



TRILLIUM NETWORK
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Ontario's Craft Brewing Industry: Contributions, Community, and the Challenges Ahead

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Introduction

From Windsor to Timmins and Kenora to Cornwall, craft breweries are a vital part of Ontario's economy. As the fastest-growing segment of manufacturing in the past decade, craft breweries are ubiquitous in communities throughout the province.

The craft brewing industry is unique in that it exists at an intersection of manufacturing, hospitality, tourism, and agri-food. Craft brewers are small, independent, and fiercely local, and thus distinct from the giant internationally-owned brewing companies (i.e. AB InBev/Labatt, Molson Coors, and Sapporo/Sleeman) that continue to dominate the beer market. These local links provide craft brewers with certain competitive advantages, allowing them to be highly adaptable and responsive to the needs of their communities and to the collaborative communities of practice that exist within the craft brewing industry. It does, however, mean that they interface very differently with the institutions that govern the production, marketing, and distribution of beer in Ontario than the internationally-owned brewers do.

Two years ago, the Trillium Network for Advanced Manufacturing published a report that quantified the exceptional growth of craft brewing in Ontario between 2010 and 2019. This report is available [online](#) and provides useful

background on the growth and organization of the industry since the 1980s. While this report was published in June, 2020, the majority of the research was conducted between November, 2019, and February, 2020. (Could our timing have been any better?)

Much has changed since we completed the research that underpinned that report. The purpose of this report is to update the 2020 study in order to identify how Ontario's craft brewing industry has fared throughout the COVID-19 pandemic. In so doing, the report examines the economic contributions of craft brewers in the province as well as the contributions they make to their communities beyond jobs and taxes. Finally, the report examines the challenges to competitiveness and profitability that craft brewers face—challenges that must be overcome if this increasingly important segment of Ontario manufacturing is to regain the growth trajectory that was interrupted by the pandemic.

The report is informed by publicly-available data from Statistics Canada, our own database of craft breweries in Ontario, and by interviews and consultations with 15 craft breweries throughout the province, all of which were conducted in April and May, 2022. All of the breweries included in this study are members of the Ontario Craft Brewers (OCB).



Ontario's Craft Brewing Industry

Between 2010 and 2019, the number of 'bricks and mortar' breweries in Ontario increased from fewer than 100 to more than 320. There are now 340. Of these 340 breweries, fewer than 40 were operating before 2010. Every brewery established between 2010 and 2022 is Canadian-owned, save for AB InBev's Mill St. Brewery in East York.

The number of persons employed in Canadian-owned breweries increased nearly sixfold between 2010 and 2019. Moreover, by 2019, Canadian-owned breweries accounted for nearly 80 per cent of all brewery employment in the province. This represents a significant departure from the past, when internationally-owned breweries and their predecessor companies accounted for a large majority of brewery employment.

The number of persons employed in Canadian-owned breweries decreased from approximately 4,600 in 2019 to 4,250 in 2020 and again to 4,175 in 2021 (Figure 1). This decrease was not a result of brewery closures, but rather pandemic-related layoffs in smaller Canadian-owned breweries (Figure 2). This is evident in the decrease in the number of breweries with between 10 and 49 employees and a corresponding increase in the number of breweries with between one and nine employees in 2021. A large majority of Canadian-owned breweries continued to operate, but with fewer employees than they did in the recent past.

By 2019, Canadian-owned breweries accounted for nearly 80 per cent of all brewery employment in the province. This represents a significant departure from the past, when internationally-owned breweries and their predecessor companies accounted for a large majority of brewery employment.

Figure 1 - Brewery Employment in Ontario, 2009-2021

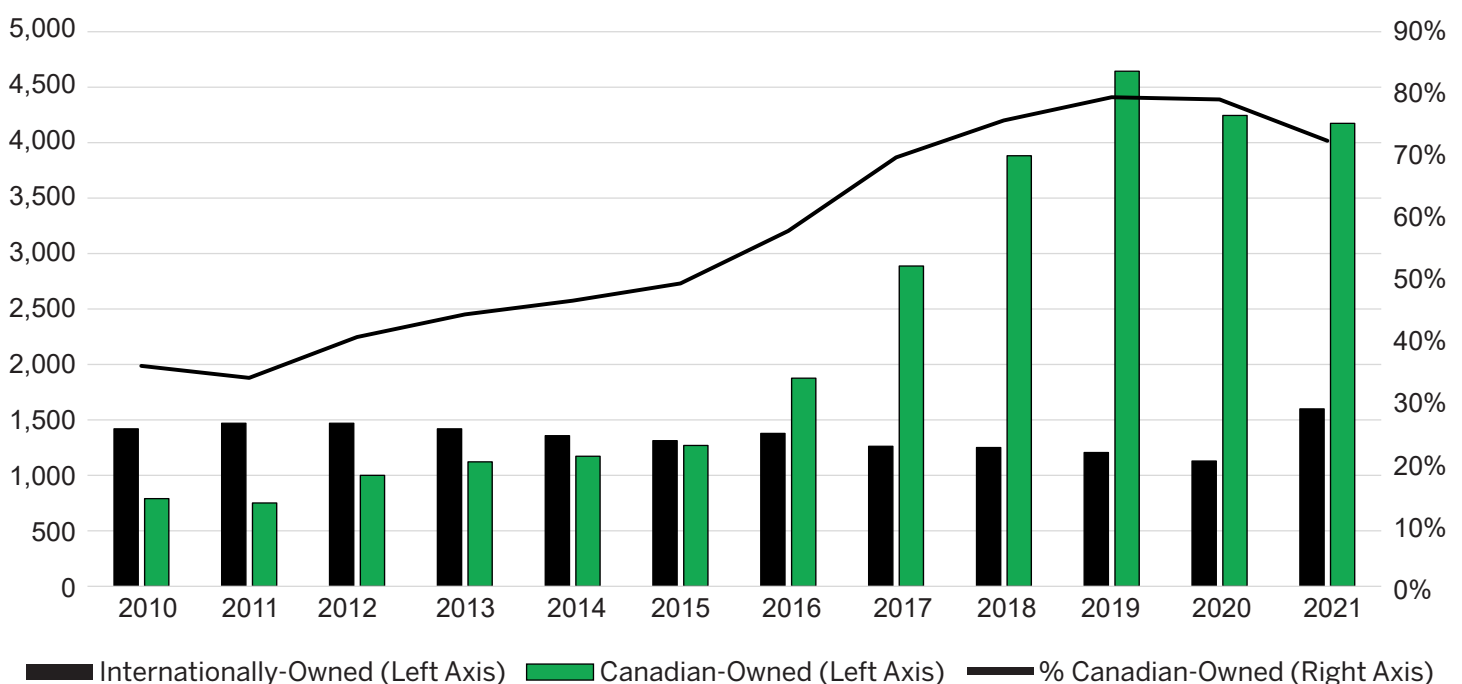
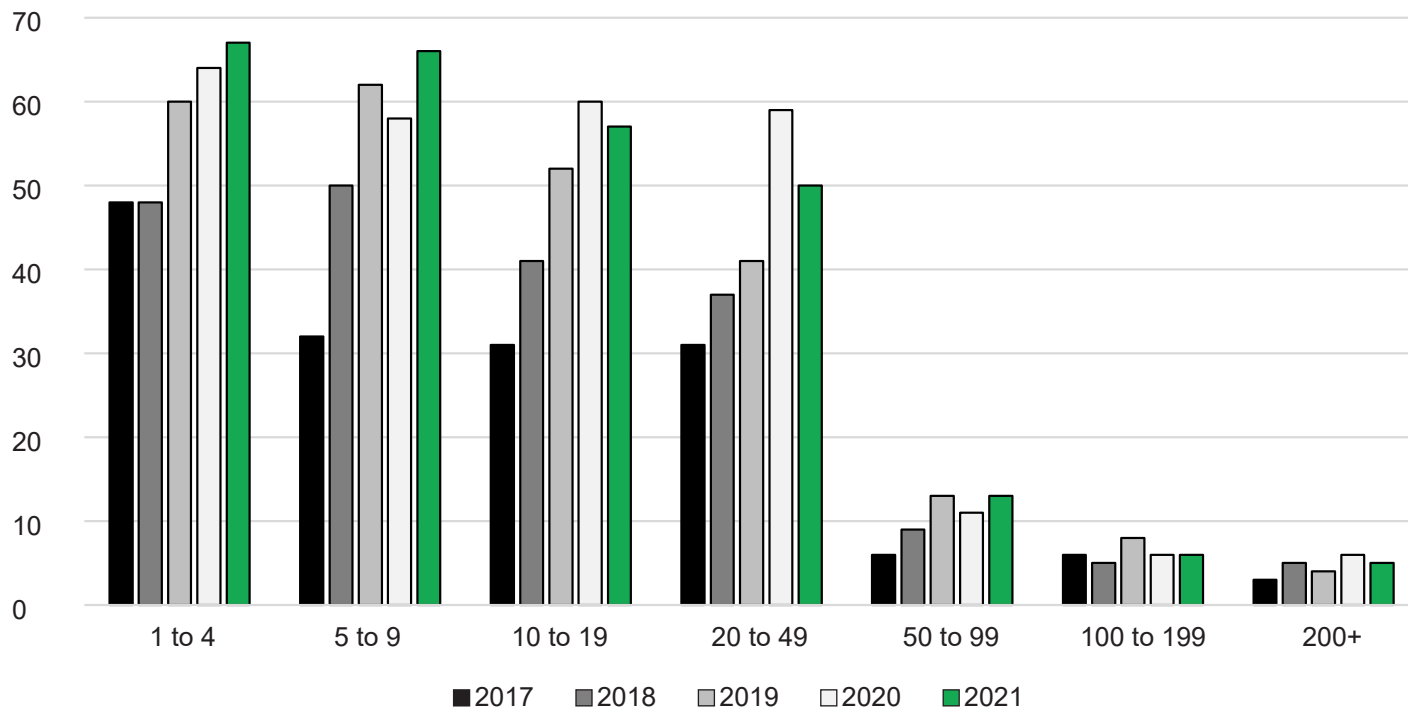


Figure 2 - Ontario Breweries by Number of Employees, 2017-2021



■ Source: Statistics Canada Tables 3310-0034-01, 33-10-0092-01, 33-10-0214-01, 33-10-0267-01, 33-10-0395-01

The number of persons employed in internationally-owned breweries decreased in 2020 but increased in 2021, a year in which those companies accounted for approximately 30 percent of brewery employment in Ontario (Figure 1). Much of this was due to the ability of internationally-owned brewers to access important retail channels such as the LCBO and The Beer Store in a manner that Canadian-owned breweries could not.

Craft breweries have diverse revenue streams. Our previous report identified 11, including: 1) taproom sales, 2) on-site retail sales, 3) off-site retail sales, 4) home delivery, 5) sales to licensed establishments, 6) exports, 7) on-site food and beverage sales, 8) events, 9) merchandise, 10) other alcoholic beverage sales, and 11) contract brewing and co-packing. The pandemic negatively affected at least six of these revenue streams. Taproom sales, sales to licensed establishments, on-site food and beverage sales, and events were severely affected, providing almost no revenue during certain periods of 2020 and 2021.

The ability to deliver beer directly to customers was perhaps the only revenue stream where significant growth occurred. While the increase in revenue associated with home delivery did not make up for the losses associated with other streams, it did allow craft brewers (in some cases the owners of the breweries and the head brewers themselves) to engage directly with customers in their local communities and in communities where they were previously less well known. This is unique relative to other segments of Ontario manufacturing.

It is generally anticipated that the number of persons employed in Canadian-owned breweries will increase in 2022, compared with 2021. Whether employment in Canadian-owned breweries will regain its growth trajectory over the next few years rather than simply recovering what was lost is yet to be determined. Based on our analysis, a return of growth would be beneficial to Ontario and its communities for purely economic reasons. It would be even more beneficial because of the outsized contributions that craft breweries make in their local communities, which is the focus of the next section.

Craft Brewing and the Community

Craft brewers make outsized contributions to the communities in which they operate. While these contributions are wide-ranging and vary from brewery to brewery, the craft breweries we spoke with all agreed that this was an integral part of the way they do business. In other words, craft breweries support their local communities, knowing that their communities will be there to support them in turn.

One of the ways many craft breweries contribute to their communities is through donations to charitable and non-profit organizations. Several, including Great Lakes Brewery (Etobicoke), Lake of Bays Brewery (Baysville), and Left Field Brewery (Toronto), each donated tens of thousands of dollars to a number of organizations in 2021, a year in which many craft breweries struggled with profitability. Bracebridge's Muskoka Brewery, one of the larger craft breweries in the province, donated more than \$200,000 to 19 different

organizations during the pandemic and has since established its Muskoka Community Venture Fund to support the brewery's diverse suite of community-related initiatives.

In several instances, craft breweries raised funds through collaborations. Portions of the proceeds of a particular product, usually a seasonal or limited-series beer, were donated to a particular organization. These organizations include, but are by no means limited to, food banks, women's and family shelters, healthcare organizations, and scholarship funds. Moreover, many of these craft breweries are located in smaller communities, and their charitable contributions are critically important to organizations that do not enjoy the same philanthropic ecosystem as their counterparts in larger cities. Table 1 provides a short and non-exhaustive list of select organizations that recently received support from the craft breweries that participated in this project.

Table 1 - Craft Brewery Support for Charitable Organizations

Organization	Location	Partner Brewery
Daily Bread Food Bank	Toronto	Great Lakes Brewery
Pride Durham	Whitby	Brock Street Brewing
SickKids Hospital	Toronto	5 Paddles Brewing Company
Red Door Family Shelter	Toronto	Left Field Brewery
Muskoka Conservancy	Bracebridge	Muskoka Brewery
Feed Ontario	Toronto	Lake of Bays Brewery
Barrie Food Bank	Barrie	Flying Monkeys
Ewing's Cancer Foundation	Toronto	Falcon Brewing Company
Unison Benevolent Fund	Toronto	Sawdust City Brewing Company
Pride and Remembrance Run	Toronto	Eastbound Brewing Company
CHEO Foundation	Ottawa	Calabogie Brewing Company
North House	Uxbridge	The Second Wedge Brewing Co.

A growing number of small businesses and community-based organizations, including chambers of commerce, amateur sports teams and associations, communities of artists and musicians, and farmer's markets, rely on local craft brewers for space to meet and collaborate.

Another important way that craft brewers contribute to their communities is by providing a 'third space' for any number of activities. A growing number of small businesses and community-based organizations, including chambers

of commerce, amateur sports teams and associations, communities of artists and musicians, and farmer's markets, rely on local craft brewers for space to meet and collaborate. For example, when the Uxbridge Farmers' Market needed a new location in 2017, they found it on the premises of The Second Wedge Brewing Company. When Second Wedge's brewery was damaged in a recent storm, the Uxbridge Farmers' Market offered the company space at a new location until cleanup and repairs are complete. The Eastbound Brewing Company in Toronto's Riverdale neighbourhood hosts a running club that boasts more than 1,000 members. All or Nothing Brewhouse hosts a weekly 'makers market' from May to October that provides space and resources for small, community-based, producers of food, jewelry, beauty products, cleaning supplies, and plants from in and around Oshawa.

Craft breweries are a catalyst for further development in communities across the province. The presence of a craft brewery in small and large communities alike is often enough to encourage, or even embolden, other small businesses to invest locally. In this sense, craft breweries serve as a sort of spearhead or beacon for the revitalization of 'Main Streets' across the province. They are also increasingly important to Ontario's tourism industry and are a destination for tourists, especially in the summer months. Those same tourists are likely to visit other small local businesses, often as the result of collaborations with those craft breweries.



The limited scope of craft breweries—most focus primarily on making beer—leads to certain ‘spillover’ effects for other small businesses or local entrepreneurs. Many craft breweries are limited in their ability to serve food, and therefore rely on local food trucks or pop-up restaurants to feed their customers. As such, craft breweries serve as ‘incubation’ spaces for fledgling restaurant or catering businesses.

Craft breweries are also important supporters of local communities of musicians and artists, and focus increasingly on booking local acts or providing gallery space for local artists. Some, such as Sawdust City, have also supported charities like the Unison Benevolent Fund, which provides support to Canadian musicians in times of hardship (and is playing an important role in the return of the Mariposa Folk Festival in July, 2022).

A growing number of breweries engage in community-building activities that promote diversity, equity, and inclusion. Amsterdam Brewery, one of Ontario’s longest-operating craft brewers, refurbishes bicycles at its Leaside facility and subsequently donates them to those in need of affordable transportation, with a focus on newcomers to Canada. Others focus on promoting gender diversity within the craft brewing industry. Muskoka Brewery recently became the first brewery in Canada—and the first Ontario-owned manufacturer—to receive Gender Parity certification from Women in Governance. Others, such as Amsterdam, Left Field, and Second Wedge, have brewed beers in collaboration with the Society of Beer Drinking Ladies, which aims to showcase women-brewed beers (with a portion of proceeds donated to the Canadian Women’s Foundation).

Muskoka Brewery recently became the first brewery in Canada—and the first Ontario-owned manufacturer—to receive Gender Parity certification from Women in Governance.



■ Image Credit - Muskoka Brewery

Many craft breweries are ardent supporters of organizations and initiatives that support Ontario’s LGBTQ+ communities. Examples of this support are often most visible during Pride celebrations in June. Eastbound Brewing released a beer in 2021 with proceeds donated to the Pride and Remembrance Run; Brock Street Brewing engaged in a similar initiative to support Pride Durham; and Muskoka Brewery’s Born This Way IPA has become a June staple across the province with proceeds donated to the GetREAL Movement. Ajax’s Falcon Brewing Company is hosting a LGBTQ+ comedy night this June for those seeking to celebrate Pride Month locally. Such support is not limited to Pride month, however. Eastbound is a proud sponsor of Flags of Glory, a division of the Toronto Gay Football League. Left Field regularly supports the Bill 7 Award, which provides scholarships to LGBTQ+ students who are in financial need and studying at a post-secondary institution in Ontario.

Challenges to Growth and Competitiveness

Ontario craft brewers continue to face challenges related to competitiveness, profitability, and further growth. The most pressing and persistent challenges are related to market access, increased competition from imports, and Ontario's excise tax system. More episodic challenges exist related to input costs, supply chain uncertainty, and the lasting impact of pandemic-related restrictions.

Our 2020 report highlights what we refer to as the 'systemic misalignment' between Ontario craft brewers and the four primary retailers of beverage alcohol in the province (the LCBO, The Beer Store, Loblaws, and Sobeys). The annual revenues of each of these retailers far exceed those of even the largest craft breweries in Ontario. All four invest substantial amounts of money in sophisticated retailing practices that generally favour internationally-owned brewing companies at the expense of locally-owned craft brewers. The challenges associated with this system of retailing were exacerbated during the pandemic, and especially as the LCBO restricted access to and communication with its agents.

Ontario's craft brewers faced increased competition from imports in 2021. Beer imports to the province, the majority of which originate in the Netherlands and the United States, increased by more than \$21 million between 2020 and 2021 (Table 2). This is somewhat surprising given the stated preference of retailers and governments to promote Ontario-made products and is closely related to the systemic

misalignment mentioned above. This trend is also unique when compared to other provinces, all of which reduced imports and consumed a greater proportion of Canadian-made beer during the pandemic.

During a time of crisis, when some of Ontario's craft brewers were forced to destroy premium and locally-made products because—as several craft brewers told us—they had no way to get it to market, Ontario retailers focused on selling commodity-grade beer imported from the Netherlands and the United States.

Table 2 - Ontario Beer Imports, 2020 and 2021 (Thousands \$)

	2020	2021	Change
Netherlands	\$89,202	\$89,853	\$651
United States	\$43,390	\$55,744	\$12,354
United Kingdom	\$10,224	\$14,350	\$4,126
Ireland	\$20,851	\$20,241	-\$610
Others	\$73,311	\$77,829	\$4,518

■ Source: ISED Canada, Trade Data Online

Allowing breweryless producers—of which there are at least 80 in Ontario—to operate on the border of a tax system that was designed to support investment in bricks and mortar breweries is counterproductive at best.

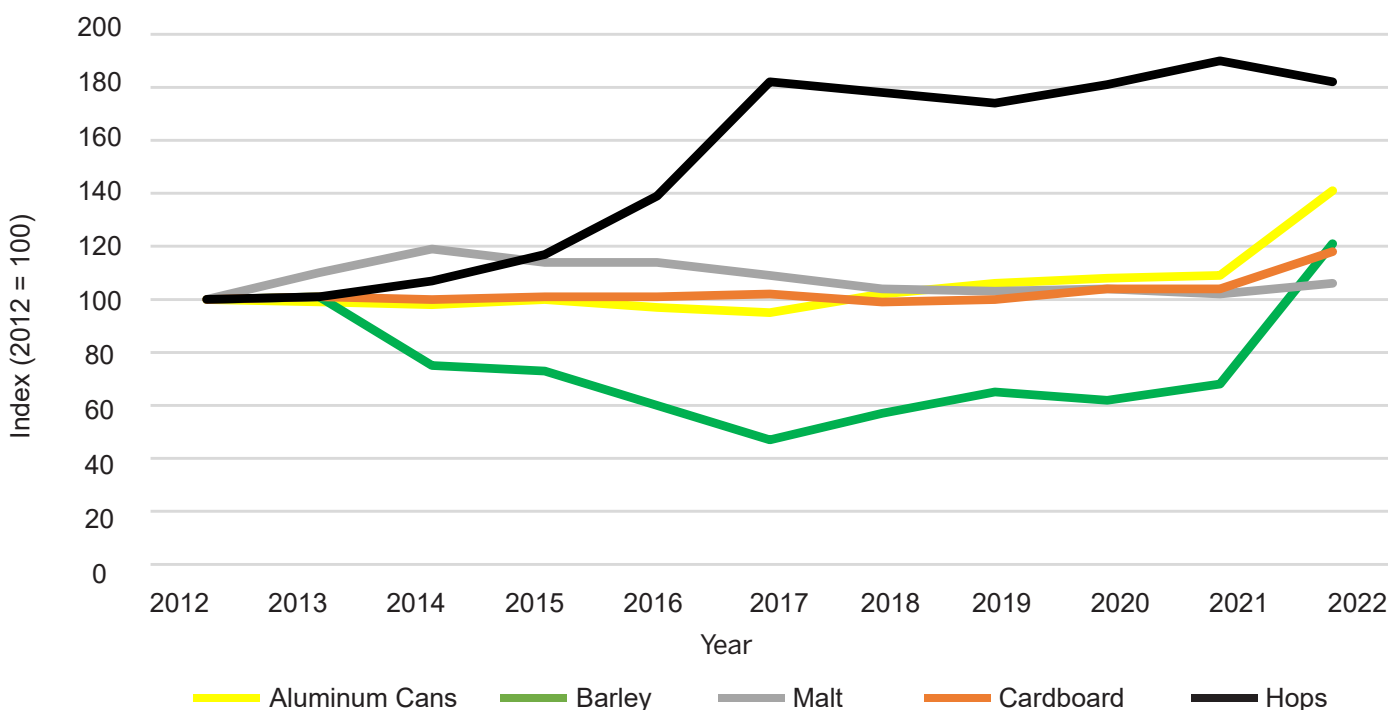
One of the catalysts for the growth of Ontario's contemporary craft beer industry is generally attributed to changes to the province's excise tax system in 2007. The beer produced at most of the province's craft breweries is subject to a lower excise tax, which recognizes that they do not enjoy the same economies of scale as larger and better capitalized facilities operated by internationally-owned brewing companies.

This tax system, for the most part, helped the industry grow and flourish until recently. There is, however, a sense that a growing number of breweryless producers (or 'virtual' brewers, those that market beer produced on contract by a co-packer) are benefiting from reduced excise taxes, which were originally meant to support the growth of bricks-and-mortar breweries. There is also a sense that a small number of relatively large breweries that serve as co-packing facilities for breweryless producers also benefit from lower excise taxes despite producing more than 49,000 hectolitres annually (the upper threshold for a microbrewer).

The increase in beer imports in 2021 reinforces our notion of systemic misalignment. During a time of crisis, when some of Ontario's craft brewers were forced to destroy premium and locally-made products because—as several craft brewers told us—they had no way to get it to market, Ontario retailers focused on selling commodity-grade beer imported from the Netherlands and the United States. We can't help but think that something is amiss here.

While co-packing and contract manufacturing arrangements are common in most segments of manufacturing, Ontario's brewing industry is different in that shelf space and market access is strictly limited. Allowing breweryless producers—of which there are at least 80 in Ontario—to operate on the border of a tax system that was designed to support investment in

Figure 3 - Brewery Input Price Index (2012 = 100), 2012-2022



Source: Federal Reserve Economic Data (FRED), Federal Reserve Bank of St. Louis

Table 4 - Municipal Water Prices, Select Ontario Jurisdictions, 2018 and 2022

Municipality	2018 (\$/m ³)	2022 (\$/m ³)	5 Year Change (Nominal)	5 Year Change (Real)
Ottawa	\$1.81	\$2.18	20.3%	10%
Toronto	\$2.66	\$2.98	12%	1.6%
London	\$0.91	\$1.01	11.1%	0.8%
Hamilton	\$1.49	\$1.77	19%	8.5%
Waterloo	\$1.79	\$2.05	14.5%	4.2%
Cambridge	\$2.21	\$2.51	13.5%	3.2%
Durham Region	\$0.86	\$0.90	4.3%	-6%
Windsor	\$0.60	\$0.70	16.3%	6%
St. Catharines	\$1.22	\$1.42	16.3%	6%
Kingston	\$1.08	\$1.35	24.6%	14.3%
Thunder Bay	\$1.02	\$1.62	59.4%	49.1%
North Bay	\$1.36	\$1.42	4.4%	-5.9%

■ Source: Authors' Calculations, Various Ontario Municipalities

bricks and mortar breweries is counterproductive at best. If this situation is left unaddressed, it is possible that a growing proportion of existing breweries may turn to co-packing and contract brewing arrangements in order to remain competitive. This will severely limit growth, economic contributions, and by extension the ability of craft breweries to innovate and contribute to their local communities.

Craft breweries are not immune to inflation and increased input costs. The cost of several of the primary inputs for beer producers, including aluminum cans, barley malt, hops, and cardboard packaging, all increased considerably over the past two years (Figure 3). Moreover, the supply of these and other inputs has become increasingly tight. Craft breweries, many of which are small, lack the purchasing power wielded by internationally-owned brewing companies. Rising input costs and supply shortages are anticipated to continue throughout 2022 and into 2023, creating a persistent challenge to profitability. Similarly, the cost of municipal water has

outpaced inflation in almost every Ontario municipality over the past five years (Table 4). The cost of water is, not surprisingly, an important factor in the profitability of Ontario craft breweries.

Finally, many Ontario craft breweries are only beginning to recover from the legacy of pandemic-related restrictions. The unique nature and diverse revenue streams of the industry often meant that craft breweries were subject to multiple and often-conflicting pandemic-related restrictions. Moreover, and compounding these challenges, those responsible for enforcing restrictions or providing support were unsure how to treat a business that is essentially a manufacturer whose business model is predicated on welcoming the public into its production facilities. Many craft breweries are only now able to shift their attention and energy back to growth and innovation after spending the better part of two years focusing on surviving and adapting to the latest restrictions.

Conclusion

The growth of Ontario's craft brewing industry between 2010 and 2019 was nothing short of remarkable. This was achieved as a result not only of changing consumer tastes, but of government policy that supported this industry through a renewed excise tax system, direct support for brewery investments, and the ongoing support for ecosystem partners organizations such as the Niagara College Teaching Brewery. The result was an industry whose economic contributions increased considerably and that made outsized contributions to the communities in which craft breweries operated.

These craft breweries continued to make outsized contributions to their communities during the COVID-19 pandemic. They did so during a period when growth and profitability was severely limited by their lack of access to established retail channels and when pandemic-related restrictions constrained their ability to plan more than a few weeks in advance. One can only imagine how much craft breweries could contribute to their communities if they were able to return to a trajectory of growth and profitability with the same level of support they received in years past.

The most pressing issue for most craft brewers is access to retail markets. One option may be to partner with the LCBO and other craft beverage producers to establish a series of retail stores that feature Ontario-owned, Ontario-made products in high-traffic areas throughout the provinces (think Union Station, Liberty Village, Byward Market, Pearson Airport, and the Peace Bridge). These could also serve as catalysts for agri-food tourism across the province. Or perhaps a solution lies in cooperative retailing by Ontario-owned breweries themselves? This was the original intention of the organization that has morphed into The Beer Store, which is now controlled by three internationally-owned brewing companies. Limiting imports from the EU would provide a boost for Ontario's craft brewers. A more consistent application of excise taxes based on both a literal interpretation and the spirit in which they were conceived can also help create an even playing field that does not advantage breweryless producers vis-a-vis craft brewers that have made substantial investments in their communities.

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