Distillers	Royal Canadian Legion
Alberta Retail Vintners Association	Schanks Athletic Club
Canadian Vintners Association	Shaw Conference Centre
Alberta Beekeepers Association	Calgary Co-Op Liquor Store
Alberta Hotel & Lodging Association	Canada Safeway Liquor
Alberta Liquor Industry Roundtable (ALIRT)	Real Canadian Liquor Store
Alberta Liquor Store Association	Sobeys
Alberta Market Gardeners' Association	Vickons
Alberta Restaurant and Foodservices Association	Wines & Spirits Warehouse – Cost Plus
Beverage Alcohol Importers Council of Alberta	

## Appendix 1 – Terms of Reference

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### Activities and Timelines *(Updated as of September 25, 2002)*

Activity	Timeline
1. Identification of issues and development of background paper	Aug. 1 – Sep. 06, 2002
2. Background paper distributed to stakeholders for input	Sep. 23, 2002
3. Written submissions accepted from stakeholders	Sep. 23 – Oct. 18, 2002
4. Stakeholder consultation meetings	Oct. 21 – 31, 2002
5. Preparation of report and recommendations	Nov. 1 – 15, 2002
6. Report and recommendations presented to AGLC Board	Nov. 26, 2002

### Contact Information

Questions regarding the review of the liquor mark-up structure and related issues may be directed to:

Lana Lougheed  
Director, Business Management  
50 Corriveau Avenue  
St. Albert, Alberta T8N 3T5

Telephone: 780-447-8975  
Fax: 780-447-8933  
E-mail: [lane.lougheed@aglc.gov.ab.ca](mailto:lane.lougheed@aglc.gov.ab.ca)



***Brewers Association of Canada***  
*The National Association of the Brewing Industry Since 1943*

**The Case for  
Excise Duty Relief for  
Canada's Small Brewers**

*Prebudget Submission  
House of Commons Standing Committee on Finance*

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**October 2001**

### **Introduction**

The Brewers Association of Canada is a national trade association representing over 99 per cent of the commercially-produced domestic beer enjoyed by Canada's more than 10 million beer drinkers. Our 28 members are:

Agassiz Brewing Company Ltd.	Moosehead Breweries Limited
Big Rock Brewery Ltd.	Nelson Brewing Company Limited
Brick Brewing Co. Limited	Niagara Falls Brewing Co.
Creemore Springs Brewery Limited	Les Brasseurs du Nord Inc.
Fort Garry Brewing Co. Ltd.	Northern Breweries Limited
Granville Island Brewing Company	Pacific Western Brewing Company
Great Western Brewing Company Limited	Peak Brewing Company Ltd.
Kawartha Lakes Brewing Co.	Les Brasseurs R.J.
Labatt Breweries of Canada	Sleeman Breweries Limited
Lakeport Beverage Corporation	Unibroue Inc.
Lakes of Muskoka Cottage Brewery	Vancouver Island Brewing Co.
La Brasserie McAuslan Brewing Inc.	Wellington County Brewery Inc.
Magnotta Brewery	Whistler Brewing Company Ltd.
Molson Canada	Yukon Brewing Company

We are seeking, on behalf of 24 of these companies, a 60 per cent reduction in the rate of excise duty on the first 75,000 hectolitres of production for Canadian brewers producing no more than 300,000 hectolitres annually. Although our four largest member companies would not benefit from this excise reduction, it has their support. They believe that a healthy and diverse small sector is essential for the industry as a whole.

Currently excise remittances by small brewing companies operating in Canada, estimated at 53 companies, amount to approximately \$19 million annually. Based on data from a 1995 benchmark study of Ontario breweries, this tax alone is nine times higher than the estimated \$2.1 million profit earned by the sector.

In recent years, a majority of Provinces have recognized that for the small brewery segment to remain viable, commodity tax relief was needed. The provinces that have acted are British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and Newfoundland. The industry believes it is important that the federal government also participate by providing a reduced rate of excise duty for small brewers.

**The Impact for Government**

About 20.7 million hectolitres of beer are sold annually in Canada. Sales of beer break down as follows:

Sale of Beer in Canada		
Source	Volume (hl)	Share of Total Market (%)
<b>Domestic</b>		
Companies producing over 300,000 hl annually	18,500,000	89.4
Companies producing less than 300,000	<u>700,000</u>	<u>3.4</u>
<b>Total Domestic</b>	<b>19,300,000</b>	<b>93.2</b>
<b>Imports</b>	<b>1,400,000</b>	<b>6.8</b>

In the domestic market, 18.5 million hectolitres are produced by the four largest companies; 53 small companies collectively sell the remaining 700,000 hectolitres. Average production of the 53 amounts to about 15,000 hl annually.

Total excise duty revenues to government, currently about \$579 million annually, would decline by \$10.9 million or 2 per cent with a 60 per cent reduction in the rate for small brewers on the first 75,000 hectolitres. The impact would be no greater than could be felt from the market effects of poor summer weather.

**The Impact for Small Brewers**

Excise is the single highest federal tax paid by the industry. As an illustration of the magnitude of the tax, at \$27.985 per hectolitre, excise duty equals the average cost of maintaining a small brewery, estimated at \$30 per hectolitre and direct labour costs, estimated at between \$27 and \$32 per hectolitre.

A 1985 benchmark study on Ontario microbrewers found that taxes represented the largest single category of costs, accounting for the equivalent of total production costs including raw materials. The authors remarked that this tax burden was extremely high, particularly considering that microbrewers are effectively small businesses often competing with large companies.

The benchmark study noted further that the average profit level (\$3 per hectolitre) of the seven companies measured was insufficient to provide for an adequate return on equity. On average, normal returns fell short by \$17 per hectolitre. The authors concluded that the industry had to examine its largest



single cost category (taxes) since even a small reduction in the tax bill would significantly improve the financial outlook for the small brewer segment.

In a more recent survey on the financial status of the small brewer segment in British Columbia (year 2000), PricewaterhouseCoopers found that all six of the companies surveyed (all producing below 75,000 hectolitres annually) were experiencing an economic loss. The average return on invested capital was -.29 per cent.

The study's suggestion of a fragile sector is borne out by the fact that in 1990, the industry boasted 31 microbreweries. After 1990 another 93 opened, the majority (67), in the last five years for a total of 124 existing and new breweries since 1990. Today there are 53 small companies and only 13 from among the original 31 companies operating in 1990.

#### ***The Distorting Effect of Excise on Small Brewers in Contrast to Other Small Businesses***

Excise is the single highest federal tax paid by the industry. In a 1995 benchmarking study on small Ontario breweries, taxes were found to represent the largest single category of costs. These findings suggest that the federal excise rate places small brewing companies at a significant disadvantage as compared to other small businesses in Canada. Presumably the various tax incentives for small business offered by the federal government are intended in part to recognize the higher cost structures of small companies versus larger competitors. However, in the case of the brewing sector, those incentives are more than recaptured by the excise.

The excise liability compounds problems associated with other taxes that are insensitive to a firm's profit such as capital, payroll and property taxes, all of which have become a larger part of total business taxes over the years. These taxes compete directly for needed capital and have a significant impact on cash flows, which in a small business are critical to its survival.

#### ***Competitiveness Within the Sector in North America***

Trade in beer between Canada and the United States is important to brewers in both countries. As such it is imperative in order to compete successfully in either market that the cost structures in the two countries be as closely aligned as possible. In fact, free trade between the countries was the primary driver for the massive restructuring of the Canadian brewing industry that occurred through the 1990's.

The small brewer segment contributes specialty products, which, because of higher cost structures compared to the larger companies, are necessarily priced at premium levels. The competitors in this market are other small domestic brewers within the same market, imports, and premium brands offered by the larger companies.

In 1990, sales by domestic microbrewers and Importers were about equal at about 500,000 hectolitres each. However, following actions within Canada in the early 1990's to improve imports' access, the share of market held by Imports increased from less than 2 per cent of the market before 1990 to 7 per cent in 2000 and since 1994 has been increasing by about 15 per cent or more a year. In contrast, microbrewer sales, which were about equal to imports in 1990 have increased their share of market in 10 years by only one per cent.

These data suggest that while there is consumer interest in the specialty beer market, the small brewer segment must improve its financial strength in order to attract these consumers. Taxes are one of the more significant cost components.

Among the four categories of competitors in the North American market (Canadian and American large brewers and Canadian and American small brewers), the most disadvantaged are the Canadian small brewers. As the following table illustrates, there is a \$3.14 per hectolitre or 13 per cent difference in excise duty payments between large brewers on a weighted domestic and export basis, but \$16.37 or 146 per cent for small Canadian brewers compared to their American counterparts.

**Comparison of Total Excise Duty Payments  
on Trade in Canada and the United States  
Assuming 10 Per Cent Production Exported**

	Large Canadian Brewer	Large American Brewer	Small Canadian Brewer	Small American Brewer
<b>Excise Rates (\$ Canadian)</b>				
On domestic production	\$27.99	\$24.06	\$27.99	\$9.3
On exports	24.06	27.99	24.06	27.9
Weighted Excise on 1 hl 90% sold domestically	25.19	21.65	25.19	8.4
10% exported	<u>2.41</u>	<u>2.80</u>	<u>2.41</u>	<u>2.8</u>
<b>Total Excise on 1 hl</b>	<b>27.59</b>	<b>24.45</b>	<b>27.59</b>	<b>11.2</b>
Difference (\$)	3.14		16.37	
Difference (%)	13%		146%	

The Case for Excise Duty Relief

4.

With the lowest tax burden of the four competitors, the American small companies have the greatest opportunity to strengthen their businesses and enlarge their markets, including expansion into Canada. It is noteworthy that in 2000 the number of American companies producing less than 75,000 hectolitres annually exporting into Canada was more than double the number five years earlier (14 companies in 2000 versus 6 in 1995).

Adoption of the industry's proposal would reduce the premium paid by Canadian brewers from \$16.37 per hectolitre over like-size U.S. competitors to \$1.26 or 11 per cent, a ratio more in line with that of the large competitors.

#### *The International Perspective*

As regards other nations, approximately 95 small independent companies import into Canada from countries other than the United States. They are domiciled as follows:

Country of Origin	No. of Companies
Belgium	33
United Kingdom	23
Germany	14
France	7
Other (14 countries)	18

As in the United States, nearly 60 per cent of these companies receive a favourable excise rate in their domestic market, thus providing them with similar competitive advantages, as defined by cost structure, as American small brewers.

The industry acknowledges that an issue for the federal government in adopting a policy of providing excise relief for small brewers has been the existence of the 1992 GATT Panel Report. In February 1992, as a result of a challenge launched by Canada, a GATT Panel found that the provision of a lower rate of excise tax on domestic beer (and wine) to qualifying producers by the U.S. federal government and many States, along with a number of other State practices were inconsistent with U.S. GATT obligations to the extent that imported beer was not offered best national treatment.

This report notwithstanding, in the 10 years since the decision, U.S. federal and state governments have taken no steps to implement the Panel findings and in fact a number of states have introduced new measures that further benefit in-

state producers and discriminates against Canadian beer exports to the United States.

Other countries, too, have ignored the GATT Panel ruling. Later in the same year that the Panel Report was released, the European Union published a policy document on excise taxation that ignored the determination. While the main objective of the policy was harmonization of rates among the Member States, Article 4 allowed members to reduce rates of duty by up to 50 per cent for independent breweries producing no more than 200,000 hectolitres per year. The reduction was to apply to all breweries within the Member States. Today, seven EU members provide excise relief at some level for small brewers.

Over time, as other countries have failed to introduce trade compliant policies, the industry has concluded that competitor neutrality within the small segment can only be achieved by introducing a tax measure that has come to be accepted internationally as a means of supporting small brewers.

#### *Conclusion*

Urgent action is needed if a small brewing sector is to be sustained. The membership of the Brewers Association of Canada is seeking, as a priority, a 60 per cent reduction in the rate of duty on the first 75,000 hectolitres of production for Canadian brewers producing no more than 300,000 hectolitres annually.

An excise duty reduction for small brewers in Canada would be consistent with policies adopted in the majority of major beer-producing nations (United States, Belgium, Austria, Denmark, Germany, the Netherlands and the Czech Republic) and two other countries (Finland and Luxembourg). The countries providing this benefit account for about one-third of worldwide beer production.

The impact on government revenues would be minimal, but the benefit to the small brewer segment would be significant. The benchmarking study referenced earlier suggested that in 1994 the microbrewer segment was not earning sufficient cash flows to cover replacement of assets and a required rate of return on capital. An average brewery fell short by \$16.89 per hectolitre from earning normal returns. Reducing the rate of excise from \$27.985 per hectolitre by 60 per cent for these companies would return \$16.79 to the sector.

Cross Jurisdictional Comparison of Liquor Mark-up Pricing Structure

Alberta (AGLC)	British Columbia (BCLDB)	Saskatchewan (SLGA)	Manitoba (MLCC)	Ontario (LCBO)
C.I.F. Invoice Price + Federal Excise Tax + Federal Import Duty = <b>Landed Cost</b> + Flat Mark-up + Recycling Cost + Deposit + GST = <b>Wholesale Price</b>	Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty = <b>Landed Cost</b> + Volume Mark-up + Distribution Charge (beer only) + Ad Valorem Mark-up + Service Differential Cost (imports only) + COC fee = <b>Basic Price</b> + GST & PST = <b>Store Display Price</b> + Litter Charge = <b>Consumer Price</b>	Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty = <b>Landed Cost</b> + Mark-up + Cost of Service (imports only) + Environmental Levy = <b>Basic Price</b> + Deposit + GST & LCT = <b>Consumer Price</b>	Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty = <b>Landed Cost</b> + Ad Valorem Mark-up (includes EPT & WRAP levies) + Mark-up Surcharge + Commercial Consideration = <b>Basic Price</b> + Deposit + GST & RST = <b>Consumer Price</b>	Supplier Quote + Freight + Federal Excise Tax + Federal Import Duty = <b>Landed Cost</b> + Service Cost (beer only) + Mark-up + Wine Levy + Bottle Levy + Environmental Levy = <b>Basic Price</b> + Deposit + GST & PST = <b>Consumer Price</b>

Explanation of the each element is included in the following pages.

## Appendix 3 – Cross Jurisdictional Comparison of Liquor Mark-up Pricing Structure

Elements	Alberta (AGLC)	British Columbia (BCLDB)	Saskatchewan (SLGA)	Manitoba (MLCC)	Ontario (LCBO)
Landed Cost	<ul style="list-style-type: none"> <li>C.I.F. invoice price includes quote, freight, agent fees and insurance</li> </ul>	<ul style="list-style-type: none"> <li>Consists of supplier quote, excise levies and customs duties</li> </ul>	<ul style="list-style-type: none"> <li>Freight is not included in the supplier's invoice</li> <li>Standard freight rates are generally used for product costing</li> </ul>	<ul style="list-style-type: none"> <li>Freight is not included in the supplier's invoice</li> <li>Standard freight rates are generally used for product costing</li> </ul>	<ul style="list-style-type: none"> <li>Freight is not included in the supplier's invoice</li> <li>Standard freight rates are used for product costing</li> </ul>
Mark-up and levies	<ul style="list-style-type: none"> <li>Based on flat mark-up per litre of product</li> <li>Mark-up varies by alcohol content and category</li> <li>Recycling cost applies to all products</li> </ul>	<ul style="list-style-type: none"> <li>Volume-based service differential cost applies to out-of-province products</li> <li>Distribution charge of 10¢/L applied prior to ad valorem for beer products</li> <li>Minimum mark-up applies to all products</li> <li>COC (Cost of Container) fee varies depending on container size and type</li> </ul>	<ul style="list-style-type: none"> <li>Ad valorem mark-up applies to wines, spirits and refreshment beverage</li> <li>Flat-rate-per-litre mark-up applies to beer products</li> <li>Cost of service-charge-per-unit applies to imported products and all beer distributed through SLGA warehouse</li> <li>Minimum absolute dollar mark-up applies to spirits excluding aperitifs and vermouths, standard fortified wines, sparkling/table wines and cocktail refreshment beverages</li> <li>Environmental handling charge based on the size and type of container</li> </ul>	<ul style="list-style-type: none"> <li>Greater of minimum mark-up or ad valorem applies</li> <li>Fixed dollar-per-litre commercial consideration levy applies to imported products</li> <li>WRAP (Waste Reduction &amp; Prevention) levy applies to all containers that have no deposit/return system at 2¢/container</li> <li>Fixed dollar-per-litre surcharge applies to all</li> <li>EPT (Environmental Protection Tax) rates are 10¢ and 5¢ for containers greater and less than 750 mL, respectively</li> <li>Licensees pay licence fee of 2% on value of spirits, wine, coolers and ciders purchased</li> </ul>	<ul style="list-style-type: none"> <li>Ad valorem mark-up applies to wine and spirits</li> <li>Flat mark-up applies to domestic and imported beer</li> <li>Dollar-per-litre wine levy applies to wine products</li> <li>Bottle levy is based on per-litre basis and applies to all products</li> <li>Wine levy applies to all wine products</li> <li>Environmental levy is based on per-container basis and applies to non-refillable containers</li> </ul>
Provincial Sales Tax (PST)	0%	10% (Provincial Social Services Tax)	7% (Liquor Consumption Tax – LCT)	7%	12% (Retail Sales Tax – RST)

## Appendix 3 – Cross Jurisdictional Comparison of Liquor Mark-up Pricing Structure

Elements	Alberta (AGLC)	British Columbia (BCLDB)	Saskatchewan (SLGA)	Manitoba (MLCC)	Ontario (LCBO)
Discounts	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Offered when products become delisted for not reaching quota requirements</li> </ul>	<ul style="list-style-type: none"> <li>Franchisees – 11.3% on Basic Price on wine and spirit purchased in fiscal year</li> <li>Franchisees – 8.2% on Basic Price on privately distributed beer</li> <li>Permittees – \$1.50/dozen if previous year's annual purchases were less than \$100,000, \$1.40/dozen between \$100,00 - \$400,000, and \$1.10/dozen if purchases exceed \$400,00</li> <li>NATO cardholders – at mark-up at rate of 90%</li> </ul>	<ul style="list-style-type: none"> <li>Applies to diplomats, consuls, NATO, duty-free stores, liquor vendors, specialty wine stores and other Canadian liquor jurisdictions</li> <li>Licensees – beer products only</li> <li>Maximum 40% discount of the Consumer Price on delisted products</li> <li>Maximum 25% discount of the Consumer Price on damaged-label products</li> </ul>	<ul style="list-style-type: none"> <li>Licensees – 5% to 10% off the Basic Price depending on product type</li> <li>Agency stores – 6%, 10.7% or 13% depending on amount purchased and product type</li> <li>NATO – 49% off the Consumer Price</li> <li>Offered on products for not reaching provincial sales quota</li> </ul>
Rounding	<ul style="list-style-type: none"> <li>Base Price is rounded up to the 2 decimal places then GST value is rounded to the nearest cent</li> </ul>	<ul style="list-style-type: none"> <li>Store Display Price is rounded up to the next 5-cent level</li> </ul>	<ul style="list-style-type: none"> <li>Basic Price is rounded up to the nearest cent then GST and LCT are rounded to the nearest cent</li> </ul>	<ul style="list-style-type: none"> <li>Consumer Price is rounded to the nearest cent</li> </ul>	<ul style="list-style-type: none"> <li>Consumer Price is rounded up to the nearest 5 cents.</li> </ul>
Minimum Pricing		<ul style="list-style-type: none"> <li>Spirits - \$25.91/L</li> <li>Liqueur - \$16.15/L</li> <li>Wine - \$7.20/L in packages of less than 10L, otherwise \$6.45/L</li> <li>Packaged beer, coolers and ciders - \$3.00/L</li> <li>Draught cider - \$2.45/L</li> <li>Draught beer - \$2.05/L</li> </ul>			<ul style="list-style-type: none"> <li>Spirits - \$11.10 (375 mL) to \$45.90 (1750 mL)</li> <li>Liqueurs - \$6.45 (375 mL) to \$30.10 (1750 mL)</li> <li>Wine - \$2.0994/L</li> <li>Packaged beer - \$2.49/L, \$2.53/L, or \$2.60/L depending on alcohol content</li> <li>Draught beer - \$2.15/L</li> </ul>

Source: Liquor Control Board of Ontario – Canadian Liquor Jurisdiction Price Survey, July 2001

**Please note the information detailed in the above table has been compiled using the most current information available. Other than the Alberta mark-ups, the writer cannot guarantee the completeness or accuracy of other jurisdictions' mark-ups shown here.**

**BUY-SELL AGREEMENT**

Between

**Parties:** \_\_\_\_\_ and \_\_\_\_\_  
(Liquor Supplier/Liquor Agency) (Licensee)  
\_\_\_\_\_  
(Registration/Licence Number) (Licence Number and Class of Licence)

**Purpose:** The contractual obligations stated below are agreed to and will be adhered to by both Parties throughout the duration of this agreement.

**Duration:** Commencing: \_\_\_\_\_  
Terminating: \_\_\_\_\_

**Terms:**

1. \_\_\_\_\_ hereby agrees to the following:  
(Licensee)

A. \_\_\_\_\_ of \_\_\_\_\_  
(Volume) (Product Name and CSPC Number)

will be either purchased or ordered over the duration period mentioned above.

(*Option:* Agreements could contain a clause identifying a requirement to maintain a certain level of inventory).

B. Placement of displays, merchandise, Point-of-Sale Material, etc. within the premises located at:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
(Common Premise Name) (Actual Location)

and shall be situated within the named premise(s) as shown below:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. In return for the considerations noted above \_\_\_\_\_  
agrees to: (Liquor Supplier/Liquor Agency)

A. Provide \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ RETAIL VALUE: \_\_\_\_\_

B. Conduct \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ RETAIL VALUE: \_\_\_\_\_

C. Attach \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ RETAIL VALUE: \_\_\_\_\_

D. Other (specify) \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_ RETAIL VALUE: \_\_\_\_\_



**Appendix 4 – Buy/Sell Agreement**

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**Conditions and Understanding:**

Both Parties to this agreement acknowledge and agree that all benefits realized by way of this Agreement must be directed at and received by customers/consumers only.

This Agreement shall not, whether written or implied, exclude the purchase, sale, storage or displaying of a competitors similar type or class of liquor product(s).

Both Parties agree to maintain, on site, certifiable copies of this Buy-Sell Agreement and any related documents. All such documents must be available and provided, without delay, when requested by an employee of the Alberta Gaming and Liquor Commission.

***This Agreement and its contents have been read and are fully understood.***

**Authorized Signatory:**

\_\_\_\_\_ and \_\_\_\_\_  
(Liquor Supplier/Liquor Agency) (Licensee)  
\_\_\_\_\_  
(Position or Title) (Position or Title)

Registration Number \_\_\_\_\_

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2 \_\_\_\_\_  
at \_\_\_\_\_, Alberta.

Source: Section 7.1 of the Alberta Gaming and Liquor Commission – Liquor Suppliers, Liquor Agencies, and Liquor Representatives Operating Guidelines

## **Appendix 4. Stakeholders Who Provided Written Submissions (List)**

Western Brewers Association  
Big Rock Brewery Ltd.  
Great Western Brewing Company Limited  
Labatt Breweries  
Molson Canada  
Sleeman Breweries Ltd.  
Wild Rose Brewery Ltd.  
Alley Kat Brewing Company  
Calgary Co-op Liquor Store  
Real Canadian Liquor Store  
Northlands Park  
Highwood Distillers  
Association of Canadian Distillers  
Beverage Alcohol Importers Council of Alberta  
Fruit Growers Society of Alberta & Alberta Market Gardeners' Association  
Alberta Agriculture, Food and Rural Development  
Canadian Home Wine Trade Association  
Alberta Retail Vintners Association  
Alberta Business Consultants Inc  
Stuart Allan  
Albert Weik  
Norm Klassen  
Broxburn Vegetables  
Alberta Hotel & Lodging Association  
Alberta Liquor Store Association  
Canadian Vintners Association  
Cory Nelson  
Alberta Restaurant and Foodservices Association  
Boston Pizza International Inc.  
Canadian Restaurant & Foodservices Association  
Deryk Norton  
World Vintners Inc.  
Wine Kitz

## **Appendix 5. Stakeholders Who Provided Verbal Presentations (List)**

### **Calgary (October 31, 2002)**

Sleeman Breweries Ltd.  
Western Brewers Association  
Association of Canadian Distillers  
Beverage Alcohol Importers Council of Alberta  
Canadian Council of Grocery Distributors  
Fruit Growers Society of Alberta  
and Alberta Market Gardeners' Association  
Alberta Retail Vintners Association  
Canadian Home Wine Trade Association  
Mr. Albert Weik

### **Edmonton (November 1, 2002)**

Alberta Liquor Store Association  
Alberta Liquor Industry Roundtable  
The Great Western Brewing Company Limited  
Labatt Breweries  
Mr. Norm Klassen  
Alley Kat Brewing Company