



# What We Heard

Manufacturers Contract & Collaboration  
& Remittance & Payment Consultation

January 2020

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# INTRODUCTION

*AGLC is committed to working with stakeholders to create a balanced regulatory environment that is responsive to stakeholders' needs.*

AGLC last conducted a comprehensive review of liquor manufacturing with the Class E Liquor Licensing Review in 2012-13.

A series of thirty-nine (39) recommendations were adopted following that consultation, many that led to a significant impact on the industry. Since then, the Alberta liquor industry and the liquor manufacturing industry has seen tremendous growth.

Not only have the past several years seen exponential growth in the number of manufacturers, but the industry continues to evolve at a fast pace. With this evolution, the industry continues to develop new products, and the spirit of collaboration continues to redefine liquor manufacturing.

With this continued growth, AGLC is dedicated to reviewing our policies and processes to ensure that the Alberta liquor manufacturing industry can be supported in the best possible way.

In September 2018, AGLC amended liquor manufacturing policy by adding a section on collaboration and contract manufacturing. When these polices took effect, AGLC committed to revisiting them one year later to determine if they were achieving intended outcomes.

This consultation was completed to ensure liquor manufacturing policies are meeting the needs of licensees and remain effective in supporting a viable and growing industry.

In October 2019, AGLC sought feedback from industry through a survey on a wide range of topics related to liquor manufacturing.

Through this process, AGLC will carefully consider stakeholder feedback in developing a series of recommendations to improve liquor manufacturing polices, while maintaining the integrity of the Alberta liquor model.

**Liquor  
Manufacturers**

1993 - 12  
2019 - 158

**Amazing  
Growth**

**Products**

1993 - 2,200  
2019 - 29,000

# MANUFACTURERS

*Class E licences are for distillers, vintners, or brewers.*

	<p><b>Collaboration</b> - two or more manufacturers working together to produce liquor at a single AGLC licensed Class E manufacturing facility.</p>
	<p><b>Contract manufacturing</b> - a contract that exists between a manufacturer (or an AGLC registered agency) and another manufacturer, to manufacture liquor. Contract manufacturing allows a Class E licensee to contract with another licensed facility to manufacture product on its behalf.</p>
	<p><b>Contract agencies</b> - registered liquor agencies acting as a contractee that enter into an agreement with a contractor to produce liquor on their behalf.</p>
	<p><b>Blending</b> - combing or mixing liquor with other liquor or non-liquor ingredients.</p>
	<p><b>Self-distributed liquor remittance and payment processes</b></p> <ul style="list-style-type: none"> <li>Liquor retailers and other licensees purchase manufacturer's products from AGLC at the wholesale price.</li> <li>AGLC deducts the necessary markup and fees, and within 8 – 14 days AGLC pays the manufacturer their invoice price.</li> </ul>



## *Consultation Objective*

The purpose of this consultation was to gather stakeholders' feedback on policy changes introduced in 2018 and gather opinions on several issues of importance to manufacturers (Class E licensees) that could be used to reaffirm existing policy or suggest amendments if warranted.

AGLC is committed to engage with licensees and industry to understand issues and expectations. As a modern regulator we are responsive to stakeholders' needs and will review regulations and policies to remove unnecessary steps, reduce costs, increase efficiency and enhance opportunities for Alberta businesses.

This review will also help AGLC to identify suggestions to reduce regulatory burdens and encourage economic growth in the liquor manufacturing industry.

## Methodology

On October 4, 2019, AGLC invited 193 stakeholders to participate in an online survey regarding liquor manufacturing policies. The survey remained open for two weeks and closed on October 18, 2019.

All participants (Class E licensees and their associations) received identical survey questions to ensure their responses could be compared. The survey consisted of fixed-response and written-response questions. Feedback was collected from the online survey, numerical results were analyzed, and all written suggestions were reviewed in detail.



## Response Rates

Fifty per cent of all invited stakeholders completed a portion of the online survey. Slightly more distillers (64 per cent) responded than brewers (52 per cent). Only one of three packaging licensees responded and only one of eight associations.

### 50 per cent

OVERALL RESPONSE RATE

96 of 193 invited stakeholders responded

### 64 per cent

Distillers  
RESPONSE RATE

25 of 39 licensed distillers responded

### 52 per cent

Brewers  
RESPONSE RATE

60 of 116 licensed brewers responded

*SURVEY RESULTS*

**PARTICIPANT INFORMATION**

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

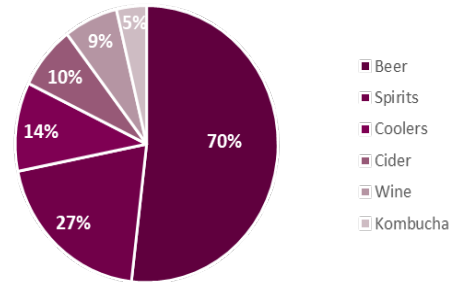
**Are you a Class E manufacturer or an association? R=96**

Ninety-four of respondents represent Class E liquor producing manufacturers.

**What liquor products do you manufacture? (choose all that apply): Respondents by Product**

Of the 94 stakeholder responses:

- 70 per cent produce beer products
- 27 per cent produce spirits
- 14 per cent produce refreshment beverages (coolers)
- 10 per cent produce cider
- 9 per cent produce wine
- 5 per cent produce kombucha



\*A manufacturer can produce more than one product.

**How long have you held an Alberta Class E manufacturer licence? R=92**

- 28 per cent less than one year
- 34 per cent more than one year, but less than 3 years
- 20 per cent more than 3 years and less than five
- 18 per cent for more than 5 years

**In addition to your Class E manufacturer licence, do you also currently have a Class D and or Class A licence? R=89**

- 97 per cent also hold a Class D (Manufacturers’ Off Sales) licence
- 85 per cent hold a Class A (Taproom) licence

**How do you distribute liquor products for sale in Alberta? R=91**

- 98 per cent self-distribute their liquor products to licensees directly from their manufacturing facility
- 90 per cent sell through their Class D (Off Sales and Class A (Taproom) licence
- 65 per cent distribute their products through the central warehouse (operated by Connect Logistics Services)

**98%**  
Self distribute



**90%** sell their products through their Taproom or Off Sales



**65%**  
distribute through AGLC/CLS



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## SURVEY RESULTS

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### Small Manufacturer Definition

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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### Do the current **Annual Worldwide Production (AWP)** volume thresholds accurately define a small manufacturer? – And Please provide any additional comments you may have on current volume thresholds for small manufacturers. **R=81**

Stakeholders were asked to provide feedback regarding the current alcohol volume thresholds for small manufacturers and whether the current definition accurately defines a small manufacturer. Thirty (37 per cent) of respondents felt the volume thresholds accurately represent production capacity, while 15 (18 per cent) felt the thresholds are too high to be considered a small manufacturer.

While these questions garnered eighty-one responses, **there was no consensus in whether the current volume thresholds accurately define small manufacturers in Alberta**, nor was there consensus in what thresholds are desirable within individual liquor categories.

*“In some categories yes, in others no. Beer is accurately defined. Spirits and ready-to-drink beverages (RTDs) need to be increased.”*

*“The 10,000hL for wineries/meaderies defines well what a small manufacturer is.”*

Some commented on the vast difference between manufacturers within the small category, and raised concern that (what are perceived as truly small manufacturers) are being disadvantaged in favour of small manufacturers that are closer to the threshold limits. One respondent suggested beer production capacity should be inline with cider volume thresholds to be defined as small manufacturer.

A few spirits producers suggested using alternative models for determining the definition of a small manufacturer, such as Litres of Absolute Alcohol (LAA) manufactured.

Of note, one manufacturer made reference to the absence of kombucha products in policy.

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## SURVEY RESULTS

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### Collaboration Manufacturing

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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#### Do you currently participate in **collaboration manufacturing** with other Alberta manufacturers? **R=84**

Of the 84 stakeholder responses, 51 (61 per cent) said they participate in collaboration manufacturing with other Alberta manufacturers.

#### Do you sell the collaboration products through your associated Class A (Taproom) and/or Class D (Manufacturer Off Sales) licences? **R=84**

Forty-nine (58 per cent) of respondents indicated they sell the collaboration products through their associated Class A and/or Class D licence.

#### Please indicate to the best of your estimation, the level of agreement with the following statement: *"AGLC collaboration manufacturing policies support growth in Alberta liquor manufacturing."* **R=84**

Of the 84 stakeholder responses, 71 (**85 per cent**) said they **agree AGLC collaboration manufacturing policies support growth in Alberta liquor manufacturing.**

#### Liquor volumes produced through a collaboration manufacturing agreement between two or more licensed Alberta manufacturers must be reported in the AWP volume by each participant. Do you have any comments on this policy? **R=65**



Fifty per cent of respondents support the current policy that requires each manufacturer to count the volume produced to their AWP.

The current policy was generally perceived as double counting by the remaining 50 per cent. It may also have the unintended consequences of artificially inflating the data available on collaboration manufacturing in the province.

Of note, 8 (13 per cent) of the 60 comments provided spoke to the collaborative production of beer products.

*"AWP Should only apply to the amount each collaborator sold."*

Overall, responses to this question revealed that respondents are **supportive of the practice of collaboration manufacturing, especially in relation to the production of beer.** A handful of respondents commented there should be greater oversight surrounding this type of production. Comments received indicated that industry would like greater clarification of policies for collaboration manufacturing.

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*SURVEY RESULTS*

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**Contract Manufacturing**

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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**Do you currently participate in contract manufacturing as a contractor? R=81**

Of the 81 stakeholder responses, 14 (17 per cent) indicated they participate in contract manufacturing as a contractor.

**Do you currently participate in contract manufacturing as a contractee? R= 81**

Sixteen (20 per cent) participate in contract manufacturing as a contractee.

**Please indicate to the best of your estimation, the level of agreement with the following statement:  
“AGLC contract manufacturing policies support growth in Alberta liquor manufacturing.” R=81**

Of the 81 stakeholder responses, sixty (74 per cent) agree AGLC contract manufacturing policies support growth in Alberta liquor manufacturing.

*“Smaller contractees who work with larger contractors will inevitably be able to scale and produce higher quality products...Not burdening the contractee with the contractor’s AWP is sensible.”*

**Based on the answer you just gave, do you have any additional feedback on contract manufacturing policy? R=46**

Of note, 11 (24 per cent) of the 46 responses speak to the manufacturing of beer products specifically. Alberta manufacturers who responded are generally **supportive of contract brewing and cited the ability to brew through a contract arrangement as beneficial to small and new manufacturers.**

A small percentage of respondents (10 per cent) indicated the contract manufacturing should be restricted to those who have intentions of opening a “bricks and mortar” brewery.

*“It is important that this is kept in place as it creates balance and clarity.”*

**Should liquor volumes produced through a contract agreement between two Alberta manufacturers be reported and included in the AWP volume of both the contractor and the contractee? R=80**

Of the 80 stakeholder responses, forty (50 per cent) agree liquor volumes should be reported and included in AWP volume of both the contractor and contractee. Forty (50 per cent) of stakeholders indicated no.

*“Volume produced should only be allocated to the contractee, as it is their product for sale in the end. The contractor could pay the duty on the contractee’s rate.”*

Industry would like more information about the intent of policies for contract manufacturing.

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## *SURVEY RESULTS*

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### **Contract Manufacturing**

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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**Should liquor volumes produced by a manufacturer as the contractor for a registered liquor agency (i.e., not another licensed manufacturer) as the contractee be reported and included in the AWP of the contractor? R=80**

Of the 80 stakeholder responses, 56 (70 per cent) agree liquor volumes should be reported and included in AWP volume of the contractor.

**Please provide any additional comments you have on volume reporting of liquor produced for a registered liquor agency through a contract agreement. R=38**

Of the 38 stakeholder written responses, the majority agree the liquor agency should report their AWP since they have less expenditures associated with “bricks and mortar” operations.

*“The agency for all intent and purposes is a beer manufacturer...why should their production levels be treated differently.”*

The consensus overall suggests AWP should be reported by the company that intends to sell the product.

**Should a registered liquor agency for whom beer is made as a contractee be eligible for a reduced markup rate under Alberta’s Small Brewer Markup Program, if the manufacturer, as the contractor, has qualified for the reduced rate? R=79**

Of the 79 stakeholder responses, 37 (47 per cent) agree that the manufacturer, as the contractor should be eligible for a reduced markup rate under Alberta’s Small Brewer Markup Program, if they qualify.

Manufacturers surveyed are of the opinion that liquor agencies acting as contractee should not be eligible to receive a reduced markup rate.

**Over 74 per cent agree that AGLC’s contract manufacturing policies support growth in Alberta liquor manufacturing**

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## SURVEY RESULTS

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### Blending, Flavouring and Packaging

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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#### Do you currently produce liquor products through blending and/or flavouring as your own products?

**R=80**

Of the 80 stakeholder responses, (24) 30 per cent produce liquor products through blending and/or flavouring.

#### Do you currently produce liquor products through blending and/or flavouring under contract for another party? **R=80**

The survey data indicates 7 (9 per cent) of Alberta liquor manufacturers (three brewers, two distillers, one cider and one kombucha) produce liquor products through blending and/or flavouring under contract for another party.

#### Should products blended and/or flavoured under contract be included in the contractor's reported Annual Worldwide Production (AWP) volume? **R=78**

Of the 78 stakeholder responses, 59 (76 per cent) agree blended and/or flavoured liquor products produced under contract should be included in the contractor's reported AWP volume.

#### Should products blended and/or flavoured under contract count toward the contractor's own 20 per cent maximum for these products? **R=78**

Of the 78 stakeholder responses, 43 (55 per cent) agree blended and/or flavoured liquor products produced under contract should count toward the contractor's own 20 per cent maximum for these products.

#### Does the 20 per cent maximum for blended/flavoured products align with the business needs of manufacturers? (If so how? If you feel like it should be changed, please elaborate). **R=51**

Qualitative feedback was received from **38 stakeholders**: 24 brewers, 10 distillers, 1 brew pub, 1 winery, and 2 from the refreshment beverages category. Stakeholders indicated that the current blending policy, often referred to as the 80/20 rule needs to change. However, there is mixed support on whether a limit on blending should exist.

Of the 51 stakeholder responses, 66 per cent (34) expressed the need for change. There is mixed support on what a new policy could look like. While 7 per cent (4) indicated the current 80/20 rule makes sense – *"If you're making more than 20% RTDs then you are not really brewing anymore."*

*"There should be a distinction on the taxation side for manufacturers who are producing all of their spirits vs those who are purchasing contract distilled spirits."*

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## SURVEY RESULTS

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### Blending, Flavouring and Packaging

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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To further understand the unique needs of each category of Class E licensees, of the fifty-one qualitative responses received, 31 (67 per cent) identified as Brewers, 1 identified as a Brew Pub, 1 identified as Estate Wineries, 9 (20 per cent) identified as Distilleries, 2 represented Refreshment beverages/Other; and one represented an Association.

Those advocating for the status quo (10 per cent) support the spirit and original intent of the policy and the current 80/20 allotment safeguards local producers.

Of the 51 responses received, 38 stakeholders provided qualitative feedback. Nine of the 38 (24 per cent) advocate for the abolishment of limits on blending altogether.

*“Eliminating the current policy would allow small manufacturers the ability to produce high quality spirits at a reduced price.”*

**A packaging licensee is permitted to blend, flavour and package any amount of liquor on behalf of a manufacturer. Should a manufacturer be allowed to blend, flavour and package any amount of liquor as well? R=77**

Of the 77 stakeholder responses, 57 (74 per cent) agree a manufacturer should be allowed to blend, flavour and package any amount of liquor product and 56 (72 per cent) agree that some degree of product must be made from raw materials.

**Some jurisdictions have different definitions of manufacturing and allow manufacturers to make 100 per cent of their beverage alcohol products starting with neutral grain spirits obtained in bulk from another manufacturer. How strongly do you agree or disagree with the following statement: “Alberta licensing requirements should maintain that some degree of product must be made from raw materials?” R=78**

Of the 78 stakeholder responses, 56 (72 per cent) agree that some degree of product must be made from raw materials.

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## *SURVEY RESULTS*

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### **Remittance and Payment**

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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#### **Is the current payment process working for your business? Please provide any additional comments you have about the current liquor payment process. R=80**

Of the 80 stakeholder responses, 54 (68 per cent) of the 80 stakeholder responses expressed that the current payment process is not working for their business.

*“The current system of payment is a cash flow nightmare...the delay of repayment of the invoice price by AGLC results in significant capital being tied up.”*

#### **Do you see a benefit to collecting payment for your product sales, and only remitting the markup and fees to AGLC (as described in the potential option above)? R=80**

Of the 80 stakeholder responses, 70 (88 per cent) are in favour of only remitting the markup and fees to AGLC.

#### **Should Alberta manufacturing policy be less restrictive? If you answered yes, please provide suggestions to how policy could be less restrictive. R=80**

Manufacturers are strongly supportive of amending current policy to only remit markup and fees to AGLC, as opposed to full payment. Numerous respondents point to the way federal excise taxes are collected as a favourable model that does not tie up funds for an extended period of time.

Nearly all of the thirty-five respondents feel that the current remittance model is cumbersome and impacts cash flow as it can take up to fourteen days for Class E licensees to receive payment from AGLC.

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## *SURVEY RESULTS*



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### **Additional Suggestions -**

\*Ninety-six is the baseline. Not every respondent answered each question; the participation rate is noted for each.

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Forty-four (48 per cent) of the ninety-one respondents provided suggestions on how Alberta manufacturing policy could be less restrictive.

- Results**
- 27 per cent of respondents suggested simplifying and streamlining the reporting process.
  - 26 per cent of respondents would like the 80/20 rule removed.

Additional suggestions include:

- relaxed blending and packaging policy;
  - update buy/sell and inducement policy;
  - permit Class A licensees to offer a full food menu and to fill and sell growlers;
  - permit spirits manufacturer (Class A Taproom) to serve beer and wine;
  - remove production limits; and
  - eliminate AWP double counting for collaboration.
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# CONCLUSIONS

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## Small Manufacturer Definition

There was no consensus in whether the current volume thresholds accurately define small manufacturers in Alberta, nor was there consensus in what thresholds are desirable within individual liquor categories to allow for successful growth.

## Collaboration Manufacturing

The industry is supportive of the practice of collaboration manufacturing, especially in relation to the production of beer. Eighty-five per cent of respondents agreed that collaboration manufacturing policies support growth in the industry.

Feedback revealed lack of support for the current approach to reporting volumes. There were 50 per cent of respondents that support the current policy and 50 per cent perceived the policy as 'double counting.'

## Contract Manufacturing

The industry is supportive of current policies for contract manufacturing. Seventy-four per cent agreed that they support growth in the industry. The majority, 70 per cent would like to see AWP reported in AWP volume of the contractor.

## Blending, Flavouring and Packaging

Stakeholders expressed the view that blending and packaging are different than producing a minimum of 80 per cent product on-site; and should be treated as such.

Manufacturers clearly indicated that the current 80/20 rule needs to change, however there is mixed support on whether a new limit on blending should exist.

## Remittance and Payment

The majority of Class E licensees support some form of change to the remittance process. What change looks like is uncertain.

Most respondents indicated the current system ties up valuable capital. At the same time, a small number advocate for AGLC's continued role in the payment process, as it is considered a significant 'value add.'

## Conclusion

While overall the majority of respondents indicated that AGLC policies support growth in the industry, the feedback gathered through this consultation indicates that change is required to liquor manufacturing policies to better reflect the industry's evolving needs.

Moving forward, AGLC will use the stakeholder feedback received to inform recommendations for policy changes.



