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**Official Report  
of Debates  
(Hansard)**

**Tuesday 27 September 2005**

**Journal  
des débats  
(Hansard)**

**Mardi 27 septembre 2005**

**Standing committee on  
regulations and private bills**

**Comité permanent des  
règlements et des projets  
de loi d'intérêt privé**

Chair: Marilyn Churley  
Clerk: Tonia Grannum

Présidente : Marilyn Churley  
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## LEGISLATIVE ASSEMBLY OF ONTARIO

## ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

**STANDING COMMITTEE  
ON REGULATIONS  
AND PRIVATE BILLS**

**COMITÉ PERMANENT DES  
RÈGLEMENTS ET DES PROJETS DE LOI  
D'INTÉRÊT PRIVÉ**

Tuesday 27 September 2005

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*The committee met at 0931 in the Best Western Beacon Harbourside Resort and Conference Centre, Jordan.*

## VQA WINE STORES ACT, 2005

LOI DE 2005 SUR LES MAGASINS DE VINS  
DE LA VINTNERS QUALITY ALLIANCE

Consideration of Bill 7, An Act to authorize a group of manufacturers of Ontario wines to sell Vintners Quality Alliance wines / Projet de loi 7, Loi autorisant un groupe de fabricants de vins de l'Ontario à vendre des vins de la Vintners Quality Alliance.

**The Acting Chair (Mr. Kim Craitor):** Good morning, everyone. Welcome to beautiful downtown Jordan. The standing committee on regulations and private bills is pleased to be here. On today's agenda we're going to deal with Bill 7, An Act to authorize a group of manufacturers of Ontario wines to sell Vintners Quality Alliance wines. The bill is sponsored by MPP Tim Hudak. The process will be that we will start by allowing the member to speak on the bill for 15 minutes, and then we'll follow up with five minutes for the government statement.

**Mr. Tim Hudak (Erie-Lincoln):** Thank you, Mr. Chairman, for the opportunity, and I thank the members of the committee. I thank those who are here with us today and those presenting, either here in Jordan or in Toronto, for their input and their support of our grape and wine industry.

It's relatively rare for a private member's bill to not only make it this far in the process but also to be taken outside of Queen's Park for public hearings. I thank members of the committee for their support, particularly my colleague from the Niagara Centre riding, Mr. Kormos, who was very helpful in securing hearings here in the Niagara Peninsula. I also want to thank Finance Minister Sorbara and Minister of Government Services Gerry Phillips, who have given me personal phone calls to discuss this bill.

This morning I want to take a few minutes to outline for the members of the committee and the public why I introduced this bill, and a similar one as Minister of Consumer and Business Services in 2003.

Before I do that, let me say that nothing I am proposing in this legislation should diminish what I believe

to be another important government initiative to support the Ontario wine industry; namely, to encourage the promotion of Ontario wines through its existing distribution system, the LCBO. I think that any solution needs to better utilize the existing LCBO system but also look to a parallel system of winery stores.

No doubt some positive steps have been taken by the LCBO, such as the Craft Winery section, VQA advocates in the stores and showcase stores in Ontario, like the one we recently built here in St. Catharines. While minister, I enjoyed working with Andy Brandt to move forward these initiatives, and I'm pleased to see them continue.

No doubt, the LCBO must be an important and necessary part for any solution to improving the promotion and sales of Ontario VQA wine. But from my experience as an MPP and as the minister responsible for the LCBO, I fundamentally believe that the LCBO alone will not be sufficient to remedy the industry's challenges. We can do more, so allow me to present three reasons why I believe this bill to be an important solution.

First, I believe we have the potential to create in Ontario an even greater destination attraction for wine lovers internationally. We have the grapes, we have the talent, the natural resources and the entrepreneurship to make this happen, and government policies are actually an impediment to achieving this goal.

Second, I believe we have an alcohol distribution system in Ontario that is not reflective of the realities of the growing Ontario wine industry, nor of the mature Ontario consumer.

Third, I believe that policy decisions to support our VQA producers—and again, VQA is the 100% Ontario grape product—will reap even greater rewards for a number of other government policy goals such as investing in agriculture, building a support system for the greenbelt and supporting innovation and research. Let me address these in a bit greater detail.

This past summer, my wife Debbie and I had a chance to spend four days' vacation in Napa and Sonoma to help celebrate her birthday. As an MPP proud to represent part of the Niagara Peninsula, I believe we have many of the same ingredients to create a similar destination attraction. We've made great strides in that respect, though we still have a number of steps that we can take.

One of the elements of a truly successful wine region is a vibrant and diverse industry. You need the large

wineries no doubt for their marketing muscle, but you also need a successful, profitable and vibrant small craft winery industry. It adds ambience; it adds a variety of experiences for the traveler.

Many of our small and medium VQA producers are facing significant economic challenges today. Their chief concerns are tax rates and market access, not to forget the very specific challenges of a devastatingly difficult growing season for our producers this past year. What stands in their way to greater profitability and therefore sustainability is government policy.

One of the major differences that struck us immediately from the California experience was the number of speciality wine stores that highlighted and boasted about their local California product. We need speciality stores, particularly in our areas of high tourism traffic in Ontario, to showcase our award-winning VQA wine. The more Ontarians and tourists alike see, hear and taste our award-winning wines, the greater the likelihood that they will visit or return to Niagara, Prince Edward County or Pelee Island. I think the Wine Council of Ontario presentation will discuss the relatively small number of wine stores that currently exist for a province of our size.

Sadly, instead of promoting VQA experiences in stores, government policy actually dramatically restricts their market access. Retail stores opened after 1993—wineries are limited to selling only at the site of the winery itself, nowhere else. They can only sell their own products and only those products actually manufactured on site. Imagine if your product could only be sold for retail through the manufacturing plant. Such a government-imposed restriction would present you obviously with enormous challenges in executing a successful business plan.

I know some will say that the LCBO should be the solution, and the only solution, to that dilemma, which takes me to the second reason: that focusing strictly on the government-owned and operated LCBO in its current form is not the answer. Increasingly, the LCBO's mandate has been to drive maximizing revenue for the province of Ontario. That means that as a consequence, it concentrates on big brands that can supply all of the stores quickly and hit those shelves. Suppliers to the LCBO are often told to hold their own inventory, imposing a significant cost to small and medium-sized businesses. Effectively, its door-to-floor inventory style is much like that used by Wal-Mart, and it has become the Wal-Mart of the alcohol sales business in terms of concentrating on big brands.

While that system can be conducive to large producers like Australian wines or French wines, it actually harms our small and medium-sized Ontario VQA producers. In fact, the recent Beverage Alcohol System Review Panel cited this by saying, "Currently the LCBO decides what products to carry, and tends to favour those that generate a high sales volume. Wineries and distilleries producing small volumes or specializing in niche products have few options if their offerings are not listed."

Just a couple of examples: There are 120 wineries that theoretically could sell to the LCBO in the grape indus-

try, but only 15 sustain a general, ongoing listing at the LCBO. Furthermore, only 10 of the VQA wineries have sold 10,000 cases per year to the LCBO, a relatively modest amount when you consider that Yellow Tail, one of the big Australian wines, sells 17,000 cases of Yellow Tail red per month, as opposed to the 10,000 per annum for the VQA wines.

#### 0940

The last point: I think a lot of us were surprised that in February the National Post revealed that only 10 of the top 49 Ontario wines for the Ontario Wine Awards were available through the LCBO. Certainly that restricts consumer access.

I think we should be emboldened by some of the successful changes that have been made to liquor licensing laws in Ontario. Certainly agency stores in small-town Ontario have been generally well received. Some of the new initiatives like "bring your own wine, take the rest home," a 2 a.m. close and expanding hospitality to areas like golf courses have been generally accepted by the public. I think we can push more toward having new options for wine retail in Ontario that would specialize, unlike the Wal-Marts, in VQA sales and hard-to-find wines.

Let me return to my third reason for introducing the bill. I believe policy decisions to support our domestic industry will reap even greater benefits in the agriculture sector and the tourism sector, will support the greenbelt and will support innovation and research through our post-secondary institutions.

When you buy VQA wine, 100% Ontario grape, you're also making an investment in Ontario farmers, the grape growers—VQA wines, 100%. Let me stress that again, Mr. Chairman. The wine council and grape growers will tell you that for every bottle of Ontario VQA purchased, there's an economic benefit of \$4.30 per bottle, in contrast with only 56 cents per bottle for any imported wine.

Spinoff benefits to the agriculture and tourism sectors from VQA stores would also help the government support its recent greenbelt initiative.

The clustering of resources to support our grape and wine industry includes innovative programs at Niagara College and Brock University. Government policies that will aggressively promote VQA wines will support other government initiatives to invest in post-secondary education and to pursue Ontario as a lead innovator in North America.

Let me conclude by addressing the one concern I've heard about this legislation. I think there's broad support—we've heard it in debate from members of all three political parties—for doing more for our VQA wines and addressing the market access issue. I note some government officials have expressed concern about potential trade obligations. When I had the opportunity as a minister to examine the same file, I worked with the Ministry of Consumer and Business Services staff to craft the best legislation that would minimize those trade risks. Certainly, Chair, I think you're well aware that in

California, British Columbia and Pennsylvania, very similar initiatives already exist that have not been challenged by any kind of trade law. As a result, I believe this will be the case if this legislation becomes law: the same experience as California, Pennsylvania, BC and other jurisdictions have had in supporting their domestic industry.

Despite requests to government for a legal opinion on such, we've received nothing to date. In fact, the LCBO has written to me indicating that no such opinion exists in their organization, and I think the same from public infrastructure renewal, now responsible for the LCBO.

Nonetheless, my goal is to ensure greater market access for our craft wine producers. If there are ideas that come forward from those who present to the committee and from members of the committee to improve the bill, to amend it or come up with a better idea, I'm open to them. I don't care if it's Bill 7 particularly or any kind of other initiative, as long as we solve the issue of market access, support our domestic grape and wine industry and uncork the potential of our VQA wines.

Again, I thank you for the opportunity to present. I look forward to these hearings and to working with members of the committee and the general public, if possible, to improve the bill and send it back to the House for third and final reading. Thank you.

**The Vice-Chair (Mr. Tony Wong):** Thank you, Mr. Hudak. The government statement?

**Mrs. Maria Van Bommel (Lambton-Kent-Middlesex):** First of all, it is wonderful to be here in Jordan. From this side of the room it's certainly a beautiful view.

There's no question about the support of our government for the winery industry and for grape growers. As a matter of fact, in our May 2004 budget the government and the province added an additional \$10 million to our funding for the wine industry. That started this year and will last for five years.

Many of us have been to this area. We've been to Pelee Island and to Prince Edward County, and certainly the wineries are showcased in these areas. My husband and I return over and over again every year to Niagara-on-the-Lake for a bicycle tour of the wineries and enjoy it very much. It is a real tourist attraction, and it continues to grow. Every year we see more and more people here, and we really enjoy it. But as a farmer, I also appreciate the skill of the farmers in growing this industry. The grape growers have done an amazing job in selecting varieties that will weather this climate and that bring out the best of the soils in this climate and in this area.

Even with that, we all know that Mother Nature is something we still have no control over. So this year our government has entered into an agreement, an MOU, with the wine council, the LCBO and the grape growers to help mitigate the short crop that's coming. The government is committed to creating a committee that will address the medium- and long-term issues of the industry, and the associate secretary of cabinet will chair this committee. This demonstrates the government's recognition of the importance of this industry and its issues.

The MOU clearly articulates a commitment to promote transparency and clarity for the consumer in presenting VQA and non-VQA wines. It will be there so that consumers understand what they're buying. This is a significant commitment on the part of our government that goes well beyond the short crop that is ongoing right now.

We recognize the importance of the grape-growing and winemaking industries as part of the economy of Ontario, and in particular of the greenbelt. We will continue to support the ongoing wine industry. The one concern we have, as has already been stated, is that this bill does violate existing trade agreements by increasing the number of wine retail stores selling exclusively domestic wine. That may have the potential of hurting the wine industry in the future.

I feel, as does our government, that the wine industry in Ontario has a bright future. I think we can achieve great success, but we need to do it in a way that is consistent with international trade agreements, and I think we have that possibility.

**The Vice-Chair:** Mr. Craiton, there's about one minute left, and you would like to speak, right?

**Mr. Kim Craiton (Niagara Falls):** I do, Chair. Thank you. I just have very brief comments. First of all, congratulations, Tim, in putting this bill forward; I will be supporting it.

I do want to share something, because we keep hearing about NAFTA. I just want to quickly mention something that took place in Niagara-on-the-Lake. I had a town hall meeting and brought in the chair of the LCBO. I didn't bring up the subject, but it was brought up—there was a great turnout. I remember Andy Brandt, who was a minister in a previous government, explaining to us quite clearly that you can't do it, you shouldn't do it and here are all the reasons you shouldn't go forward with this type of bill. Even after hearing that, I'm still going to continue seeing if there's a way this bill can go forward without, as Andy Brandt said, serious effects on the free trade agreement. As someone who believes in and has worked hard, as has Tim and other members—the wine industry and the grape growers are essential to our economy; they provide a quality product. I want to ensure that every opportunity exists to help them in any way we can.

**The Vice-Chair:** A third party statement, Mr. Kormos?

**Mr. Peter Kormos (Niagara Centre):** Thank you, Chair. It's a pleasure to join Mr. Hudak in his riding this morning. I applaud him for his bill and for the motivation for that bill. Let's understand, though, that there are undoubtedly going to be amendments to this legislation before it's completed in committee.

We have to expand this beyond VQA; it also has to apply to fruit wines. I only discovered this summer, drinking some very, very good peach wine from one of Niagara's wineries, that there was a similar appellation for Ontario-based, 100% Ontario-sourced fruit wines, which of course then takes us to the whole issue of wine

content. I'm pleased that the furor around wine content has been the cause of some very public debate. I think one of the things that's part and parcel of any addressing of the need to promote and reinforce Ontario wines is to stand firm and adamant that wines identified in whatever way, shape or form as Ontario wines should be 100% Ontario product. If it isn't 100% Ontario product, it's not fair to the grape grower and not fair to the fruit grower.

**0950**

The grape growers down here in the course of my lifetime—50 years now—have gone to some incredible expense and huge labour in terms of ripping out vines and raising new stock, developing a world-class grape. It's an injustice to hard-working grape growers in Niagara to have somebody drink Chilean plonk under the misperception that they're drinking an Ontario—never mind Niagara—product. It's offensive to those families growing grapes, because it's families who grow grapes.

You can talk about California. I've been down to California. There you see one vineyard, and it's the size of all of Niagara region. That's just one owner of one vineyard. You undoubtedly saw that, Mr. Hudak. The scale is enormous. One of the blessings of the grape-growing and wine industry in Niagara is that we've seen this beautiful growth of small, niche, boutique wineries producing some incredible product.

I, like others, am a fan of Andy Brandt at the LCBO. I'm a fan of the Ontario liquor board employees' union and their membership as well, who work hard selling spirits and wine product.

Mr. Hudak knows that I support the intent and the goal of his bill, but I believe that the goal is best achieved by making the LCBO front and centre. Quite frankly, I am not about to dismiss the trade arguments; however, I say that they can be addressed very readily. To give the LCBO the mandate, in conjunction with the Ministry of Tourism, to promote Ontario within their jurisdiction of marketing spirits and alcoholic beverages as a "promote Ontario" exercise in no way violates the free trade agreement, in no way violates GATT or any other trade agreements and, in my view, is entirely achievable. The LCBO has huge assets, huge revenues. We should be diverting some of those huge revenues to very specifically setting up LCBO-run retail outlets.

It boggles my mind that we're prepared to pick people's pockets clean at the slot machines in the Niagara Falls casino but we won't sell them a bottle of VQA wine. Well, Lord love a duck, if there was ever a market for a good-quality local wine product, it's people who are blowing their brains out at the slot machines; if not at the casino, then at the Hamilton airport, at the Toronto airport, in places like the market area in Ottawa, which Mr. Hudak has spoken of, and in the new development east of downtown Toronto, a high-profile, heavily toured area.

I'm putting to you folks that today should not be the final day of consideration of this bill. To give it only one day's consideration is to give it short shrift. There is too much here that could be built on. I say we should be

getting Andy Brandt and the LCBO and Jim Bradley, who is a local member and a good member, in here, talking about how we can develop LCBO-operated retail outlets of the small, niche, boutique winery producers, both fruit and grape, and using that as part of promoting Ontario.

I look forward to the comments of participants. I look forward to hearing from Ms. Zimmerman again.

It boggles the mind: How many times have you been on an Air Canada flight where they don't even serve you good French wine; it's bad French wine? That we can't serve Canadian wine on an Air Canada flight just rots my socks. It is incredible. How many times have I politely asked the flight attendant to please tell the captain to please tell management somewhere in that wacky, bizarre, bureaucratic, privatized operation that I resent being served French wine on Air Canada, because, trust me, no French airline will ever be serving Ontario wine. It's up to us to do it if it's going to be done.

I'm looking forward to this issue being resolved in committee so that a bill that is workable and realistic can be presented to the Legislature for third reading. I'm certain that this government would not abandon grape growers and winemakers down here in Niagara by not calling the bill for third reading.

**The Vice-Chair:** Mr. Hudak, the clerk has just advised me that since there are no other members of the official opposition, you may want to speak on their behalf, if you so wish.

**Mr. Hudak:** I'll take the chance and speak on the opposition's behalf. I'll be quick, Chair. I do thank all my colleagues for their comments. To Mr. Kormos particularly, I do appreciate his support for the principle. He's always been a very strong advocate for local grape growers and the VQA craft wineries. I appreciate his points on fruit wineries as well.

As I said, Chair and members of the committee, I'm open to whatever method will help this become a reality, such that I believe in the principle of better promoting our VQA small craft producers at airports, at the casino, in high-traffic tourism areas. After all, if we want to be a world-class destination—we're getting close, but we have steps to go—we have to boast to tourists and to Ontario residents alike, and what better way to do so than in some of the high-traffic areas that Mr. Kormos has mentioned and that I've mentioned in debate before. Whether it's through speciality stores of the LCBO or what have you, I'm open to whatever methods are possible to make this a reality. I look forward to working with government members to amend the bill where possible.

I thank Mr. Craitor, also representing a key grape and wine area, for his kind words of support for the bill. I know Mr. Craitor has been heavily involved in supporting his local constituents.

I'm pleased with the parliamentary assistant's remarks, which I hope—it sounded like they left the door open if there's a way to amend the bill to give the government some peace of mind with respect to trade issues.

Certainly, as the parliamentary assistant referenced, I think we're all very pleased that the wine council and the grape growers have come together in a very difficult time, with the short crop, to move forward together. Of course, nobody's always going to like everything, but the two tables came together on some important accomplishments, like specializing in VQA wine and giving consumers a better understanding of what's 100% Ontario grape product and what is blend. Concentrating on VQA wines is the right way to go.

It occurs to me that on trade issues, Canadians are often boy scouts. We see that in California, Pennsylvania—British Columbia has had VQA stores for a number of years and has actually increased its VQA stores from eight to 20 in the last few years, doubling sales of VQA wine in the process. If other jurisdictions do it, I think we should replicate that here in the province of Ontario.

The LCBO, for its efforts—and I think Andy Brandt always does a terrific job in taking government direction and implementing it, which is his role as chair. I enjoyed working with him and thank him for his support for a number of initiatives that we brought forward. I think if direction is given to the chair of the LCBO through the House, we can make these stores a reality, despite any concerns that have been brought forward.

I think we have to face the fact that the LCBO, in many ways, is currently the channel for imported wines. I think 60-some per cent, whether it's by shelf space or by value, is currently imported wines as opposed to domestic, which is way out of line with other jurisdictions. That's why I think we need the parallel system. While improvements to the LCBO are welcome, there's no doubt—and as part of the agreement, with the grape growers and the wine council and the government getting behind it, we'll see progress at the LCBO. But we do need to recognize that the LCBO is more conducive to the largest of the producers, whether it's Andrés or Vincor or some of the larger craft wineries, the VQA wineries. As I said in my remarks, only a small number, 15 of 121 wineries, maintain a general listing that year after year are on the shelves. The others, because they're concentrating on quality rather than quantity, just don't fit with the LCBO. I'm encouraged to see progress on that front, but we can't forget about the smallest of the producers and the medium-sized producers and the benefits that will bring to grape growers.

When we sell a product through the LCBO, we can't lose track of the fact that the impact on the economy in agriculture and tourism is much greater from a VQA product. Doing more for our small VQA producers is the goal of this bill, and I look forward to any helpful amendments to get it back to the House for a third and final reading vote.

**The Vice-Chair:** Thank you, members. Ladies and gentlemen, there are a number of deputations. Each individual will have up to 10 minutes for the presentation and questions, and each group will have up to 15 minutes for that.

1000

JOHN O'NEILL

**The Vice-Chair:** The first deputant is Mr. John O'Neill. Please come forward. Welcome.

**Mr. John O'Neill:** Good morning, fellow guests, distinguished members and honourable standing committee. My name is John O'Neill. I have resided in the town of Lincoln for the past 20 years and would like to table a suggestion regarding the VQA Wine Stores Act, Bill 7, to this committee today.

I have been a staunch supporter of issues surrounding the greenbelt and have voiced objections to committees, members of councils and to some authorities acting upon such now-legislated interests. I put this to you now: My position on the greenbelt is not as important as your position being in it. You are the greenbelt, we are the greenbelt, and you are also Lincoln, Ontario.

I believe in Lincoln, and I believe that we are number one in wine. The town of Lincoln and its community is the heart of the greenbelt and Niagara's gateway to wine country.

The Honourable Tim Hudak has brought forth to you Bill 7 through necessity. We are watching and supporting him and his attention to our cherished and envied prime land.

It doesn't stop there. The greenbelt is juggling solutions to existing problems about its infrastructure, and only a few people took a stand when this started. I believe that these constraining problems have left towns like Lincoln in such tough situations as how to gain a threshold to expand its base by the duties to its own infrastructure. We alone, as Lincoln, supply the entire area with vital services and maintenance of the needs for the community, because our wineries have become production manufacturing and our very own red and white blood. We work very hard here and love our work, putting together beautiful wines for your tables.

I support all co-operative alliance agreements in the marketing of our Ontario wines. I am not here for the interests of anything else.

I say to you that the LCBO should offer no less than a significant portion of their shelving policies to our great VQA selection. Is there any favouritism in this area already, I ask? You tell me. In light of offering the LCBO the first right of refusal in restocking their shelves with VQA bottles, I believe that taxation benefits to the LCBO should disappear entirely.

We all know that the VQA can face local markets head-on and in full force and prosper, with or without the LCBO. There would be little problem with this. It would be nice if anyone buying VQA wine in Ontario would do so from a specialized VQA store. Nothing would make us prouder. This is one way that we can reach further into markets in setting examples to other countries, with more support from our own. A great opportunity to everyone in the growing industry is before you right now. After all, who wouldn't like to tour our fine vineyards too?

We are proud. We are Lincoln. We develop the best of VQA wines. Our culture is wine. I say, "Put your hand in the hand of the man who fills the bottle."

Local skills make the best wine, painstakingly and carefully. I symbolize this through a message in this bottle. I believe that together we can show our support of the honourable Tim Hudak's Bill 7 to all of the people of this province and this country who enjoy good-quality wine bottled with the commitment and pride of great local vintners.

I'd like to present this. It has the message in it. Thank you.

**The Vice-Chair:** Thank you, Mr. O'Neill. Members, we have about three minutes left, so each party will have up to one minute to ask a short question or make a statement. The government.

**Mr. Craitor:** First, let me just say thank you for a very passionate and well-put-together presentation. It's one of those that you can tell is coming from the heart, and I really appreciate that.

Your message is clear, and I'm going to just quickly tell you something that I've learned as a new MPP. I was truly astounded when I started to understand what a bottle of wine contained: as little as 10% grapes from Ontario, or even from the Niagara region, and as much as 90% from Chile and offshore. There were many times I actually carried around a couple of bottles of wine. I would show them to my friends and ask, "This says 'Ontario.' Do you know what it means?" I'd say 99% of them said, "Well, that's Ontario wine. That's ours." Then I would explain to them, "No, it's not. It's blended. This is VQA." So I'm saying to you, and I've said it loud and clear, that VQA comes first. We have to figure out a way. We have to get the LCBO—and I've said this publicly as well: I don't find them friendly. I do not find them friendly to the grape growers in particular, to the small wineries, with how difficult it is to get in. When you go in and look at their shelving, the way it's set up, it is not set up to really ensure that the public understands what they're buying. So there have to be changes in that distribution system, as you've said.

I haven't got a question to ask you. I simply want to say that was a good presentation and something that we have to work toward accomplishing.

**The Vice-Chair:** Thank you, Mr. Craitor. Mr. Hudak, for the official opposition.

**Mr. Hudak:** John, thank you very much for the presentation. Obviously, you have a great passion for the grape and wine industry and as an active local citizen. It's good to see you here at the committee.

If this bill were to pass, and hopefully it will pass, and you were to walk into a VQA store down the road, what would your advice be to the committee as to what it would contain, and how about advice on the best locale for these types of stores?

1010

**Mr. O'Neill:** Well, it's funny you mention that. As a matter of fact, my sister, who comes from Richmond Hill, drives all the way to Niagara-on-the-Lake. She oc-

asionally stops into Lincoln and visits us, but she drives all the way to Niagara-on-the-Lake when she could leave her home, go one minute down the road, find a VQA store and purchase a greater variety.

Now, I will never dismiss the fact that she does like coming down here. She does like going on the wine tours. That's great. I think that's fantastic. That boosts the area. I think that's in the program and it always will be. But the fact is, she could be purchasing a variety of everybody's wine. She could have an option of getting the whole spectrum of wine from the wineries here, Niagara-on-the-Lake and other areas, even the country: a greater variety on those shelves, three or four different styles.

I was speaking with one of the winemakers. He suggested that the LCBO accepted four different styles of wine from the winery, and they only accepted one. I wasn't quite sure how to relate to that, considering they were all good. I had bought from him before. But I think variety is the main thing. The options are there to have that variety. I think specialized, educated attendants at these stores would help and assist to bring that out in our wine, to educate the people. I think that's the hardest thing to do, educate the people, make them understand that we have world-class wines here, and I want to see it go world-class, big time.

**The Vice-Chair:** Thank you, Mr. O'Neill. Mr. Kormos has up to one minute.

**Mr. Kormos:** I just want to thank you very much for your presentation. It's not only bang on, in my view, but it had some moments of alliterative quality. Is that fair, Ms. Mossop? Yes, there was some alliterative quality to it. Thank you very much. I appreciate you being here.

ED HUGHES

**The Vice-Chair:** Our next deputant is Mr. Ed Hughes. Please come forward, and welcome.

**Mr. Ed Hughes:** I have to apologize. I have a bit of a cold.

Thanks very much for having me. I want to give my complete support to VQA store creation. It's long overdue.

The creation of VQA stores would provide a viable outlet to promote and sell Ontario VQA wines from small cottage wineries and estate wineries, which are crucial for the continued existence of small family grape farms in Niagara. If you want to keep your commitment to improving the lives of farmers and communities, the creation of VQA stores would be a good first step for these family-run businesses in Niagara.

I am a relatively young farmer with a university education in viticulture. I'm trying to grow my business, and I believe I am one of the few who are trying to do this. Small wineries are a relatively new but explosive industry in Niagara, and it is time to allow them to compete on a level playing field with the large multinational corporations that have come to dominate the Ontario wine industry in the last several years. The current government

policies and systems in place in the grape and wine industry fit the needs of the big wineries, but they do not work for the small wineries.

Cottage wineries and family farms are suffering for a number of reasons and need serious corrective action. VQA stores in Ontario are a good first step to help keep cottage wineries viable by increasing access to the Ontario market. In fact, I would suggest that VQA stores be designated for small wineries only.

Within a few kilometres of where we are sitting today, you can find VQA wines that have won all kinds of international and critical acclaim from world-respected wine experts, and yet many of these wines can only be purchased at the winery, which means the only market for these wines is to consumers who will have to make a one- to one-and-a-half-hour drive to Niagara. It seems apparent by the absence of these wines from the LCBO shelves that the current policy simply doesn't work. Through a combination of LCBO criteria and high taxation, a single winery outlet is preferred.

During the greenbelt consultations in Ontario last year, the government frequently used the Napa Valley as an example of a successful greenbelt. Perhaps this is true, but if you take a closer look at the Napa Valley, there are no small family farms, farm wineries or real farm communities like there are in Niagara. Only large corporations are able to spend the millions needed to do anything in Napa, and Niagara-on-the-Lake is becoming like Napa, which would be a great loss of community. The character and personality of the Niagara region is reflected in small family farm communities. It is the small wineries and the family farms that are vital to preserving our way of life.

Some of the cottage wineries make outstanding wines, and if they could be sold without LCBO price structures and less taxes, this would attract new consumers and help grow the only sustainable portion of the wine industry. Why should these wineries be given a reduced tax structure? It is simple economics: If you reduce the price and improve the access, these wineries will then improve and the government will receive additional revenue in the form of increased sales taxes to offset the lost revenue from the reduced taxes per bottle.

I have heard the arguments about NAFTA and VQA stores. I don't have any solutions to offer. However, I have two issues: First, NAFTA came into effect January 1994. VQA BC started in 1999 and the VQA stores some time later. How did they do that? Second, presently the NAFTA countries—the US and Mexico—do not purchase VQA wines in any great quantity. Only 2% of VQA wines are presently sold outside of the province. Our own in-province market currently is the most important market to sustain the small cottage wine industry.

In a recent lecture at Brock, David Lawrence, an international wine and viticulture consultant from New Zealand, indicated that if VQA wines did not command 40% of the market share, the VQA industry would be in trouble. Today, VQA wines hold approximately 12.5% of the market. Convenience to purchase VQA wines is vital

to VQA growth, and VQA growth is the only sustainable growth area for both the cottage wineries and the grape farmers in Niagara. Niagara is a cool climate region for growing grapes and therefore, to be sustainable, wine needs to start around \$15 and up per bottle, with the majority of the revenue going to the wineries. In Australia they have a staggered taxation system, where the revenue needed to sustain day-to-day business is taxed at very low levels, and as revenue improves, so does taxation. Without improving the bottom line for wineries in Ontario, the industry will stall.

The wine content act is archaic and eventually will be repealed. Niagara could become the only wine region in the world with all imported grapes, with the final result that the family grape farm will slowly wither away and the small communities that everybody, including your government, is so passionate to preserve will be lost. It seems to me that it would be a meaningful first step to set up VQA stores that improve market access for small cottage wineries and estate wineries. Thank you.

**The Vice-Chair:** Thank you, Mr. Hughes. I'm going to do it by way of rotation, and I'm going to start with the official opposition. Each party has about one minute.

**Mr. Hudak:** A great presentation, as always, and well researched. I should let members of the committee know that Ed has some other ideas too that we're working on to promote product grown by local farmers and local grape farmers.

Ed, maybe you could help us a bit more in terms of the reaction of some grape growers to the greenbelt in terms of how this might help farmers who have found themselves caught in the greenbelt area.

**Mr. Hughes:** My personal opinion—I can't speak for other farmers, but as a farmer, I don't see a lot of growth in the current direction that the industry is heading. The majority of the grapes sold are for blended wines that don't seem to be increasing in any substantial manner. Vincor and Andrés—you can't bite the hand that feeds you—buy 80% of all the grapes that we produce. We need to work with them, but we also need to work on areas that can grow. As a grape farmer, VQA wines and small cottage wineries are the major growth area, and it's been shown in the past 10 years, with the number of wineries opening, that we need to encourage this, to develop it, and I think VQA stores are the way to go.

1020

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** Mr Hughes, thank you very much. You're a grape grower. Are you a winemaker as well?

**Mr. Hughes:** Maybe, soon.

**Mr. Kormos:** We've all read about the remarkable growing season this past summer and how it has resulted in perhaps a lesser volume of grapes but a unique quality of grape. Is that a fair observation?

**Mr. Hughes:** Consistently, year after year, I have to say Niagara produces very high-quality grapes. Year to year, there are different varieties that do better. This was a hot, dry summer. It's definitely preferred for reds.

**Mr. Kormos:** It's the sort of stuff I want to know. This may have nothing to do with this bill, I just need this information.

**Mr. Hughes:** White wines enjoy our typical climate, which is a cool climate. They do much better. However, we have had some great successes off and on with reds, and there are some reds that do enjoy cool climates.

**Mr. Kormos:** What kind of wines are going to be most impacted by the unique season that we just had in Niagara?

**The Vice-Chair:** Mr. Hughes, please answer the question in 10 seconds.

**Mr. Kormos:** He planned to until you interrupted him.

**Mr. Hughes:** Cabernet, Merlot, Sauvignon Blanc and shiraz are the ones most impacted, I would say.

**The Vice-Chair:** Thank you. The government.

**Ms. Jennifer F. Mossop (Stoney Creek):** Thank you very much for your presentation. You did reference the BC model, and I think maybe it would be a good time to get this issue cleared up right away. I definitely support the sentiment behind this bill. I've been following the Niagara grape and wine industry throughout my entire career and I'm a huge supporter of it. The reason why the BC model works is because the industry got together to come up with a solution. It's not one that we can legislate. The industry got together and agreed that the existing VQA stores would be shared by all the wineries. We haven't reached that here in Ontario yet. That is not something we can legislate, but it is why our government is working very hard with the industry to develop memorandums of understanding to solve some of the challenges and deal with those problems, like the memorandum of understanding we came up with for the industry last week, which was signed off on, to deal with this year's severe short crop. Also, though, it built a foundation to move forward, with the industry coming up with the solutions themselves and moving forward. This is a really important piece.

In the short term, while we continue to work on that piece, I think Vintages is a tremendous venue for all Ontario wines, because we don't get into the quota situation. It's not a shelf space. You could have one case, and we can send it off to Vintages. Vintages has a tremendous amount of credibility with the public, with the consumer, and doesn't have that quota issue. I've been working with Andy Brandt to say, "Come on, this is allowable and it's already there." There was an agreement in place a number of years ago that just has not been pushed maybe as much as it should be. We're working to encourage the industry to come up with these solutions, because they exist.

**Mr. Hughes:** If I can address—

**The Vice-Chair:** In 10 seconds.

**Mr. Hughes:** —two points: Most of the wineries, as Tim pointed out, don't put their product in the LCBO due to taxation. It's a very tight market, and you can't afford to lose the amount of money that the LCBO takes. Secondly, the BC solution—and I don't know all about

BC, but they didn't have a Vincor and an Andrés that dominated their industry. They already have their stores; they're not interested in allowing small wineries to have their stores. They have a monopoly already in Ontario, so why would they promote or allow small wineries to now infringe on their market?

**Ms. Mossop:** But BC did manage to get around that, and we have to get something going here as well.

**The Vice-Chair:** I'm sorry, Ms. Mossop, your time is up. Thank you, Mr. Hughes.

#### WILLIAM GRIFFITHS

**The Vice-Chair:** Our next deputant is Mr. William Griffiths. Welcome.

**Mr. William Griffiths:** Thank you. I got out of the farming business a long time ago, because it really wasn't worth the effort.

Good morning, ladies and gentlemen and committee members. Thank you for the invitation to address this hearing about Bill 7 and the VQA stores.

I feel that under the present circumstances, Ontario wineries that are willing, and want to produce 100% Ontario wines and sell them at stores they own or control, are both an excellent idea and a very necessary requirement if they are going to promote Ontario-grown grapes and other products of our Ontario farms.

With the introduction of the greenbelt legislation in Ontario, and in particular in the Niagara Peninsula area, if we do not give farmers all the support we can, we will be able to say goodbye to having the fresh fruit that we at present have the chance to enjoy each year.

The farmers in the Niagara area are, at present, being squeezed by the large corporations that bring products from around the world to compete with local produce at the time that ours is in season. This can be done because the labour costs in most countries are only a fraction of the costs in Canada.

It is apparent that the citizen-owned Liquor Control Board of Ontario sees fit to display most offshore brands of wines rather than showcase our own Ontario products. I have heard of several reasons, but the real reason will remain unknown, as most of us are not mind readers. But then we have a problem: Who knows whose mind to read?

Some years ago, the Ontario and federal governments co-operated with farmers to change the types of grapes grown for winemaking. It has taken some time for this plan to come to fruition, and now that it is doing very well, large wineries and wine blenders want to squeeze farmers by importing foreign wines and falsely labelling them as fully Canadian wines, thus denying farmers a fair profit for their efforts. If the wineries and blenders are sincere in the offer to only import wines for blending, and will revert as soon as Ontario grapes are available, they should be willing to pay a tax or surcharge on all the wine imported, so they can keep their plants operating, to the farmers who are losing money due to the crop loss due to weather conditions beyond their control.

We also have a serious matter to deal with, and that is the dilution of Ontario wines with wine from other countries without proper labelling. The large wineries and the blenders are blending a small amount of Ontario or Canadian wines with wines from other countries. Then they have several ways of suggesting that the product in the bottle is Canadian, when in fact it is up to 90% imported wine from anywhere in the world.

This brings up a more serious problem in Canada. We have rules on the kinds of spray that can be used and when it can be used in relation to the harvesting of the crop. Many foreign countries use sprays that are hazardous, and we have no control over when or how they are used, which leaves the purchaser open to any health hazard without the knowledge of what it may be.

I have filed a complaint with the government of Canada about the dilution of Canadian wines with foreign wines without proper labelling under Canadian law.

1030

**The Vice-Chair:** Thank you, Mr. Griffiths. I'm going to start with the third party. Mr. Kormos.

**Mr. Kormos:** Thank you very much, Mr. Griffiths. With respect to the wine content issue, there's been a lot of misunderstanding about that, and it's the identification of the wine by virtue of its placement on the shelf in the LCBO that is misleading. As well, the label talks about the wine being cellared in Canada, but currently there appears to be no obligation that the consumer be advised of where the respective juices or grape came from—in other words, the country of origin—or the percentage. In other words, we don't even know that it's 10% as compared to 15% or 20% Ontario grape.

I trust that you would be calling for some pretty rigid, complete and accurate content identification on any given label on a bottle of wine.

**Mr. Griffiths:** Yes. I have filed the application because I believe if it's made in Canada or Ontario, it should be labelled such, and if it's from any country in the world—and I don't care about their bringing the wine in. I am not objecting to Chilean wines or Australian wines coming to Canada. That's not the objection. The objection is mixing them with Ontario or Canadian wines and then putting a label on that says, "Cellared in Canada," which means stored in Canada; it has nothing to do with making it. They also have a way of putting the label on that is most deceiving. It says, "Bottled in Canada." "Canada" is in big letters, and in little weenie letters is "bottled." I think that's a disgrace for the industry, but it does make money, and that's all the wine industry is interested in as major corporations. They couldn't care less about the farmer. We quit farming years ago for that reason.

**The Vice-Chair:** Thank you, Mr. Griffiths. To the government side: Mrs. Van Bommel.

**Mrs. Van Bommel:** I also want to just explore this whole wine content issue a little further. When we talk about the wine content and this idea of being cellared in Ontario, and people are looking for an Ontario product, as we go through this discussion, do you think there is a possibility that there may be some harm to the VQA

designation in terms of people wondering how much Ontario wine there is in that, or do you think the consumer understands that VQA is 100% Ontario wine, and other Ontario wines are not necessarily that way?

**Mr. Griffiths:** If it's properly labelled and they can enforce that label and show that that label is being enforced, then it will make a huge difference in the wines. If, as Ontario has just done, they allow them to bring foreign wines in and say it's a Canadian wine, it's a total disgrace to the province of Ontario under any circumstances that you want to play. It's a total disgrace, because every other country in the world orders the identification of products brought in. Our federal law indicates that it is against the law in Canada to blend without identification. Ontario seems to think that's a joke. I'm terribly ashamed of the whole system.

**The Vice-Chair:** Thank you. Mr. Hudak.

**Mr. Hudak:** Bill, thanks very much for the presentation. It probably won't surprise members of the committee much, given Bill's passion, that he's probably the gold medal winner for letters to the Premier and various ministers on a whole variety of topics. One of his favourites obviously is supporting agriculture. He should be saluted for that and for very passionate statements today about promoting VQA 100% domestic product and having a clear understanding for consumers as to what comes from an Ontario farm and what is imported via boat from South America. I think we have to give recognition too to some very difficult but successful negotiations between chairman Ray Duc of the Grape Growers of Ontario and chairman Norm Beal of the Wine Council of Ontario to make some progress in that respect. They should be commended for doing that.

Focusing more on the VQA and on clear labelling at the LCBO, do you think that if VQA stores were to be a reality—and hopefully the bill will pass—blends should be allowed in the VQA stores, or should it be strictly VQA product?

**Mr. Griffiths:** If it's properly labelled and it is a true wine, I don't see any real objection to it.

The bigger problem we have with wines—Vincor, for instance, has bought up several wineries. The names are well known to most people for 100 years or thereabouts, and all of a sudden they've got wines from whatever mixture they like and it says, "Brights red wines from Ontario." You know, that's as big a lie as there is made. That is the destruction of the industry as it goes, because the taste of wines is definitely different from any country in the world. You can blend wines from Australia and Chile and some other countries and come up with a blend that is very similar to Ontario wines.

**The Vice-Chair:** Thank you very much, Mr. Griffiths.

Our next deputant is Pillitteri Estates Winery. Please come forward. Is there anyone from Pillitteri Estates Winery?

#### WINE COUNCIL OF ONTARIO

**The Vice-Chair:** I'm going to invite the next deputant to come forward at this time: the Wine Council of

Ontario. Welcome, and please identify yourself. You have up to 15 minutes for your presentation and questions.

**Ms. Linda Franklin:** Thanks very much. My name is Linda Franklin. I'm the president of the Wine Council of Ontario.

I'm pleased to be here today representing the Ontario wine industry to offer you our thoughts on Bill 7, which deals with, of course, increased access to the marketplace for Ontario's VQA wines.

First, for some background, the issue of access to the market is a very real and pressing one for our industry for a simple reason: We're growing, as most of you here know from our past years of growth. When I first started in this industry 11 years ago, there were 20 members on the wine council. Today, there are almost 70. That's good news for our industry and it's good news for the province. A recent KPMG study that we've just updated shows that the benefit to the province of the sale of an Ontario bottle of wine is \$4.29 in economic activity, compared to 56 cents for foreign wines.

Our industry also preserves agricultural land, enhances tourism in wine regions, creates jobs, provides a platform on which other businesses can grow and establish themselves, and pays over half the retail value of the industry back to the province in various taxes. So by any measure, I think we're a valuable contributor to the province.

As we've grown, however, our ability to get our best wines in front of consumers has become more and more challenging. This is certainly not a criticism of the liquor board; I think we should be very clear. The liquor board have been good partners to the Ontario wine industry over the years and have worked with us over the past few years in particular to support the domestic industry through a variety of measures. But, as they are fond of saying, they don't have rubber walls, and we know that. As well, of course, they're under excruciating, intense pressure from foreign suppliers who routinely argue that international trade agreements mean their access should grow and grow, in spite of the fact that they have a 60% market share of the wine sold in the LCBO already. As a comparison, most other domestic wine industries own 80% to 90% of their home market. So Ontario presents one of the best opportunities for foreign wine sales on the planet, and importers are determined to protect that advantage.

As well, the liquor board is under intense pressure from government to constantly increase revenues. That means moving more product more quickly all the time, and higher-volume brands are a better bet for the liquor board than Ontario VQA wines in terms of economic return.

#### 1040

That wouldn't be true, frankly, if the government looked at the overall economic impact that I've just described to you. But in the case where the only measure of success is cash returned to the province, it's clear that the LCBO is being encouraged to be a mass merchan-

diser of high-volume wine brands. This is a role they perform admirably well, and should continue. But it does present unique challenges to our domestic industry, which by and large is seeing growth in estate wineries making high-end wines.

Finally, the taxes paid by Ontario wineries selling through the liquor board are higher by a lot than the taxes paid by other wine industries in their own countries. There's a chart in appendix 1 at the back of this presentation that demonstrates some of that inequity. If I could just take you to that chart—it's about three pages from the back—you can see in particular, if you look at the taxes paid in jurisdictions that have wine industries, that California wineries, for example, pay an equivalent in Canadian dollars of \$1.13 in taxes on a bottle of wine; New York, our nearest competitor geographically, pays 77 cents; Pennsylvania is pretty high, but it's a control state with no wine industry; Washington, \$3.34; Oregon, 53 cents. Then you get to Ontario: \$6.06 on a \$10-bottle of wine. It's no wonder we're hard pressed to compete in the liquor board.

As a consequence of these high taxes, smaller wineries that can sell all of their product to restaurants or from their own door at a much better tax rate are reluctant to offer their best wines to the liquor board, because they just can't make any money doing it. Unfortunately, that means that Ontario consumers who shop at the liquor board have no idea how much really terrific Ontario wine is made in Ontario, and we believe that's an issue that has to be addressed.

Together, these realities around access and taxation create a real barrier to increasing the sale of VQA wines. Bill 7 represents the first time a serious solution to this access challenge has been presented, and I think Mr. Hudak is to be congratulated for bringing it forward and offering solutions. In fact, I'd argue that this issue has gotten more acute since Mr. Hudak introduced this bill, because VQA sales are softening. Particularly in the last quarter, we're looking at a drop of about 8% in VQA market share.

Many of our international competitors, including Australia, are facing huge gluts of wine in their home markets. That means they're going to be looking to Ontario, one of their top three export destinations, to move larger volumes of low-priced wines in the coming year, starting with a major Australian wine promotion at the liquor board next year. Clearly we've got to strengthen the VQA, and we need to do it now, because frankly we are going to have increasingly stiff competition from folks making really good wines at really low prices.

Mr. Hudak's bill focuses on the VQA, which is where we believe the focus should be, because building our premium wine category is the way of the future for our industry. It also seeks to model a system already in place in British Columbia that has been used with success. In BC, the ownership structure is different than what's proposed here, but the intent is the same: to allow the domestic industry to showcase its best wines at better

margins and thereby increase consumer awareness and purchases of the terrific wines they have to offer.

The main concern raised by government about this bill to date, we believe, has dealt with the issue of trade. I must tell you that there are a lot of members in our industry who have a lot of trouble with this argument and find it very frustrating, since we've watched virtually all of our supports disappear under the trade agreements. As many of you know, our industry used to be taxed at 1% in the liquor board; we're now taxed at 58%, which aligns us with importers. That used to be the single biggest and most significant subsidy for our industry. That's gone now.

At the same time, subsidies in Europe and the US have increased exponentially in the last decade. In fact, just as is the case with the current softwood lumber dispute, our industry won a major trade challenge with the US back in the early 1990s. At the time, there was no WTO panel, so we took it to GATT. We won across the board on arguments that the US was violating trade agreements. We cited 70 violations. It ruled in our favour on all 70, and a few years later when it wended its way back through the US, Congress said to us, "Fine. We're doing nothing. Have a nice day."

Clearly, Canadians have a much higher commitment to our trade obligations than our trading partners, and that commitment means that our domestic industries often find themselves fighting an uphill battle in their own marketplace. So this bill may seem like a pretty bold proposal in light of our trade obligations, but in fact it's pretty modest, given the measures taken by other governments in their home markets to support their industries and in the export subsidies that are offered for those industries, particularly wine, to come here and market their products. However, if the government feels that their reservations regarding trade can't be overcome, then we believe changes should be pursued to address this challenge, given how critical the access issue is.

Some months ago, the wine council made a submission to the beverage alcohol review panel in which we proposed creating an alternative retailing channel, not to undermine the LCBO but to provide additional access. Again, I'll take you to appendix 2 in our submission, which is the very back page, which demonstrates to you that there is room for additional access without undermining the LCBO in any way. If you look at the very last column, retail outlets for all types of liquor per 10,000 population, you'll see that Ontario is vastly underserved in relation to any other jurisdiction we looked at in North America, and this is the majority of major jurisdictions. We don't need to bring ourselves up to the level of New York or Pennsylvania in coverage, but even if we went as far as to at least mirror the number of available outlets in BC, we'd do a lot to increase access for our product to consumers.

There's clearly room for such an addition, and frankly, every other province in Canada has found a way to accommodate some level of private retailing, even when they've decided to preserve a liquor board system. It's

certainly the case in British Columbia: They have cold beer and wine stores; they have VQA stores. It's certainly the case in Manitoba, which has opened up some private retailing alongside the liquor board. The Maritimes are moving in the exact same direction, and of course, as you know, Alberta has entirely privatized, but you don't need to go there to increase access to the marketplace.

If the government's reservations regarding trade concerns can't be overcome, we would frankly be quite comfortable looking at a proposal that broadens access to these stores to other beverage alcohol suppliers. We're not afraid to compete in our own market. We believe we're well-equipped to win that battle, and we have terrific products. We just need access.

I think the other thing we need to talk about is the margin challenge. Any model we contemplate has to address the issue of margin, because there's no point in giving us additional access to a channel we can't afford to sell into. The current tax structure imposed on wine sold through the liquor board is so onerous that small wineries often can't provide wine to that channel. We think that any new retailing opportunity has to address that channel, or small wineries won't be able to take advantage of it.

Mr. Hudak proposes one solution in this bill: making wineries the owners of the store system, thereby allowing them to hopefully reap a better return on their wines. This is a good proposal, and it could potentially solve that concern. Another option is the one we proposed to beverage alcohol: Give entrepreneurs the opportunity to purchase licences for available stores; let them, rather than the wine industry, pay the capital cost of setting up these stores and outfitting them; and then allow Ontario wineries, as the domestic suppliers, to deliver wines directly to those stores, just like they do to restaurants and, of course, as they do to their own stores. That's fair. It aligns with what happens in other countries with wine regions. If you allow wineries from Ontario to direct-deliver and allow importers to still go through the LCBO as the importer of record, that's another way of achieving the same goal of improving margins for the domestic industry in a new retailing option.

In conclusion, ladies and gentlemen, let me just say that access to the marketplace and margins for wineries are without question the most daunting challenges facing our industry today. If we don't find a way to solve these pressing concerns, we will not have a thriving, vibrant wine industry in the future. We think Mr. Hudak's bill provides the government with an important opportunity to address these pressing concerns, and we hope you take up that challenge.

The wine industry has also put forward suggestions to the beverage alcohol review that should be seriously considered. We no longer know what the status of that review is or where it might be going in the government's perspective. But we do need to understand that in a clearer way than we do now, because if we can't surmount the trade challenges posed by this bill, then we

think other options are going to have to be looked at seriously.

Our hope is that the government recognizes the serious nature of these concerns and addresses them, so that the industry can continue to grow, create jobs and offer economic value to the Ontario economy. BC has achieved this, and it's no accident that the BC wine industry enjoys a greater-than-50% share of the market in its own province, facing equally daunting competition. Surely we should be able to achieve the same gains in Ontario, where the wine industry is such an important contributor to the economy and the future of tourism and agriculture. Thank you.

**1050**

**The Vice-Chair:** Thank you, Ms. Franklin. Members, we have less than three minutes left, so each party will have up to one minute. For the government, Ms. Mossop.

**Ms. Mossop:** Thank you for your presentation. I understand why you support this bill. I do as well. In fact, when you were a cabinet minister, Mr. Hudak, that would have been the time, maybe, to get this through. But you know that the NAFTA thing is the challenge. The BC model keeps coming back, but as I understand it, there are only so many licences in Ontario. They're not making new ones since NAFTA, so I don't know how the small entrepreneur wineries will be able to afford to buy those licences. The way they did it in BC was to get agreement among all the wineries out there to share that space. Is that something your council is able to achieve?

**Ms. Franklin:** Well, in actual fact, the BC model—you're right—worked differently. They had what they claimed were a lot of licences in a drawer someplace, so no one gave up any licences. The BC industry magically stumbled across 12 and then magically stumbled across another six, and then a couple more. So we're up to 20 or 21 licences.

We, frankly, have not been quite able to figure out the difference between that and us saying, "Well, do you know what? There were a lot of wineries that were entitled to licences when the free trade agreement closed the door that didn't take them up. Why aren't those licences available to us?" We know, though, that the Ontario government at the civil service level has had grave concerns about this, has argued that it's very different than in BC. I think we'd be prepared to look at any model that allows us to move forward positively for everybody. I guess really we're just looking to the government to say, "All right, what can you live with, what can we do here?"

**Ms. Mossop:** But will your industry agree to share those licences?

**The Vice-Chair:** Sorry, Ms. Mossop, your time is up. Mr. Hudak?

**Mr. Hudak:** Thank you, Chair. I appreciate Ms. Mossop's point. In fact, I did bring this forward as a minister, and we worked to craft legislation that minimized the trade risks. We did have Liberal Party support in opposition at the time. I hope that will continue.

Ms. Franklin, thanks very much for an excellent presentation. I appreciate your approach suggesting that if

there are ways to improve the bill, they should be pursued. BC is a good example. Where there's a will, there will be a way to overcome concerns that may exist, right?

One thing I'll ask you to reinforce is the point that the LCBO, as it currently is constructed, while it helps some wineries, will never really be a solution for the small and medium craft wineries.

**Ms. Franklin:** Sure. I guess there are a couple of points to make in that regard—again, just to say that they've been good partners; they've tried their best. We have a craft winery program now that tries to bring in smaller producers and give them three years to hit quotas. Vintages, as you will know if you've been in there in the past couple of weeks, is doing a major wine promotion for Ontario.

Our challenge is simply that the liquor board's mandate is to move a lot of wine quickly. So when you see a whole bunch of wines from other countries on the liquor board shelves, you're not seeing a whole lot of wines from tiny, little producers from Australia or New Zealand; you're seeing the biggest wineries in those countries, with export power and marketing dollars behind them. The liquor board is an expensive proposition to sell into—very expensive if you're a small winery without a lot of product—and it's very difficult to meet their quota demands if, again, you're a small winery without a lot of product. So it's not the fault of the liquor board, I'd argue, that this isn't a good fit; it's the fault of the fact that the system is driving it increasingly to produce more and more revenues, which means faster-moving, bigger-volume products.

Right now, Australia is a better bet. They're priced higher than Ontario, generally. They can move volume quickly. They have a whacking load of volume to move. So unless we can change that mindset in the liquor board and say, "No, no. You need to be measured also on your success in moving Ontario wines and VQA wines," I think we're going to have trouble. I think even if we can change that mindset, it's awfully hard to have a very big system, which is what the liquor board has to be, nimble and responsive to the needs of very small wineries.

**The Vice-Chair:** Thank you. Mr. Kormos.

**Mr. Kormos:** I quite frankly appreciate your last comment, because I really think that's the objective of the exercise. In my view, it's imperative that the LCBO, our publicly owned marketer/retailer of wine, spirits etc., be the critical player. So you and I will disagree, I suppose, for a long time about the increase in the privatized liquor stores, but that's OK, because there's a whole lot of other areas where we can agree.

VQA sales softening: Explain that. I know what you mean, but why?

**Ms. Franklin:** I think there are a lot of reasons for it. We're still struggling to get a really good handle on it in the industry. I think it's driven by a number of things.

Increasing Australian competition would be first and foremost. They're driving a whole lot of really great wine into our market at really, really competitive prices, and they've got a lot of money to do it.

We've had three really tough years. We've had ladybugs; we've had two crop failures. None of that has been helpful to the VQA. And we're just faced with a whole lot of really intense competition, generally speaking.

That's not to say, frankly, that we can't do a whole lot better. I think we can. I think that when we get to the next harvest, and there's a big harvest and it's great wine, that will help. I think our new producers coming on-line will help. But I also think that if we're really going to target consumers' mindsets, we have to show them the breadth of what's out there. You, Mr. Kormos, have been to Cuvée before. I think that consumers who get a chance to go to that and see the breadth of the wonderful things we have to offer come away with a very different understanding of what Ontario does as a wine industry than when you walk into the liquor board and see a very limited range.

**The Vice-Chair:** Thank you very much, Ms. Franklin.

#### GRAPE GROWERS OF ONTARIO

**The Vice-Chair:** The next deputant is the Grape Growers of Ontario. Welcome, and please identify yourselves.

**Ms. Debbie Zimmerman:** Good morning. My name is Debbie Zimmerman. I'm the CEO for the Grape Growers of Ontario, and with me is our chairman. We refer to him as Chair Ray Duc, just to make sure that it's gender neutral.

It's a pleasure to be here this morning. I'd just like to give you a bit of background about what we do. Since 1947, the Grape Growers of Ontario have been the voice for grape growers throughout the province and have worked on their behalf. We continue to do so with pride.

We are the official lobby organization for over 530 grape growers and processors. We represent 15.3 million vines, on roughly 17,800 acres, from four growing districts in Ontario: Niagara, Pelee Island, Lake Erie North Shore and Prince Edward County.

We serve as a liaison between grower members, industry stakeholders and government. We direct our efforts toward our mission statement, which is "to have Ontario-grown grape products demanded worldwide, and to achieve sustainable growth and profitability by creating an improved environment for Ontario-grown grape products."

In the recent report of the Beverage Alcohol System Review Panel commissioned by the Minister of Finance, the Honourable Greg Sorbara, it is stated that, and this came right out of the report at page 33: "We agree with grape growers and wineries that the future of Ontario wine depends on increased consumer awareness of 100% Ontario wine, and specifically wine bearing the VQA mark."

The Grape Growers of Ontario support the concept of VQA wine stores as one way to increase consumer awareness of 100% Ontario grape content in wines. However, when considering the VQA stores, it is important

that there be more than one store in this province and that these stores be placed in high-traffic areas.

When looking at the grape industry in its entirety, it is important to realize that VQA-only wine stores are not the only solution to supporting grower viability, especially those growers in a greenbelt. We need long-term, viable solutions to improve opportunities for Ontario-grown grape products.

We believe there is a vast difference between being a world-class wine region and having a couple of successful wineries. Ontario's goal should be the former. World-class wine regions share certain characteristics, and among them are:

- content and labelling rules to require the use of local product;
- a level playing field for new entrants;
- a distribution system that lets new wines attract notice;
- government tax policies that support local wines; and
- a healthy value chain of growers, producers and distributors.

The Beverage Alcohol System Review Panel reported, "Ontario's smaller vintners are concerned because there are limits on how far the LCBO can go towards putting every Ontario wine on its shelves." Distribution through the LCBO is difficult for small wineries because of its listing and merchandising practices. The LCBO sets minimum volume requirements that most small wineries cannot meet.

Small or new wineries, those wineries post-1993, need increased access to markets in order to sell their wines. Currently, they are restricted to selling through a single on-site winery retail store, often in a remote rural location.

#### 1100

A fair and open distribution system for all wineries through the LCBO is needed. One way to achieve this is to provide dedicated shelf space for small wineries in the LCBO. In turn, this would allow small wineries the opportunity to market their VQA wines to consumers through another outlet other than an on-site winery retail store.

We have to commit to grow Ontario. In a greenbelt, it is crucial that the government support Ontario-grown products. The government must support and promote the VQA brand—100% Ontario content.

Support VQA wineries: We must recognize the greater contribution that VQA wineries make to agricultural viability and employment compared with pre-1993 blending wineries. We should also allow VQA wine to be sold in all winery retail stores, as the original intention of these stores was to promote Ontario product. This would provide the best value to Ontario taxpayers.

Ontario is unique among wine regions in allowing foreign product to be imported and blended with Ontario product and labelled as "cellared in" product. Ontario wineries licensed before 1993, through the Wine Content and Labelling Act, are allowed to blend an Ontario wine

at 70% foreign and 30% Ontario content. As has been mentioned, the current short crop memorandum of understanding, through the government and with all-party signature, must remain committed to achieving 85% Ontario product and 15% foreign product by the year 2010 to be sold under the Ontario wine banner. We are recommending and will insist that this be taken one step further and we advocate that all Ontario wines, by 2011, to be called an Ontario wine, be 100% Ontario content. The strengthening of Ontario content rules by increasing the Ontario content in a blended bottle of wine will support the vitality and viability of the grower.

In light of the greenbelt and the damage sustained to vineyards this year due to a harsh winter, mechanisms need to be put in place to support the grower. Both the federal and provincial governments are needed to support a national replant program. In addition, growers need financial support for infrastructure enhancements, whether they be wind machines or irrigation. This will allow the grower the opportunity to keep growing and planting high-quality grapes for VQA wines. Replanting the vineyards must be part of a long-term strategy to grow the VQA wine industry.

There are two industrial pre-1993 wineries that own 265 of the 290 off-site winery retail licences. According to the LCBO, no new off-site winery retail licences can be granted. There is a need for winery retail licences to be distributed more fairly. The Grape Growers of Ontario support the panel's recommendation to auction off licences of retail outlets and limit the number of licences that one bidder can have. We urge the government of Ontario to move on the beverage alcohol review panel recommendations. We believe this is a critical part of our future.

These licences were originally intended to support the growth of Ontario wineries, but the current monopoly of these licences has virtually stunted the growth of VQA. A redistribution of these licences could be one method to create VQA wine stores, and it would create an outlet for our smaller producers. The report also calls on government to increase support for small producers by reducing the rate of government charges on wines.

We recommend and support the need to reduce the markup for Ontario VQA wines sold at the LCBO. For example, the LCBO has increased the markup, as you have heard this morning, from 12.8% to 58%. It is not surprising to hear today that if VQA stores follow the current LCBO model, there would be little buyin by wineries to be part of a VQA store system.

The GGO supports the VQA store concept, but without a fair distribution of stores throughout Ontario and tax strategies that support our smaller producers, the VQA store concept will remain just a concept. The VQA store system is part of the solution but not the whole solution. We are convinced, as growers and producers, that the VQA store system is part of a complete restructuring of the alcohol distribution system in this province. We need an environment that nurtures our small wineries as they enter into and grow in the marketplace. Thank you for your attention this morning.

**The Vice-Chair:** Thank you, Ms. Zimmerman. I'm going to start with the official opposition. We have five minutes left, so it will be slightly less than two minutes per party.

**Mr. Hudak:** Thank you, Ms. Zimmerman and Chair Duc, for the presentation. As I said earlier, congratulations to Ray Duc of the Grape Growers of Ontario. It was not an easy task negotiating an agreement to move beyond the short crop. It's a lot of work.

Maybe I could ask either Debbie or Ray: You talked about the importance, if VQA stores were to go ahead, of having a tax advantage that works for the small and medium VQA suppliers. Maybe you could go into further detail about that. I know you have a very good chart at the Grape Growers of Ontario office that makes that point in terms of the take the government has from stuff sold to the LCBO and how little actually trickles down to the grape grower.

**Mr. Ray Duc:** One of the major problems facing our industry is the taxation, and the small producers of wine cannot afford to distribute through the LCBO because of that. If you're producing hundreds of thousands of cases, yeah, you can take a little bit per bottle and you'll show a profit at the end of the year. If these VQA wine stores are set up through the LCBO, I imagine the same tax structure would be in place and there would not be a benefit to the small wineries. They just simply cannot afford to sell at that low a markup.

**Mr. Hudak:** So you believe that whatever the model—and hopefully some model would go forward—it has to mimic the tax structure that currently exists at the wineries themselves.

**Mr. Duc:** That's correct; some kind of direct delivery system to something like what Linda was talking about also.

**Ms. Zimmerman:** If I could comment on that as well, I think trade barriers have been used significantly as an argument for a number of years, and it is a concern, but I would suggest that the beverage alcohol review panel had some phenomenal recommendations. If there is a parallel system, I'm not sure whether that would work. Maybe that's where we differ with the Wine Council of Ontario, but what we would suggest is that there are currently wine licences that were established before 1993 that could be auctioned off. With the number of wine licences currently, an opportunity could be created from that system for VQA stores. The monopoly is a part of the problem of access to market for our current wineries, especially our VQA wineries, and that was very well documented throughout that report. I would suggest we use that report as a beginning for discussion on how we change the future of the distribution system in this province.

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** Thank you, both of you folks, for coming to today.

**Mr. Duc:** Thanks for coming to Niagara.

**Mr. Kormos:** It's an important contribution, but you're preaching to the converted. Mrs. Van Bommel is a

farmer; Ms. Mossop lives just a block away; Craitor lives in Niagara Falls and drinks the occasional glass of wine; McMeekin even more so; I won't speak about Hudak, but I know I drink my share of wine. But we're the converted. The problem is, you say, "Come to Niagara." No, you folks have got to come to Toronto, because it's not the people on this committee who have to be persuaded, in my view. There's a whole lot of hyper-urban people—can I call them that? The closest they've ever been to a vineyard was when they smelled the scent off the cork of a bottle of wine.

What about the national replant program? Tell us about that.

**Ms. Zimmerman:** It's an important component to moving the industry forward from varieties that we grow, and grow well. There are taste profiles to some of our varieties that cannot be reproduced anywhere in the world. For example, our Riesling is a phenomenal product that we produce. We need to get our growers into those varieties, and more hardy varieties, because what we've seen with the past winter damage is that the significance of those vines being able to sustain this winter damage is just not possible.

**Mr. Kormos:** What stage is this at?

**Ms. Zimmerman:** It's in discussion. I'm actually headed off to our nation's capital to sort of push the issue. But we need Ontario as one of our partners. Ray can certainly speak to why it is so critical for growers for the future.

**Mr. Kormos:** They've got to hear about how urgent it is.

1110

**Mr. Duc:** In the past three years, 2003 to 2005, we've suffered tremendous damage in our vineyards. Our vineyards are hurt to the point where we're almost not competitive on the world market any more. Because of the harsh winters, we haven't had the income to keep our farms properly replanted. So we need help.

The program that Debbie mentioned is a three-way program—federal, provincial and growers—each putting in \$4,000 to get these acres back to a level where we are competitive with the rest of the world and with the varieties that we can do here. It's a very important program to the future of our grape-growing industry here.

**Mr. Kormos:** It sounds like something for question period come October. Right, Mr. Hudak?

**Mr. Hudak:** Come October.

**Mr. Kormos:** We wanted to be back earlier.

**The Vice-Chair:** From the government, Ms. Mossop.

**Ms. Mossop:** Thank you very much for what you've done. I want to congratulate you also on your participation in creating what I think is a huge step forward in the memorandum of understanding and setting a foundation to go forward with this industry.

I mentioned earlier, before you were here, that I've been following this my entire career. I'm very passionate about the grape and wine industry. I watched it mature, and I know it has a tremendous future.

I mentioned something earlier about, "You should have done this when you were a cabinet minister." That

wasn't a shot. It's because I really would like to see this happen, but you know the challenges we face around NAFTA. You know how timid we are around NAFTA as a government, regardless of who's driving the bus. What we really need here is not to be politically clever, not to make political brownie points; we need to be co-operative and creative and find a solution. We've danced around some issues. Vintages doesn't have the shelving issues, but it has a tax issue. At least that's a place where we could definitely promote VQA in a bigger way, and we need to push that with the LCBO—excellent suggestion. I've been working on the same piece about promoting Ontario in general.

Finally, it's this licence piece. There are only so many licences out there. We know who has them. We know the suggestion of auctioning them off is probably a good one, but do you think now, as we move forward in the industry, we can get that kind of willingness to share those licences to be auctioned off? What needs to happen there so we can do that piece? How can we loosen those up?

**The Vice-Chair:** Can you answer the question in 30 seconds?

**Ms. Zimmerman:** You're kidding, right? I'll try. Certainly what we think—

**Mr. Kormos:** Unanimous consent. Take your time.

**Ms. Zimmerman:** Thank you. I appreciate that. I think what is important is the suggestion we came up with, because the auctioning off of the licences would be one opportunity to create access to licences for VQA stores, which is why we suggested it, not trying to create a parallel system. We know the trade barriers and, as you've pointed out, every government would be sensitive to those trade repercussions, and we appreciate that.

We believe that the beverage alcohol review actually came up with phenomenal opportunities to create what member Hudak has suggested. Everybody's willing to work to come up with that solution, if that is a way in which we can get this done. We believe VQA is our future. We appreciate the work that's been done on this bill, because it is needed for our future. I think it is one opportunity with the current licence system to reconfigure that so it has access for all of the wineries, not just a few wineries.

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

#### CROWN BENCH ESTATES WINERY

**The Vice-Chair:** Our next deputant is the Crown Bench Estates Winery. Welcome and please identify yourself.

**Mr. Peter Kocsis:** My name is Peter Kocsis. I'm the owner of Crown Bench Estates Winery. First of all, I would like to thank the panel for coming down. I would like to thank Mr. Hudak for being involved in this issue—very critical. I would also like to mention that I'll probably be one of the few people who actually has two members of Parliament sitting. I am a resident of Dundas and Mr. McMeekin, with Mr. Hudak, is my member of Parliament.

Having said that, I'm not going to make anybody's life really easy. I'll start with the notion that, by definition, agriculture includes marketing. It is a fundamental right that has, through the years, especially with beverage alcohol, been denuded to the point where we're having to do this kind of gerrymandering, if you will, of the system.

It would seem to me that at some point the rules and regulations, when they conflict with fundamental rights, have to be examined. I think we've reached that point. While one can understand why society as such, our government in Ontario, would look at regulating beverage alcohol, I would also like to point out that wine is more than that. It's a food; it's a medicine. As such, when we have our fundamental rights to market it denied, several problems occur.

I would like to quote, if I may, a few sentences from the beverage alcohol review, basically from the executive summary. If you will bear with me for a second, I will try this:

"Our stakeholder discussions also demonstrated that after 78 years of evolution, today's system is neither as rational nor as flexible as most stakeholders think it should be. Nonetheless, it is our conclusion that stakeholders have learned to function within the system, even though that means adopting or maintaining business practices that would not have been pursued in a more open economic environment.

"Through our consultations we came to understand that stakeholders have an investment in today's system. It did not surprise us when they said they favoured only modest changes to the status quo. While we appreciate these concerns, we find it difficult to agree that major change should be avoided at all costs."

I would like to state that I am in agreement with that. Our access to market is based, as I said, on our fundamental rights, and these now have been abrogated for different means.

Of course, the devil is in the details of this particular bill. Merely setting up one more VQA store or three more VQA stores or six more VQA stores realistically is not going to help 80 wineries get their product to the system on a rational basis. It will help. We're grasping at straws, and merely having this discussion is helpful, but we will have to come to a fundamental understanding of who would run these stores. Would it be a partnership of wineries? Would it be the LCBO? Would it be the VQAO? Would it be the wine council? Would it be the grape board? We have no criteria by which to decide how wines will get into the system.

We're one of the few jurisdictions—probably the only jurisdiction, as far as I know—that make it a fundamental entry to the market to have a dual test. Most appellation control systems merely say, "You grew this wine in Château Margaux. You're Château Margaux. Off you go." In Ontario, if you grew it in the Niagara Peninsula and you still want VQA on it, it has to go through a tasting panel. I'll refer back to the sentences I read about the stakeholders having a vested interest. Since the

rolling of VQA into VQAO, statistics are available. One of the things that we've noticed is that there is an inverse relationship being built between the number of awards a wine wins and its mark coming out of the tasting panel. To put that in a positive note, the better your wine, the lower score it gets at the LCBO tasting panel. There are various reasons for this, and we could go on, but again, it's a fundamental part of the system.

The ready-to-drink wines which predominate the LCBO—statistics show some 99% of all wine leaving the LCBO is drunk within four hours, so marketing into this kind of system is hugely problematic. Marketing into an alternative system that would have similar attributes wouldn't solve anything. In other words, as the beverage alcohol review stated, to put it in other words, the emperor has no clothing. We're merely debating whether or not we're going to put an extra pocket on this thing by doing this.

#### 1120

The system begins to regulate how things go. For instance, the grape board, which just finished its testimony, talked about replanting. One of the things that happen when you have a factory farm is that you have producers who produce for the factory farm, and the major criterion there is volume. You grow as much as you possibly can to make a living, pay the mortgage and feed the children. You're not growing quality wine; you know that.

I won't belabour the point of how the pricing system is set up, but merely say that if chardonnay at 100% is worth \$1,000, and at 80% it's worth \$800, but you can only grow two or three tonnes to get 100%, and you know darn well you can put eight tonnes on at 80%, figure out the difference. In one place you're getting really great grapes and you get \$3,000 and the pride of having done this, or you get real plonk at eight tonnes to the acre and you make \$6,400. People will make out the difference in their own minds.

Having said that, these vineyards having produced for these factory wineries are now in the position of having weakened their wines to the point of, "Yes, it was cold. It froze." Did everybody's freeze? No. Does location count? Yes. Do cropping practices count? Definitely. Now all of a sudden we're going, hat in hand, to the government to say, "Give us \$12,000 to replant." Those vineyards that didn't go that route, which have practised sound management, are frozen out. So it gets to be a Kafka-type nightmare in terms of all this. Each level of our industry brings with it its own calculations, and these calculations don't necessarily have to do with quality wine and its distribution.

I again would like to thank Mr. Hudak for being involved. I think to a degree I've been hectoring him on this for a number of years. I hope that with the passage of this, our lives can be slightly improved.

**The Vice-Chair:** Thank you very much. The third party. Mr. Kormos.

**Mr. Kormos:** Thank you kindly for your contribution to the committee process.

**The Vice-Chair:** Ms. Van Bommel.

**Mrs. Van Bommel:** Thank you for your presentation. There are certainly a lot of things to think about. I hear you talking about the necessity to grow quantity to put food on the table instead of dealing with quality. How do we move away from that need? How do we get to the point where we promote the quality aspects?

**Mr. Kocsis:** Again, by fixing the system, establishing other fundamental criteria for payment for grapes. At the moment, the only criterion is sugar level. There are other criteria, including vineyard management practices, leaf plucking, shoot positioning and crop level. For instance, one of the recommendations I made to the grape board was to establish a gold or silver medal standing, if you will, or an A, B, C of cropping level. If you're going to be an appellation system, on the one hand we have this notion of having to go to a taste panel, which nobody else does, but on the other hand we don't have the cropping level legislation that other jurisdictions do have. In France, for instance, you can't willy-nilly grow eight tonnes to the acre in particular appellations. You are told (a) what type of grapes you're going to grow, and (b) at what cropping level. Now, getting that kind of thing passed and, again, protecting fundamental rights and all is usually problematic, but it's there.

**The Vice-Chair:** Thank you. Mr. Hudak.

**Mr. Hudak:** Peter, thank you very much for your presentation. I actually had a quick question for you, if you don't mind. You said you hector me as a constituent and local business—far from it. I mean, you obviously care very deeply about the industry, and you can see that reflected in the great wines that you produce at Crown Bench. In fact, members may know, Peter's wife is Livia Sipos, who was a recent Grape King, which is not a ceremonial position. It's a position of excellence in grape-growing, recognized by peers.

You made an excellent point at the beginning, and I made a similar point in my arguments, that one of the travesties here is that fundamental rights of access to market are abrogated under current regulations, that you can sell only at your own winery your own products manufactured only at that site. Others will argue, "Well, Peter could sell and Crown Bench can sell through the LCBO." Can you help explain why that's actually a fallacious argument, and how the LCBO, as currently constructed, is not an option for the small VQA grower and winery?

**Mr. Kocsis:** There isn't a rational system at the LCBO for intake, if you will. You submit your application. I'll give you an example, if you will—maybe two. The first one: I entered one of my wines in competition. I took a gold medal. I believe it was Air Ontario that considered it at that point. That came with an agreement on the part of the LCBO to purchase this wine. Having won, the LCBO sent us an application form. I sent it and I sent it and I sent it; I sent it seven times. With the LCBO, I maintain a log and have my fax machine print it out, and I staple it, so I have a notion of where it is. Seven applications went missing, at which point I talked to one of the representatives whom I was dealing with.

He was very sorry. "Would you submit it one more time?"

"Certainly. No problem." I'm trying to make the sale. That went missing. My question to him, then, was: "Tell me, is your fax machine directly over your paper shredder; one just feeds the other?" He said, "No."

I eventually submitted. They changed their minds. They didn't want that particular one; they would take another one. Would I mind if they took another one? I said, "No problem." Then all of this came to a 10-case order, after about three months. And it wasn't the wine that won; it was some other equivalent wine, but not the one that was there.

So I developed a fundamental relationship with this particular person, having gone through this. He said, "Peter, next time you're sending in an application, do me a favour. Call me. Give me a heads-up so that this thing doesn't get lost in the system." I'm sure if you ask any number of other wineries, they'll give you the same litany of problems.

Well, fine. I make my phone call earlier this summer, I'm submitting some wines to the LCBO, and as the discussion concludes, he says, "Oh, by the way, Peter, please don't submit anything over \$12. It will be automatically thrown out."

The reality is that when you look at the average price of VQA wines at Vintages versus the average price of the rest of their wines, we're about a third. In other words, the LCBO won't put a \$30 or \$40 bottle—and I do have it. I have a Chardonnay at \$30 that took top Ontario Chardonnay. I'm marketing it to other provinces, restaurants and so forth. Vintages won't hear of it, will not entertain buying it. By the way, this thing almost failed. It merely passed by a hair's breadth, and I knew then that it was going to be a really good one at the tasting panel.

#### 1130

Having gone maybe a bit too far, let me say the following, a similar situation: I submitted a wine to the SAQ—every two years there's a judging—and I took a grand gold on a chocolate-flavoured icewine, the highest-ranking sweet wine in Ontario; in fact, the highest-ranking wine in Ontario, according to Quebec. I keep telling people that's both the good news and the bad news rolled into one bottle. It's non-VQA and because I messed around with icewine, it's no longer pristine and pure, it's no longer VQA, I can't sell it in Ontario. I'm selling it to every other province in Canada—well, not everyone, but a number of them—but I can't even talk to anybody. If I go to Vintages, they say, "It's non-VQA. We don't have to deal with it. Go talk to general list." When I go to talk to general list, they say, "Obviously it's an icewine. Go talk to Vintages." And that's it. They wash their hands of it. Toeing the line with the LCBO, which I believe the number is some 85% of the market, if you can't have access to that, you are really in trouble. The small wineries are really in trouble. High gas prices, SARS, 9/11, freeze-out etc., and we're getting nowhere in terms of how the system responds. The system responds to the factory wineries, not to the small ones.

**The Vice-Chair:** Thank you very much, Mr. Kocsis.

## TOWN OF GRIMSBY

**The Vice-Chair:** I now invite the town of Grimsby to come forward. Welcome, and please identify yourselves.

**Mr. Tony Quirk:** Good morning, Mr. Chairman. My name is Alderman Tony Quirk, and with me today is Gerry Augustine, who is our immediate past chair of the Grimsby economic development advisory committee. Our current chair, Chris Hayden, unfortunately sends his regrets. He was called away on a work-related emergency, so I thank Gerry for coming.

I want to thank the committee for allowing us the opportunity to present to you this morning in support of Bill 7, the VQA Wine Stores Act. I know, listening to the other presentations today, that others will explain their positions regarding how the act would have an impact on the local wineries and Ontario wines overall, but I had hoped to explain in the context of our small town why we chose to support the VQA Wine Stores Act.

As I have stated, Gerry and Chris, who's not here, are members of GEDAC, our Grimsby economic development advisory committee. The town of Grimsby, being a small town, doesn't employ a full-time economic development officer, so we established GEDAC as a means to foster economic growth and explore our potential with a group of talented volunteers whose only goal is the betterment of the town of Grimsby.

Last spring, GEDAC passed a motion to support the VQA Wine Stores Act and forwarded the motion on to town council. At our meeting of March 21, 2005, the town of Grimsby passed a motion lending our support to the establishment of VQA wine stores. I have a copy of the minutes containing the resolution and I've asked the clerk to pass that out to everyone.

By way of introduction, let me say that Grimsby itself does not have many wineries. In fact, we only have two and half. I say two and a half because we have Kittling Ridge and Andrés, and Puddicombe, which is actually located in Hamilton, but they're so involved in our community that we count them as one of ours.

We don't see the VQA Wine Stores Act as being solely beneficial to the winery industry. In fact, we're supporting the act here today because it will serve our community in a couple of other important ways.

The concept of a store specializing in VQA wines would benefit our community in three immediate ways in the context of our current initiatives that we've undertaken in the town. First, GEDAC, in conjunction with the town of Grimsby, the Niagara Economic Development Corp. and the Ministry of Agriculture, Food and Rural Affairs rural development branch, has begun a downtown revitalization initiative through the OSTAR funding program, which Gerry, as chair, instigated and has been leading the charge on.

While this project is only halfway through, one of the major themes already emerging is the need for the downtown to provide specialty and boutique-style stores to challenge the department-store and big-box model encroaching on small-town Ontario. A local VQA wine

store would be a perfect fit for this model of boutique-style retail development in the downtown.

Second, the town, in partnership with the Niagara Economic Development Corp., and hopefully the other Niagara region northern-tier municipalities—Lincoln, Niagara-on-the-Lake and St. Catharines—has undertaken an initiative to enhance the wine route. This initiative calls for the establishment of hubs along the wine route utilizing existing urban centres and boundaries to bring a cohesive and thematic approach for visitors to the area. Obviously, a large component of this project will be to drive traffic into the downtown and urban areas of the wine route with complementary retail- and tourist-based business. A VQA store would be an obvious addition for any municipality along the wine route and an added attraction for the out-of-town visitor.

Third, and certainly not least, with future development in Grimsby frozen under the greenbelt legislation, the remaining tender fruit lands have to be viable for the farmers and for the province. The requirement of 100% Ontario grapes for VQA wine standards should ensure that existing grape growers are able to market their grapes at a reasonable price for years to come.

If the small cottage wine industry is going to survive and thrive, the ability to market VQA wines through a dedicated venue such as a VQA wine store would increase demand for the product and provide an incentive to produce more VQA wines.

I won't pretend to speak for the grape growers' association, as they've already been here, but the grape growers I have talked to in Grimsby, at least, are excited about the prospect of VQA wine stores.

In conclusion, let me say that I sincerely hope that this committee will recommend the adoption of this act, and that the Legislature will call and pass the bill upon its return next month. Thank you.

**The Vice-Chair:** Thank you very much. That's the end of your presentation, right?

**Mr. Quirk:** Yes, sir.

**The Vice-Chair:** We'll start with the government.

**Ms. Mossop:** Thank you very much for coming and for your presentation, and for your support of this initiative. You haven't been here all day, but you may be getting the sense that it has the support of everybody in terms of the sentiment.

I have one short question and then a follow-up one. You're aware that the bill, as it stands now, is against NAFTA; it's trade illegal.

**Mr. Quirk:** I would suggest to you, Ms. Mossop, that as it stands now—I don't pretend to be an expert on trade negotiations—I don't think there would be anything to stop an American from investing in an Ontario winery, producing a VQA-quality wine and selling it at a VQA store. From that point of view, much as there's nothing to stop me personally from investing in a business across the border through NAFTA, I don't see that as being a huge stumbling block. I'm hopeful that smarter minds than mine will prevail on a way to solve the problem.

**Ms. Mossop:** This is the problem that Mr. Hudak ran into when he was a cabinet minister. He would have done

this then if he could have, but it was trade illegal. We're trying to work around this issue today to make this something we can all do. We want to do this; we want to make something happen.

Our beverage alcohol review commission made a recommendation that we somehow create a situation where the existing licences for VQA, mostly owned by the large wineries, can be auctioned off and shared, but that requires some agreement from the industry itself. As a government, we are trying to work with the wineries and the grape growers to come up with agreements like this so that we can move forward, so that we can break this log-jam. We need to be creative and co-operative around this piece and, I still think, in the short term promote and work with Vintages, where we do have some sway to get those wines into Vintages stores. But in the interim, do you get a sense that we can get that kind of co-operation within the industry itself so that we can break the log-jam and move forward and get around this trade issue?

**Mr. Quirk:** I would certainly hope that you could find some way to break the log-jam. I can't see that there's a huge incentive for people with licences to give them up, unless they're mandated to do so. But I hope that they would see the larger picture and the benefits to the grape growers by expanding the amount of VQA-quality wines that are available.

Beyond that, I recognize that there are some questions with respect to the NAFTA agreement. Just following the press of late, since our major trading partner seems to want to ignore certain tenets of it, I sometimes think that we have to be a little more aggressive in marketing our own products to our own people. My understanding of the general sentiment of NAFTA is that there's nothing that would stop an American company from establishing a winery in Ontario and getting a VQA-quality wine into a VQA store. So from that point of view, like I said, smarter minds than mine will have to deal with the actual trade ramifications, but if that's the only stumbling block, I'm certain that there must be a way to circumvent it.

1140

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Mr. Quirk, Mr. Augustine, thanks very much for the presentation. I do want to thank Councillor Quirk in particular and your colleague Councillor Wilson, who seconded the motion, who were good enough to get it passed through Grimsby council and circulated to other councils that have similarly endorsed it, including Lincoln and Welland, who are here today.

Ms. Mossop asked you if it was trade illegal as if that were a statement of fact. It would be helpful to the committee, actually, if the government does have a legal opinion, to table that with the committee. I've asked for such and have not received it. If there is, then let's put the tremendous resources of the government to bear and actually find a solution to it. Instead of saying you can't do it, how do we find ways to amend the legislation or bring forward a parallel initiative to do so?

Certainly we, the previous government, weighed the issues and decided to proceed with this bill and intro-

duced it in the House and had second reading passed. I want to see this become the law of the land.

With respect to the VQA stores in British Columbia, Linda Franklin was very, very clear, in very plain language, on how they obtained licences for VQA stores.

I appreciate your point too in terms of the specialty boutique shops, which would be an added feature which don't exist. As I said earlier, Wal-Mart is increasingly the LCBO's style of doing business: the big box, the large brands. I think we need the other part of the system, which are those boutique wineries. If you had your advice to the committee and to cabinet, where would you place these types of stores?

**Mr. Quirk:** Right from the get-go we could immediately see a benefit of this sort of boutique store for a revitalized downtown, as I mentioned in my presentation. We are seeing a larger call, especially within the old towns, for this concept of wanting higher-quality, specialty-type stores in our downtowns. This would be, in my mind, where the VQA stores would be ideal.

Over and above that, I've kind of looked at it simply from a Grimsby-centric point of view, but I would defer to Gerry if he has any other comments with respect to that.

**Mr. Gerry Augustine:** We made a conscious decision shortly after GEDAC started, which was a year and a half ago, about what areas we were going to focus on. One of the main areas, especially for Grimsby, with the big box store coming in, was downtown. We looked at what we could do to help downtown. One of the first things that came up was developing a VQA store, not only for the natives but also for the tourists. We have never wavered from that thought or idea. As we're working on downtown restructuring now, we certainly expect that to be one of the key stores or key items to have for downtown. As I mentioned, that's been our focus basically from day one. Once we figured out what direction we were headed in, that was one of the first items we thought would be perfect to have in our downtown. So we're fully, fully supportive of it.

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** Thank you, gentlemen. It is so pleasant to see this tripartite collaboration and co-operation. I say that tongue-in-cheek—partially in cheek.

My support for this whole concept is of course dependent upon the retail delivery being done by the LCBO. But I as well believe that it's using that approach that we can most readily overcome any conceivable arguments raised around trade agreements. Prima facie, there probably is a trade issue, but I don't think it's very difficult at all to design this in such a way that it isn't a violation.

This tripartite co-operation and this sense of goodwill will be tested at the close of today's committee hearing, because, you see, this bill has been allowed one day in committee by the government. It originally had been referred to the standing committee on general government, but this is not the standing committee on general government; this is the standing committee on regulations and private bills, which is not a misuse of the

committee, because any standing committee can consider any matter, but it's not the usual sort of thing that the committee hears. So Mr. Hudak will test the extent of the collaboration and co-operation at the close of today's committee hearing. If this bill gets referred back to the House after today, it will go into legislative orbit and never, ever land, because it will not have undergone any amendments. If the bill remains in this committee, it will be sent into a legislative black hole, because this committee will always have government business to supersede this bill. You understand what I'm saying, Mr. Hudak?

**Mr. Hudak:** I worry about that.

**Mr. Kormos:** I worry about it too.

So the real test of the tripartite co-operation and the goodwill that's been spoken of will be at 6 o'clock or so today. I'm not going to tell Mr. Hudak how to deal with his bill, but perhaps when he seeks to have the bill discharged from the standing committee on regulations and private bills and referred back to the committee on general government so that it stays alive—we'll see whether the spirit of co-operation and collaboration remains within this committee at 6:45 today, as evident as it is now, when Mr. Hudak asks the committee to entertain that sort of motion so as to ensure that the life isn't squeezed out of this bill by the workings of parliamentary procedure. We'll let you know. Thank you, gentlemen.

**The Vice-Chair:** Thank you, Mr. Kormos, and thank you, gentlemen.

#### TOWN OF LINCOLN

**The Vice-Chair:** Our next deputant is the town of Lincoln. Welcome.

**Mr. Bill Hodgson:** Good morning. First of all, I'd like to thank you for giving me an opportunity to present just a few brief thoughts regarding the concept of VQA stores. I'd also, of course, like to welcome you to the town of Lincoln. We're sitting here in the middle of my very warm town, the heart of Niagara's grape and wine country. Today we are also a community that wants desperately to believe in the promise of prosperity and sustainability in the midst of the new greenbelt's protected countryside.

The council of the town of Lincoln has passed a resolution in support of the concept of VQA stores. However, our interest goes well beyond the context of simply showing support for and advocating on behalf of our growers and wineries. All of the ratepayers in our greenbelt community, whether or not they have any direct involvement in the wine industry, have a major stake in the future of our grape and wine industry. I want to point out that my comments are probably going to be a little less on the technical side, as many people have much more knowledge about the technical aspects of this bill. I want to talk about the symbolism of it.

Throughout the long set of consultations leading up to the establishment of the greenbelt, our community has been repeatedly assured by various proponents of a

permanent protected countryside that our developing grape and wine industry and the associated agri-tourism will be such a powerful long-term economic engine for our community, generating jobs, assessment growth and local prosperity, that we should not really bother ourselves over lost opportunities for urban industrial and commercial development.

There are still those, of course, who believe that this theory is more solidly grounded in popular urban mythology than in economics and crop science. However, our community has made a leap of faith. We are working hard to make the greenbelt work; provincial legislators have really given us no choice. We certainly want to believe that the commitment exists in Ontario to grow a truly domestic wine industry that is identifiable and proud and is based upon fair market access, integrity in labelling and locally produced grapes.

#### 1150

Through the deliberations of this committee, provincial legislators can give our community and others throughout Niagara's wine country a little show of good faith with regard to your commitment to the greenbelt and its long-term sustainability. And believe me, the faith of our greenbelt community ratepayers is severely challenged by recent developments, not the least of which, I have to mention, is that the introduction of the Ontario community partnership fund as a replacement for the CRF has resulted in the four municipalities comprising Niagara's wine country losing a combined \$4.2 million in annual transfers from the province. For the town of Lincoln alone, the loss of \$732,000 annually represents 11% on our local levy. It's this kind of thing that makes it a little difficult for us to tell ratepayers that the province—and this refers to all parties—is committed to our greenbelt.

We have repeatedly heard that having VQA storefronts in major markets is impossible because of NAFTA regulations. I'm sorry—and again this goes to the symbolism—people will have to find a solution, because this simply will not sell here. We have all seen the creative gymnastics employed by our neighbours to the south with respect to softwood lumber. I can tell you that at town hall I try to impress upon our staff, "Service to your clients comes first, and then you take a look at the regulations you must comply with and figure out a way to do both." It's called creative compliance. I think that all of you working together, one way or another, symbolically must find a way to get past what seem to be barriers. Simply stating the barriers just doesn't cut it, because we must have a show of commitment from the province for the greenbelt. I just can't impress upon you enough how important that is.

We all want to see a locally developed wine industry. We know we're not going to get there by simply making international wine, so we need to find a way to support what is supposed to be the future. I would implore you to work together and not have this disappear, because that would send one more important symbolic measure to the community. It's just getting quite difficult for us to

believe in a greenbelt and long-term sustainability and the commitment of all of Ontario. We've always impressed that upon everyone, that the greenbelt is for everyone, and therefore the commitment has to come from everyone.

I'll leave my comments there. Thank you for allowing me to present them to you.

**The Vice-Chair:** Thank you, Mayor Hodgson. The official opposition: Mr. Hudak.

**Mr. Hudak:** Thank you, Your Worship, for another excellent presentation to a standing committee, and thank you very much to the community for hosting the legislative committee here in Jordan today. It's a great opportunity, as we can see by the presence of municipal leaders, industry leaders and fans of the Ontario wine industry and grape growers, to have their voice amplified by these hearings, and we thank you for hosting them.

I think you make an excellent point. It's one thing to point out barriers; it's another to try to find ways around them. I think this committee, working together, hopefully with the support of the incredible resources available at the ministries, can help us make this vehicle a reality. I don't care if it's on, you know, blue paper, red paper or orange paper or whose name is on the bill, as long as it gets done.

I've had John Clancy in my Queen's Park office and Frank Notte here in the back, and we'll do our best, but if there is advice that comes back to the committee through the ministry offices about how we could amend this bill to make it a reality, I think we would meet with the requests with the honourable mayor of Lincoln.

Maybe you could emphasize a little more to the grape-growing areas here in Niagara—I mention Lincoln, Grimsby, Pelham, Niagara-on-the-Lake—and how they've been impacted by the greenbelt and how this will help, or anyway make steps toward a rebalancing.

**Mr. Hodgson:** I know that there are many complex problems facing the industry, as we've heard, just listening to Peter Kocsis, and he could go on, because there are complexities that are not going to be resolved by this. But at some point we have to decide, are we going to genuinely create a wine region? If we're going to create a wine region, we absolutely must allow the consumer to have access to the wine region, which is what VQA represents. It's the best of the wine region. It is the product of the wine region. If we are going to thrive as an agri-tourism area, quite simply, we can't rely on people making a mistake in coming off Jordan Road. It has to be much more inviting than that.

I've heard recent comments that consumer studies show that people access VQA through blended wines. Quite simply, it would be easier for them to access VQA through the front door of a store, because then they would understand what those wines are. There are also a lot of people who cannot hop in the car and just take a day or two and discover wine country. But many more would if they had access, if they could go into a VQA store and ask, "What is VQA anyway?" We could in fact be promoting the wine region through those storefronts in

the big markets. I really do think that it's critical as a step to market the whole region, as opposed to simply selling the wine.

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** Thank you very much, Your Worship, for your attendance here today and for your participation. You have been a very effective and highly involved spokesperson, not just for your community here in Niagara but as part of that team of politicians in Niagara speaking up at Queen's Park around the viability of, yes, our greenbelt and the communities that are within that greenbelt. So I appreciate what you're saying today.

What you do, though, is highlight the need for this not just to be the focus of, let's say, the Ministry of Agriculture—because we no longer have a Ministry of Consumer and Commercial Relations; it's the supervision of the LCBO, because I believe the LCBO is a critical partner here—but also the Ministry of Tourism. We're talking about this all being part and parcel of the same sort of thing. I won't purport to speak for our Niagara colleague Jim Bradley, but I know that he is a committed Minister of Tourism, and the rest he'll say for himself, and I'm confident that he and his staff could play a very valuable role in this whole discussion. You're talking about that whole broader concept of agri-tourism, the interplay and relationship between small-town urban Niagara and greenbelt rural Niagara and active rural Niagara—in other words, green space that's being farmed, that's productive in terms of food.

The message this morning, loud and clear from you, amongst others, is that Andy Brandt should be here answering some of the questions that have been posed about him and the LCBO. I don't say that because I'm not a fan of Andy Brandt; I am a fan of Andy Brandt. But he should be here and, quite frankly, the Ministry of Tourism should be here.

I think we need some clear answers on this business around trade. Surely there have been some high-priced, well-paid-for legal opinions that are sitting around in any number of ministries or the Premier's office itself. I can't for the life of me think that nobody has bothered to get a legal opinion. Well, let's see them. Let's get this stuff out in the open. This discussion has the potential to rebuild the foundation under agricultural Niagara, and that has the potential to have impact for decades and generations to come. It could be a truly important move if done properly.

This surely can't be the last day of committee hearings. I know that at this point only one day was permitted by the government. My concern is that this bill will disappear into a black hole. I think the issue is far too important for this discussion to be terminated that way. We've really got to commit, all of us on this committee, to discuss this in a broad-based way.

Thank you very much for your participation. You've been a very effective voice. I hope your constituents know that.

**1200**

**Mr. Hodgson:** If I might also just point out, in the greenbelt legislation there is a clause, I think quite

rightly, that actually suggests that the Minister of Municipal Affairs would in fact coordinate all the actions of the various ministries, to ensure that whatever decisions are made in a whole host of areas that impact the greenbelt are coordinated so that they're working in a positive way. Thus far, it's not being done really well, as I think you know. I would just urge everyone to consider that, because it's so critically important that those actions not run counter to one another. If the greenbelt is going to be successful, it relies on every ministry that has an impact to coordinate their actions so that the left hand knows what the right hand is doing.

**The Vice-Chair:** Ms. Mossop.

**Ms. Mossop:** I'm just going to quickly comment on that last piece. You're absolutely right; there's some breaking down of silos around those ministries that we are committed to doing. You're absolutely right about agri-tourism and promoting Ontario.

You mentioned that stating the barriers is not enough. But ignoring the barriers is not enough. Mr. Hudak mentioned that when he was a cabinet minister he was working on these pieces and trying to come up with things, so I'm assuming that he sought legal opinion around this at that time, which is why he didn't do it then.

**Mr. Hudak:** We did it.

**Ms. Mossop:** You did?

**Mr. Hudak:** We put the legislation forward.

**Ms. Mossop:** On VQA stores?

**Mr. Hudak:** It's the exact same legislation.

**Ms. Mossop:** And what happened?

**Mr. Hudak:** It got support from the Liberals and the Conservatives for two readings.

**Ms. Mossop:** Then what happened?

**Mr. Hudak:** You might forget: You guys won the election and it's been dead since.

**Ms. Mossop:** So it died on the order paper. OK.

**Mr. Hudak:** You guys won the election.

**Ms. Mossop:** Did you seek the legal opinion? I guess that's what we need to know. As minister, did you seek that legal opinion?

**The Vice-Chair:** Members, can we not have a dialogue at this time? Ms. Mossop, do you want to ask a question?

**Ms. Mossop:** I'll ask that later and get that answer. We will find that piece for you. But we can't ignore the barriers to this either, because we want to make it happen. There isn't a person at this table who doesn't want to see our Niagara grape and wine industry and the communities within the greenbelt flourish. You have made the leap of faith. There is the faith in that dream of Napa. I think we're seeing some, but as a government, yes, we know we have to support you as much as we possibly can. It's not enough to ignore the barriers; we need to get around that piece. It's not reluctance on anybody's part; it's finding a way to do it.

What's come up a couple of times today is that there's a recommendation from the Beverage Alcohol System Review Panel that our government put forward with regard to the existing licences for VQA stores. The lion's

share of them happens to be with the larger wineries. We're aiming at seeing if maybe that is a way, if we can get the industry to agree, because we think the less mandating, the more agreement, the more will within the industry, the better, to share those licences in a more equitable fashion with the smaller wineries, with the ones that were excluded by NAFTA essentially.

**The Vice-Chair:** Thank you again, Mayor Hodgson.

#### NIAGARA NORTH FEDERATION OF AGRICULTURE

**The Vice-Chair:** I now invite Niagara North Federation of Agriculture to come forward. Welcome, and please identify yourself.

**Mr. Albert Witteveen:** My name is Albert Witteveen. I'm the chairman of the Niagara North Federation of Agriculture. I'm a full-time poultry farmer and also a municipal councillor in West Lincoln.

Thank you for giving us this opportunity to speak this afternoon. I just have a brief statement. I will start with our mission statement, vision statement and value statement so that you'll get a background of the organization and what it stands for.

Our mission statement: "The Niagara North Federation of Agriculture is an agricultural organization dedicated to achieving economic and social viability for all Niagara agricultural producers through strong, effective, unified lobbying and communication efforts."

Our vision statement: "To produce an economically healthy, secure agricultural industry in Niagara that will encourage farm renewal, through a new generation of producers."

Our values statement: "The directors of the Niagara North Federation of Agriculture will maintain a strong, unified, professional image to our members, consumers and elected officials."

Starting my brief presentation this afternoon, the Niagara North Federation of Agriculture is an organization with over 1,100 family farm members. The mandate of the federation is to promote and protect agriculture in the Niagara Peninsula. Niagara offers the most diversified area of food production in all of Canada, and agriculture has proven to be the economic mainstay in Niagara.

The directors of Niagara North have reviewed the proposed Ontario VQA Wine Stores Act, Bill 7, and would like to comment. The Niagara North Federation of Agriculture supports the proposed Bill 7 in principle. Agriculture in Niagara has faced several severe setbacks over the last several years. We continually battle the weather, market demands and political restrictions. The passing of the Greenbelt Act, amendments to the provincial policy statement, which include the loss of retirement severances, and the many proposed regional changes have made surviving in the agriculture industry even more difficult.

This bill is being introduced at a critical time. Grape growers are facing devastating losses to their crops due to

drought and severe winter injury. It is difficult to comprehend when you are driving through grape country and see acres of green foliage. That is all it is. Several of the varieties, such as Merlot, have been severely damaged and it will take years before they are back to full production. Grape production this year will be at an all-time low. There is great quality but the quantity has diminished. All of the grapes this year will be made into high-quality VQA wines. It is essential that these wines be promoted and exposed for what they are: 100% Ontario content. We can make the wine, but due to legislative and financial constraints, we require assistance in marketing the product.

This act comes at a critical time because of the lack of supply. The grape board has agreed to a change in the wine content act. For this year only, cellared-in-Canada wines only need to have 1% Ontario juice content. This will allow most of the quality grapes to go into VQA wines.

If properly executed, the development of VQA wine stores will enhance the grape and wine industry. It is essential that there be more than one store and that the stores be placed in high-traffic areas. It is also essential that the stores be set up so that all wineries, no matter how small, are able to market their product through the VQA wine stores. Many of the newer and smaller wineries are currently struggling and need a venue to market their product. They presently rely on the tourist industry to survive. If the stores are placed in any of these areas, it will reduce visitation to the smaller wineries, putting them at a further disadvantage.

This is a great beginning. If this act is passed, it will certainly increase the awareness and availability of VQA wines made with 100% high-quality Ontario grapes. It is essential that other avenues also be pursued. Other options that should be reviewed include increasing shelf space at all LCBOs, reviewing the Wine Content and Labelling Act, allowing only VQA wines to be sold in wine retail stores and supporting an awareness campaign so that consumers understand what they are purchasing.

The agricultural industry in Niagara generated in excess of \$511 million in gross farm receipts, \$400 million in direct sales, \$562 in indirect sales and \$832 million in induced sales. Agriculture in Niagara had a \$1.8-billion effect on the Niagara economy. This is something to be proud of.

Give us the tools we need—research, irrigation and drainage programs and funding to comply with the Nutrient Management Act and source water protection act—and oversee changes to the wine content act, and the farmers of Niagara will be financially secure and prosper for many generations to come. Be proud of what is made in your province, and stand behind it. Put our own up front and centre, not back hiding behind foreign blends. VQA wines are 100% Ontario. Don't be afraid to let people know it.

**The Vice-Chair:** Thank you, Mr. Witteveen. The third party: Mr. Kormos.

**Mr. Kormos:** Thank you kindly, sir. The common understanding of our economy in Ontario is that auto-

motive is number one and agriculture is number two. When we're reflecting on the news this morning that Buzz Hargrove and the CAW, in their negotiations with General Motors, are being confronted by the prospect of—what was it?—almost 1,000 jobs eliminated down in St. Catharines alone over the life of this proposed contract for the next three years, we better damn well start taking those active areas in our economy very, very seriously, because, dare I say, if we lose a thousand auto jobs in Niagara, I suspect that will either put agriculture at number one, if it's number two now, or come pretty darn close to doing that. I appreciate your comments.

#### 1210

I've witnessed governments of all political stripes at Queen's Park. One of the problems is that urban representation dominates in the provincial Legislature. Advocates for agriculture, either because they come from that background themselves or because they understand how important it is, from so many perspectives—it's important culturally, it's important economically, it's important in terms of the integrity of the nation—are given short shrift. When I see farmers getting mad and circling Queen's Park with tractors and leaning on their horns, I say, if that's what you've got to do to make your voice heard, then you should be doing it more often.

It's a tough, tough business, and I just thank you—I know you've been an active spokesperson for a good chunk of time now—and so many others like you in the federation who have been speaking up and making yourselves heard at Queen's Park. All I can do is encourage you to keep on doing it, and we'll all do our best.

**The Vice-Chair:** Thank you. The government.

**Mrs. Van Bommel:** How are you doing?

**Mr. Witteveen:** OK.

**Mrs. Van Bommel:** It's good to see you again.

I have a question. You know that, as a government, we're in support of VQA and our wine industry and our grape producers, and we've worked out a memorandum of understanding with the wine council and the grape growers. One of the things we talk about in this bill—we support the concept, but we have the issue of the trade agreements. You're a farmer and you're in supply management, and you understand that there could be retaliation if we get involved in this. How would you suggest that we get around this? How can we promote the VQA and still manage to stay compliant with trade agreements we have right now and avoid retaliation in other areas?

**Mr. Witteveen:** Mrs. Van Bommel, I think sometimes that as farmers we're independent people and we're willing to take risk probably greater than the government is. I'm in municipal politics, and I see not a lot of risk-taking. When it comes to that, if you look at California, they secure their own industry. When you go to France, you won't find Ontario wines at the front of the shelves; they may not even be in the store. Personally, I don't think I would be overly concerned about retaliation for the simple fact that the quantity we're talking about is minimal at best in our global marketplace. Sometimes we

have to go out and take a risk to support an industry. It was mentioned earlier about softwood lumber and the countervailing duties for hog producers. These things have come in our favour and have still met opposition. We can play the same game.

I guess what I'm trying to say is that this is something we believe in, and we must take a stand for it. There's always a certain element of risk involved, but I believe we should take that risk. Are our farmers not that important? Is our own country's food production not that important to then allow other countries to intimidate us with trade retaliation? Sometimes you get respect by taking a stand, by saying, "We are here to protect our industry. You protect your industry, and we respect that." I think at the end of the day, all parties will respect each other for protecting what they believe is good for their country or their people.

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Albert, thanks again for being here, and congratulations to your own leadership both at West Lincoln council and with OFA North on this issue, as well as a number of issues like the greenbelt, among others.

I think you make an excellent point. We've heard that over and over again today. To paraphrase, in Ontario we're often boy scouts when it comes to these types of issues, where other states and provinces have been far more bold in their supports for their domestic producers, whether it's grape and wine or in other sectors.

Governments at some point need to decide whether they'll continue to be bullied by the importers or whether they'll stand up more strongly for the domestic industry. Linda Franklin from the Wine Council of Ontario spoke about how the importers currently have 60% or more of the shelf space and are always pushing for more. I expect Mr. Campbell to make that presentation later this afternoon on behalf of the importers who pay the salary. But at some point, I think you have to take a stand to support domestic industry. At some point, you have to think of the impacts it will have to support local farming and local tourism.

I asked this question a bit earlier on: If you were to walk into a VQA store at some time down the road, if this initiative goes ahead—I hope it does—what would you see in there? How would you picture it, ideally? And what type of locations would be best?

**Mr. Witteveen:** If there are 100 wineries in Ontario, I'd like to see each one represented in that store, and then I would like to see knowledgeable staff. I have a small retail operation on my farm. People shop and buy poultry products on my farm, but they also want to know how it is produced. People are distanced from the food chain and they come to a specialized store because at the grocery store it's just a fellow stocking shelves. When they come to my store, my family is well versed in the production of poultry; people want to know how it is produced. So when I go to a VQA store, I want to know what the labelling means, what the content means, who I am supporting. Also, just the general production: maybe

pesticide use, maybe production, harvesting, how the product is produced. I think that will be the attraction of a VQA store, because it will be smaller, more personal and more informed.

I know the argument always is that people are looking for a \$10 bottle of wine, but do you know what? People will spend \$15 if they see the value. If you can show the value in a VQA store, that you are supporting somebody who's supporting our health care system and our whole society, then spending that extra \$5 is justifiable.

That's what I would like to see, that nobody is excluded from getting shelf space and that there are educated people there who can talk about everything, right from planting to harvesting to production. An informed consumer is your best consumer.

**The Vice-Chair:** Thank you very much, Mr. Witteveen.

#### FEATHERSTONE ESTATE WINERY AND VINEYARD

**The Vice-Chair:** Our next deputant is Featherstone Estate Winery and Vineyard. Please come forward. Welcome.

**Mr. David Johnson:** Welcome, everyone, to our wine country. I'm glad everyone made it down today. Thank you so much for coming. Should I sit down?

**The Vice-Chair:** Please.

*Interjection.*

**Mr. Johnson:** He likes me standing. See, they're fighting already.

**The Vice-Chair:** It's up to you.

*Interjection.*

**Mr. Johnson:** That's right. Notice the jacket. And my hands are stained from Baco Noir. I was pressing grapes this morning—not my feet, my hands. I've come out to speak to you folks. I certainly appreciate the effort you're making for this industry. It's great also to be included a little bit in government. I think that's a privilege, frankly.

I'm Dave Johnson, and my wife Louise is here with me. We own Featherstone Estate Winery. We are a 23-acre winery. You can all go there for a little glass after the meeting—you've got two hours to get to Toronto; you could probably make it. It's 15 minutes up Victoria Avenue in Vineland. We have 23 acres, and we only make our wines from the fruit we grow on our site. That is our thing. We do not intend to be larger. From that amount of acreage, we produce between 3,000 and 5,000 cases. As I always say, Vincor spills that annually. We are actually Niagara's smallest full-time winery; there is no one smaller than we are.

**1220**

Just to reflect on our dear mayor, I thought his comments were great. I thought he really spoke well of the greenbelt legislation that the Ontario government, I assume, is committed to. This is a great opportunity to dovetail. I see a whole bunch of issues. I don't know how Mr. Hudak—I'm sure he planned this when he started this bill years and years ago—

**The Vice-Chair:** Mr. Johnson, sorry for the interruption. I think you have to sit down in order for this to be recorded properly.

**Mr. Johnson:** There you go; sorry.

**The Vice-Chair:** Thank you.

**Mr. Johnson:** I see this as a great opportunity for this bill to be dovetailed into a whole bunch of issues that are before Ontario and its alcohol program today. The greenbelt legislation alone: If this government is serious about supporting small wineries, I think this is a great venue for that.

What I want to see is rural pressure. Who has ever heard of rural pressure? We want to be impinging on towns, not the towns impinging on the green space. If we can get growers who own land that is viable and who can maintain a living on that property, they're not going to sell to anybody; they're going to go the other way. I think this works very well with current greenbelt legislation, if we can support small wineries with this VQA program.

The VQA stores: I know that you guys struggle with NAFTA issues while the rest of us put out our wishes. There are trade issues, I suppose; I don't understand why or how there would be trade issues in a bill that's trying to sponsor or support a wine industry in this province. I see the VQA program as more of an incubator program, focused and directed toward wineries that are not in our current government program. We're too small. We're too small for LCBO sales. We do not sell our wine through the liquor board. We can't afford their 66% cut. We then would have to get huge. If you sell a million bottles through the liquor board and make a penny a bottle, that ain't bad money. We don't have a million bottles in sales; we're tiny. We want our sales through our store, which is located on our farm.

As I'm sure you're all painfully aware, all new winery licences since 1993 are only allowed one retail outlet. Meanwhile, we have the huge importers who have 300 off-site retail stores, in every grocery store we go to, that are bringing in blended product, selling it on their shelves and getting the VQA markup advantage. For trade issues, I think the world must be laughing at us for selling Chilean wine in our system. I don't mind selling Chilean wine if it says "Chile" on the bottle. I would promote that; I would stand by their being allowed to sell in this country. What we don't want is Chilean wine in the Ontario section. We've got to do something about that. Again, I see this VQA opportunity as getting in there and supporting that.

Another reason for the good timing of this bill is that I think there is some groundswell out there among the public with regard to a backlash on Ontario wines. I think the public perceives that either Ontario wine is not made from Ontario product or they're being duped at their retail outlets by buying what they assume is an Ontario product. They're buying a non-VQA product in an Ontario or Canadian section and making some crazy assumption that it might be Canadian or Ontarian. As it turns out, there is a chance that only 1% of the product in the bottle would have any Ontario content. Again, I think

this is a chance for the government to say, "No. Here's how we're going to address this. We're going to start this program, this store system, this incubator thing, where we're only going to allow in these retail outlets wineries that are not in the LCBOs." In other words, it's really just an in-house, in-province promotion program.

We're trying to support, to get a groundswell of small wineries, to get them going, get them on their feet, and eventually they can play and compete in the big world, in the LCBO stores. I don't think that's unusual. There isn't a wine region on this planet that does not subsidize its wine industry in-house. We've got Italian wines at the LCBO stores now for \$5.70 a bottle, and that's because there is a minimum Ontario floor price on it; otherwise, it would be lower. You cannot tell me that that product is coming in unsubsidized from Italy.

I've spoken to a number of German growers and whatnot, who say how busy the month of March is for them in Germany because that's when they send in all their paperwork to get their refunds on their spray schedule, on their pressing, on their tractor tires, tractor oil and diesel fuel. It's a hugely subsidized system. So to suggest that it is NAFTA backlash—I don't know; something doesn't give, although I appreciate that it isn't that simple. But this can be done. I think we're getting hung up on the term "NAFTA." We need to work on it.

In Australia, for example, they have no tax for wineries with \$1 million or less in gross sales. There's no tax on them. That's what they did 25 years ago so all these tiny little wineries were just allowed to grow—\$1 million in gross sales. We are about halfway there. It might be a big number; \$1 million sounds like a big number, but that still keeps a lid on it. So all those small wineries are allowed to grow and develop and learn their technique.

It would also allow us to get an Ontario—what is Ontario wine? We get pretty frustrated when we hear, "We're looking for a style, essentially a French style." We make our wines, Gewürztraminers, for example—"Oh, is this a French style of Gewürztraminer; is this an Alsatian?" "No, it's an Ontario style." That's what would happen if we could allow some of these small wineries, the innovators, the people who are crazy enough, like Peter Kocsis, to put chocolate in ice wine. Let them do that. Get off their backs and let them grow to a certain limit. The loss in tax refund would be squat. It would support the greenbelt. Ontarians would have places to drive to and support these little, wee units all over the joint. This is what the rest of the world does, at least. Australia has been doing this; New Zealand does this to some degree.

As far as the location of these particular stores, I see them away from the borders. I don't see them in Niagara at all. We want people to come to the wineries, not the stores, obviously. I see them in large urban centres: Ottawa, Kingston, London, Kitchener and Toronto. Ottawa is a fabulous supporter, for some reason, of Niagara. We did a survey and asked everybody who walked into our tasting room where they were from, and one in four was from Ottawa. They're not from Grimsby; they're not from St. Catharines. Three of the four were

probably from Toronto, but one in four was from Ottawa. Ottawa is a great supporter of Ontario. They drive down here, they spend the weekend and go back. They always ask me, "Can we get your wine in the LCBO?" I say, "Well, no, you can't." I'm always frustrated by that question, somehow. I'm sure you all attend Ontario's farmers' markets, and when you buy the jelly or jam from that one particular woman there, you don't say to her, "When can I get this jam in Zehrs?" You'd never say that. You know that jam will change from the time it gets from that woman's counter to the Zehrs store—sorry to pick on Zehrs—or any retail outlet. You wouldn't say that, and we need to get that philosophy across to people that they're coming down; they're buying off the land: "Those are the grapes right over there. The wine that's in this bottle comes from those vines right there. Those Rieslings, those Gamays, those Gewürztraminers are in this bottle."

1230

I've just been thinking about something you brought up about the trade issues, and it is a concern. We're tiny. This ain't softwood lumber; this ain't hogs. For example, we have on the ground 500 acres of Gamay Noir, which is a particular kind of red grape. Ontario grows 500 acres. France has 78,000 acres of Gamay on the ground; we have 500. I don't see where the Americans or whomever you're worried about with the NAFTA issue—I don't think they're going to bat an eye at it. We're below the radar. I think if we can keep our stores restricted to small producers, it will also keep us under the radar on this.

Tax structure would be my only other issue on the new stores. It cannot be the same as the current LCBO mark-ups. Our little winery already has access. We could sell through Vintages; we could sell through the LCBO main store. We can't do it. It isn't worth it. It's not our goal to be that big. We would not sell through a VQA store program if the tax structure is no different than a sale through Vintages—I'm sure you're aware of what Vintages are—through a Vintages sale program or through our LCBO program. We wouldn't play the game.

I see these stores carrying 15 or 20 small wineries. We would pay our standard markup that we would expect to pay through our own little tasting rooms. I would expect it to be the same and that we would be expected to cover possible operating expenses, split between the wineries that are playing the game.

I think that's my rant there.

**The Vice-Chair:** Thank you. Members, we only have one minute left, so we'll start with the government. Mr. Craitor.

**Mr. Craitor:** Thanks for your comments. Let me just quickly share something with you, because I have the same frustrations. Shortly after I was elected, I certainly learned the difficulty that grape growers have had for years and years. I'm going to just share something with you very quickly. I suggested, because I'm pushing every avenue I can think of for VQA—one of the things I put forward was, how about just VQA being sold in grocery stores? What the heck; give it a shot.

I'm going to share with you the pushback I got, and it was in the newspaper. It came from the wine council. I'm going to read to you what they said about my idea: "The idea of converting the Ontario wine boutiques," all those licences that they control, we hear, 300 of them, "which are separate stores within some grocery stores, to VQA boutiques would fly in the face of long-standing international trade agreements, and consumers of premium VQA wines do not frequent these stores."

So even when I suggested it as a possible way of helping small wineries, a possible way of helping the grape growers, even the wine council came back and said, "The trade agreements. You can't do it." That was the suggestion. So that's the kind of pushback we get.

Anyway, I'm simply saying to you that there are other things that are available. You people all know it: the LCBO shelf space, clearly identifying the product, making sure that 100% in the bottle is VQA, the "cellared" that we all hear about. You all know it. Those things are there right now, and we've got to start addressing those so that your product is clearly sold.

I think the best thing that's coming out of all of this—and I must say this, Tim—is that we're getting coverage and people are starting to understand VQA, not only what it is but what it means to the economy of Ontario, the grape growers and even the wineries, how important VQA is. So there is a positive thing that's coming out of this whole process, as I'm hearing now with some of the articles that have been in the newspaper in the last couple of months. Some of the winery owners and grape growers have been interviewed and have really started educating the public. So some really positive things are coming out, about this and buying VQA products.

**The Vice-Chair:** Thank you.

**Mr. Craitor:** Am I OK here, Tony?

**The Vice-Chair:** You've spent almost a full minute. Mr. Hudak.

**Mr. Hudak:** He's a very tough Chair.

Thank you, David and Louise, for the presentation. You mention the timing and dovetailing and that sort of thing. There have actually been some risky developments or dangerous developments that have happened since this was introduced as a private member's bill: the most recent damaging short crop, for example; the greenbelt initiative, which will put pressure on the farm system; through the budget, enhanced pressure on the LCBO to maximize revenues, which has caused further delistings. We've had a tax increase on wine, whether domestic or imported. The wine council raised the spectre of gluts coming from the foreign markets, which will be backed up, I have no doubt, by lots of dollars from those governments to try to wedge their way into the Ontario market.

I think this means that now, more than ever, opportunities for small growers and small producers like Featherstone need to be brought forward. I think the risk of not doing so is greater today than it was in 2003. The importers are in such a dominant position that it would be regrettable that they would begrudge a small producer like Featherstone of 2,000 or 3,000 cases; it would be

shameful if they begrudged you a chance to get better market access.

**The Chair:** Mr. Kormos.

**Mr. Kormos:** Thank you very much for your contribution to this hearing. I for one think there's more than enough room in the revenues of the LCBO, and it's justifiable and well within the perhaps contemporary mandate of the LCBO, to dedicate some of those revenues specifically to nurturing and cultivating in any number of ways these small, highly specialized—what do you call this? There's a new class of producer here; he's the grower/winemaker, right?

**Mr. Johnson:** Right.

**Mr. Kormos:** It's a far different world from when I was young—only Mr. Craitor and Mr. McMeekin can remember that—when there were one or two big wineries producing stuff only drunk people would drink and all the grape growers were selling to that winery. It's a totally different world.

The Legislature has the capacity to adopt as policy—the government has the capacity to simply tell the LCBO, “You will accommodate this small, emerging industry with some of these incredible revenues,” which I attribute, of course, to the skilled Ontario liquor board employees' union members and their hard work. It's there, and why we're not doing it just boggles the mind.

Your comments were just bang on; very valuable. A good part of the record.

**The Vice-Chair:** Thank you very much, Mr. Johnson.

#### CITY OF WELLAND

**The Vice-Chair:** Our last deputant for this session is the city of Welland. Welcome. Please identify yourself.

**Mr. Paul Grenier:** Thank you, Mr. Chair. My name is Paul Grenier. I'm a city councillor in the nearby city of Welland. Thank you to all the members for inviting us to be here. I am bringing greetings on behalf of His Worship Mayor Damian Goulbourne and my colleagues on council to reinforce the resolution of council that we passed. It says, “Welland city council endorses the resolution from the town of Grimsby to support the establishment of VQA stores to showcase VQA wines and endorse private member's Bill 7, the VQA Wine Stores Act.”

I drew this assignment from my colleagues on council as not only am I a city councillor nearby, but I spent five years as the marketing director for the Ontario Wine Society. I come as sort of a little higher-informed consumer and a big fan of the Ontario industry.

I just wanted to read a couple of excerpts from the resolutions that other councils passed as a result of the request from Mr. Hudak:

From the town of Lincoln, the third part of theirs: “Enhanced training for LCBO staff regarding the strengths and merits of all Ontario wines.”

From the town of Thorold, their last point: “Enhanced promotion and advertising of Ontario wines through LCBOs and various print media.”

The underlying principle of all of this is support and assistance to the Ontario wine industry, particularly with VQA product, to have better access to markets for the producers of these products.

Everybody realizes the benefit of agri-tourism and agribusiness within Niagara created and driven by the wine industry. We are all proud of Ontario wine and the industry's success, from the foundation of its quality and its uniqueness to the co-operation between government and the producers to create an internationally renowned appellation, the VQA.

If I can bring some historical context to where I come to this debate—and Mr. Kormos will likely back it up, as he is actually a constituent of mine—15 years ago, during the free trade debate, being a little policy wonk, I was invited to a free trade debate at Niagara College. The president of Brights Wines was there, speaking about how difficult it was going to be for the wine industry to survive underneath what was coming with respect to the free trade agreement.

#### 1240

He mentioned, actually, this as a sort of anecdotal story that goes around, and Mr. Featherstone used the same one: Ernest and Julio Gallo spill more wine than the Ontario industry bottles. They felt that essentially they were traded off and thrown to the wolves. One of the only positive elements that came out of that was the retention of the branded stores, and Mr. Johnson spoke briefly about those branded stores. I think that a lot of this debate, and the difficulties of marketing Ontario wine within our own market, had its beginning with those decisions and how that has evolved since.

In the intervening years, the number of wineries has grown exponentially. When I was the marketing director, there were 34 wineries. Now we're close to 70. It has doubled in the seven years since I've left being a sort of promoter and an advocate for the industry. More importantly, though, the number of owners of these branded stores has dwindled down to two, and this is where we have a problem. The good intentions, modest as they were, have now limited access to only these two distributors of Ontario wines. It's this issue that needs to be addressed. This is the plan to market Ontario wineries more widely and profitably, particularly within our own market here in Ontario.

Another issue that I have, and I appreciate the merits of the bill—people have been talking about this trade issue. I don't think it's necessary, or I don't know if we should be going down the road of reviving this trade issue with the WTO, giving the advantage to local producers because of the state-owned liquor monopoly in Ontario providing an advantage to local producers and so on. I don't think that we need to enter into that type of losing battle with our trade partners to prove a point. I think there are probably better solutions that could be effected more readily and without the pain of having to fight through the trade tribunals.

I also want to raise the other issue—and Mr. Johnson touched on it briefly, and so did some of the other pres-

enters, but I'm going to be a little more emphatic about it. It's the advantage that the boutique wineries currently enjoy with their increased margin of sale at the farm gate. Wineries are allowed to essentially keep the profit on each bottle sold, rather than having to share it with the LCBO, as they do when they sell through that channel.

I think that any type of solution proposed with this type of distribution network of VQA-only stores has to keep as closely to that advantage as possible. We can't have that type of distribution network if that margin is eaten up in distribution costs, storage and the management of that. We have to find a way that these small producers keep that margin so that advantage can be maintained and market access can be increased.

I would be in favour of any bill that increases access to the market and emphasizes, obviously, the quality and uniqueness of Ontario wines, and that further provisions of the bill, again, must protect the profit on sales at the farm gate. It's just that this network is constructed in such a fashion that we don't have to revive this battle with the WTO.

I've been involved in the industry. In fact, I was married at one of the wineries here in Niagara. It's important that we find a way to get these products in front of more consumers in a way that we're not, again, reviving the trade irritants through the WTO. The grandfathering of these branded stores through the free trade agreement with the United States needs to be revisited. I don't think that is a difficult issue for us to manage, and I was actually a little bit offended with the pushback of the wine council, if it's what Mr. Craitor said it was, that they would not understand how their partners need this type of access to the marketplace, particularly in Ontario.

The last caveat I'd like to raise is, again with the farm gates, if we do come, and hopefully do come, to this type of distribution arrangement, that we be careful with how we position them here in Niagara. The last thing we would want to have is to experience cannibalization of sales by having one of these VQA stores in downtown Niagara-on-the-Lake. That would preclude the need to actually visit the farm gate and share the revenue with the producers.

That concludes my comments, Mr. Chair. I'd be glad to take questions.

**The Vice-Chair:** Thank you, Councillor Grenier. The official opposition.

**Mr. Hudak:** Thanks, Councillor, for the presentation. It's good seeing you here. We certainly appreciate the city of Welland's resolution endorsing the VQA stores.

I'm just trying to follow some of the thoughts. Do you suggest that we should just reconfigure the LCBO from top to bottom? Do you agree there should be a parallel system of VQA wine stores or a combination of both?

**Mr. Grenier:** I don't think we should be reorganizing the LCBO. I think, more importantly, we have to find a way to get the VQA product in front of more consumers, which is the underlying premise of your bill. I think the two main issues are the margin that the smaller producers would be able to keep and how we do that. My sug-

gestion is that we revisit the issue of the branded stores, why we gave up that limited number, and they've all since been bought up by two producers. I don't think that was ever the intent of that concession as a trade agreement. There's nothing sinister about it; it's just the way that business has evolved. These people were good business people. They bought up the access to market legally and they're doing a good job, but unfortunately it's just for themselves. The rest of the industry does not have the built-in advantage that the two main producers have. If we could find a way to remedy that glitch in the distribution system and get VQA wines in front of more Ontario consumers, the advantage that you're looking for with this bill would be realized by the producers.

**Mr. Hudak:** You're basically saying to take back a number of licences from large wineries and allow them to effectively become VQA stores.

**Mr. Grenier:** "Take back" are strong words, but find a way to use that avenue of distribution.

**Mr. Hudak:** Any idea how many licences that would be?

**Mr. Grenier:** No idea.

**The Vice-Chair:** Thank you. Mr. Kormos.

**Mr. Kormos:** Thank you very much, Councillor Grenier. I'm happy that Welland took this position with respect to this issue, because it underscores the fact that this isn't just a rural Niagara matter. It matters as much to urban Welland, urban Port Colborne, urban Fort Erie, as it does to the actual grape-growing areas in the northern half of the peninsula.

Welland has a significant role in the history of wine-making in Niagara and Ontario: the Welland Winery in the Cooper building on King Street in Welland, and of course the Roberto family. Tommy and Wally will tell anybody who will listen that their father, back in the 1930s and 1940s, produced thousands of gallons of wine a year, all of which was sold through his restaurant, Roberto's, on King Street.

**Mr. Grenier:** None of it subject to tax.

**Mr. Kormos:** None of it subject to tax, and there was nobody else with their hand in the pot, and the family did well as a result of it. Down where I grew up, in the south end of Welland, it wasn't just wine; it was the spirits industry. There wasn't a block that didn't have a still working in the backyard, and that wasn't that long ago. People sent their kids to universities with the revenue from that entrepreneurialism. Again, what we've got to do is make sure that people in Toronto, with all due respect, people in Windsor, in London, in Ottawa understand how very important this is as a part of the Ontario agricultural landscape, and a scarce and valuable part of the Ontario agricultural landscape. Thank you kindly.

**Mr. Grenier:** Thank you. I have to remind you that I grew up on Sixth Street, so I know all these folklore stories.

You bring that up across Ontario, and when I was involved with the Ontario Wine Society I did a lot of their shows with them and poured wine in Windsor and Ottawa at the gourmet wine and food, and at the Toronto

wine festival. In this type of education, the products are well received. But we need an opportunity—for most of the stuff I had in my hands, putting the glasses was not available through the normal distribution channels. Again, the spirit of the bill is to improve that and have everybody able to do that. I've missed Cuvée for the past four or five years, but one of the things that drove people nuts was that all the wines that won were only available at the farm gate. There was no other way to acquire these wines, even if you wanted to cellar them or keep them and enjoy them. The idea of the government finding a way to improve the distribution network, either through the LCBO or parallel to it, is something that should be undertaken.

**The Vice-Chair:** Ms. Mossop.

**Ms. Mossop:** Thank you very much for your presentation, and for bringing this history that you do with it. I don't know how long you've been in the room, but we've been dancing around this issue, and the wine council was here earlier, where we were talking about those licences and how to share them. In fact, the beverage alcohol review commission has made a recommendation that those licences be shared somehow. I don't know that you can pick a number of licences or put—I think it's something that would have to be reviewed, because obviously we've experienced the ground shift dramatically. There are a lot more players now; it's a whole different industry. So it would probably be something that would have to be reviewed, or maybe they would have a time when they'd come up for auction again. But those licences do exist. There are close to 300 of them in the province. I think it behooves us to continue to work with the industry, which our government is doing now. They've come up with a memorandum of understanding on a number of issues. It's a good, solid starting foundation for going forward to address that issue of sharing those licences in a more realistic way, and a more advantageous way for all the wineries in the business.

Vintages is another spot that I think, as you've mentioned, is direct—the LCBO or however you want to do it—to see the promotion of Ontario wine. VQA wine in Vintages is a natural market. But in your sense of your experience, do you think we can get that political will going in the industry? Do you see it starting to move now with some good quarterbacking, that that sharing can happen?

**Mr. Grenier:** Well, I hope so. There are many more members, again, that submit to VQA and are members of the Wine Council of Ontario looking at this, in the high 60s now. Everybody has a vested interest in the appellation being well received not only in our local market but internationally, but we can't succeed in getting that done until the market is there. We are still struggling with the acceptance of Ontario wines.

One of the other things that's sort of outside the spirit of the bill is the difficulty that restaurants have in listing Ontario wines and acquiring them for their wine lists. You can go to restaurants here in Niagara, in the middle

of wine country, that still have difficulty in putting together a substantial wine list from some of these boutique wineries that are up-and-coming. Again, Mr. Johnson was far too modest: He's the only organic winery in Ontario, and I'm a big fan. It's a very convenient place to stop and buy as you're driving out of town. We'd like to see these types of listings in the higher-end restaurants across Ontario. It's still difficult for these wineries to get in to that distribution because there are impediments to selling direct. But to your original question, "Is there the will?" I think the debate around this bill might act as a catalyst to bring the industry together and try to work more co-operatively to get the product to market.

**Ms. Mossop:** Clearly, we talk about agri-tourism improving Ontario, but what we're really talking about here is our culture. This is our culture; this is what makes us what we are. You go to France to enjoy the art, to enjoy the landscape, to enjoy the food and to enjoy the wine. It is our culture. It's why people go where they go, why they live where they live. We keep coming back to this, and sparks fly here and there, but the bottom line is that this bill has provided a tremendous opportunity for this discussion to take place and to bring in these larger and wider issues as well. For that, I'm very grateful. But we really want to make sure that we have the solution. I appreciate your realistic viewpoint with regard to the trade issue, which is a bit of a bugbear that we're trying to deal with, and with your other ideas that you've brought forward which are realistic and doable. So thank you.

**The Vice-Chair:** Ladies and gentlemen, the committee is now recessed until 3:15 p.m. in Toronto at Queen's Park, where we will continue our public hearings on Bill 7 in committee room 1.

*The committee recessed from 1253 to 1517 and resumed in committee room 1.*

#### NIAGARA ESCARPMENT COMMISSION

**The Vice-Chair:** Ladies and gentlemen, we now continue with the public hearings for Bill 7, An Act to authorize a group of manufacturers of Ontario wines to sell Vintners Quality Alliance wines.

There are a number of deputies. Each group will have up to 15 minutes for a presentation and questions by members. I call upon the Niagara Escarpment Commission. Welcome. Please identify yourself.

**Mr. Don Scott:** Good afternoon, Mr. Chair, members of the committee. Thank you for providing the Niagara Escarpment Commission with the opportunity to address this committee on the merits of this bill.

My name is Don Scott. I'm the chairman of the commission. Today I have with me the commission's senior strategic adviser, Marion Plaunt, and our communications manager, Richard Murzin, should you have any technical questions later on.

At the outset, I want you to know that the Niagara Escarpment Commission supports Bill 7. The commission considers that Ontario wineries, in particular

small and medium-sized wineries, would benefit tremendously from a more flexible venue through which to promote and retail their products. The establishment of Ontario VQA wine stores would provide a much-needed venue and give support to the Ontario wine industry. The Ontario cabinet would reserve the right to determine the number, location and ownership of such stores, thereby retaining the government's traditional measured approach toward distribution of these products.

Being an environmental land use regulatory agency, the commission brings a land use perspective to this issue. As you know, the matter before you affects primarily small and medium-sized wineries that do not meet the LCBO volume requirements for retailing their wine. The fundamental issue is whether small and medium-sized wineries should be compelled to rely only on a single retail sales outlet and other ancillary uses at their farm gate in order to attract, promote and sell their wine. You have to ask, what other agricultural product is treated in this way? I can't really think of any.

This takes me to the crux of the land use planning issue. First, a bit of background. Within the area of the Niagara Escarpment plan, there are currently 21 wineries, four approved wineries that have yet to be built and five proposed wineries. To put this in context, there are approximately 120 wineries in Ontario. Over the past five years, there have been 14 applications for new wineries within the Niagara Escarpment plan area. There is every indication that this trend will continue. It is a made-in-Ontario success story, and it has put our province on the map and front-of-mind nationally and internationally.

Many of the wineries we deal with are small and medium-sized operations. They contribute to our collective reputation as producers of fine wine. They produce this wine in quantities that may not meet the LCBO volume requirements. Consequently, they are constrained to marketing their products at the farm gate and through sales to restaurants. As a result, the operators of these wineries often seek to attract customers by establishing a wider range of land uses, such as restaurants, special events, theatre and so on. Many of the small and medium-sized wineries have advised the commission that they do not necessarily want to establish other uses not directly related to the production of wine; however, they consider that this is what they must do to attract customers to their premises to sell their wine. We know of no other agricultural use where such an onus is put on an agricultural operator to be the grower, the manufacturer, the restaurateur or the tourist destination to sell an agricultural product. More to the point from the commission's land use perspective, we have found that these ancillary uses—in particular, restaurants and event venues—can result in a number of land use issues. Let me focus in on a few of those for you.

Firstly, a number of restaurants in the Niagara Escarpment plan area have created surface and ground-water contamination from on-site sewage systems. Although these restaurants were originally established under tied house licences, their subsequent success re-

sulted in expanded businesses that exceeded the capacity of their private sewage systems.

Secondly, there is ongoing and increasing pressure for extending municipal services to restaurants. And when these services are extended into the countryside, this is often viewed as an opportunity for other non-agricultural development.

Thirdly, the development of entertainment-based operations in the countryside takes valuable agricultural land out of production to accommodate parking lots, septic fields and event venues. It can be argued that using valuable agricultural land for such purposes could eventually threaten the long-term viability of the Ontario wine industry.

Fourthly, many of the rural roads leading to wineries are not designed to take heavy tourist traffic or buses. Furthermore, in our experience, entertainment-based operations are often a source of tension in rural communities. There are frequent complaints from neighbours about noise, trespass and Traffic Act violations.

Through the last review of the Niagara Escarpment plan, the commission took the position that restaurants may only be permitted where a winery was situated on a minimum of 50 acres, in order to address most of the planning issues I have previously identified. However, given the current marketing constraints for wineries on small properties, the Ontario government approved policies permitting small-scale restaurants up to 50 seats on properties as small as 10 acres. The effect of implementing this policy has yet to be tested, but in theory, every winery could have a restaurant.

I think we could learn from the Napa Valley experience. Very seldom can we learn from the experience south of the border, but I think we can in this case. In 1999, staff from the commission and from the Ministry of Agriculture and Food conducted research in Napa Valley. In Napa, there were 240 wineries in an area comparable in size to the lands below the escarpment in the Niagara Peninsula, yet within Napa Valley there were only two restaurants located at wineries. The rest were located in fully serviced urban areas. The vast majority of the Napa wineries do not rely on farm-gate sales. In fact, many require appointments for tasting at the winery. In addition, their wineries rely upon a flexible retail and wholesale market to distribute their wine. Similar flexibility should be afforded to wineries to retail Ontario's wine if we want to protect the agricultural land base and rural lifestyle over the long term. The establishment of VQA winery stores at strategic locations, both within and outside Ontario's wine regions, would promote Ontario's wine as well as protect the countryside.

The question should be asked: What is the vision for Ontario wines? It's unclear to me why the retail sale of wine is limited to the LCBO and the limited retail outlets owned predominantly by two large wineries: Vincor and Andrés. Doing so invites the proliferation of eating establishments and event venues on good grape lands to facilitate farm-gate sales. Potentially, this could translate into approximately 30 wineries selling meals within the

Niagara Escarpment plan area alone, between Stoney Creek and Niagara Falls. No other agricultural producer is compelled to establish a restaurant or other amusement in order to market its products.

The commission's vision for Ontario wines would include tasteful VQA stores that retail Ontario wines in designated commercial areas. These stores would be accessible to smaller wineries and would broaden their reach into a wider market. More importantly, the commission's vision includes the protection of the agricultural land base, the beauty of the countryside and respect for rural values, lifestyle and livelihood.

From a conservation standpoint, I consider that the bill before you is a step in the right direction. We have seen what has been happening with the price of gas lately, and we are told that it could be getting worse. This bill helps to mitigate the impact of higher fuel prices by giving the industry a marketing alternative. It helps the wine industry adapt to the potential effect of high gas prices by reducing its dependence on tourists as a primary outlet for their wine.

In conclusion, it is the right time to consider more flexible opportunities for the retailing of VQA wines. The commission wholly supports Bill 7 as a means of protecting valuable grape lands, reducing land use conflicts in the Niagara Escarpment plan, and indeed the rest of the wine-producing portions of the province, and promoting the Ontario wine industry.

Thank you. I would be pleased to answer any questions you may have.

**The Vice-Chair:** Thank you, Mr. Scott. I'm going to continue with the rotation we started this morning, so it would be the third party.

**Mr. Kormos:** Thank you very much for your participation in the hearings. It's hard to quarrel with any of your observations.

One of the problems we have down there, of course, is that these happen one at a time. There's always an incredibly persuasive argument being made for site A, which wants to do X, Y and Z and talks about the employment that it creates, the additional traffic and the visitors to the community. The problem is that then you have location B, C, and D. So what do you say? We've got a status quo now. We know where they are, but you've got some fairly significant restaurant operations. I think some of them are fairly large in terms of handling banquets. What then do you say to the new kid on the block who says, "Hey, but I've got to compete with these people"? I think it's a dilemma. We met some of them this morning. These are entrepreneurs who invest a whole lot of money.

1530

**Mr. Scott:** That's true. Maybe it's a selfish point from the commission's perspective, but we look at this bill as a very good opportunity to give the small wineries in particular an opportunity to establish some kind of little co-operative in Niagara-on-the-Lake, Beamsville or someplace where they can retail their product. A lot of them don't really want to run a tied house or a restaurant

in order to produce that. You wouldn't expect a beef farmer to establish an abattoir and then a burger place on his farm to sell his product, so why should this happen in the wine industry?

Maybe the price of gas might help things by reducing the amount of tourist traffic through it, but it's going to really hurt the small industry. I think this is one of the first viable options we've looked at to really create a good marketing tool, as well as meet some of the land use goals that we're dealing with.

**Mr. Kormos:** You've been suggesting that this could be done by way of co-ops. You wouldn't quarrel with the LCBO doing it? You see, that's where I'm coming from. This is a sound proposal, assuming it's the LCBO that's going to deliver the services.

**Mr. Scott:** If they want to broaden their mandate to do that, if they could provide that, that would be fine, but right now it's a hard time finding Featherstone wines in the LCBO.

**Mr. Kormos:** Which is why we need the LCBO to start marketing this stuff, perhaps in a boutique style.

**Mr. Scott:** That would be a great idea.

**Mr. Kormos:** I appreciate your comments very much.

**The Vice-Chair:** Mrs. Van Bommel.

**Mrs. Van Bommel:** What I take from your presentation is that you feel in many ways that the infrastructure as it exists now is not going to be adequate to support any further restaurants and winery-type endeavours on-farm.

**Mr. Scott:** It's a complex issue. One of the things you've got to remember is that we're dealing with a very limited land base that can produce wine. Should you be eliminating some of that through parking lots, tile beds and things of that nature?

The easiest example is to look at Cave Spring, which is a winery located in Jordan. They've taken an old canning factory and turned it into a winery, a great restaurant. They have their wine boutique there and their accommodation. The big bonus in that is that they have helped create a tourist draw for Jordan. There are so many benefits of putting these in the right places from a land use perspective. Just to service some of these restaurants, we've had some bad experiences so far. If you're required to put a sewer line out to pick up some of these restaurants, then they say, "Well, it's there; we might as well tie into it," and it just keeps on going. If I read the Greenbelt Act correctly, we're trying to avoid some of that urbanization of the landscape.

**Mr. Hudak:** Chairman Scott and friends of the Niagara Escarpment Commission, thank you very much for being here and making an excellent presentation. I know COPE has also sent in a similar support letter, I believe—hopefully, the clerk has sent that around from COPE—advocating basically the same thing as the escarpment commission is today. Certainly COPE are very strong advocates of preserving the Niagara Escarpment.

Earlier today, we heard a very strong business case for VQA stores from the small wineries themselves. We heard a very strong agricultural case from grape growers

and other farmers. We heard very strong equity arguments in terms of equal treatment in market access from the majority of presenters, and now we're hearing a very strong environmental case from the Niagara Escarpment Commission, which I greatly appreciate.

I also think you make a very good analogy to the cattle farmer, that we don't have government policies that perversely say, "The only place you can sell your meat is out of a steak joint on the farm property." Do you hear that from some of the wineries? Do they say that if they don't have an opportunity for greater market access, they are going to try to turn to ancillary businesses on their property, and what will the impact be on the escarpment?

**Mr. Scott:** I think one at a time—that's how you eat an elephant: one bite at a time—you eventually eliminate the resource.

I recall standing in maybe an 85-acre vineyard with the former chair of the region, and they were announcing this great new winery that was going to be put up. I had to, in a friendly manner, remind the regional chair of Niagara that if it hadn't been for the mean old Niagara Escarpment Commission not allowing subdivisions and that, we would have been standing in the middle of an estate development and not a potential winery. So you have to really stop the first one. I think we've got a unique area here, and I think this is the right approach to certainly direct things in the right way from a land use perspective as well as, obviously, from a marketing perspective.

**The Vice-Chair:** Thank you very much, Mr. Scott.

#### SPIRITS CANADA

**The Vice-Chair:** The next group is Spirits Canada. Welcome.

**Mr. Jan Westcott:** Good afternoon, and thank you very much. We appreciate the opportunity to appear before the committee and to comment on Bill 7. I'm Jan Westcott, president and CEO of Spirits Canada. It's a national trade association representing the interests of the Ontario and Canadian distilled spirits industry. I'm joined by my colleague C.J. Helie, EVP of our organization.

The Ontario spirits industry is an important contributor to the Ontario economy, with a direct payroll in excess of \$100 million every year, and generates direct tax revenues to the Ontario treasury in excess of \$800 million. Spirits are the principal profit-driver within the LCBO, and our members purchase more than \$230 million worth of goods and services every year from Ontario businesses—large businesses, small businesses, and medium-sized businesses. We are the only domestic beverage alcohol group without the privilege—and I stress "privilege"—of selling directly to Ontario consumers through our own retail chain of stores, other than through one store that's located at one of our manufacturing facilities.

In direct relation to the issue under discussion today, the spirits industry buys more corn from Ontario farmers

than the farm value of the entire Ontario grape wine crop. So I just would ask that we bear those things in mind.

That's a short, top-line introduction to the spirits industry. A general fact sheet describing key aspects of the Ontario beverage alcohol industry is appended to these comments for your information.

Quite frankly, we're perplexed as to the true underlying purpose of Bill 7, as the bill includes no statement of objective, but we have three hypotheses that we would like to share with members here today.

First, it may be that the bill's intention is to improve beverage alcohol service to Ontario adult consumers. If this is its purpose, clearly it misses the mark by a very wide margin. Today in Ontario, there are nearly 600 LCBO stores and over 180 LCBO agency stores selling Ontario wine. In addition, the province has 290 private wine stores selling Ontario wine exclusively. Let's compare these wine outlets with the number of retail outlets selling Ontario spirits.

Since spirits retail sales are limited to LCBO and LCBO agency stores, there are nearly 40% more licensed outlets offering Ontario wine for sale in Ontario today than there are that offer Ontario spirits, yet despite an additional nearly 300 more outlets offering domestic wine, at nearly \$1 billion in net sales, domestic spirits far outsell domestic wine sales of less than \$400 million a year. In fact, spirits are available in only half of the authorized outlets, while beer and domestic wine are available in over 70% of the outlets.

These facts lead one to conclude that if the goal is to improve the service for Ontario adult beverage alcohol consumers, the compelling need is to increase retail access for Ontario spirits and not, with all due respect, Ontario wine. That said, it is not the position of the Ontario spirits industry to advocate for the establishment of private spirits stores in the province, dedicated exclusively to the sale of spirits. These kinds of discriminatory policies are anachronistic and counterproductive to the creation of a dynamic and competitive retail market.

#### 1540

Fortunately, there is a solution readily at hand. The LCBO has over 40 years of experience in managing private retail stores to complement and augment its market coverage through its agency store program. If there are gaps in retail access in the province, these should be covered by an expansion in the number of LCBO agency stores that are authorized to sell the full range of beverage alcohol products wanted by consumers—beer, wine and spirits—not an arbitrary small subset such as only VQA wines.

We understand that historically the LCBO was not able to open agency stores everywhere warranted by consumer demand due to opposition from The Beer Store for purely competitive—some would say anticompetitive—reasons. Simply eliminating The Beer Store's virtual veto on the location of new LCBO agency stores would address any concerns related to retail access without the need for Bill 7.

Secondly, if not to address consumer service, perhaps the purpose of Bill 7 is to expand the level of taxpayer subsidy to Ontario vintners without the level of transparency and public scrutiny expected of public policy development today. As members may or may not be aware, the previously identified 290 private wine stores have become a virtually tax-free route to market for Ontario wineries.

A typical bottle of wine selling for \$11 in Ontario would have \$4.36 in provincial taxes and fees applied to it if it is sold by the LCBO, and only 49 cents if sold by one of these private wine stores. Even after accounting for the costs incurred by the LCBO in selling the bottle, the Ontario treasury would receive \$2.84 for the same bottle sold by the LCBO versus less than 50 cents when sold by a private wine store. That's over 80% less on the same bottle of wine, simply depending on where it was sold. For those of you who may be shocked that Ontario imposes fees and taxes amounting to nearly 50% of the wine's net selling price, the comparable fiscal load on spirits products sold by the LCBO is substantially higher, at 60%.

The virtual tax-free status of these existing private wine stores is the equivalent of an Ontario taxpayer subsidy valued at more than \$65 million in 2004 alone. Given the fiscal priorities facing the province, it seems incongruous that the committee would consider or recommend increasing the level of corporate subsidies to large, successful companies that are out there in the wine business, companies such as Vincor International. To put the magnitude of the wine subsidy into context, over 1,000 registered nurses could be hired for the same level of investment in the province.

It's also worth noting that the level of subsidy has skyrocketed over the last few years due to recent policy decisions such as allowing private wine stores to deliver directly to most licensed bars and restaurants and by increasing the tax load on sales through the LCBO while freezing the almost non-existent tax on private wine store sales. In fact, VQA Ontario reports that nearly 20% of VQA wine sales in the province are now shipped directly to the on-premise trade, with the associated reduction in control and audit functions inherent in third party transactions like sales through the LCBO. We do note that the bill makes no mention of the proposed tax load that would be imposed on these new outlets, but the cost of the above precedent should be sobering for all policy-makers.

Finally, perhaps the real goal of Bill 7 is to launch a trade war with Ontario's major trading partners so that we can eliminate all of these private and discriminatory stores once and for all, as recommended recently by the Ontario Beverage Alcohol System Review Panel. Members should be aware that under the Canada-US free trade agreement, the number of wine stores in Ontario and BC that may discriminate in favour of their own locally produced wine is limited to the number of outlets in existence on October 4, 1987. I quote: A party may "maintain a measure requiring private wine store outlets in existence on October 4, 1987 in the provinces of

Ontario and British Columbia to discriminate in favour of wine of those provinces to a degree no greater than the discrimination required by such existing measure."

This unambiguous but limited exemption to Ontario's national treatment obligations was later directly incorporated into NAFTA through NAFTA annex 312.2 and remains a binding commitment today. By limiting the proposed new additional VQA stores to selling only Canadian VQA wine, Bill 7 is in direct contravention of NAFTA. I don't believe anyone disputes this point.

Similarly, Canada and the European Community concluded a wine and spirits agreement in 2003 that updated a previous 1989 agreement. That puts Ontario's right to operate private wine stores that discriminate against EU wine back on the table if, in the words of the agreement, "the relative commercial significance of the restricted outlets," by which they mean the private wine stores, "should substantially increase."

It's our understanding that the EU will take the position that the establishment of a parallel VQA chain of stores in addition to the existing private wine stores would trigger this renegotiation clause.

I think it's fair to ask, and members may question, why the spirits industry is concerned with a potential trade war with the US and EU that is centred on wine. The answer lies in the structure of the market and in power politics.

In 2004, Ontario exported less than \$8 million of wine to the United States and less than \$2 million to the European Union. In the same period, Ontario—stress Ontario leading Canada—exported over \$300 million of spirits to the United States and over \$20 million of spirits to the European Union. That's a ratio of over 30 to 1 in favour of spirits over wine. Both the US and the EU understand that any trade retaliation focused on Ontario will not be centred on wine but rather on more substantive export products like Canadian whisky—whisky that's produced in Windsor, Collingwood, Amherstburg and, incidentally, in the peninsula, in Grimsby.

This fear of retribution is more than simple conjecture, as this dynamic is exactly what occurred in 1988 following Canada's loss at the GATT on liquor board wine practices. In our view, passing Bill 7 would be akin to playing Russian roulette, with the spirits industry as the game's stakes, and such a gambit is not acceptable to our companies, our employers or suppliers and, quite frankly, we think it's not worthy of Ontario's consideration.

**The Vice-Chair:** Thank you. The government: Ms. Mossop.

**Ms. Mossop:** Thank you very much for your presentation and for, quite frankly, a side to this discussion that we haven't seen yet, at least today in the public hearings. Your research and bringing this to bear is most useful to this discussion. You mentioned that there's one producer that has an outlet, a store. Which one is that?

**Mr. Westcott:** Hiram Walker has a store in Windsor that is a tourist centre, much like some of the wineries have.

**Ms. Mossop:** You may notice that you're speaking to a fairly Niagara-centric group here, and if you haven't, you are. We have the same concerns with regard to trade. We have some of the same concerns about helping the local domestic industry, because it is one that's gone from a very small industry to quite a large one now, and world-class. There are a number of other things that are in play or being discussed. Do you have any thoughts around, what if we were able to increase the number of VQA wines from the smaller craft wineries in Vintages? Right now, a lot of the small craft wineries can't get into the LCBO because they don't have the quota, and that's a real frustration for them. What if we were to try to come up with some sort of mechanism to increase their presence in Vintages?

**Mr. Westcott:** With all due respect, I think that Ontario has done remarkably well by the domestic industry. At the end of the day, we all live or die on market demand. The LCBO, for years and years and years, ever since my involvement in the business, has run a one-month promotion for Ontario wines, which is better and better and better every year, ramped up. Certainly successive governments have invested heavily in direct marketing support to the wine industry, something that's not really offered to anybody else in the beverage alcohol business. I think that's had some due. The question becomes, how much is enough, and when do you cross over the line and start conveying advantage to somebody—and I'll leave out marketplace advantage—in a way that begins to put other people at risk?

In a sense, we buy a tremendous amount of corn in Ontario. We buy corn from central Ontario, where we source all of our corn for our facility in Collingwood, and we buy corn in southwestern Ontario, 50 square miles, one plant alone. Should the interests of people who live in southwestern Ontario be traded off to the interests of people who live in the Niagara Peninsula? Certainly, there's got to be another way to come at this—

**Ms. Mossop:** No, and I'm not suggesting that—

**Mr. Westcott:** Inadvertently, that's what happens. I realize that's not where we intend to go, but that is in fact what happens.

**Ms. Mossop:** I'm coming up with another solution to this, which is just maybe increasing that shelf space in Vintages a little bit.

**Mr. Westcott:** I certainly have no objection to doing that, but clearly, the LCBO has worked very hard to do that. Again, it has to be driven by the market.

**Ms. Mossop:** One last quick question: The discussion that we've had today has centred around potentially those 290 VQA licences that are out there, and whether or not, with the industry working co-operatively—I'm not sure that that's a possibility or not, but hopefully—to share those licences in some way, either by auctioning some of them off or something that the beverage alcohol review commission looked at.

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**Mr. Westcott:** Well, I don't feel comfortable sticking my nose into the wine business and telling them how to

run their affairs. We do respect private property. Those stores exist, and there's some history behind them. How the government gets equity there is a very difficult issue. I'm not sure that it's my place, on behalf of the spirits industry, to tell them or offer suggestions on how to do that. I appreciate the opportunity, but I think I'll keep out of that one.

**The Vice-Chair:** Thank you, Mr. Hudak.

**Mr. Hudak:** Thank you, Jan. It's good seeing you guys again. We used to get along so well back in the day.

You could have called, and I would have given a pretty direct answer as to the purpose of the bill. It's not some secret conspiracy. It's pretty basic, and that's to give market access to the small craft VQA producers who really are restricted by current government policies. I appreciate the debate on spirits versus wine versus beer, and we've had that discussion. I do appreciate your support when we did expand the LCBO agency store system, which I think has been responded to very positively by constituents, and I hope the current government continues with that method.

The goals are quite simple and straightforward: By improving that market access, the goal is to create an even more inviting international tourism destination for wine lovers, so you have that nice dynamic of the larger wineries and of vibrant small and medium-sized industry. It's a way to modernize our market to give consumers greater choice and exposure to these VQA wines.

Also, quite frankly, it supports other government initiatives like the greenbelt. We heard consistently, during the greenbelt hearings and even today, that if the government truly wanted to make the greenbelt successful, which is an initiative focused on certain parts of the province of Ontario, then we should have some sort of agricultural support plan. Coming from the agricultural sector, there is very strong support for initiatives like these to ensure that that will be the case and that the greenbelt could be successful if these ideas are embraced.

I appreciate that we're having a bit of debate at the committee as to what vehicle to utilize for the small VQA wineries. Ms. Mossop talks about Vintages and there's talk about existing licences, so I do appreciate that there's been some honest, open debate. Mr. Kormos has talked about doing it through the LCBO, and you gentlemen are I think strong advocates of increasing the agency stores program. I do appreciate the remarks. They are debates that we did have back in the day. But with all due respect, it's something that I care passionately about, and that's why I brought it forward, as minister and as a private member's bill, to help out those small craft producers get fair market access.

**The Vice-Chair:** Thank you, Mr. Kormos.

**Mr. Kormos:** Thank you very much. I was concerned for a while there. I thought Mr. Hudak's bill had such overwhelming, unanimous support, which in and of itself is probably a bad omen. So I think you've given the bill a boost now. You've created some tension. We've been talking about wine all day. You're the first people to come in here talking about rye whisky. You'll remember the line in the song, Mr. McMeekin: "I started out on

burgundy / But soon hit the harder stuff.” Thank you very much for your submission.

#### CILENTO WINES

**The Vice-Chair:** The next deputant is Cilento Wines. Please come forward. Welcome.

**Mr. Dave Gimbel:** Thank you. Why, this is sort of exciting. This is great.

**Mr. Hudak:** It was going too smoothly earlier on.

**Mr. Gimbel:** That’s right. Man, it’s hard to believe being here. Last time I was in this building I was about seven years old, a school kid coming here on a bus tour. Sad to say, I live 60 miles away from the building and have not returned until today.

**Mr. Ted McMeekin (Ancaster–Dundas–Flamborough–Aldershot):** You’ve still got a twinkle in your eye.

**Mr. Gimbel:** I just joined a tour before I came down. I had a few minutes to kill, and it was really neat to see the building again.

Anyway, good afternoon, everyone. I appreciate the opportunity to speak on Bill 7 and the Ontario wine industry in general. My name is Dave Gimbel, and currently I am the sales manager for Cilento Wines. We are a medium-sized producer and winery located in Woodbridge, Ontario. Cilento has been a producer of Ontario VQA wines since 1995, sourcing our grapes from selected growers throughout the Niagara region.

At one time, Cilento was an owner and grape grower in the Niagara Peninsula. We had 150 acres of land full of grapes at Concession 7, Line 6, just outside of Niagara-on-the-Lake. However, being an off-site owner, we found it very difficult to maintain and manage the vineyard to the capacity that it should be. As a result, two years ago the vineyard was sold. Currently, we source our grapes from about 11 selected growers throughout the Niagara Peninsula.

At present, we have two products general-listed at the LCBO, two products in the craft winery program and our limited-release wines are featured in Vintages from time to time. Because of our size, the majority of our wines are sold through our one and only retail store located at the winery in Woodbridge, Ontario. Due to our location outside of wine country, we are not part of the culture and ambiance found there. We are not part of the many programs offered and we receive very little tourist traffic. For us, VQA wine stores would be ideal.

As for me, I became part of the industry in 1988, joining Hillebrand just before the introduction of the VQA program. For the past 18 years, it has been both a challenge and a privilege to sell, market and promote VQA wines in Ontario and around the world. I have seen the industry grow to its current status, a growth that has been truly amazing. Back then, we were a handful of wineries trying to establish ourselves as serious producers in a sea of nondescript sweet and bubbly products. With the help of growers, winemakers, industry visionaries and government, a new and exciting part of the Ontario wine industry was born: VQA wines.

Today, with 100 wineries dotting the landscape, many of the smaller ones are facing challenges on where to sell their product. For those using the LCBO as a means of additional distribution, shelf space is at a premium. Many Ontario producers find it somewhat difficult to work within a system that must service the needs of worldwide interests yet not show preferential treatment to domestic producers at the same time. Current rules and regulations do not allow alternative retail outlets for our VQA wines.

When I as a producer fail to get a listing or have a product delisted, I have no other means of distribution except my own retail store. This is true for the majority of Ontario wineries that do not have the luxury of owning their own stores. About 10% of the Ontario wineries own their own off-premises stores. There are more than 300 of these stores in the province, located in malls and grocery stores. These stores are winery-owned and exclusive to their brands. If one of their brands becomes delisted in the LCBO, they have an alternative means of retailing. I do not.

Cilento has received four LCBO delistings since I joined the company in 2001. It is difficult for a small winery with limited resources to support our brands within the system. Marketing promotions, in-store programs and Food and Drink advertising cost money. Profit margins are almost non-existent as it is, yet we try to do what we can.

Our most recent delist, which happened about three months ago, was our award-winning Chardonnay no oak. This wine was twice awarded the Andy Brandt LCBO trophy for best general list white wine at Cuvée. It is our top-selling brand, and we receive calls daily from customers upset that the wine is no longer available in the LCBO stores. Ontario VQA wine stores would be a perfect option for this product and us.

In 1988, a stroke of a pen grandfathered the ownership of the off-site retail stores. Now, 16 years later, Bill 7 may provide the remaining 90% of Ontario wineries with an off-site alternative.

I have asked government why the off-site retail option could not be reintroduced in Ontario. Of course, NAFTA is the answer I get. I have been told if Ontario were to grant new licences, Gallo, for example, could ask for the same privilege. Why is it then that in Pennsylvania, which incidentally has a liquor board similar to Ontario, all wineries are granted five off-site licences as part of their package?

#### 1600

New York state has retail stores that sell 100% New York state wines. One of them is located in downtown Manhattan—a perfect tourist opportunity and there to attract the visitors to the Big Apple. There is one in the town of Cambria, New York, at Warm Lake vineyards, which is about 15 miles from the Lewiston-Queenston Bridge.

In Traverse City, Michigan, there is a store downtown selling “All Things Michigan.” The store has a lovely display of Michigan wines for sale. Most of the local wineries are represented. There are approximately 40 to

45 wineries in Michigan. There are no imports and no other states' wines offered for sale.

The same situations are found if you travel through Napa and Sonoma. Retail and tasting rooms sell only California wine. In Richmond, Virginia, I visited a quaint retail store selling only Virginia wines.

Lastly, we see how the 20 private BC VQA wine stores have built customer loyalty and increased sales within the province. My daughter recently returned from BC and brought me a few bottles from a VQA wine store in Vancouver. She told me the selection was great and the staff was knowledgeable and friendly and did a super job.

Bill 7 would support the vintners who need a retail alternative, whose production does not satisfy an LCBO quota or whose location is not part of the wine route. Bill 7 would create an atmosphere where VQA wines would take centre stage, where all producers would be created equal and all wines would stand on their own merit. Or would they?

To achieve equality, it is my opinion, and my opinion only, that in order for Bill 7 to be successful and for all Ontario VQA producers, small and large, to benefit equally, the program, if instituted, should be set up at arm's length. Those associated with the industry should not be a regulator or retailer. Since all VQA manufacturers must be members of VQA Ontario, perhaps VQA Ontario should be the government agency responsible for the granting of retail licences.

While it is fine for special interest groups and industry associations to support all areas of our industry, it should be noted that the largest industry association represents only two thirds of the wineries. The same holds true with the LCBO. Not all wineries sell their wines in LCBO stores. This is why an arm's-length program is vital.

There are no reasons why all levels of retailing can't work together. In BC—and I have used that province as a model—there are five distinct retail operations selling VQA wines. And guess what? It's working. The BC liquor stores sell VQA wine; the 20 BC VQA stores sell VQA wine; the private wine stores sell VQA wine, as well as imports; the retail stores affiliated with a specific winery sell VQA wine and, last but not least, the BC duty-free stores sell VQA wine.

Using BC VQA as a model, I hope the bill would allow some flexibility at the store level. BC VQA wine stores are permitted to sell wine-related accessories and gift baskets. Accessory sales are very important for the success of a retailer and one would hope that, in addition to wine, other items would be available. I would hope that the VQA stores would have the flexibility to include in-store tastings and direct delivery to make them a full-service operation.

Once established, these stores could be an area of future expansion. They could include products from the fruit wineries of Ontario, which face a similar situation with limited distribution, and selected products from Ontario Craft Brewers possibly completing the full circle.

This is a golden opportunity to put Ontario on an equal footing with other wine-producing regions, especially BC

and our neighbours to the south. Working with growers, producers and the Ontario government, these stores will give many smaller producers the ability to build their brands, increase production of VQA wines, add jobs to the economy and gain a little market share in a very competitive world.

In closing, I would like to thank Tim Hudak, MPP for Erie—Lincoln, for the time and energy he has spent on this bill. He is truly an ambassador of Ontario VQA wines. We have an opportunity to do something outside the box for a change, something that will grow our industry. Isn't that what it's all about?

**The Vice-Chair:** Thank you. Members, we have about three minutes left, so I'll start with the official opposition.

**Mr. Hudak:** Dave, thanks very much for a very well-thought-out and very well reasoned presentation. Welcome back to Queen's Park. Obviously you've done your homework on comparative jurisdictions. I think you quite effectively point out how other states and provinces have some form of access that we currently lack in Ontario for the craft wine producers. Often we'll hear the answer, "Well, the LCBO could do more," and I agree that the LCBO can and should do more. We appreciate Andy Brandt's work to date, and there's more that can be done. But I think the way the LCBO is currently constructed—in terms of the supply it demands, the warehousing requirements and the marginal benefits for some of the small producers that sell through the LCBO—just doesn't really make it an option. We enter into a perverse world, so to speak, where market access for the majority of our small producers doesn't exist outside of their own farm. Maybe you could extrapolate a bit on that. Would you be satisfied if the answer was, "We'll just do more through the LCBO"?

**Mr. Gimbel:** Well, currently, as I said, we have products in the LCBO. However, as a small producer, where do you find Cilento products? We're on the bottom shelf, behind the post, and that's where we are in most stores. Prime shelf space of course is dedicated to the larger wineries, the ones that have the capital and the money for the marketing programs. Marketing programs are very expensive, and most smaller wineries don't have additional capital to go this route. That's why some of them have even decided not to go into the LCBO to market their product. I've been told by some manufacturers of Ontario wines that they actually sell more wine in Alberta than they do in Ontario, because of a less restrictive marketplace.

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** I appreciate your references to some of the illustrations of Pennsylvania, New York state and the "All Things Michigan" store in Michigan. The next presentation is going to be an interesting one in the context of those observations, because it's a pretty scholarly legal opinion with respect to the free trade act.

One of the things I'm going to ask if I have time—you see, I'm sneaking this in because I hope the professor is here—is, is this the whole point? Of course, I'm an

advocate of not privatizing liquor sales or spirits and wine sales but of maintaining it in the publicly owned LCBO regime. My issue is this: I believe the LCBO has the capacity to expand its mandate, for instance, to promote agri-tourism, and in the course of doing that to present VQA wines in places that are logically frequented by large numbers of tourists. So I'm going to be asking the next presenter if those sorts of options that we have in Ontario, which some of the places don't have, in fact give us more flexibility with respect to complying with free trade than we would if we didn't have a publicly owned operation like the LCBO which at some point or another gets its direction from the Legislature of Ontario.

**The Vice-Chair:** Thank you. The government.

**Mr. Craitor:** Welcome back.

**Mr. Gimbel:** Thank you.

**Mr. Craitor:** I was here when I was a kid and the next time I showed up, I was an MPP, so there you go.

Just a couple of very quick comments. I said earlier this morning—it's ironic, because I had suggested, just trying to help the VQA industry, that we put wines in grocery stores, only VQA. The pushback I got from the wineries and the Wine Council of Ontario was, "You can't do it. It's a violation of the free trade agreement. You shouldn't even suggest something like that." That was their pushback. But I'm in agreement with my colleague Peter Kormos: I really believe that we have a distribution system here that's just not working with the LCBO. In the short time I've been elected—and I've listened to you and everyone else who has talked to me. We have a system that is not there for the small wineries. It's impossible to get into it. Then the small wineries in turn have their difficulties, so then the grape growers are affected by it. The blending is the craziest thing I've ever seen. The general public has no idea what blending even means. They think when it says "Ontario"—and we hear this all the time, "There you go, Ontario wine." You would think that was all ours.

**Mr. Gimbel:** There's probably not a drop of Ontario wine in this brochure, and if there is, it's probably 5% or 10%.

**Mr. Craitor:** So I think there's really an opportunity, and I know my colleague Jennifer Mossop feels the same way. We have a distribution system, and we've got to fix that first. That's what we should be going toward, and not in terms of getting into the free trade agreement and if there are or aren't violations. I don't know if you were here, but there was a gentleman who spoke for the spirits industry and he just went on about the ramifications there would be to his industry if we did this.

I'm just suggesting that you keep going forward, you keep pressing. It sounds like you've been at this for a while, and there's a group of us up here who feel the same way as you: Fix the system that we have.

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**The Vice-Chair:** Thank you.

**Mr. Craitor:** I know he wants to make a comment.

**Mr. Gimbel:** I appreciate your comments and I understand them fully. However, when I look south of the border, I wonder why they can do it and we can't. All of these jurisdictions have either some form of liquor distribution—Pennsylvania has a liquor board that's patterned almost identically on ours. They have wineries that have wine stores, but they also have wineries that have five off-site licences. Why in Ontario can't every producer have five off-site licences? That's my question. If Pennsylvania can do it, and they are in a NAFTA country, why can't we do it? Why do we not initiate a trade war against them because they're doing something that we supposedly can't do? It doesn't make sense to me.

BC has a liquor store system the same as Ontario, but in addition, they have the VQA stores. And in addition, they have private stores, where products are sold that maybe the liquor board doesn't want to carry. Let competition see what it can do in a free market economy.

**The Vice-Chair:** Mr. Gimbel, thank you very much. Your time is up.

#### BENNETT GASTLE PROFESSIONAL CORP.

**The Vice-Chair:** The next deputant is Bennett Gastle Professional Corp. Please come forward. Welcome.

**Dr. Charles Gastle:** Good afternoon. My background is international trade law, and I've taken a look at the proposal from that perspective. What I tried to do, when I went through the bill and also the law, was to find a way that I thought VQA wine stores could be completely onside with international trade law. There is one way in which I think these stores are not only permitted by international trade law but perhaps specifically contemplated by it, and it's this: My understanding is that Bill 7 is to permit VQA wine stores to form a partnership by which they could open up stores in Square One, the Eaton Centre or other places in Ontario—

**The Vice-Chair:** Please identify yourself for the record.

**Dr. Gastle:** My name is Chuck Gastle, and I have a doctorate in international trade and competition law. I'm an adjunct professor at Osgoode Hall Law School, teaching international trade law.

I've been advised that only 10 of 49 VQA brands are distributed through the LCBO. That is a market failure, and it's not an unusual one. I taught a course in 2001 on e-business concepts, and we did a study of wine.com, which was one of the first wine Web sites set up in the United States. It was set up specifically because there were a large number of brands in California and elsewhere which could not get distribution. The concept was that these smaller, more exotic wines would be sold through wine.com. So I would suggest that this is a problem faced not only in Ontario but elsewhere.

There are at least two issues that arise from an international trade law standpoint: The first is with respect to the sale of goods and the second is with respect to the investment opportunity provided to Canadian investors and investors in the United States and Mexico.

With respect to the sale-of-goods provisions, VQA wine stores would be completely consistent with Canada's NAFTA and WTO obligations if they were required to meet the same distribution and marketing obligations that are imposed upon the LCBO by virtue of those agreements.

With respect to the investment issue, it depends upon the interplay between NAFTA chapter 11, which is the investment chapter, and NAFTA chapter 15, which allows monopolies to be designated. Clearly, we have the LCBO. If it's not operating under its grandfathering clause, it has been either directly or implicitly recognized as a monopoly. There is no reason why VQA wine stores could not shelter under that designation in the same way that the agency stores do in the rural areas. The point is that there is a way that this can occur.

If you turn to page 3 of my presentation, you'll actually find section 804 of the Canada-US free trade agreement, which was imported into NAFTA under annex 312.2. If you take a look at the second branch of it, I've highlighted the portion that is important: "Maintain a measure requiring private wine store outlets ... to discriminate in favour of wine of those provinces." As soon as you eliminate that, so there's no discrimination in terms of Ontario wine, you should have no problem from an international trade law standpoint.

The key is that what those obligations imposed upon the LCBO are and how you would get the stores to follow them. The vision that I see underlying this bill—and this is obviously not from an international law standpoint; this is just my own observation—is that if you had wine stores in Ontario that were VQA wine stores, and if they were to provide distribution for those brands that can't find distribution otherwise, and if they could go out and find other brands from California, Australia and other places that are similarly placed, what you're actually doing is increasing selection and competition within Ontario; you're probably building relationships between Ontario wineries and foreign wineries. I've done studies of Canada's innovation policy, and its relationship between Canadian producers and foreign producers in all kinds of activities is important.

On my review, it is quite possible to set these stores up and to do so in a way which is consistent with international trade law.

**The Vice-Chair:** You're finished your presentation, Dr. Gastle?

**Dr. Gastle:** Yes.

**The Vice-Chair:** The third party.

**Mr. Kormos:** On page 4 you write, "If the VQA stores only sold Ontario wine," in contrast with the scenario you just described, "the provision would represent a de facto if not a de jure breach." You're suggesting that it may not be a literal legal breach?

**Dr. Gastle:** Under international trade law you can't have disguised provisions, in the sense that international trade law tribunals will look beyond the wording of a section to actually see the way it is implemented. If, for instance, you had a provision that said these stores will

not discriminate in favour, but they did in fact discriminate, the tribunal could look beyond that and still find a breach of Canada's trade law obligations.

**Mr. Kormos:** One of the things we were confronted with this morning is the scale of, let's say, the California wine industry compared to ours. If there is a breach, what does it amount to in terms of penalty or damages or consequences when you look at what is the real impact of the breach on that American manufacturer with a small, boutique-type VQA store that is being contemplated?

**Dr. Gastle:** I can't answer that question, because it would depend on the scale of the stores and the scale of the impact. Given that the previous presenter was talking about all of these stores that exist in Pennsylvania—I did not look at the American obligations under NAFTA to see whether there are similar provisions or not—the first question is, would anyone launch a complaint? Assuming they do, where would they launch it? Would they launch it under NAFTA, or would they launch it under the WTO? I would suggest that they would launch it under the WTO, not under NAFTA, because basically the same provisions exist given what happened before. You would go through a long process that would eventually lead to a determination that Canada was in breach, and would be given a period of time in which to bring its practices into compliance. If Canada failed to do it, there would be a determination as to the amount of retaliation, and it would really be to the market impact. Presumably, it would be limited to those stores and the impact of those stores.

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**The Vice-Chair:** Mrs. Van Bommel.

**Mrs. Van Bommel:** I also want to reference back to page 4. You're talking about how VQA stores would have to sell more than just Ontario wines in order to avoid breaching the Canadian trade agreements. But then what makes that different from what is already happening in the LCBO, where we have VQA wines now mixed in with wines from other countries? I'm not sure I see the advantage of trying to get VQA out there for the public and promoting it just to get it in front of everyone and to have everyone drinking VQA wines if they're still mixed in with wines from other countries.

**Dr. Gastle:** I'm a lawyer. That is a marketing question. From a legal standpoint, I'm not sure there necessarily would be a difference, because you're acting under the same kind of distribution scheme.

From a marketing standpoint, I'd just ask this question, because there are many other people here who could answer it much better. If you have the co-operatives selecting which wines are going to be in the store, obviously they're able to select their brands which are not otherwise listed. If they're able to go out and, in order to build the attractiveness of these stores, are able to go to find some excellent wines similarly placed in other countries, what you could end up with, in my view, is a retail outlet that broadens the selection that exists. You would also promote the VQA wines in the sense that they would almost be, pardon the phrase, guilty by association. If

you've got some of the finest wines coming from California and other places and you've got the Ontario wines there as well, I think you're building the brand and building the quality. That's a marketing answer to your question, though; it's not a legal one.

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Dr. Gastle, thank you very much for your presentation. It was obviously very well thought out. I've enjoyed our conversations on this issue, and I do appreciate your efforts to find ways to make these types of stores become reality. I'll hope that we'll have a chance as a committee to consider Dr. Gastle's suggestions for improvements.

Back to my colleague Mr. Kormos's line of questions: If there were a remedy ordered, you said it likely would be targeted at the particular stores. The remedy would then be to say, "OK, now you have to put some imports on the shelf alongside your VQA." Is that the type of remedy that would exist, or is it a fine? How does the remedy actually work?

**Dr. Gastle:** There would be a finding by the WTO that Canada had to bring its practices into compliance, and they would be given a period of time to do that. It's unlikely that the WTO would specify exactly how that compliance would occur. Canada would be required to find a way that they believed complied. It would then notify the WTO, and the WTO would then determine, if asked to do so, whether or not compliance had actually occurred. One caveat to that: I haven't looked at the dispute settlement mechanisms in the European Union-Canada agreement, and I'd like to go back and take a quick look to see if there are any special dispute settlement mechanisms there. Assuming there are not, you're just under the general dispute settlement mechanism.

**Mr. Hudak:** Your presentation is similar in its outcome to the wine council's, which was, if there are trade concerns, the wine council's then preferred vehicle was speciality wine retail stores that would feature these VQA products that have trouble getting on the LCBO shelves alongside some high-end import wines that would raise their profile. We heard that from Linda Franklin, and I know Don Ziraldo from Inniskillin makes a similar point.

Is it possible to amend the legislation as it stands to meet the objections, making sure that it complies with trade agreements, or do you have to start again?

**Dr. Gastle:** I think you can easily amend it. It's just a question of inserting the words that they will be required to meet Canada's international trade obligations in terms of its distribution. Once you do that, the trade issue falls away.

**Mr. Hudak:** I appreciate your point too in terms of describing the broken market. We heard over and over again today that it does not currently function for the majority of small and medium-sized VQA craft producers, that the economics of the LCBO, the demands of quantity simply won't help them fit.

**Dr. Gastle:** I'd like to turn that around and say maybe it's a failure for the consumers, because if one likes wine,

I think it would be a wonderful opportunity to go and find a greater selection of some of these brands and some of these vintages that you can't get. I wonder if some of these wineries and some of the people who run the wineries may be well placed to identify some of these kinds of exotic brands. It's kind of an interesting experiment in that regard, but again, these are marketing questions, and I'm a lawyer.

**The Vice-Chair:** Thank you very much, Dr. Gastle.

#### INTERNATIONAL WINE TRADE COUNCIL OF CANADA

**The Vice-Chair:** I now call upon the International Wine Trade Council of Canada to come forward. Welcome, gentlemen, and please identify yourselves.

**Mr. Rick Slomka:** Good afternoon. My name is Rick Slomka. I'm the Canadian director for the Wine Institute of California. My colleague is Ron Fiorelli. He is the director for Canada for Wines of Germany. However, we're both here today as representatives of the International Wine Trade Council of Canada, an association representing the major wine regions of the world that trade with Canada and Ontario. Our members include Australia, California, France, Germany, Greece, Italy, New Zealand, Portugal, South Africa, Spain and New York state. This presentation we're making today represents the views of our membership, whose regions account for 85% of the wine imported into the Ontario market.

Our association is actually very supportive of the VQA wine industry. We are also supportive of expanded distribution for wines in the province of Ontario, but we do have some concerns about this proposal.

Our opposition to this bill has been expressed in a letter directed to the Chair of this standing committee, but with your permission, we'd like to highlight some of our concerns and answer any of your questions.

There are really four key reasons behind our objections to the passage of this proposal.

First of all is fairness in the market. This bill would effectively create an additional and exclusive distribution channel for VQA wines to the exclusion of all other products. This is very unfair to all the import suppliers who have worked hard and invested heavily for several years to help develop the wine market in Ontario. Currently, import wines can only be sold through the government-operated LCBO system.

VQA wines are also sold through the 598 LCBO stores, but also have exclusive distribution privileges through more than 390 winery retail stores, a distribution channel not available to imports.

Creating a set of stores that specialize in VQA wines would divert customer traffic from the LCBO, which would reduce the number of consumers who will be exposed to and have the opportunity to consider purchasing import wines.

Our second reason is that we believe adding new VQA-only stores would violate international trade

agreements. Both NAFTA and GATT created free trade access for goods and services in Canada and Ontario based on the principle of national treatment, which means imports and locally produced products must be treated equally, especially once a product has entered the country. This principle is one of the foundations of all bilateral and multilateral trade agreements.

Notwithstanding this principle, winery-operated retail stores that were in existence prior to the implementation of NAFTA were allowed to continue to operate under the protection of a grandfather clause. It was never the intention or spirit of NAFTA or other international agreements to extend this grandfather clause to cover new distribution channels. Therefore, any new distribution channels created must be open to both local and imported products.

Our third reason is the impact on government revenue. Wines sold outside of the LCBO distribution channel effectively reduce revenues to the LCBO, and that could impact the dividend that the LCBO submits to the provincial government.

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If we can assume that every bottle of VQA wine sold in these new proposed stores represents one less bottle sold through the LCBO, the revenue loss to the LCBO could be substantial. Ontario wines sold through the LCBO are subject to an LCBO markup of 58% and a wine levy of \$1.62 per litre. Wines sold through winery retail stores are not subject to any LCBO markup or wine levy. Therefore, on a \$14 bottle of VQA table wine that is sold at the LCBO, the LCBO realizes a markup of \$5; on a \$50 half-bottle of icewine, the LCBO's markup is \$15.32.

With less VQA wines available for sale in the LCBO and the revenue loss of either \$5 or \$15 per bottle, the LCBO will need to recover this revenue elsewhere. We believe the LCBO will be forced to increase the markup on import products and, as a result, the retail prices of import products will increase. Higher import prices at both the retail and licensee levels will have a negative impact on consumption, reduce demand and may affect jobs throughout the food service and hospitality industry, as well as the beverage alcohol industry and maybe even the LCBO.

One of the tables attached to this presentation illustrates the difference of taxation between wines that are sold through the LCBO and the winery retail stores.

Our fourth point is that we don't feel new VQA wine stores are required. We think there is significant potential for the growth of VQA wines within the current retail channels by better merchandising methods.

As indicated earlier, VQA wines already have potential distribution in 598 LCBO stores and 390 winery retail stores. This is 65% more distribution than import wines currently enjoy. Despite this distribution advantage, we believe there are several missed merchandising opportunities that should increase VQA sales through the LCBO. The problem is that consumers are confused and have difficulty distinguishing VQA wines, which are

100% Ontario grapes, versus cellared-in-Canada wines, which contain only 10%—soon to be only 1%—Ontario wine. In most LCBO stores, the VQA wines and the cellared wines blend together on the shelf, making it difficult for consumers to understand the difference. This also happens in many winery retail stores.

In addition to the in-store merchandising confusion, the LCBO and the Ontario wine industry add to the problem by promoting and advertising both the VQA and cellared wines as Ontario wines. A recent flyer published by the LCBO identified several cellared wines as Ontario wine. The flyer was distributed in more than three quarters of a million newspapers and coincided with large displays in the LCBO also identifying these wines as Ontario wines.

We believe consumers will ultimately be more supportive of VQA wines if it is easier for them to determine the true content of the wine they are purchasing. The solution, therefore, is to completely separate VQA wines from cellared wines in the LCBO and the winery retail stores. We also encourage the LCBO and wine stores to aggressively promote the VQA wines as 100% Canadian wine and to better educate the consumer that cellared wines only contain minimal Canadian wine. This is a solution that we believe will increase VQA sales and be trade compliant at the same time.

In summary, we believe there should be fair access to any new distribution channels, that international trade agreements should be respected, that LCBO and government revenue should be protected and that the VQA should take advantage of the opportunities for growth within the existing current structure.

Thank you for your time.

**The Vice-Chair:** Thank you, Mr. Slomka. The government: Mrs. Van Bommel.

**Mrs. Van Bommel:** I want to just go back to the issue of consumer confusion around VQA and cellared-in-Ontario. Do you think, especially now with a lot of the discussion that's going on and the debate that we have here today, as well as in the press, that some of that confusion may be impacting on the VQA and the sale of VQA?

**Mr. Slomka:** Yes, I really think so. I believe that consumers have this difficulty in separating the two, and I think if a better job was done of merchandising VQA within the LCBO and the winery retail stores, there would be a greater consumer appreciation for these wines and, ultimately, more growth.

**Mrs. Van Bommel:** Do you think that would be possible under the current system?

**Mr. Slomka:** Very much so.

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Thanks very much for your presentation. Obviously, we're going to disagree quite strongly with some of the points you make. With respect, I think some of the solutions you offer aren't really solutions. We heard it a lot today, and it's no surprise to you, that the import wines are doing very well, thank you very much, at the LCBO. In fact, I hear over and over again from

producers that the LCBO is basically a foreign wineries outlet while a lot of domestic wineries can't even get their product to market there.

Recently, outraged Ontario consumers—the usual promotion this spring for VQA was changed to focus on South America and the southern hemisphere imports. A recent OMAF study, I think, cited that the EU, which I know has a number of members on your commission, has a \$6-billion subsidy for their domestic wine industry. You're criticizing chicken feed compared to a \$6-billion EU subsidy to their wine industry. Does any of that go into export subsidies to go into North American markets?

**Mr. Slomka:** I'm not aware of that.

**Mr. Hudak:** So I'm sorry. I'm not sympathetic to a cry poor from the imports when they're backed up by a \$6-billion purse from the home countries to crowd out Ontario wines within their own domestic market space. Recently, if I understand correctly—I've heard this from the wineries—with the government of France, the LCBO did the “Ooh là là” campaign with some subsidies from outside of this province, using foreign dollars to promote French product here within the province of Ontario.

Forgive me for asking, then, for a little bit of market access for small VQA producers. Isn't there a bit of an equity issue here between the guy who's producing 2,000 or 3,000 cases, investing in his or her land in the province of Ontario, against the big guys backed up by \$6 billion from Europe?

**Mr. Slomka:** We're totally supportive of VQA industry. All we're saying is that you need to respect your trade obligations. You have to be responsible with the revenue protection. I'm not saying that VQA should not be better promoted. In fact, we're saying that it should be better promoted within the LCBO system.

**Mr. Hudak:** The point that the small wineries brought up over and over again today, from the grape growers, was the need for a VQA channel. Sure, we can help out in the LCBO, and more work needs to be done, but we've heard quite strongly and quite consistently that they need that channel because the current LCBO is so dominated, with 60%-plus of shelf space, by imported wines. Surely, there must be some market access solution for the small VQA group.

**Mr. Ron Fiorelli:** There is one access I'd like to mention: The LCBO has a craft program that allows small wineries access to the LCBO.

**Mr. Hudak:** Sure. I was the minister who brought that forward, so I'm very familiar with it, and I'm proud of it.

**Mr. Fiorelli:** It has extended opportunities for these small wineries for longer periods of—

**Mr. Hudak:** How many wineries—

**The Vice-Chair:** Sorry, Mr. Hudak, your time is up. If you could just let Mr. Fiorelli answer the question, please.

**Mr. Hudak:** The point I was making is, that's helpful, and there are 12 wineries that benefited from it and 15 VQA wineries that sustain a listing at the LCBO, but there are 80-something that don't. The system, as we heard earlier, is a bit of a broken market. That's why I

feel strongly—we heard very strongly from the majority of the participants here today—that we do need another channel.

I appreciate your points, with all due respect. I think I just need to vocalize the things that I hear locally and from the industry about the unfair advantage.

**The Vice-Chair:** Thank you, gentlemen.

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#### ONTARIO IMPORTED WINE-SPIRIT-BEER ASSOCIATION

**The Vice-Chair:** The next group is the Ontario Imported Wine-Spirit-Beer Association. Welcome.

**Mr. Ian Campbell:** Good afternoon. My name is Ian Campbell. I'm the executive director of the Ontario Imported Wine-Spirit-Beer Association. I'm appearing before the standing committee this afternoon to outline our association's strong opposition to Bill 7, An Act to authorize a group of manufacturers of Ontario wines to sell Vintners Quality Alliance wines, commonly referred to as the VQA Wine Stores Act.

Established in 1958, the OIWSBA is the provincial trade association representing manufacturers, agents, importers, marketing groups, international trade offices and distributors of imported beverage alcohol products in Ontario. OIWSBA represents more than 90% of all imported beverage alcohol products sold in Ontario. Our members are Ontario businesses that provide direct and secondary employment to at least 1,700 people across the province.

Members of our association are strongly opposed to Bill 7. As you're aware, the bill proposes that the Liquor Control Act be amended to allow for the establishment of new wine retail stores selling only VQA wines. Ontario wineries would be permitted to group together to sell each other's products. Cabinet would be given the authority to determine the number, location and ownership model of these proposed Ontario VQA wine stores.

The spirit and intent of Bill 7 is to secure new retail opportunities for domestic wineries only and not for imported wine suppliers. The bill's discrimination against imported wine suppliers is inconsistent with international trade agreement requirements to which Canada, and by extension the government of Ontario and the LCBO, is a party.

Restrictions governing privately operated beverage alcohol retail outlets in Ontario date back to the signing of the Canada-US free trade agreement in October 1987. The FTA introduced strict national treatment obligations for signatories on a prospective basis. The FTA did not prevent the continuation or prompt renewal of non-conforming provisions of any existing measure. All Ontario winery stores in operation, in the process of being built or for which an application to operate had been approved by the LCBO on or before October 4, 1987, were effectively grandfathered. Going forward, wine sales from such stores would be limited to only those products made by that manufacturer.

Canada's national treatment obligations deepened with the implementation of NAFTA in January 1994 and the Canada-European community wine and spirits agreement in June 2004, amending the February 28, 1989, Canada-European economic community agreement concerning trade and commerce in beverage alcohol products.

We note that article C of the Canada-EC agreement, the most recent agreement signed, states: "Canadian competent authorities shall accord national treatment and most-favoured nation treatment to alcoholic beverages that are the product of the community in accordance with the WTO agreement. With respect to a province, national treatment and most-favoured nation treatment shall mean treatment no less favourable than the most favourable treatment accorded by such province to any like goods that are the product of Canada or of any third country." Canada's national treatment obligations are clearly spelled out in each of these trade agreements.

Article F of the Canada-EC agreement gave the European community the right to request an independent audit of any liquor board's cost of service differential in line with standard accounting procedures within one year of entering into force of the agreement. That right was exercised here in Ontario and also in two other provincial liquor jurisdictions in Canada. While this may seem highly technical in nature, it's a clear sign that the LCBO and other jurisdictions' treatment of imported beverage alcohol products is being watched very closely. As such, it's very likely that the enactment of Bill 7 would prompt an immediate trade challenge. The prospects of a successful defence appear minimal at best.

We note that the Beverage Alcohol System Review Panel retained independent legal counsel as it considered comprehensive changes to Ontario's beverage alcohol retailing and distribution system. Proposals to establish new VQA stores and to allow cross-selling of Ontario wines by other manufacturers were put forward for consideration by the panel. They were dismissed out of hand on the strength of a legal opinion secured by the panel which cited inconsistencies with Ontario's international trade obligations.

Awareness of the trade sensitivities of Bill 7 is longstanding. An attempt was made by the previous government to have Bill 7 passed by including the text, word for word, in an omnibus red tape bill sponsored by the Ministry of Municipal Affairs and Housing. This was a surprising move given the far-reaching and serious implications of this draft legislation. The matter could have been introduced on its own by the sponsor of Bill 7, who was then the Minister of Consumer and Business Services and had responsibility for the oversight of the LCBO.

Concern has been expressed about the lack of retail opportunities for small and mid-sized Ontario wineries. These concerns are not unique to Ontario suppliers. I think that's a very important point. They're shared by similarly-sized suppliers in the 67 international jurisdictions from which the LCBO sources product. In the context of a free trade environment, any measures to

assist these domestic suppliers must also assist imported beverage alcohol suppliers. Bill 7 fails to take this into account.

The OIWSBA supports unfettered competition, both at home and abroad. We're committed to a shared marketplace in Ontario and a level playing field for all industry suppliers. Our association supports a strong and prosperous Ontario wine industry. The accomplishments of this industry reflect well on the whole of the beverage alcohol industry. I should note that despite our primary focus on imported products, members of our association also represent the products of numerous small Ontario wineries and some small Ontario Ontario breweries. Our members have been instrumental in helping Ontario wineries grow their businesses through cost-effective representation to licensed establishments across Ontario. Our association assisted Ontario wineries in securing access to European markets for Ontario icewines and has offered support to the Wine Council of Ontario to help it resolve any trade concerns through established international trade dispute resolution channels.

When asked for our thoughts on changes to Ontario's beverage alcohol retailing and distribution network, we put forward ideas to benefit all industry players. Our association recommended to the Beverage Alcohol System Review Panel that a number of new independent retail stores be established to complement the LCBO's retail network. These stores, stocking both domestic and imported products, would enable small and mid-sized suppliers to gain a foothold in the Ontario marketplace. Consumers would benefit from the introduction of smaller brands, new products, niche-market items and limited-volume products. We also recommended that a third party warehouse be established to allow the LCBO to focus on its core business. In addition to the commercialization of consignment operations, this would also facilitate direct deliveries for small Ontario wineries and breweries.

In closing, we urge members of the standing committee on regulations and private bills to recognize the government of Ontario's international trade agreement obligations and the significant limitations they pose on changes to Ontario's beverage alcohol retailing and distribution network.

In light of these ongoing trade agreement obligations, we urge committee members to reject Bill 7. Thank you.

**The Vice-Chair:** Thank you, Mr. Campbell.

Mr. Hudak.

**Mr. Hudak:** Mr. Campbell, thanks very much for your presentation. You and I have had a few bouts over this, over the last few years.

**Mr. Campbell:** We have.

**Mr. Hudak:** We've dug in to our particular positions.

As I have said to you, and to the gentleman before, I don't have a great deal of sympathy for any cry of unfair market access by the importers that so dominate our LCBO system. My God, you could look at any of the Vintages, any of the LCBO productions, and while there has been some progress made, they're dominated by the

imports, many of which you represent. You're a good spokesman for that cause, but I disagree with that cry of unfair market access, particularly when we hear today stories from the small VQA producers that they can't get—those that you represent, or a good portion of them, have the wherewithal, backed up by governments back home, to buy in to the LCBO merchandising programs; they have the greater ability to meet supply chain demands. I do believe fundamentally that there is a market failure that works to discriminate against the small VQA producers.

**Mr. Campbell:** I have to disagree with that. This market failure you talk about doesn't target small VQA suppliers; it targets everybody who tries to feed the LCBO. So your script for the Ontario wineries is a script for 67 jurisdictions around the world. Those suppliers in Ontario that can't feed the LCBO—there are 66 other jurisdictions where suppliers similarly sized have the same problems. That's why we've suggested that a new complement of stores be established.

I heard from the wine council this morning and I heard from Spirits Canada just recently that they wouldn't have any problem with a new set of stores open to all suppliers being established, because right now, the LCBO, with their just-in-time delivery and their large size, appeals to large suppliers with big ad budgets and fast-moving products. But it's what I call the middlers, the small and medium-sized players, that have no access to the marketplace, both domestic and international suppliers.

**Mr. Hudak:** Professor Gastle talked a little bit about this, and, as you said earlier, you were there when the Wine Council of Ontario talked about transforming the VQA wine stores into certain specialty, niche—

**Mr. Campbell:** Not branding VQA wine stores, just new independent retail operations. We don't have a problem with that at all. We fully support it. We recommended it to the Beverage Alcohol System Review Panel. So branding that as a VQA store, I think, is a misnomer. I think you would just talk about a new set of stores supplying all products—beer, wine and spirits—and accommodating products from both domestic and international suppliers.

**Mr. Hudak:** Surely to God there's some sympathy that you have for small and medium-sized VQA producers you heard about today. That's got to touch you at some point. Don't you think that if you do these specialized stores, at the very least they should be constructed so that they can feature these small VQA suppliers, or are you just willing to write them off and dominate with imports?

**Mr. Campbell:** Let's take the emotion out of this.

**Mr. Hudak:** But how can you not—

**Mr. Campbell:** In an international trade agreement, when you have those obligations, all suppliers are faceless. So take the emotion out. The problems that these small suppliers are having, everybody is having.

**Mr. Hudak:** I'm just not willing to write them off like that.

**Mr. McMeekin:** Nobody beat up your people this morning, Tim.

**Mr. Campbell:** I think we've really taken the high road. We've put forward proposals that benefit everybody that wouldn't be rejected by Spirits Canada or the wine council. The wine council said, "If the government's reservations regarding trade concerns cannot be overcome, we would be entirely comfortable with a proposal that broadened access to these stores to other beverage alcohol suppliers." That's exactly what we recommended.

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**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** Mr. Hudak can have my time.

**Mr. Hudak:** Thank you, Mr. Kormos, and thank you, Chair. I guess maybe because we hear from them, they're constituents of mine, they're making an investment in agriculture that supports other government initiatives, I've got to think that, surely to God, we should approach this issue as opposed to saying everybody's faceless. These are small business people who, because of market failure, cannot get access—

**Mr. Campbell:** These are international trade laws as well.

**Mr. Hudak:** Yes, I know that's your overarching goal, and you've got to make the case for who pays your bills. I appreciate that, but I think we have a duty as Ontario representatives as well to advocate for our constituents, to advocate for small businesses in our area and to correct market failure.

You always push me to do more for the imports and to change the LCBO system to do that—that's your job—but surely to God, there's got to be some balance in this issue.

**Mr. Campbell:** Members of my association are small Ontario businesses representing these wines here in Ontario.

**Mr. Hudak:** Yes, but every small VQA supplier that I've heard from—correct me if I'm wrong—does want to see greater market access. I think they would take my side of the issue, rather than those from the French, American or other European wineries that have huge—

**Mr. Campbell:** You're saying your constituents would take you—

**Mr. Hudak:**—subsidies.

**Mr. Campbell:** I expect that.

**Mr. Hudak:** I don't think that they see it as a faceless issue. They have a strong sympathy for those—

**Mr. Campbell:** It's the first principle of international trade law. You've got a master's in economics; I do as well. The first thing you learn in international trade theory is that suppliers are faceless.

**Mr. Hudak:** I'd ask you, along sort of the Gastle/wine council suggestions, that if you were to construct a parallel system and make an amendment like Gastle had suggested, don't you think it should be constructed to specialize or to solve these problems, to help out the small producers?

**Mr. Campbell:** He talked about sheltering these stores being similar to sheltering agency stores, but you have to understand that an agency store stocks all pro-

ducts and treats all suppliers equally, so it's apples and oranges to shelter something like this.

**The Vice-Chair:** Thank you, Mr. Hudak. You've used up Mr. Kormos's time as well now, so I'm going to turn to the government.

**Ms. Mossop:** Can you give us some sense, if this were to pass and we were to go ahead and try to set up VQA-only stores, what the international kickback would be, what the ramification would be?

**Mr. Campbell:** I noted in the presentation the fact that with the Canada-EC agreement that came into effect last year, they had one year to challenge the audit of the LCBO cost-of-service differential. They were on it in a heartbeat. There are 66 jurisdictions that feed the LCBO, aside from Ontario.

**Ms. Mossop:** There's this sense that keeps coming back that maybe we're just too timid when it comes to trade issues; maybe we should just stand up for our own and get on with it, and trade issues be damned.

**Mr. Campbell:** I think it's a really serious decision for government. It's being watched, I can tell you, very, very closely by major suppliers around the world—not just Europe, but new markets: New Zealand, South Africa, Australia. All the suppliers are watching this market very, very closely.

I've heard other presentations talking about Ontario wineries not having a presence abroad versus the wines that are flooding the market here. You have to understand that in Europe there are 3.5 million acres of vineyards. There are 15,000 in Ontario, so it really is a blip. We're not a major exporting market. The wine council, in its long-term wine strategy, wants to have 5% of production going for export in the year 2020, which is 15 years from now. It's very modest to ramp up to 5% of total production going for export.

It's a convenient argument to say, "We're discriminated against abroad, therefore we should discriminate here." It doesn't wash, because the whole focus is the domestic market for domestic wines.

**Ms. Mossop:** This amendment that was referred to earlier—I believe you were here for Mr. Gastle's presentation, where he suggested that we could change the structure. How would you view that structure to be? It wouldn't be a VQA store.

**Mr. Campbell:** No, not at all. It would be branded as a new retail operation. We suggested, very similarly to the Beverage Alcohol System Review Panel, that new licences be issued and that they be limited so that Loblaws and Dominion stores or others don't get all of the authorizations. They'd be spread around the province to complement the LCBO system, would stock all products, domestic and imported, and the full range of products: beer, wine and spirits.

**Ms. Mossop:** Would they be geared to the smaller—

**Mr. Campbell:** The small and mid-sized niche market players. They would be eclectic stores in tourist areas that would appeal to products not otherwise stocked by the LCBO.

**The Vice-Chair:** Thank you very much, Mr. Campbell.

## PRINCE EDWARD COUNTY WINEGROWERS ASSOCIATION

**The Vice-Chair:** The next deputant is the Prince Edward County Winegrowers Association. Welcome.

**Mr. Richard Johnston:** Thank you, Mr. Vice-Chair. My name is Richard Johnston. I'm chair of the Prince Edward County Winegrowers Association. This is Debra Marshall, who is the secretary of the association. We come at this from a very different perspective. We're very pleased to welcome what we see as a positive initiative to support authentic Ontario wines. Our association is made up of growers and wineries in the county, and we're working collaboratively to produce locally grown fine wines.

Our main message to the committee is that it's time to take a number of steps to level the playing field for new wineries and to support an agriculturally based wine industry in Ontario. I think domestic is exactly where we should be going, as they do in France and elsewhere. These VQA stores may be one way to do that.

For example, there are special privileges for wineries that happen to have been established before 1993 and there are special rights bestowed on wineries that happen to be located in a designated viticulture area in the province, and they don't apply to those of us who are trying to expand the boundaries of cool-climate viticulture.

The rules of the LCBO make it extremely difficult for small boutique or cottage wineries to get shelf space even in their own home communities. It's unthinkable that we would be trying to export, by the way. I just can't imagine a winery like ours, with 2,000 cases, looking toward exporting to France.

Although we have thousands of hectares of vineyards, government dollars to support a local wine strategy end up promoting wines that are blended in Ontario with large amounts of imported wine.

An official wine map displayed in the LCBO stores across Ontario and supported by taxpayers' dollars only identifies Ontario Wine Council members, meaning that those wineries who can't afford the hefty membership fees and don't mind a constitution that enshrines the dominance of the council by its two largest members basically aren't on the map. The other licensed wineries in the province must use their own funds to compete against a publicly funded advertising campaign. These are just a few examples of the range of anomalies that are out there.

We need steps such as VQA stores to make it easier for entrepreneurs like those of us in Prince Edward county to succeed. I'm sure that most of you are aware that the county's economy was stagnant for decades following the demise of our canning factories. Today it has enormous vitality, in substantial part because of the development of our wine industry, despite the plethora of bureaucratic hurdles to jump through that now confront us and other new wineries.

As you'll note in the attached background information, over \$30 million has been invested, over 600 acres have

been planted and there are now 12 wineries since PECWA was established in 2000.

We believe that this agricultural economic development model is much better for Ontario and the province's coffers than importing tanker loads of foreign wine, which then undermine the viability of the VQA-based product.

Why is the government not supporting this model as preferential to the import model? Ontario is a total anomaly in the world of wine. We're the only ones who base our domestic industry on blending with imported wines. As a result of the two-tiered classes of wineries, we can only sell wine from our individual wine stores on our own properties. We cannot sell in a collective outlet, as is suggested in Bill 7. We can't get access to the boutiques in supermarkets that are controlled by the original wineries, which sell primarily foreign-based wines there. With recent short crops in Niagara, the big blenders have even been permitted to sell their foreign-based products to restaurants at the same lower tax rate normally reserved for VQA wines.

Ironically, although all the wines from my winery are Ontario grown and even principally county grown, as validated by one of our subcommittees, dominated by vineyard owners, not wineries, I had to pay the tax rate reserved for totally foreign product. I was treated like a Chilean wine. This anomaly occurred because I decided to follow the PECWA authenticity process, which we've brought a sample of here, in terms of requiring 100% county content in order to get approval, rather than going through VQA.

PECWA believes that the VQA stores with markups that are similar to those used for our winery stores could be part of the solution. We also encourage the Legislature to consider recommending that the government instruct the LCBO to permit their store managers to order wines directly from any licensed winery in the province without going through the LCBO warehouse and transportation system that is the excuse for the extra levy, totalling almost 60%. We wonder if VQA stores could actually be part of the product-of-Ontario stores that could showcase Ontario art, craft, microbreweries and fruit wineries, for example, and be located in large urban centres and tourist areas.

**1700**

If the LCBO can permit the corner store in a village like Consecon, which is in Prince Edward county, only 15 minutes from the Wellington LCBO store, to sell primarily foreign wines when it has a struggling wine industry sprouting in the surrounding countryside, why should the concept of VQA stores or product-of-Ontario stores be impossible?

The member for Erie-Lincoln will remember that as minister he visited the county and learned that, not being part of a DVA, our wineries were only allowed to buy as many grapes from Ontario growers as they could grow or purchase in Prince Edward county. He provided us with a temporary fix, given our youth and a difficult winter, but we still face these restrictions that prevent us from benefiting Ontario grape growers in their good growing

years. Their excess grapes could be going into VQA Ontario wines from Prince Edward county, making both of us more profitable.

To conclude, we would say that collective stores for VQA producers and those making 100% Ontario wines, including small-volume producers, would be one step in fixing an inequitable regulatory environment, but we do encourage the Legislature to look at the full picture. Without broader reform, the initial success of the Prince Edward county experiment could be undone by legislative double standards, sweetheart deals and misleading labelling.

**The Chair:** Thank you, Mr. Johnston. Questions and comments?

**Mr. Kormos:** One of the tensions in this discussion is the proposal that these stores would be privately operated stores, as compared to LCBO-operated stores. You know my preference. As a matter of fact, it's a deal-breaker or deal-maker in terms of support for the bill. What's your view about the LCBO's ability to achieve this end if it were given a mandate to do so?

**Mr. Johnston:** I think the important part is the last part. If it was given the mandate to do it, I think it could handle it. That's my personal view. The association has not taken a position on this and would probably be split—that would be my guess—in terms of their preferences as to whether there be a new system of for-profit or collectively owned stores or whether they be run through the LCBO.

**Mr. Kormos:** We've only gotten suggestions. Andrés and Vincor are the two big players on the wine council. Nobody has spit it out. If I recall, you've got parliamentary immunity here in the committee room. What's going on with this wine council? People have been wanting to dance around the issue of Andrés and Vincor, but nobody has ever wanted to really just lay it out and say it the way you feel it.

**Mr. Johnston:** I think the wine council has been trying to serve its membership very effectively, but its membership has very split mandates. It's got the old guys, those being two of them, or if you go back farther, Brights and Andrés, that are dominant. But it also has a number of others who have been relying on blended product, and it's got a whole bunch more of them—the majority, in point of fact—who are producing Ontario-based VQA wines. I think it's having real trouble merging those two interests because, as I said in our presentation, it turns out that we keep bending over backwards to help the blenders, and that's really hurting the rest of us.

I don't know if this stat has been thrown out at you, but our information has been that VQA sales, which were growing for the last number of years, after the last short-crop situation have actually dropped by 30% because of the confusion on the shelves. That's something that should upset a lot of the wine council members, and I think they're having trouble speaking with one voice. Those of us in an area like Prince Edward county—some members are wine council members, and the vast majority of us are not.

**Mr. Kormos:** Are you saying, then, that people are buying Maria Christina thinking that it's 100% Ontario grape?

**Mr. Johnston:** Absolutely. If you go to the wine stores these days, you'll find at least 30% to 40% of the product on the VQA Ontario shelves is actually foreign product.

**Mr. Kormos:** Then they walk away saying, "This touted Ontario grape is plonk."

**Mr. Johnston:** It's really hurting the viability of the rest of us, who, by the way, spend an awful lot more money growing our grapes because of cool climate realities. We have to bury all of our grapes and bring them up by hand every year. It's much harder for us to make a go of it if people are still suspicious that we're somehow blending this with foreign product.

**The Vice-Chair:** Thank you. Government members.

**Ms. Mossop:** Thank you very much for your presentation. I tremendously admire your pioneering spirit. I think a number of years ago they would say, "What do you mean, you're going to grow grapes in Prince Edward county? It's not possible." But there you go.

**Mr. Johnston:** They still say that.

**Ms. Mossop:** Well, you're proving them wrong.

We've been wrestling, wrestling, wrestling, because we're really all very supportive of our domestic industry, with finding a way to do this that's realistic and will work. One of the things that came up was the potential of sharing the existing licences somehow and whether they can be auctioned off, if the main guys who hold those are willing to do that. Of course, if there's money involved, they probably might be willing to do that, or we can get around it. But then the question comes up that the taxes plus the overhead of running those stores would pretty much be—you may as well just go through Vintages, then, because you're going to be running into the same kinds of costs. Do you think that if we could find some way of increasing the profile of the small craft wineries, the cottage wineries, through Vintages, that is an acceptable approach?

**Mr. Johnston:** It would be helpful, but I don't think there are very many Vintages stores, for instance, between Cobourg and Kingston. In our region, what would be more helpful would be allowing the local managers to actually put some Prince Edward county wines on their shelves, which they can't do at the moment.

**Ms. Mossop:** Somebody else mentioned this morning that, aside from being able to sell them off your farm gate there, actually having VQA stores right in the locations where the wineries are would maybe even be cannibalizing your store, so that what you want is to go after the bigger market.

**Mr. Johnston:** I can't speak for the Niagara area, where there are of course even more of the small wineries. But speaking locally, we work very collaboratively and have from the beginning. As I said, we're both vineyards and wineries, and we have understood that synergy and have not had the division that the industry has had over the years between the wineries and the grape growers. So I think we would actually welcome

an opportunity to have a co-operative. We actually approached the idea with ministers over time, and there was just no vehicle for doing it. But we would liked that.

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Mr. Johnston, thank you very much. It's great seeing you again. Congratulations on your success, as my colleague described it, your pioneering spirit. You've gutted it out and you've come a long way. I do appreciate your support for the VQA stores and for the bill as it stands.

I appreciate my colleague talking about Vintages. There's no doubt we can do more in Vintages, but I think we need to recognize that the Vintages section in a lot of stores, as you mentioned in your area, is rather small. If we're truly trying to create destination attractions, like in Prince Edward county, like in Niagara, we need to increase exposure to tourists as well. Maybe some will go to the LCBO and wander back to the Vintages section, but I think they'd be far more impressed by specialty niche stores for VQA. Is that the line of argument you would take?

**Mr. Johnston:** I think they would, and to finish the answer to the Liberal member, they would still want to come to the wineries for the experience. People come to wineries for the experience more than to buy a particular wine, most of the time, so I think they would enjoy both vehicles.

**Mr. Hudak:** I had a chance to be back actually in the county with Carmela Estates, probably a couple of months ago—a beautiful winery. I wish I could have come by your place too. We heard from Niagara today, and obviously I'm a local member and have a lot of sympathy for the local producers. But the challenges faced by Prince Edward county producers are even greater, I would argue, in terms of access to the LCBO. So maybe you could extrapolate a little bit on some of the issues with using the LCBO as the only solution.

**Mr. Johnston:** There are several. The first, of course, is just the cost of getting enough product available to the LCBO and risking it out there. Because of the cost for processing it through them, you really lose money on every bottle. You'd be looking at LCBO stores, at the moment, as an advertising source for you rather than a direct income-generating source. It is just too expensive. Most of us are 5,000 cases and less, and you really cannot stock the 50 or so basic stores that the LCBO would require with that kind of volume and expect to be able to stay shelved. I think that would be a very hard thing to do.

But the other problem is that we can't get enough product. As I said, the great irony this year is that we are only allowed to buy seven tonnes of grapes from Niagara for every three tonnes we grow. If we both have a bad year, with bad winters, like we've had, we can't even get the two and a half times sourced out of Niagara or Pelee Island to be able to get enough grapes to actually keep us moving forward. A couple of our larger members have got some real problems with their business plans next year because they can't access any grapes to add. They're going to have to contract rather than going through the

natural expansion you'd expect them to, which might make them big enough to be able to make it on to those shelves for advertising purposes.

1710

**The Vice-Chair:** Thank you very much, Mr. Johnston.

**Mr. Kormos:** On a point of order, Mr. Chair: If legislative research would get for us the standards that have been referred to by several people—the hurdle of getting your products shelved, the minimum of 50 stores, whatever. That's pretty critical. If we could get from the LCBO an outline of these minimum standards that a manufacturer or a winery has to meet to get their product on the shelf, it would be helpful to all of us.

**Mr. Hudak:** Chair, they have an excellent exercise, I think, and I forgot to mention that your local member Mr. Parsons as well has been a very strong supporter of the concept, and we certainly appreciate his support.

**Mr. Johnston:** It's very helpful to us too. Thank you, Mr. Chair.

#### ONTARIO WINE PRODUCERS ASSOCIATION

**The Vice-Chair:** The next deputant is the Ontario Wine Producers Association. Please come forward.

**Mr. Moray Tawse:** Thank you, Chair and members of the committee, for including us in the hearings on this interesting bill. My name is Moray Tawse. I'm the owner of Tawse Winery and a founding member and on the board of directors of the Ontario Wine Producers Association, a group that was established to advocate on behalf of the wineries that produce authentic wines from Ontario's vineyards.

As you know, the only wines that Ontario consumers can buy today that they can be certain are authentic Ontario wines are those that carry the VQA designation. Ontario VQA wines, those that are certified authentic products of Ontario vineyards, only represent about 15% of the number of bottles of wine that are sold as products of Ontario. Our wine content regulations allow the majority of the so-called Ontario wines sold in our government-controlled retail system to contain up to 70% foreign content.

While we applaud the fact that the LCBO is undertaking an Ontario Superstars promotion leading up to Thanksgiving this fall, it is sad that only 57 of the 122 products promoted are actually authentic Ontario wine. Most of these so-called Ontario wines bear the categorization "cellared in Canada" in tiny print on the label. Even worse, they continue to be deceptively shelved under an Ontario banner in the province's LCBO stores. They are sold as products of Ontario, but they are not. No other serious wine-producing region allows this practice, and we hope the government, VQA and the LCBO will soon take steps to correct this misrepresentation to consumers. It is very damaging to the reputation of authentic Ontario wines, to the wineries that make 100% Ontario wine and to the grape growers who are struggling to make this Ontario a great wine-producing region.

You will have heard that in response to the serious damage done in Ontario vineyards by the severe winter of 2004-05, the government will be allowing the amount of foreign content to increase to 99% for the 2005 crop year. We hope, for the sake of consumers, that the government of Ontario will demand that the wineries that bottle these blended wines label them honestly and that the LCBO will ensure that their customers are not duped into thinking they are buying products of Ontario.

We applaud the general concept of VQA-only stores proposed by the honourable MPP from Erie-Lincoln, Mr. Tim Hudak. Whether Bill 7 actually helps small wineries like mine or offers consumers more choice will depend on how it's implemented. As the OWPA stated in our review to the Beverage Alcohol System Review Panel earlier this year, we believe that new wine and retail stores that sell only wines that are not on the general list in the LCBO should be allowed to open and be operated as collective stores for the small-volume wine producers who make 100% Ontario wine or VQA wine.

We further recommended to the government that these specialty stores be located in appropriate food retail environments, like the St. Lawrence farmers' market in Toronto, the Kitchener farmers' market, the Byward market in Ottawa and other similar sites across the province. This approach has been taken and appears to be very successful in Nova Scotia.

For the proposed VQA stores to work for the benefit of small, authentic Ontario wine producers, wines sold in these stores should be subject to the same markup provisions as on-site wine and retail stores, and the 300-odd stores owned by the giant industrial wineries which have been identified—thank you, Mr. Hudak—grandfathered under the same NAFTA that is preventing new wineries from owning them.

If the VQA stores operate under LCBO rules, small Ontario wineries will only receive 40% of the selling price. Wineries selling through a wine or a retail store keep 75% of the revenue. It is crucial that wineries that cannot operate their own stores are not penalized by paying LCBO markup levels at the proposed new VQA stores.

We also recommend that wineries that cannot operate their own off-site retail stores be allowed to sell directly to the LCBO stores. By dealing directly with individual stores and personally taking care of supply and delivery of these wines, they can eliminate the expensive central purchasing, warehousing and delivery costs to the LCBO and should accordingly be given the same markup advantage that is currently in place in off-site winery retail stores.

Direct dealing would have a greater impact than the addition of a few VQA stores, and because it is the same preferential treatment that is given to domestic wineries in the USA, there would be no question of a NAFTA challenge to this practice.

Our submission also recommends that if small wineries wish to partner with other wineries, there would be enough flexibility in the rules for the winery retail system to allow the products of their neighbours in on-site retail

stores under the same markup provisions as would prevail at each winery. This, we believe, is consistent with Bill 7.

To sum up, OWPA recommends that all wines sold in all VQA stores must be made with 100% Ontario-grown grapes and must be wines that are not sold in the LCBO. In order to ensure that the stores are viable for the wine producers, wine sold there should be at the same markup level as in winery retail stores. Adding these stores will help to level the playing field for the new wineries established since 1993 that are making wine with 100% Ontario grapes.

Direct access to individual LCBO stores for these same wineries at a similar markup would be an even more forceful initiative in support of VQA and designated wines. Honestly labelled and presented authentic wines from Ontario vineyards can proudly take their place on the wine store shelves, in the cellars of wine lovers and at the tables of all Ontario consumers.

Thank you for the opportunity to present the views of the 28 wineries that came together to form the Ontario Wine Producers Association. We look forward to working with the government of Ontario to help authentic wines from Ontario vineyards achieve this great potential.

**The Vice-Chair:** Mrs. Van Bommel.

**Mrs. Van Bommel:** All day we've been hearing a lot about VQA, and in the last two presentations there has been another thing brought in, which is the 100% Ontario wines. You spoke of having a different standard and not necessarily wanting to apply for the VQA standard. Do you think that's going to add further to the confusion that already exists between the issue of cellared-in-Ontario versus VQA? If we bring in this 100%, are consumers going to get confused and simply throw their hands up?

**Mr. Tawse:** I think it's more an issue as new wineries come in. I came into this business and we released our first vintage in 2002. Our mission, when we came in, was to make the best wine that could be made in Ontario. When we see some of the wines that have received VQA status—there are a lot of small wineries that think the standard should be higher. Our association, although most of our members are VQA, is pushing to support that there be a higher level of Ontario wines, and that there be really international greatness in our wines. We make fabulous wines. I think that's where you're starting to get the separation a little bit. My winemaker feels that just sticking a VQA label on a wine is an insult, because our wine has a higher standard than some of the VQA standards. I think that's where more of the issue comes from, this 100% Ontario authentic or why people don't want to go to VQA.

**Mrs. Van Bommel:** Are the higher standards based on taste?

**Mr. Tawse:** Quality—taste, quality.

**Mr. Richard Johnston:** If I might, Mr. Chair, from my perspective—I have both the VQA wines and the PECWA-registered wines. Sometimes we only go PECWA for ones we know we're only going to sell out of our own store; there's no need to go VQA. The ad-

vantage of VQA for us is that when I then sell to the restaurant, I get to sell them for the same rate that I sell them from the store. Other than that, we established a higher standard of content and of vintage than VQA had, and we did that deliberately. As we become a designated viticultural area some day, we'll actually be in a good bargaining position to try to help VQA up its standards.

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Gentlemen, thanks very much. Mr. Tawse, congratulations on, and thank you for, the investment in west Niagara. That's a beautiful winery you've constructed on Cherry Avenue. I haven't had a chance to go inside yet; I plan on doing so soon.

**Mr. Tawse:** You're always welcome.

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**Mr. Hudak:** Thanks. I do appreciate your support for Bill 7 and for creating these specialty Ontario wine stores. The intent of the legislation is definitely to support those products that are 100% Ontario grape products. I think there's access already to the market for the blends. That's quite significant compared to some of the small producers in the province who don't have market access. So the big intent was to correct that field market that does exist.

That having been said, I did construct the bill to leave a good amount of latitude for cabinet to determine the number of wineries, how the partnerships would work, that sort of thing. I recognize that as a member of the opposition, I don't have as much say as I may on the other side—hopefully I will. So what would your advice be to the committee, and hopefully to cabinet, in terms of number, location and business model for a VQA store?

**Mr. Tawse:** Listening to some of the arguments of the people before us, it's a lot. There seem to be a lot more issues than the wineries are bringing forward, and we hear those, but in reality, it cost me—I was just looking at my cost of producing Cabernet Franc. My grape cost was \$6.95 per bottle. I was just down at the winery today, and I heard that another winery in the area that was blending had just bought some Sauvignon Blanc brought in from South Africa at 25 cents a litre.

I think that we make really great wines, and our issues are that every time somebody goes into an LCBO and sees something that they perceive as an Ontario wine—they read an article about my wine. We had some fabulous articles about our winery and our wine. I've had people say, "You know, we read your article. We didn't see your wine in the LCBO"—because I cannot afford to sell it at the LCBO—"so we grabbed another Ontario wine. It was terrible. I don't know what people are talking about." When I explained to them, "Well, from now on, you might be getting a 99% Chilean wine in your Ontario bottle," they say, "Why don't I just go to the Chilean section and buy a bottle of wine, then?"

I think, from our issue, I have to find a way to get my wine—and smaller wineries—out to the consumers to try, to see how great Ontario wines really are. I didn't come into this wine business starting as a farmer; I came into this business starting as a wine lover who travelled the world and tasted wines. When I finally found some

great Ontario wines, I was just shocked at how great we can make wine, and that's why I put a substantial investment in this business.

Now I look at the problems of markup through the LCBO and the distribution of my winery, which this year released 1,000 cases. We want to get up maybe in four or five years to do 5,000 cases. We're never going to be able to compete, with our great cost, to get it down, to really use the LCBO to sell our wine. But I think our wine needs to get out there, it needs to be tried, it needs to be tested. I think that's what's going to drive the Ontario industry. We make fabulous wine here, but we have to get it in the hands of consumers all over the province, not just somebody who wants to jump in the car and drive down. Toronto's a big market for us. It's an hour's drive, and I have a lot of people say, "Oh, I'd like to come down, I'd like to try your wine," but we never see those people. It's still an hour away. So how do I get to Ottawa, how do I get to London, how do I get to those other markets if I can't fit into the way LCBO distributes their product?

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** You know, all over North America, even in Europe, the big Heather Reisman-style generic bookstores have taken over, but notwithstanding that, it seems to me that every time I'm in one, there's one area dedicated to books of local interest that are regional, by local authors, everything from cookbooks to photography books. So it boggles my mind to learn that in Prince Edward county there isn't an area that can accept local wines from that area when they're in low levels of production.

What is the history between you, as small, independent grape growers/winemakers, and the LCBO in terms of attempting to resolve it? What has their position been? It seems to me this could all be addressed so very quickly at that level in terms of getting this stuff on the shelf. It won't address the whole issue of broader distribution, but surely to give local winemakers access to those LCBOs so that I or my guest from wherever can access their wine without driving out in the country, because we've got the Niagara Escarpment guys telling us—we don't want that to happen either; it's true. What has been the relationship with LCBO? How do they respond to this?

**Mr. Tawse:** I sympathize with the LCBO. When we talk about our problems, I understand why the government says, "Don't bring me your problems, bring me your solutions, and your solutions better have more money for me." That makes sense to me. What I think that they don't look at—I have 12 employees. We're hiring. I buy my farm equipment from someone just outside of St. Catharines. I use all the products—our business is generating a lot of tax dollars that the government is not seeing in just that bottle of wine. How much of that output went back into the big ball that keeps rolling and rolling and generating more taxes in bringing tourists to the area, in paying salaries, in paying income taxes and all of the various taxes the government generates money with? There never seems to be any credit for the excess income that we're generating in that area.

The LCBO? Honestly, I'm very happy with the LCBO. I think they do a great job of distributing wines from around the world. It's just that we're not getting the—I don't want to say "tax break"—credit for the other income that we're bringing into Ontario, the other tax income, and we just cannot compete with these giant shops in Australia, Chile, Argentina. We just cannot compete—

**Mr. Kormos:** Is it unreasonable to suggest that different scales, different taxation levels be applied, depending upon the size of the winemaker, either their gross sales—somebody earlier this morning suggested about a million dollars gross sales—that there be brackets? Is that unreasonable to suggest? Would that be part of a solution?

**Mr. Johnston:** I think that could be part of the solution. I think the VQA stores can be part of it. I think managers being able to order our stuff directly so they don't have to go through the warehousing system would be another way. There are some very low shelves, if you look in the LCBO these days, that are empty. I think some of us would be happy even to get in there on some kind of a rotational basis with that kind of differentiated tax base.

I agree totally with Moray. There are two things: As I explained to the treasurer when he was out the other day, I will make much more money from the economic development spin that's out there than they will by just expanding the revenues of the LCBO, whatever that means in the end. I wish somebody would come and actually do a study of what the impact has been of the whole branch of new wineries that have developed out of Niagara and of, say, what's happened in Prince Edward county, going from a depressed area to an "it" place in the course of about 10 years. I think if they did that, the government would be very enthused by the model and the kind of revenue generation and prosperity that has developed.

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

#### McPHAIL LAW OFFICE

**The Vice-Chair:** I now invite McPhail Law Office to come forward. Welcome.

**Mr. Ian McPhail:** Thank you, Mr. Chairman. My name is Ian McPhail. Honourable members, I would like to first thank you for the opportunity of allowing me to make a submission on this bill.

I served as chair of the alcohol and gaming commission for the years 2000 and 2001. During that time, I gained an appreciation of our wineries and their importance to Ontario. I learned how wine production is a rapidly growing part of our economy. I learned how, to many people, the opportunity of developing their own winery was the culmination of a lifelong dream. The cost of setting up a new winery is substantial. It takes several years before a winery is able to produce and sell its product. Even so, every few weeks brought a new application for a winery licence.

Some years ago, many of us served Ontario wines out of a sense of duty. Now, people would tell me how good

so many of Ontario's wines were and how they compared favourably to imports. Ontario now has an extensive wine belt, as honourable members have heard, in the Niagara Peninsula, and growing production in Essex and Prince Edward counties. I was able to speak with many of the vintners and learned how we in Ontario were developing not one, but two new industries. In addition to the sale of wine, our enterprising vintners were setting up tasting rooms and restaurants, ranging from the simple to the five-star. This gave rise to a whole new industry of agri-tourism. Some vintners have told me that their profit from agri-tourism exceeded their profit from the sale of wine.

**1730**

With all this good news, I discovered that only one third of the wine sold in Ontario was domestically produced. I learned too that many Ontarians still did not appreciate the good quality of so many of our Ontario wines. Our people are producing good wines, but customers generally aren't able to learn about them. In most cases, they are unable to get access to them. We need a practical solution to build shelves to stock these Ontario products in a way that is more convenient for consumers.

I learned that the only way consumers could buy most Ontario wines was to travel to the winery itself. The Liquor Control Board of Ontario has attractive stores and an efficient province-wide distribution system. However, space limitations and low production volumes of many varieties prevent it from listing the vast majority of Ontario wines.

It's true that each winery is allowed an off-site location, but most are too small to make that viable. Some more established wineries are allowed a number of off-site locations, such as kiosks in grocery stores, but most are not.

What we can conclude is that Ontario's vintners produce some superior products and could produce considerably more. We can also recognize that there exists a gap in the distribution system between producers and consumers.

Bearing these facts in mind, what should our goals be? I believe that these can be summed up as follows: economic growth and prosperity for Ontario; consumer choice and accessibility; import replacement and export promotion; improved reputation of Ontario wines; and greater tax revenue.

Licensing new VQA stores would allow wineries to band together to distribute their products in areas other than their physical locations. This would give Ontarians access to wines that they otherwise would likely never see. By providing greater choice, Ontarians could compare these Ontario products with imports. It is unlikely that this would have any material impact on LCBO sales, as overwhelmingly the wines which would be sold at VQA stores are not available at LCBO outlets. Increased sales volumes for Ontario wineries would enable the establishment of new facilities and expansion of existing facilities. A stronger home base would enable those wineries which were interested to pursue export markets.

All of this would mean more jobs here in Ontario and greater tax revenue for the Ontario government.

In light of these benefits, why have we not opened the channels of distribution long before? There has been concern about the impact of the North American free trade agreement. This may be a problem, but surely the onus should be on those alleging a problem to make their case. When I served as chair, I was advised by the public service that there was a NAFTA argument against a more open distribution system. When I dug into it, I was unable to discover just what the argument was. I then moved to another tribunal and was unable to pursue the matter. I am not aware of any legal opinion on this subject which would show that properly established VQA stores would contravene the free trade agreement. Indeed, I have been advised that VQA stores can be established in a manner which is consistent with the provisions of the free trade agreement, but that is a matter for the trade law experts of which I am not one.

Honourable members, you are frequently asked to spend money to improve our economy and to benefit the people of Ontario. Here is an opportunity to remedy a constricting distribution bottleneck which is hurting an important Ontario industry, is costing jobs and is reducing tax revenue. By taking action, we can benefit two important sectors of our economy: agriculture, in the form of wineries, and tourism. And we can do this at no cost to the taxpayers of Ontario.

I have spoken here today with the benefit of my experience as a former chair of the alcohol and gaming commission. I would like to say a further word as a private citizen.

As members of the Legislative Assembly, you are called on to make many decisions. This is one that would enable our people to explore and enjoy many fine Ontario wines. Simply put, it would add to the enjoyment and quality of life here in Ontario. I urge you to support this bill and thank you for the opportunity of speaking to you.

**The Vice-Chair:** Thank you, Mr. McPhail.

Mr. Hudak?

**Mr. Hudak:** Ian, a fantastic presentation. I appreciate your consideration, given your experience at the AGCO; as well, you work on the environmental review tribunal. You'd be interested to know that earlier on we heard from the NEC, and we've also had a submission from COPE endorsing the VQA bill because it also has an environmentally friendly aspect to it by taking pressure off the escarpment.

**Mr. McPhail:** Exactly, because that has always been a factor. Unreasonably large facilities could have a detrimental environmental effect.

**Mr. Hudak:** I appreciate your points on trade issues. You had asked around, as chair of the AGCO, for legal opinion. We've done an FOI for a legal opinion and had responses from the LCBO and two ministries saying that they don't have one.

**Mr. McPhail:** That's what I gathered when I was there.

**Mr. Hudak:** I do recognize that, as we've heard, some government members do have concerns in that respect,

but I think then the answer is, “Well, what do you do about it? How can you amend the bill or improve the bill to address those concerns?”

Also, we heard a discussion that Mr. Kormos and I had with Professor Gastle with respect to, even if it were found, what would the actual remedy be and how harmful would that be at the end of the day, as opposed to an Armageddon proposal as has been proposed by some competitors of the Ontario wine industry?

I’ve blabbed on a little bit there. What are your thoughts in terms of how to address this trade issue in light of the need for better market access for the VQA wines?

**Mr. McPhail:** Clearly, I think that before taking action, the government would want to have a proper legal study of this done. Having said that, I also point out that where we have a situation where we’ve got a distribution bottleneck, we’re shooting ourselves in the foot. We’re preventing a dynamic industry from growing. So surely, as I mentioned, the onus should be on those people saying we can’t do it. Other countries do it. The United States does it. Many states in the United States do exactly this. I’m not aware that Canada has ever objected to the American practice.

**Mr. Hudak:** As far as we know, no. It continues in California, in Pennsylvania, New York; in Canada, in British Columbia.

**Mr. McPhail:** Absolutely.

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** I want you to know, as I’ve told others, that I support the proposition. To me, though, it’s imperative that these operations be operated by the LCBO and staffed by their workers. I think the LCBO has huge revenues that are important to the government but that also should be utilized to ensure that small wineries, this growing industry, is very much an Ontario industry. We began here in the committee talking about how it’s becoming part of Ontario’s culture. I think there’s sufficient revenue within LCBO for them to ensure that those vintners have their products marketed in a fair way, either through the existing LCBO system or—and I didn’t have a chance to ask the professor; I would have loved to—if it were approached as a tourist promotion. In other words, you’re marketing the wine as a part of the promotion of the whole agri-tourism industry. It seems to me that that would also be a way that one would avoid infractions of various trade agreements. Surely the province has the capacity to promote itself, and if you’re promoting Ontario agri-tourism, you’re not going to be using product from Germany or France or California. So I think there is a variety of ways of doing it, and I appreciate you adding your voice to it.

I just hope the government doesn’t send this bill into the legislative black hole, as it has the capacity to do, because really, the bill isn’t Mr. Hudak’s any more. The bill is now, in effect, a government bill. It’s the government that has to call it. Mr. Hudak has no more control over this bill. It has, based on the suggestions of some Speakers’ rulings, almost become a government bill, because Mr. Hudak can no longer control its course. He

can’t call it for third reading. Only the government can call it for third reading. Only the government can make sure that it receives more thorough consideration in committee, and I think the bill deserves that. Only the government can ensure that the bill is considered clause-by-clause in committee so that amendments are made after we’ve had, perhaps, conversations with Andy Brant, amongst others. I know these government members have been very supportive during the course of small winemakers today. I’m calling on them, and I know they will come through. I know these four people. They will come through. Even if it means telling the Premier’s office to go pound salt, they’ll come through for the small winemakers.

**Mr. McPhail:** Mr. Kormos, if you can solve the shelf space problem, whether its an LCBO facility or a private facility, you can eliminate this bottleneck.

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**The Vice-Chair:** Ms. Mossop.

**Ms. Mossop:** I’m going to give one remark before I pass it to my colleague here. The former chair of the gaming commission can put his money on the government to make sure that we solve this problem. Somehow, we’re going to get this sorted out.

**Mr. McPhail:** Unfortunately, when I was appointed, I was told that I wasn’t allowed to gamble in Ontario casinos.

**Ms. Mossop:** You would have had a windfall.

**The Vice-Chair:** Mr. Craitor.

**Mr. Craitor:** I’d like to get your opinion on a couple of things. I don’t have it with me, but I have an e-mail that I just looked at. I think all the members have it. It’s from a constituent in West Lincoln who was opposed to it. They were opposed to it as a taxpayer, and they were simply saying, “I don’t want you to spend any more of my money on this type of project.” What I wanted to ask you is, and it kind of falls in line with what my colleague Peter Kormos was saying, if the bill goes ahead—let’s just go on the supposition that it goes ahead—first, who’s going to run the VQA stores? Who do you see, the LCBO, LCBO workers? That’s one. Who pays the cost to open up the stores, to maintain them and so on? Is that done through the government, through taxpayers? Is that the system you see going forward with this?

**Mr. McPhail:** I think you could do it in either of two ways, and I don’t think either way would require the spending of any government money. You could have the LCBO establish special stores—not space at existing stores, because there isn’t the space. A small winery might produce 10, 15, 20 varieties of wine. Most don’t have any listings in the LCBO, so they can’t do it. So you could have the LCBO establish special stores. One of the previous deputants made the suggestion of having these outlets in places such as the Byward market in Ottawa or the St. Lawrence market here in Toronto. Or you could have groups of smaller, medium-sized wineries get together in a voluntary, co-operative effort to set up stores.

**Mr. Craitor:** Private sector.

**Mr. McPhail:** That’s right. You could do both.

**The Vice-Chair:** Thank you very much, Mr. McPhail.

## MURDOCH MARTYN

**The Vice-Chair:** The next deputant is Murdoch Martyn. Please come forward. Welcome. You have up to 10 minutes.

**Mr. Murdoch Martyn:** Thank you. I anticipate being a lot shorter, Mr. Chair and honourable members, because I had originally prepared for this afternoon on the basis that the collaborative effort that I had done with Dr. Gastle was being incorporated into my presentation, because Dr. Gastle was not going to be able to attend due to teaching obligations at Osgoode Hall. That being said, since he has already presented, I won't go over what he already said. I will vacate my time to the next presenter, if there are any—unless I can add anything.

**The Vice-Chair:** There will be questions if there's time left after your presentation.

**Mr. Martyn:** Really, my presentation was going to be what Dr. Gastle has already said, because we worked together on whether or not this bill would run counter to Canada's trade obligations with WTO, NAFTA and our other free trade partners.

**Mr. Hudak:** Maybe, Chair, for the committee's benefit Mr. Martyn could describe his own professional background.

**Mr. Martyn:** Certainly. My name is Murdoch Martyn. I have practised law in Ontario since 1996, after getting my law degree from Queen's University. I also have my master's degree in law from Osgoode Hall in the area of international trade and competition law, with my thesis work being done on NAFTA and its dispute settlement procedures. Since 1996, I have practised in complex litigation, and I currently advise both domestic and international clients on trade issues.

**The Vice-Chair:** Thank you very much. I'll start with Mr. Kormos for comments and questions.

**Mr. Kormos:** I suppose the thing I've been interested in is that obviously Ontario can promote tourism within the province. I mean, it just can. Maybe you're going to tell me I'm wrong, but to me it just can. If the Ministry of Tourism went into a partnership with the LCBO and set up displays in very strategic locations and marketed Ontario wine product as part of a promotion of agri-tourism, and it was clear that that was part and parcel of its purpose, does that in any way, shape or form take away from the structure that your colleague the professor considered when he wrote his opinion that he talked about earlier today?

**Mr. Martyn:** Does it?

**Mr. Kormos:** Yes.

**Mr. Martyn:** It could. Of course, you'll never know the final answer until someone decides one way or the other to challenge what has been done.

**Mr. Kormos:** Here's the bill. You have bare bones as it is. Are there ways of moving forward in terms of structure so that you litigate-proof it, you protect it, as much as it could be from allegations of contravention of trade agreements?

**Mr. Martyn:** Further efforts could be made. However, ultimately it will always be challenged as, "Really

you've just cloaked a trade measure under tourism, and you're still in violation of the spirit of the obligations."

**Mr. Kormos:** I know nothing about this sort of law. Is there anything more you can say about the extent of damages or the type of award that a tribunal would give? Part of me says that maybe you would end up with the old British ha'penny in terms of there being a violation, but no real damage being proven by anyone.

**Mr. Martyn:** No. If one were to challenge the bill, or the law if this were passed into law, you would have to prove your damages. It's not like libel and slander law, where damages are presumed; reputation has been damaged. You would have to establish what market damages you have suffered by not being allowed into the Ontario market through VQA-type stores, which requires engaging economic experts to look at how things are done up here and how much they might have lost, and coming up with a figure.

**Mr. Kormos:** The reason I ask that is because Mr. Richard Johnston and others like him say, "We don't want to export. We don't make enough product to export. We want to sell it in Ontario." I'm presuming then that their American counterparts—and I'm sure there are American counterparts like that—have no interest in exporting, because their production is so little.

**Mr. Martyn:** Certainly the cost of sending wine from California or the Chilean equivalent of a VQA to Ontario might be prohibitive.

**Mr. Kormos:** And you throw in a healthy bottle return program, requiring them to be responsible for their bottles, huh?

**Mr. Martyn:** Ontario already had that problem with its beer cans in the 1980s.

**Mr. Kormos:** I know, but I like that one.

**The Vice-Chair:** The government.

**Ms. Mossop:** Just to clarify, what we heard earlier was that this bill, as it stands right now, is not trade legal—

**Mr. Martyn:** Probably not. It could use some improvements.

**Ms. Mossop:** —and that, to improve it, you actually wouldn't have VQA stores; you would have small boutique winery stores that would take into account imports as well. So it wouldn't be a VQA store; it would be a boutique store of small foreign and domestic wineries.

**Mr. Martyn:** Correct.

**Ms. Mossop:** OK. We've heard today, from a couple of people this morning, that we're just too timid about these things in Ontario, and maybe even in Canada. "NAFTA, GATT, WTO be damned; let's just do it. Let's just have VQA stores. Let's just go for it and see what happens." What do you think of that?

**Mr. Martyn:** I would always approach free trade under the rubric of good faith. We expect good faith from our trading partners, and it would be fair to expect that they would look to us to have good faith as well. It's not always the big, bad Americans or the Europeans on free trade; we also deal with Chile and Costa Rica under free trade, and in some cases Canada can be a bully too. It

would be nice, though, if we have a reputation of being in good faith.

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**Ms. Mossop:** We did hear concerns also from Spirits Canada and others about retaliation. They seemed to really believe that there was a valid fear of retaliation to their industry, potentially, if we tried a VQA or something that was trade illegal.

**Mr. Martyn:** If something is trade illegal and ultimately an appellate tribunal under NAFTA or WTO says, "Canada, you're in breach of this law, and we're going to give the USA \$40 million worth of tariff retaliation that they can impose upon your products," it really could be any product that the Americans choose. It wouldn't necessarily be distilled spirits.

**Ms. Mossop:** Not necessarily wine for wine. It could be spirits or something else.

**Mr. Martyn:** It could be softwood lumber.

**Ms. Mossop:** OK. Now, let's get to Mr. Kormos over here on promoting Ontario. Is there a vehicle, a promoting Ontario umbrella, we could come up with where we could lump in our food, our wine, our music, our literature, everything that's fabulous about our Ontario culture, and promote it?

**Mr. Martyn:** It's a possibility.

**Ms. Mossop:** Without retaliation?

**Mr. Martyn:** Probably.

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Mr. Martyn, thank you very much for the presentation and being here and responding to questions. I appreciate the work that you've done, obviously, in working through this.

Earlier there was a debate on trade legality, then there was a subsequent debate about showing damages and then there was a debate after that about remedies. We've requested legal opinions from the government from two ministries and the LCBO, which says they don't have a legal opinion. The new government services ministry says they have a memo that responds to our request but it's privileged, so the committee won't necessarily see it.

What would be entirely helpful—and I know some staff are here too—is to put those considerable resources to bear in finding ways to ensure that we can do a concept like VQA stores while meeting our trade obligations or, secondly, evaluating the risk and considering what damages would actually occur. We were criticized and cautioned by various groups about doing agency stores because they would cannibalize the LCBO, and the agency stores have been a success. In fact, sales have gone up both at the agency stores and at their home LCBO stores. Similarly, we heard that if direct delivery were allowed, it would cannibalize LCBO stores. In fact, LCBO sales of imported wines have gone up substantially in that period of time. I even find it curious as to what kind of damage could be demonstrated if you had a small number of VQA stores.

**Mr. Martyn:** If I might just make a historical note, previously Ontario had a bit of a bad reputation in international trade for the efforts that it took to protect particularly the beer and wine industry in the 1980s. I'm

not urging you to approach this on the basis of, "Well, we should just slam back because Canada has been slammed before." I do think that with changes, this bill would be trade compliant and would be done in good faith.

**Mr. Hudak:** How would it look, then, if you gave us some advice on an amendment to the bill to make it trade compliant, in your opinion? What would these stores actually look like, and how would they help out the small VQA producers whom we heard passionate presentations from this morning?

**Mr. Martyn:** It would help out the local producers who haven't had a chance to list with the LCBO before, either because they're too far away or it's just too expensive or the LCBO doesn't think the wine will sell in their stores.

**The Vice-Chair:** Thank you very much, Mr. Martyn.

#### GURTH PRETTY

**The Vice-Chair:** The last deputant today is Gurth Pretty. Welcome.

**Mr. Gurth Pretty:** Thank you very much for inviting me to come and speak. I'll try and keep things simple. I'm a professional chef, as well as a writer and an avid promoter of a new term, "culinary tourism," more so than "agritourism," which almost go hand in hand. In culinary tourism, we promote more than just agriculture but the entire experience.

I presently sit on the cuisine subcommittee of the Canadian Tourism Commission, as well as on the Ontario culinary tourism advisory committee. Just to ask a question to you: Could we put it all under an umbrella program? Actually, on October 12, there will be an official launch of the culinary tourism strategy done by the Minister of Tourism. I plan to be there and to find out finally what is happening, after almost a year and a half worth of work on this culinary tourism strategy program.

The way I see things, being a chef and a writer, is that if we have special stores, VQA stores, in Ontario, it will increase availability of products. It will increase greater understanding of product as well. A lot of people are wondering, "What is Ontario product?" We still have in our minds, unfortunately, Baby Duck from the 1970s. We know there's a lot better product out there. We've gone a long way.

Through greater understanding of the product, there will be increased sales. Ontarians are going to want to be purchasing our own wine because we've experienced it and we know it's good. Through those increased sales, there will be increased revenue to local wineries, therefore creating increased employment, increased taxes. The whole thing of this circle is that it increases pride that we've got amazing food and amazing beverages and wine here in the province. So when we travel abroad, we're going to say to people, "Boy, that Mommessin from Bordeaux reminds me a lot of Dan Lenko's wine down in Beamsville." Suddenly these French people, who are starting to hear about Ontario wine, say, "Actually, I'm planning to go to Ontario next summer. Why don't I go to Niagara or Prince Edward county or Essex

county and experience that?”—and stay even longer in the hotels and the inns, and eat in the restaurants, therefore creating more culinary tourism experiences for our increasing trade.

From the other discussions I was hearing, “Well, who would incur the cost of establishing these stores?” I don’t know if anyone has suggested considering maybe the Wine Council of Ontario, trying to see within their own members if they’d be interested in doing something like that.

There is definitely a much greater interest in Ontario wine and products. Just recently—actually, this would have been about 10 days ago—Vintages came out with a copy of their magazine, “Discovering the globe’s best varieties right here in Ontario.” They are showing the public, “Hey, the LCBO is trying to carry more wine.” This book, *A Pocket Guide to Ontario Wines, Wineries, Vineyards and Vines*, is about to be released. Being a food writer, I do get pre-book launches. This book, written by wine writer Konrad Ejbich, who is based here in Toronto, will now be available on the market as well.

Having more speciality stores promoting and selling VQA products in greater locations can only make it better for everyone within the industry; not just the wine industry but the entire hospitality industry as well.

I just did some quick research, and I gave you my little fact sheet. There are 65 commercial wineries and 15 fruit wineries in the province alone. When I went to Thirty Bench years ago, their products weren’t available at the LCBO. What happens if you don’t live around Niagara but you’ve heard about the wine? Will they ship it out to you, to people in Ottawa or people in Thunder Bay? I don’t know.

With regard to your question about how we could promote the wineries or culinary tourism, do it through the OTMP—I’m trying to remember what it stands for—the Ontario tourism marketing partnership program, getting more of the word out to our domestic market but also to the international market. I know that a challenge I’ve had myself, as a food writer, is how to get articles about Ontario products into our own local newspapers. It’s very hard, because we still don’t think we have anything good, but there are amazing products out there. I’m seeing heads nodding. It’s true.

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As I said, I just wanted to keep it simple from my notes. In 2004, there were 156,000 related businesses involved in the tourism industry and 486,000 people employed, and the tourism industry generated \$21.8 billion in revenue. If having more specialty stores increases the opportunities for tourism, that’s even better for us as a whole. Thank you.

Are there any questions? It’s getting close to supper-time. I’m sure everyone’s hungry and wants me to go home and cook.

**Ms. Mossop:** Did you bring anything?

**Mr. Pretty:** No, not today. I am writing a book on Canadian cheeses, so I’ve got a lot of cheese at home right now.

**Ms. Mossop:** Thank you very much for your presentation and for all your work on this. As you can tell, we’re all wrestling and trying to come up with a way of honouring the intent of the member’s bill and making sure we can do it without causing undue pain elsewhere in our industry or society, or without causing an unnecessary dustup somewhere.

One of the things that has been mentioned is to see if we can potentially do some more promotion through Vintages, to potentially have more shelf space for our VQA wines in Vintages, because there is a credibility factor there, and to make sure that those staff are really trained in talking about our wines. Another is that there are some existing licences, 290 of them, for VQA stores, which are in the hands of a few wineries right now, and how we might be able to share those existing licences among a larger number of wineries. And the “promote Ontario” piece—we’re all big on that one. I take it you’ve been involved in some discussions around that. Do you see those three pieces as being helpful?

**Mr. Pretty:** With regard to having greater shelf space for wines at Vintages, until recently, I was scared to go into Vintages. The reason is that when I think of Vintages, I think it’s a lot more expensive. So even though the quality is better in Vintages than on the general listing, on average—sometimes you can be wonderfully surprised—I think the majority of Ontarians think Vintages is more expensive. Meanwhile, I know some great wines that are \$11, and they’re not in Vintages. So would the public know that?

How well trained are staff at the LCBO? The LCBO’s purpose—I don’t know if there’s anybody here from the LCBO; I know Michael Fagan’s not here—is to generate as much revenue as possible. Is it their goal to promote Ontario wines? Not really. Their goal is, “Hey, let’s sell as much as possible.” I don’t know if within the LCBO’s mandate we can say, “Hey, come on. You should be trying to promote more Ontario wines,” while at a specialty store, where they specialize only in Ontario products, those staff members should be very knowledgeable. There are 15,000 products for sale at the LCBO, and it’s impossible for someone to know them all.

**Ms. Mossop:** But as you’ve heard, there are trade issues around that.

**Mr. Pretty:** But I don’t understand why, because if the LCBO continues to purchase international products to sell within their own stores, we’re still giving opportunity for products to be sold. It’s not as if we’re saying, “Let’s close everything. We can only sell Ontario products in all of our stores.”

**Ms. Mossop:** But it would be violating NAFTA, and you heard the legal opinion around that. That’s what we’re wrestling with. “Should” and “is” is where we are. “Should”—we’re all there. Reality is what we’re trying to wrestle with here, and come up with the best.

**The Vice-Chair:** Thank you. Would you like to briefly answer the question?

**Mr. Pretty:** I was just going to answer the last question. I’d say damn the torpedoes and full steam ahead.

The Americans keep slapping back in our face with regard to softwood lumber. Even though the tribunal's been on our side how many times—three or four times—they're still saying, "Oh, come on, let's keep on negotiating."

**The Vice-Chair:** Mr. Hudak.

**Mr. Hudak:** Part of the argument we heard this morning in a passionate presentation was, "Why are we always the boy scouts?"

**Mr. Kormos:** What do you have against the Boy Scouts?

**Mr. Hudak:** I was a Boy Scout for a little while. How long could you last?

Back to the point at hand, the reality is, is there currently a fair shake for our small VQA producers? A Ministry of Agriculture and Food report talked about the huge subsidies to EU wines. The newest farm bill coming out of the States has some major subsidies for American wines to get into foreign markets like our own. I don't know if we need to necessarily sit back and take that.

VQA wine sales in 2004, by volume, shrank about 8%, 7.9%. They shrank 2.7% in 2005. This is a concern. You can make incremental changes at the LCBO—they should continue to do so—but as long as you keep the LCBO under the whip to maximize revenue, it simply is not going to work for our small producers who can't meet those volumes and can't buy into the big advertising programs.

**Mr. Pretty:** I even spoke to Michael Fagan, who sits with me on the Ontario culinary tourism advisory committee, asking if there was any chance, any way that the LCBO might be able to help support culinary tourism. He said, "It's not within our mandate. It's not our job to be promoting Ontario; it's our job to be selling alcohol."

**The Vice-Chair:** Mr. Kormos.

**Mr. Kormos:** I guess I'm a bigger fan of the LCBO than some of the others at the table. If that's not their mandate, then change their mandate. Take a look at some of the things LCBO has done. Look at the potential of that publicly owned liquor wholesaler and retailer. Take Summerhill station, which I think is one of the jewels of the LCBO stores. When tourists are visiting, I take them to the Summerhill station to do a little tasting, shop at the Five Thieves on the corner there and go home. The LCBO clearly can be a vehicle to rehabilitate and preserve historic buildings, not just in Toronto but in small-town Ontario as well, and use them for liquor stores as a way for the responsible distribution of liquor.

The information we got from the two lawyers today—a professor and a lawyer—was probably the most valuable, because we didn't have to pay for it. We're grateful, because we were grappling with those sorts of questions. It seems clear that maybe the LCBO has to get direction to set up yet another stream of retailing for the small vintner. Based upon what the lawyers have told us so far, as long as the rules are the same across the board—in other words, if you were smaller than \$1 million a year in sales, you could have access to the store. The reality is that a US vintner with low production has

no interest in selling their wine in Ontario. So it seems to me you would create a scenario that would be in total compliance with all the trade agreements, because you're treating every supplier the same, yet it would have the natural impact of accommodating the small wine producers who can't jump the hurdles to get on to mainstream LCBO shelves.

I don't want to dismiss the capacity of the LCBO to be very much a part of the solution. They have huge resources, huge talents. I'm going to praise their workforce, the workers in those stores, because my experience is that they do know a heck of a lot about their product, certainly more than they knew when I was 18 years old, or 19 or 20, whatever. It's a totally, remarkably changed world. I think we're missing the boat by not including the LCBO in terms of addressing these problems and making them sit at the table and get with the needs of these small vintners.

**The Vice-Chair:** Would you like to briefly respond?

**Mr. Pretty:** Sure, very briefly. By having the LCBO really participating and then all of the Ontario wineries participating, we'll get into wonderful publications like this. But then also the LCBO does charge for any winery to participate on their shelves. They have to pay an extra advertising fee to get into these publications. We are still fortunate today that Food and Drink magazine is free.

**Mr. Kormos:** Are you saying wineries pay a fee to get promoted in that Food and Drink magazine?

**Mr. Hudak:** Yes.

**Mr. Pretty:** All companies that participate in Food and Drink, as far as I know, do pay either advertising fees or something to be in Food and Drink magazine. To get on the shelves, they have to pay to get into Food and Drink, as far as I know.

**Mr. Kormos:** In some circles that wouldn't be considered very kosher.

**The Vice-Chair:** Members, we have received all the deputations scheduled for today. The committee stands adjourned—

**Mr. Hudak:** Chair, we've had some very good debate and suggestions today and a lot of interest from all members of the committee. I'm just wondering when the next regular meeting date of the committee is going to be.

**The Vice-Chair:** The clerk has advised me that when the House returns, the meetings will be held on Wednesday morning.

**Mr. Hudak:** Which would be October—

**Mr. Kormos:** The 19th. The 11th is Tuesday. The 19th would be the first real day. The 12th is going to be the throne speech.

**Mr. Hudak:** Given that the next scheduled meeting for the committee would be Wednesday, October 19, I move we adjourn until Wednesday, October 19.

**The Vice-Chair:** There is other business to conduct, so actually this committee stands adjourned until 9:30 a.m. tomorrow, September 28, 2005, in committee room 1, on a separate bill.

*The committee adjourned at 1811.*



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