

October 2024

What We Heard

LIQUOR MANUFACTURER HANDBOOK CONSULTATION

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INTRODUCTION

Alberta Gaming, Liquor and Cannabis (AGLC) is responsible for licensing, regulating and monitoring liquor activities in Alberta. AGLC administers the *Gaming, Liquor and Cannabis Act* (GLCA), Gaming, Liquor and Cannabis Regulation (GLCR), and related policy.

AGLC is focused on reviewing its policies to ensure they support economic development and industry growth while reflecting a commitment to public health and social responsibility. This report summarizes the results of a survey conducted with industry stakeholders regarding policies governing a variety of liquor manufacturer operations and processes. This is part of an ongoing commitment to reviewing and modernizing Alberta liquor policies to remove red tape and reduce administrative burden for industry.

BACKGROUND

Class E licensees play an important part in Alberta's liquor industry. In Alberta, Class E licensees manufacture liquor and are also registered as liquor agencies to self-represent their liquor products. Ongoing expansion of Alberta's liquor manufacturing industry reflects the recurring investment made in the province.

AGLC has committed to performing regular handbook reviews. A review of the Liquor Manufacturer Handbook (LMH) was previously conducted in 2021. A new review was conducted again in September 2024 to align with the government's commitment to provide effective regulation and increase opportunities for businesses.

METHODOLOGY

On September 4, 2024, AGLC sought feedback related to liquor manufacturing policies. All Class E licensees, liquor packagers and several liquor industry associations were contacted; 263 invitations to participate in an online survey were extended. The consultation remained open until September 20, 2024.

RESPONSE RATES

AGLC received a total of 79 responses to the survey, this represents an approximate response rate of 30%. Respondents were able to self-identify as an Alberta small manufacturer, Alberta manufacturer (interpreted as a large producer), a packager, or as an industry association. Based on how respondents self-identified, AGLC estimates that approximately 89% of Alberta small manufacturers contributed their views.

The survey comprised of twelve questions, and of those, only three questions (licence classification, product produced and length of licence) required a mandatory response. The remaining questions were optional; the participation rate per question is reflected in the total number responses received.

Representation: *

Small Manufacturer: 70
Manufacturer: 7
Packaging: 3
Associations: 1

Liquor Manufacturers: **

Beer: 33
Spirits: 33
Wine or Mead: 14
Cider: 8
Refreshment Beverage: 35
Kombucha: 1

Length of Licence:

1 year ≤ 3 years: 12
3 years ≤ 5 years: 16
5 years or more: 50

*Of the three Packagers, two also self-identified as a Small Manufacturer.

**Some Manufacturers produce more than one type of liquor.

CONSULTATION FINDINGS

The survey opened with questions to categorize respondents. The remainder of the survey focused on the following topics:

1. Amending food requirements in a Manufacturer Taproom;
2. Permitting competitor liquor products in Manufacturer Taprooms and Lounges; and
3. Permitting large Manufacturers of liquor products to sell their products at farmers' markets, artisan markets and tradeshows.

Topic One: Class A Manufacturer Taproom Food Requirements

Respondents were asked to provide input on amending food service requirements for manufacturers with a Class A Manufacturer Taproom licence.

Currently, Subsections 3.9.8 and 3.9.9(a) of the Liquor Manufacturer Handbook (LMH) require licensees to offer a combination of five to six light meal food items when liquor service is available. A kitchen must also be equipped to prepare the food items.

The survey solicited feedback on a policy change that would reduce food and kitchen requirements for a manufacturer's taproom by aligning them with requirements of a Class A licence minors prohibited premise. Specifically, respondents were asked, *"For those Manufacturers with a Class A Manufacturer Taproom (Community Hub) licence, are you in agreement with amending the food service requirement to be similar to Class A Minors Prohibited premises, Subsection 3.7.8(b) of the LMH: "Food service comprising of a minimum of a snack-type food menu (e.g., potato chips, nuts or other preserved snacks), food service is not required after 11 p.m."*

The question garnered 33 responses. Of the 33 responses, 82 per cent (27 respondents) supported amending food service requirements. Respondents were provided an opportunity to comment on why they agreed or disagreed. A few responses are listed below:

Agree to Amend Current Policy	Disagree as Current Policy is Sufficient
<p><i>"We allow outside food into our taproom so the requirement for more opportunity without the commitment of full food handling would be good."</i></p> <p><i>"Smaller producers especially in a rural setting do not have the same traffic as those in a larger city, it is much more costly on a labour standpoint for rural businesses with less traffic to provide food on slower nights."</i></p> <p><i>"...focus should be on producing great products, not running restaurants in their facilities. There is a compromise position...if food service is limited to snack items as described in the question – chips, snacks, etc. – requiring no food prep on site, this is workable."</i></p>	<p><i>"It's safer to require bars to provide some food."</i></p> <p><i>"... I feel the taproom should have to offer some form of food greater than snacks if they are still able to allow minors in the taproom."</i></p> <p><i>"We believe that food is a helpful and safe pairing to alcohol and helps with the control of safety in the establishments."</i></p>

Topic Two: Competitor Liquor Products for Sale in Manufacturer Taprooms and Lounges

The survey solicited feedback on whether liquor manufacturers supported the sale of liquor products made by other Alberta-based manufacturers in their taprooms and lounges. Currently, only liquor products manufactured under the Class E licence may be sold at the premises. Respondents were asked: *"Are you in agreement with permitting Small Manufacturers and Manufacturers to sell other Alberta-based manufactured liquor products in their taprooms and lounges?"*

The question garnered 71 responses. Of the 71 responses, 85 per cent (60 respondents), support competitor liquor products for sale in manufacturer taprooms and lounges. Respondents were provided an opportunity to comment on why they agreed or disagreed with amending policy. A few responses are listed below:

Agree to Amend Current Policy	Disagree as Current Policy is Sufficient
<p><i>"This could encourage collaboration and allows for additional products (like spirits or wine in a brewery) to be served, which helps if patrons have allergies, etc."</i></p>	<p><i>"...would allow for larger producers to create coalitions and the smaller rural producers will suffer."</i></p>
<p><i>"Provide some variety to customers and promote Alberta manufactured products."</i></p>	<p><i>"...Adding in other brand's spirits or cider or wine...will cause a competitive imbalance with bars and restaurants that have more stringent requirements to be open... It seems like a short-term win to get to be a bar...the requirement for a full Class A and to be a restaurant yourself should be upheld for fairness."</i></p>
<p><i>"Good for business. We don't produce beer, and some customers would like that."</i></p>	
<p><i>"I think it's a great opportunity for cross promotion but for small manufacturers only."</i></p>	
<p><i>"This provides a reasonable option for additional guests and experience for people to stay... this should be limited to a reasonable number of other AB products."</i></p>	
<p><i>"The industry is collaborative, being able to sell other Alberta based producers' products can be beneficial to all parties (expanded offerings, other sales outlets, etc.)."</i></p>	

For Consideration
<p><i>"Less regulation more market freedom. I don't think it should be restricted to Alberta products. I would like to sell the products in our taproom that our importers produce in the USA. They can sell our product in their taprooms. I would like to do the same."</i></p>
<p><i>"...although limiting it to Alberta based is difficult. As an example, some "parties" would request a welcome drink as a prosecco or champagne (such as for a wedding), however this would not be allowed if only "Alberta-based."</i></p>

Topic Three: Manufacturer Liquor Products for Sale at Markets and Tradeshows

The ongoing expansion of Alberta’s liquor manufacturing industry in venues such as farmers’ markets, artisan markets and tradeshows reflect the recurring investment made in the province.



The survey solicited feedback on whether the sale of manufacturers liquor products at farmers’ markets should be permitted. Recipients were asked: *“Do you agree with AGLC approaching the Ministry of Alberta Agriculture and Irrigation to allow Manufacturers to sell their liquor products at farmers’ markets, just like Small Manufacturers are currently permitted to do?”*

This question garnered 72 responses. Of the 72 responses, 78 per cent (56 respondents), opposed AGLC approaching the Ministry of Alberta Agriculture and Irrigation to allow manufacturers to sell their liquor products at farmers’ markets.

Respondents were provided an opportunity to comment on why they were in favour or opposed. A few responses are listed below:

In Favour	Opposed
<i>“Should be a level playing field. Why would the Government pick winners and losers.”</i>	<i>“...Some of the markets take years to get into with limited tables for alcohol vendors. This is a main revenue stream for many small manufacturers, this would hurt that revenue stream deeply, where as a (larger) manufacturer obviously already has other revenue.</i>
<i>“Creates more equal opportunity.”</i>	<i>“Farmers’ Markets are about connecting small producers with local buyers and providing a venue for small businesses to thrive. Much like we do not allow large grocery stores to sell at Markets, neither should conventional Manufacturers be allowed.”</i>
<i>“While it would be in my personal best interest to bar larger manufacturers from being able to come to markets, it should at the end of the day be up to the individual market runners who and what they want and allow at their markets.”</i>	<i>“This would completely undermine the purpose of allowing Alberta-based small and craft producers to sell in markets. This was done to give them runway to scale and grow market share. If large producers, leveraging their high-volumes and economies-of-scale, are allowed in farmers’ markets, they will undercut craft producers. This will further damage Alberta’s already struggling craft liquor sector.”</i>
<i>“I wouldn't like to see macro product at farmers’ Markets, but I believe it’s ultimately up to the markets to decide.”</i>	

The survey also solicited feedback on whether the sale of manufacturer liquor products should be permitted at artisan markets and tradeshows. Recipients were asked: *“Do you agree with AGLC allowing Manufacturers to sell their liquor products at artisan markets and tradeshows, just like Small Manufacturers are currently permitted to do?”*

The question garnered 47 responses. Of the 47 responses, 64 per cent (30 respondents), do not support AGLC allowing manufacturers to sell their liquor products at artisan markets and tradeshows.

Respondents were provided an opportunity to comment on why they agreed or disagreed with the question. A few responses are listed below:

Agree to Amend Current Policy	Disagree as Current Policy is Sufficient
<p><i>"It is important for all manufacturers to be able to sell their products at as many places as they can. Attending local trade shows, artisan shows and farmers' markets is a way to show involvement in the community and let those local people know about your products."</i></p> <p><i>"This would be fair among all Alberta manufacturers, all of which are parts of their local communities and economies."</i></p>	<p><i>"Trade show sales are important to small manufacturers to reach their customers."</i></p> <p><i>"Markets are over consumed with alcohol vendors, think we need to get back to what artisan markets are for. If you are a small craft producer you should be allowed, if you are a large repackager/NGS packager you should not be allowed. There are many other options for them to make sales, not taking away from the small guys at an Artisan Market."</i></p> <p><i>"It is nice to have preferential access to farmers' markets and trade shows to help grow our business without the more well-known brands being present."</i></p> <p><i>"This is the one advantage small manufacturer's have. Large Manufacturers already have brand recognition and don't require this as another source of income."</i></p>

Additional Comments

Respondents were provided an opportunity to identify any other AGLC liquor policies, processes or activities (outside of the scope of the consultation), needing review for increased understanding and/or clarity.

The comments below summarize the responses received:

Topic	Responses
Markup	<p><i>"Beer markup should be more steeply graduated, like \$0.00 or \$0.01 on the first 15,000 HL like our nearest neighbour in the US - Montana -RTD markup should be similarly graduated RTD markup in Connect should be the same as self-distributed..."</i></p> <p><i>"Graduated mark up so all manufacturers can participate and there is not a disincentive to grow and expand, which is the current structure."</i></p>
Remittance	<p><i>"Let us do monthly remittances similar to how we submit our CRA Excise reports."</i></p> <p><i>"Being able to accept direct payments from licensees who are not set up online."</i></p> <p><i>"Set up an email address to which I can send email transfers, so I don't have to write a cheque."</i></p>
Warehouse & Distribution	<p><i>"Extend SAMOS* to connect. It doesn't make sense to have this world class system, and disincentivize small producers to use this stream because of tax implications."</i></p> <p><i>*(Small Alberta Manufacturer Off-Sales [SAMOS] refers to product that small manufacturers sell from their own licensed premises at a reduced markup. Small</i></p>

	<p>manufacturers are looking to have the reduced markup that applies to their self-distribution also apply to their sales through the warehouse operated by Connect Logistics Services).</p> <p><i>“Alberta contract manufactured spirits / beer should be treated the same - ie access to Connect, same rate of tax for an AB made product and not differing rate for contracted spirit (i.e., should get samos). Companies that do not 'manufacturer' product should be classified as a packager and not have access to SAMOS.”</i></p> <p><i>“Manufacturers should be allowed to warehouse product between themselves and combine warehouses to get efficient cost structures as well as easier fire code compliance (especially for distilling and warehousing bulk barreled spirit).”</i></p> <p><i>“More modes of distribution including allowing multiple manufacturers to warehouse and distribute together would lower costs for licensees and consumers...”</i></p> <p><i>“Allow small manufactures to have joint warehousing abilities to allow them to share distribution costs and to allow retailers the opportunity to purchase multiple products from one place. It is impossible for small manufactures to compete or offer what Connect Logistics can do.”</i></p> <p><i>“Can we up the keg deposits to cover the actual cost of kegs? ...\$30 doesn't cover anything, and it's not large enough for someone to return.”</i></p>
Keg Deposits	<p><i>“...the requirement for AGLC to weigh defective kegs before a credit can be issued is an unnecessary process. These volumes are insignificant compared to packaged returns, which are treated differently. Removing this requirement would increase credit response time.”</i></p>
Allocation	<p><i>“...1000 cases annual maximum - is geared towards wine/spirits and isn't a practical limit for beer and refreshment beverage manufacturers who may want to run a seasonal beverage with one of Alberta's many successful and supportive liquor chains.”</i></p>
Seasonal SKUs	<p><i>“Allow seasonal skus again. Large customers liked knowing that they could program in a sku and get the newest products without added back end. It would streamline Connect as instead of 40 different products going into Connect each year it would be 10 different seasonal products... Currently the need to register skus with AGLC for Connect and our own warehouse along with BCMB has lowered the amount of new products we release. The timelines, paperwork and needing to hand sell every new seasonal sku instead of utilizing a network built up over years to distribute new innovative products is so much more labour intensive that it has become a massive barrier to us.”</i></p> <p><i>“...3 weeks to get products registered is a bit excessive. We don't always know what the specs of our products are until they're done and nearly ready to serve. We can't wait 3 weeks for registration to complete before serving it. Products should not auto archive. Especially if it's going to take a long time to get the unarchived once requested. There should be an option on LAP to archive or unarchive. Automate this process. There should also be ways to edit product specs on LAP.”</i></p>
Inter-Provincial Liquor Sales	<p><i>“Interprovincial selling is non-existent. We would like the AGLC to help by establishing partnerships with other provinces. This is beyond the LMH as it applies to Alberta only, however this is the true modernization of sales in Canada that we need.”</i></p>

	<p><i>"...Manufacturers not in the province of Alberta should face larger fees, higher listing costs and restriction of SKUs the same as Alberta manufacturers face elsewhere."</i></p>
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In closing, respondents were asked: "What is the biggest barrier to your business's success?"

Topic	Responses
Ready to Drink (RTD) Markup	<p><i>"The biggest barrier to success is the high markup that RTDs need to pay when distributing through Liquor Connect..."</i></p> <p><i>"Refreshment beverage markup structure...divided into its unique buckets (spirit-based, malt-based, cider, kombucha) to align with other provinces and federal excise; adopt a markup and growth runway identical to small beer manufacturing..."</i></p> <p><i>Progressive markup structure would "level the playing field" - but I ardently support the current small beer manufacturers markup structure. There may be room for future tweaks (extend the runway to 1M hl to mirror Federal work being done..."</i></p>
Remittance	<p><i>"Cash flow issues from remitting full retail and waiting for the invoice reimbursement."</i></p> <p><i>"...difficult to teach licensees how to pay AGLC directly for product. If we could collect via e-transfer or credit card and deposit to AGLC on their behalf in the same way that we pay for our class D off sales products, it would streamline the process and make it less difficult to get local licensees to buy from us directly."</i></p>
Warehouse & Distribution	<p><i>"SAMOS at connect is the single largest change AGLC could make to support and promote growth within the craft spirits industry in Alberta."</i></p> <p><i>"Liquor connect fees/ paying full markup through connect as a small manufacturer Distribution across Alberta..."</i></p> <p><i>"Distribution and high markup when products are sent to connect. Costs are already high and margins are low in the RTD and spirits category, small manufactures cannot compete on price and retail stores mainly want to purchase products from Connect Logistics. This takes away any advantage given to small manufacturers with the break in markup when sold through their own warehouse. Retailers don't want to have to order products from 20 different brewery and distillers."</i></p> <p><i>AGLC used to allow cross docking*...This has severely hampered my business from getting my wine around the province to other liquor stores...It would greatly assist my business if cross docking would return."</i></p> <p><i>*Cross-docking refers to a service that Connect Logistics Services offers to reduce transportation fees for product coming to St. Albert's warehouse.</i></p>
Small Bottle Markup	<p><i>"Unfair mark ups for small bottlers. Every Province has these mark up concessions, but they are graduated..."</i></p>
Inter-Provincial Liquor Sales	<p><i>"...Lack of distribution opportunities across Canada. We currently distribute to Saskatchewan through liquor connect, under a special order, cottage license which works amazing! It would be great to have other provinces on board this way as well."</i></p> <p><i>"...the lack of ability to export to other provinces while other provinces' manufacturers are able to freely dump product into Alberta."</i></p>

General comment about the Alberta liquor model:

“Honestly speaking - so much previous reform has taken place that has enabled growth that Alberta is - by far - the best place to establish and grow beverage manufacturing. There isn't much left.”

CONCLUSION

This consultation captured a variety of perspectives from stakeholders both in support of current policies remaining unchanged and those interested in seeing amendments that could provide additional business opportunities.

Most stakeholders were supportive of amending the food service requirement for Class A Manufacturer Taproom licensees. The most expressed concern was related to farmers' market eligibility for manufacturers. The majority of respondents felt that farmers' markets help small producers connect with local customers and the status quo of only allowing small manufacturers to sell at farmers' markets was preferred.

AGLC will be conducting additional in-depth analysis, at which time additional refinements to policy may be considered.

AGLC wishes to thank all stakeholders for their participation in the Liquor Manufacturer Handbook (LMH) Consultation.