What We Heard:
Liquor Inducements and Prohibited Relationships Consultation

November 2020

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 liquor inducements and prohibited relationships.

Background

An inducement is the exchange of something valuable from a liquor supplier, manufacturer or agency to a liquor licensee.

Currently, inducements are prohibited for liquor licensees under sections 66 of the GLCA and 81 and 82 of the GLCR with exceptions "for promotion" laid out in section 85. Sections 81, 82 and 85 of the GLCR are included in Appendix 1 for reference.

These exceptions allow liquor licensees to accept some limited items from liquor suppliers. AGLC provides a list of acceptable items in Board policies. These items must not be essential to the operation of the business and include: aprons, bar towels, coasters, patio umbrellas, etc.

Inducements have been prohibited since before the privatization of the liquor market in 1993.

Considering the growth and complexities of the mature liquor industry in Alberta, maintaining enforcement of current inducement and prohibited relationships restrictions is becoming increasingly challenging. In recent years, the number of liquor licensees and liquor suppliers/agencies has significantly increased to offer greater access and product choice to Albertans.

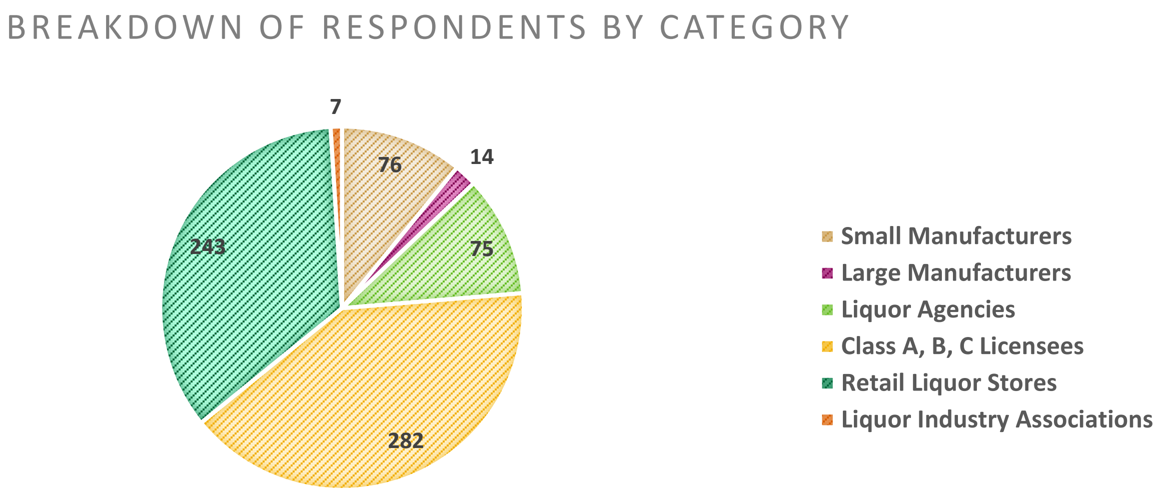
Methodology

AGLC consulted with stakeholders from September 9 to October 2, 2020. The consultation invited feedback from all Alberta liquor manufacturers, registered agencies, licensees, and industry associations. Participants were asked a series of questions to gather their feedback on inducements and prohibited relationships and how current rules impacted their organizations. Stakeholders were also invited to provide feedback through telephone interviews.

Response Rates

The following table shows the participation rates obtained for this consultation based on how respondents self-identified:

Stakeholder Group	Number of respondents	Percentage of responses
Small Manufacturers	76	10.9%
Large Manufacturers	14	2.0%
Liquor Agencies	75	10.8%
Class A, B, or C Licensed Premises	282	40.5%
Retail Liquor Stores	243	34.9%
Liquor Industry Associations	7	1.0%
Total	697	100%

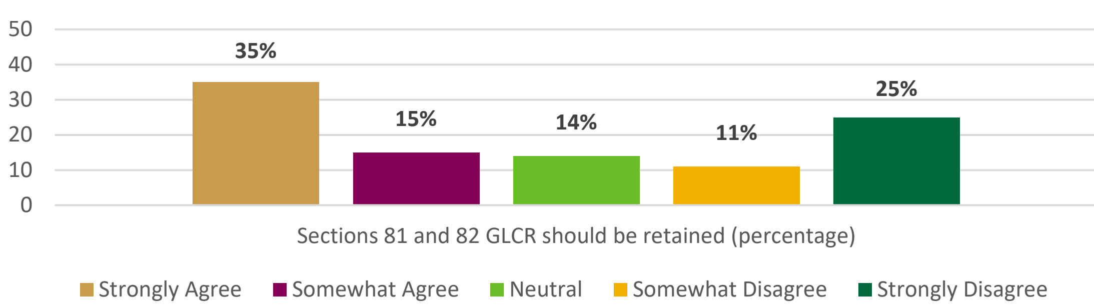


Consultation Findings

The survey opened with a question to categorize respondents. The remainder of the survey focused on inducements policies.

Question One: Please select the option below that best aligns with your organization's level of agreement that sections 81 and 82 of the GLCR should be retained

Respondents were asked to select from a spectrum of responses ranging from Strongly Agree to Strongly Disagree. Five hundred forty-four respondents answered the question as follows:



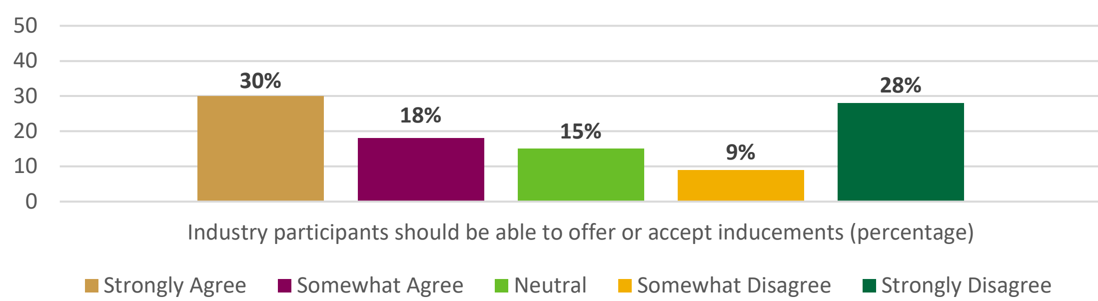
The responses were broken down by respondent category as follows:

Stakeholder Group	Strongly Agree	Somewhat Agree	Neutral	Somewhat Disagree	Strongly Disagree
Small Manufacturer	31	9	8	7	4
Large Manufacturer	6	2	3	0	0
Liquor Agencies	30	11	4	6	3
Class A, B, and C Licensed Premises	48	43	39	36	46
Retail Liquor Stores	74	16	20	12	82
Liquor Industry Associations	1	1	1	0	1
Totals	190	82	75	61	136

The majority of small manufacturers, large manufacturers, and liquor agencies strongly agreed that sections 81 and 82 of the GLCR be retained. However, Class A, B and C licensed premises and retail liquor stores were more divergent in their views.

Question Two: Please select the option below that best aligns with your organization's recommendation on whether there should be changes to the policies respecting prohibited inducements

Respondents were asked to select from a spectrum of responses ranging from Strongly Agree to Strongly Disagree. Five hundred forty-four respondents answered the question as follows:



The responses were broken down by respondent category as follows:

Stakeholder Group	Strongly Agree	Somewhat Agree	Neutral	Somewhat Disagree	Strongly Disagree
Small Manufacturer	7	6	5	7	34
Large Manufacturer	0	1	2	1	7
Liquor Agencies	4	3	7	10	30
Class A, B, and C Licensed Premises	56	55	40	25	36
Retail Liquor Stores	94	31	27	9	43
Liquor Industry Associations	1	1	0	1	1
Totals	162	97	81	53	151

The majority of small manufacturers, large manufacturers and liquor agencies strongly disagreed that industry participants should be able to provide or accept inducements. While there was some variance among Class A, B and C licensed premises and retail liquor stores, generally, the majority were in agreement that industry participants should be able to provide or accept inducements.

Respondents from questions 1 and 2 were asked to explain their choice. A few comments from each stakeholder group are listed below:

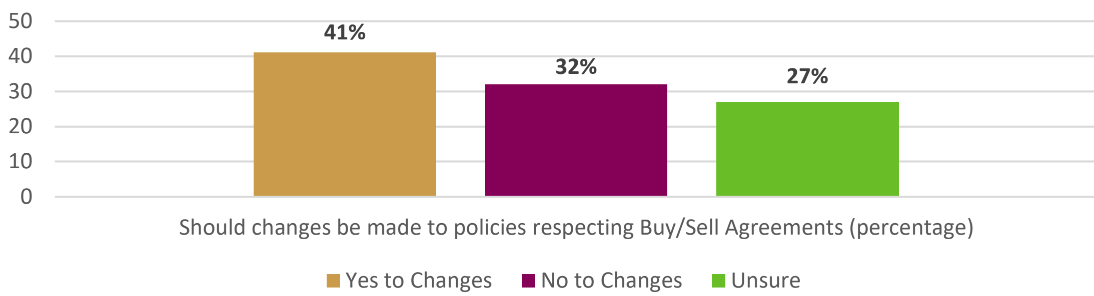
Stakeholder Group	In Agreement with retaining prohibitions on inducements	In Disagreement with retaining prohibitions on inducements
Small Manufacturer	*“Having some level of promotional restrictions helps smaller manufacturers, with limited marketing budgets, compete with large organizations.”*	*“We believe the inducement section of the GLCR is poorly interpreted and randomly enforced, it should be removed in its entirety.”*
Large Manufacturer	*“Current regulations are clear and foster a fair and equitable competitive landscape. We support these regulations being maintained as long as they are consistently applied across all market participants.”*	
Liquor Agencies	*“If we allow … pay-for-play it will negatively impact the wide selection … that Alberta customers have been accustomed to.”*	*“Given the difficulty in enforcing the rules, why bother having them?”*
Class A, B, C Licensed Premises	*“Direct payment to licensees would lead to "unfair" trade by allowing producers with substantial cash to pay the licensee to carry their product and potentially pay them not to carry other products.”*	*“I believe that this policy is outdated. Our industry has had many struggles over the past few years, and I don't believe this policy benefits anyone. Customers have a wide variety of alcoholic beverages to choose from and they will guide a bar into what products they can carry more so than inducements from a specific company. As well if bars could receive sponsorships for events, they would be better able to support the arts & entertainment communities in their area.”*
Retail Liquor Stores	*“Helps keep relationships honest.”* *“Giving money should not be allowed.”*	*Inducements should be allowed in order to create a more free and business competitive environment, and bring Alberta in line with other de-regulated provinces such as Quebec and Saskatchewan.*

Question Three: Please select the option below that best aligns with your organization's recommendation on whether there should be changes to the policies respecting buy/sell agreements[1]

Respondents were asked to choose the statement that best aligned with their organization. The question had three potential responses:

1. Yes to changes
2. No to changes
3. Unsure

Five hundred eighteen respondents answered as follows:



The responses were broken down by respondent category as follows:

Stakeholder Group	Yes to Changes	No to Changes	Unsure
Small Manufacturer	20	22	13
Large Manufacturer	5	3	3
Liquor Agencies	15	26	12
Class A, B, and C Licensed Premises	70	60	66
Retail Liquor Stores	102	52	42
Liquor Industry Associations	0	4	3
Totals	212	167	139

[1] A Buy/Sell Agreement is a document establishing the terms and conditions under which a liquor agency will provide a licensee with promotional items for its customers in exchange for the licensee promoting a specific brand(s) of liquor.

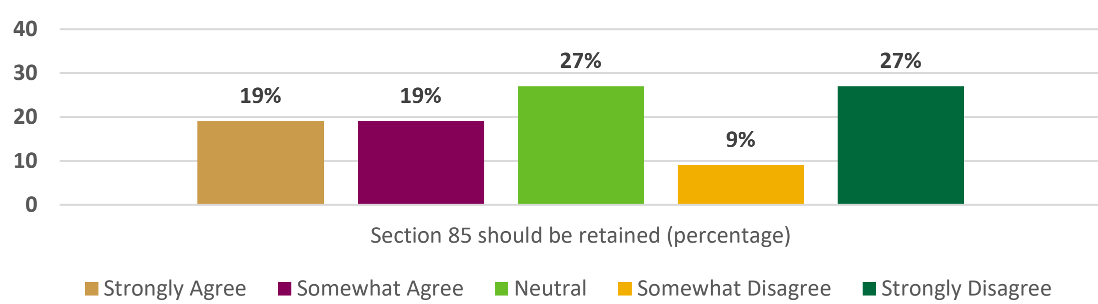
Respondents who answered "yes" to the question were asked to provide further comments. Generally, respondents suggested a streamlining of processes or the elimination of Buy/Sell agreements outright. A few responses are listed below to provide additional context:

Theme *Streamline processes*
"Buy/Sell agreements should be standardized." *"Administratively burdensome."* *"Opportunity to improve processes by permitting … agreements to be executed and retained digitally."* *"Eliminate BSAs."*

The majority of other comments regarding Buy/Sell agreements mirrored feedback regarding whether stakeholders were in favour of prohibiting inducements or not.

Question Four: Please select the option below that best aligns with your organization's level of agreement that section 85 of the GLCR should be retained

Respondents were asked to select from a spectrum of responses ranging from Strongly Agree to Strongly Disagree. Four hundred sixty-nine respondents answered the question as follows:



The responses were broken down by respondent category as follows:

Stakeholder Group	Strongly Agree	Somewhat Agree	Neutral	Somewhat Disagree	Strongly Disagree
Small Manufacturer	10	8	13	6	10
Large Manufacturer	5	1	1	3	1
Liquor Agencies	17	11	12	6	3
Class A, B, and C Licensed Premises	30	35	74	18	17
Retail Liquor Stores	26	31	26	10	94
Liquor Industry Associations	0	1	0	0	0
Totals	88	87	126	43	125

Respondents were asked to explain their choice. A few select comments from each stakeholder group are listed below:

Stakeholder Group	In Agreement with retaining exclusivity agreements	In Disagreement with retaining exclusivity agreements
Small Manufacturer	*"… the definition of exclusive should be changed. I suggest that up to 80% of products can be exclusive to one supplier. This would hopefully open up the other to small local brands."*	*"Exclusivity agreements are terrible for small producers beyond just allowing folks to pay to play."*
Large Manufacturer	*"Event and venue exclusivity arrangements are an important way for brewers to connect with consumers. They are also critical in funding community organizations and events large and small across the province, whether it be a local rib festival or a large festival event, a community sports league or national sports franchise."*	
Liquor Agencies	*"Sponsorships are key to events happening and brand awareness"*	*"Consumers are often left with worse beverage choices at events because of [exclusivity]."*
Class A, B, C Licensed Premises	*"These types of arrangements are crucial to the long term, sustainable survival of small businesses, arts organizations, and festivals."* *"Less government interference, the better."*	*"Exclusivity agreements hurt the customer by limiting choice."*
Retail Liquor Stores		*"Allowing exclusivity does not allow for a free market."*

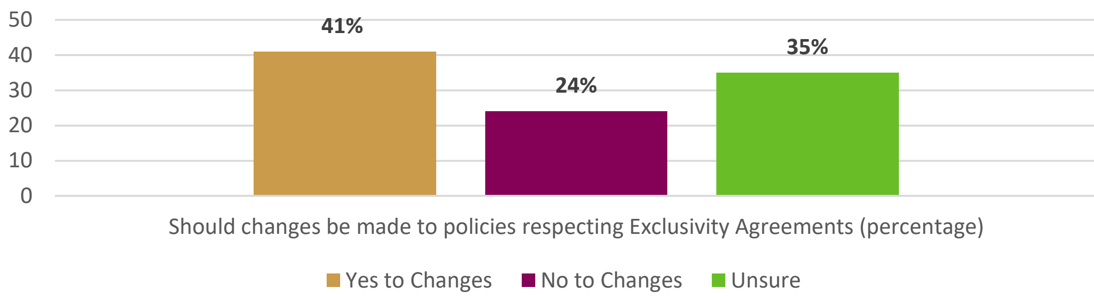
Question Five: Please select the option below that best aligns with your organization's recommendation on whether there should be changes to the policies respecting exclusivity agreements[2]

Respondents were asked to choose the statement that best aligned with their organization. The question had three potential responses:

1. Yes to changes
2. No to changes
3. Unsure

[2] Exclusivity Agreements are approved arrangements between a liquor licensee and a liquor agency or supplier to promote a particular type of liquor. The specific agreements establish the terms and conditions under which a licensee agrees to the exclusive use of an agency's or supplier's product during a specified event or at a specified venue. These agreements must be approved by AGLC.

Four hundred seventy respondents answered as follows:



The responses were broken down by respondent category as follows:

Stakeholder Group	Yes to Changes	No to Changes	Unsure
Small Manufacturer	21	15	11
Large Manufacturer	7	2	2
Liquor Agencies	13	17	19
Class A, B, and C Licensed Premises	49	49	76
Retail Liquor Stores	101	31	55
Liquor Industry Associations	1	0	1
Totals	192	114	164

Respondents who answered “yes” to the question were asked to provide further comments. Generally, respondents in favour of retaining exclusivity agreements suggested a streamlining of processes. A few responses are listed below to provide additional context:

Theme 1 *Streamline processes*
“Pre-approval requirements are overly cumbersome.” *“Shorten and standardize the time required for AGLC to review and approve.”* *“Reduce paperwork/red tape.”*

Other respondents suggested an expansion of the scope of exclusivity agreements. A few responses are listed below to provide additional context:

Theme 2 *Expand the scope*
“Limits should be placed on the amount of exclusivity large suppliers could have.” *“Exclusivity should be expanded to all licensed premises.”*

Qualitative Feedback – Summary of Telephone Interviews

AGLC conducted 24 telephone interviews with liquor industry stakeholders.

Generally, most stakeholders were supportive of retaining prohibitions on inducements but were open to exploring opportunities to relax restrictions to allow greater flexibility regarding promotional activities.

The majority of small manufacturers, large manufacturers and liquor agencies were opposed to removing the prohibition on inducements. The majority of Class A, B and C licensed premises and retail liquor stores supported removing the prohibition on inducements.

Most stakeholders who commented on Buy/Sell agreements supported their continued use but suggested that processes could be streamlined. Most stakeholders supported their continued use.

Generally speaking, large manufacturers and large liquor agencies were supportive of the current exclusivity policies while small manufacturers and small liquor agencies were either opposed to them or suggested placing limits on them. Those in favour of the current exclusivity policies suggested streamlining processes to facilitate timely approvals.

Conclusion

This consultation captured many different perspectives. It is fair to say that responses were split across the industry.

In general, Class A, B, and C licensed premises and retail liquor stores tended to favour removing restrictions on inducements. Conversely, manufacturers and liquor agencies generally favoured retaining restrictions on inducements.

Many stakeholders continually cited the phrase “level playing field” and terms such as “fair.” From the feedback gathered, it is clear that the concept of what is *fair* or *level* is not universally agreed upon.

Lastly, in the context of the current economic downturn, which has been exacerbated by the COVID-19 pandemic, it must be acknowledged that the hospitality sector has been hard hit. In many cases, potential policy tweaks to allow greater promotional flexibility were raised that industry participants felt could “help” the industry move forward.

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AGLC wishes to thank all stakeholders for their participation in the Liquor Inducements and Prohibited Relationships consultation.

Appendix 1 – Sections 81, 82 and 85 of the GLCR

Liquor suppliers and agencies

81 No liquor supplier or officer, director or employee of a liquor supplier and no liquor agency or representative of a liquor agency required to be registered under section 62 of the Act may

(a) have any financial interest in a liquor licensee or the licensee's business;

(b) have a financial interest in any of the real or personal property used in a liquor licensee's business;

(c) directly or indirectly sell, give, rent or lend any furniture, furnishings, refrigeration equipment, dispensing equipment, fixtures, decorations, paintings, signs, supplies or other equipment to a liquor licensee;

(d) have a financial interest in any business that supplies furniture, furnishings, refrigeration equipment, dispensing equipment, fixtures, decorations, paintings, signs, supplies or other equipment to a liquor licensee;

(e) directly or indirectly make or offer to make a loan or advance or give or offer to give money, a rebate, a concession or anything of value to a liquor licensee or to an employee or agent of that licensee.

Liquor licensees

82(1) No liquor licensee may

(a) have a financial interest in a liquor supplier or liquor agency;

(b) sell or give a liquor supplier or liquor agency any financial interest in the licensee's business;

(c) carry on the licensee's business on real property in which a liquor supplier or liquor agency has a financial interest or use in the licensee's business personal property in which a liquor supplier or liquor agency has a financial interest;

(d) buy, receive as a gift, rent or borrow any furniture, furnishings, refrigeration equipment, dispensing equipment, fixtures, decorations, paintings, signs, supplies or other equipment from a liquor supplier or liquor agency.

(2) No liquor licensee or employee or agent of the licensee may

(a) directly or indirectly borrow or receive as a gift from any liquor supplier or liquor agency money, an advance of money or any thing of value;

(b) request or accept a rebate or concession from a liquor supplier or liquor agency.

Exception - promotions

85 Despite this Division, the board may approve an arrangement between a liquor licensee and a liquor supplier or liquor agency to promote a particular type or brand of liquor.