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Wednesday 27 June 2012

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Mercredi 27 juin 2012

Standing Committee on Government Agencies

Comité permanent des organismes gouvernementaux

Agency review:
Liquor Control Board of Ontario

Examen des organismes gouvernementaux :
Régie des alcools de l’Ontario

Chair: Bill Mauro
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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON GOVERNMENT AGENCIES

COMITÉ PERMANENT DES ORGANISMES GOUVERNEMENTAUX

Wednesday 27 June 2012

Mercredi 27 juin 2012

The committee met at 1000 in the Harvest Ballroom, Holiday Inn, Trenton.

AGENCY REVIEW: LIQUOR CONTROL BOARD OF ONTARIO

The Vice-Chair (Mr. Phil McNeely): Can we take our seats, please? Welcome to the meeting of the Standing Committee on Government Agencies. We are continuing our review of the LCBO. We begin today with stakeholder presentations. Each stakeholder has 10 minutes for their presentation, following which each caucus will have 10 minutes in rounds for questions. The questioning will begin with the official opposition, then to the third party and then the government, with the next caucus beginning the questioning of the next stakeholder.

PRINCE EDWARD COUNTY WINEGROWERS ASSOCIATION

The Vice-Chair (Mr. Phil McNeely): Our first delegation is Prince Edward County Winegrowers Association: Lynn Sullivan, chair. You may begin.

Ms. Lynn Sullivan: Good morning. My name is Lynn Sullivan, and I welcome the opportunity to address the legislative committee on government agencies on behalf of the Prince Edward County Winegrowers Association's 26 winery members and six vineyard operators.

As an owner-operator of Rosehall Run vineyards myself, I've benefited from positive relationships with LCBO staff, from the buyers to the stores. Other PEC members have experienced varying levels of interaction with the LCBO to date. This morning, I will try to outline some of their concerns today and ask that you consider some of our suggestions for growth and opportunity.

The Prince Edward county wine industry is the youngest and fastest-growing DVA in Canada. Our unique calcareous soils and cool climate result in wines that are distinctively bright, complex and flavourful. The reputation of the wines we have produced over the last 10 years has been phenomenal, including Huff Estates Winery, whose 2008 Cuvée Peter F. Huff received the inaugural Lieutenant Governor's Award of Excellence in Ontario; Norman Hardie's 2008 Norman Hardie Prince Edward County Chardonnay, one of Wine Spectator critic Matt Kramer's top wines of 2011; the incredibly rich and elegant Closson Chase 2009 South Clos Chardonnay, a unanimous choice for best of show at the Gold Medal Plates in Montreal; Karlo Estates' Van Alstine Port, chosen by John Szabo and Zoltan Szabo as one of the top 10 cutting-edge wines in the world; Stanners Vineyard's Pinot Gris Cuivré 2010, described by John Szabo, Canada's only master sommelier, as "an unusual style that broadens the spectrum of Ontario wine"; and Rosehall Run's 2009 Pinot Noir Estate, which was the only Canadian recipient of a gold medal at this year's Pinot Noir Shootout in Napa Valley, California.

There are a number of challenges for small wineries in Prince Edward County. Here, the cost of winemaking is comparatively high due to harsh winters, which necessitate extra labour cost to make the vines winter-ready, and our location, which results in higher transportation and fuel costs. Owners do double duty as farmers, winemakers, sales reps and bookkeepers.

A small percentage of our members produce wine from grape varieties that are not currently permitted to be VQA, such as the Karlo Estates' Van Alstine Port. Even though these grapes are 100% Ontario-grown, they are taxed at the same level as international Canadian blends. This puts an unfair tax burden on some of the smallest producers, who are making uniquely original Canadian wines. All Ontario-grown wine should be treated the same within the VQA and LCBO.

The LCBO system for reporting and taxing wine sales presents many challenges. They include onerous paperwork, semi-annual audits and strict regulations. The monthly spreadsheets provided for reporting our winery retail sales are not compatible with commonly used online winery point-of-sale programs, making them costly and time-consuming. One simple step for the LCBO would be to alleviate some of this administrative burden with simpler reporting that is compatible with modern-day accounting systems.

The cost to retail wine in the LCBO is highly prohibitive. Besides the deep cut in the winery retail price, promotional plans are costly but mandatory additions. On top of that, in order to have an impact at the store level, it is necessary to hire additional sales staff to service the stores. Opportunities such as in-store tastings are limited and the procedures are complicated and time-consuming. Each store has its own criteria for merchandising, and there is little consistency in the retailing of Ontario wines within the stores. It is incumbent upon the LCBO to offer practical and affordable options for small Ontario producers.

In the past few years the LCBO has made some welcomed changes in retail opportunities. These include the direct delivery program, which allows for smaller orders to be directly delivered to our local LCBO stores. However, the direct delivery program necessitates the hiring of additional sales staff to service these stores on an individual basis. Follow-up paperwork and tracking is, again, complicated and confusing. The average cost for us to ship a case of wine to a store is about $15. The LCBO reimburses us $1.41 per case for shipping.

For those wineries with small productions, selling through one of the currently available LCBO retail channels is not currently a viable option. Sales are limited to the farm gate, also known as the winery retail store. Apart from a small local market, sales are limited to the Prince Edward county summer tourist season. Online sales, which allow us to sell direct to our consumers, is a growing and profitable sector of the business. Currently, online sales are limited by provincial borders. With the introduction of Bill C-311, we are hopeful that this opportunity to reach customers in other parts of Canada will materialize without heavy tax burdens and restrictions.

The lack of retail options for small, locally produced wines in Ontario impacts our industry greatly. The fact that consumers in Belleville can shop at a local Wine Rack in their nearest grocery store and not see any wines on the shelves from their own backyard wineries is appalling. The fact that LBCO stores located in Trenton, Picton and Wellington carry only a small percentage of the wonderful wines produced here is abysmal. The fact that Canadians from outside the province of Ontario cannot purchase these award-winning, critically acclaimed Canadian wines must be changed.

Today's Ontario consumers want access to the best local wines, and the LCBO should respond by offering the best of our province's wine regions and talented winemakers. A centrally located Prince Edward county wine store or farmers' market would go a long way to supporting our local businesses and serving both local residents and visitors to the area who may not have the time—or fuel—to visit every winery in the area. We host three wine-tasting festivals in the county each year, with up to 5,000 new faces that approach us with the same question, which is, "Why can't we buy the wine here?"

A recent KPMG study by the Wine Council of Ontario points out that, "Even in the teeth of recessionary times, our VQA wine industry created jobs in manufacturing, construction and tourism, all the while preserving high-value agriculture … and contributing a set of steadily rising economic benefits to the entire province. Since 2007, few other industries can make the same claim."

It's time for our local government, our provincial government and the LCBO to recognize the contribution that local wineries make to our economy and the potential for unprecedented growth in an age where "local tastes better" is on everybody's lips.

We appreciate the opportunity to share the concerns of the local wine community with you today.

The Vice-Chair (Mr. Phil McNeely): Thank you very much for your presentation. We'll go to Ms. Thompson for the first questions.

Ms. Lisa M. Thompson: Thank you very much, Mr. McNeely, and thank you so much for being here representing Prince Edward wines.

Before October 6, I was very much involved in the dairy goat industry, so I appreciate the nice blend of good cheeses and wine. That said, I also can appreciate some of the frustrations you must have, because in Bruce county, in my riding, I have Carrick Wines. They grow a wonderful grape that originated in Minnesota. So it has come to my attention, as well: the frustration around having access to Ontario wines and the burden of extra taxes that is experienced.

Given your position with the association, I was wondering if you could delve into the different tax rates, if you will, for non-VQA-approved grapes—wines, if you will—versus the VQA wines that are produced from VQA-approved grapes.

Ms. Lynn Sullivan: Sure. My personal experience is with Rosehall Run Vineyards. We grow 100% VQA grapes, which are chardonnay and pinot noir, the accepted vinifera. VQA has a list of grapes, some vinifera and some hybrid, that are qualified to be VQA'd.

Some of the newer hybrids that are more hardy and grow better in Ontario, such as Frontenac, Geisenheim and some newer ones that are emerging, do not qualify for VQA. If your wine is not VQA-ed, you do not get the Ontario VQA rebate through the LCBO system, and when you sell your wine to restaurants or licensees, you have to pay an additional tax to the LCBO. You sell the wine to restaurants as though you were selling it to the LCBO.

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Ms. Lisa M. Thompson: And can you tell us the difference in tax rates, if your wine was made from VQA-approved grapes versus one of the newer varieties?

Ms. Lynn Sullivan: I'm not 100% sure, but, for example this particular wine is not VQA. It's made from a grape called Frontenac. I was speaking with the producer of this wine yesterday—his name is Richard Karlo—and he told me that if this wine was VQA'd, he could sell it to a restaurant for approximately $15. Because it's not VQA'd, he sells it to the restaurant for $7.

Ms. Lisa M. Thompson: Okay.

Mr. Jim McDonell: For how much, sorry?

Ms. Lynn Sullivan: Seven dollars.

Ms. Lisa M. Thompson: Can you delve further into the VQA qualification for the grape varieties?

Ms. Lynn Sullivan: It's a list, a published list. I don't have the list with me.

Ms. Lisa M. Thompson: And who creates the list?

Ms. Lynn Sullivan: The VQA, as far as I know.

Ms. Lisa M. Thompson: VQA. Okay.

Ms. Lynn Sullivan: There are also, within that list, what are called Brix levels. A Brix level is a sugar level that is reported at the time of harvesting the grape to the Grape Growers of Ontario, so you have to have—for each grape variety, it has to hit a certain level of Brix. If it doesn't hit that level, then it's not VQA-able.

Ms. Lisa M. Thompson: Okay. All right. Very good.

What other marketing initiatives is the county pursuing in terms of promoting the local wines? For instance, do your vintners participate in the Eastern Ontario Pavilion at the Royal Winter Fair, things like that?

Ms. Lynn Sullivan: Yes. We do a lot of festivals. We do the Royal Winter Fair. The Prince Edward County Winegrowers Association does not have a budget, per se, for marketing. We're more of a co-operative group. So we work together and share information. So if ABC winery is going in this show—it's more that we don't actually have a budget to market the industry ourselves. We work with Taste, which is the tourist development association of Prince Edward county. We work with Taste and we do a terroir festival in the spring and then we do a Taste celebration in the fall. We do a wassail, which is touring around holiday time. We do a lot of work through the LCBO—some of us do, depending on our relationship with the LCBO. We do LCBO taste-and-buys in Ottawa and in Toronto. Each winery, depending on their sophistication, their market reach and their budgets, participates in different ways.

Ms. Lisa M. Thompson: Okay. Thank you.

The Vice-Chair (Mr. Phil McNeely): Mr. Milligan.

Mr. Rob E. Milligan: I just have a quick question regarding—I had Oak Heights winery up in my neck of the woods, which just actually closed shop because of some of the challenges that Mr. Fraser faced. How do we promote entrepreneurs getting into the wine industry who would like to collaborate with other established wineries to make sure that they're successful? When I spoke to Mr. Fraser, some of the challenges he had in marketing his product were quite similar. Other than access to grocery stores and maybe convenience stores, what other ideas or suggestions would you recommend?

Ms. Lynn Sullivan: Well, I think, location, location, location. Obviously Niagara is established as a wine region. Then we have Lake Erie North Shore, and Prince Edward county is an up-and-coming wine region. But even within Prince Edward county we have that challenge. We have a cluster of wineries in one end of Prince Edward county, then we have some that are outside of that cluster. I think in the case of Oak Heights, it was very much that challenge, because they were in Warkworth, which is quite off the beaten path.

I think that because the only place we can sell is through the winery retail—as Joe Public, nobody is going to drive three hours to one winery to taste one wine and buy one bottle of wine. Most people, if they're going to go that route and if they're going to do the winery retail route, then they would like to visit a number of wineries in one place. So definitely co-operation and smart planning—it just makes sense that if you're going to start a winery, you want to be maybe close to a trail or a number of other wineries.

The Vice-Chair (Mr. Phil McNeely): You have a minute and a half. Mr. McDonell.

Mr. Jim McDonell: Thank you for appearing today. Of course, one of the issues with the LCBO is that they have a limited amount of shelf space. You brought up some issues about local wines, and I think a lot of people like the idea of being able to purchase local wines. Do you see some way or some recommendations that they could have to make more shelf space available to more of the wines? I'm sure there's a lot of different varieties out there, but how do we pick and choose to make it workable for the wine industry?

Ms. Lynn Sullivan: I think, first and foremost, the LCBO has to pick and choose based on quality and value and price. That's in the best interests of all consumers.

But as a consumer, I'm disappointed. I'm a Canadian consumer, and when I walk into my local LCBO, I'm just disappointed because I have to search for wines that come from my country. They're in a special section here that says "Ontario." I would imagine that if I walked into a wine store in Portugal, I would see Portuguese wines; if I walked into a wine store in Germany, I would see German wines. Of course, there are other wine regions in the world that make exceptional wine, and they should also be represented, but I just think that, as a Canadian, if you walk into an LCBO, you should see wines from Canada. They should take priority. As long as the quality and the value is there, they should be available to our consumers.

The Vice-Chair (Mr. Phil McNeely): Mr. Milligan with one question. There's 20 seconds.

Mr. Rob E. Milligan: Real quick, what do you think of a specialty store, just dealing with Canadian or Ontario wines in particular? So aside from the LCBO, maybe a block away or even next door or a part of, but it's a specialty facility just for Canadian wines.

Ms. Lynn Sullivan: I used to think that having, for example, a dedicated VQA Prince Edward county wine store in this area was kind of silly, because all the wineries are here. But then I thought, on a given day, if a visitor comes to this area, if they want to get a selection of wines from this area, that involves driving around, so that involves gas, and that involves safety because they're trying things and they're driving. It makes a lot of sense for them to walk into a store and say, "I'll take one of these, one of these, one of these and one of these." It just makes sense.

The Vice-Chair (Mr. Phil McNeely): Thank you. The time is up. We'll go to the third party and Ms. Forster.

Ms. Cindy Forster: Thank you for being here with us today. Miss Taylor and I took the opportunity of visiting the LCBO when we got here yesterday, actually, and it's a lovely store.

Ms. Lynn Sullivan: In Trenton, yes. It's a new one.

Ms. Cindy Forster: In Trenton, yes. It's a lovely LCBO. We actually purchased a couple of local wines and tried one of them last night. I think it was Sandbanks, and it was very, very good. The displays in this particular store were really good. The Ontario wines were all at the front of the store. There were some of the local wines in distinct areas on the ends of the banks of shelving. What kind of percentage of local wines are actually in the LCBOs in this county?

Ms. Lynn Sullivan: A very small percentage. Three, maybe four, of the wineries would have general lists in the LCBO. So as far as the wines being produced, I would say maybe 5% are available in the LCBO retail in general list.

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Ms. Cindy Forster: Right.

Now, you talked about Bill C-311, and I really wasn't clear: Can you currently actually ship out of province, but it's taxation that is prohibitive, or you can't—

Ms. Lynn Sullivan: No, it's currently illegal to ship out of province.

Ms. Cindy Forster: Okay. And so what would Bill C-311 mean to the Ontario wine industry?

Ms. Lynn Sullivan: Well, I think that's still very much up in the air and that's another issue that the LCBO has to take under consideration. Currently, it's illegal to ship wine across the border, and with Bill C-311, I think a lot of people are interpreting that as physically buying wine in, for example, Ontario, and taking it in your car to Quebec or to Nova Scotia, which is currently illegal. I think that is something that is going to change with Bill C-311, but the fact of shipping wine across the borders is still very much illegal and still very much open to what the individual liquor boards will allow coming in—so importing into Ontario and all the other liquor boards across Canada.

Ms. Cindy Forster: Right. So are there other provinces that have the right to ship into other provinces?

Ms. Lynn Sullivan: No. Bill C-311 is a federal—

Ms. Cindy Forster: It's Canada-wide.

You said that you wanted the LCBO to come up with some kind of practical and affordable solutions for the smaller wineries. What kinds of ideas would you have to make marketing with the LCBO more affordable for the ones that are having difficulty?

Ms. Lynn Sullivan: A lot of times we are being asked to pay a lot of money for extra promotions. For example, if I have a $15 retail bottle of wine, so I might sell this for $15 in my winery retail store, I would sell that to the LCBO for $7. That's fine for me, because I understand that obviously the LCBO has costs and marketing, and that makes sense to me. But then I'm also asked to sign on for promotional programs such as limited-time offers, air miles, if I want the wine to be on a certain display, and each one of these costs $2,000 or $3,000. So I'm asked to contribute to those things as well to support my brand. If I want space in the fridge, that costs extra money.

I think it's one thing to say, "This is how much money we will pay to put your wine and promote your wine in the LCBO," but then to come back and say, "But you have to do this, this and this on top"—I think they could make those programs a little bit more affordable.

Ms. Cindy Forster: So do you think it should be perhaps a percentage, as opposed to a flat amount? Would that assist the small wineries in some way?

Ms. Lynn Sullivan: Yes, I think so. Also, again, with the direct delivery program, for example, $15 for shipping and $1.41 reimbursed—have you ever tried to send something somewhere for $1.41? That's like the cost of a stamp.

Ms. Cindy Forster: Okay. Thank you.

The Vice-Chair (Mr. Phil McNeely): Miss Taylor?

Miss Monique Taylor: I don't really have any questions. I've been listening to a lot of the comments, and a lot of the things that I had thought about have already been asked, other than if you could clarify for me how many wineries are actually in this area that you would list under Prince Edward county.

Ms. Lynn Sullivan: We have 26 winery members, and I believe there are three or four that are not currently members of PECWA, so I would say 30.

Miss Monique Taylor: Out of them, you said 5% make the shelves?

Ms. Lynn Sullivan: Yes.

Miss Monique Taylor: Because really, honestly, I would have to say that there were maybe four different types of local. It was front and centre as soon as we walked in; I have to give them credit for that, because we specifically paid attention when we were there. It was actually an interesting trip to the liquor store.

There wasn't a lot there from the extreme local—right? So the other ones are definitely, obviously, struggling, and you said their only other ways are through the taste—

Ms. Lynn Sullivan: Yes. Their only other way is if you go to their winery and purchase the wine.

Miss Monique Taylor: That's it for clarification. Thank you.

The Vice-Chair (Mr. Phil McNeely): Ms. Forster.

Ms. Cindy Forster: I just want to go back to the VQA piece, when you talked about that one bottle of wine. Is it the Grape Growers that decide what's going to be VQA? Is it a committee? Is there a—

Ms. Lynn Sullivan: I honestly don't know the answer to that. I can only say the "the VQA," but I don't know. Sorry.

Ms. Cindy Forster: Okay. Thanks.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. We're finished with your questions. We'll now go the government and Ms. Cansfield.

Mrs. Donna H. Cansfield: Thank you very much. I can answer that question for you: It's actually the Grape Growers association that makes the determination on those parameters; it's not the LCBO. I think that's been a challenge amongst the different players, and it's one of their issues.

I have a couple of questions. You said, I think, that there were 26 vineyards as part of your association. If you go back, I believe it was Peterson that introduced this whole initiative around the grape industry. I think we started with 19, and there are something like 207 wineries, so there's obviously a very healthy industry. Again, with that industry, the challenges are attached to it, but it proves that in fact it is healthy and it is growing. You have to address these issues as they come up, and I think you have identified some of them.

I had a couple of questions for you. One was around the challenge—on one part, one of the great advantages to the wine industry is its tourism, the whole idea of getting to a vineyard and having a tasting; a lot of them have restaurants. So if you just make everything available—everything—in a store, why would I go to the vineyard? So there's a bit of that push and pull, because also very much a part of the industry's money comes from people participating. I appreciate that you've got a real challenge around that.

I wondered about the idea of marketing. As opposed to individual, have you ever considered group marketing, and having that conversation with the LCBO? They have a program called Go-to-Market; I don't know if you've had an opportunity to participate in that. Maybe that's an opportunity as well to have a discussion with them about another approach: two or three or four smaller vineyards coming together to identify some of the issues around your cost. I know that that presents some challenges on the other side, but it might be one approach.

I was interested—you mentioned that there were barriers around the issue of your tasting. Maybe you could explain to me what those barriers are, how you think we could improve that challenge or what are the things that we could change to make that a better experience in your stores. That was one of my questions.

The other question actually had to do with the tourism, and we can talk about that afterwards.

Ms. Lynn Sullivan: Do you mean the tasting at the festivals?

Mrs. Donna H. Cansfield: You identified in your comments that there was a challenge around the tasting, when people came to your store for tastings.

Ms. Lynn Sullivan: That's when they come to the festivals that we hold at the Crystal Palace.

Mrs. Donna H. Cansfield: So not in your store; it's the others. Can you just share with me—you said it's complicated. I want to know how it was complicated and how we could improve this for you.

Ms. Lynn Sullivan: All wineries, whether or not they are selling through the LCBO retail, we're all still part of the LCBO system. We all report to the LCBO our winery retail sales. Every month, we have to fill out a three-part spreadsheet. Basically, it lists every one of your wines and how much sold through winery retail, how much sold through licensees, which are restaurants, and how much sold through—and at the same time there is a POS—point-of-sale—system that we all use that keeps track of these things. It's developed in Niagara. It's called POSsimplicity, and it's developed specifically for Canadian wineries. So the question we always have is, "Why can't we export the information that we've done for our monthly sales onto the LCBO reporting sheets?"

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The answer we always get is that the LCBO reporting sheets are—the programmers of the POS system cannot obtain copies of these LCBO reporting sheets. That involves printing them out, transcribing them—it's hard to explain how time-consuming it is, but it basically takes my staff two full days out of every month, and we're a small winery. We just do 5,000 cases a year. So it's time-consuming—

Mrs. Donna H. Cansfield: You have two sets of books, in other words, is what you're saying.

Ms. Lynn Sullivan: Yes.

Mrs. Donna H. Cansfield: Point-of-sale was developed in Niagara by whom?

Ms. Lynn Sullivan: It's called POSsimplicity.

Mrs. Donna H. Cansfield: Who is it for?

Ms. Lynn Sullivan: For the wineries in Niagara.

Mrs. Donna H. Cansfield: But you use it.

Ms. Lynn Sullivan: Yes. A lot of the wineries do use that, both in Niagara and in Prince Edward county.

Mrs. Donna H. Cansfield: And then the LCBO has their own reporting system as well, is what you're saying.

Ms. Lynn Sullivan: Yes.

Mrs. Donna H. Cansfield: Why do you report to the Niagara vineyards?

Ms. Lynn Sullivan: No; we just use a similar POS system.

Mrs. Donna H. Cansfield: Okay; you just use the system. It sounds like an operational thing that should be solvable.

Ms. Lynn Sullivan: Yes.

Mrs. Donna H. Cansfield: Because I agree with you: Pushing too much paper around is—

Ms. Lynn Sullivan: There's a lot of paper-pushing, yes.

Mrs. Donna H. Cansfield: Have you thought about sitting down with the LCBO and looking at how to deal with those barriers?

Ms. Lynn Sullivan: No, but I will. I was hoping this might be the beginning of that.

Mrs. Donna H. Cansfield: Yes. It makes some sense, if you're pushing a lot of paper around, to be able to find a solution that works—I don't know what it is, and I don't even know if there is one, to be honest with you. I just think you should have the conversation. It just makes a lot of sense, if that could reduce your costs. Thank you very much.

Ms. Lynn Sullivan: You're welcome.

The Vice-Chair (Mr. Phil McNeely): Ms. Jaczek.

Ms. Helena Jaczek: I was actually going to pick up exactly where Donna ended up. Thank you for your presentation. It was very clear. You have a number of suggestions. Picking up on what Donna just asked you—"Have you sat down with the LCBO to go through some of these suggestions?"—when we were in Niagara on Monday, we heard from the Ontario Craft Brewers, and they talked about how they engaged the LCBO in a conversation, some nine years ago, with a strategic plan with all sorts of goals and priorities. They have had really successful growth in their market share from that time. They were small; they were few in number. I was very much going to say that I think there's a great opportunity here in Prince Edward county to bring people together to have that conversation, because, as Donna says, some of these things sound like they could be relatively simple to potentially solve, or at least really engage so everyone understands your point of view and you understand the LCBO's.

I was just wanting to follow up a little bit on—the LCBO has presented to us, and they talk about the Small Winery Support, the LCBO's Go-to-Market and the Vintages: Wines to Watch programs. I'm wondering how those have worked for you.

Ms. Lynn Sullivan: Go-to-Market is the same program that I was referring to as direct delivery. So, yes, it has worked very well. Especially for wineries that have smaller quantities, it allows us to ship directly to the stores. Yes, it has been a welcome change for us. At Rosehall Run, we've been able to transition. We started with Go-to-Market and then we transitioned into a general list. Yes, that has been very effective.

Ms. Helena Jaczek: And the Wines to Watch? Is that one you know about?

Ms. Lynn Sullivan: Yes. Wines to Watch is a promotional program, and that's something that you pay for. That comes into the category of what I was referring to as—you pay for the LCBO to purchase your wine and then, "Would you like to be a part of our Wines to Watch program?" and then that's another X amount of dollars.

Ms. Helena Jaczek: So the issue for you there is the actual cost to you to engage in both those programs.

Ms. Lynn Sullivan: Yes.

Ms. Helena Jaczek: Okay. Thank you. I understand.

The Vice-Chair (Mr. Phil McNeely): Thank you, and thank you, Ms. Sullivan, for being here.

ONTARIO PUBLIC SERVICE EMPLOYEES UNION

The Vice-Chair (Mr. Phil McNeely): The second presentation is the Ontario Public Service Employees Union, OPSEU: Warren "Smokey" Thomas, president.

You have 10 minutes for your presentation. Just say your name for the purposes of Hansard.

Mr. Smokey Thomas: Good morning. My name is Smokey Thomas. I'm president of the Ontario Public Service Employees Union.

OPSEU represents more than 130,000 workers in the Ontario public service and in the broader public sector, including community colleges, health professionals in our hospitals, services for our children and youth, and many other workplaces. We are also very proud to represent more than 6,000 employees of the Liquor Control Board of Ontario, who work in more than 600 retail outlets, at distribution centres and inside head office.

Let me start by welcoming this opportunity to address the all-party legislative committee. It has been several years since the committee on government agencies has held hearings on the LCBO, and I look forward to sharing with you the thoughts of our liquor board employees on this valuable crown agency and the socially responsible service our members deliver on behalf of all people of Ontario.

Joining me here today are two people who have a keen interest in the LCBO in terms of labour relations and in terms of its business operations: on my left, Sister Denise Davis, chair of OPSEU's liquor board employees division; and Russ Christianson, president of Rhythm Communications, which is a business consulting firm that works with our LCBO division.

We hear a lot these days about austerity and about how our provincial government insists revenue streams have dried up. It seems a day doesn't go by when the Premier or his Minister of Finance will tell us the cupboard is bare. If this is true—and I must say I have considerable doubt about this—how is it that the Ontario government finds itself giving away millions of dollars annually in potential revenues instead of keeping it to pay for health care, education and other public services? I'm talking specifically about the LCBO and its agency store program.

Most people in Ontario know that the LCBO is a very successful business. In its most recent fiscal year, 2010-11, sales hit $4.6 billion and it paid a dividend of $1.6 billion to the people of Ontario. This money, together with the HST, excise taxes and payments to local municipalities, amounted to $2.3 billion per year for the public coffers. Why would we be giving away any of that revenue to private businesses when the LCBO demonstrates so well that it runs a very efficient and profitable operation as a publicly owned and operated enterprise? I am here today to tell you that the LCBO, in these days of so-called austerity and revenue shortfalls, could substantially increase its dividend to the provincial treasury by reviewing its agency store program and converting some of the highest-earning stores to real LCBO retail outlets in a host of communities. A full review of agency store contracts must be taken immediately so that unrecovered revenues from agency store sales are returned to the citizens of Ontario.

What most people don't know is that successive Conservative and Liberal governments have been privatizing alcohol sales through the back door since 1996, the year that the Mike Harris government abandoned its bid to fully privatize the LCBO. Instead, it expanded the LCBO's sleepy agency store program from communities in rural and remote northern Ontario to communities in southern Ontario, many of which are situated in close proximity to existing government-owned stores.

Here are the facts: In 1995, there were 82 small private retailers in northern Ontario selling LCBO-contracted wine, liquor and beer. These stores were supplied by the LCBO, and the average sales per store was about $200,000 annually. At this level of sales, it made no business sense to open real LCBO outlets. Today, there are about the same number of agency stores in northern Ontario—79—and their annual sales have basically kept pace with inflation.

It's a far different story in southern Ontario. Since 1996, 141 new private agency stores have opened. These stores have average annual sales of $1.3 million, and their total sales have grown an average of 517% per annum since 1996. Today, the total sales of privately owned and operated agency stores exceeds $200 million per year, and 90% of these sales are in southern Ontario. For a full explanation of these numbers, I would direct your attention to the report contained in our submission that you have in front of you. Our business consultant, Russ Christianson, would be pleased to answer any questions after my presentation.

We believe there are about 100 privately owned and operated agency stores in southern Ontario that could be brought into the public system. Each of these stores has annual sales of more than $700,000, easily enough for a real LCBO store. As their contracts with the LCBO expire, the LCBO could simply open an LCBO retail outlet.

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In 2009, these 100 privately owned and operated agency stores had combined sales of $161 million. If the LCBO brought these retail sales back to their own standalone outlets, the people of Ontario could benefit from an additional cash dividend of $340 million to $370 million over the next decade.

The numbers are staggering. From 2003 to 2007 alone, the LCBO permitted close to $1 billion in retail alcohol sales to be sold through private agency stores. This is nothing more than privatization through the back door, and successive Conservative and Liberal governments have gone along by giving this public money to private businesses.

But let's put politics aside and concentrate strictly on the business case. The LCBO could realize a 60% return on its investment by repatriating these 100 privately owned and operated agency stores. You don't need to be a Bay Street banker to know that a 60% return on investment is exceptional for any business. Even Don Drummond—probably the only thing I agree with him on—in his report to the McGuinty government this year said the LCBO could be doing a better job of expanding its retail operations in order to further maximize revenues. I respectfully suggest the LCBO could do worse than review its agency store program with an eye to repatriating the most profitable stores. If the politicians would give the LCBO management a bit more leeway, they could take the stores back and expand and, without encouraging alcoholism, certainly make a lot more money.

If we only repatriated the top 20 private agency stores over the next 10 years, the LCBO would realize a 120% return on investment. The total investment to transform these 20 agency stores into real LCBO stores would amount to about $9 million, an amount easily financed through LCBO profits.

We have met several times in recent years with senior LCBO management to discuss the agency store program. They have looked at our numbers and they do not dispute our findings. The number crunching shows without a doubt that the most profitable private agency stores could be brought into the LCBO fold, with the resulting dividends going straight into the public treasury.

It astounds me that the LCBO—and, by extension, the government of Ontario—continues to deliberately turn its back on repatriating the most profitable agency stores. If the LCBO insists they are not prepared to repatriate the most profitable agency stores, then it's time for their political masters at Queen's Park to direct the LCBO to act on this issue.

The provincial government would have us believe it has exhausted every revenue stream and there are no more dollars available. Isn't that why the people of Ontario face cutbacks in public services on a scale never before witnessed in our province? Ironically, it's the Minister of Finance who has political oversight of the LCBO. This is the same Minister of Finance who tells us the cupboard is empty and that austerity is the new order of the day. Well, the cupboard's not empty and there are hundreds of millions of dollars that could be recovered by replacing the most profitable agency stores with real LCBO stores.

The time for excuses is over and it's time to act.

Sister.

Ms. Denise Davis: Good morning. Thank you very much for—

The Vice-Chair (Mr. Phil McNeely): State your name.

Ms. Denise Davis: Denise Davis. Thank you very much for the opportunity to speak to you all today. I want to provide a few points regarding the service we provide and the people who provide this service.

As we know, alcohol is a dangerous substance, and we all know the consequences of its abuse. As a public agency, the LCBO has a mandate to sell alcohol responsibly by blocking sales to underaged teens by checking ID of anyone under 25 years of age. It is also mandated to monitor and refuse a sale to intoxicated customers and third-party purchasers. Each year, LCBO employees refuse to serve thousands of people who are underage or intoxicated and contribute to keeping our communities safe. LCBO retail staff challenge more than 2.6 million customers who appear to be under age or intoxicated, and refuse service to 155,000 customers, 82% for reasons of age.

We are supported by MADD and the Ontario Association of Chiefs of Police. LCBO staff are fully trained via the hard-target—

The Vice-Chair (Mr. Phil McNeely): Could you wrap up in the next 30 seconds, please?

Ms. Denise Davis: Okay—the hard-target educational program to monitor who is buying alcohol and refuse those who should not be served. It is a mandatory requirement of their job, and they do not overlook this responsibility just to make a sale. It's not personal; it's the law.

As for education and knowledge of the LCBO staff, it is mandatory for all customer service reps to complete a hard-target program, which relates to violence prevention and robbery prevention.

Each customer service rep is required to take the three product knowledge courses so they understand what the products are, where the grapes are grown, the regions and where these products come from, and how products are distilled.

They also are required to take the "Check 25" and "It's Not Personal. It's the Law" course. It educates employees on how to deal with customers who may challenge the ID check, and when dealing with customers who are under the influence.

Also, we have product consultants. These product consultants specialize in wine, beer and spirit studies and attend product knowledge courses—

The Vice-Chair (Mr. Phil McNeely): Could you wrap up in the next 30 seconds, please?

Ms. Denise Davis: Oh, yes—so that they can share the knowledge with the customers.

We also understand that there's a requirement for more convenience, which is why we propose that the hours of the retail stores should have their hours extended to offer further convenience to our customers.

In conclusion, more publicly owned LCBOs mean greater selection, knowledgeable and professional staff and customer service, and a commitment to keep alcohol out of the hands of underaged youth and intoxicated persons through the enforcement of responsible sales.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. We'll go to the third party and Ms. Forster.

Ms. Cindy Forster: Thank you, and thanks very much for being here with us today and for sharing your presentation.

When I was in Niagara Falls on whatever day that was—I'm lost now; Monday—I actually talked, after the LCBO had made their presentation, about going into LCBOs and how informed and knowledgeable the staff are compared to 10 years ago. They're always there to suggest something to you, to try something or to "pair this wine with this kind of meal." I think people find that very helpful going into our local stores.

You talked about the agency stores, and I didn't realize there were actually that many agency stores across the province. Are you aware of what kind of training or education that people working in, say, Avondale in Vineland—in Vineland, there's an Avondale store that actually has a liquor outlet. Are you aware of any training that those staff actually have to have?

Ms. Denise Davis: I really can't comment on that. That might be a question for the LCBO later this afternoon. I don't work with any of the agency store personnel whatsoever.

Ms. Cindy Forster: So none of the agency store personnel actually are part of your union? None of them are unionized? No.

What is your ratio of full time to part time in the LCBO stores?

Ms. Denise Davis: We have about 60% of approximately 6,800 people who are casual. Our casual workforce is 60%.

Ms. Cindy Forster: And all of them also have to have training, I understand, before they can actually be on the floor?

Ms. Denise Davis: It's mandatory.

Ms. Cindy Forster: It's mandatory. You talked about the amounts of money that the government could actually bring back into their coffers. Could you expand a little bit more on that issue?

Mr. Smokey Thomas: By just repatriating the agency stores, the money, the profit that would go to the mom-and-pop operations, if you will, would come back into the LCBO. In the presentation, there are significant dollars available, but I'll let Russ speak to that a bit more. He has done all the research.

Mr. Russ Christianson: Yes. In the report, it clearly shows that, over the course of the next 10 years—with very conservative forecasts that the LCBO agrees with, and it's all based on good, real, solid numbers—the province of Ontario and the people of Ontario could benefit from anywhere between $340 million in incremental or new dividends to $370 million. So that's a significant amount of money.

Mr. Smokey Thomas: That's a few hospitals, if you wanted to build them, or a couple of highways.

Ms. Cindy Forster: Yes, that could be my new hospital in southern Niagara, right?

You raised the issue of third party purchasers. Can you tell me a little bit more about what that meant?

Ms. Denise Davis: That could be people purchasing product for somebody maybe waiting outside of the store—

Ms. Cindy Forster: That you know is inebriated.

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Ms. Denise Davis: Yes.

Ms. Cindy Forster: You get to know your customers.

Ms. Denise Davis: Or people who are underage who have asked somebody to come in and purchase that product for them.

Mr. Smokey Thomas: Staff get to know who to cut off. They are very observant.

Ms. Cindy Forster: Right.

Mr. Smokey Thomas: I tried that when I was a teenager a few times, but we got caught. That was a long, long time ago, mind you.

Ms. Cindy Forster: Now, LCBO employees are not paid outrageous wages. I understand that the average wage is around 20 bucks an hour.

Ms. Denise Davis: Yes.

Mr. Smokey Thomas: Mr. Olsson is here, so he can pay close attention to that for bargaining next year.

Ms. Cindy Forster: Where perhaps employees working in agency stores, such as Avondale, maybe, are making minimum wage or a little better?

Mr. Smokey Thomas: Most likely minimum wage, and no benefits.

Ms. Cindy Forster: So certainly not wages that can actually support a family. So it's actually a good thing to have more LCBO stores so that we can actually put some of the 600,000 people that are out of work in this province back to work.

Ms. Denise Davis: Good jobs in the community, yes.

Mr. Smokey Thomas: If I might add, though, the LCBO is held as a model for retailing and warehousing around the world. I've actually toured the warehouse out in your area. It's a technological marvel. I was just blown away by how efficient it is and how they can handle such volumes of product. It really is a model of how to do things properly. I think that if management was given a bit more leeway, they could actually really ramp up the profits, as I say, without encouraging alcoholism, and certainly give all customers and society a really good service.

Ms. Cindy Forster: Thank you.

The Vice-Chair (Mr. Phil McNeely): Miss Taylor.

Miss Monique Taylor: Thank you. I don't have any specific questions. I think the biggest thing that we've been hearing around the table is Ontario wines not being able to make it to the shelves and not enough shelf space; that seems to be everybody's biggest concern around this table in the last two days. So you would definitely be supportive of smaller winery stores, as long as they were under the LCBO, and that would be something that you could bring under your scope also. Have those discussions been happening with you at all?

Mr. Smokey Thomas: We'd be happy to engage in conversations and discussions with the employer and the government, because it would be two people to make that decision—it would be a government decision, actually, at the end of the day.

Miss Monique Taylor: Of course.

Mr. Smokey Thomas: I've talked to Denise and Russ, and all the division executive promote Ontario wines and have a fairly robust promotional system. But I agree with what Ms. Cansfield said: that the wine growers should actually sit with the LCBO and have those conversations about how we might be able to promote more Ontario wines and Canadian wines.

I found the LCBO management—and again, we're going into bargaining next year, so—but they're actually pretty reasonable to sit and talk to, and pretty open to new ideas. Part of the problem with the LCBO is, they have to go to Queen's Park to make any major decisions, so it ends up being a political decision rather than a business decision. Again, if they were able to have a little bit more latitude, I think that you could really see that they'd satisfy all the concerns—Tim Hudak's concerns over Niagara. I think all those could be satisfied if the LCBO was given the latitude to actually go out and find ways to satisfy those concerns.

Miss Monique Taylor: Okay. I think that's it, Chair. Thank you.

The Vice-Chair (Mr. Phil McNeely): Ms. Forster, again.

Ms. Cindy Forster: We heard in a number of the LCBO stores that we've been in recently that there's this challenge between price points of the wine as opposed to either the quality or the variety of wines in the stores. Do you hear that from your fellow members that work in the LCBOs, that generally people are looking for a lower price as opposed to more variety of Ontario wines, or has there ever been a survey? Do the employees participate in any survey with their customers as to whether or not there's more support for more Ontario wines, the percentage of Ontario wines on the shelves?

Ms. Denise Davis: I haven't heard of a survey being done. I do know that they have the opportunity to taste different wines and to experience what all the different wines are—the quality and different things like that. I really don't know about a survey of the price versus the selection.

Ms. Cindy Forster: Okay. Thank you.

Miss Monique Taylor: Do we have any time left?

The Vice-Chair (Mr. Phil McNeely): Thirty seconds.

Miss Monique Taylor: If you find time just to speak briefly about the survey that was done with convenience stores—any comments?

Mr. Smokey Thomas: Take it with a grain of salt. They've got an end that they want to achieve. I can make numbers say just about anything I want, too. On the question of people being able to purchase underage and all that, I'd really dispute all those findings. Again, they're very direct to self-interest.

Miss Monique Taylor: Just so you know, we agree with you. Thank you.

The Vice-Chair (Mr. Phil McNeely): Thank you. We'll go to the government and Ms. Cansfield.

Mrs. Donna H. Cansfield: Thank you very much. First of all, I want to say I think you have awesome employees. I go to the one, obviously, where I live, but I have been to others, and the employees are great. A couple of times I've had the opportunity to go in and participate when we've been doing some work around energy efficiency or the bags or whatever, and they've been wonderful to work with; really fine folks.

There are a couple of things. I guess I want to share with you first of all that, under our government, we've never opened an agency store. The last time agency stores were opened was in 2003 under the Harris government. I think that's a really important piece to get out there.

Secondly, I think that there's no question that all governments, regardless, have requested the LCBO to pick up their bottom line. That's a normal business practice, and they've done a pretty good job over the years in doing that, and, I think in a responsible fashion.

I wanted to question you a little bit about the dollar figures that you have in here around the agency stores, because part of the challenge is, from what I understand—and I stand to be corrected, but I think currently the LCBO has about 22% of all beer sales, and then of course the rest go to the Beer Store. In the agency stores, they don't supply the beer; that comes from the Beer

Store, and as you know, that's privately owned. So you'd have to subtract the beer component from those gross sales, because it would be beer, wine and spirits, I guess. So when you do that, you don't separate that out. Have you got some figures that separate out—I guess maybe you can't get them because they're privately owned. But you could do some surmising, I suspect, from what's going on. So one of the questions I have is about that.

The other question that I had was to do with where you see the opportunities. Have you identified—there are some obvious challenges; there always are, in relationships, but in actual operational issues, aside from your labour issues, have you seen some areas where you could say, "These are things we can improve upon. These are things that we see where there could be some conversations," that kind of thing?

Mr. Smokey Thomas: I'll answer that question now. I'll let Russ do the technical one. On that, I would have to say that from my observation on the outside looking in, and having toured a lot of stores, a lot of warehouses—it's an extremely efficient operation and probably one of the most modern warehousing and distribution networks in the world, and other industries could certainly take a lesson from it.

I'll give you one example. When you're unloading the trucks, they're very long, and it's very physically demanding labour. The LCBO, with their engineering staff—I don't know how they worked it out, but anyway they developed a machine that goes in and really reduces the number of injuries or decreases the time it takes to unload a tractor-trailer by this platform moving up and down, and it goes forward, forward, forward as the product goes out and we put it on the line. These are the kinds of innovations that they designed themselves, manufactured and own the rights to. I don't know, from my perspective, where you could make it any more efficient, because on the retail end, it's part of the experience, right? So you could be like the Beer Store, where you walk in and say, "Give me 24 Blue," or whatever, and get nothing. On the retail end, I think it's difficult to say how you could make it cheaper; I don't think you could.

The one thing that we're very much in favour of, though, is longer hours, to become more modern that way, in today's 24/7 world. We think the longer hours in many, many areas would be of benefit. Again, it wouldn't promote alcoholism; it would just provide service to the public that's needed. Some stores close too early, and they could stay open longer.

Mrs. Donna H. Cansfield: Just on that alone, I think there's merit to what you're saying. Where would you think? Cottage country, some particular areas or—

Mr. Smokey Thomas: Yes. It might not stay open till 9 o'clock on a Friday night in the dead of winter, but certainly in the summertime you'd stay open maybe till 10, especially for commuters who drive up and that kind of stuff. So lots of areas would—Denise has identified—

Mrs. Donna H. Cansfield: Actually, that's a really good suggestion, because you're right: What happens is, you end up purchasing at home and taking with you. Because often, if you go to the liquor store, you'll also go to the store, and so it would encourage more local purchasing. It's not a bad idea.

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Mr. Smokey Thomas: That's a particular phenomenon, though. I drive through Verona, Ontario, to go to my cottage, and the IGA store has the agency store. Now, it's a very popular family. You'd never attack that because the guy supports the churches and everything else. But he put other businesses in town out of business, because all—not all, but a lot go in to get some beer on the way up to the cottage.

One of the reasons about the agency stores—they would be located stand-alone or whatever; it might not give somebody in a community that really significant advantage, which would bankrupt the other grocery store in town. So there are always these sorts of trade-offs, but the longer hours and buying local is a good advantage, particularly in cottage country.

Interjection: Supply and demand.

Ms. Denise Davis: I'd just like to add one point. Also is the consistency of the store hours. You could have many different stores in the area, with all different opening and closing hours. I just think our customers need to get to know what time we're opening and closing and not arrive there and this one's not open but that other one is. I just think that consistency of the hours they are open would be helpful also.

Mr. Smokey Thomas: And the way to answer the beer question is socialized beer sales.

Mrs. Donna H. Cansfield: Well done.

Mr. Russ Christianson: I'd like to just draw people's attention to page 40 in the report. It has two PowerPoint slides that detail the number of agency stores that have been opened. From 1996 to 2003, there were 75 new agency stores opened, and from 2003 to 2009, which are the most recent figures that we have in this report, there were 65. So in fact—

Interjection.

Mr. Russ Christianson: No, it's an increase, an actual increase in stores, to 140 agency stores. So there were agency stores open during the Liberal government reign.

Mrs. Donna H. Cansfield: I'll double-check that.

Mr. Russ Christianson: In terms of the beer sales, yes, you're correct, Ms. Cansfield, about the 60% of the sales that the agency stores, particularly in southern Ontario, where there's 90% of the sales—60% of the sales are beer. Now, the northern agency stores were always what are called combination stores, for those agency stores where all different forms of wine, alcohol, spirits and beer were sold and it was all distributed by the LCBO.

We're saying that instead of having the privatization of these stores in southern Ontario, why wouldn't we open actual LCBO stores in those communities to provide that better service, the better selection and, importantly, keep the profits and the dividends for the people of

Ontario rather than going to private industry? That's the point.

Mr. Smokey Thomas: And it's not in our presentation, but one of the things we've kicked around a little bit and I've often talked to politicians of all three stripes about is that you have an amazingly good distribution system, retail system. It's a good experience when you go in to shop around, and there are more things that go into the LCBO store that would be typically provided by the government—or services, right? So you've got ServiceOntario kiosks. There are none of those in a liquor store. So there are things you could put in. Why not have some of those—like, at least open the door to look at those possibilities to expand what you do in the stores for people as a one-stop-shopping kind of experience.

Mrs. Donna H. Cansfield: So I did get some clarification. In fact, the stores that opened opened in the time frame but were contracted under the Harris government to be opened and we had to open them. So they were predetermined but had to be opened—just for clarification.

Mr. Russ Christianson: Yes, there was a plan, I agree—

Mrs. Donna H. Cansfield: Yes, right.

Mr. Russ Christianson: —to open 150 stores, and 140 were opened.

Mrs. Donna H. Cansfield: Right.

Mr. Russ Christianson: However, the contracts are for five-year periods and they are competitively bid in those communities.

Mrs. Donna H. Cansfield: Right, but they were still commitments that—it's just a follow-through. I'm just trying to ensure that it wasn't our commitment that was made; it was a previous commitment. And that's fine. It's just semantics one way or the other.

The Vice-Chair (Mr. Phil McNeely): The time is used up. We'll go to the official opposition and Mr. McDonell.

Mr. Jim McDonell: Thank you. One thing we're experiencing in rural areas is trying to keep some of our local stores open. I go with the example of a store in Finch that opened up, in the last few years, its liquor sales. If they move to Cornwall, then you've got to travel 20 kilometres to go to Cornwall—or more like 20 miles, I guess. There needs to be something to keep these stores—if you go around most of the small villages, there are no stores left. Do you see some operation or somehow that you could work through these? These are, I guess, some of your agency stores, but they're really meant about trying to put service back out in the country. There's a green appeal to it. It stops people from having to drive long distances to get their product, plus it also enables these stores to survive that would probably be gone today.

Mr. Smokey Thomas: There have never been any exceptions to small rural areas having small stores that I'm aware of. I take your point about rural Ontario dying. I think the LCBO would be one of many things that you could talk about in smaller communities, where you might put it back there, as a government, in the smaller communities. The downsizing that has occurred and the consolidation of government services over the last 20 years has really hurt smaller communities. Even out of a village of 800 or 900 people, if you lose five good government jobs, that's quite a blow to a small community. I take your point.

We would certainly welcome the opportunity to have a conversation with any or all three parties, individually or all at once, about a review of rural Ontario and what we might be able to chip in here and help out to bring them back up, to help them survive rather than die.

The Vice-Chair (Mr. Phil McNeely): Mr. Milligan.

Mr. Rob E. Milligan: Yes, sort of running with what Jim touched on: Growing up in rural Ontario, I have an appreciation for providing those conveniences. When you're in Roseneath and you're like, "Now I have to drive all the way to Hastings, Campbellford or Cobourg," which is a 25-minute drive, to pick up a case of beer or whatever, it's not environmentally or economically feasible to not have that facility open.

That being said, I have had good relations with the LCBO in my local communities in the sense that I do appreciate the convenience that they provide, and the service. They're very accommodating at ordering a special bottle of wine or something to that effect for their local customers when you request it—

Interjection: Scotch.

Mr. Rob E. Milligan: Or scotch, yes.

But I think, too, in rural Ontario in particular, the LCBO offers well-paying jobs, even though they're part-time jobs, to the local economy, so I value that as well. For rural Ontario, I think the LCBO—we have to be careful when we move forward on that. I just wanted to put that on the record.

Mr. Smokey Thomas: We would agree.

The Vice-Chair (Mr. Phil McNeely): Ms. Thompson.

Ms. Lisa M. Thompson: Thank you very much. I too come from rural Ontario: Huron–Bruce, southwestern Ontario. I just would like confirmation. The data that you shared in your speaking notes: Is it provided by Rhythm Communications?

Mr. Smokey Thomas: Yes.

Mr. Russ Christianson: It's really provided by the LCBO itself, the actual numbers. They gave us the numbers through a freedom-of-information request.

Ms. Lisa M. Thompson: Okay; very good. Is it possible to drill down and for you to provide additional information? I come from a village of 800 people, and I'd be shocked if there were sales over $700,000. I would like to see—

Mr. Russ Christianson: We have a spreadsheet that's available that has the list of all the agency stores and the gross sales and net sales that they have, and the community that they're located in. We could definitely provide that.

Ms. Lisa M. Thompson: I'd appreciate that. Thank you.

The Vice-Chair (Mr. Phil McNeely): Thank you for coming in here on behalf of OPSEU.

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MOTHERS AGAINST DRUNK DRIVING CANADA

The Vice-Chair (Mr. Phil McNeely): We'll go on to our next presentation now, Mothers Against Drunk Driving Canada: Andrew Murie, chief executive officer. You have 10 minutes for your presentation. If you could start off with your name, please.

Mr. Andrew Murie: Good morning, everyone. I'm Andrew Murie. I'm the chief executive officer for Mothers Against Drunk Driving Canada. I'm also the co-chair of Canada's national alcohol strategy advisory committee. We work on 41 recommendations as a consensus group on reducing alcohol-related harms. I've also given out a presentation which is a background paper, which has been distributed. A lot of my comments today are from that report. So I'll start.

Alcohol is no ordinary commodity and should not be treated as one. Alcohol is linked with more than 65 medical conditions. It is a contributing factor in injuries, impairments and deaths caused by illness, impaired driving, homicides, suicides, falls, drownings, assaults, fires, and other adverse events that threaten public safety and community well-being.

Based on the 2002 data, the estimated annual cost in Canada for health care directly related to alcohol is $3.3 billion. The total indirect cost associated with alcohol was $14.6 billion, compared to $17 billion for tobacco and $8.2 billion for illicit drugs.

From 1996 to 2009, overall alcohol per capita sales in Canada have risen by 13%. This increase was greater in provinces where government control systems have been eroded.

About one in five Canadians exceeds the recommended low-risk drinking guidelines, and 32% of Canadians experienced problems in the past year due to drinking by others.

In the next part of my presentation, I'm going to talk about three things. These are all evidence-based interventions where it has been well researched that if you follow the recommendations in these areas, it makes a major impact on reducing harms by alcohol. They are alcohol pricing—basically taxes; controlling availability of alcohol, so the number of locations and hours of service; and the fact of government-controlled resales and marketing, so the aspect of the LCBO.

Under alcohol pricing, an effective tax policy on alcohol leads to lower consumption and reductions in trauma, social problems and chronic disease associated with alcohol use. Pricing of alcohol products needs to be structured so that prices increase as the percentage of alcohol increases. Alcohol pricing needs to be indexed to the cost of living. In fact, Finnish researchers reported that large reductions in alcohol prices in 2004 were followed by increases in alcohol-related mortality: 16% among men and 31% among women.

Privatization of alcohol sales does not necessarily lead to lower alcohol prices. A York University study showed that privatization in Alberta has resulted in higher product prices, smaller product selection, higher warehousing and distribution costs, and higher social costs. Former Alberta Premier Ralph Klein conceded that the Alberta Liquor Control Board privatization was counterproductive.

As of June 1, 2012, Washington state has moved to a privatized system of alcohol sales. Alcohol markups have gone from 52% under a controlled state to 72% in the private sector. For a 750-millilitre distilled product, this price increase is about $10 per product.

The perception by the public is that a privatized retail liquor system leads to lower alcohol prices. That's what's expected. In fact, there was a recent headline in the Seattle Times that said "Buyer's Remorse Over End of State Stores as Liquor Prices Rise." The issue in Washington state is that the public is very unhappy with this change, even though they voted for it. The actual outcomes that they thought it would lead to were much lower liquor prices.

This change has also had a major impact on the hospitality sector because they either absorb the cost increase or raise prices. To give you a bit of an international perspective, Britain and Scotland are in the midst of putting a minimum price structure on alcohol. Prime Minister David Cameron has called the excessive use of alcohol in Britain a national scandal. The proposed minimum pricing in Britain and Scotland will lead to 3,500 fewer crimes, 8,600 less alcohol-related hospital admissions, and 500 fewer deaths in Scotland.

The LCBO has the model program, not only in Canada, but it's the envy of most democratic countries that face the high cost of alcohol abuse. The LCBO has a pricing structure that ties alcohol pricing increases to a three-year average of the CPI index.

Moving on to the controlling availability of alcohol, a high increase in the number of outlets selling alcohol, as well as extended hours and days of sales. are associated with high-risk drinking and other alcohol-related problems. For example, the number of liquor stores in Calgary increased from 23 in 1995 to 300 in 2003. Police reports in Calgary document a rise in impaired driving charges and family violence cases in the areas of the city with the highest density of liquor stores. Studies in Western Australia and Iceland have found an increase in alcohol-related problems, such as violence and impaired driving, with longer hours of sale. Extended hours of alcohol sales in the UK have caused law enforcement concerns.

Private liquor stores in Canada are open longer than provincially controlled stores. Private liquor stores' primary motive is profit, and these stores lose sight of the public health and control obligations.

As the population grows, a balanced approach of liquor store expansion is required. If you look over the last six years, the LCBO has grown from 601 stores to 623 corporate stores, which clearly shows that they are balancing customer expectations with the social responsibility mandate.

CAMH, the Centre for Addiction and Mental Health, showed that 92% of respondents in Ontario consider it somewhat convenient or very convenient to get to the nearest liquor or beer store. In 2011, the vast majority of Ontario municipalities supported MADD Canada, the Centre for Addiction and Mental Health and the Ontario Public Health Association not to have beer and wine sold in convenience stores, as proposed by the Ontario Convenience Stores Association.

The last part is government-controlled retail sales marketing. Only 29% of Canadians agree that provincial governments should close all government-run liquor stores and allow private stores to sell alcohol.

From 2002 to 2008, the number of private liquor stores in BC grew from 786 locations to 1,294. In the same time frame, the number of government stores went from 217 to 199. In 2008, the percentage of government liquor stores requesting the mandatory two pieces of identification in British Columbia was 77.5%, while the private liquor stores' percentage of age identification was 35.9%.

Alcohol-related car crashes in BC increased substantially after private liquor stores were expanded in 2002. In the United States, states with stronger alcohol controls by government have lower alcohol-related traffic death rates. Ontario has the lowest impairment-related crash deaths in Canada, at 2.03 deaths per 100,000 population. Alberta's rate is almost 175% higher, at 5.7 deaths per 100,000 population.

In conclusion, the LCBO strikes a very fair and effective balance between consumer access selection and service and the need to manage alcohol consumption and minimize alcohol-related harms and costs. The LCBO regulates the number of stores and hours. The LCBO controls the access to alcohol for minors and intoxicated patrons by highly skilled, trained staff. The LCBO has an effective pricing strategy that reduces social harm caused by alcohol.

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I just want to make a comment on LCBO staff. I've been CEO of MADD Canada for 15 years and so I've had a relationship with the LCBO over that 15-year period. It's in their DNA; this is not just a job. This is something that they take very, very—great concern to do their job. If they get an intoxicated patron in there, they're the first one, if they see them going towards a car, to call 911 and report them to police. They take it very seriously. There are a number of refusals: the identification of minors. They help get money donated to charitable causes in their community. They're part of this community. They make a fundamental difference. I can tell you frankly, you're not going to get this in any type of privatized system.

I have three recommendations for you as a committee. The first one is: Do not allow any further privatization of the alcohol retail system in Ontario. Two: Allow the LCBO to develop retail strategies for Ontario wines and craft brewers within their current structure. I think if you look at it, and you've probably seen these numbers, VQA wines in Ontario have had a 100% increase in sales in the last six years; for craft brewers, it's over 400%. If I'm a business person, that's pretty good growth that's not normal within that six-year period, so the LCBO is doing a really good job for those two product lines in their store.

The Vice-Chair (Mr. Phil McNeely): Time is up, if you could just wrap up, sir.

Mr. Andrew Murie: I have one more recommendation. I timed this to be right on 10 minutes.

The last one is to reduce taxes on low-alcohol products to encourage their development and availability. I think there's a real need for that in Canada and elsewhere, and that's something the committee should seriously consider. Thank you.

The Vice-Chair (Mr. Phil McNeely): Thank you. We'll go to the government and Ms. Jaczek.

Ms. Helena Jaczek: Thank you very much. I certainly agree with you about the LCBO having social responsibility in their DNA. I think we were very impressed on Monday that that's the raison d'être, essentially, for the LCBO. As a physician and formerly a medical officer of health, I couldn't agree with you more in terms of the way the LCBO has been exemplary in terms of ID-ing individuals age-wise and in terms of the refusals, and we've seen how the educational program that they provide to employees has been working and includes seasonal workers and so on. In contrast, the experience with tobacco related to convenience stores, of course, was not a happy one with the tobacco control act.

Having said that, we also heard from OPSEU just now that they're in favour, actually, of extending hours in terms of accessibility and so on. I was wondering how you would react to that. Have you had any conversations regarding hours of operation of LCBO stores with the LCBO?

Mr. Andrew Murie: The evidence is there, so there needs to be that balance. If there's a dramatic increase in LCBO store hours, you're going to see some negative impacts with that. With everything, you have to look at consumer patterns and various things. I'll leave that up to the LCBO. They're very skilled at looking at customer patterns: when people come in, the variance in their various communities. One of the things about being all across Ontario and having structured hours is that consumers come to depend on that, so you also have to balance customer expectations with that.

Ms. Helena Jaczek: We had a presentation from CAMH as well on Monday, which of course detailed all the harms of alcohol. You've told us that the LCBO is doing a great job within the Canadian context. Are there any other issues that you would like to see the LCBO introduce that have worked in other jurisdictions internationally—any other further suggestions to reduce harm?

Mr. Andrew Murie: Sure. I think one of the big things—if you look at the Australian market, they have numerous low-alcohol products that are available that fit into the low-risk-drinking guidelines. Basically, the Australian government has a tax structure that allows those products to go on. When people are consuming alcohol or purchasing alcohol—the uptake in those products has increased tremendously. In Canada, we don't really have a pricing structure, so if a manufacturer of alcohol products brings in a low-alcohol product, there's no incentive for them, so they have to basically market that. In saying that, there have been a number of products that have come on the market, especially in the beer area, that fit that, but there should be some benefits, and I think there are benefits. Also, if you go to a licensed establishment and you want to have a couple of drinks and be well below the thresholds for driving and those types of things at the 0.05% level, you could do that with a 2% beer more so than you can do with a standard drink at 5%.

The Chair (Mr. Phil McNeely): Mr. Leal.

Mr. Jeff Leal: Thanks very much, Andrew, for your presentation. I share with you the work that MADD has been doing over many, many years with the high schools in my riding of Peterborough. It goes without saying that I have a great relationship—a professional relationship—with the LCBO in my riding of Peterborough.

But in my wayward youth, sir, prior to the Jays joining Major League Baseball, many of us would travel from Peterborough to Montreal to see the Expos play. Of course, they have small-l liberal distribution ways for alcohol in the province of Quebec. You mentioned British Columbia; what's the data from Quebec in terms of injuries and deaths related to alcohol-related incidents?

Mr. Andrew Murie: Well, you'll notice on some of our report cards that we do for the provinces that there's a big piece about Quebec and their data. We feel that Quebec purposely underreports its data—the way they measure it, the way they define an alcohol-related death, the way they define it on a police report—so it's not an apples-to-apples comparison. Quebec does look good if you look at the alcohol-related numbers in any of the publications by Transport Canada or the Canadian Council of Motor Transport Administrators, but everybody that looks at it puts an asterisk beside it and says, "View with caution." So it's a problem, and Quebec refuses to come into the norm that Ontario and other provinces report. It's a very difficult province to look at their data and be able to report accurately what has been happening with their alcohol-related deaths.

Mr. Jeff Leal: If I could just follow up, why—I mean, policing is policing is policing. We have pretty much standard reports across the country. They use CPIC as a standard. What's the reason for underreporting?

Mr. Andrew Murie: Well, it gets reported into the SAAQ, which is their public insurer. They have 45 causes of death on their police reports, and they can only tick off two. So, immediately, when you're at the scene and looking for those types of things—the obvious ones get picked up, but a lot of ones don't.

They also, for example, define a death by alcohol within seven days, where the rest of the provinces use 30 days. So my feeling in Quebec is, if you don't count them, they don't appear.

Mr. Jeff Leal: Just one last question: One of the challenges I have—farmers in my riding of Peterborough, of course, are in the fruit wine business. They've been asking for many years for access to farmers' markets and distribution—that perspective. What's your view on that in terms of—

Mr. Andrew Murie: Sure. We have met and talked to the fruit wine growers, and again, I see it as a slippery slope. There are no controls at farmers' markets. Selling things off the backs of trucks is not the way alcohol should be sold or retailed. I think they just need, like all the other vendors, whether it be VQA wines or craft brewers—they have to work with the LCBO in a system that works for them and their business. Everybody can't do their own thing when it comes to alcohol. This is not milk and orange juice we're selling here.

Mr. Jeff Leal: Thanks very much.

The Chair (Mr. Phil McNeely): Ms. Cansfield.

Mrs. Donna H. Cansfield: Just very quickly, you made some analysis, and the surveys are here vis-à-vis the challenges in other jurisdictions with drinking and driving and the issue around privatization—I'm sure you heard; you spoke about agency stores. But our agency stores come under the same rigour in terms of identification and requirements for training as through the LCBO. I think that's important to know, that in Ontario—and Andrew, you and I have done this for a few years together—the numbers have decreased significantly. That's due to the good work done by everybody involved in the system, including those agency stores. I just want to make sure that that got on the record. But the other is that I guess of all the programs—

Mr. Andrew Murie: Thank you for that. It's a really important thing that most of the private stores that are agency stores don't fall under that same mandate. That's a really important recognition, so thank you for that.

Mrs. Donna H. Cansfield: Thank you. The other is that of all the programs, what's the best one you've got with the LCBO?

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Mr. Andrew Murie: Oh, by far it's our school assembly program. Each year we do a re-creation of an impaired driving, with actual victims' stories. It is now to the point, with LCBO support and its customer support, that this coming year, every high school in Ontario can have the presentation free of charge.

Mrs. Donna H. Cansfield: Wonderful.

Mr. Andrew Murie: That means that 900,000 high school students will see that show, at a cost of $1.25 per high school student.

Not only in Canada, but when we do our work, people are so jealous that we have that program. Each year in Canada we have 1.5 million high school students we show that presentation to. Nobody else has that kind of reach with high school students.

Mrs. Donna H. Cansfield: That's awesome. Thanks, Andrew.

Mr. Andrew Murie: Thank you.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. We'll go to the official opposition and Mr. McDonell.

Mr. Jim McDonell: Thank you for appearing today. I have to commend your group on a lot of work, the results we've seen over the last, I'm going to say, 30 years with the amount of drinking and driving, especially with young people.

One issue we have that I've seen locally, having children come through that age just recently, is the lack of events or things to do. Last year, a high school—what we've seen is we've just driven things underground where children go out and they rent a hotel room or something and the whole class shows up, or, particularly in our area, they just stop off in a field somewhere and you get a few hundred kids out in the middle of a field, especially after prom night. In our day, at least you were allowed into a licensed establishment, and if you misbehaved, well, you were excluded or put out. And the children today are much better. I find there's very little, if any, drinking and driving. They're very responsible.

Is there some solution to that? As mayor, every year I used to sit there as property owners complained about 500 students showing up at a field somewhere, and picking up glass and—but there's no option. That's the problem. Is there anything wrong about, I guess, concentrating a little bit more on responsible drinking? When those things happen, there's anything but responsible drinking, I would have to think.

Mr. Andrew Murie: Are you talking specifically about prom or are you talking specifically about activities of—

Mr. Jim McDonell: Well, prom, but in talking to some parents who live in the bigger cities, this goes on every weekend type of thing: a smaller base of 30 or 40 people, but it's the same issue. Kids have nothing or no place to go. Even if they want to be responsible, they're forced outside. Is there a solution to this? It seems to be something that runs contrary to that social responsibility.

Mr. Andrew Murie: I'll talk about two things. In a very narrow vein with that, one of the things that we've been doing around prom is making sure—as you know, the traditional prom is alcohol-free because it's run by the schools, and then there's the traditional after-party, which is not alcohol-free, speaking of the circumstances that you were talking about.

In BC, they've changed that. They now have a formal prom; they go to an after-prom, which is alcohol- and drug-free, which is basically run by the school and the parents. It's a fun night, so that all the graduates participate in it and they learn what I think is a cultural change.

Two things—and the parents learn it; the kids learn it. You don't have to celebrate every major event in your life with alcohol, and graduation is one of those things where you'd rather remember what a great time you had with your friends than your head in a toilet; and also the risks that come with that, because it's not just about drinking and driving. Alcohol intoxication leads to all kinds of other things that cause harms not only to young people but other people as well.

So there is an ability. It lies with parents. Just because you did it doesn't mean you need to allow that tradition to carry on with your children, whether you're in a rural or an urban setting. So there are things—and there's well-documented research that the parents have the greatest influence on their young people. But they have to be engaged, they have to work with it and they have to change that conversation. So there are opportunities there.

There need to be programs. We certainly have been—we piloted one of these grads in Ontario this year for the very first time, at Philip Pocock school in Mississauga. We had over 75% of the grad class turn up, and there was no alcohol involved. There are opportunities there, but there's only so much that police can do if parents aren't going to be supportive of it.

Mr. Jim McDonell: Yes, just a follow-up to that: My neighbour was somebody that tried to allow something like that to happen a number of years ago. Maybe contrary to what people think, the vast majority of students who were there weren't intoxicated. They were there because they wanted a place to go, and I'm sure everybody had a drink or two.

But somebody that co-chaired, or the chair of the local health unit, was from Alberta and talked about what they did—the parents organized something similar, but there was alcohol at it. It was a controlled event, and that as well teaches responsibility—and was wondering why the local community wouldn't do that. Of course, in Ontario, it's illegal to do that, to allow anybody under the age of 19 to have alcohol. It just seems to be that age, 19, where people are graduating, that's an issue.

I'm very supportive of teaching—not abusive drinking, but responsible drinking. That again allows it in a controlled area where there are parents, where there's some security around the whole thing.

It always bothers me each spring to see each high school gather literally groups of 500 students out in a field somewhere. Because nobody can be legally responsible, everybody's happy with it. But the problems with that, I think, are far greater than trying to control it.

The Vice-Chair (Mr. Phil McNeely): There's no response?

Mr. Milligan.

Mr. Rob E. Milligan: We've heard from the previous presenter, OPSEU, that one of their concerns was actual training of staff, i.e., in convenience stores, who provide or sell alcohol, wine, spirits. If we were to ensure that those convenience store operators had the training, and obviously I would think—I would hope—that that's in place now, but I don't know if that really is.

You made the point, and I'm not saying I'm agreeing or whatever, but the point you made was the fact that if you privatized the sale of alcohol, then the price in Alberta went up. If you increase, then—logically, if, say, a case of beer now is $55, then teens in particular would be virtually eliminated from the equation of going in and purchasing alcohol, right?

But that is a grave concern for myself as well, because being a former high school teacher, alcohol is something obviously that's purchased and used, but drugs then become a major element because drugs are a lot cheaper. Illegal substance abuse is a lot cheaper than alcohol consumption. I'm just wondering if, going back to the privatization question, would that not then be a better way to go if the price of alcohol is going to go up?

Mr. Andrew Murie: Absolutely not. I mean, you can get higher prices through your current structure with the LCBO. You don't need privatization.

What I was talking about basically is that there's a public expectation that if you privatize, prices will drop dramatically because they see the system to be able to deliver it much cheaper. In fact, it's not. It is actually way more expensive. The privatization system, people favour it because they think they're going to get lower prices. But at the same time, if you look at the data, they like the LCBO, they like the convenience, and they like all those things about it. So there's no benefit for privatization of sales.

Every country, every province, every place that's done it has done it under this allure that something's going to be better. At the end of the day, nothing's better, and they regret going away from their structured system—bottom line.

The Vice-Chair (Mr. Phil McNeely): Ms. Thompson.

Ms. Lisa M. Thompson: We certainly appreciate the work that MADD does. We have strong organizations in my riding of Huron–Bruce. Recognizing you're the executive officer for MADD Canada, what type of operating budget do you have on an annual basis?

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Mr. Andrew Murie: For Ontario?

Ms. Lisa M. Thompson: For Ontario.

Mr. Andrew Murie: We don't break it down by Ontario. Nationally, this year, I think—our fiscal year ends at the end of June—it'll be somewhere between $7 million and $8 million in revenues, and probably similar expense. We usually try to run within 10% of revenues, either a surplus or a deficit.

Ms. Lisa M. Thompson: Okay, very good. Does MADD receive any funding from LCBO?

Mr. Andrew Murie: We don't receive any money directly from LCBO. They do a campaign in which their customers donate to MADD and the various sick children's hospitals. As I was saying earlier, those funds go only to the high school assembly show program. Every dollar that goes into that is funded, and then we provide that information back to the LCBO so they know the money that was given through their customers and how it's spent.

Ms. Lisa M. Thompson: I'm very well aware of the red ribbon campaign. How many dollars does that represent?

Mr. Andrew Murie: This year it'll be slightly over $1.2 million, so there's been a great increase in it. I think the great increase has come because people know where that money goes in their community. Their kids come home from high school, and that's a dinnertime conversation, that the MADD show came today. The fact now that every high school in Ontario can have it has a major impact. As I said, that program ends up costing $1.25 per student.

Ms. Lisa M. Thompson: Thank you.

Mr. Andrew Murie: You're welcome.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. Time is up. We'll go to the third party. Ms. Forster.

Ms. Cindy Forster: Thank you very much for being here today and for the great work that MADD does across Canada.

What kind of work do you actually do—I heard about your program that you do in the high schools. Do you do any specific work with parents? Because the sense that I get still today, in 2012, is that there's still this divide between alcohol and drugs, that parents aren't accepting of drug use, illegal drug use or otherwise, but that alcohol use is maybe okay. I know, having been a nurse and worked in intensive care, the number of times I've had people ventilated overnight from alcohol intoxication. I've even worked—it was actually in Alberta—on a couple of occasions after prom night, and saw young people pass away from acute alcohol intoxication related to pancreatitis. But still, in talking to parents, friends of mine who are parents or maybe grandparents, they still think that alcohol's okay. Is MADD doing education specifically targeted at parents?

Mr. Andrew Murie: Well, we are, and we have a lot of tools available for parents on alcohol liability issues and things like that. The trouble with parents is, it's not like the teenagers, where you can go into a school and gather them all in a room and have their undivided attention for an hour. If we could do that, we'd have a tremendous impact on parents.

In fact, we are looking at a program now, as part of graduated licensing, working with the various provinces to actually have a requirement that parents and teens receive information about the risks of driving, impaired driving, alcohol use and all those types of things as part of the licensing system. We're just developing that program now. We've had conversations with the Ministry of Transportation in Ontario here and also with some other provinces, so now we're just trying to develop the funding model to actually put that program in place.

We think it'll make a fundamental difference, because I absolutely agree with you 100%; we need to engage parents on a whole bunch of issues, but we need access to them. There's only so many ways in the system, and one of them is the driver's licence, and the vast majority of kids get driver's licences. It's one of the few interventions that government and parents have where you can make a difference.

Ms. Cindy Forster: Thanks. You also spoke about some comparative data between provinces where privatization has occurred and provinces where it has not, and checking for underage proof and that it's much lower in agencies where it's privatized. Do you have any similar data on the LCBO versus Brewers Retail here in Ontario?

Mr. Andrew Murie: The trouble with Brewers Retail is, they are a private system, so they don't have that public accountability. As government members, you should make them have that ability so that we know how well they do—and they don't have all those mystery shoppers. There are all kinds of ways to do compliance. If you're going to have a private monopoly, there should be some expectations that they perform at the same level as the LCBO.

Ms. Cindy Forster: The last thing: I just wanted to get on the record—Ms. Jaczek, when she started to ask her question, said that OPSEU's position was that we should actually extend hours. That really wasn't what I heard. What I heard was that they would like more consistent hours and that, perhaps, in the summers in cottage country or tourist areas, the hours be extended so that when people are travelling from southern Ontario to Muskoka, for example, the LCBO might be open till 10 so they could pick up a case of beer. I didn't hear that they wanted, generally speaking, hours extended.

The Vice-Chair (Mr. Phil McNeely): Miss Taylor.

Miss Monique Taylor: Good morning. Thank you for being here with us today, and thank you for all of the great work that your organization does, because I know it makes a difference. We definitely need to have your presence to make sure that our youth are educated, knowing that they're putting themselves at risk not just drinking, but drinking and putting themselves behind the wheel. So congratulations, and thank you for that.

I know the elephant in the room is privatization, and of course we're against that. I would like to just give you a little bit of extra time, and maybe you can comment further on: Do you find that where they have these private agencies within, say, the variety stores in the rural areas—do you have statistics saying that the accidents are higher in those areas? Do you find that there's more trouble in those areas compared to where we don't have those privatized stores?

Mr. Andrew Murie: Yes. I think if you look in the report and at some of the data I presented today, if you look at privatization in Alberta and BC, you see all those negative harms. Whether it be impaired driving, family violence or hospital admissions, they're all there. The further you privatize, the worse those harms become.

It is really clear, from a pure, public health point of view, that if you make a decision to privatize the system, then you're responsible for the harms that come with it. Now it's even more important, because in fairness to Alberta, which was the first one to do it, I don't think there was as much evidence. What BC has done—and I think the caution that has been kind of the anti-privatization is, now we have some really clear data and evidence, and governments that make those types of changes are doing it for all the wrong reasons. They're certainly not supporting the communities and the safety of communities.

Miss Monique Taylor: We want consumers to be able to purchase our local wines, and everybody should be able to enjoy them, and everybody should be able to make a good living. There are problems with rural areas and with small wineries having the space. I've heard a lot about farmers' markets, and I've been hearing a lot about smaller stores. Part of what's coming out of this committee, hopefully, is a way to make that better in the future so that all people can have the ability to sell their products.

If we could get the LCBO, the union and everybody together to say that at the farmers' market, we are controlling sold wines of local only—do you know what I mean? I'm not saying to have huge wine stores, but if we could get those local products at the farmers' market and have all of the proper agencies and tools there, would you agree to something like that? Would you consider being at the table to even discuss those kinds of things?

Mr. Andrew Murie: How the LCBO does its business is up to the government and the LCBO. We certainly can make recommendations. I know that they look at all those things and they have a mandate from government, especially in a province like Ontario where we do have craft breweries, we do have fruit wines and we do have wine growers. I think what they're trying to do is three things: They're trying to balance those business interests of those private enterprises, do the social balance, and then you also put as a government a demand on returning a dividend to the government and an expectation for budgetary things. I think they do a really good job, but you can't have one system of those three favoured over the others. If you put the LCBO in charge, they'll balance those portfolios. Quite frankly, at the end of the day, you're not going to please every fruit farmer and you're not going to please every winery, but you're keeping 11 million people in our province safe.

The Vice-Chair (Mr. Phil McNeely): Thank you. Time is up.

Miss Monique Taylor: Thank you very much.

Mr. Andrew Murie: You're welcome.

The Vice-Chair (Mr. Phil McNeely): Thank you, Mr. Murie, for the excellent message on behalf of Mothers Against Drunk Driving.

We'll now recess for noon. The people coming from the Spirits Canada/Association of Canadian Distillers that were scheduled for 2:20 will now be here at 1 o'clock, so we'll be back in this room at 1 o'clock for that.

Mr. McDonell.

Mr. Jim McDonell: Thank you, Chair. I know one of the wineries dropped out, but we have the opportunity to get a cider company this afternoon at 2 to replace that one, if the committee would agree to that.

The Vice-Chair (Mr. Phil McNeely): Is there agreement?

Mr. Jim McDonell: It gives us an idea to hear from the cider industry.

Mrs. Donna H. Cansfield: Sure. We're here.

The Vice-Chair (Mr. Phil McNeely): All agreed? Yes.

We're recessed until 1 o'clock.

The committee recessed from 1152 to 1300.

The Vice-Chair (Mr. Phil McNeely): Welcome back. We're now continuing with the stakeholder presentations. Each stakeholder has 10 minutes for their presentation, following which each caucus will have 10 minutes in rounds for questions. Questioning this afternoon will begin with the official opposition, then the third party and then the government, the next caucus beginning the questioning of the next stakeholder.

SPIRITS CANADA

ASSOCIATION OF CANADIAN DISTILLERS

The Vice-Chair (Mr. Phil McNeely): We have a change: It's Spirits Canada/Association of Canadian Distilllers who will make the first presentation. They have been moved to 1 o'clock. Could they come forward, please.

You can start your 10 minutes and state your name for the purposes of Hansard.

Mr. Jan Westcott: Thank you, Mr. Chairman. My name is Jan Westcott. I'm the CEO of Spirits Canada/Association of Canadian Distillers. On behalf of the Ontario distilled spirits manufacturers, we welcome the opportunity to appear before you today here in Trenton. I've asked my colleague C.J. Helie, who is my executive vice-president, to join me so that we can best address any questions that the committee members have after these remarks.

Spirits Canada is the only national trade association representing Canadian and Ontario distilled spirits manufacturers, who as a group are the largest contributors annually to the LCBO's net income. In an economic impact study commissioned by OMAFRA in 2010, it was estimated that in addition to in excess of $1.1 billion in commodity and sales tax revenues that are generated for the Ontario treasury on account of the sale of spirits, the local manufacturing of spirits contributes nearly $900 million to the gross domestic provincial income of the province.

I also notice that while various organizations representing Ontario grape growers have appeared before this committee, Ontario's corn and cereal farmers are not represented. With the Chair's indulgence, I will also say a few words on behalf of these local farmers so essential to the quality of Ontario-made spirits.

We also recognize that, primarily for ideological reasons, there are a number of groups who would prefer that the provincial government get out of the retail alcohol business, hence the appearance of various proposals from time to time for alcohol sales through convenience stores, farmers' markets or other independent private stores. I want to be crystal clear: Ontario's spirits manufacturers are not one of these groups. We believe the LCBO provides Ontario with the right mix of a modern retail environment for beverage alcohol balanced with an appropriate social responsibility mandate.

Even excluding the provincial portion of the harmonized sales tax, the sale of beverage alcohol last year raised a little over $2.2 billion in direct commodity tax revenues or their equivalents for the treasury. The LCBO's net dividend represented 75% of this return. This compares with the LCBO contribution accounting for less than 60% in the year 2000.

The question of how well the LCBO is performing its mandate is one that we would like to address today. We know, for example, that the LCBO's net dividend to the provincial treasury has doubled from $800 million in the year 2000 to over $1.65 billion this year in 2012. Was this performance inferior, just okay, or was it outstanding? I think the challenge is to find reasonable benchmarks for measuring the LCBO's economic performance. One might look at other Canadian liquor boards, boards without the scale of the LCBO; or one might look at other general retailers, retailers that are operating in a highly competitive environment and, increasingly these days, a challenging environment. Instead, today we propose to compare the LCBO's commercial performance vis-à-vis the dissimilar performance of Ontario's other alcohol retailing assets.

Presumably because the government owns and operates the LCBO itself, many tend to forget that Ontario has, in fact, three major alcohol assets:

(1) the LCBO, which we all know;

(2) the licences to operate private beer stores that are issued to Molson Coors, AB InBev and Sapporo, the three large brewers; and

(3) private off-site winery stores—not the ones at the wineries. These are the off-site winery stores that are largely issued to three of the larger companies operating wineries in the province.

In private business, we all recognize that a company's true value today is often tied to intellectual property rights, rights like brands, trademarks, copyrights, and, in the case of spirits like Canadian whisky, our signature product, geographical indications. For governments, true value is similarly also found in its own intangible assets; specifically of interest to this committee's work, the right to sell alcohol.

A good commonsense test to see if this principle holds true for beverage alcohol is to ask yourself a simple question: If a future provincial government did decide to remove itself from the direct sale of alcohol, how much of the $1.6 billion net return from the LCBO would it expect to keep under any new sales model? If you answered "a minimum of $1.6 billion," then you have confirmed that the value is linked to the right to sell alcohol, not to the bricks and mortar.

As I mentioned, since 2000, the LCBO's net return to the treasury has doubled to $1.6 billion. Over the same period, the total return to the province from the Beer Store and private wine stores combined has increased from $539 million to $555 million, or about 3%. The

LCBO operates about 620 stores; the Beer Store, 440 stores; and the off-site, private winery stores—not the ones at the wineries; these are the ones away from wineries—nearly 300. So three retail chains, each operating in the same geographic market, under identical market conditions, selling to similar customers, yet one has a 100% improvement in its return to the province and the others have a 3% return to the province.

Let's take a little bit of a closer look. The LCBO's net return of $1.6 billion was realized on net sales of $4.7 billion, which produced a net return ratio of about 35% of sales. The treasury's similar return from the Beer Store and the winery retail stores is equal to about 23% of net sales. So even after accounting for the cost of directly operating the LCBO, the net return from its in-province benchmark is more than 10 points higher, 35%, versus 25% for the other retail systems.

I would also be remiss in not mentioning that even this 23%, while down from the 25% return of about a decade ago, is an improvement from the 19% of a few years ago, as the government has begun to index beer's basic tax by imposing—and also imposed a 10% tax on cellared-in-Canada wines. The latter, of course, is redirected back to the VQA wine producers, so it's a little bit of a shell game.

In summary, it's clear that the LCBO's economic performance over the last decade has far surpassed the performance of the other government alcohol licence holders in this province.

Of course, such returns are not without some barbs. When a government asks for more from a liquor board, it is a natural but unfortunate reality that the very strong inclination is to squeeze suppliers even further. Over the years, the LCBO has employed its monopoly position in spirits to extract more from its suppliers, whether in terms of higher promotional fees, merchandising program costs and mandated market spending. As the only domestic supplier group exclusively sold through the LCBO, Ontario's spirits have shouldered the bulk of such burdens. And unlike some other supplier groups, such program costs are not subsidized by the LCBO or through other ministry support programs.

As an aside, we're somewhat conflicted on the issue of government subsidies to certain of our wine colleagues. On the one hand, such programs help fund their sales and marketing activities in Ontario to our detriment; on the other, subsidies tend to dull the sharp edge of competition, ensuring a less-than-effective competitor on the much larger global market, where only the strongest prosper.

In my opening, I briefly mentioned the role of Ontario's farmers in the marketing and the making of distilled spirits. The value of our local cereal grain purchases is every bit as important as the Ontario grape wine crop. We buy the highest-quality corn and other cereals and pay a premium to get the best materials. In the words of Barry Senft, the CEO of the Grain Farmers of Ontario, which represents about 28,000 corn, wheat and soybean farmers, who produce approximately 180,000 tonnes of premium corn and cereal grains that supply our industry, "Great Canadian whisky starts with the highest-quality Ontario corn."

Thank you very much. I'd be happy to answer your questions.

The Vice-Chair (Mr. Phil McNeely): Thank you. We will go to the official opposition. Mr. McDonell.

Mr. Jim McDonell: Thank you for coming out today. It's always good to hear the perspective from the producers of the province.

Any specific recommendations or priorities that you would see that would help the industry?

Mr. Jan Westcott: We're all producing alcohol. If I had three or four glasses in front of me—one with a typical cocktail made with an ounce and a half of spirits; a bottle of beer, Blue or Canadian, 5%; a glass of table wine, let's say, Ontario table wine, domestic; and imported table wine—the interesting thing about those is that those are all standard drinks. Those are what, in fact—in most bars today, you'd be lucky to get an ounce and a half of spirits in a drink; it's pretty much an ounce. Those are all standard drinks. The most interesting thing about those is that they all contain exactly the same amount of alcohol, to the decimal point. So that's what the consumer drinks today.

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We're not seeing, these days, too many people drinking—other than, I guess, beer—products out of the bottle; people are drinking these as individual drinks. We've grown up a great deal. Yet, the tax burdens—notwithstanding they all contain exactly the same amount of alcohol—on the different streams of how the consumer deals with that product are vastly different. In our case, they are dramatically higher than the people that we compete directly with.

One of the challenges that the industry faces in Canada is attracting investment. Like the wine industry, like the beer industry, we're part of a global business. When our guys sit at the international table of our global companies, if the returns in Canada are a lot less than they are elsewhere—and they are a lot less; our gross margins here are about 20% versus an average of about 30% in most of the comparator control states in the United States. In the US they have control states, much like Ontario and many provinces in Canada. The returns available to the spirits business in those states are about 30%. So this disproportionate taxation of our products, as well as access to the consumer, makes it increasingly difficult.

It's not something that's going to get fixed overnight, but the world has changed. People drink everything today; it's mostly determined by where you are, what the circumstances are and what's available. We need to start addressing this if we want to continue to have a spirits business in this country.

We're fortunate in that Canada, notwithstanding that we're a relatively small country, has one of the four recognized whiskies in the world. Canadian whisky, along with Scotch, Irish and bourbon, is one of the world's recognized whiskies. My partner is going to blanch a little bit, but the fact is, we're still the largest-selling whisky in the largest beverage alcohol market in the world, the United States. So we're pretty good at what we do.

I think we need to start addressing these dissimilarities in how products are treated going forward, because increasingly what is happening is that government policy is intruding into the marketplace.

Mr. Jim McDonell: Just one other quick question. We tied some discussion, just how we rank in Ontario versus other markets around—the States. You alluded a little bit to that. Just what share, or how do we compare with some of our major competing states or provinces?

Mr. Jan Westcott: In what sense?

Mr. Jim McDonell: As far as production.

Mr. Jan Westcott: There's no secret: Ontario is the heart and, really, the home of the spirits business in Canada. I don't have the exact numbers, but we're something between 65% and 70% of all of the activity that takes place in Canada. This is really the bulk of where it is. Our business is one where we export about 70% of what we make.

We're a pretty simple business: We buy grain from farmers; we convert it into alcohol; we age it, then we blend it and package it, and then we export it. When you look at exports, it's a much higher number. It's closer to 75% of all of the things that leave the country as well the rest of Canada that come from Ontario.

The Chair (Mr. Phil McNeely): Ms. Thompson.

Ms. Lisa M. Thompson: Thank you very much. Jan—thank you very much for you both being here, by the way, I appreciate that very much. Earlier today, we had a deputation from OPSEU. A clear message from them was their angst about agency stores. Do you have a sense of sales for your Canadian spirits from LCBO versus agency stores? Do you break it down like that?

Mr. Jan Westcott: I'm going to ask C.J. to—

Mr. C.J. Helie: Yes, we do. Agency stores, on total, would be less than 10% of our overall Ontario sales.

Ms. Lisa M. Thompson: Thank you. I have one more question. Something that stuck with me, Jan, was when you said that Canadian policy is intruding into the marketplace. Outside of this disproportionate level of taxes, is there any other red tape that you would like to see addressed?

Mr. Jan Westcott: Today, one of the learnings that we've had over the last 25 years—for those of you who don't know me and don't know my background, I started out in the beverage and alcohol business as the president of the Canadian Wine Institute and the wine council, so I know the wine business pretty well. I was there seven years. I then went on to be the head of the brewers' association in Ontario and Brewers Retail, and helped manage Brewers Retail. C.J. and I spent 11 years or longer in the beer industry, so we know a little bit about the other businesses.

One of the things that is very clear, as I came into the spirits business, is the—and no one did these things. Call them accidents of history; the way the world developed. If I'm in the wine business, I know; I was there. I helped negotiate the accommodation with the Americans when we did the FTA and then NAFTA. We secured the existing licences for the wine stores and all that sort of stuff. But as the world is changing and competition heats up, the ability to be more convenient for consumers—convenience is a huge factor. Everybody has a right to have a store at their facility, but our direct competitors also have a lot more access to the consumer, which makes it a lot more convenient. So it's not just the tax load, although the tax load is a huge issue. It's also convenience.

To be honest, we hear people say, "Well, we should sell some kinds of products, whether it's fruit wines of this or that, in farmers' markets or different kinds of venues." Well, that's great, but we make spirits here in Ontario using Ontario materials, using Ontario employees, and we ship it all over the world, and we get better treatment in many other places than we do right in our home province.

I don't expect these things to be fixed overnight, but when we sign trade agreements with other countries, we say to our industries, "We're going to give you three years"—or five years or seven years, whatever it is. "You need to make the adjustments, because we need to get on to it."

We have two things that we say to ourselves when we get up in the morning and look in the mirror. One is, stand with the consumer. The closer you are to your customer, the less trouble, the better off you're going to be. You're going to do okay. So pay attention to your customer. One of the things we like about the LCBO is that they're so focused on that, some days it's scary. Stand with your customer.

The other thing is, we believe in competition. Competition makes things better. When you don't have competition and people don't have to compete, it's a recipe for disaster. It's like spoiling your kid. You're actually harming the businesses that don't have to compete. Now, whether they don't have to compete because they've got a policy advantage or whether they're getting subsidized, it doesn't matter. You're killing them. You really are killing them.

Ms. Lisa M. Thompson: I appreciate that. Thank you very much.

The Vice-Chair (Mr. Phil McNeely): Mr. McDonell.

Mr. Jim McDonell: Any barriers or any issues with the LCBO that are really causing a problem, other than taxation? You've had experience across all three areas, but—

Mr. Jan Westcott: No. What we're looking for is a business-like partner. Notwithstanding that it's owned by the government, we're in business. We're in a business of providing the consumer with products the customer wants. What we look for in all of our customers—because they're our agents; they're our face—is a business-like operation. It's not to say that we don't have commercial disputes with them from time to time. That's every business. But generally speaking—I have to be careful, but part of my job is fighting with the LCBO on some of those commercial issues. About two years ago, I came home after a long day at the board doing battle, maybe with some of the people that are sitting behind me. We were having a dinner party at our house on a Saturday night. I live in Oakville, and there's a brand new store that LCBO opened up in the north end of Oakville. My wife had been in there and had chatted with one of the product consultants. I get home and I'm just ready to strangle them and she's gushing about how great it was. So, no, it's the normal things you would see. But I think the strong focus on the customer is critical and a very business-like attitude and approach, which is tough, being a government agency or business. It's a difficulty.

The Vice-Chair (Mr. Phil McNeely): Time is up. We'll go to the third party. Ms. Forster.

Ms. Cindy Forster: With the growth of the wine industry and the craft breweries over the years, what impact has that had on your side of the business, the market share of the business overall?

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Mr. Jan Westcott: It's a competitive environment out there. The consumer only has so many dollars in his pocket. Let's be honest: There are a lot of misconceptions about the way people think about our products. When I was in the beer industry and the spirits guys were trying to get something done, we'd walk around and we'd talk about "hard liquor," and it conjured up this sort of really bad impression in everybody's minds.

Those old mythologies are still there. I fight with reporters all the time who use words like "booze." You say, "That's inappropriate. You shouldn't be doing it." "Yeah, but everybody knows what that is. Everybody gets a jolly when they see that." It has a competitive impact on us.

We're fighting tooth and nail to maintain our—and we're making some progress; right? We lost something like 50% of our sales volume from about 1965 to about 1995.

Mr. C.J. Helie: It was 1975 through 1989.

Mr. Jan Westcott: And we started to recover, coincidentally, about the time that C.J. and I joined the spirits industry. But it has been 1%, 1.5%, 2%, so we're not going to get back.

What happened at the same time is that there was a burgeoning of the beer industry. There was tremendous consolidation, a huge amount of marketing spend, and there was the opening of the Ontario wine business.

Government seems to fall all over itself—not just in Ontario; everywhere in this country and in the United States—to look for new things every day to help the wine industry. No disrespect to the wine industry, but, guys, there has got to be a limit. They're not the only people buying products made in Ontario with Ontario produce. Every time something happens, it has an economic impact on us. Again, we can only sell in the LCBO, not everywhere.

One thing I would tell you: If you go back 15 years, 18 years, 20 years, all the stores were kind of neutral environments; you really couldn't do much. The world has changed. The real action today is competing in the store for the consumer's attention, whether it's by displays or product contests or knowledge or things you're giving to the consumer as a bit of an extra value. Walk into any LCBO store. What do you see for the first 75 feet in the LCBO?

Mrs. Donna H. Cansfield: Wine.

Mr. Jan Westcott: You see Ontario wine. That's great. Where's the big display for Ontario spirits? No disrespect to the LCBO, because I think that has been government policy through successive administrations, and it's terrific, but we wind up getting marginalized.

Ms. Cindy Forster: So basically your message is, "Don't do for others what you're not going to also do for us," with respect to policy, with respect to financial grants, all of those kinds of things.

Mr. Jan Westcott: Right. Let's be honest. Most of the things that were done—and I don't mean to pick on the wine industry—for the wine industry were because it was a nascent industry that needed some help to make the transition to produce world-class products. Well, guess what? We're there. They're making world-class products. They are virtually the same as us.

One of my companies owns Vincor, so we have big guys out there that are doing good things. Yes, there are a lot of small operators, and yes, they're now wineries as opposed to just being called grape growers. But we've got thousands and thousands of people who grow grain in this province too. Maybe we should have a sign on everybody's gatepost saying "Ontario whisky," this brand or that brand.

I'm not arguing about those subsidies. Everybody should be treated the same, but we need to start withdrawing from some of these kinds of things because I think it has done its job.

Ms. Cindy Forster: How many employees does your industry support here in the province of Ontario?

Mr. Jan Westcott: About 1,700 directly; about 6,500 if you put the exports into the picture.

Ms. Cindy Forster: Right. Thank you.

The Vice-Chair (Mr. Phil McNeely): Miss Taylor.

Miss Monique Taylor: I haven't come up with any really good questions yet because I've been interested in hearing what you've had to say, other than: Do you have a really good referral of a good Canadian whisky?

Mr. C.J. Helie: That's the toughest question all year.

Miss Monique Taylor: Could you let us know the dollar value of 180,000 tonnes of corn? Are there facts around that kind of stuff?

Mr. Jan Westcott: I want to say it's in the $60 million—

Mr. C.J. Helie: Current pricing is over $4 a tonne.

Miss Monique Taylor: Okay. So—

Mr. Jan Westcott: A bushel.

Mr. C.J. Helie: No, a tonne; $2.50 a bushel—or, sorry, yes, that's right. You're right. It's $220 a tonne—

Mr. Jan Westcott: We're overpaying if it's four bucks a tonne.

Mr. C.J. Helie: Sorry. Yes.

Miss Monique Taylor: So the biggest challenges that you find that you're facing is the equality of products on the shelves?

Mr. Jan Westcott: It's a challenge for everybody. The world changes. It's a struggle to keep government policy up to date or current with the changes that are taking place in the world. If you go back 15, 16 or 20 years, you would encounter many more people that would say, "I'm a beer drinker," and they would tell you the brand. Or, "I drink white wine spritzers," or "I drink Wiser's 10-year-old," which is what my dad used to say.

Today, the vast majority of people that consume beverage alcohol—there are about 23% that do not drink beverage alcohol or they don't drink it on a regular basis, but of the rest of the people that drink beverage alcohol, they drink everything. It really depends on where they are, what's available, how convenient it is, how much it costs—all of the normal things that go into every other product that consumers buy and use. We need to be focused on making sure the policy keeps the marketplace as vibrant as possible.

Let's be honest: We're partners with the government. It happens to be through the liquor board, but the vast majority of the value or the wealth created in the business goes to government. You guys all have a much, much bigger stake in making sure that the marketplace remains dynamic and consumers are excited about everybody's products than we do. They fund the hospitals, they fund the schools, they do all that stuff, and things that either allow one sector to not have to work as hard—not spend money on innovation, not do things—or denigrate or harm one of the competing sectors damage the vibrancy of that marketplace and the value of that marketplace.

Miss Monique Taylor: Thank you very much.

The Vice-Chair (Mr. Phil McNeely): You have another minute. Ms. Forster.

Ms. Cindy Forster: Just one short question: There's a lot of pre-mix stuff in your business. What percentage of your total business is the pre-mix?

Mr. Jan Westcott: You mean like coolers and one-pour and things like that?

Ms. Cindy Forster: Yes.

Mr. C.J. Helie: By sales value, about 5%.

Ms. Cindy Forster: Just 5%. Thanks.

The Vice-Chair (Mr. Phil McNeely): We'll now go to the government. Ms. Cansfield.

Mrs. Donna H. Cansfield: Thank you very much for your presentation. In particular, thank you for the breakdown and the addendums that you attached. I think there's no question that you supply a significant amount of money on the ad valorem in terms of markup, and it's very evident when you go across the board.

My question is—your sales. My comparable is for the wine industry. We made a decision that VQA would have some predominance in the store to increase sales. Do you have the same—vis-à-vis the spirits that are imported—predominance in the store, being an Ontario product versus an imported product? And if not, why not?

Secondly, how much of the shelf space do you get at the LCBO versus the imports, and how is that determined? Is it with you or the LCBO?

I'm interested in the whole issue around the level playing field, because obviously you pick up a significant portion and you feel that—probably with some justification, because sometimes it's hard to find the scotch, I agree, or the whisky that's at the other end of the store. You have to go through a lot of wine before you get there. Where do you see we could make some improvements to ensure that we balance out that field a bit?

Mr. Jan Westcott: In terms of domestic treatment versus imported treatment, I'd say it's pretty equitable. Yes, from time to time, I complain that some stores have a slightly bigger Scotch whisky display than maybe Canadian whisky, but again, it's driven by the consumer. The fact that you can't go into every LCBO store and find exactly the same things everywhere means that the board is paying attention to what the consumers that maybe live in Etobicoke or live in North York or some part of Ontario are interested in. That's always going to be a little bit different, but on balance, I would say that our view is, it's equitable.

In terms of: Do we have enough shelf space? No, never. If we had twice as much as we have today, my answer would still be, "No, we don't have enough." More is always good. You're seeing a tremendous amount of innovation, particularly in Canadian whisky. You're seeing lots of innovation in the last five to seven to 10 years in spirits—flavoured rums, flavoured vodkas. We're starting to see different kinds of high-end whiskies coming out. So you need to have an opportunity to showcase those in front of people.

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It's about making money by satisfying what the customer is looking for. At the end of the day, you want to sell products that are profitable. Spirits, obviously, are highly profitable. It's a question of what that mix is.

I think that the stores are a little too wine-centric, but the same could be said for most of the liquor stores in Canada and, to a certain extent, a lot of the control states in the US. In part, that's because that's where the consumer's mind is at the moment. Certainly, they are very much Ontario-wine-centric.

Sorry, the third—

Mrs. Donna H. Cansfield: The issue of what you would do. One of the challenges you identified—for example, if you go into the liquor store, you always see a pick of the week by the staff and it's a bottle of wine. You rarely see a pick of the week that's a bottle of vodka. So those kinds of marketing initiatives—

Mr. Jan Westcott: To be fair, the LCBO has done a lot more than they used to. There are a couple of spirits-oriented promotions. We have a very good promotion in the summer. It changes themes each year. It ties into the patio-and-back-deck kind of thing. Of course, from our point of view, there's a very important promotion around whisky that occurs every fall. Would we like to have more? Yes. Those kinds of things help educate consumers about our products, and so we see them as extremely valuable. We partner, and various brands pony up and go into those promotions. Nobody's perfect, right? Everybody could do more. I'd like to see some of my guys do more in-store tastings, à la what you see in the wine business and some of those kinds of things.

The issue for the spirits industry is having the money in your jeans to go and do those things. In our business, for every dollar of sale, our gross margin is about 20 cents. So for every bottle that sells, we get 20 cents on the dollar. If I'm in the beer business—and I was—I get 50 to 54 cents on every dollar. If I'm in the imported or blended wine business, it's about 35 cents out of every dollar, and if I'm in the Ontario wine business, it goes up to 80 cents. So I've got to compete against those guys. I go into bars a lot, and the bar owner will say, "You cheap bastards in the spirits industry never do any promotions in here. You're not doing anything. Get with it. Molson is in here every week." Well, of course they are, because they've got all this money.

Increasingly, you're seeing that we're now competing quite a bit and being outbid by small Ontario wineries with brands that would not be mainstream products competing actively with us for those kinds of slots because they have a lot of money to spend.

Mrs. Donna H. Cansfield: So where would you change it, Jan?

Mr. Jan Westcott: As I said, the struggle for the spirits industry is margin. We do not have enough margin to fund all the things that we need to do to drive the business for it, whether it's innovating new products at an aggressive rate or investing in marketing and advertising to tell our story, upgrading our plants so that we're environmentally superior and we're as efficient. We both distill and package under contract in Ontario, and we compete with plants in Kentucky, in—

Mr. C.J. Helie: Indiana, California.

Mr. Jan Westcott: —in Indiana, California. For a long, long time we were extremely competitive, and we were winning a lot of those contracts. In the last five years, we're holding our own, but we're not winning as many as we used to, and that goes to how much you can invest in your plants to have the most efficient equipment, to be environmentally sound. A lot of it is just investment to upgrade and upgrade and upgrade, and if you don't have enough margin, you don't have money to do those things.

Mrs. Donna H. Cansfield: Does the LCBO have any promotion, as they do for the wine industry, on new product for the spirits industry?

Mr. Jan Westcott: Yes.

Mrs. Donna H. Cansfield: So you get a similar opportunity—

Mr. Jan Westcott: Yes. And in fact, I would say that the spirits industry is probably the largest user of the promotional vehicles that are available in the LCBO. Now, you have to pay for them, but things like end-aisle displays, feature promotions, Food and Drink—all of those things that help us communicate with the consumer are all very valuable to us. It's good to do them with the LCBO because you know that the person who's looking at them is thinking about buying something with alcohol in it, so they're efficient.

Mrs. Donna H. Cansfield: Thank you very much. So the LCBO, in fact, is doing things. Your challenge is really with the taxation and the level playing field.

Mr. Jan Westcott: The LCBO doesn't make policy. These are policy issues.

Mrs. Donna H. Cansfield: Right. It's the policy issues. We'll take that back.

The Vice-Chair (Mr. Phil McNeely): Mr. Leal, you have two minutes.

Mr. Jeff Leal: First of all, Jan, I want to thank you. Spirits Canada, of course, is one of the title sponsors of the veterans' gala that's held every remembrance week in the riding of Peterborough, and I know many families really and truly appreciate that sponsorship.

I'm always interested in export sales. You indicated that 70% of your sales are exports. What percentage of that is non-United States exports?

Mr. C.J. Helie: Approximately 85% of our exports are to the US.

Mr. Jeff Leal: Through you, Mr. Chair, the Prime Minister just recently announced that we're going to be entering in probably the largest trade negotiations of this country's history with the Pacific Rim group. Are there opportunities or will you be a partner in that to make sure that your industry gets a fair share of what will be, as I see it, emerging markets and potentially billions of potential consumers for grape product?

Mr. Jan Westcott: Yes. For the 12 years that I've been with Spirits Canada, we've been very aggressive supporters of any initiatives that open trade with other countries. We are traders. Canadian whisky has a very strong, quality reputation around the world. You can go into any higher-end hotel, business hotel in the world and find Crown Royal, usually Canadian Club and some of our other products—Wiser's. Our problem is penetrating down into more of the mass market. So anything that opens those markets to Canadian products is good. We work with a number of federal ministries to do that, so we're quite excited about the opportunity, particularly as Asia looks like it's a growth area.

Again, and I don't mean to harp on this, but when you want to go and develop new export markets—and people talk about China—it's very, very expensive to do that. You've got to get there, and that's expensive, and it's a very expensive place to do business. If you don't have the money in your jeans—it would be great to sit here and say, "We can just reach over to my colleagues," because they're all owned by the same companies in the Scotch whisky industry, "and grab some of that money and use it to promote Crown Royal in India or in China," but that ain't going to happen. Those dollars, at least to get the ball rolling, have to be generated in the home market.

We just did some analysis, and in the UK, the margins available to the Scotch whisky industry or the spirits business in the United Kingdom, just as an example, are dramatically higher than they are in Canada. So I'm Diageo; I own Johnny Walker, I own Crown Royal, I own Bushmills Irish and I own five or six bourbons in the United States. If I make significantly more money from selling Johnny Walker and Bushmills and Bulleit Bourbon than I do from selling Crown Royal, where do you think Crown Royal is going to fit into that equation? That's the challenge that we have.

The Vice-Chair (Mr. Phil McNeely): Time is up. I thank you very much, Mr. Westcott and Mr. Helie, for being here.

ROBERT THOMAS ESTATE VINEYARDS AND WINERY INC.

The Vice-Chair (Mr. Phil McNeely): Our next presentation is by Robert Thomas Estate Vineyards and Winery. Debra Marshall, if you could come forward. You have 10 minutes, and if you would state your name for the purposes of Hansard.

Ms. Debra Marshall: My name is Debra Marshall. I'm a grape grower. We have a location in Prince Edward county. I'm also a director on the grape growers' marketing board of Ontario.

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I appreciate the opportunity to speak to you regarding the review of the policies and practices of the LCBO. I'll forewarn you that probably I'm the least proficient orator here today, so I hope that you'll have patience with me.

I've been a grape grower in Prince Edward county since 1999 and a committeeman member of the Grape Growers of Ontario for close to seven years and a board member for three.

When I first became a grape grower in Prince Edward county, it was a tough, uphill haul, but we grew from 12 wineries in 2005 to about 36 this year. As we grew and as the Ontario wine industry grew, some of the older existing practices, policies and governance models of industry organizations that were integral to the industry in the beginning no longer fit the landscape of the industry.

To use the Grape Growers of Ontario as an example, when we first came on the scene, there was no representation for growers outside of the Niagara area. The GGO listened to our deputations and found a resolution by changing their model and creating a committeeman's seat and, following that, giving Prince Edward county its own district and representation on the board.

The GGO recognized we had smaller winery models, different growing conditions and criteria, but they also realized that, as a new wine region, we could provide a market for the province's 100%-Ontario-grown grapes.

Just as the GGO, a key partner in the wine industry, has reviewed its infrastructure and governance, responding to the changing landscape to ensure fair representation to all growers, creating programs and conducting research to enhance and improve the ability of their growers to produce their product, so must our other partners recognize the changes that have occurred in the industry and respond to them by enhancing their deliverables through strategies, programs and regulation review.

I believe it's important to look to the past to devise a successful path to the future. But determining a path or strategy is not enough; implementing, tracking and accounting for its progress is all part of what is essential to attain our goals.

This year, the Grape Growers of Ontario are celebrating 65 years as a formal entity. I believe this is important because during this period there have been constant partnerships that have moved the grape and wine industry forward—the growers, the wineries and the LCBO.

The fact that the government of Ontario regulates alcohol through the LCBO makes the government the de facto senior partner in the Ontario wine and grape sector. This review and the involvement or our senior partner are critical to the continued success of the grape and wine industry.

As with all partnerships, it has not always been easy sailing; however, these partners came together as an industry in 1999 to create a strategic plan, a shared vision for the industry's future. The resulting document was called Poised for Greatness. This document mapped a plan for the next 20 years, and all partners collaborated on the vision, which was clear and set critical targets that would be met incrementally until 2020.

In 1999, Ontario wine represented 42% of all sales. Through collaboration of the partners, an annual increase of 6% sales of Ontario wine was slated. It was expected that in 2011 the domestic share would represent 50% of all sales.

The LCBO committed, through its own brand vision, to ensure that the Ontario wines section would become a destination for wine buyers. This was to be accomplished through the reinvention of the Ontario wine section, expansion of Vintages, an increase in shelf space for Ontario wine and a program to assist small wineries in participating more effectively at the LCBO.

In fact, in preparing for this, I went and looked up the 2005 hearings and the deputations there. At the standing committee review of the LCBO, the then-chair and CEO of the LCBO, Mr. Olsson, stated that when he became acting chair and CEO that February, following the retirement of Andy Brandt, Mr. Brandt told him that all Ontarians have three jobs: their day job; coach and general manager of the Leafs; and third, CEO of the LCBO. I'm in no way suggesting that I want that job. However, he stated that almost everyone had an opinion of the LCBO, but he was fortunate that he had the opportunity to express those opinions to the people running the business: the provincial government.

In 2005, Mr. Olsson also stated that it was fair to say that few public or private enterprises had transformed themselves so successfully or completely as the LCBO, through operations becoming customer-focused, effective and cost-efficient while also contributing to the success of Ontario's domestic beverage alcohol industries.

When the results of wine sales were published in 2011, it was extremely disappointing to find that we had not attained our objectives but in fact the domestic market share decreased by 4% from the 1999 level to 39%, missing the agreed-upon goal of 50% by 11%. This failure to attain the agreed-upon target cannot solely be attributed to the LCBO, as they are accountable to the government only for the distribution channels they control.

The volume of Ontario wine sold has a huge impact on all of the grape growers of Ontario. In 2008, the grape-growing industry had a surplus of 9,000 tonnes of grapes, which were dropped on the ground. In response to this, in 2009 the government of Ontario put into place a policy focusing on VQA. This policy helped to move the industry forward. The policy required a minimum of 25% Ontario grapes in a bottle, and a company average of 40%. Our de facto partner in the industry created policy that resulted in a positive impact on the grape-growing industry.

Of the 500 growers in Ontario, 30% are vertically integrated, being winery/growers, but 70% are independent growers, meaning their sole income is from the sale of the raw product, the grape. That 40/25 content stabilized the industry at a time of crisis. However, until we live in an Ontario where imported wines don't dominate our home market, commanding three quarters of the market share at the LCBO, we will need the province to maintain its current 40/25 content regulations for blended wines.

Along with that, other measures must be taken by the LCBO. Talk of privatizing the LCBO has been brought forward continually. Abandoning the Ontario government's distribution channel will not benefit the industry but only set it back.

The LCBO has achieved the financial targets that the government has put before them continually, and I applaud their achievements financially, as well as their strategies to provide clarity to the consumer in respect of the blended wine issue. We need the government to ensure that strategies to grow Ontario wines are adhered to through clear directives, with benchmarks and metrics put in place.

Currently, the grape-growing industry provides an economic impact of $12,758 per acre on 15,074 acres in Ontario. This results in an annual economic impact of $1.92 million and change. If you calculate the impact of Ontario wine sales, the total economic impact to the province is $33,000 an acre, resulting in close to $500 million.

The economic impact of an imported bottle of wine results in 67 cents. In comparison, the direct and indirect value-added economic impact of 100% Ontario-grown wine is $12.29.

The Ontario government knows that 100% Ontario wine provides a good rate of return, and, through the LCBO, has an established distribution channel to garner this economic infusion. The government has invested $9 million a year for seven years into the industry. Governments do not repeat investments unless there's confidence that there is a return. The LCBO has been the government-controlled agency that has enabled this type of return to the provincial coffers. Imagine what the increase in return would have been if, along with the 40/25 content regulation, the industry partners had achieved that increase of market share from 42% to 50%. The plans to grow the Ontario market share were in place, but were forgotten along the way.

We need the government of Ontario to give clear direction to the LCBO to set measurable targets for the growth of the Ontario wine categories and Vintages and make them accountable. The targets should be designed specifically for the growth of our domestic market. These targets and the resulting growth should be reviewed annually by the industry partners. A transparent scorecard should be created to track these metrics.

Rather than reinventing the wheel with a new model of fine wine stores that will be selling both domestic and imported wine, or privatizing the LCBO, we should look to improving the model we have that essentially works, but improve it by providing clear direction, doubling the size of Vintages and the Ontario wine section, and following the opinion of the Drummond report.

By requiring accountability and putting into place achievable targets, we can grow our industry to own at least 50% of the market share. It is an embarrassment that Ontario is the only wine region in the world that does not own at least 50% of its market share. There is no just reason why we cannot. Ontario wine has gained accolades around the world and has been centred out as a premium product. It's time that we stopped hiding our light under a bushel.

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Through better accountability and through achieving targets like the ones suggested, we will stabilize the industry, generate larger economic benefit, support and grow our agricultural base, and provide a sustainable future for the industry and the province of Ontario.

At this time, I'd like to clarify something that was spoken to earlier this morning about who has the authority over varietals that are put into the VQA. The VQA Act stipulates which varietals are VQA-able and it's legislated. So the VQA has total authority over that. It was mentioned that the grape growers' association looked after it; we do not, but what we do is provide research material or data to VQA when they're looking at another varietal.

The Vice-Chair (Mr. Phil McNeely): Thank you, Ms. Marshall. We will go the third party and Miss Taylor.

Miss Monique Taylor: Thank you very much for being here with us. You've covered everything very well here. Again, the biggest challenges that you're facing with the LCBO would be getting onto the shelves?

Ms. Debra Marshall: Market share. And I'm speaking on behalf of—we heard about the grain growers. I believe—I'm sure you can find this—our farm gate was somewhere around $60 million last year. That's the money that goes to the growers. This is about agriculture, not just about the added-value product. So what the LCBO does affects the farmer, same as the grain growers. When we don't have our market share, it impacts heavily upon those growers who are employing people here, who are paying property taxes, who are paying income taxes, who are contributing to our economy.

Miss Monique Taylor: So saying all that, then, how much of your grapes are getting into the bottles and how much are staying on the ground? Would that be a fair question?

Ms. Debra Marshall: Back in 2008, they dropped 9,000 tonnes. Then, with great thanks, the government put into place strategies to increase the VQA market share. It has grown, I believe, by about 6% since that time. They also put into place a 40% company average and a 25% minimum bottle content of Ontario product in the blended wines. If that was not there, we would still be dropping grapes on the ground.

Miss Monique Taylor: Okay. So more VQA grapes are getting into the bottles than the non—

Ms. Debra Marshall: No, that's not what I'm saying. More Ontario grapes are getting into the bottles because of the requirement of the 40/25. Okay?

Miss Monique Taylor: Okay.

Ms. Debra Marshall: But along with that, VQA sales have improved because of the government's encouragement that VQA be promoted by the LCBO.

Miss Monique Taylor: Okay. Thank you.

Ms. Debra Marshall: You're welcome.

The Vice-Chair (Mr. Phil McNeely): Ms. Forster.

Ms. Cindy Forster: I don't actually quite understand the piece about the 40% company average. I understand that we have to have 25% Ontario grapes in the blends. Can you expand a bit more on the 40% company average?

Ms. Debra Marshall: I always found that a little bit confusing too, but basically I'm ABC company and I have different products that I'm blending, okay? As long as I have a company average of 40%—okay, as long as I have a bottle content of 25%—

Ms. Cindy Forster: Yes.

Ms. Debra Marshal: But the company has to have 40%. So there could be some blended wines that have 90% Ontario in them and some that have 10%—no, some that have 25%.

Ms. Cindy Forster: Right.

Ms. Debra Marshall: The company average has to be, overall, 40%.

Ms. Cindy Forster: Forty. I get it.

Ms. Debra Marshall: The overall average has to be 40%. It can never be less than 25%.

Ms. Cindy Forster: Do you have any comments with respect to the last presentation and the suggestion that perhaps the wine industry is advantaged? You may not be advantaged as having 50% of the market share, but you're advantaged because of—

Ms. Debra Marshall: Policies?

Ms. Cindy Forster: —policy, the superior shelving of wines in the LCBO, and perhaps some of the subsidies that the wine industry receives that the distillery industry doesn't receive.

Ms. Debra Marshall: First of all, I don't believe there are subsidies. We did have the government rearrange the taxation, so it's coming out of the wine industry and going back into a different part of the wine industry. I'm looking for those pockets that have all this money for marketing; I don't have any pockets.

You've put me in a very difficult position, but I disagree. The marketplace is looking to wines, and if another product isn't selling as well because it's a different type of product, it's the consumer who decides that.

As the gentleman had said—I believe his company is owned by Vincor, which is owned by Constellation, which sells a huge amount of the product that is in the LCBO. So even though there's competition between different segments of that company, the wine industry in Ontario is competing against all of them.

And I agree that—I think it should apply to spirits, cider, beer.

The LCBO should be promoting our homegrown products, and I don't think that that is a disadvantage because, as I said before, the economic impact of selling our homegrown products is far greater and returns more to the government than foreign products.

Ms. Cindy Forster: Thank you. That has helped.

The Vice-Chair (Mr. Phil McNeely): Your time is almost up. You have time for one more question. Thank you.

We'll go to the government side and Ms. Jaczek.

Ms. Helena Jaczek: We had a very interesting presentation this morning from Ms. Sullivan from the Prince Edward County Winegrowers Association, and I think you were here for that.

Ms. Debra Marshall: Yes, I was.

Ms. Helena Jaczek: She made a couple of suggestions beyond the LCBO itself, and one was to have a centrally located Prince Edward county wine store that could support local businesses. In other words, there are visitors coming to Prince Edward county, and they may visit some wineries, but to have a central location retail operation would be helpful. She made the comment that with the wine-tasting festivals that occur each year, the people who attend ask, "Why can't I buy wine right here?" How do you feel about that suggestion?

Ms. Debra Marshall: I'm from Prince Edward county. I was one of the founding members of the Prince Edward County Winegrowers Association, and I support them, but I try to look at a broader Ontario aspect.

I think they're both great ideas. The LCBO would have to determine how they were going to handle that. I couldn't give you that input. I think you would also have to look to every region that has a festival: southwestern Ontario, Niagara, anywhere there's a DVA. And what about the people who aren't in a DVA who have wineries? How do you treat them fairly? What about people in Gananoque or Navan or around the Ottawa area?

There had been talk of having Ontario wines in the ByWard Market when they were talking about farmers' markets. Well, what about those, again, like Mr. Karlo's, who has a stellar product but it's not VQA-able? He couldn't get into those entities unless you're VQA.

The problems that the small wineries face are even more compounded. If you want to be VQA-able, you have to grow the right grape, and that's fine; a lot of them do. But then it's $1,000 a year, plus there's a levy. If you want to take advantage of the $3 million a year that the government provides the wine council for the promotion of the Ontario wine industry, then you're going to pay about $5,000 to be a member of the wine council and to get on their map. All of a sudden, there's a $6,000-plus bill for a small winery that may only be producing 500 cases of really world-class wine. Again, the pockets are not that deep.

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There are strategies that maybe could be run out as pilot projects, but it should apply to Ontario beer and Ontario cider, not just wine. I think that's important.

Ms. Helena Jaczek: Thank you.

The Vice-Chair (Mr. Phil McNeely): Mrs. Cansfield.

Mrs. Donna H. Cansfield: Thank you for your presentation. It was really interesting. It's always interesting to hear the difference from the grape growers' perspective as opposed to the vineyards, and then there are vineyards who are also grape growers. You're right: It can be complex.

I understand and support the need to grow new businesses—I think that's really important—and to provide the support mechanisms, whatever they might be. There is a point, however, where you have to say that it's time to go out on your own. There may be mechanisms to bring back, like an umbilical cord kind of thing, if there are some challenges.

The wine industry has grown from, what, 19 to 207 wineries now in Ontario? So obviously it has been a great success. I'm not sure how many grape growers. It's interesting, because I also think of you as grape farmers, actually.

Ms. Debra Marshall: There are about 500.

Mrs. Donna H. Cansfield: There are about 500, so that too has obviously grown.

My question to you is: You are advocating a 50%-for-Ontario market. I'm not sure what the NAFTA rules would require in terms of that domestic content issue. I didn't know if you knew.

Ms. Debra Marshall: They would have no say in it. It doesn't impact.

Mrs. Donna H. Cansfield: Except, from what I understand, they watch our wine industry very closely.

You said earlier, and I wrote it down, that the marketplace is looking to wine, but wine is typically based on quality and price point. So even if you have really good quality and it's not an affordable bottle of wine, people are not going to be able to purchase it. Some people will be able to.

Ms. Debra Marshall: I agree—

Mrs. Donna H. Cansfield: So my question to you is, how do you reconcile that part of it in terms of being able to get 50% of the market share? Are you talking about 50% of the grape growers or 50% overall of the wine production?

Ms. Debra Marshall: Of the wine that is sold in Ontario, 50% should contain Ontario product.

Mrs. Donna H. Cansfield: If that's the case, do you not think you'd get to your 50% market through the number of grapes used in the bottling of that wine as opposed to—

Ms. Debra Marshall: No, we haven't.

Mrs. Donna H. Cansfield: No—do you not think that would be the ideal route, as opposed to just the bottles on the shelf?

Ms. Debra Marshall: If we could get 50%, 60% in the bottle, yes, we could get to that point. But then, the problem occurs in the processors' side—the bottom line.

Mrs. Donna H. Cansfield: That would be another—

Ms. Debra Marshall: That's another area I'm not qualified to speak to.

Mrs. Donna H. Cansfield: And then I was just curious: Why do you have to pay—so if we give the wine council $3 million to promote Ontario wine, what's the up-front membership fee for?

Ms. Debra Marshall: To be a member.

Mrs. Donna H. Cansfield: I'm sorry? Just to be a member, and it's that expensive to be a member of the wine council?

Ms. Debra Marshall: If you want to be a member and be on the map in their booklet.

Mrs. Donna H. Cansfield: Okay, so it's also promotion in a booklet; it's—

Ms. Debra Marshall: Promotion in the booklet is $5,000, but Ontario gives $3 million to the wine council to promote Ontario wineries. But unless you're a member, you're not promoted.

Mrs. Donna H. Cansfield: And you have to pay $5,000 to be a member?

Ms. Debra Marshall: Yes.

Mrs. Donna H. Cansfield: I'm having trouble with that one.

Ms. Debra Marshall: Okay. Well, Rosehall Run is a member. For instance, I'm John Smith Winery and I'm not a member. I don't get in the provincial book. I don't get in the wine council book that says "the wineries of Ontario" because I'm not a member. So then I have to go and promote myself or try to get some leverage to say, "I'm there."

The advantage that the government money does do is that the wine council promotes Ontario VQA wine. It promotes Ontario in general as a wine destination, as a wine-growing region, so there is a broad promotion. But as a winery, I have to be a member to be specifically listed or gain the advantage of that map.

Mrs. Donna H. Cansfield: Do you think that we can produce enough wine at a price point that you could end up with 50% of the market?

Ms. Debra Marshall: I do.

Mrs. Donna H. Cansfield: You do? Okay, thank you very much.

The Chair (Mr. Phil McNeely): Another minute. Would Mr. Leal like to ask any questions?

Mr. Jeff Leal: No.

The Chair (Mr. Phil McNeely): Thank you very much. We'll now go to the official opposition and Mr. McDonell.

Mr. Jim McDonell: Thank you for coming out today. There's no question we'd like to see us get up to the 50% level, and it seems—of course, we're driven by consumers' desire for product. Do you see any changes within the LCBO, their promotion, that would help you get there, or is this just—you know, is 25% high enough, or if by driving that up, would that make our wines less desirable? I'm just kind of grappling here with some ideas that may do something here.

Ms. Debra Marshall: Speaking of VQA, VQA sets quality standards. Some are sugar—Brix levels. The 100% price that we calculate payment for grapes is higher than the VQA requirement. So growers are already growing their grapes surpassing the requirement of VQA. So our grapes are high quality now, okay? High-quality grapes make great-quality wine. We're already there as far as the growing aspect, so I don't see that there would be a problem in increasing that percentage in the bottle—affecting the quality of the wine.

Mr. Jim McDonell: Just as a follow-up, I'm assuming they're set at that level because, you know, the recipe that's involved in wine growing, there must be something that particular wines that people of Ontario like or have certain vintages—if the grapes are equivalent, to me, there'd be nothing that would stop the wineries from—

Ms. Debra Marshall: Well, no, the 40/25 is in regard to blended wines. For instance, if you have a hot country, you're going to get higher Brix and then you can blend your wines to bring it down to the level that you want to sell them at. Plus, you can buy grapes or buy wine, bring it in and blend it. The bottom line is the issue there for a corporation.

Mr. Jim McDonell: Okay.

The Chair (Mr. Phil McNeely): Ms. Thompson.

Ms. Lisa M. Thompson: Thank you very much for being here. I appreciate the fact that as a grape grower, as a farmer, you're developing a great product, hence the quality of the output into the wine has improved dramatically as well. I'm just wondering: In your opinion, do you feel the provincial wine industry has evolved along with the grape growers, or are they behind? Do you dare answer that?

Ms. Debra Marshall: You know what? I'm one of those people—I believe that everybody has progressed, okay? Everybody has different mandates. I think collaboration is essential to get us to where we need to be, but I'm a firm believer that our senior partner—sometimes, you know, if there's a will, it's done. If there's the passion and the desire, it's done. But sometimes you may need a little nudge from above to get things moving, and I think perhaps maybe that's where our provincial government could lend a hand in moving forward. If we have direction on on saying, "You know what? We have to grow that. We have to make sure that this gets done because it's of economic value to the province," then I believe, if there are clear directives and there's a method of tracking and a method of metrics, this will all get done.

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Ms. Lisa M. Thompson: So just to be clear, the senior partner you see as being the province?

Ms. Debra Marshall: Oh, certainly.

Ms. Lisa M. Thompson: And in essence you answered another question—I was going to ask you about the relationship between the grape growers, the wine council, etc. But you answered that the province needs to lead the way—

Ms. Debra Marshall: You know, we all work together. We all have different viewpoints. Let's face it: Processors are looking for their bottom-line value. Growers are trying to stay alive. Their expenses increase and their prices—what they get—generally don't. They're struggling, but in the interim they are doing all the extra work to get that quality up. So they've progressed a substantial amount.

Ms. Lisa M. Thompson: Thank you very much for that.

One more quick question and then I'll share the mike with my colleagues. You mentioned that the varietals are determined by VQA, which is essentially legislated. Do you feel it is time to revisit the varietals that are allowed?

Ms. Debra Marshall: I was just talking to my colleague during lunch, and I made a few phone calls during lunch to find out what the process is. If a winery has a stellar product and they would like to have that varietal reviewed, they should contact the VQA; they should write to them making a formal request. The VQA will then respond. If that varietal doesn't have a market, then in likelihood it's not going to be approved.

This Frontenac that this is made from is relatively new. It is grown in the outlying areas where it's colder because it overwinters well. In the beginning, it was a challenging wine to make because it was new, but since it's been planted, people have done some very wonderful work with it. They've taken the time; they figured out how to deal with the high acids. They have been innovative. That's one of the things that we were challenged about, not being innovative; well, our winemakers have been innovative and have produced very good products from this.

Is there a market for it? Yes. What will have to happen is that the VQA will go to the Grape Growers of Ontario and say, "How many acres are planted? How many tonnes are sold of this grape?" and use that data, give that to the VQA, and then the board will look at it and decide yes or no.

Geisenheim is another varietal that people have been asking to be VQA-able for years. VQA likes to ensure that the quality would be accepted by other countries as an export. How they do that, I don't know. But would it be time to maybe review it? It probably would be a good idea.

The Vice-Chair (Mr. Phil McNeely): Mr. Smith. You have two minutes.

Mr. Todd Smith: I have two minutes. Thank you very much.

The feeling in Prince Edward county, an emerging wine area, as you know, is that there's a lot of frustration with what a lot of them are calling an archaic system here that doesn't give them any, or very little, market access. I'm sorry I didn't catch your whole presentation, and maybe you did address this when you started off, but do you have a sense of that frustration, particularly from Prince Edward county, which is only 10 or 12 or so years old? And what would it take, in your mind, to give them greater access to the market? A lot of them are stuck selling their products just out of their wineries or possibly over the Internet, but they are very limited in their exposure to the market. Do you get that sense of frustration?

Ms. Debra Marshall: Oh, for sure. Every small winery in Ontario has the very same frustration. It's not unique to our area. A person in Mallorytown or in Navan or in Georgetown or Georgian Bay will have the same problem, but we are a DVA, so there's a group of us being all frustrated together.

But, yes, there is, and if there's a directive to put more Ontario wine on the shelf, to increase the market share for Ontario, then that should take care of moving that forward.

Mr. Todd Smith: Do you have confidence in the VQA system, that it's doing the job that perhaps it's intended to do?

Ms. Debra Marshall: I'm not an expert in that field. I think that it's always healthy to review legislation, to review regulations, to see if it has kept up to date with the market and to see if—I believe their challenge is that they have to meet NAFTA, they have to be careful that they don't impede what they've accomplished internationally by lowering standards, as with any organization, like the GGO. We reviewed our infrastructure, we reviewed our models, and we looked at how we could be more effective and how we could deliver to our members and to the industry better. Maybe a review is healthy for any organization.

Mr. Todd Smith: There are award-winning wines coming out of Prince Edward county, and I'm sure there are right across the province that are winning international awards. They can't meet the standards set by the VQA, but their wines are being sought after around the world and across the country.

Ms. Debra Marshall: Some of them can meet the standards but choose not to pay the fees. Others don't have the varietal that's acceptable. So, yes, I think the varietal should be reviewed on a regular basis.

The Vice-Chair (Mr. Phil McNeely): Time is up. Thank you very much for your presentation, Ms. Marshall.

COUNTY CIDER CO.

The Vice-Chair (Mr. Phil McNeely): The next group is County Cider Co. Grant Hawes, if you would come forward, please.

Mr. Grant Howes: It's Howes, H-O-W-E-S.

The Vice-Chair (Mr. Phil McNeely): Howes. I'm sorry about that. It's my writing; the information was given to me properly.

We'll go to the government side, I believe, for this. Who wishes to—you will have your presentation for 10 minutes.

Mr. Grant Howes: Do I have it now?

The Vice-Chair (Mr. Phil McNeely): Yes, and state your name for Hansard.

Mr. Grant Howes: Yes. My name is Grant Howes. I'm the owner of the County Cider Co.and Howes Orchards down in Waupoos in Prince Edward county.

First, I'd like to thank everyone for having me here. I got invited here. I was literally on my tractor this morning, and it has taken me an hour and a half to get here, so I don't have a formal presentation. But what I'd like to do is make you feel good about cider and the LCBO.

By way of background, we were licensed as a winery 15 years ago. At that time, we had a gross income of about $60,000 from selling apples. We were licensed as a winery before there was a VQA, before there was a wine council. Since that time, since 1995, when we produced 600 litres of cider, we now produce over 300,000 litres of cider from our facility. If you use the KPMG report, that's value added to the Ontario province of over $12 million, and that's from a farm that was maybe producing $60,000 back in 1995. It has allowed me to buy out my parents, who have a very good living now as retired farmers. We have over 15 employees. Two of my cider makers are graduates of Loyalist College and make very good livings. They go to England to take cider-making courses and to Cornell University to speak on cider making, so we have done very well up to date. Quite frankly, we couldn't have done it without the help of the LCBO. When I say "the LCBO," I'm talking about the staff, the category managers and that sort of thing.

We compete against very large companies. For example, Strongbow, which is owned by Heineken, purchases over 44% of the English apple crop every year. That has turned into 453 million litres of cider a year. We initially were told that we had to at least sell as much as they did through the LCBO, or they were going to take us off the shelf. That was back in 1996.

I should mention that early on, we recognized—because of where we are; like I said, it took me an hour and a half to drive here, and that's on country roads—that we needed distribution, and the LCBO was the only game in town. We do have a wine store, but that's a very,

very limited holidays-and-the-summer kind of thing, so we really rely on the LCBO to distribute our product.

Very early on, when they found out we were a small producer, we've been helped by the employees of the LCBO. I have nothing but the highest regard for them. I think we're very lucky to have these people working on our behalf. They're some of the most talented marketers and retailers anywhere in the world.

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Having said that, where do we go from here? We are licensed as a winery. Three years ago, I tried to join the wine council. I was told that they were told to keep away from the cider industry with a 10-foot pole.

I'd love to have my apples VQA'd. I'd pay the fees gladly. Right now, I pay 67 cents on the dollar in markups. I am deemed a foreign producer in my own province, and when I export—and when I say "export," that's taking my product from Prince Edward county to the rest of Ontario—that 67-cent tariff is there. I've had the Conservatives tell me it's terrible when they were in power, I've had the Liberals tell me it's terrible when they were in power, and it always comes back that there's nothing they can do about it.

Mrs. Donna H. Cansfield: Why?

Mr. Grant Howes: Why, I don't know. Maybe Mr. Ford can answer that. He's in the room. He has been very helpful over the years.

One of the biggest problems we have now—and you can check this with the LCBO. The fastest-growing category at the liquor board is cider—60% growth in one year. They're very proud to say that a lot of that is domestic. Very little of it, except for me, is Ontario cider. We work very, very hard to put our product on the shelves. In fact, two years ago, we were picked as the best cider in North America at a show in Michigan. This past year, we were picked in London, England as one of the top 10 ciders in the world.

We distribute our product in over 150 licensed establishments as a keg product. I should mention that a keg of cider, that stainless steel container, will last 30 years. It doesn't end up in a landfill. We use the standard beer bottle. It's not only recycled; it's used eight times in the beer industry. Furthermore, we've reduced the use of pesticides. Because of the apples we're growing now for cider, we've reduced pesticide use by over 80% in our orchards. We are the sustainable model for wineries in the world, in Ontario. The sky's the limit.

We now have seven other Ontario cideries. I hope they survive. I don't know if they will or not because of the high tariffs we face, getting our products to market. As I always tell people, we're always at eye level on the shelves of the LCBO, if you're lying on the floor. We don't have the same programs that the VQA wineries do. The wine council doesn't like us; the craft beer companies won't return our calls.

Our distribution—how can I explain this? Like I mentioned earlier, we are in 150 licensed establishments in Ontario. We could be in over 500. We could kick out every foreign cider that's on tap in every pub in Ontario, but it is controlled by three import beer companies that we can only use to distribute our product. The one that actually returned our calls and is distributing my cider charges $30 a keg to distribute that cider. That's after I pay the liquor board 67 cents on the dollar.

Most of the cideries don't want any money; we don't want any programs. We just want to be treated as a winery or a craft brewery and get rid of these tariffs. Make them level with other wineries. Let us distribute our product utilizing domestic craft beer companies as opposed to having to utilize foreign beer importers. To give you an example, Premium, owned by Moosehead: I've been trying to get a meeting with them for over six months to have them distribute my product. They never returned the phone calls. Diageo, the other company, referred me to their office in New Jersey. Then last week, I found out that Premium is bringing a foreign pear cider into this province. Why aren't they talking to us? They don't have to talk to us because they have a closed market. Get rid of that market, get rid of the tariffs on cider and, for that matter, on non-VQA wines and just see how we go.

I don't want to pontificate here, but we could be world producers and global manufacturers of cider in this province. We have the weather; we have the apple varieties. We can grow the apple varieties from the UK that can no longer grow there because of global warming. We're making the best cider in the world, and we just need a break. We really do. We don't want our own—well, maybe our own shelves at the LCBO would help, but some help from the LCBO, some minor changes in policy, and you're going to have industries in rural Ontario such as mine where I'm employing 15 to 20 people right now, value-added jobs and a real future in the industry. So there you have it. How's that for off the top of my head?

The Vice-Chair (Mr. Phil McNeely): Well, Mr. Howes, you didn't need that much preparation. That was well done. We'll go to the government and Ms. Cansfield.

Mrs. Donna H. Cansfield: Thank you very much. I was interested—was it the wine council who is not interested in you, or are they—

Mr. Grant Howes: Definitely not interested. The wine council is now only interested in VQA wines.

Mrs. Donna H. Cansfield: So they're the ones who actually—I was just curious who it was. So if there's yourself and seven others, have you considered getting together and forming your own association?

Mr. Grant Howes: Yes. In fact, over the last 15 years—and maybe it's my own stubbornness—there have been a lot of cideries that have come and gone. There are now about seven others. We formed our organization, the Ontario Craft Cider Association, that was mandated and was incorporated, so we're all set to go. The unfortunate part—and this is something all of you are going to have to address—is the devastation in the apple industry this year. It's getting worse and worse and worse, and I don't know where it's going to end.

Mrs. Donna H. Cansfield: Do you fall under risk management then, as an apple crop?

Mr. Grant Howes: Risk management, yes, but because I'm doing it as a value-added product and there's no infrastructure and no real understanding of hard cider at the apple commission level, I don't use risk management. I charge myself 13 cents a pound for fruit, okay, and take it down—so for me, being part of the risk management program doesn't pay.

Mrs. Donna H. Cansfield: So it sounds like you're a little bit of an anomaly. You don't fit in that box and you don't fit in that box and you don't fit in that box, so you have to sort of make it—

Mr. Grant Howes: But if I was in England, I'd fit in not only all the boxes—and I should mention that in England, cider sales surpass lager sales, so that would be like a rural industry here surpassing the sales of Molson Canadian and Labatt in the liquor board and in pubs. Wouldn't that be great for rural Ontario? I love beer as much as the next guy, but let's face it: It's made with foreign products. The only real product that's in there from Ontario is water.

Mrs. Donna H. Cansfield: So you have a 60% growth rate, though, and as a—

Mr. Grant Howes: Well, no. The cider industry, cider sales through the liquor board have a 60%—

Mrs. Donna H. Cansfield: Right; that's fine. It's a 60% growth in terms of your sales. As a business person, I would find that very attractive, to be honest with you, and so I'm surprised that you're not having more serious conversations with the LCBO to get off the floor and on a shelf that's a little higher. That's one, because obviously, their bottom line is, the more sales, the more money we get, so I think you've got a really good business case to put in front.

In terms of the anomalies, I'm not sure that I totally understand the issue around the fact that you're treated as a foreign company and you pay all these fees, but I do understand that you somehow fall under the beer distributors for your distribution.

Mr. Grant Howes: Foreign beer distributors. There are three companies that are licensed to distribute foreign beer and cider.

Mrs. Donna H. Cansfield: So that's where it falls under.

Mr. Grant Howes: To give you an example, I distribute my own cider. I have my own truck, and my driver spends—well, today he's in Ottawa. It takes him three hours to get there, two hours to deliver and three hours back. So his total day is roughly eight hours. Tomorrow, he'll be going to Toronto. It will be eight hours of driving to deliver two hours' worth of product.

Mrs. Donna H. Cansfield: So do you have to use them, or can you use another logistics?

Mr. Grant Howes: No, we have to use them.

Mrs. Donna H. Cansfield: You have to use them because you're considered a foreign import?

Mr. Grant Howes: Yes, we're deemed a foreign import. Quite frankly—

Mr. Jeff Leal: That's crazy.

Mr. Grant Howes: Well, it does sound crazy, but in the cider industry—and this goes back to the wine industry—the good stuff was always imported stuff, so the rules were set in place to make it an efficient system. And getting back to the 60% growth rate in the LCBO, for example, my competition yesterday announced a $12-billion takeover of the rest of Corona in Mexico. This is a company that, if you look on their website, doesn't even include Labatt as an asset. InBev—that's my competition, and you know something? I'm beating them in taste, in flavour. You know, if we just had some more recognition that Ontario produces a great cider, which is legislated as a wine but marketed as a beer, the sky's the limit.

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Mrs. Donna H. Cansfield: Actually, it doesn't make any sense, so what I'm going to suggest—obviously, I think there will be some conversations here, but I think you should be having some other conversations beyond what this committee might consider. I'm going to suggest to you that you give me your contact information, or we could connect, and we could find some way to get you in, because small and medium enterprise is exactly what we want to do to grow Ontario and make it strong. You've fallen in a funny little crack somewhere that needs to—

Mr. Grant Howes: That's right.

Mrs. Donna H. Cansfield: We need to help you get out of the crack. I'm prepared to work with you on that, so let's get together with you and see what we can do to be of some help.

Mr. Grant Howes: That would be fantastic. It's not only me. Like I mentioned earlier, 44% of all the apples in the UK go into cider. Could you imagine increasing our apple production in areas where we need it, like in eastern Ontario, the traditional areas like the Ottawa Valley, where they need jobs, where they need value-added production?

Mrs. Donna H. Cansfield: Absolutely.

Mr. Grant Howes: We could do that easily in five years, with the right apple.

Mrs. Donna H. Cansfield: I want to say thank you very much for your presentation. What a way to end an afternoon. It was incredible. As I said, I'm prepared to work with you.

Mr. Grant Howes: It would be better if they sold my cider here. I'd buy you all a drink.

Mrs. Donna H. Cansfield: I was going to say, I need to go and find your cider now and have a taste. What's your brand name?

Mr. Grant Howes: It's Waupoos cider—Waupoos Premium Cider, and the County Cider.

Mrs. Donna H. Cansfield: All right. Thank you very much.

Mr. Grant Howes: Thank you.

Mr. Todd Smith: It's very good.

The Vice-Chair (Mr. Phil McNeely): The government has three more minutes. Do you wish to use that time? Mr. Leal.

Mr. Jeff Leal: Because of the warm weather at March break and the premature blossoms of the apple orchard and other tender fruit, what's going to be the survivability of the crop this year?

Mr. Grant Howes: It's going to be very challenging.

Mr. Jeff Leal: Fifty per cent, 25%?

Mr. Grant Howes: I think it's going to be less than 15% in Ontario.

Mr. Jeff Leal: Less than 15%?

Mr. Grant Howes: Fifteen, yes.

Mr. Jeff Leal: Outside of the LCBO in Peterborough, can I find it anywhere else in Peterborough? It's not going to be at Home Hardware, where I like to go—

Mr. Grant Howes: Once again, we're limited in our distribution because of who we can get to distribute our kegs. We'd love to be in Peterborough. We tried to get in Barrie, but it's just too hard. Like I said earlier, our driver is six hours driving, two hours delivering.

Mr. Jeff Leal: Do you have a business card I could have?

Mrs. Donna H. Cansfield: Yes.

Mr. Grant Howes: I will get them, for sure.

Mr. Jeff Leal: Okay. I'll give you mine. I'll see if I can find you a distributor.

Mr. Grant Howes: Well, there's three I can pick from.

Mr. Jeff Leal: Here.

Mr. Grant Howes: Okay.

Mr. Jeff Leal: Other than Home Hardware, I may be able to find something.

The Vice-Chair (Mr. Phil McNeely): Is this all legal?

Interjection: Sure. Why not?

Mr. Jeff Leal: Always trying to drum up some business.

The Vice-Chair (Mr. Phil McNeely): You still have the—

Mr. Jeff Leal: I'm fine, Mr. Chair.

The Vice-Chair (Mr. Phil McNeely): Okay. We will go now to the official opposition and Mr. McDonell.

Mr. Jim McDonell: I can see now some of the value of moving these committees around and this area being chosen by us.

Now, where should you be? Obviously, the three international distillers, or breweries, are not the place to be. Should you look towards the beer industry distribution, the Brewers Retail?

Mr. Grant Howes: With the Brewers Retail, once again, you have to pay to play there. I think if we could form a strategic alliance, for example, with a small craft brewery or a number of small craft breweries that go into areas that we economically can't go into, that would be terrific.

We've been approached—we're paying one company, Premier, which is a very good company, $30 to deliver our kegs, small kegs. We have small craft brewers that would do it for $10 a keg. So there's definitely synergism in working together as an industry.

Like I said earlier, we're in 150 bars and restaurants right now—the better bars and restaurants in Ontario, by the way—but we could be in 500. We should not only replace all the foreign junk that's coming in, but we should be exporting too. We were down in Vermont last year and we were picked as the top cider there in a taste panel. So the sky is the limit for Ontario cider. Sometimes I get very frustrated with bureaucrats because they don't get it. Maybe I'm the only person in the world who does get it.

Mrs. Donna H. Cansfield: No, we get it.

Mr. Jim McDonell: I'm just trying to figure out the justification for the tariff on this.

Mr. Grant Howes: While I call it a tariff, it's not; it's a markup. It's the same markup that other foreign ciders have, other foreign wines have. It's a markup that's a lot more than VQA wines or craft beers have to pay.

Mr. Jim McDonell: So it's obviously something that needs to be looked into.

Mr. Grant Howes: Just a level playing field would be terrific. Not only that—I mean, I get the fact that the LCBO has to make money. They're making money taking 67 cents on the dollar from me for the X amount I'm selling them. But if I can lower my price to compete with the other cideries that produce 453 million litres a year, rather than X amount, they'd be getting four, five, six X's from me. What they'd lose in that per item sale, they'd make up in volume, for sure.

The Vice-Chair (Mr. Phil McNeely): Ms. Thompson.

Ms. Lisa M. Thompson: Just so you know, I'm from Huron–Bruce and my husband's family boasts of a proud German heritage and our fruit cellar had to have room for a barrel.

That said, I'm just wondering: Where do the apple growers fit in here in terms of support? We can hear your frustration. Where do you fit? How are the apple growers addressing this?

Mr. Grant Howes: The apple growers are definitely behind us. They're slowly coming around to the fact that they're seeing this as an industry and as a potential value-added product for their apples.

Ms. Lisa M. Thompson: Okay, that's what I wondered.

Mr. Grant Howes: Not only that, but what's really great is that heirloom varietal apples, such as Northern Spy, such as McIntosh—all the apples that grow really through all the apple areas of Ontario—make world-class ciders, and they get that. Plus, they don't have to be sprayed as much because it's a temperate fruit; it's made to withstand the humidity. We don't have the problems with powdery mildew. We don't have to spray every six days.

Ms. Lisa M. Thompson: Very good. So there is potential there in terms of synergy.

Mr. Grant Howes: Huge potential, yes.

Ms. Lisa M. Thompson: Okay. Very good.

I'm just wondering if you have any other ideas. You mentioned, earlier on in your presentation: Where do we go from here? Is it finding that support network? Is it—

Mr. Grant Howes: I think it has to come from the small group of Ontario cider producers. We do have an association now; we just got incorporated this year. We've had our inaugural meeting, and we're probably going to have another meeting fairly soon to see where we want to go. Of course, we'll definitely be in touch through OMAFRA and that sort of thing.

We don't really require a lot of money; we just require a level playing field with the other producers of alcohol in the province.

Ms. Lisa M. Thompson: Thank you so much. I appreciate your passion.

The Vice-Chair (Mr. Phil McNeely): Mr. Smith.

Mr. Todd Smith: Grant, I didn't know you were coming today. Good to see you.

Mr. Grant Howes: Neither did I.

Mr. Todd Smith: And you do have a fantastic product; there's no question about that—world-class.

The transportation issue, though, is a bit symptomatic of a larger issue when it comes to the craft brewery association as well. Have you talked to the craft brewers? They face similar hurdles when they're trying to get their product onto the market as well.

Mr. Grant Howes: I think distribution is definitely a problem. If you can locate your production, though, in a market such as Toronto, where you've got five million people within an hour's driving distance, you don't have the same problem that, let's say, Beau's up in Ottawa does to hit that Toronto market. I guess it's just easing up on the restrictions to that distribution and, like I said earlier, forming strategic alliances with people you know and trust.

Mr. Todd Smith: I sit on another committee as well, so I'm just a guest, a cameo appearance, here today. We studied gridlock and the fact that, as you say, it costs a person a whole day just to take your product to Ottawa and get it around, and it would probably take several days to make your way through the GTA to get your product to its destinations and where it needs to go. Have you talked about hubs or distribution hubs? Is that a possibility, so that the independent breweries and the craft brewers and ciders work together?

Mr. Grant Howes: Yes, I think a hub would be wonderful. But then again, we have these hubs in place already: They're called urban brewers. I'm familiar with Great Lakes Brewery on the Queensway. They do some bottling for us and they have a lot of excess capacity to inventory not only our kegs but other kegs, and they are doing it. The breweries—and I don't know if it's legal or not—are delivering other product for each other and they are working together. Let's face it: It's Molson and Labatt that are the bad guys here.

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Mr. Todd Smith: Yes. So how many people are working in the cider industry in Ontario?

Mr. Grant Howes: Right now—I mean, cideries come and go, but I know of at least seven other ones that have started up and are not as advanced as I am, but they are seeing the problems that I have faced for the last 15 years. We definitely want to address those, because to grow the industry where we see it growing, we don't need much. We really don't.

Mr. Todd Smith: Thanks, Grant.

The Vice-Chair (Mr. Phil McNeely): Ms. Thompson, do you have a question?

Ms. Lisa M. Thompson: Yes, just one follow-up: You mentioned Beau's; that's from Vankleek Hill?

Mr. Grant Howes: Yes.

Ms. Lisa M. Thompson: I've tasted that once or twice before. So you have a relationship there whereby, if you were allowed, you could partner with them, per se?

Mr. Grant Howes: I guess my relationship with them is that I really like their beer and they like our cider. A better example for us would be Barley Days Brewery, which is in Prince Edward county. I'm delivering to Toronto and they're delivering to Toronto, and we can't share costs. We can't reduce our carbon footprint.

Mrs. Donna H. Cansfield: It's ridiculous.

Ms. Lisa M. Thompson: Isn't that ridiculous?

Mr. Grant Howes: Yes.

Ms. Lisa M. Thompson: Okay. Thank you.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. Thank you to Mr. Howes for that excellent presentation.

Mr. Grant Howes: Thank you so much for your time—

Interjection.

The Vice-Chair (Mr. Phil McNeely): I'm sorry. I'm trying to get back to Ottawa, I guess. Sorry about that. Miss Taylor.

Miss Monique Taylor: I don't have many questions. Thank you very much for being here, especially at the last minute, and for bringing your energy to this table. It's definitely something where we all see that there's an obvious problem. I'm still trying to wrap my head around it. So the biggest issues are with you being able to get out to the distribution, right?

Mr. Grant Howes: Well, there are two issues. There's the markup the LCBO takes—

Miss Monique Taylor: Which is 67%?

Mr. Grant Howes: Roughly 67%, versus whatever the VQA markup is and whatever the craft brewery markup is. My contention is that if we could have that same markup, it'd be fantastic, because we'd reinvest it in greater production, greater marketing and more sales through the LCBO and more money for the LCBO.

Miss Monique Taylor: And how many areas are you actually distributing to?

Mr. Grant Howes: Well, we're in Ottawa; Prince Edward county, of course; Toronto all the way to Mississauga; and all the way to Kitchener and Hamilton.

Miss Monique Taylor: Hamilton? Good. I'll have to look for you on my shelves.

Mr. Grant Howes: Yes, through the LCBO, and then we're, like I said, in about 150 bars and restaurants through our licensees.

Miss Monique Taylor: Okay. Do you find that a good channel for you to be going to is direct to the licensee? Is that your best channel?

Mr. Grant Howes: No, our best channel is probably our tasting room in the summertime. But to have a business that's a year-round employer, we need to get over these tariffs, right? So if we get a reduction at the LCBO—just a level playing field at the LCBO and a better way of distributing our product to licensees, without being deemed a foreign product, that would be great.

Miss Monique Taylor: Right. And you were saying that you're figuring that only 15% of your crop is actually, probably, going to survive this year?

Mr. Grant Howes: Well, I am very, very lucky in that my farm is right by the lake, so my farm was moderated. Plus, I grow a lot of the older varieties and cider varieties that I've propagated over the last 15 years. These are rare varieties from England and from France. A lot didn't survive in the early days, so the ones that did are winter-hardy and don't come out of dormancy like the newer varieties, such as Gala and all these other ones. So I'm very lucky in that I have an average crop this year. But the apple industry is devastated. There's going to be people declaring bankruptcy this year. It makes me sad.

Miss Monique Taylor: That's very sad. We all love Mother Nature so much until she turns on us. It's kind of scary.

Do you have any questions?

Ms. Cindy Forster: I don't have any specific questions, but if you want to use the rest of our time to continue telling us about your industry, you're welcome to it.

Mr. Grant Howes: It's okay.

Miss Monique Taylor: Thank you very much again.

Mr. Grant Howes: I just, once again, would like to thank Lynn at PECWA. I should mention PECWA. I was one of the founding members of PECWA, along with Debra Marshall. We all have worked so closely and so hard together to build an industry where we're one of the bigger employers now in Prince Edward county. We have tourism there that we never used to have before. Our relationship with the wine council and with the VQA—although sometimes it's a bit tepid, we all do get along and know that we're all in it for the long run. And farming is for the long run. I'm talking about not only my son taking over, but his kids and that sort of thing. These are not short-term things.

Ms. Cindy Forster: Thank you very much.

The Vice-Chair (Mr. Phil McNeely): Thank you again, Mr. Howes.

This concludes the stakeholder portion of this review.

LIQUOR CONTROL BOARD OF ONTARIO

The Vice-Chair (Mr. Phil McNeely): We'll now invite the LCBO to present. Mr. Olsson, Mr. Peter, please come forward. Again, like Monday, you will have 30 minutes for your presentation, following which each caucus will have 30 minutes for questions divided into rounds of 10 minutes. Questioning will begin with the official opposition.

Mr. Philip J. Olsson: As Debra said earlier, Mr. Chair, my job has been compared to that of the Leafs general manager occasionally. I just want to tell this panel that I've authorized my agent to see if we can do some kind of trade during the upcoming open period. Certainly, as you can see from a lot of presentations, we have a very good defensive bench, and I think we could be of great assistance to the Leafs.

One of my jobs as chair—because I don't work for the LCBO; I'm appointed by the government and report to the minister—is to always ensure that we don't presume on monopolistic practices when they're not in the best interests of the people or the government, and for that reason, meetings such as this are very helpful. I must say, having been involved with the LCBO since 2004, it continually amazes me how many entitlements, inefficiencies and things we dig up and try to deal with.

I would like to mention that the problem with the oligopoly on barrel delivery is something that the board identified last year, and when the current contracts expire, we've asked Mr. Ford to come up with a policy where we can move away from having three historical delivery services, some of which I think we can see are conflicted, to a system where we can do that by open tender, the way we tender for practically everything else. It just encouraged my resolve in that area.

Over the past two days, we've heard from a majority of the stakeholders that the current alcohol retail system works. It gives manufacturers a modern, attractive retail forum in which to sell their products, it maintains social responsibility in the sale of beverage alcohol, reducing social harms that are associated with alcohol consumption, and it generates valuable non-tax revenue for the province.

Because so much of the discussion over the past two days has centred on Ontario's wine industry, my remarks will focus mainly on that sector. However, I'm sure I do not need to remind the committee that promoting a local wine industry is not our only obligation to taxpayers and consumers throughout the province—in wine-growing regions and in other parts of the province.

Only one presenter, the Wine Council of Ontario, yesterday proposed a fundamental change to the current marketplace. While other stakeholders expressed concerns about the possibility of increasing private channels, the wine council proposed a network of private wine stores. I believe that private wine stores would reduce government revenues from alcohol sales. I do not think they are the answer to increasing the amount of Ontario wines sold. Careful analysis of the business plan, I think, will demonstrate this.

I want to reiterate that growing Ontario wine sales is a key strategic objective for the LCBO, and it's a goal that we take very seriously. The government's priority for Ontario wine is increasing sales of VQA wine, and that is what the LCBO has done. Sales of VQA wine through our stores have more than doubled since 2006-07. So far this year, sales of VQA table wines are up 18.5% over last year, despite some impressions you may have gained to the contrary.

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It isn't just the LCBO that's supporting Ontario wine; it's the province of Ontario as well. Ontario wineries benefit from the very generous subsidy programs and tax breaks which successive governments have established and expanded. The government of the day determines how its support for the Ontario wine industry fits into its overall fiscal and economic development priorities. Every government faces tough choices about how to spend its money, which it derives from taxpayers.

This industry receives significant financial support from the province and produces a product which is subject to government regulation. If you add to this the fact that the government owns the largest retail channel in the marketplace, it's pretty understandable why the LCBO becomes a regular and ongoing focus of lobby attention. That's just how it works; we all understand the process. Nonetheless, the confusing message this sends to our front-line staff is unfortunate. That staff, our dedicated employees, are some of the most passionate promoters of local producers and are well aware of our success in growing VQA sales.

Again, despite what you may have heard, the LCBO has successful and productive business relationships with many Ontario wineries, both large and small. If this were not true, there would be no way we could have achieved the sales results which we have. The successful wineries produce wine that consumers want to buy at prices that consumers are willing to pay. They package them attractively and promote them effectively. Alone, and in partnership with the LCBO, they develop new brands and extensions to existing product lines to take advantage of trends. They take advantage of the many promotional opportunities in the LCBO to make sure that consumers are aware of their products. These wineries are successful and profitable.

Not all Ontario wineries are growing their business, but is there an industry in which every business succeeds and prospers? The LCBO proudly does a lot to promote Ontario wine and to raise awareness of the great wine that's produced here, but the industry's success will be limited by the extent to which Ontarians want to buy those wines.

I believe it's safe to say that every single wine region in the world is making much better wine than it did 10 years ago. Lots of Ontario wineries are taking all the right steps to succeed in today's marketplace. But simply putting more Ontario wine on the LCBO shelves or on the shelves of theoretical private wine stores will not increase sales in and of itself. Private wine stores would create a number of new policy challenges. Beer and spirits producers could not be expected to passively accept an increase in the number of points of sale for products against which they compete, and private store operators have an incentive to sell those products in order to compete for customers. This would increase the loss of government revenue to private operators and result in less effective control on the market in the area of consumption.

The unequal treatment of domestic and imported wines gives Canada's trading partners grounds for complaint and a trade challenge because of the unequal markup treatment. I know that wineries note that BC is getting away with this, and it is true that there hasn't been a trade challenge to the BC system, but if both Ontario and BC discriminate against imported wines, there is just that much more incentive to launch a challenge. I would remind the committee that unequal markups are exactly the issue on which Canada was taken before a GATT trade panel in the late 1980s, and the loss of that trade challenge forced all provinces to restructure their wine industry and industry supports, at great cost to the government and producers.

The government has a strong wine and grape strategy in place. It's a strategy that builds on previous government and industry measures to build up this important sector of the Ontario economy. The LCBO remains committed to supporting that strategy and to working co-operatively and productively with Ontario wineries to fulfill it. On that topic, I have to note that I think the current split in the wine industry between the wine council and the winery and grower alliance is not in the overall interest of the industry. The LCBO would prefer to work with a unified voice for the industry.

I'm going to turn the floor over to my colleagues, beginning with Bob Downey, to address some of the specific comments raised by a number of the stakeholders over the past two days.

The Vice-Chair (Mr. Phil McNeely): State your name for Hansard, please.

Mr. Bob Downey: Good afternoon. Bob Downey.

First, I'd like to congratulate the folks from Prince Edward county on the success that they're experiencing. We feel that they have a really great story to tell. It has got huge potential, we believe, for growing great grapes and producing fantastic wines. In that spirit, coincidentally, we have a number of buyers coming down tomorrow and Friday, and they're visiting eight of the Prince Edward county wineries. They're looking for more products to purchase for our stores, so we're very excited about the potential for Prince Edward county.

I thought I would start off by reading a letter. We got a few letters sent to us prior to this meeting from wineries, knowing that we're appearing before you. This letter is from John Howard of Howard Equities. You may be familiar with his wines, John Howard Cellars. He has a very popular brand called Megalomaniac.

"Howard Equities is a sole proprietorship which holds a 100% interest in two Niagara vinifera vineyards, comprising approximately 120 acres and a 12,000-square-foot underground cellar, producing 20,000 cases of VQA wines annually on the Niagara Escarpment, in the village of Vineland. As well, HEI holds a 35% shareholding in two grand cru châteaux in the Saint-Émilion appellation of Bordeaux, France.

"HEI is a former proprietor of Vineland Estates Winery and took the project from 55 acres producing 2,500 cases per year to 300 acres of developed vineyard with a production level of 65,000 cases in a nine-year period.

"The Megalomaniac brand was launched as a retirement project, but specifically to fund a foundation, of which I am a founding member, called Kids' Health Links.

"Our objective from the outset was to introduce a value-added and uniquely branded VQA product. It is generally argued that less than 15% of consumers entering an LCBO retail outlet actually understand the meaning of 'VQA,' and our industry has failed miserably in its execution and development of a brand reflecting 100% Ontario-grown and bottled wines. As well, the retail pricing of a number of Ontario products do not reflect a globally competitive profile.

"It has been our objective to take a direction which was diametrically opposed to those two historical phenomena, with a five-year strategic marketing plan. Our initial approach to the LCBO was through Vintages, where we dealt with Alanna Bailey, Marie Capone and Astrid Brummer. I found the decision-making process here to be fair, consistent, candid and rational. All of the individuals were, without exception, strong proponents and supporters of Niagara and VQA wines and have spent time in the region visiting a wide range of producers. They were knowledgeable, empathetic, enthusiastic and prepared to help producers understand the criteria for shelf space. Indeed, it is due to your combined mentoring that Megalomaniac Narcissist Riesling achieved an Essentials listing in Vintages in March 2012.

"The LCBO was not only critical to the initial growth of the Megalomaniac brand, but has consistently supported our efforts in funding the Kids' Health Links Foundation.

"In the case of the Megalomaniac Homegrown brand, I believe that you took a leap of faith in order to introduce this brand into the general list category. This speaks to the culture of the LCBO, which allows for individual decision-making, as well as your inherent knowledge of the consumer. You had hands-on experience, having operated as a product consultant in the retail system.

"I understand that homegrown has now become the fastest-growing VQA product over the past year, which is clearly a function of your initial gut feel as well as a series of LCBO promotions, which you brought to our attention.

"Our desire to participate in these promotions has been based on creative merchandising opportunity, in many cases introduced directly by yourself. Our position is that our investment in these promotions is money well spent, particularly as it relates to the quality of the promotions to date and their impact on our sales for the specific periods. Although I have no comparative, I would wager that these promotions are far less costly to us as suppliers than other conventional consumables suppliers who might use channels such as Loblaws, Shoppers Drug Mart, Costco and Home Depot. In point of fact, we are currently evaluating the feasibility of abandoning our existing agency relationship in order to realign these budget costs directly to LCBO promotions and in-store tastings.

"Over the past 20 years, I've been asked many times by those inside and outside the industry what the most critical element might be in growing our market share. Lately, my comment has been that we should be graduating fewer winemakers and, instead, more people with marketing and sales expertise.

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"Our five-year strategic plan, initiated in 2008, advanced a number of objectives. However, two of the most important were the following: Listen effectively to your customer base on the criteria necessary to be successful in each of your distribution channels, and achieve a minimum of $1.5 million in revenue through the LCBO channel within five years.

"These results would not have been possible without the Homegrown brand and your support and encouragement. Based on this history and our performance to date, we are enthusiastically preparing for our next launch."

So that is symptomatic or indicative of a number of the letters that we received indicating how much some suppliers appreciate our support and how they value the nature of our channel.

I also want to take the opportunity to talk about some of the assertions that were made on Monday about the Ontario wines' lack of competitive advantage. As Mr. Olsson stated, Ontario wines is a key strategic objective for the LCBO, and it's a goal we take very seriously. It's also a goal that LCBO employees fully understand and proudly support, down to the store level. Our remuneration of management is tied to the achievement of the agency's strategic goals, and this is a very important one for us. Every year, the board determines how well the agency has done in meeting those goals. This directly affects our management compensation.

The government's priority for Ontario wines is increasing sales of VQA wine, and that is what the LCBO has done. Sales of VQA wine through LCBO stores have more than doubled, as you've heard, since 2006-07. So far, sales of VQA wines this year are up over 18%. This is a great success story. There are not many industries that can match this kind of performance, as was stated this morning that the KPMG study indicated. So there's a lot to be proud of in the industry, and we're very proud of our role in achieving that success.

I also wanted to use the opportunity to clarify some of the assertions about the cost of promotions at the LCBO.

Some of our key promotions have, in fact, not increased since 2010, the most popular ones being the cost of limited-time offers, the cost of end-aisle participation and the cost of shelf-extender participation. There have been some new programs introduced, and these are optional programs to participate in.

I also wanted to take the opportunity to highlight some of the key supports that we provide to the industry. These include things like free freight for delivery. Import wines must pay for their freight, which is then in turn marked up. Ontario wine is not—we don't charge them for freight and it's not put in the pricing formula. The licensee discount is 10%, versus imports at 5%. The share of space far exceeds the share of sales, as you were told again on Monday, by over 16% over the past five years. The estimated value of that is around $15 million. And we have a dedicated buying team as well, solely focused on Ontario wine—category manager, product manager and administrative support.

Two key promotions: We have our annual period 7 promotion, which is mid-September to mid-October every year, focused solely on Ontario wines. No other wine region has that kind of support. In this period, if you were in stores yesterday—in fact, we have an "I Love Canada" promotion going on as well, and it's not just focused on Ontario wines but a broader assortment of domestic products as well. It's a very exciting promotion; it does very well.

So lots of focused promotions and lots of focused support for Ontario wines.

I wanted to talk a little bit as well about the channels of distribution. We are not, indeed, just a big-box retailer. We have a wide range of store sizes. They range from as low as 500 square feet to over 30,000 square feet. Within those stores, Ontario wines are given the best real estate and they are also given special fixture treatment to stand out from the rest of the store. They're at the front of the store. They are very easy to see when you walk in.

We also have six stores where we have a best-of-Ontario format, and again these have special display features and special treatment. They have the full assortment of Ontario wines. They are in three stores in St. Catharines, one in Kingston—which I believe has a good focus on Prince Edward county wines—Burlington, and there's soon to be one in Windsor that will have a focus on southwestern Ontario.

Our store expansion plans are very ambitious, as you know. We're opening 70 new stores in the next two years, the largest expansion in our history. Ontario wines will increase their shelf space by over 20,000 linear feet, which equals 40 wine stores on average, and purchase of Ontario wines, we estimate, will increase by $3.5 million over the next two years to support that extra storage space.

We also have a number of programs that are targeted to support small wineries. The Go-to-Market program has been very successful. I can give you an example of a winery located in Prince Edward county by the name of Sandbanks. Four years ago, Sandbanks wasn't on the map. Now it's the number nine Ontario winery in the province. They're a small winery that has shown that if you work hard in the system, if you use the programs that are available, you can be very successful.

We also have the Wines to Watch program, which was formerly called the craft winery program, which is a graduated program available, again, to small suppliers, where, over a three-year term period, there is a program laid out that will ultimately, if successful, allow you to graduate to the general list. This has been used successfully by a number of wineries as well. Our local talent feature in Vintages is also a showcase for particular Ontario wines as well.

The wine council concerns, I know, were focused on Vintages. We believe now that the way we structure our Ontario wine team, where it has responsibility for Vintages as well as the general list, will actually result in strong Ontario wine sales across the channel. That will be both channels' vintages in the general list, but our goal is to give more exposure in general and actually to improve the assortment in the general list side on the premium wine category in particular.

We think there are really good opportunities for Ontario wines to increase their sales in Vintages, particularly over the $20 price range. So far, Vintages sales are up almost 20% this year, which I think is reflective of the focus we're putting on that channel. I want to also clarify that although most wines are purchased just once a year in Vintages, the essentials category, which recently expanded for Ontario wines, is available year-round.

But there is no barrier to large purchases of Vintages wines. If it's going to sell, we will purchase it. But it has to be of high quality and deliver great value.

Thank you.

Mr. Bob Peter: Bob Peter. Just a couple of comments on Ontario wine opportunities: Besides the LCBO, as we've noted, the Ontario wineries have their own store network, which does over $230 million, and most of those are near the GTA. They have direct delivery, which does $46 million in business, and most of this business has come out of the LCBO over the last number of years. It started out as only a $2-million opportunity; it's grown to $46 million and continues to grow. The Ontario wineries are the only ones that have the opportunity to sell direct in the province, through the Internet, to customers, so that's another unique benefit they have.

Having travelled the world and seen wine regions everywhere in the world, the most successful ones, without fail, are all export-driven. Unfortunately, this is not the case in Ontario. Part of the problem is, your tax policy works against it. You're rewarded to sell in Ontario. You get the best tax breaks here. Quebec is the largest wine-drinking province in Canada by far, bigger than Ontario, and the penetration of Ontario wine is next to zero; there's about 10 SKUs there in the whole province.

One of my big pushes with the wine council is, "You guys have to get out. You've got to get marketing." We had all the liquor boards here last June in Niagara to see these people. I'm not suggesting they're all easy to work with, but there's a huge opportunity within Canada that's not being exploited at all. A lot of the wines that are being sold with Ontario wine content are the blended wines, not necessarily VQA.

Interjection.

Mr. Bob Peter: Yes. Another point, as was mentioned on Monday: The largest portion of wine selling is under $11. That's where the market is. Where VQA is selling is between $11 and $15 or $16. They're competing in a much smaller segment. It's a lot harder to achieve their numbers. The volume is much lower. That's one point.

On the presentation made yesterday on the private wine stores, I just want to clarify a couple of things that weren't stated in the presentation; at least, I didn't hear it. For them to open private wine stores, they have to sell imports. They didn't state that. In their model, they're projecting they'll do 85% of their sales on import business.

Interjection: Could you repeat that, please?

Mr. Bob Peter: Yes. I said, in their model that they've proposed—the wine council—they're saying that 85% of their business will be in imports, which is probably correct. It's even higher than that in British Columbia. So it's only 15%, potentially, for Ontario wine. What they're proposing is, they would get the tax break for Ontario wine of paying 2% tax, but they would buy from the LCBO at full price the imported wine. Well, I can tell you, it's impossible to run a business that way, to pay full retail price.

1510

Just to go back, when British Columbia introduced their private stores, they initially started at a 10% discount. Within the year, they were at 12%. They're now at 16%. What has happened to the total liquor board is that their revenues continue to drop—just so you know that.

So I don't believe it will be particularly good for VQA. They'll get lost in the shuffle. I can tell you, the import wines will dominate.

On British Columbia versus Ontario: British Columbia has 35 grandfathered stores from NAFTA, which are all VQA stores. We've got 292 stores—to the single winery. But we have way more stores than they do. The market share in British Columbia liquor stores for BC VQA wines is 8.7%—and we're quite similar to that in Ontario—but the private wine stores are only 3.6%. People who are in private business are going to sell what's selling.

Just a final point: We have to remember that because the LCBO is a monopoly and it's the only carrier of imported wine and spirits, I serve many, many constituents. All you have to do is drive around Toronto during the World Cup and see all the different flags. If you think we get a lot of requests here for just Ontario wine—which we're all supportive of; don't get me wrong. But the South Africans want more of their wine; the Bulgarians want their wine; the Georgians want their wine. So we're under constant pressure from everybody. We've got an ethnic community from all over the world here that wants their product. We're trying to meet everyone's needs, and it's not easy to squeeze everybody in the house.

Mr. Patrick Ford: I'd like to speak to just one point that I think may have generated some confusion for the committee, and that's the question of: What's the market share that Ontario wine holds in this marketplace? You've heard 29%, 33%, 39%—all this in reference to a 50% market share goal that had been identified at one point in time. The reason why you're hearing different numbers for that is because it depends on what you measure. Is that just LCBO sales? Is that the wine store sales, the direct delivery, the Internet sales that Bob referenced? Are we measuring by dollars? Are we measuring by volume or litres? There are different measures. However, there's a long-standing agreement that has existed between the industry, the government and the LCBO about what metrics we'll use. The focus is on volume, it's on all sales channels, and that currently generates a 43% market share for the wine industry. Over the past decade, as noted by a number of the industry commentators so far, that number has grown slightly but not as much as we would have hoped during that time period.

A key thing to note during that time period, over that decade, is that this industry, in fact, had three crop failures. In 2001, there was what's known as the ladybug taint, which severely impacted the amount of wine that we could sell. In 2003, not unlike what the cideries are facing, we had a crop failure due to a late winter frost that damaged buds. The same thing happened in 2005. Three of those vintages during that time period severely hampered the production potential of Ontario wine in this marketplace. It has really only been in the latter half of that decade when we started to pick up steam and to get the kind of 100% growth of VQA wines that you've also heard reference to: since 2006-07.

All that aside, though, it's the LCBO's strong view that market share is not the metric that we should be using for measuring performance and success and growth within this industry. To Bob's point about seeing all those flags on the cars during the Euro Cup on the Gardiner right now: In order for us to achieve rapid growth towards 50% or whatever kind of market share, we would have to restrict, remove, reduce the sale of the wines that those customers want in our marketplace. Our view is strongly that instead what we should be measuring is the absolute growth by dollars—in other words, that's focusing on premiumizing, selling more 100% VQA wine—instead of solely basing it on market share. Through recent discussions with the industry and with the government, there's a consensus that our focus should be on absolute dollar sales growth, rather than worrying about whether or not imported wines are popular at this stage.

I'll turn it over to Rob Dutton.

The Vice-Chair (Mr. Phil McNeely): You have one more minute.

Mr. Rob Dutton: Okay. In that case, I can't go on about all the fascinating numbers I've heard. It's one of the interesting things about being the finance guy: So many of these numbers coming from various sources come with such adventure and imagination.

On the question of the ad valorem markup option that was suggested to you by one of the Ontario wineries: The interesting thing about that option is that it would devastate VQA wine and it would benefit the very inexpensive wines in the marketplace. So it would benefit the ICB—international Canadian blend—wine that's inexpensive, and it would also benefit all those imported wines that are inexpensive. The wines that it would not benefit, that it would actively damage, are the very wines that we want to encourage, the VQA wines.

On the issue of the number of forms that Ontario wineries have to fill out, I sympathize. Most of the information that we collect is for AGCO and for the revenue group of the Ministry of Finance. We are currently working—because my staff take a great deal of their time processing that information—on slimming down those forms for the wineries. I think we'll have some good news in a month or two for them on that front.

I've been told I can't go on any longer.

The Vice-Chair (Mr. Phil McNeely): Thank you very much for the presentations. We'll start with the official opposition and Mr. McDonell.

Mr. Jim McDonell: There's some discussion about delivery charges, the direct deliveries. Wineries are allowed to deliver directly to licensees but they can't charge a delivery charge, whereas that's incorporated in the LCBO. Is there any background to that or is that—

Mr. Rob Dutton: I think the criticism was that the delivery charge that we did pay for did not compensate them to the level—and I think the number I heard was $15 a case, which is quite incredible, given the fact that I can take a case of wine from France to Ontario for $4. So my first reaction there would be to wonder who is handling the cartage. But I think that complaint was simply that that particular winery had extremely expensive cartage costs and we only covered it to a certain standard degree based on our own freight.

Mr. Jim McDonell: They aren't allowed, in my understanding—or they're restricted in setting up distribution centres. For instance, for wineries from this area that deliver to the Ottawa area: It would probably be preferential to have some type of distribution centre, but that's not something they're given access to or allowed to set up themselves with their association. Are they licensed somehow there?

Mr. Patrick Ford: First of all, as Mr. Olsson announced and mentioned at the beginning of his remarks, as it relates to the cider issue, the keg distribution, at the board's instruction the LCBO is currently—my team, actually—looking at a review of the authorizations that are given to the private companies that assist with that keg distribution to ensure that there are better, more economical opportunities, in particular with a focus on cider. We've also recently had discussions with the Ministry of Finance in that regard.

As far as other distribution, including the direct delivery of VQA and other wine and what the rules are that are allowed, it's my understanding that the Ministry of Finance, as well, has been in discussions with the wine industry about their concerns and their interests in that regard. That's under review at this stage.

The Vice-Chair (Mr. Phil McNeely): Ms. Thompson.

Ms. Lisa M. Thompson: Earlier today, we heard some angst from our OPSEU folks during their deputation. They don't agree with the LCBO's approach to agency stores. In your business plan, do you see a future for agency stores? And then I have a follow-up question.

Mr. Philip J. Olsson: I'd just like to emphasize a couple of things. One thing was corrected. Statistics were presented to show that agency stores have grown under the current government. While the agency stores have grown under the current government, no new agency stores have been approved by the current government. They were all approved in advance of this government. So we're not expanding the system.

I think there are two points that I'd like to make, and we can go into some numbers here.

Number one, we were characterized as agreeing with OPSEU's consultant on his conclusions. That's not true—or not correct, I guess, is a better thing to say. We agree with his arithmetic, but the assumptions assume a number of things. I noticed he didn't answer the question this morning, "What about beer sales?" Because we have no control over those. The analysis assumes that we would continue to capture all the beer sales in those agency stores were we to privatize them. That's highly unlikely. In fact, it's absurd to even think that, because the Beer Store have the right to open a Beer Store wherever they wish. So the analysis that suggests a very large number of agency stores would be profitable if we repatriated them to an agency model doesn't really hang together.

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You have to ask yourself: If there's all this money on the table, why wouldn't we do it? We could just be stupid, and you can assess that. There could be some political motive for keeping it in these agencies. You'd need a pretty sharp stick to find it. I've never found it. Or it's just the most efficient way to deliver services to small communities.

Furthermore, it probably is true that in one or two or maybe even more cases, you would have a store that is profitable. But if you take your capital to build that store in a small community that doesn't really need a full store, well, I'd like someone here to go and explain to the people of Brampton or Milton or other growing areas of the province why we're spending our money there when the need is so great in other parts of the province.

Now, you did hear from us yesterday that the government has allowed us to double our budget. We're doubling the number of stores that we're building, so we'll go further to meet that need. In due course, some of these stores will be repatriated. But I would advise you to ask yourself: If these numbers are there on the tree just for plucking, why haven't we done it?

Ms. Lisa M. Thompson: Okay.

Mr. Bob Peter: If I can just have one comment: Just to correct the record, our agency stores do about 2.4% of our total sales in the province—not 10%, but 2.4%.

Ms. Lisa M. Thompson: Thank you for that. I come from a small community and I find it interesting. I've actually been approached by a local municipality that has some angst being expressed by the small community. They're looking at facilitating a permanent licence for one of their halls in a small village, and if they do that, that would mean they would no longer be able to purchase the alcohol required for that hall from the agency store, with a permanent licence. They would have to travel a fair distance to fulfill their alcohol needs to maintain the hall.

I just wondered: Is there any wiggle room there? Because again, small communities are suffering. This one village I'm talking about in particular just lost its public school, which is an economic driver, and now they're being told that if they put in a permanent licence, they have to travel out of town and take business away from their community. So I'm just wondering: Is there wiggle room there? Is there flexibility? Or is that an olive branch LCBO is offering to their larger stores? I'm just wondering.

Mr. Patrick Ford: First of all, the agency store model was put in place now 50 years ago to provide a convenient access for local service. To your point, that's a key objective. I'm afraid I'm not certain of the specific rules for deliveries to licensed establishments here, so we'd have to go back and confirm that. I do understand, however, for sales of beer to a licensed establishment, that the vast majority of those, by marketplace rules, need to come from the Beer Store. They would be the sole seller of 12s and 24s, the larger, more common formats for a licensed establishment. But we can certainly get back to you with respect to what restrictions there are in that area and whether or not there's flexibility, if there are restrictions.

Ms. Lisa M. Thompson: I would really appreciate that. Thank you.

The Vice-Chair (Mr. Phil McNeely): Mr. McDonell.

Mr. Jim McDonell: One of the issues we heard today was small wineries getting access, and I know in any store—it doesn't matter how many you have—you're going to have limited shelf space. Any recommendations on how you could help some of these or maybe change the system? We heard today the possibility of a regional store tied to tourism or something that would allow some type of access until the market share gets built up. And then, of course, you're really a larger distributor and you really have to pick the most popular brands. That makes your consumers happier and it is, overall, good for the industry. But is there some way of pairing both of those together, or some recommendations?

Mr. Bob Peter: There's no easy way, but I suppose one of the big opportunities is, with the expansion over the next two years of our network, we're building a lot bigger stores. You weren't here on Monday when I was speaking, but one of the problems we faced is that we inherited from our predecessors stores that were built primarily to sell spirits. Since that time, we've gone into the beer business and we've gone into the wine business in a big way, vintage business, so we need a lot more space to house these businesses. Ontario wine has grown fairly rapidly over the last 20 years, so we're in the process of making much larger stores which can accommodate them, but we still have a lot of stores, even in Toronto and Ottawa, that are very small to house these assortments. As we put them in, as Bob Downey said, I think the shelf space is going to grow nearly 30% over the next three years. That will be the main way that they'll get in the building.

The Vice-Chair (Mr. Phil McNeely): Time is up for the 10 minutes. We'll go to the third party and Miss Taylor.

Miss Monique Taylor: Thank you for spending two full days with us and taking the time out of the great work that we've definitely been hearing that you're doing. It didn't seem to matter who was at the table; they were all praising the great work that the LCBO was doing. Congratulations for that, because that is definitely not an easy task and, quite honestly, not really what I expected coming here and having to have you before us, so I'm very pleased to hear the great work that you're all doing.

I did visit the store here in Trenton yesterday and, of course, the person who I was speaking with had no idea who I was at the time and I was asking them how their experience was in working for the LCBO. They were very pleased with the way that things were being done, with the way that the board was running things, with the way the presence of the store is. I'll tell you, the first thing that I walked in to was "Buy local; buy Ontario." It was all highlighted exactly the way that you said it was, and it put a different aspect on going into the LCBO store. It was enjoyable. And I bought some great Sandbanks local wine while I was there.

One of the things that I heard from the Ontario Viniculture Association the other day was that they sell cranberry wine, and the wine was on the shelves for Thanksgiving but completely sold out before Christmas. I guess the actual store wasn't able to order more of that wine before Christmas. If there's a need there, especially cranberry at the festive time of year, why is it that they wouldn't be able to order more of that wine?

Mr. Bob Downey: I can answer that.

I actually went back to talk to our buyers after Monday and asked about that particular wine. Yes, indeed, it did transpire very much that way.

I'm not sure whether the supplier applied for an ongoing listing or not, or just a regular Vintages listing, but that being said, we will review it and look for an opportunity to have it year-round. The initial impression was perhaps that there's a really good chance we can make that happen. Cranberry wine, in general—we do have one available from Muskoka Lakes year-round, as well.

On the fruit wine issue, we are also in the process, interestingly enough, of creating a program to move the fruit wines next to VQA in the store. That was one of the problems that was highlighted, the location of fruit wines in the store. We filled it by moving it close to the rest of the Ontario wines that will really benefit the category. Hopefully we'll see some positive results.

Miss Monique Taylor: That's great. Also something that we noted when we were in the store was, yes, the local was first and foremost but it was also the two shortest rows in the store. I understand the concept. I really get it, and I really understand the concept of other people from other parts of the world who just want their wine here too, because we're Canadian and that's what we are. We're culturally diverse and we have to be able to supply everybody's needs and wants. That's what makes Canada a wonderful place to be, right?

I believe 26% is what we're sitting at on the shelves. Is that correct? Twenty-six per cent of Ontario wines are on our shelves?

Interjection: Twenty-nine.

Miss Monique Taylor: Twenty-nine?

Ms. Cindy Forster: Market share.

Miss Monique Taylor: Market share.

Interjection: Yes.

Miss Monique Taylor: Okay. And the goal was 50%, right?

Mr. Bob Peter: Bob Peter. That goal was set in 1999 and it's an impossible—I could get you 70%. Just stop buying every import.

You've got to remember that I've been tasked with delivering another $100 million this year, and the finance minister has added $100 million to that and another $100 million the following year. We have to continue to keep selling.

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On Ontario wine: It has more than doubled in space in the stores, if not more. We spend, of all the categories, probably triple the time with Ontario wine, managing it, dealing with the different associations. It's the most time-consuming. We've made progress. It's the only area we send our staff down to the wineries to visit, to learn about it and to taste and so forth, at great expense. If we spent as much time on spirits, on beer and on imported things, maybe our sales would be even further up. Bob spends an awful lot of time managing it. It's a complex group. There are a lot of people who are new in the business, who need hand-holding, who are just getting started. There are a lot of people who are doing very well. But as we said on Monday, the 80/20 rule applies: 20% of the SKUs are delivering 80% of the sales. If the industry is going to grow, it has to get outside of Ontario.

Miss Monique Taylor: I'm thinking, after sitting around this table for a few days, that we need Costco-sized LCBO stores on every corner to be able to fulfill everybody's needs.

Mr. Bob Peter: Unfortunately, there's another committee that reviews us, which is Deloitte, and they want to make sure we're always being productive. So I've got to make sure that productivity is in the stores at the same time.

Mr. Philip Olsson: I would just like to re-emphasize a point that has been made. I don't work in the LCBO; I'm the chair. We've got to face a fact, and the fact is that the government has put almost innumerable programs in place to help an industry mature. There's a very large subsidy. I don't care to give the number out because it's very trade-sensitive. One of the consequences has been that it is so easy and profitable to perform in this market that we've failed in our very first objective, which was to create a globally competitive industry, because they don't export. They don't even export to Quebec.

As someone here on the panel said, sometimes people need a little shove. We accept that. We get shoved a lot. Maybe you just need to shove the industry a little bit—personal opinion.

The Vice-Chair (Mr. Phil McNeely): Ms. Forster.

Ms. Cindy Forster: Do the other sectors, the distillery side and the beer producers, get subsidies from the government to the extent that the wine industry gets subsidies or tax credits?

Mr. Bob Peter: Not that I'm aware of, in the spirits. The beer has a flat tax. The difference in a flat tax is, you get the same tax whether it's a $5 bottle of beer or a $10 bottle of beer. That's all the government collects, so they're making a fair bit of money on that basis.

Ms. Cindy Forster: The cider producer who was here today talked about the 67 cents on the dollar that he is charged. Can you expand on that? How does he get to be deemed as either an importer or as a foreign product when he's actually growing apples in Ontario, using those apples and making—

Mr. Rob Dutton: It's an excellent question. I don't know the answer either. His markup is actually 54.6%, which is six points lower than the imported markup on cider, and that's if he's selling it in either cans or bottles in our stores. If he's selling it as draft, it's 40.4%.

The interesting thing is, he kept saying he wanted to be treated like a VQA wine. Well, if he really wants, I can charge him the higher markup, but I don't think he'd be happy with it. VQA wines are marked up at 60.5%, and they also have a fairly substantial bottle levy of upwards of $1.62 per litre. So there's a much higher tax load on Ontario wine than there is on Ontario cider.

Ms. Cindy Forster: Back to the agency stores: Are the agency stores that currently exist across the province subject to all the same rules as the LCBO with respect to their standards, the policies, the staff training, all of those kinds of issues?

Mr. Patrick Ford: There is a requirement, as a condition of our authorization of the agency stores, that all staff who work in those stores have to have an amount of training that's focused on socially responsible sales. Is it the same, is it as extensive as what we provide for our staff? No, but it does meet a minimum criteria.

The Vice-Chair (Mr. Phil McNeely): You have used up all your time, so we'll go to the government.

Ms. Cindy Forster: Oh, really? We ran out of time? I don't believe it. That's okay.

The Vice-Chair (Mr. Phil McNeely): Ms. Jaczek.

Ms. Helena Jaczek: Well, you have cleared up a lot of issues. I've been ticking off the questions as we've been going through and listening to the other parties' questions.

I'd like to just go back to the amount of discretion that the local manager has in terms of what's on the shelf, because you've talked about diverse communities and so on. Just outline for me, if you would, how this works. How did Trenton decide to do what they did with Prince Edward county, as an example?

Mr. Bob Peter: How we set the assortments up is, the stores are given 60% of a core assortment and they have 40% that they play with. And we have a system that shows them what's selling in all the greater area around their marketplace, so they can see what the larger stores are doing and they get to draw down the items that they want. Then you have the trade that calls upon stores, making pitches when they're launching new products and so forth. So people who have good sales forces get out there and get their products listed. There's a fair bit of discretion.

As I said on Monday, there are huge variations across the province; what sells in Thunder Bay is very different than what sells in Ottawa or what sells in parts of Toronto. We try to profile the assortments to the best of our ability. If you go into a store in Little Portugal in Toronto, they want to talk about getting more Portuguese wine. They can't get enough of it. If you go into another store, they want more cellared-in-Canada wine. There are big variations.

Ms. Helena Jaczek: So there's obviously the opportunity for local wineries to go and visit the local stores and put their sales pitch and approach them that way.

Mr. Bob Peter: Yes.

Ms. Helena Jaczek: Okay—

Mr. Bob Peter: But we do have a policy of one in, one out. We have a real discipline. So a store is given whatever number of SKUs; the shelves are all measured in planograms. They're given that—say it has 1,500 SKUs. They're monitored constantly, and a report is sent out; if they're 15 over, they have to eliminate 15. That keeps the portfolio moving, so that you get the slowest sellers out and put the best sellers in.

Ms. Helena Jaczek: Right. Okay.

Now, one thing that the gentleman from MADD referenced—and I'll put my public health hat on for a minute. He talked about low-percentage alcohol products promotion. You've detailed many of the different—"I love Canada" at the moment, the whisky month and so on. Has there been any thought of really promoting low-alcohol products?

Mr. Bob Peter: We have promoted the low-alcohol beer products, and they've had limited success. A lot of people don't get a buzz from 3%.

Mr. Bob Downey: Yes, actually it was quite interesting to hear Mr. Murie talk about that. We don't have a lot of low-alcohol beers, for example. We do have some that are between 3% and 4%, but he was talking about beers under 3%. We will investigate and look for some of those products to see if there is more opportunity than we're currently exploring right now, but we just don't have a mass of low-alcohol products that we could do anything meaningful with.

Ms. Helena Jaczek: And then, you have referenced the subsidies, how the LCBO supports the Ontario wine industry. We've sort of heard pieces here and there. Could you give us a list of all the ways that this is done? Just so we have some general categories of subsidies.

Mr. Philip J. Olsson: I will ask Bob Downey to enumerate that, but I'll have to tell you, we do have a time limit so we may not get through the entire list. Bob?

Mr. Bob Downey: I did touch on some when I first spoke. I can give you a partial list here, or maybe I can steal Patrick's whole list.

Our strategic plan, for example: One of our six objectives is to support Ontario wines. VQA direct delivery is something that wineries have that other categories don't have—

Interjections.

Ms. Helena Jaczek: That's worth some $46 million?

Mr. Bob Downey: Yes.

Freight costs: I mentioned that we don't charge for freight.

The licensees' sales discount: 10% for Ontario wine, 5% for import wine.

Duty-free markup reduction: Ontario wines sold through duty-free stores incur only a 10% markup rate, as opposed to 15% through land border point sales, and even a higher markup rate on Pearson sales. So they have preferential treatment in the local duty-free stores.

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Ontario wine dedicated buying teams: We have a focused buying team only on Ontario wine. No other region has that.

In our stores, we have 327 stores with what we call WOW leaders, World of Ontario Wines leaders. These staff are specially trained. They're designated solely to support Ontario wines, so they're real advocates for Ontario wine. They're very passionate about it. We've also set them free to go down to the wine council, as guests, to visit Ontario wineries in the wine regions to expand their knowledge even further.

We have a number of exclusive marketing programs. There's our Superstars program, which is a feature of three Ontario wines every month. We also have local features for Vintages products, for Ontario wines in the Vintages release, every release. The Wines to Watch and the Go-to-Market programs are specifically targeted to small Ontario wineries, to give them an option. Again, import wines don't have that opportunity.

We also have for our ICB wines a Popular Pick program that's put into a number of our C and D stores, which gives a feature promotion spot for ICB wines.

We do over-index on our promotion programs. We give Ontario wines more opportunities in promotional programs versus their market share, as well, so they get a greater share of that.

We do a flyer every two periods promoting four VQA wines. That's free of charge for Ontario wines. It goes into newspapers. There's a feature area in our stores for these Go Local flyers.

Although wine fridges are—there's a charge now for participation. That's only 50% of the space. The other 50% is at store manager discretion. We encourage them to use that space for our Ontario wine as well.

Food and Drink magazine has one dedicated Ontario wine promotion every issue as well. The annual period 7 promotion is exclusive for Ontario wines. Our promotion now, Go Canada, includes a lot of Ontario wines as well.

We do have special Taste Ontario wines for Vintages. We have two events a year for those too. These are targeted to Vintages customers, and they're very successful.

Shelf space: We've talked about that, how they're over-indexed, the special fixtures they have in stores, the Best of Ontario format. We've got six; we're going to move to 12 of those. I can go on and on.

Bag-in-box exclusivity is a really big thing. Only ICB wines can produce wines in bag-in-box. That's a very successful format. It's not available to imported wines. That's a big, big category and a big advantage.

That's a lot. It's not complete.

The Vice-Chair (Mr. Phil McNeely): The time is pretty well up. You have another minute.

Ms. Helena Jaczek: Just one quick thing on the hours: I think it was especially in reference to the agency stores, in terms of flexibility of hours in cottage country, perhaps staying open later. Knowing that you are thoughtful people, have you thought about flexible hours in those situations?

Mr. Bob Peter: Yes, we do change our hours in the summer up in Muskoka and Haliburton. The stores are open longer, particularly on Friday nights when people are travelling up there. We do change hours in the winter in a lot of the small communities. We may even close on Sundays in some very small communities. We do shrink the hours down to the pace of business.

In the case of the agency stores, some of them are open longer, until 10 or 11 o'clock at night. It's very hard, given the size of the store, to hive off the little area for spirits and wine in there so you can't shop in there, so we allow them to go that extra mile. But the reality is, we sell all of the liquor they sell from our store to their store. Other than the 10% they earn on it, that's all they get. So we're still selling all the liquor indirectly to them.

The Vice-Chair (Mr. Phil McNeely): Thank you. There's a consensus that there is no need to go in 10-minute segments, but if we just go the same order around the table with individuals who wish to ask questions, we'll try that for the next few minutes. Mr. McDonell.

Mr. Jim McDonell: We talked about the percentage of Ontario wines being fairly constant or actually dropping. But have the overall sales increased? Is the percentage a higher number? Or has the sales level stayed the same over the last 10 years?

Mr. Bob Peter: Our business in 2001 was $2.7 billion; this year it was $4.7 billion. So it has grown by $2 billion.

Mr. Jim McDonell: Okay, so they've actually—

Mr. Bob Peter: They've had great growth, but the rest of the business has grown, too. But wine has been the fastest-growing business overall.

Mr. Jim McDonell: Okay. So actually, in a lot of ways, it's a good-news story.

Mr. Bob Peter: Yes.

Mr. Jim McDonell: The Auditor General talked about the selection of wines and some question about it. I think the taste had a small portion of the points system. I'm just wondering if you can add any clarity to that or transparency to how you choose one wine over another, especially when we're talking about local wines.

Mr. Bob Downey: Yes, taste, especially in relationship to the price, is really critical. It's a big factor in selection, along with things like promotional support, success in other markets and resources—that they're prepared to help support the sales of the wines. Ultimately, that's what counts the most at the store: the price-value relationship in terms of quality. A product that doesn't deliver on that won't survive, which is particularly true in our Vintages channel. Our import suppliers provide their best product to the Vintages team, so value for money is critical.

The Vice-Chair (Mr. Phil McNeely): Ms. Thompson.

Ms. Lisa M. Thompson: I think this question is directed towards you, Bob. Earlier in your presentation, I heard one of your colleagues mention—I think it was you—that some of the most successful wineries around the world are due to their export opportunities. With that said, I can't help but think of other initiatives by the provincial government to help with exports of Ontario goods. I'm thinking of the OMAFRA export branch and the marketing development branch. Do you work with them? Have you worked with them? What's the relationship like there? You're smiling.

Mr. Bob Downey: I'm going to pass that question to Patrick.

Ms. Lisa M. Thompson: Oh, okay. All right.

Mr. Patrick Ford: I won't pass it on further to anyone. Our relationship with the industry relates to the sales of their wine within our region, within Ontario. That's a question that I think is more appropriately directed to the appropriate provincial ministries. As Bob Peter mentioned, that's certainly something that he's been doing, a lot of encouraging of the industry, irrespective of whether or not they get supports from the government on this, to put their own effort behind exporting and making sales into those other markets.

Ms. Lisa M. Thompson: Okay, thank you. There is a gap there—no two ways.

Mr. Bob Peter: I think it would be a good policy thing for the government to look at; maybe you want to spend a couple of million dollars to support exports and get it going. Just to take the example of California wine: California wine doesn't just sell in California; they sell all over the world. That's the way you've got to think. You've got to get outside of Ontario.

Ms. Lisa M. Thompson: Yes, and OMAFRA has the folks travelling to promote Ontario products worldwide.

Mr. Bob Peter: Yes.

Ms. Lisa M. Thompson: Okay; duly noted. Thanks.

The Vice-Chair (Mr. Phil McNeely): Ms. Forster.

Ms. Cindy Forster: Somebody mentioned that an $11 price point is kind of where—

Interjection: And under.

Ms. Cindy Forster: Eleven and under. So can the Ontario wineries, as they currently exist, compete with the imports without spending some money to go out and market theirs as exports to other countries?

Mr. Bob Peter: Bob, do you want to answer it?

Mr. Bob Downey: Well, in our market, primarily the ICB wines compete under $11, and they can compete very well; they've shown that. The quality for money is there. VQA, on the other hand, tends to operate over the $12 mark, and within the $12 to $15 range, they do really well. Over $20 is much more competitive. Then you get into competing against the imports in Vintages. But within the $12 to $15 range, VQA competes with the best. So there's potential, I think—it depends on the winery—to export and compete on the world stage, in certain varieties of wines. I think Chardonnay, Riesling—we make world-class Riesling. There's no reason why we can't compete in other markets with those wines.

Ms. Cindy Forster: I just want to make a comment, too—I hadn't really turned my mind to it until somebody raised it—the fact that we live in Canada, in a multicultural country. I know, when I sit in Queen's Park and I see these kids coming in from all their classes, there's every culture that you can imagine. I'm sitting there and I've really never thought about the fact that people come here and they want their own wines, their own beers—whatever, right?—because that is part of their culture in their country.

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Mr. Bob Downey: We buy from 82 countries now.

Ms. Cindy Forster: From 82 countries, so it's difficult to try and balance that.

Mr. Bob Downey: Some of them with a very long supply line, so—

Ms. Cindy Forster: Yes.

Miss Monique Taylor: So that's a good question then. In conjunction with other countries, would you say our percentage on the shelves is balanced compared to other countries? How would you say we're balancing on the shelves in that way?

Mr. Bob Downey: I think you've got to go back—Canada, in the 1950s and 1960s, at least in Ontario, was primarily a spirits market. Wine didn't exist; it was sherry, port and a little bit of table wine. As more immigration came from southern Europe, people started getting into wine and the wine business has grown. Initially, Ontario didn't make the best wines; it was a tough business.

We're in a growth opportunity. As the wineries get better, they're making better wines all the time and they're getting better at marketing. We've had challenges just trying to help the people to get their packaging right. There a whole series of things—you know, it's a learning curve for all these wineries. As Bob read the letter there, it's one thing being a great winemaker, but you need a sales team to move it.

I told you the story of John Hall with his Forty Creek Whisky on Monday. Here's a guy that was just about out of business and now he's moving a tractor load every three days. But he went store by store and sold his pitch. He didn't need millions of dollars of advertising, but he committed himself. You know, we have a tasting program and people have to pay to use it, but on Thursday we offered it to the trade. If the principals come in themselves in the store, they can show their wine or spirits or whatever they want. Not many take advantage of it, believe it or not.

I was in Georgetown one day. I arrived there at about 4 o'clock. A salesman grabbed me—I've never seen the guy before in my life—and he says to me, "You know, you've ruined my family life." I said, "I'm sorry; I don't know you." He said, "I have to work Thursday nights now because of this tasting thing." I said, "Well, you're in the wrong business. Let me help you out to your car."

You know, we're open seven days a week. If you're not passionate about your product, how do you expect the LCBO team to be passionate about it? It's a round-the-clock business here, but you've got to get out there and pitching. It's hard work. Someone said that it's tough sledding out there, but you've got to get share-of-mind with all the different people. There are products everywhere coming at you, so if you can do that, you'll be very successful.

Miss Monique Taylor: All righty. Well, thank you again.

The Chair (Mr. Phil McNeely): Ms. Jaczek.

Ms. Helena Jaczek: We haven't talked much about Bill C-311 through the last two days, and I'm wondering if the LCBO has had a chance to consider that bill. I know you have your private ordering system. Is there a reason for Ontario to jump on board with this particular bill?

Mr. Patrick Ford: Bob Peter described this on Monday. I think the view of most of the provinces, of liquor boards across the country and the ministries that they report to, is that the bill isn't necessary, that Canadian wines do have full access to the marketplace; that, as you noted, we all have private ordering programs where any wine that's not on the shelf of a store of Ontario, a store in Saskatchewan or anywhere, can be ordered in from another province or, for that matter, from another country.

The other thing where there has been some measure of confusion around this bill too is this assertion—and I think we heard a bit of it earlier again today—that a Quebec customer coming to visit a Prince Edward county winery isn't able to bring wine back to Quebec, or vice versa; an Ontarian going to visit an artisanal winery or cidery in Quebec can't bring some back into Ontario. From the perspective of liquor boards and from the perspective of provinces and territories, they can do that right now. Ontario has actually been a bit of a leader in that regard in that the LCBO established a policy whereby any individual, at any time they're crossing a provincial boundary and they want to carry goods across for their personal use, can carry a case of wine and equivalent amounts for beer and spirits. We are encouraging all the other provinces as well to harmonize to that standard of a minimum of a case of wine that you can bring at any time. The only issue that's remaining is, can wineries make direct shipments across provincial boundaries to a home consumer in another marketplace?

Again, as Mr. Peter noted, our view is that that is not—again, access is addressed by private ordering. What that represents is a desire to be able to avoid paying the legitimate provincial fees and markups that, for example, the Saskatchewan government would apply to all the wines that they sell in that market, but now not to these ones that are coming from BC or Ontario.

The revenues that are collected across the country—it's not specific to Ontario. Every province and territory across this country, including Alberta, has made a decision that we will have a different system here than what we have in most of the United States and a lot of the western world. Some Scandinavian countries are comparable, where there will be a markup and tax structure that will be adequate to both help manage some of the social and health costs associated with it and also provide a source of revenue to help pay for health care, education and other programs. Nationally, provincial and territorial governments generate in excess of $6 billion through the sale of alcohol to fund those kinds of government services.

That's what our job is: to find ways to preserve that, while at the same time doing what we've been discussing mostly today, which is to figure out ways to continue to support our domestic wine industry and help them grow.

Ms. Helena Jaczek: Thank you for clarifying that.

The Vice-Chair (Mr. Phil McNeely): Mr. Smith.

Mr. Todd Smith: Thanks. I did have a question as well about the private member's bill, but I do have a couple of items here from a winery down in Prince Edward county. Maybe I could get your comments on these two recommendations or suggestions that were made. One is the elimination of the personal wine consumption tax; the other is the elimination of the excise duty filing to the CRA on 100% Canadian wine.

Mr. Patrick Ford: I must apologize. I'm not sure what the reference is for the first one. It may be just a technical term I'm not familiar with.

Mr. Todd Smith: A personal wine consumption tax?

Mr. Philip J. Olsson: Well, there is a higher HST on alcohol. That may be what they're referring to. I'd refer that to the Minister of Finance.

Mr. Todd Smith: He's not here, right?

Mr. Philip J. Olsson: We don't represent him on that matter either.

Mr. Patrick Ford: As far as the other matter goes with respect to excise, we'd need to make a referral on that one as well, because that is a federal government tax.

Mr. Todd Smith: Sure, yes. Thank you.

The Vice-Chair (Mr. Phil McNeely): Any further questions? If not, then this committee is adjourned until Wednesday, July 4, at Queen's Park.

I wish to thank everyone for coming here today: all the members, all the participants in the audience. I want to thank the LCBO and Mr. Olsson's team here today for all the good information you gave us. Thank you very much.

This meeting is adjourned.

The committee adjourned at 1558.

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