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**EVIDENCE**

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**Chair**

**Mr. Merv Tweed**



## Standing Committee on Agriculture and Agri-Food

Tuesday, April 16, 2013

• (1105)

[English]

**The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)):** Good morning, everyone. Welcome to meeting number 73 of the Standing Committee on Agriculture and Agri-Food.

The orders of the day, pursuant to Standing Order 108(2), include the study of the agricultural and agrifood products supply chain (beverage sector).

Joining us today, from the Brewers Association of Canada, is Luke Harford, president. I'm advised that the samples he brought are with security at the front door, so that's where this meeting will conclude.

Welcome, Luke. We appreciate your time. You've been here before, so obviously you know the drill.

The floor is yours.

**Mr. Luke Harford (President, Brewers Association of Canada):** Thank you very much, Mr. Chair.

Good morning, honourable committee members.

On behalf of the 25 brewing members that the Brewers Association of Canada represents, I would like to thank the committee for inviting me to appear today to discuss some of the supply chain challenges confronting Canada's brewers.

There are three items that I will cover this morning. The first is establishing an import maximum residue limit for hops similar to that set in the United States. The second is investing in malt barley through Growing Forward 2. The third is modernizing the compositional standard for beer under the food and drug regulations.

I would like to begin, though, with highlighting beer's place in the social and economic fabric of Canada. Beer has a long history in Canada, which in part explains why it remains the most popular alcoholic beverage consumed by Canadians today.

The first brewery was opened by Jean Talon in Quebec City in 1668. John Molson started his brewery in Montreal in 1786. Alexander Keith's brewery was founded in Halifax in 1820. John Labatt started his brewery in London, Ontario, in 1847. John H. Sleeman started his Guelph brewery in 1851. And Moosehead traces its roots back to 1867, to a brewery founded by Susannah Oland in Halifax. Before even becoming a country, beer had been a part of life in Canada. It continues to be enjoyed daily by millions of Canadians, with their dinner, after a round of golf, after or during a hockey game, or while socializing with friends at the local pub.

The brewing industry in Canada today employs 13,000 Canadians. These are direct jobs, good-paying jobs, that include manufacturing, quality assurance, research, innovation, marketing, sales, legal, transportation, and even retail. The production, distribution, and sale of beer made in Canada also impacts allied industries, such as farming, malting, packaging, and food services. When all the allied and spinoff effects are accounted for, beer generates full-time employment for 205,000 Canadians.

It will be of interest to the honourable members of this committee to know that domestic beer production represents 12% of the gross domestic product generated by the entire Canadian food manufacturing industry. Canada is the tenth largest beer exporter in the world. It will also be of interest to know that tax is a substantial burden on the brewing industry, to a much greater extent than it is on any other food manufacturing industry. The federal excise duty on beer is \$31.22 per hectolitre, which works out to 10.6¢ per bottle of beer. Excise duty is a production tax, and it is the first of many taxes. By the time beer is sold to the consumer, 50% or more of the retail price is tax—the second highest tax rate in the world.

Specific to the supply chain issues at hand, the first one I would like to touch on pertains to hops. Hops are the female flowers of a species called *Humulus lupulus*. Hops are an essential ingredient in beer. The hop plant is a climbing perennial vine, most often trained to grow up a wire to a height of between 7 and 30 feet, and sometimes even 50 feet. Hops impart bitterness, flavour, and aroma to beer.

Canada had a commercial hop industry until the early 1990s, when pests, pricing, and consolidation made hop farming in Canada unviable. While there are a handful of small Canadian hop farms today that are supplying small local brewers, commercial Canadian beer production is reliant on imported hops for domestic beer production. In 2012, Canadian brewers imported \$14 million worth of hops to produce 23 million hectolitres of beer. The United States is our biggest supplier of hops, accounting for 72% of hop imports in 2012, followed by Germany, which is the second largest, accounting for 18%.

Because Canada does not have a commercial hop industry, the pest management tools approved for use on hops have not kept pace with innovations and technological advancements made in the hop-producing countries. A consequence of this is that maximum residue limits, measured in parts per million, have not been established in Canada in many cases. The result is higher sourcing and compliance costs for Canada's brewers relative to that of their counterparts in other beer-producing countries.

The Pest Management Regulatory Agency is working with the United States Environmental Protection Agency and industry to address the situation. But understandably domestically we are focused on domestic registrations of pest management products to support the competitiveness of Canada's producers. Without a domestic commercial hop industry, the process and cost of domestic registration is excessive and uneconomical in many cases. As such, we are seeking the committee's support for establishing import MRLs at levels similar to those in the United States. Such MRLs will ensure that Canada's brewers have a steady and competitively priced supply of hops.

The second supply chain challenge for Canada's brewers that I will present today relates to malt barley, which, like hops, is an essential ingredient for making beer. Malt barley is a cereal grain that, after being harvested by the farmer, is enzymatically brought to life by the maltster for just the right amount of time to start converting the starches and proteins inside the kernel into fermentable sugars and protein fractions for brewing. What is then called malt is shipped to the brewer, who mills and completes the conversion of the malt to create a sugary solution called wort. This is followed by fermentation, during which yeast feeds on the sugars in the wort, naturally producing CO<sub>2</sub> and alcohol in the process.

Not all malting barley production gets selected for malt. Brewers have exacting standards and require incoming malts to be consistent in their specification. Aside from specialty malts not produced or processed domestically, Canada's brewers source all their malt barley from Canadian producers indirectly through their maltster. On an annual basis, Canadian brewers purchase approximately 350,000 metric tonnes of malting barley equivalent from a harvest that typically is between 2.2 million and 2.5 million metric tonnes. The proximity to a secure, high-quality malt barley supply is a key competitive advantage for the Canadian brewing industry.

Brewers and maltsters collaborate through the Brewing and Malting Barley Research Institute and the Canadian Malting Barley Technical Centre to ensure that Canadian malting barley retains its prominence. As with any crop, investment in new production tools and techniques as well as in new varieties is a must for our growers and our industry to remain competitive.

Canada's brewers have noted that barley acres have been in decline since the late 1990s. This is a concern, and we ask that the government commit to ensuring malt barley remains a viable and competitive crop for growers. Through BMBRI, Canada's brewers are working in partnership with grower agencies to provide industry funding toward breeding and research programs for such barley improvement.

An application has been submitted by this grower-industry partnership for matching federal funds under the Agriculture and

Agri-Food Canada Growing Forward 2 program. It is very important for Canada's brewing industry that federal funding for malting barley breeding and development programs be provided and remain in place over the long term, as cereal breeding is a multi-year process.

Finally, the last supply chain issue I'd like to raise today pertains specifically to beer. Any product imported or shipped between provinces that is labelled as a beer must meet the compositional standard of identity for beer as stipulated under the food and drug regulations, part B, division 2.

The beer standard, as it is called, has not been updated since the late 1980s and has fallen out of sync with developments in the beer category within which Canadian brewers produce a multitude of different beer styles, some of which have been around for hundreds of years but are new on the shelves here in Canada. The standard has become too prescriptive in some ways and obsolete in others. It has begun to cause problems with label approvals and even product development. Modernizing the beer standard is essential to ensuring that brewers can continue to innovate within the beer category and remain competitive in the marketplace.

• (1110)

The Brewers Association of Canada has taken the initiative of drafting a new beer standard, one that stays true to what beer is, while making it simpler for brewers, consumers, and regulators to understand. We are currently undertaking consultations with the appropriate government officials to get the necessary regulatory amendment under way. The challenge we expect to run into is that the beer standard is not the only one that needs to be updated, and that there will be a desire to wait to deal with beer along with all the others.

We would ask the members of the Standing Committee on Agriculture and Agri-Food to support Canada's brewers by acknowledging the need for the beer standard to be modernized in the near term.

In closing, brewing is something Canada is good at. Canada has many strategic advantages in making beer. We have a skilled labour force, lots of brewing expertise, clean sources of fresh water, and proximity to malt barley, to name just a few.

We need to ensure that we are competitive in our ability to source hops, an essential brewing ingredient for which we rely on imports. We can better ensure this by establishing import MRLs that are aligned with those of the United States. We need to continue to invest in our malt barley varieties and the agronomic tools available to malt barley growers. Canada has a reputation for producing high-quality malt barley, and this can only be maintained through ongoing joint investment among industry, growers, and the government.

The federal definition of beer under the food and drug regulations needs to be modernized to ensure regulatory coherence, continued innovation, and Canada's competitiveness in the global marketplace.

Thank you very much. I would be happy to take any questions.

•(1115)

**The Chair:** Thank you.

Mr. Allen.

**Mr. Malcolm Allen (Welland, NDP):** Thank you, Chair.

I appreciate the overview, witnesses.

We don't grow hops anymore. Is there a sense in your industry that this is the way it's going to remain, that you're generally going to be an importer, at least for the foreseeable future? Is it that you just don't see farmers doing this anymore, that it's always going to be an import issue for you?

**Mr. Luke Harford:** I would say that the industry would be very interested in seeing a hop industry return to Canada. We certainly have the land and the agricultural ability to do it. The issue came down to innovations in pest management control, innovations in hop varieties, and consolidation within the hop industry that affected pricing. Canada just didn't compete. There's no reason why Canada couldn't compete in the future. But for our purposes right now, in the near term, having access to imported hops is absolutely essential.

**Mr. Malcolm Allen:** You talked about needing a new definition of what beer is. Can you tell us exactly what it is you are looking for it to say that it doesn't say now, vis-à-vis the beers you're talking about? Are they not able to go province to province? Is that the issue, the certain beers you can make?

**Mr. Luke Harford:** I can highlight the issue with some specific examples.

Within the food and drug regulations there is a definition for beer and there is a definition for ale, stout, and porter. They're the same, but there are two different definitions.

When you want to put a Belgian-style wheat beer or an India Pale Ale, it creates confusion for people who are reviewing the labels at the liquor boards across the provinces or even within the Canadian Food Inspection Agency—not confusion, but it requires extra clarification. If you have a product that you're ready to launch, you have all your labels already done and you've had it pre-approved, and somebody in one province says, “No, that doesn't meet the definition of a beer, you'll have to label it differently”, that's where you get into product launch delays.

Another example would be.... In the last couple of years we've seen a lot of innovation with Belgian-style beers coming on to the market—they use spices, for example. Spices aren't specifically listed within the beer standard, so if you put on your label somewhere that it's made with malt, barley, hops, and spices, all of a sudden that is no longer a beer, and that has issues for distribution, taxation, and all kinds of things. Then you're dealing with the regulators, or whoever is approving the labels or approving that listing of that brand: “No, it is a beer, and this is a very traditional beer. They've been making it for thousands of years and everybody thinks of it as a beer.” It's just the quirkiness of not having spices within the food and drug regulations that is causing difficulty.

We've found ways to work within the definition there now, but everybody acknowledges that it needs to be modernized to accommodate all the different styles that are coming on to our shelves.

•(1120)

**Mr. Malcolm Allen:** What do you call beer that's not beer? I know we make near-beer, but that's an alcohol issue.

**Mr. Luke Harford:** That's an alcohol issue.

**Mr. Malcolm Allen:** So what do you call beer that's not beer? The description you just gave, Mr. Harford, is that it's traditional and someone has been making it for the last couple of hundred years somewhere else, and we are looking to bring it to this market and brew it in this country. What would we call it if we added spice to it?

We can go to microbreweries—I know I can in my riding—and if you want a Belgian wheat beer, it's usually on tap anyway, or they're actually making it on site. They don't bottle it; they just pour it. So we can actually get that, and it's called beer, by the way.

**Mr. Luke Harford:** Absolutely, and we want to call all these things beer and have a compositional standard that is flexible enough that microbrewers can innovate within that category and not have to call it something other than a beer, like a “non-standard alcoholic beverage”, or something like that, which is what the alternative would be.

**The Chair:** You're done.

Mr. Lemieux.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thank you very much. That was a great presentation.

I do want to ask a number of questions. One of them has to do with distribution.

We saw with wine, for example, that there are interprovincial barriers that greatly restrict the sale of wine in different provinces, particularly when it's made in province A and they want to sell it in province B. I want to find out if it's the same with beer.

Are there interprovincial regulations that are actually impeding or increasing the cost of the supply chain when it comes to beer producers selling in multiple provinces?

**Mr. Luke Harford:** I could spend a number of hours talking about that. The short answer is yes, those things do apply. We are not an open country when it comes to moving a food like beer across interprovincial boundaries. The challenges each province presents for a brewer are different, but they're certainly there.

**Mr. Pierre Lemieux:** Does this drive business decisions, then, in terms of where a brewery might set up in the first place, because of the population they want to have ready access to, as opposed to jumping through hoops to have access?

**Mr. Luke Harford:** It has to be part of the mix. If you have a specific region you want to sell into, you're going to be looking to establish your brewery in the one that gives you most access to those markets.

It does drive investment decisions. For instance, in Ontario, if you want to get access to The Beer Store directly and not have to go through the Liquor Control Board, you have to have a brewery in the province. There are companies that have invested in facilities in Ontario specifically to gain access directly to The Beer Store. They have a facility in another part of the country and they invest in assets in Ontario so they can ship product that's made in one province into the other.

**Mr. Pierre Lemieux:** That's actually what I meant. Is it driving business decisions? Sometimes when it does, it's not actually a good business decision. What I mean by that is you're incurring an extra cost, or an extra penalty, to be able to access a certain segment of the Canadian market.

**Mr. Luke Harford:** You'd have to look at historical context and you'd have to look at it in total, because there are companies that have said, "All right, I'm going to make this investment." Now, if you back that away and remove those restrictions, those companies that have already invested are at a disadvantage. If you want to pursue something like that, all of the provinces would really have to work on it together for things to line up.

**Mr. Pierre Lemieux:** You might find the breweries you represent to be somewhat conflicted on the issue, in terms of how they've responded to those challenges.

**Mr. Luke Harford:** Certainly, the provinces would be. The brewers may—

**Mr. Pierre Lemieux:** I'm thinking of small brewers versus large brewers. Large brewers probably have installations across the country—

**Mr. Luke Harford:** They've made that investment.

**Mr. Pierre Lemieux:** —whereas microbrewers would say, "Hey, that's a big investment now, if I have to do something in another province."

**Mr. Luke Harford:** That's right.

**Mr. Pierre Lemieux:** Let me ask another question about distribution, and that is this idea of product moving through... I mean, primarily there are really only two avenues. Here in Ontario there's The Beer Store and there's the LCBO. I'm an Ontario MP.

•(1125)

**Mr. Luke Harford:** There are also breweries that can sell at their own sites.

**Mr. Pierre Lemieux:** At their brewery, right.

I would say probably most beer moves through The Beer Store or the LCBO, or I guess through restaurants as well.

**Mr. Luke Harford:** And restaurants, right.

**Mr. Pierre Lemieux:** In terms of accessing the public through The Beer Store and the LCBO, does your organization have a position on that? Would you prefer to see greater access for the public to beer products, in other words through convenience stores? That's more of a provincial issue, but it's a question of interest. I would be interested in knowing.

**Mr. Luke Harford:** That's absolutely a provincial issue.

Obviously, I'm fascinated by the efficiencies of The Beer Store model. Although they may be accused of certain things, they really do list any brand for any brewer at any price that brewer wants, in any one of their stores. They do accommodate the beer category extremely well.

Their entire system is chilled, and microbrewers who are producing unpasteurized beers need that chilled system throughout. They wouldn't necessarily get that in a convenience store model. The Beer Store does great things for the beer category.

**Mr. Pierre Lemieux:** In terms of the future of beer, you've mentioned a couple of things related to the supply chain, but I'm wondering if you can encapsulate where you predominantly see the future gains for beer. Do you see it being greater access for the Canadian consumer? Is it greater access to perhaps international markets? Is it science and innovation? You were talking about different malts. Or perhaps it's more innovativeness in terms of blends. When you look at the microbrewery, for example, lime was not added to beer ten years ago, but it's there now, and I think it's a top seller. So maybe its innovation in terms of product offerings.

I don't want you to quantitatively rank them and say, "This is our number one priority" but could you group them into high and medium priorities for the beer sector, in terms of how the sector is going to grow and strengthen into the future?

**Mr. Luke Harford:** I certainly think you're going to see the pace of product development or innovation within the category get a lot quicker.

Molson Coors came out with Coors Light Iced T last year, which is a new line. There was the lime; that is a new and creative category.

I think the beer category as a whole is really on the cusp of being identified as a product that matches incredibly well with food. I think it's underappreciated in that area. It has great recognition for its sociability; you have great conversations over a nice cold beer. However, I think with foods, the fact that you can combine beer with more tastes than you can with wine or with spirits, once people in the brewing community begin to identify that—certainly the craft beer industry is big on that, and the large companies recognize that as well and are making lots of investment in that area—it's going to be an area where the category is going to see a lot of growth.

**The Chair:** Good. Thank you.

Mr. Valeriotte.

**Mr. Frank Valeriotte (Guelph, Lib.):** I just want to follow up on a question Malcolm asked. He mentioned buying from a local brewery, a microbrewery, a kind of beer that might have something different in it—I don't know what—which may not meet the definition of beer, I thought I heard him say. And yet he is able to buy it at a local pub on tap. Are you saying that the problem is because of the definition, that while he may be able to buy that on tap, and locally, and probably consider it beer, you can't move it from province to province because of the definition? There's no all-embracing definition of beer that would recognize it as beer. What's the problem here?

**Mr. Luke Harford:** Well, the food and drug regulations start to apply once that product does cross a provincial boundary or for product coming into the country. In Ontario, you could have a definition for beer that fits with Ontario's Liquor Licence Act, and you can distribute it as beer within the province. But once it crosses that boundary it has to fit within the compositional standard set out under the food and drug regulations, and the food and drug regulations stipulate all the ingredients Health Canada has approved for use in a product that you label as beer.

• (1130)

**Mr. Frank Valeriote:** Right. So what you're asking, then, is for the government to meet with the provinces and talk about this definition and broaden the definition so that more products that are produced locally as beer are recognized nationally as beer.

**Mr. Luke Harford:** It would make it much simpler for all brewers.

**Mr. Frank Valeriote:** That's understood.

Going back to the hops problem, that until the nineties, when pests, pricing, and consolidation made hop farming in Canada unviable.... What of those three are the predominant factors for our no longer producing hops? Do you see our ever getting back into that market?

**Mr. Luke Harford:** These hop farms are very, very intensive from a capital expenditure standpoint. You need lots of land, but also these trellises, or whatever they put up with the wiring. They grow really tall, and then they have special tractors that come and cut the vines down. To get back into it is going to be a massive expense for a commercial-sized hop producer to undertake.

But to answer the first part of your question on what did it in, I would say probably pricing was the thing. It's such a competitive global marketplace that this probably had an impact on Canada as a smaller hop-producing country, on influencing its current position.

**Mr. Frank Valeriote:** Okay.

You mentioned something about the maximum residue limits, and I guess there's some kind of protocol that says there's a maximum residue that's limited on the hops coming in. Ours is different from the States, where we predominantly get our hops, and we have to harmonize this. Is that what you're saying?

**Mr. Luke Harford:** Yes. We have fewer of those MRLs established. Our list of MRLs doesn't marry up well with the United States. The approach we're taking is to say we're going to focus on domestic registrations. So if you had hop producers here in Canada, you would be going through that domestic registration process. If you say you're going to make it a priority to establish import MRLs, so you don't have to go through the whole domestic registration process to certify or qualify a particular pest management product for use here in Canada, you just need to establish it for products that are coming in.

**Mr. Frank Valeriote:** I gather that MRLs are established for other crops, I'm told perhaps like tropical fruits—

**Mr. Luke Harford:** Oh, for sure.

**Mr. Frank Valeriote:** —that are not produced in Canada. Could the Pest Management Regulatory Agency have the same process for hops? Is every single product different?

**Mr. Luke Harford:** I would imagine the way it works is when they're establishing import MRLs for a fruit or a vegetable, or something like that, they'll look to see if there are any other uses or applications where this applies, where the hop producers could come in and ask to have hops included in their analysis.

**Mr. Frank Valeriote:** Okay.

A final question. Microbreweries really fit into a movement I think that's been afoot in Canada for a while, and that is the produced local, buy local.... People have a sentimental attachment to their local brewery. I know in Guelph there are a lot of microbreweries. It's a flourishing industry.

Do you represent the microbreweries as well?

**Mr. Luke Harford:** Yes, we do. We've got all the majors, and then we've got 21 either regional or smaller craft brewers from across the country.

**Mr. Frank Valeriote:** Do the same issues apply to the microbrewers as apply to the larger brewers, or are there any different issues?

**Mr. Luke Harford:** Sure. They're importing hops as well. They're not all buying locally grown hops, as the market is just not big enough, so they would be buying and importing it just like the larger players.

**Mr. Frank Valeriote:** Would they be less concerned with the issue of the labelling of beer because they can label it as they wish, or do they want that fixed, too, so microbreweries can start selling beyond their borders?

**Mr. Luke Harford:** Everybody wants the compositional standard for beer fixed. Everybody wants it modernized, and we're in the process of consulting with our non-members as well to let them know what we're doing here in Ottawa to modernize the compositional standard for beer.

**The Chair:** Go ahead, Mr. Richards.

• (1135)

**Mr. Blake Richards (Wild Rose, CPC):** Thank you.

Thanks for being here today.

I know that prior to working for the brewers you used to work for the Canadian Vintners Association, so I think you've got a very good background and you understand how different policies will affect the different types of beverages. It's nice to have you here with that background.

Mr. Lemieux asked you about some of the interprovincial trade barriers. You indicated that you did face similar issues with interprovincial trade barriers as your friends in the wine business, and obviously, with your background in both aspects, you are very familiar with that. You indicated that you did have issues there, and I'm sure you're familiar with all the changes that were made through a private member's bill from one of my colleagues, Dan Albas. I'm wondering if you would be supportive of similar types of changes to knocking down interprovincial trade barriers for brewers, for beer, and if those would be helpful to your members.

**Mr. Luke Harford:** In terms of fairness, if the wine industry is now able to do this, then we want to be able to do it, too. Are you going to ship cases of beer the same way you're going to ship bottles of wine? I doubt it. I don't think the market opportunity is the same as it is for the wine industry, so we don't have members clamouring for the same as the wine industry got.

The issue for the brewers, with the change that was made on the wine side, is that the provinces need to figure out how to handle it, and they will, but there is a big change in that they're not necessarily applying the same markup or taxation rates on the wine that is being shipped between provinces as they are with beer that has to go through that system. I think over the course of time the brewers will say they understand wine and beer are different, and they are marketing themselves and they've got this opportunity, but we don't want to have to shoulder the cost of all the social programs and all the health programs that are funded in part through a taxation on alcohol, with wine being shipped directly to consumers without that added tax.

**Mr. Blake Richards:** I get that there are obvious differences, but you would be supportive of changes in that regard for interprovincial trade barriers for your—

**Mr. Luke Harford:** Market access is vital, right? You need to be able to put your products in front of your customers.

**Mr. Blake Richards:** Excellent.

I want to ask a little more broadly here, and generally, and it will touch on trade as well, more of the external variety, I guess, in this case. I wonder, looking at the trade balance in terms of our beer, do we export more beer or import more beer? What's the balance there, and what's the percentage?

**Mr. Luke Harford:** Historically, we have had a positive trade balance. Now we're almost dead even with how much we're importing. That's a function of changes with consumers as well. Consumers are demanding more imported products, more choices, and the provincial liquor boards, too, with the portfolio they want to offer to their customers, and what's attracting premium pricing and all that kind of stuff, and that constant turnover.

So there are different variables, but certainly Canada has the capacity and the capability to be a fairly substantial exporter of beer.

**Mr. Blake Richards:** I remember 20 years ago, when I was first of drinking age, it was Molson Canadian or Coors Light, and those were your choices. Now there are so many choices, so many different varieties and different flavours. I think you're right, the consumer has more choices. But I think we're meeting that here in Canada. There are all kinds of great Canadian microbrews and different things here. I think that's kind of what you're getting at here.

**Mr. Luke Harford:** There's a beer for every occasion right where we are.

**Mr. Blake Richards:** With that, with the changes that we've seen over the last number of years, have we seen a change in the percentage when we look at the different alcohols in Canada? Has there been a change in the percentage of those sales that are beer, or has that been pretty steady? What is that percentage between beer, wine, and spirits? What are the percentages in terms of sales in Canada?

• (1140)

**Mr. Luke Harford:** From a dollar value standpoint, we've seen the market share of beer go from over 50% to now, just last week, being reported at 44%. Wine has basically taken up that delta, from a value standpoint, so they've gone from 25% to now 30% or 31% of the retail value of beverage alcohol sales. But beer is still, from a volume standpoint, the dominant beverage in Canada.

**The Chair:** Mr. Atamanenko.

**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):** Thanks very much, Mr. Harford.

I have technical and other questions. Years ago, we had three major brewers: Carling, Molson, and Labatt. They were Canadian. Are they all owned by foreign companies now, just out of curiosity?

**Mr. Luke Harford:** Yes, they're part of global entities, but they have investments here in Canada. They do employ Canadians and they're continuing to invest in their Canadian facilities. They're opening up new canning lines; they're opening up new breweries.

Molson opened up a brewery in Moncton just a few years ago. They are investing in the craft category. Creemore, up in Ontario, is expanding and adding 135 jobs over the course of the next couple of years, because they've taken that brand national.

There are a lot of great stories to tell. Even though they may be part of global entities, they are making investments here domestically and are very much Canadian.

**Mr. Alex Atamanenko:** Are there any barriers for moving beer across the border, whether coming into Canada, if we look at the United States, or exports?

**Mr. Luke Harford:** It depends on what you would consider a barrier. Yes, you've got to go through customs, you've got to go through the liquor board to get into that province. Then, if you're going to move it from one province to another, you've got to move it to the other liquor board.

So, yes, there are all kinds of... Because alcohol is provincially controlled or regulated, you're dealing with almost different countries each time you cross into another province.

**Mr. Alex Atamanenko:** But if we export to the United States, there's no specific tariff that's placed on our beer, or vice versa, when an American beer comes in internationally.

**Mr. Luke Harford:** I'm not a hundred per cent sure how it works. I don't know if you get instant access to the entire U.S. market or if different states have different requirements. Are there any tariffs on beer coming in? There were some things that provinces negotiated back before NAFTA that are still in place, but, no, beer moves into Canada fairly freely.

**Mr. Alex Atamanenko:** Here's a question I've always wondered about. What's the difference between beer and ale, or is there one?

**Mr. Luke Harford:** Beer is a general term that you would use to cover all different styles. Ale is a specific style of beer that is different from a lager or a pilsner.

**Mr. Alex Atamanenko:** A lager versus ale, then.

**Mr. Luke Harford:** That's right. The difference is the type of yeast they use. Ale is brewed or fermented at a warmer temperature, with yeast that floats to the top, and lagers are fermented at much cooler temperatures, with yeast that settles to the bottom.

**Mr. Alex Atamanenko:** I'm still a little confused where barley fits in with hops. We have specific barley we grow, which is called malt barley, which differentiates from other barleys grown specifically for —

**Mr. Luke Harford:** There's feed barley and then there's malt barley.

**Mr. Alex Atamanenko:** Okay, so where along the chain...? We have the barley. It goes to the brewer, or the...?

As well, how does the process take place for the hops?

**Mr. Luke Harford:** When do the hops get put into the beer?

**Mr. Alex Atamanenko:** Yes.

**Mr. Luke Harford:** It's not something I've ever been shown, because it's a secret. For every brand it will be very different.

**Mr. Alex Atamanenko:** But at what stage in the—

**Mr. Luke Harford:** It's when it's in the kettle. After they've brewed the wort, which is that sugary solution they put in the kettle and boil, that's when they would put the hops in.

• (1145)

**Mr. Alex Atamanenko:** You mentioned maltsters and brewers. Would they be at the same physical location?

**Mr. Luke Harford:** No. We have several malting facilities across the country. The maltster is the one who deals primarily one on one with the producer in selecting the malt. They'll call it, and then it comes into their malting facility.

**Mr. Alex Atamanenko:** So the barley comes to the malting facility.

**Mr. Luke Harford:** That's right, and then they malt it. In the malting process, basically they bring it to life to a certain point and then they shut it down by kilning the malt. Once it gets down to a certain moisture level, they put it on a train or a truck and they ship it to the brewer.

**Mr. Alex Atamanenko:** That's where the hops would come into the chain. Is that correct?

**Mr. Luke Harford:** No. The malt comes into the brewery, it gets augered into the mill, and then the mash is done. They add water and steep it. Then they would bring it into the kettle. It's in the kettle that they would put the hops in.

**Mr. Alex Atamanenko:** That is at the brewery.

**Mr. Luke Harford:** At the brewery, yes.

**Mr. Alex Atamanenko:** Okay.

What role do you see for government when it comes to malt barley? In other words, what can we do to assist?

**Mr. Luke Harford:** Canada put its place on the global map when it comes to malt barley with a variety called Harrington back in the 1960s and 1970s. For the brewing industry and for the malting industry, it was the gold star of malt varieties.

Over time, the variety starts to weaken. It doesn't necessarily produce at the same rate it did in the past because it's more susceptible to pests or whatnot. That investment needs to continue to be made.

Canada came back out with Copeland varieties, and Metcalfe. We just need to make sure there—with industry, not just government on its own, and with growers working together—that investments are going in for those varieties that will continue to keep Canada on the global stage when it comes to malt barley.

**Mr. Alex Atamanenko:** Thank you.

**The Chair:** Thank you very much.

Mr. Payne.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Chair.

Thanks for coming, Luke.

I have a few different questions.

First, just to touch on what Alex was talking about with regard to malt barley, you talked about a number of varieties, and I'm just curious, are any of these GM varieties?

**Mr. Luke Harford:** No, there are no GM varieties grown in Canada.

**Mr. LaVar Payne:** What about in other countries?

**Mr. Luke Harford:** I'm not sure. Maybe in China or other countries they have some, I don't know, but not in Canada.

**Mr. LaVar Payne:** Okay. Good.

When you first started out with your talk, Luke, you spoke about the excise tax on beer. How does that compare to, say, wine or other spirits?

**Mr. Luke Harford:** That's a great question.

Several years ago, in the 2006 budget, there was a progressive excise schedule brought into place for beer. Prior to that, it was a one-size-fits-all excise duty rate.

By bringing in a progressive schedule, it recognized that those smaller players, without the economies of scale, needed to have a lower excise burden in order to get into the business of brewing. It has been successful. We've gone from having around 35 to 40 microbreweries in the country to 200 of them now. So in terms of attracting investment into the category, it has been effective.

How does that compare against wine? In the 2006 budget there was an excise exemption on wines made with 100% Canadian agricultural product. That was very good for their industry, but in terms of discrepancy, brewers pay excise on the very first litre of beer they produce, whereas a vintner would pay no excise on any of the wine they produce as long as it's made with 100% Canadian agricultural product. Brewers in Canada would use 99% Canadian agricultural product—water, malt barley, and then some with locally grown hops as well.

•(1150)

**Mr. LaVar Payne:** I wanted to touch on the hops as well. You talked about the early 1990s and pests and pricing and so on. Do you know offhand what percentage of the Canadian market suppliers had at that point?

**Mr. Luke Harford:** I don't have that statistic. I could follow up with you.

**Mr. LaVar Payne:** That would be interesting to know.

You did talk about the conditions and certainly the expense for farmers to get back into hops. Does any aspect of climate have an impact on this? Do they have to have a much warmer climate to grow the hops, or do hops have to be grown in a certain timeframe?

**Mr. Luke Harford:** Climate is a big part of it. A lot of hops were grown in the Fraser Valley pre-1990. Some people are saying with Canada becoming a little warmer and drier we might make more land available to crops like hops, but I don't know if we can wait to see how that's going to unfold.

**Mr. LaVar Payne:** Are there a lot of requirements, say, for irrigation as well for the hops?

**Mr. Luke Harford:** I'm not certain.

**Mr. LaVar Payne:** The other thing you and some of my colleagues talked about is the market. Obviously there are different standards within the provinces. For example, in Alberta you can buy beer at a beer store or you can buy it off-tap at the bar, and almost everything else is private in terms of market availability. I go to my local co-op when I buy it because they've got some great prices.

I'm wondering how that compares, say, to Ontario. I know they've got a beer store here, but I'm not sure if they sell through LCBO. And what about the other provinces? Are there some major differences there?

**Mr. Luke Harford:** Every province is unique. Quebec and Alberta are probably the most open, if you will. In Quebec you've got convenience stores, 17,000 points of retail in Quebec, compared to a province like Ontario, which has a bigger population, where you've got 12,000 or 13,000. What we carry in a beer store or an LCBO is much different from what they can carry in a convenience store.

Alberta privatized in 1993, and I think they've enjoyed some success with that model, but it is a very different model. Like Quebec, the taxes are much lower, and that's because the province isn't involved with any aspect of distribution and all that cost is on the brewers or their distributors. In Alberta, for instance, I think when they first privatized one of the things they did over the course of a year was roll back the taxes several times, to deliver on not only the convenience issue but also the pricing issue, because the last thing the government would want to see is prices going up when they've privatized. When you do that it adds more cost to the system, and that had to roll out.

**The Chair:** Thank you.

We are at the time limit, but I want to make sure there are no other lingering questions for our guest.

Madame Brosseau, you have the floor.

**Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP):** Thank you for coming.

I have some experience. I was employed by this industry before being elected. Do you represent non-alcoholic breweries also, or is that completely...?

**Mr. Luke Harford:** We represent companies that would make non-alcoholic beverages. Labatt produces their Labatt Blue, which is .5% alcohol. Molson produces Molson Excel, which is .5%. Those would be the biggest ones. They are treated like a non-alcoholic beverage, and they don't carry the same tax or the same distribution limitations.

•(1155)

**Ms. Ruth Ellen Brosseau:** What upcoming trends do you see in beer? I know I've gone to the LCBO and the SAQ in Quebec and there's been a mojito, and I think you brought up the lime. Do you see that continuing? You were also saying there's a beer for all occasions. Do you think that is trying to appeal to a younger generation, or maybe females who weren't interested in regular, standard beers or lagers? Is this something we're going to see more of?

**Mr. Luke Harford:** I don't get to peer into the hearts and minds of the marketing people within the breweries, but I think there certainly is an effort going into broadening the appeal of beer to a larger audience, because per capita consumption has been very stable or flat for several years. So in trying to find new ways to give people a reason to try our products, I think you're going to continue to see that development and that experimentation going forward.

**Ms. Ruth Ellen Brosseau:** Do you have any other recommendations for the committee? I'll just give you a chance to maybe finish up with your conclusion.

**Mr. Luke Harford:** No, I'm very grateful for the opportunity to come here and present, and I thank you for all the questions. At any time, if you want to stop by our office, we're right across the street at 45 O'Connor. You're more than welcome to come and have a beer with us.

**The Chair:** If I may, I'm going to ask Chad to circulate the document that I need the committee to talk about.

Do beer sales change by who's marketing it? Obviously there are liquor commissions in some parts of the country, whereas in other parts it's the wide open market. Do you see a change when it's a different distributor of your product?

**Mr. Luke Harford:** I think across the board all of the provincial liquor boards have done a fantastic job, not just on the responsible use programming but also on cultivating a real appreciation for food and for drinking in moderation, whether it be beer, wine, or spirits. I think we were very complimentary towards the efforts of the liquor boards regarding what they've done to expand people's interest in our products to accompany or complement food.

**The Chair:** That kind of answers my question. I was more interested in the straight side on retail. I've read some stories about how the liquor commissions now are beefing up their beer sales because they find they're losing market to the beer stores. They're actually moving it onto shelves in more dominate places in their stores. Obviously, depending on how you view liquor commissions and government-run operations...I just wondered if you would have a better shot in Alberta with everybody having access to beer and a more open market, versus having a market controlled by a government agency.

**Mr. Luke Harford:** Yes. Competition is good. I think here in Ontario there certainly is a lot of competition between The Beer Store and the LCBO, but I would say that the LCBO does a lot to complement the category.

**The Chair:** In your last comment you mentioned something about a new definition for beer.

**Mr. Luke Harford:** Yes.

**The Chair:** You have one and you've circulated it amongst your stakeholders.

**Mr. Luke Harford:** Yes.

**The Chair:** At any point in time you feel comfortable sharing it with the committee.... At the end of the day, we will be making recommendations.

**Mr. Luke Harford:** I'd be happy to share that with the committee.

**The Chair:** Could you share that with the clerk?

**Mr. Luke Harford:** Yes.

**The Chair:** Okay. With that, I'll thank you for your attention today and for participating. We appreciate your time today. Thank you.

For the committee members, just very briefly before we go to the subcommittee, I've circulated a budget that will cover the study we're doing on the agriculture and agrifood supply chain beverage sector. I need a motion in support of adopting it.

**Mr. Randy Hoback:** I so move.

(Motion agreed to [See *Minutes of Proceedings*])

**The Chair:** Thank you.

I have to adjourn the meeting, and in two minutes we'll come back as a subcommittee. Anybody who is not related to a member or the subcommittee is asked to clear the room.

The meeting is adjourned.

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