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RED TAPE PEELING OFF CRAFT BREWERIES

With Vancouver on the cusp of permitting onsite brewery lounges in industrial zones, regulations surrounding B.C.'s craft breweries loosen up.

Brewed in small batches with a passion that can border on obsession, "craft beer" is more of a marketing term than a formal classification—the marriage of the traditional craft of brewing with a playful inventiveness. Spurred by changing public tastes and ever-more sophisticated palates, craft beer is driving the evolution of beer in the marketplace. It can be as complex and varied as wine, and is often enjoyed by those who wouldn't otherwise drink beer. Unfortunately, B.C.'s archaic liquor laws haven't kept pace with the rate of change, and the province's craft brewers have faced numerous challenges, including laws that bar them from selling their products in pubs that they own, and laws that prohibit the establishment of on-site brewery lounges. Could that finally be changing?

Unprecedented Growth

As noted in a 2011 report by BMO Nesbitt Burns, Canada's craft beer industry has been consistently increasing its market share in recent years, while sales of mass-produced beer have been largely stagnant since the mid-1990s. The same report notes that Canada's craft breweries saw revenue growth at or near double digits between 2008 and 2011, and that craft beer sales now account for nearly 10 per cent of Canadian beer industry revenues.

In B.C., craft beer's market share is currently about 15 per cent, with many craft brewers recording sales growth of 15 to 20 per cent per annum in recent years, according to the Craft Brewers Association of British Columbia. (It's no surprise that the larger market players have taken notice of this trend, with Molson recently launching its Rickard's branded craft-style beers, and Labatt's its Alexander Keith's Hops Series.)

Tied House Rules

On March 1, 2013, the province initiated some long-overdue changes to the Liquor Licensing and Control Act Regulations, the first being an end to its prohibition on "tied houses." A phenomenon that dates back to the 1930s, 'tied house rules' were intended to stop large breweries from using their financial clout to open bars that exclusively sold their products, or to provide existing establishments with incentives to do the same.

Unfortunately, despite their intent, these laws were often detrimental to the very parties they were designed to protect. Vancouver's Parallel 49 Brewing Co. and St. Augustine's Craft Brew House and Kitchen provide a



case in point. The operations share common ownership, and consequently the beer brewed by Parallel 49 couldn't previously be sold at St. Augustine's. Under recent amendments to the Regulations, brewers who produce under a proscribed limit can now sell their products in up to three establishments that they either own or have an association with.

Brewery Lounges

Prior to March 1 of this year, on-site brewery consumption was limited to "tasting rooms" where brewers could only sell their customers a maximum of 12 ounces of their products per day. Denying the industry a key growth opportunity enjoyed by outside competitors, this limitation was long seen by B.C.'s craft brewers as an unreasonable regulatory impediment. The Regulations as amended now permit expanded on-site consumption through the creation of a "lounge endorsement" on Manufacturer Licenses, a change that has already led several B.C. breweries to begin expanding their facilities.

Not all of the province benefited from this change. Despite the amendment of the Regulations, the City of Vancouver has stipulated that breweries require a Liquor-Primary License to operate an on-site lounge, which the City views as a pub under Vancouver's Zoning Bylaw. To further complicate matters, businesses with a Liquor-Primary License can't operate on lands zoned "industrial," and businesses with a Manufacturer License can't operate outside of lands that carry an industrial designation.

Fortunately, following an outcry from industry and advocacy groups and a subsequent motion by NPA councillor George Affleck, City staff recently held a series of productive meetings with local industry representatives that resulted in a policy report to be presented to city council today. The report outlines the City's desire to support Vancouver's craft beer industry by bringing Vancouver's Zoning Bylaw in line with the Regulations. A public hearing will be held next and, barring unforeseen challenges, Vancouver's craft brewers are optimistic that the zoning by-law will be amended and on-site lounges in industrial areas will soon be a reality in Vancouver.

Going Forward

With increasing sales and market share, unprecedented successes at the recent Canadian Beer Awards, and record crowds at this year's Vancouver Craft Beer Week, the province's craft beer industry seems well-positioned for continued growth. Add a little help from government in the form of a simplified regulatory regime, and the future looks even brighter.