

## MINISTRY OF NATURAL GAS DEVELOPMENT

### BRIEFING NOTE FOR INFORMATION

- I PREPARED FOR:** Honourable Rich Coleman, Minister of Natural Gas Development and Deputy Premier
- II ISSUE:** Meeting with Jeff Newton, President, and Jeremy Chorney, Vice President, at Canada's National Brewers (CNB) to discuss business and tax issues in the context of the current market.

### III BACKGROUND:

CNB is an association of the three largest brewing companies in Canada; Molson Coors, Labatt, and Sleeman. All three are owned by large international companies. Molson Coors is headquartered in Denver, Colorado, Labatt's parent company Anheuser Busch InBev is headquartered in Belgium and Sleeman's parent company, Sapporo, is headquartered in Japan. In terms of BC operations, Molson Coors operates a brewery in Vancouver, Labatt operates a brewery in Creston and Sleeman operates a brewery in Vernon.

In addition to marketing Canadian beer, the three companies also represent and distribute a large portfolio of imported beer brands, many of which are owned by their parent companies. Despite being competitors, Labatt and Molson Coors share joint distribution operations in Canada. The western version of the distribution operations which serves BC, Alberta, Saskatchewan and Manitoba is called Brewers Distributors Limited.

The multinational beer companies have been losing market share over the last several years to micro-breweries and regional breweries. This loss of share has amplified a number of concerns they have had with BC's beer mark-up structure and their competitors' ability to lower the shelf price of products.

The CNB has three issues they wish to discuss: their members' economic contribution; the Province's beer mark-up structure; and, economic development strategy and social reference pricing.

### IV DISCUSSION:

#### CNB's Economic Contribution

The multinationals held well over 90 per cent of the market share of beer sales in BC for decades. Over the last decade they have experienced an erosion of this market share to about 80 per cent today. Notwithstanding the decline, they still account for the vast majority of sales. The Province collects the largest amount of mark-up from the sale of these brewers' products compared to the smaller breweries, by a very wide margin. In 2015/16 the Province collected the following mark-up on their products.

	2015/16 Total Markup s.21
LABATT BREWING COMPANY LIMITED	
MOLSON BREWERY B.C. LTD. (includes Granville Island)	
OKANAGAN SPRING BREWERY LTD.	
Total	

As noted above, each of the multinationals have brewing operations located in BC, so they employ British Columbians and pay property taxes, etc.

#### Beer Taxation and Government's Economic Development Strategy

The beer mark-up structure in BC has preferential rates for small and medium-sized breweries. This structure has been in place since the 1980's to recognize the higher production costs of smaller breweries that do not have the economies of scale enjoyed by the members of CNB. This strategy has been effective. There are now over 100 BC-based small and medium-sized breweries that continue to make capital investments and create employment in all regions of the province.

CNB members have generally not opposed the preferential mark-up provided to very small breweries because their cost of production is significantly higher and they have historically produced premium-priced beer that is not in direct competition with CNB members' products. However, CNB has argued for the last several years that the preferential mark-up structure has significantly strayed from its original intent by repeatedly increasing the production threshold for receiving preferential treatment. The result is that medium-sized breweries are receiving preferential mark-up rates and CNB maintains these breweries are using the lower mark-up to produce 'discount' beer that is not a premium product and has a low shelf price which is negatively impacting their market share and the beer market in general.

CNB will remind government that a continued shift in market share has a negative impact on government revenue because of the decreased mark-up collected on the products of small and medium-sized breweries. Given that overall beer consumption is flat, increased market performance by the small to medium-sized breweries is coming directly at the expense of their members' sales performance. They will point out that no further mark-up concessions are necessary to encourage the viability of the small brewery sector in the province as evidenced by the impressive growth the sector has experienced to date. Clearly the business environment is seen as positive by people with an interest in starting a brewery given the number of entrants over the last five years. The BC Craft Brewers' Guild has suggested that additional assistance from government is necessary to ensure the sector's continued success. Further assistance will likely result in additional entrants and

it remains to be seen at what point the marketplace will become saturated causing some small brewers to become unviable.

CNB is also concerned with the plan to increase the beer mark-up rates annually by the consumer price index. They will point out that to do so will broaden the preferential mark-up rates enjoyed by small and medium-sized breweries because the increase will be percentage-based and therefore the real-dollar increase will be higher on their products because their mark-up rate the percentage is applied to is higher to begin with.

They will suggest that mark-up rate increases be applied in a manner that maintains the present gap and does not widen it. They further maintain that annual increases in the mark-up rates need to be accompanied by increases in the social reference price (minimum price).

#### Social Reference Pricing (minimum price)

CNB maintains that the indexation of beer mark-up should only be done if it is accompanied by the indexation of the minimum price. Their members generally support government-imposed, modest increases in the minimum price because such an increase is applied to all brewers so there is no competitive disadvantage to the rise in price.

#### **V CONCLUSION:**

Ultimately, CNB members are strongly opposed to any further government assistance being provided to the small and medium-sized brewery sector in BC, particularly the medium-sized breweries. Their market-share has been on a downward trajectory for several years <sup>s.13</sup>. Given that beer consumption is static, the success of BC's brewery sector is coming at the expense of the multinationals.

#### **ATTACHMENT:**

1. CNB Presentation – BC Brewing Industry Policy Discussion

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# OFFICE OF HOUSING AND CONSTRUCTION STANDARDS

## DECISION NOTE

**DATE:** April 15, 2016

**PREPARED FOR:** Honourable Rich Coleman, Minister

**ISSUE:** Rent Geared to Income (RGI) Rent Increase Exemptions

### **BACKGROUND:**

The *Residential Tenancy Act* (RTA) controls the frequency and amount of rent increases that a landlord can impose without a tenant's written consent.

The Residential Tenancy Regulation (the Regulation) provides an exemption from the RTA's rent controls for Rent Geared to Income (RGI) housing that is either:

1. operated directly by:
  - BC Housing;
  - Canada Mortgage and Housing Corporation;
  - the City of Vancouver;
  - the City of Vancouver Public Housing Corporation;
  - Metro Vancouver Housing Corporation;
  - the Capital Region Housing Corporation; or
2. operated by a non-profit organization under an operating agreement with:
  - the government of British Columbia;
  - BC Housing; or
  - the Canada Mortgage and Housing Corporation.

The Regulation's rent control exemption for RGI housing supports Government's commitment to promoting affordable housing, by ensuring that tenants pay rent according to their means. Rent is based on the income of the household, (i.e., no more than 30 percent of the household's total gross monthly income) rather than the market rate. Without this exemption, RGI housing would not be possible as the housing operator would not have the flexibility to match rents to household incomes, and tenants would be unlikely to provide written consent to rent increases on a voluntary basis.

Recently, the Residential Tenancy Branch (RTB) has been examining two issues involving the RGI exemption:

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Version 1  
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# OFFICE OF HOUSING AND CONSTRUCTION STANDARDS

## DECISION NOTE

### 1. **Expiring Operating Agreements with BC Housing**

Operating agreements between BC Housing and operators of RGI housing are beginning to expire, meaning that these RGI housing operators will no longer qualify for the exemption to rent controls under the Regulation, and will be hampered in their efforts to provide affordable housing.

### 2. **Operating Agreements with the City of Vancouver**

The City of Vancouver has advised the RTB of plans to create new RGI housing to be operated by non-profit organizations under agreements with the City. Although the Regulation allows an exemption for RGI housing operated directly by the City of Vancouver, it does not allow an exemption for RGI housing operated by a non-profit society under an operating agreement with the City.

## **DISCUSSION:**

### **Expiring Operating Agreements with BC Housing**

Over the next 10 years, about 25 percent of operating agreements with BC Housing are scheduled to expire. This will impact 318 buildings and more than 10,000 rental units. By 2030, more than 70 percent of operating agreements with BC Housing are scheduled to expire. This will affect 889 buildings and almost 30,000 units.

Section 2(g) of the Residential Tenancy Regulation can be amended to provide rent increase exemptions for housing operators with expired BC Housing operating agreements, which would allow them to continue to provide affordable housing options through RGI tenancies. No unintended consequences are anticipated, as this would simply continue the existing exemption and no parties would be negatively impacted.

BC Housing had indicated they are in support of this proposed amendment.

### **Operating Agreements with the City of Vancouver**

The City of Vancouver has advised the RTB that there are a number of new affordable housing projects in development that have been offered to the City as part of a Community Amenity Contribution in a rezoning application. In these instances, the rezoning applicant will transfer ownership of the housing to the City, and the City will select a non-profit organization to operate the housing on an RGI basis through an operating agreement with the City. The City recently issued a Request for Qualification to establish a shortlist of operators by the summer of 2016.

The Regulation does not currently provide an exemption for RGI housing operated under an agreement with the City of Vancouver.

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Section 2(g) of the Residential Tenancy Regulation could be further amended to include RGI housing operated under an agreement with the City of Vancouver in the exemption. If this exemption is extended only to City of Vancouver, then it will not support similar RGI projects that other municipalities may propose in the future. At the present time, the RTB is not aware of any other municipalities that are planning new RGI housing; however, no unintended consequences are anticipated for ensuring such projects would fall within the scope of the exemption.

### OPTIONS:

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## **RECOMMENDATION:**

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Approved/Not Approved

Verbally Approved

May 31, 2016

\_\_\_\_\_  
Honourable Rich Coleman  
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April 20, 2016  
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Updated: Apr 15, 2016

**OFFICE OF HOUSING AND CONSTRUCTION STANDARDS  
DECISION NOTE**

Jeff Vasey Assistant Deputy Minister Office of Housing and Construction Standards	JV	May 24, 2016
Dave Nikolejsin Deputy Minister Ministry of Natural Gas Development	DN	May 24, 2016



# OFFICE OF HOUSING AND CONSTRUCTION STANDARDS

## INFORMATION NOTE

**DATE:** May 20, 2016

**PREPARED FOR:** Honourable Rich Coleman, Minister

**ISSUE:** *Building Act*: Timelines for New Opt-in Regulations

### **BACKGROUND:**

- The *Building Act* (the Act) aims to balance consistency for industry with flexibility for local governments.
- To support consistency, technical building requirements enacted in local government bylaws will be of no legal force after the two-year transition period, ending in December 2017. Local governments, who have specific, local needs, will have a formal process to apply for a variation to BC building regulations.
- If a request for a variation is approved, it will be enacted as a provincial regulation.
- When the Act was in development, the Building Safety and Standards Branch (BSSB) identified fire sprinklers and energy efficiency as two issues where local governments had varying requirements and a high level of interest.
- An opt-in regulation addresses a high level of interest and involvement from a group of local governments across the Province, whereas a local government request for variation supports a specific, local need with the onus on the local government making the request to make a compelling case for why the variation is needed.

### **DISCUSSION:**

#### ***Consultations***

BSSB established multi-stakeholder working groups to develop opt-in regulations specifically for fire sprinklers and energy efficiency:

1. **Fire Sprinklers:** Initial consultations were completed and recommendations approved in fall 2015. However, to determine where fire sprinkler requirements may apply, additional consultations between the working group and 30 local governments continue to address the use of community fire risk assessments and application of tiers.
2. **Energy Efficiency:** BSSB, the Ministry of Energy and Mines, and the Ministry of Community, Sport and Cultural Development are consulting with representatives from local government building and planning departments, industry, utilities, and other stakeholders on consistent technical requirements for energy efficiency in buildings. All parties are aware that the Climate Leadership Plan's built environment policies – to be released in June – may affect consultation outcomes.

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- Further consideration, in developing local government opt-in regulations for fire sprinkler and energy efficiency requirements, is needed to ensure sound technical requirements. Industry support and capacity is also necessary for successful implementation.

### ***Projected Timelines***

- Working group recommendations detailing implementation options for both energy efficiency and fire sprinklers will be presented to the Minister in August 2016.
- If the recommendations are approved, the opt-in regulation drafting will begin immediately, with a deadline for approvals by December 2016.
- All local governments will then have a review period of ten months in which to determine if they want to sign on to either or both of the opt-in regulations. This period overlaps with the timeframe for local governments to review and amend their bylaws under the Act.

### **CONCLUSION:**

If the regulations are approved and enacted, local governments with an interest in fire sprinkler and energy efficiency requirements may sign on to the opt-in regulations. Opt-in regulations provide consistent application across the province for building requirements that go beyond the BC Building Code.

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