



ALBERTA CRAFT DISTILLERS ASSOCIATION

THE ALBERTA CRAFT DISTILLERS ASSOCIATION IS
COMPRISED OF THE PROVINCE'S FIRST CRAFT
DISTILLERIES AND THEIR REPRESENTATIVES.

A VOICE FOR ISSUES AND OPPORTUNITIES OF THIS
FLEDGLING INDUSTRY.

- Alberta has the opportunity to create a world class, value added distillation industry – building on our agricultural base.
- Craft Distilleries create jobs in manufacturing, agriculture and tourism.
- Alberta is the only jurisdiction in Canada without a reduced markup regime to support craft distillers.
- Craft distillery's have been rapidly growing around the world.
- Unlike distiller's, craft brewer's enjoy a reduced AGLC markup to foster industry growth.
- Alberta craft distillers are asking for a level playing field by having a **reduced and graduated AGLC markup** for production under 100,000 litres of ABV alcohol, using Alberta ingredients and **distilling on premise in Alberta.**



**“ALBERTA PRODUCES THE BEST
MALTED BARLEY IN THE WORLD AND
SHIPS IT TO SCOTLAND TO MAKE SCOTCH.
WHY ARE WE NOT DOING THIS AT HOME?”**

- Dave Lantz
Alberta Barley Producer



The Opportunity to
Create a New, World
Class Distilling
Industry in Alberta is
Now.



The Alberta Craft Distillers Association seeks Alberta government support towards rapid economic development of a craft spirit manufacturing industry will create a world class industry in the province.

Provincial support would not only bring Alberta into parity with other provincial jurisdictions and the craft brewing industry; but, it will create a new and substantial value added, jobs producing, industry which augments and builds upon the strengths of our world recognized grain producers and maltsters.



BACKGROUND

CRAFT DISTILLING IS AN AGRICULTURAL VALUE ADDED INDUSTRY THAT IS LONG OVERDUE.
WE ARE EXCITED TO SUPPORT THIS EXCITING NEW INDUSTRY IN ALBERTA.

The craft distilling industry has grown exponentially throughout North America.

More than 700 distilleries have been opened in the last 10 years (approximately 660 in the US and approximately 40 in Canada), largely due to changes in regulatory rules, through reductions in regional tax excise, markup and state or provincial tax relief.

Alberta has changed the regulatory regime for Craft Distilleries, primarily by dropping minimum production requirements which were restricting capital investment in the industry. It has not yet addressed the need for mark up reduction to match other jurisdictions.

Alberta is a world class producer of wheat, barley and rye, the primary raw materials used in the spirits industry. We are one of the largest malt barley producers in the world, shipping grain to Scotland and the United States for use in whisky and beer production.

With its strong raw material production, it is natural that Alberta develops a robust, value added industry of spirits manufacturing – a perfect industry for economic development that needs only political support and minor regulatory adjustments to stimulate significant capital investment throughout all regions of the province.

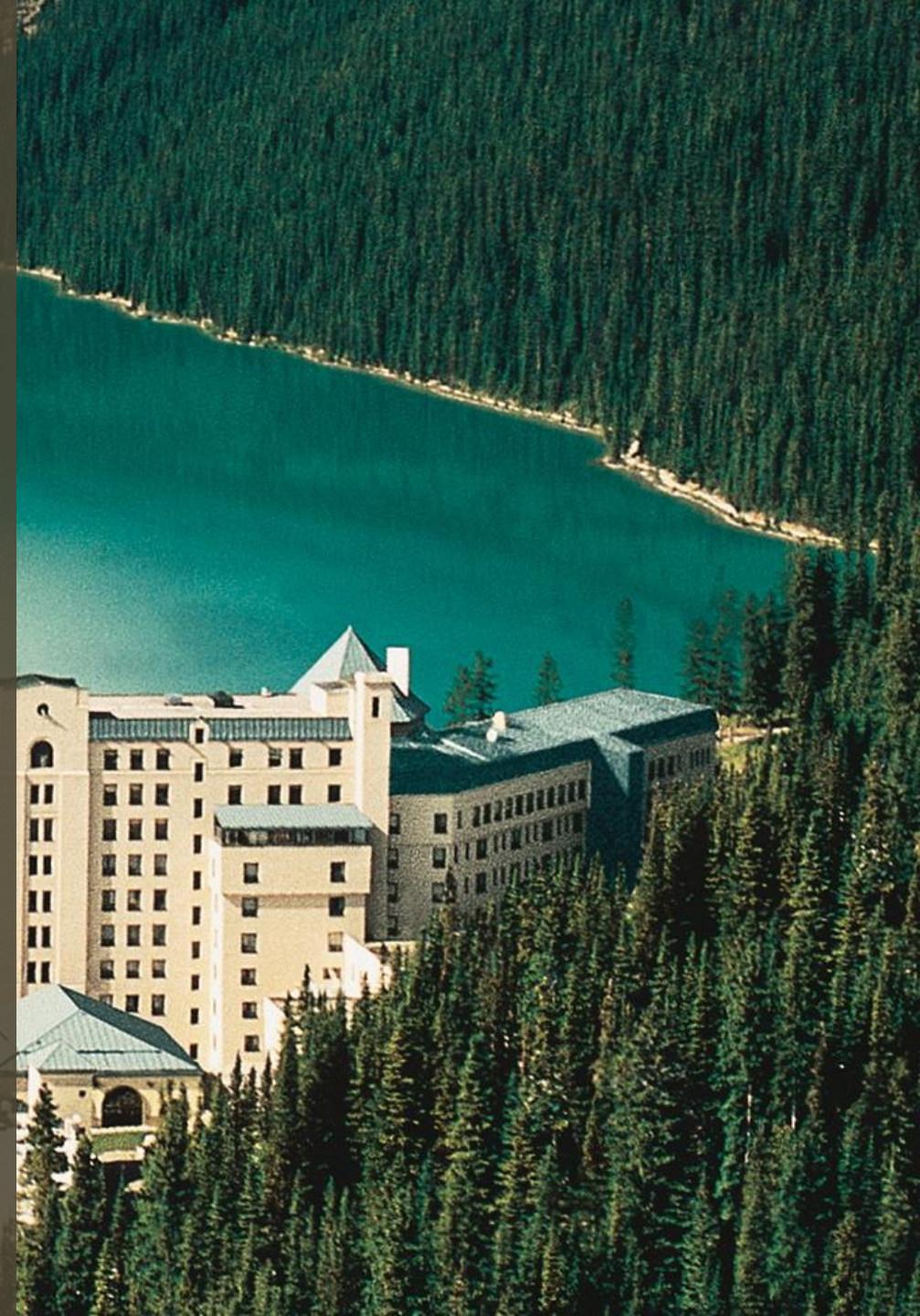
Arguably, Alberta has the strongest potential to develop a world class spirit manufacturing sector, given the provincial assets of grain production and malting capacity.

Alberta is behind other provinces in the craft brewing segment in numbers of breweries. The drastic increase in time required to produce spirits means that there is an even greater risk of failing behind other provinces and states in the craft distilling industry.

“IN STATES AND PROVINCES
THROUGHOUT NORTH
AMERICA, AND INDEED THE
WORLD, GOVERNMENTS HAVE
SUCCESSFULLY FOSTERED A
CRAFT DISTILLING INDUSTRY
BY REGULATORY RELAXATION
AND MARK UP/TAX RELIEF.

ALBERTA NEEDS PARITY WITH
OTHER JURISDICTIONS, SO
THAT ENTREPRENEURS CAN
MAKE THE CAPITAL
INVESTMENT TO KICKSTART
THE INDUSTRY.”

- Alberta Hotel and
Restaurant Association



AGLC MARKUP AND INCENTIVE REQUEST

Alberta markup regulations urgently need change to match competing provincial jurisdictions, before it is too late to develop a nationally and internationally competitive craft industry.

AGLC Markup Request

Alberta needs equivalency with adjacent jurisdictions, particularly with British Columbia, who have been highly successful in developing thriving wine, beer and craft distillery industries.

The Alberta Craft Distillers Association proposes that the Alberta Government through the AGLC utilize the following structural elements to encourage rapid industry growth:

- *Use the successful and well written Alberta Small Brewers policies as a template for Alberta Craft Distillers policy amendments*
- *Adopts a graduated mark-up policy, virtually identical to the small brewers system of graduated mark-ups, for Alberta Craft Distillers*
- *Any mark-up changes are applied to all sales within the province to mirror the current Alberta small brewers policies (AGLC Connect Logistics distribution as well as self-distribution)*

Incentive Partnerships

Alberta Craft Distillers are actively interested in discussing a variety of innovative incentive partnerships with the provincial government to rapidly expand the industry. Joint regional, provincial and international marketing of the new “Alberta Whisky Trail” with Travel Alberta or agricultural support programmes would greatly assist Alberta craft distilleries.

Timing

The North American, UK, and European craft distilling industry is developing well ahead of Alberta, due to advanced regulatory and tax revisions. As other jurisdictions develop their craft distilling industry, Alberta risks being overwhelmed by craft brands with a 5-10 year head start on development.

Alberta, with an open listing policy, is seeing a increasing number of extra-provincial craft brands, fostered in a welcoming tax environment in their own jurisdictions, taking advantage of Alberta by essentially dumping their products that have been produced at a substantially better margin.

INDUSTRY PROFILE

Albertan entrepreneurs joining with Alberta farmers is the future of our industry. We aim to create new value added jobs and strengthen Alberta's economy through diversification.

The Alberta Craft Distilling industry is in its infancy. On the heels of a regulatory change to the minimum production requirements, only three producers have begun operations, with five more in planning stages. In order to create economic development of a new distilling industry, start up economics need to be addressed. This is important given the competitive environment with other jurisdictions, particularly British Columbia.

The existing Alberta distillation industry, largely owned by foreign multi-nationals, exports most of its production as bulk unpackaged product. There is little incentive to develop locally produced and promoted brands.

Current Alberta industrial spirit production's international strength, however, is an example of the potential of a made-in-Alberta spirits industry, building on our strong base of agriculture and raw materials.

The craft industry has a negligible effect on large distillers, as it operates primarily in development of premium and super premium category brands.

As mass producers, the large distillers export mostly bulk spirits, rather than packaging or promoting local products, which is a net lower multiplier effect on both jobs and economic development for Alberta.

Craft distillers actually represent a new customer base for the larger distillers as potential purchasers of bulk and aged spirit.

SUPPORT RATIONALE

The craft distilling industry is flourishing across North America with over 20% growth per annum since 2005.

It has expanded the premium spirit category and does not impinge on existing large scale producers.

- Creates new manufacturing sector jobs, particularly in rural areas at a multiplier at least 5x greater than industrial producers on a volume basis
- Growth in premium spirit category sales
- Economic development of value added agricultural manufacturing
- New tax base in otherwise non-existent category
- Supports agricultural sector and direct purchasing of Alberta based agricultural produce
- Potential new export industry
- A vertically integrated provincial industry with positive environmental aspects of material usage
- Level playing field with other provinces and focusses industry on the Alberta Advantage in raw materials.
- New use for spoiling or non-market grade agricultural products (eg. miss-shaped root vegetables.)

SUPPORT RATIONALE

BC and other provinces have created tax environments which favours the use of home grown ingredients. BC's markup for craft distillers is currently 0. This model is effective because it incentivizes craft distilleries to produce spirits which relate to the agricultural products grown in their area.

Craft Breweries enjoy a tiered tax concession to a maximum production level at which point they lose their reduced tax relief. At a certain production level, the small producer benefit disappears. Most Alberta spirit manufacturing, owned by global firms, is destined for export regardless, whereas craft distilleries are aiming at a more local following with a basis in tourism and export markets as a long term strategy.

This is an economic development opportunity in a province which has all the requisite assets for a strong craft spirit manufacturing industry.

Craft Distilleries are job creators where jobs are most needed. Normally linked with grain production, many distilleries are creating jobs in small, rural communities. Manufacturing of craft spirits does not always fit well with the code and zoning requirements of large urban centres, although some smaller distilleries will be linked with restaurants. *The distilling industry has historically been much more resistant to macro-economic cycles, providing stable jobs to millions of workers worldwide.*

Distilleries have a large multiplier effect on provincial industries. True authentic craft distilleries use almost 100% locally produced grain, produce washes, and ferment on-site; which fosters a new a growth market for agricultural producers at greater margins with lower freight overhead.

SUPPORT RATIONALE

The Craft Brewery industry, with similar tax provisions as those suggested for distilleries, has created an entirely new industry within Alberta, employing hundreds of newly skilled Albertans in over 20 different brewery operations. Those jobs are all within Alberta and would not have existed without regulatory and tax relief.

This is revenue neutral, mostly restricted to a heretofore non-existent craft premium category, with the potential for additional taxation as the industry develops.

Since BC changed their rules and tax policy in 2012, over 22 craft distilleries have been started.

In the United States, taxation and regulatory alignment have promoted tremendous growth for craft distilleries. Colorado has developed over 70 distilleries in 5 years, Oregon, Washington and California have similar results in building a successful new industry. State governments across America are following their lead.

Reducing spirit markups for small scale producers has a positive effect on state/provincial tax revenue, as a new industry creates income producing jobs and corporate income tax.

The multiplier effect creates more tax revenue than under the existing regime.

“A great example of how Alberta has started to build some foundation in this area is the start of micro distilleries in the province. If Alberta can now take the next steps to make sure there is continued regulatory support for small distilleries to be competitive in the national and international markets, [they] will be one aspect of a new diversified economy. High value-added businesses like these are exactly what we need more of in the province.”

Remi Schmaltz, CEO, Decisive Farming – Speaking to Alberta Venture Magazine March 2015



INDUSTRY ECONOMICS

The craft distilling industry faces economic challenges as it competes with a worldwide, heavily concentrated spirits industry.

The capital investment for a distillery is substantial, with investment in both a brewery/fermentation plant as well as stills, blending tanks, weigh scales, barrel warehouses, marketing, and transport.

With low initial margins, and the long horizon on capital return from aging spirits, distilleries must reach a high volume of sales in clear spirits to create cash flow sufficient to allow barrel spirit maturation to meet minimum 3 year whisky aging requirements.

With over \$14.00 per bottle in federal and provincial tax/markup, and retail markup for specialty products reaching as much as 50%, little margins are left under the current tax structure to allow for capital cost or market returns.

The relaxation of provincial mark up in the initial stages allows craft distilleries to develop plant and equipment in the first years of operation, acting as an economic development boost, while they develop both their products and their markets.

After plant and equipment costs are recovered in the initial stages, the markup relaxation would expire upon reaching economically sustainable sales volumes, leaving a successful and viable industry.

ALBERTA ADVANTAGE – a history of distilling

With world class grain production and the world's largest malt facilities, Alberta has already shown it has the capacity to be the center of a world renaissance in distilling.

The distilled spirits industry has a long, storied and successful history in the province of Alberta.

From questionable beginnings in the late 1800s and Fort Hamilton, to pioneers in the modern era such as Alberta Distillers (supported initially through government business subsidies).

That history is entering a new phase of development with the incredible growth of boutique premium and ultra-premium spirit categories driven by a North American resurgence of hand crafted distilling.

Alberta is perfectly positioned to capitalize on this exciting growth opportunity purely on the strength of our superior grain, glacier fed streams and Albertan entrepreneurial spirit.

The Alberta advantage of a regulatory environment that has traditionally supported entrepreneurial innovation is a critical component to ensure the rapid growth of the craft spirit industry in the province.



ALBERTA ADVANTAGE

Alberta craft brewers already receive incentive tax relief and have lower start-up costs than distilleries

The AGLC reports in its 2014 business plan that consumer demand and supply for a wide variety of alcoholic product types has shifted dramatically over the past 20 years since the privatization of the liquor store business in the province.

In the period since deregulation there has been an almost 20 fold increase in products available for consumption by Albertans. From less than 2000 liquor products in 1993 to almost 20000 products available to Alberta consumers today.

Most notably has been the shift in demand for more variety, local, boutique and premium liquor types. As small batch producers we are looking to the AGLC to enable a new wave of high quality craft Alberta distillers.



“HISTORICALLY, LARGE
ALBERTA DISTILLERS,
NOW OWNED
INTERNATIONALLY,
RECEIVED START UP
INCENTIVES.

BOTH THE CANADIAN
WINE INDUSTRY AND
CRAFT BEER HAVE SEEN
METEORIC GROWTH – ALL
WITH INITIAL SUPPORT
FROM THEIR RESPECTIVE
PROVINCIAL
GOVERNMENTS.”

- Stavros Karlos,
Park Distillery, Banff



MARKET TRENDS – Statistical growth

Premium craft category sales are exploding across North America, growing faster than the mainstream brands.

The growth of the premium and ultra-premium liquor categories has outstripped growth of all other categories.

In 2013/2014 craft spirits as a market segment grew by over 27% while mainstream competitors only grew by a fraction of a percent. The demand has been driven, in North America, by an artisan trend that began with food and beer products in the mid-1990s and widely mimicking long standing European standards.

The biggest shift in sales has been the increasing speed at which the premium spirit category growth has delinked from standard spirits. In 2011 the premium/ultra-premium category increased by 21% while standard categories only increased by 12%. Even more striking is that standard gin sales stagnated between 2006 and 2011 while super premium gin sales grew 18%.

The AGLC explosion of product listings for unique premium products (over 20,000 products in total listings) also verifies this trend. Adding to that demand has been rapid growth for perceived luxury products in the BRIC countries.

Small producers in Canada such as Glenora, Dillons, and Urban Spirits have already opened new export markets for Canadian craft spirits.

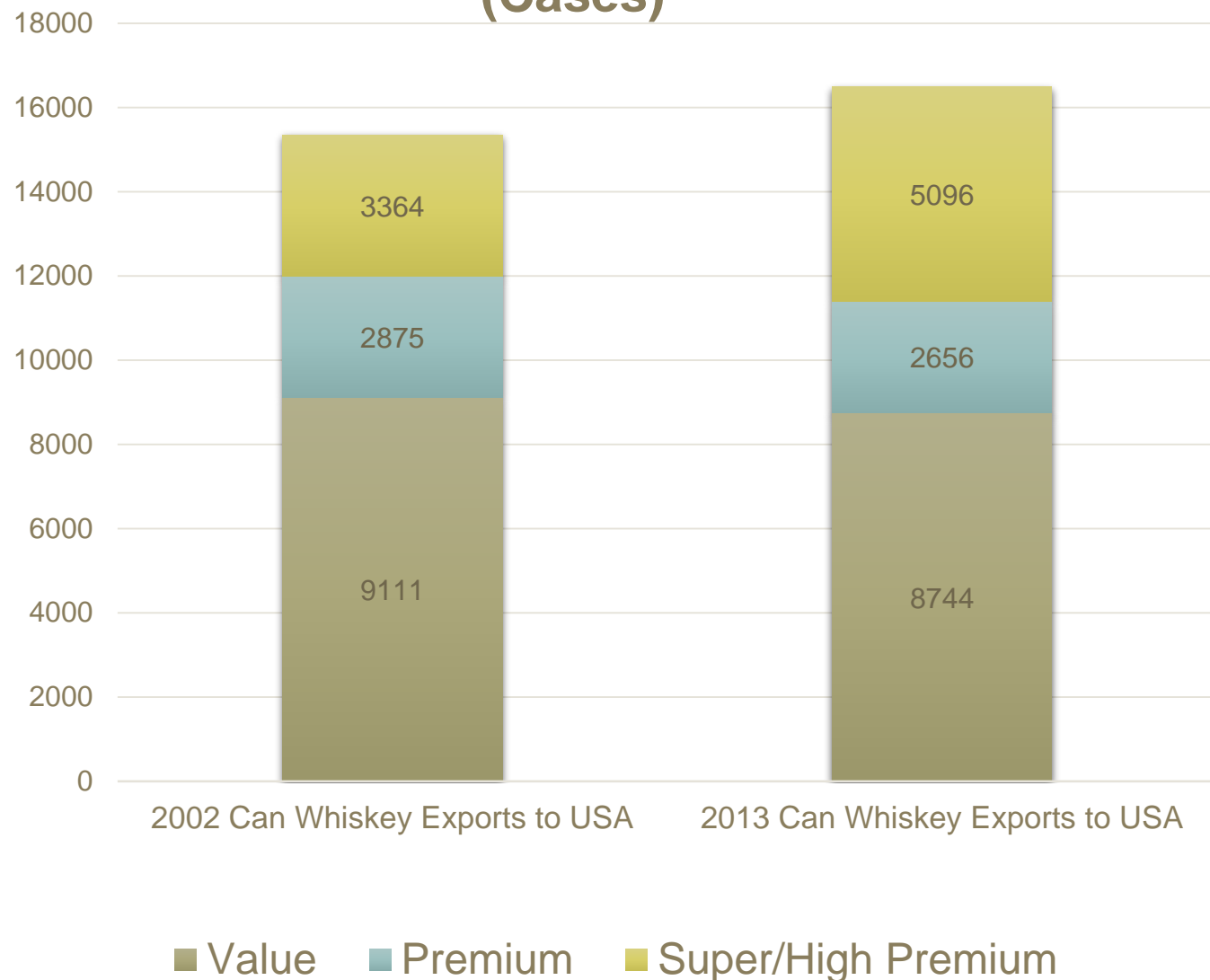
The Alberta market potential is currently high and grossly underserved by locally produced hand crafted spirit products. Five producers are now active and as an association it is our goal to expand the industry as quickly as possible.

REGULATION CHANGES AND TAX RELIEF HAS SPAWNED INDUSTRY GROWTH ACROSS NORTH AMERICA.

MOST JURISDICTIONS WHICH HAVE SEEN MANUFACTURING GROWTH HAVE CREATED CAPPED TAX RELIEF PROGRAMS TO KICK START THEIR INDUSTRIES, ALLOWING EASIER ENTRY FOR A HIGH CAPITAL COST INDUSTRY AND A STRONG FOUNDATION FOR FUTURE GROWTH.

THE MAJORITY OF CONSUMER DEMAND AND GROWTH OF THE INDUSTRY IS NOW IN THE ULTRA PREMIUM CATEGORIES OF SPIRITS PRIMARILY DRIVEN BY CRAFT PRODUCERS.

Canadian Whisky Exports To USA (Cases)



REGULATORY TRENDS

Regulation changes and tax relief has spawned industry growth across North America

The Alberta Gaming and Liquor Commission's focus on innovation, collaboration, excellence and regulatory modernization has been essential to the seeding of an Alberta craft industry.

As a result of new market facing changes that were implemented in Dec 2013 we are now on the cusp of a stimulating period of economic growth driven by craft distillers in the province.

The removal of minimum production limits and regulatory streamlining has started the first shoots of a new renaissance in Alberta distilling with newly approved Class E Manufacturers who will focus on Alberta spirits.

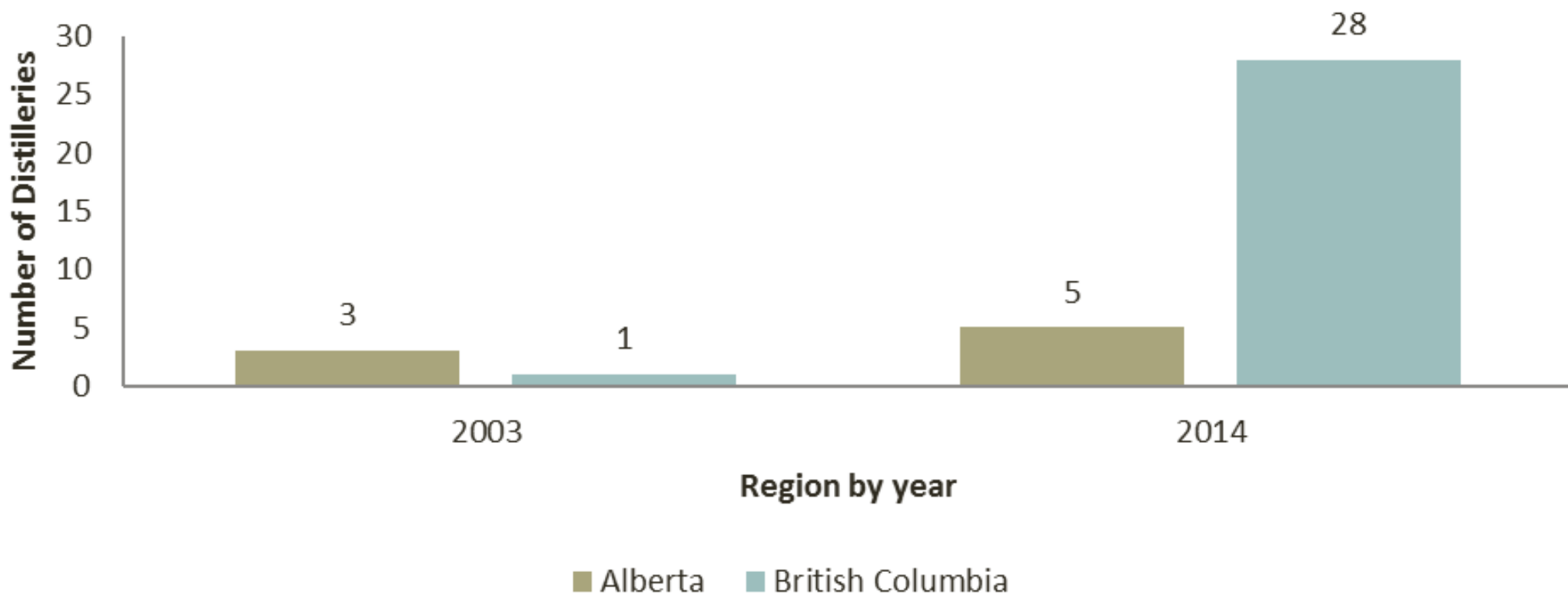
In order to sustain that initial start we must be aware of and adapt to the market challenges and high capital requirements facing new market entrants in the distilling industry.

American states which have led the way in craft distilling (Washington, New York, Colorado, Oregon, Texas and now Kentucky) through a combination of favorable regulations and lower entry costs have experienced explosive growth of the craft industry. Kentucky has seen new direct investment since 2008 by craft distillers of over 30 million USD in land, equipment and buildings and are expected to double that number during the next five years.

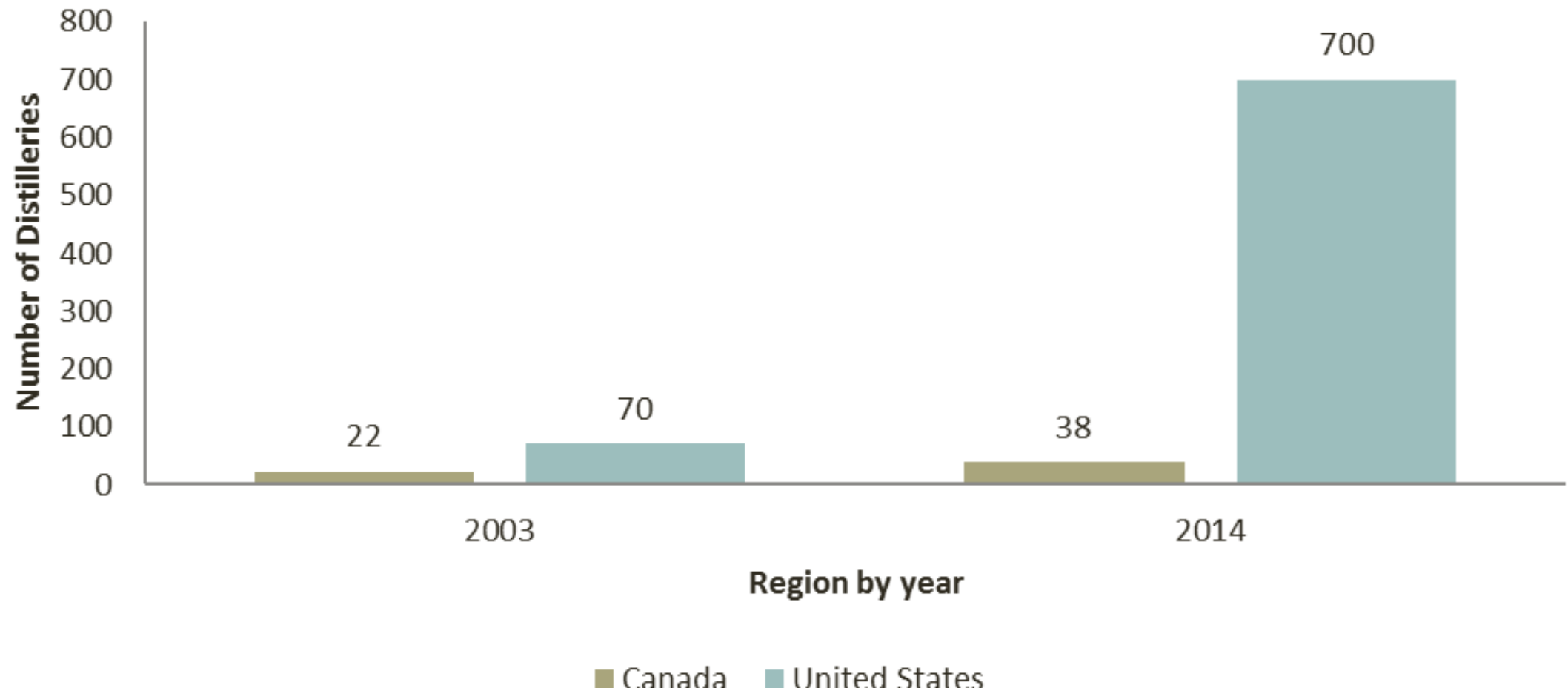
The American numbers nationally for growth in the craft distilling industry are even more pronounced over the past decade. From less than 70 craft distilleries in the early 2000s the number has exploded to over 623 as of 2013 and currently expanding at the rate of 10-15 per month.

BC alone had over 27 distilleries as of 2013 with the BC government strongly committed to expanding the industry. Alberta is poised to see the same level of success and the market demand is clear from success in other jurisdictions.

Comparative Operational Distillery Growth 2003 to 2014 Alberta (AB) vs British Columbia (BC)



Comparative Growth between 2003 to 2014 Canada vs United States



AGRICULTURE IS AN ADDED
BENEFICIARY TO INDUSTRY
GROWTH, CREATING AT-HOME
MARKETS FOR VALUE ADDED
INGREDIENTS.

ALBERTA STANDS TO BENEFIT
MORE THAN OTHER
JURISDICTIONS, AS IT IS HAS ALL
THE ASSETS TO FOSTER HUGE
INDUSTRY GROWTH; THE
PROVINCE ALREADY LEADS THE
CONTINENT IN PREMIUM GRAIN
PRODUCTION, MALTING AND
OTHER FOUNDATIONAL ASSETS.



RURAL AGRICULTURAL IMPACT

“Alberta farmers are looking for new market opportunities, particularly value added industries that are right in their backyard. It’s a win-win for everyone”

- Grain growers

Alberta’s major spirit producers have succeeded in the province as a result of government regulatory support and local access to high quality grain inputs, but only at a macro, mass production level.

Distilling has provided the province of Alberta with significant value added economic activity for agricultural end products.

Alberta produces consistently high grades of wheat, barley and rye. Utilizing that production at the local and regional level provides rural Albertan farmers and maltsters additional market access with reduced shipping costs.

Alberta distillers alone contribute over 6 million dollars per annum to the incomes of local rye farmers, and they are one of the largest consumers of the grain in the west.

The success of Highwood, Black Velvet and Alberta Distillers are a testament to high quality local grains and provincial regulatory support for the distilling industry.

The local access to high quality agricultural inputs is critical to the success of craft distillers and of all the provinces in Canada, Alberta is well positioned to lead. Interestingly enough the large scale manufacturers in the province (Alberta, Highwood and Black Velvet) currently export a large percentage of their aged and neutral grain spirit in bulk form to blenders and re-packers in the United States due to the high quality of spirits produced here.

A growing craft industry in Alberta will further support rural farmers and provide additional local and export market access.

"There is a global tourism trend for wineries, breweries and craft distilleries and the development of AB Craft distilleries will provide further unique local experience for both regional and international visitors to the province and highlight another agricultural experience that travellers are searching for in their journeys. The development of an Alberta craft spirit manufacturing industry will not only create jobs, support the agriculture industry and support the diversification of the Alberta economy, but it will also support the tourism industry and contribute to Alberta's Tourism Framework priorities of product development of authentic Alberta tourism experiences and alignment with multiple industries in pursuit of common goals."

—Mary Darling | CEO, Tourism Jasper



TOURISM IMPACT

Craft distilleries, wineries and breweries incorporate facility visits and tourism into their marketing programs. They are proud to showcase their products and facilities and receive millions of visitors year round as 'must visit' attractions.

The craft distillers of Alberta are actively marketing and forming partnerships with Travel Alberta and local destination marketing organizations. We expect to expand our industry alongside as many partners as will join us in order to mirror the closest comparable in terms of targeted liquor tourism, the Canadian wine industry.

As of 2011, nationally, the wine industry drove \$1.2 billion dollars of wine related tourism , with our closest neighbour BC driving approximately 800,000 wine related tourists. The rapidly growing spirits industry now draws significant media attention and is growing their tourist visits to distilleries in the Okanagan and greater Vancouver.

The BC liquor industry is a leading contributor to tourism worth over \$2 billion in economic impact and growing. Other wine growing regions such as Napa, Sonoma and the Niagara Peninsula cater to tourism and have created tourism zones attracting millions of visitors annually.

High levels of consumer interest has the potential to attract increasing amounts of tourism to historic rural Alberta as the backbone of an “Historic Alberta Whisky Trail”. The Bourbon trail in Kentucky saw 633,000 official visits in 2013. Buffalo Trace alone had a 149% increase in visitation between 2009 and 2013.

While Alberta's total liquor tourism is at a start-up phase, market leaders such as Eau Clair Distilleries of Turner Valley, Wood Buffalo Brewing Company of Fort McMurray and Park Distillery in Banff are capitalizing on high levels of consumer interest to attract visitors to their distilleries to learn about Alberta grains, spirits and traditional hand crafted distilling techniques.

SUMMARY

Provincial support for made in Alberta products, jobs and tourism

A reduction of the AGLC markup for small Alberta distillers utilizing 80% fermentable Alberta products that are manufactured, fermented and packaged in the province will gain Albertan craft distillers a competitive edge within Canada and allow us to effectively compete with the US craft industry.

The market demand in other North American jurisdictions is clearly apparent through the rapid growth of the industry. The demand for distilleries as a tourism and cultural product has been increasing throughout the past two decades and would provide the Albertan economy another source of value added manufacturing.

Currently, high capital cost of entry, extremely small profit margins and the high-risk regulatory environment are a challenge to long term sustainability.

A reduction in the Alberta markup fee mirroring our nearest competitor and most successful Canadian province in the craft spirit boomlet, BC, will give Albertan craft distillers an opportunity to fully realize their potential as high quality producers of fine spirits. Marketing and capital cost offsets could be another tool for the Alberta government to encourage rapid growth in the industry.

Alberta craft distillers are committed to creating a purely Albertan artisanal distilling industry that celebrates our heritage and rewards our hardworking rural farmers with spirits that matches the quality of the grains they produce. The industry will work collaboratively with the Alberta government and the AGLC to craft solutions that meet the economic goals of all Albertans.

WHILE THE ALBERTA CRAFT
DISTILLING INDUSTRY IS IN ITS
INFANCY, THERE ARE A
NUMBER OF PRODUCERS,
BOTH IN THE OPERATING
STAGE AND THE PLANNING
STAGE.

THE ALBERTA CRAFT
DISTILLERS ASSOCIATION
REPRESENTS THE INTERESTS
OF CRAFT DISTILLING.



Alberta Craft Distillers Association

While the Alberta Craft Distilling industry is in its infancy, there are a number of producers, both in the operating stage and the planning stage. The Alberta Craft Distillers Association represents the interests of craft distilling.

Its membership is comprised of the following producers: Wood Buffalo Brewing & Distilling, Last Best Brewing and Distilling, Eau Claire Distilling, Red Cup Distilling, Big Rig Distillery Park Distillery, and Krang Spirits. At least five other distilleries are attempting to open province wide and the ACDA will do all they can to support rapid provincial growth in this evolving Alberta industry.

David Farran - President
Alberta Craft Distillers
Association
dkaiser@ashla.ca 780-436-6112
etx 240

Dave Kaiser - President & CEO
of AHLA (Alberta Hotel &
Lodging Association)
dkaiser@ashla.ca 780-436-6112

Wynn McLean - VP Government
Relations, Travel Alberta
wynn.mclean@travelalberta.com

Steven Cage - President Artisan
Still Design (Lethbridge Based)
steven@artisanstilldesign.com

Tim Carson - CEO Alberta
Association of Agriculture
Societies
tim.carson@xplornet.com 780-
427-2174

