



April 8, 2013

Honourable Thomas Lukaszuk
Deputy Premier and
Minister of Enterprise and Advanced Education
408 Legislature Building
10800 - 97 Avenue
Edmonton, AB T5K 2B

Dear Deputy Premier Lukaszuk,

Canada's National Brewers' (CNB) members (Labatt, Molson Coors and Sleeman breweries) are heavily invested in the province of Alberta through significant investments in manufacturing, distribution, corporate offices and community sponsorship. Labatt Breweries of Canada operates the largest brewery in the province in Edmonton which has been producing for over 50 years. The Western Canadian corporate headquarters for Molson Coors is located in Calgary as is the Western Canadian headquarters of Brewers Distributor Ltd., and all three companies have on-the-ground sales and marketing forces spread across the province. CNB members are significant sponsors of all of Alberta's major sports teams as well as numerous local community initiatives. As well, CNB member brewers are among the largest purchasers of Alberta malted barley in North America. CNB members directly employ over 1000 Albertans and support thousands of Alberta-based jobs across the province through the above investments.

We have been following with interest the public comments from Alberta-based craft brewers regarding their call for changes to the AGLC's small brewer markup subsidy program and would like to take this opportunity to provide you with our thoughts on the matter.

All Canadian provinces have tax subsidy programs designed to support small brewers. Each of these programs was developed with the same intent of promoting a premium craft segment by helping offset the lower economies of scale experienced by small brewers. The AGLC tax policy was originally created to:

- 1) Encourage the growth of Alberta based small brewers;
- 2) Create a strong premium craft beer segment; and,
- 3) Offset economies of scale difference between small brewers and large

Over time, the Alberta tax subsidy has grown from a program that achieves these three objectives to one that unfortunately achieves none of them.

Today, under the AGLC program, Alberta extends the largest subsidies to the largest breweries of any program in Canada. As a result, the total cost of the program to the taxpayers of Alberta is also the highest in Canada. Under the AGLC program, brewers with annual production as much as 9.4 million cases annually can receive more than \$11.5 million per year in government tax subsidies. Providing the highest subsidy levels in Canada to the largest brewers currently costs the Alberta Treasury more than \$24 Million annually – and growing.

What is particularly concerning is that the vast majority of these subsidies are provided to breweries who don't even brew their product in Alberta. Of the \$24 million spent by Alberta annually on this subsidy program, more than 60% flows to breweries that don't brew beer or have an economic footprint in the province. Furthermore, virtually all the beer benefitting from the AGLC subsidy that is brewed outside Alberta is not the premium craft beer that the program was intended to promote. Almost all of this beer is deeply discounted beer that is sold into the Alberta market at price points far below true Alberta craft brewers and non-subsidized brewers, negatively impacting business models of brewers invested in Alberta.

The current number of small, craft breweries in the province of Alberta, per capita, is one of the lowest in Canada. The Alberta-based craft brewers are correct in their assertion that the current structure of the AGLC small brewers markup subsidy policy, coupled with the open listing environment in Alberta, provides no incentive for true craft brewers to set up their operations in the province. In fact, under the current policy, which extends the above mentioned large mark-up subsidies to non-Alberta brewers, it actually makes better business sense for true craft brewers to set up their operations in other jurisdictions where operating costs are lower and simply sell their product into Alberta. By doing so brewers can still receive tax subsidies from the Alberta taxpayer, increase their profitability, but never invest in infrastructure or jobs in Alberta.

That being said, as you stated in a recent media interview, government first needs to ask itself whether it makes sense to subsidize beer at all given current fiscal realities. When subsidy levels are excessively high and given selectively, as is currently the case in Alberta, government is effectively engaged in the practice of picking winners and losers. Economic distortions in the market become pronounced and adversely affect all businesses. The current AGLC small brewery tax subsidy program has long since crossed over into this market distorting territory.

Should government wish to continue subsidizing beer, Canada's National Brewers' members are not opposed to the Alberta-based craft brewers' call for small brewers tax subsidies to be provided only to beer physically produced (start to finish) in the Province of Alberta. However, we also believe, in the interest of restoring economic stability, that two other fundamental program changes need to be made. Those changes are:

- 1) The maximum value of the subsidy (currently \$11.6M/year), and the size of breweries eligible to receive the subsidy, must be reduced to levels where the subsidy's potential to distort normal free market competition is minimized. As outlined above, when subsidy levels are excessively high, as is currently the case in Alberta, the distortions in the market adversely affect other businesses.
- 2) A mechanism to transition small brewers off of the subsidy as they grow should be implemented. The current program structure, which eliminates the \$11.6M/year subsidy all at once when a brewer produces one hectolitre more than the program qualification threshold, is severely flawed and makes for a completely unsustainable program. It is critical that Alberta's

mark-up subsidy program be structured in a manner that recognizes that it was never intended to provide taxpayer subsidies in perpetuity but rather to provide support for true local craft brewers in their start-up years.

By undertaking these changes, the government could provide additional support to existing local, true craft brewers and entice further investment to the province, all at a reduced cost to the taxpayers of Alberta.

Minister Lukaszuk, you publicly committed to rectifying this issue before the end of 2012. We are now over one quarter of the way through 2013 and millions of Alberta taxpayer dollars are continuing to flow out of the province, subsidizing brewing jobs in other provinces and countries. We respectfully ask that you do the right thing and change this deeply flawed program as soon as possible.

Sincerely,



Bryan Cox
Vice President, Western Canada
Canada's National Brewers

Cc: Honourable Alison Redford, Premier of Alberta
Government Caucus Members
Labatt Breweries of Canada
Molson Coors Canada
Sleeman Breweries