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Monday 25 June 2012

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Lundi 25 juin 2012

Standing Committee on Government Agencies

Comité permanent des organismes gouvernementaux

Agency review:
Liquor Control Board of Ontario

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

Chair: Bill Mauro
Clerk: Trevor Day

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LEGISLATIVE ASSEMBLY OF ONTARIO

ASSEMBLÉE LÉGISLATIVE DE L'ONTARIO

STANDING COMMITTEE ON GOVERNMENT AGENCIES

COMITÉ PERMANENT DES ORGANISMES GOUVERNEMENTAUX

Monday 25 June 2012

Lundi 25 juin 2012

The committee met at 1006 in the Crowne Plaza Niagara Falls-Fallsview, Niagara Falls.

SUBCOMMITTEE REPORT

The Vice-Chair (Mr. Phil McNeely): Good morning. We are here to conduct the agency review of the Liquor Control Board of Ontario.

Before we begin, we have a subcommittee report on intended appointments for June 14, 2012. Would someone move adoption of the report?

Ms. Helena Jaczek: I'll move adoption of the report.

The Vice-Chair (Mr. Phil McNeely): Any discussion? Shall the report carry? Carried.

INTENDED APPOINTMENTS

The Vice-Chair (Mr. Phil McNeely): Unanimous agreement for extension of deadline for review of intended appointments selected from the June 1 certificate: There were five selections from the June 1 certificate. These selections must be considered by the committee before July 1. Pursuant to standing order 108(f)(11), with unanimous agreement of the committee, we can extend that deadline.

Is there unanimous agreement to extend the deadline to consider these intended appointments to July 31?

Ms. Helena Jaczek: I'll so move, Mr. Chair.

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

AGENCY REVIEW: LIQUOR CONTROL BOARD OF ONTARIO

The Vice-Chair (Mr. Phil McNeely): We will now proceed to the agency review of the LCBO.

LIQUOR CONTROL BOARD OF ONTARIO

The Vice-Chair (Mr. Phil McNeely): Mr. Olsson and Mr. Peter, please come forward.

Mr. Kim Craitor: I have a point of privilege, Mr. Chair.

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

Mr. Kim Craitor: Thank you. I'd like to take a moment to welcome everyone to my riding of Niagara Falls, Niagara-on-the-Lake and Fort Erie. I know we have a busy schedule, and it's kind of a shame, because we have great wineries, we have the best golf courses, we have two casinos, and we have the Shaw theatre. I could probably spend four hours telling you all the things that we have, so I hope you have some time to come back, and if you do, please give me a shout. It's a great riding, just like each of you have a great riding that you represent, so welcome to my riding.

The Vice-Chair (Mr. Phil McNeely): Thank you, Mr. Craitor, for that great welcome to Niagara Falls.

The LCBO will have 30 minutes for their presentation, following which each caucus will have 30 minutes for questions in rounds. The questioning will begin with the official opposition, then to the third party, then to the government.

You may commence your presentation, and for the purposes of Hansard, make sure that you give your name.

Mr. Philip J. Olsson: Thank you, Mr. Chairman, and thank you, Mr. Craitor, for having us in your riding—always delighted to be here.

We're very pleased to have this opportunity to meet with the committee. I will present some very brief operational remarks, which will not take 20 minutes, about the LCBO, and then we will address your questions.

I would like to begin by introducing the members of the LCBO management team who are here with me today. Proceeding from your left, Bob Downey, who is senior vice-president, sales and marketing; Patrick Ford, who is the senior director of policy and government relations, and he's responsible for that monster book that you've received; to your right and my left, Rob Dutton, who is our senior vice-president, finance and administration, and CFO; and between the two of us, our president and chief executive officer, Bob Peter.

A little background about Bob, our president and CEO and leader of the management team: Bob came to the LCBO almost 11 years ago and brought to the job 34 years of private sector experience as a Canadian retail industry leader. He was president of the Bay; he was president of Simpsons. Frankly, I feel that the government and the people of Ontario are very fortunate to have such a retail industry expert at the helm of this crown agency.

When I joined the LCBO board as vice-chair in 2004, I suspected that the record profits I kept reading about might simply reflect the special position of this agency, as it has a special position in the alcohol marketplace, and the level of markups set in consultation with the Ministry of Finance, rather than the capabilities of management and staff. By the time I appeared before this committee for an agency review in 2006, I no longer held this view.

Through my 29-year career in finance as an investment banker and professional investor, I have gained considerable experience assessing the strategic discipline and business performance of many major Canadian companies. I am prepared to say again, as I said in 2006, that the LCBO is one of the best-managed companies in Canada.

In 2006, I explained how management's focus on continuous improvement had impressed me. This approach, which defines the LCBO's corporate culture, has enabled the LCBO to evolve with the times and keep pace with its customers' changing expectations.

I was not the only one to reach this conclusion. The 2005 review of LCBO operations by Deloitte, commissioned by the government, concluded that the "LCBO is a well-managed organization that has successfully transformed itself into a modern retailer." I believe the LCBO's performance since 2006 demonstrates continued good management and ongoing improvement that the province expects from its operational agencies.

I hope you have had or will have time to review the materials provided to the committee and the cover letter I sent, which summarizes our performance between 2006 and today.

I want to start with brief comments on the two topics central to the LCBO's existence: social responsibility and revenue.

The Challenge and Refusal program is the single most important way the LCBO delivers on its commitment to the socially responsible sale of alcohol. It is how LCBO staff prevent sales to minors and to those who appear intoxicated. The total number of challenges has more than tripled since 2006, and the number of people refused service has more than doubled. This is testimony to the increased vigilance of our staff.

The LCBO is also actively involved in public education to encourage the responsible use of alcohol. We don't preach to people, but instead provide Ontarians with information and tools with which to make informed decisions about alcohol consumption. These include the Deflate the Elephant campaign, the current version of our annual education campaign on drinking and driving, and it's the 18th such campaign; materials on alcohol and pregnancy, developed and produced in cooperation with Best Start; partnering with the Centre for Addiction and Mental Health to make available publications on low-risk drinking guidelines and responsible hosting; and assisting parent action on drugs to develop alcohol-specific resources to engage teens in discussion about alcohol. This is just a sample of the LCBO's work in partnership with social responsibility and public health groups.

Committee members may be interested in knowing that the LCBO raised $1.27 million in December 2011 to fund the presentation of Mothers Against Drunk Driving's high school education program, which they call "Damages."

The LCBO's net income last year was $1.65 billion, up from $1.3 billion in 2006-07. This is an increase of 27.6%. Equally telling is the fact that over that same period, sales increased by 21.1%, while expenses trailed both sales and income, increasing by 17%. These are exactly the trends an owner or shareholder hopes to see: growth in sales outpacing growth in expenses, and profits outpacing both.

LCBO sales growth has been consistently higher than that of the overall retail sector, with new and upgraded stores, good product selection and successful marketing and promotions contributing to sales growth.

The other driver of increased revenue is tight expense control. Controlling the amount of inventory the LCBO holds has been a big part of this success story. Over the past decade, the amount of working capital invested in inventory has decreased from over $100 million to less than zero. This means that, on average, the LCBO sells products before it pays for them. At today's sales levels, this amounts to a $170-million savings in working capital and a corresponding reduction in the need for warehouse space and staff hours to handle the inventory we no longer need to carry.

During the past six years, the LCBO has increased store labour productivity with significant improvement in both sales units and sales dollars per hours worked. The LCBO has also reduced its expenses for items ranging from printing costs and professional services to packing materials and store waste fees, among others.

There has been a lot of discussion lately about the prices LCBO pays suppliers and whether the agency should be getting lower prices on the alcohol it buys by virtue of the amount it purchases. There is a lot of confusion about this, and we welcome this opportunity to address it.

First of all, some important context regarding LCBO prices: Generally speaking, and as I'm sure you're aware, our prices are typically—but not always—higher than what you will see south of the border. Most US jurisdictions do not have the same commitment to the socially responsible sale of alcohol that Ontario does, and their governments do not fully benefit from the revenue potential of this category. But what you may not know is that, through repeat national surveys, the LCBO consistently has the lowest average prices for alcohol across Canada, even lower than the privatized alcohol marketplace in Alberta.

The LCBO operates with a fixed markup structure, as well as with minimum prices established in regulation. These practices assure two things: first, consistent and fair treatment of the many Canadian and import suppliers that we do business with; and second, that our pricing supports our commitment to social responsibility.

The pricing structure under which the agency operates has been confirmed by successive governments as an appropriate one for a government agency. However, in his last annual report, the Auditor General of Ontario raised the question of whether these rules restrict the LCBO from being able to obtain even lower supplier quotes than what we are already able to achieve with our buying power. We're always interested in finding ways to further improve our profitability and the returns that this business provides to the taxpayers. As such, we are reviewing the Auditor General's recommendations and other options for further enhancing our financial returns with the Ministry of Finance.

It is also important to understand that there are other ways the LCBO optimizes profitability while ensuring that consumers get good value on the products it sells. The most important of these is vendor revenues for promotional opportunities such as air miles, advertising flyers and sold space in our stores. Since 2006, vendor funding has increased by 62% to $110 million annually.

The LCBO is proud to highlight and sell locally produced beverage alcohol products and to support the provincial economy by growing the sales of Ontario wine and beer. Increasing sales of VQA wine—these are the wines produced from 100% Ontario grape content—is a key strategic objective for the LCBO. Through a comprehensive array of promotional programs, culminating in the annual month-long Go Local campaign every fall, and through staff training, by making sure Ontario wine has the best retail location in stores and is presented in the most attractive store fixtures, the LCBO has more than doubled its sale of VQA wine since 2006. Over this period, VQA wine sales grew by 101%, while imported wines increased sales by 24.7%.

Ontario craft brewers have also benefited from promotions and greater in-store presence to increase sales since 2006 by an impressive 421%. Recent years have seen repeated year-over-year sales growth of about 50%.

I want to congratulate Ontario wineries, breweries and distilleries for the dedication and passion they bring to making world-class products. The LCBO is happy to contribute to the success of these local businesses.

Earlier I mentioned LCBO fundraising on behalf of MADD Canada. This is only one charitable or non-profit organization which has benefited from the generosity of LCBO consumers and staff. This past year, more than $6.2 million was raised. I'd like to single out the $2.5 million raised for the United Way across the province, making the LCBO the largest United Way contributor in the Ontario public service.

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Ontario has the best recycling system for beverage alcohol containers of anywhere we know. Most containers are returned for a deposit refund under the Ontario Deposit Return Program, but the LCBO also funds the recycling of some containers and blue boxes. Together, these achieve a return rate of 93%.

Recycling containers is only one part of our environmental strategy. LCBO is receiving significant international recognition for our leadership in the use of lighter-weight wine bottles, and we're also substantially reducing the amount of energy consumed and waste generated by LCBO stores.

The LCBO is a retailer, and no retailer can claim to be doing a good job unless its customers are satisfied. The LCBO conducts a variety of consumer surveys, the largest of which is the annual consumer tracking survey. Last year, the agency received an 84% customer satisfaction rating, up from 74% in 2006. This is a satisfaction rate that any large retailer would be proud of.

We're now frequently cited as a leading exponent of retailing in areas such as supply chain, marketing, consumer research, staff development and store design. Multi-year strategic plans and rigorously benchmarking performance against these and other plans have enabled the LCBO to better anticipate, understand and respond to forces shaping Ontario's beverage alcohol marketplace.

The kind of performance I've been summarizing for you cannot happen without very strong corporate governance, careful management of expenses and resources, and visionary leadership by our management team.

I believe any well-considered and fair third party evaluation of the LCBO would conclude that it is doing a good job of balancing its complex and at times conflicting mandates, mandates that require it to be a profitable and consumer-focused retailer, marketer of products and promoter of social responsibility, provider of international product selection, and champion of the Ontario wine, spirits and beer industries. All of these goals must be achieved while simultaneously supporting the policy of the government in office.

The LCBO is an important and valuable public asset, and the government and taxpayers understandably want assurances that it is being well governed. The LCBO board is responsible for ensuring that the organization acts in the best interests of the people of Ontario. This includes striking the correct balance between fiscal, economic and social goals. As chair, I take this responsibility very seriously, as do the other members of the board. Working with the government, we've recruited a skilled and experienced board whose members bring an impressive range of talents to this important body.

We fully recognize that we have an overriding obligation to the government and people of Ontario for complete transparency and accountability in all of our operations. We stand ready to support the government, to help it achieve its fiscal and other policy objectives, and to benefit from sound recommendations for improving from this and other reviews.

Thank you again for the opportunity to address the committee. Along with the members of LCBO management present, I look forward to answering your questions.

The Vice-Chair (Mr. Phil McNeely): Thank you, Mr. Olsson. There's a slight change. We will be doing the questioning in 10-10-10 segments. We will start with the official opposition and Mr. Jackson.

Mr. Rod Jackson: Thank you very much for your presentation. It's certainly an interesting subject, to peek behind the curtain of the LCBO for a minute.

You mentioned that you look at your pricing structure, in part, by considering social responsibility. By doing that, it raises a bit of a concern for me in that it actually—I'm not trying to pin anything on you, but I'm interested in your comments on this. It seems to suggest that underprivileged people might be more prone to alcoholism or alcohol addiction than those with means. What would your comments be with respect to that?

Mr. Philip J. Olsson: First, I'd like to assure you and other members of the committee that it's not our intention at all to discriminate against underprivileged people. But it has been shown repeatedly—and you can explore this later with some of your witnesses from CAMH, for instance—that higher minimum prices do promote lower levels of consumption, and that's the reason why they have been set. They're indexed now, in the case of spirits, at least, and imported wines, to inflation.

But it's not our belief, nor have I seen any evidence, that lower-income people have greater problems with alcohol than high-income people, and that certainly was not the reason this policy was developed.

Mr. Rod Jackson: Okay. So there is evidence that shows a correlation between the pricing of alcohol and the consumption of it?

Mr. Philip J. Olsson: Yes. It's been made very clear through many studies, and if you wish, we can supply you with citations or copies of the studies.

Mr. Rod Jackson: That's fine. Thank you for that.

I think there's another concern with pricing that really is being skirted at times. The concern isn't just with the value. It's understood that the prices of alcohol in Ontario are, on average, less expensive than in the rest of Canada. But I think, really, when we look at the Drummond report and even the Auditor General's report, it's not suggesting that it's too expensive here but that there's an opportunity to increase the profit margin by using your buying power to reduce your cost of buying it—increasing the margin, putting more money into public coffers and therefore into the public's pocket.

Mr. Philip J. Olsson: You're correct in noting that that's what the Auditor General said. It's a complex topic within the limits of the time we have. I'll ask Bob Peter to explain it and what we're attempting to do about it; it will also make clear to you that, as I stated in my opening remarks, we get extensive marketing support from suppliers. You wouldn't necessarily receive that if you always tried to negotiate the lowest possible price for your product.

Bob?

The Vice-Chair (Mr. Phil McNeely): Could you start with your name, please?

Mr. Bob Peter: Bob Peter.

It's a very complex topic. Over the years that it has been proposed to successive governments—the NDP in the 1990s, the Conservatives and then to the Liberals—as an option, in all cases, it's been rejected for the transparency the current system provides to the suppliers. In Ontario, we have a very competitive marketplace. When we ask for a call for any particular product, we'll get 400 and 500 people trying to get one listing. So we think we get a pretty fair deal on that side of it.

Where we've gone after getting additional revenue is on the co-op advertising part of it and co-op support. We've gone from $30 million to $110 million, so we get it in a different way than on the flexible pricing.

Flexible pricing opens up a whole different way of operating. We're in a monopoly situation. All monopolies in the world today that are in alcohol are operating on the system we do. If we were to go to flexible pricing, we would create a whole different way of coming at it, which may create a lot of difficulties for suppliers. If we start grinding them down, they might not like it. In Ontario, here's an example: I know the grape growers, or the wineries, would not be very happy if we were to pursue that side of it.

It also creates different behaviours for your buyers than we currently have. We operate on a flow system; we reorder constantly. If you start buying in big volumes at low prices, you end up owning stock you don't necessarily want or necessarily sell. So there's a whole different skill set that has to be developed to go that route. It's doable, but it's a very difficult one in a monopoly situation and with all the different mandates that we have given to us here today.

Mr. Philip J. Olsson: If I just may add a comment to that, because it falls to me to deal with the government of the day on this matter: Because our shareholder is the Minister of Finance, it is perceived, as you'll undoubtedly experience for yourself in the testimony of some of the groups to come before you, that pressure can be exerted on the government to improve their returns or other matters of interest to them.

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If we did not have a fixed markup—which, by the way, every province in Canada, except Alberta, which has privatized its system, has, and all of the Scandinavian countries—you open the door for the almost irresistible temptation by vendors and our political masters to negotiate over prices. I would suggest to you that it would not be a good use of government time and it would not have a happy outcome for all concerned. As Bob has said already, it would be a particularly unhappy outcome for some of our most treasured Ontario producers. So that is a political overlay that we can never lose sight of.

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

Mrs. Julia Munro: Thank you very much for coming here today and providing us with an opportunity to learn more. I have a question that relates more to my constituents in terms of understanding more about the LCBO, and it comes from the question of what is measured here when we're talking about, at the very beginning of your remarks, the benefits to the government. We're looking at, I think, $1.65 billion. Does that sound right?

Mr. Philip J. Olsson: That's correct.

Mrs. Julia Munro: And that's the 2011-12 number?

Mr. Philip J. Olsson: Yes.

Mrs. Julia Munro: When I look at some of the information you've provided, you also referred to things as dividends, and I want to know: What's the difference between a dividend and net income to the government?

Mr. Philip J. Olsson: A very good question. I would ask Rob Dutton, who is our chief financial officer, to give some clarity to that.

Mr. Rob Dutton: Hi. Rob Dutton. The difference is, the net income is our bottom-line profit, and the dividend is that amount which is recommended by senior management to the board of directors as a transfer of profit to the government of Ontario. Usually, there's a difference of about $5 million to $10 million between the two numbers. For example, in this planned year, we're expecting to give a dividend of $1.7 billion to the government, but our planned net income line is $1.708 billion. Essentially, there's a bit of wiggle room in there for us. We can determine from time to time, though, depending on our operations, that the dividend number might actually be larger than our profit number. For example, under Bob's leadership, we have taken a great amount, a great value, of inventory off our balance sheet and translated it into liquid assets. That was immediately flowed to the government.

The Vice-Chair (Mr. Phil McNeely): The time limit is now up, so we'll have to continue that later.

The third party: Ms. Taylor.

Miss Monique Taylor: Good morning, and thank you very much for being here with us today and taking the time to be reviewed.

Through the report, I'm seeing the mentioned sales of the VQA wineries have increased by 101.1%. What exactly does that per cent mean of what's on the shelves, if you know what I mean? How much of our wines are being sold? It's increased, but by how much?

Mr. Philip J. Olsson: Bob, perhaps you'd care to answer that question? Bob Downey, our senior vice-president, sales and marketing.

Mr. Bob Downey: Bob Downey. Currently, the amount of listings on the shelves of VQA wines on our general list side is 15.1% and our sales are just slightly under 8%. So if you look at these numbers in terms of share of listings versus share of sales, it's almost double, so to us it indicates the amount of support we've had in putting the product into the marketplace and over-indexing against its share of sales. We believe that's been a great contribution to and a show of faith on our part to the industry that will give more space than it actually would deserve if you only look purely at sales.

Miss Monique Taylor: Okay, so just to be clear, it's 15.1% on the shelves that is Ontario?

Mr. Bob Downey: Yes, that's right. Both, it's almost identical the amount of space that they have, 15.1% of the shelf space, and almost 15%—a similar number—of the listings versus the sales. Not only is that more listings, it also has more space. The space it has is some of our prime space in our stores. It's at the front of the stores. They have special attractive fixtures, wooden fixtures that really stand out from the rest of the store.

Mr. Patrick Ford: If I might supplement Bob's comment—my name is Patrick Ford—what that 101% represents in real terms for Ontario wineries in a comparative sense as well versus imported product over that time period: That's about four times the growth of imported wine during that time period. In the past year, that translated into the sales of wines from over 100 VQA wine producers and the sales of slightly over 1,000 different VQA wines during that time period.

Miss Monique Taylor: Very interesting. Thank you. And that would also bring me into the microbreweries and other small wineries that I've heard from. They feel that they have a difficult time getting into the stores. I think maybe that's because they're not able to produce at the quantity that is necessary. Is that how it works?

Mr. Philip J. Olsson: Bob, I think you should deal with that question. We do have a number of programs specifically designed for very small producers and perhaps Bob could explain them and respond to the question.

Mr. Bob Downey: Bob Downey. Yes, we do. We have a number of scaled programs that we've designed depending on the size of the wineries. For example, we have a program called Go-to-Market which allows small wineries to direct deliver to local stores—local to the winery—as well as some of the larger stores in metropolitan areas like Toronto and Ottawa. It could be as little as seven or eight stores, up to 30 stores, depending on the resources they have available to deliver. There have been a number of wineries that have started that way. For example, Sandbanks winery in Prince Edward county started that way; it's now the number nine winery.

We also have another program called Wines to Watch—it used to be, formerly, called the Ontario Craft Winery program—and that's for slightly larger wineries, where we'd put that into a number of stores. They have a special end fixture, and they have scaled sales targets over a three-year time period to then achieve. If they hit these targets, they can go into a general listing and then start to grow their business from there—

Mr. Patrick Ford: And also small brewers programs.

Mr. Bob Downey: And likewise for Ontario craft brewers; we have limited distribution options available for them, similar to what we do for the wineries.

Mr. Philip J. Olsson: I just—

The Vice-Chair (Mr. Phil McNeely): Name, please?

Mr. Philip J. Olsson: Sorry?

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

Mr. Philip J. Olsson: Philip Olsson. I'd just like to be clear, when craft breweries are talking about access to market, they are talking about us or the Beer Store. The Beer Store is privately owned and we have no influence over their merchandising policies.

Miss Monique Taylor: Okay. So, as a board, you are trying to allow as many local wineries and microbreweries into the stores and to provide space in the local areas?

Mr. Bob Downey: Yes, we definitely encourage that, and that's why we set these programs up.

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

Ms. Cindy Forster: Thank you for being here today. You talked about the profits of the LCBO and about the costs of the LCBO in relation to Alberta, for example, where it's privatized. What kind of percentages are we talking about there? You said that you have the highest profitability, so what's that percentage margin, based on per capita as well, between Ontario and a province that has the system privatized?

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Mr. Philip J. Olsson: I don't know whether to pass that on to Rob Dutton or ask him to get his calculator out while I stall for time, but, Rob, I think you should make an attempt to answer with the information we have available right here, and then we can provide more information to the committee later, if you wish.

Mr. Rob Dutton: Certainly for us right now, it's 35.2% profit. For Alberta, offhand I don't have it, but I know it's lower. The interesting thing about Alberta and Ontario is that their entire markup system is based on flat fees. When they changed over to the privatized system, obviously they wanted to keep some degree of revenue neutrality throughout the change. What that meant, because they were using flat fees, is that the lower-priced products, which represent 80% of the volume moving through their system, went up slightly in price, and the higher-priced products, the very expensive champagnes and cognacs, came down in price. As to their total profitability, I know we're more profitable, but right now I can't give you that figure. I can get back to you with it.

Ms. Cindy Forster: Right. Compared to provinces other than Alberta in Canada, what is the comparison of profitability of money actually flowing back into the government coffers? Are you 5% higher or—

Mr. Rob Dutton: Well, we certainly give the government of Ontario more money than any other province.

Mr. Bob Peter: We can get those numbers for you, but we're at the top, or near the top, of the list. Some provinces charge a lot more markup for beer than we do—here, we have a flat tax on beer—so it's a larger portion of their revenues than it is for ourselves. So some of them get more money that way. For example, Quebec: They're about one or two points below us in net profit.

Ms. Cindy Forster: So, here in Niagara Falls we live right across from the US, where alcohol prices are considerably lower. What impact do you see on Canadian communities that actually border the US, particularly with the most recent changes to the duty-free piece?

Mr. Bob Peter: We haven't really seen any noticeable effect on that. We do see variations along the Quebec-Ontario border. We have an awful lot of people who, in Quebec, shop for wine in Ontario because it's cheaper by about $2 a bottle. In the case of beer, it's cheaper to buy your beer in Quebec, so people go back and forth on that particular border. On the Manitoba border, we don't see—there's nobody there, so we don't see any effect there.

There are people who buy in the States, but then they don't get free health care like they do here.

Ms. Cindy Forster: Right. Thank you.

The Vice-Chair (Mr. Phil McNeely): That's the end of the 10 minutes. We'll go to the government now. Ms. Jaczek.

Ms. Helena Jaczek: Thank you very much, Mr. Olsson and your team, for coming here this morning. I'm intrigued by your opening remarks, when you said that in 2004, you somehow suspected that perhaps the LCBO's monopolistic position and the system of markups was the reason for the record profitability that the organization has had, but by 2006, you had come to a different conclusion and felt that the operation was well managed and had definitely developed some specific management strengths. Could you just elaborate exactly what you went through, as chair of the board, to look at overheads etc. and what actually brought you to that conclusion?

Mr. Philip J. Olsson: I'd be delighted to respond to that. It is true that the operations of the LCBO, because they're not really like any other organization in the province and we are not a publicly traded company, so there are not analysts to write reports about us—our operations are, for that reason, not that well understood.

As I proceeded to become more and more involved, I realized that we'd really pushed ahead in several areas. The first thing that's extremely important to our efficiency, and going back to the dividend, is our logistical efficiencies, and that is really Bob's area of expertise. In fact, there's a joke around the office that, "You don't want to go into Bob's office this month because he'll make you watch the pallet-stacking video again." So there's an emphasis on efficiency.

We try to have a mix of lifers, so to speak—people who have spent their entire career at the LCBO—with people who bring great skill from the outside sector, and that shows up in our marketing and merchandising. The quality of our marketing is well demonstrated by some of the materials that we've brought, on the table to the side in the back.

It's interesting, because I came from a large bank, at that time the largest Canadian bank, and the financial information that our CFO at the time provided and that is now provided by Rob was of a much higher standard of disclosure for the board than anything I had previously experienced. It was really quite remarkable to me. The managers have a program on their desktop computers where they can drill down by product, by store, by day to find out exactly what has been sold where and essentially manage, to use an industry word, at a level of granularity that you seldom see anywhere in the private sector, never mind the public sector.

I could go on, but those are three things that stand out.

Ms. Helena Jaczek: Could you perhaps outline for us a little bit more of where you're looking for ongoing efficiencies? Certainly, in the media there have been some criticisms around overhead in terms of locations and that sort of thing. Could you comment on some of those criticisms and where you might be looking for increasing efficiencies?

Mr. Philip J. Olsson: I'd be delighted to, but I think Bob Peter would be the right person to comment on that.

Mr. Bob Peter: In terms of efficiencies, we're doing a whole series of things right now on our logistics side of the business that will improve productivity substantially over the next couple of years. By more mechanization of the way we handle goods, speed it up, it should improve our costs there. We're continuing to expand our store network, which again will increase productivity through our network of stores. We have a new system we've just put in over the last year on scheduling of staff, which really refines where the hours are being allocated to when the business is there, so we should see some improvements there. There's a whole variety of different things that are being taken right now.

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

Mrs. Donna H. Cansfield: Thank you for the presentation. It's interesting: We look to you for your efficiencies in things that you think you can do internally, and I know you've done some wonderful things, and maybe later on you can share with us, especially on energy efficiency. One of the things that fascinates me is that you're obviously under the Liquor Control Act, but then there are 27 other pieces of legislation, provincially and federally, so obviously there be must some efficiencies on the other side of the coin, as it were. So I would be really interested in having that conversation. Maybe this isn't the time.

I'm sure you must have identified places where there is duplication, where you could, in fact, if we work together, find some more efficiencies, on how the government could be a support to the LCBO.

Mr. Philip J. Olsson: Thank you, Ms. Cansfield. We'd be delighted to do that, and we do that on an ongoing basis. However, we try to confine our public statements to matters relating to our business, not necessarily to political objectives.

I personally believe that a great deal of the province's resources are wasted on counting the pencils, which amounts to an awful lot more than the pencils that could be stolen, but that's our direction, and we deal with it and respond.

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But generally, I would say the relationship with government has been very good—and not just this government, but prior governments. I think it would go back to my predecessor Andy Brandt and my own efforts to continually establish our credibility with government so that we don't have too much day-to-day micromanagement.

Mrs. Donna H. Cansfield: What I was thinking of, actually, is the Ontario Open for Business—you know, what are the five things that we could do that could actually make you become more efficient? How could we be of support? So I was looking at it more from that sort of perspective.

It's nice to know that you are having those ongoing conversations, but sometimes—I don't know what it's like for your regulations, but certainly regulations themselves can be burdensome because they tend to go in and rarely come out, sometimes, when they're redundant. So it's nice to hear.

Maybe you could share with us—and I don't know; my time's probably up.

The Vice-Chair (Mr. Phil McNeely): Two more minutes.

Mrs. Donna H. Cansfield: Two more minutes—the beginning of some of the things you've done around the energy efficiency in your stores, because that's been a real challenge for you vis-à-vis the marketing, I understand.

Mr. Philip J. Olsson: We're very pleased with that. I'd ask Patrick Ford to respond to that.

Mr. Patrick Ford: Our stores, obviously, are the biggest area of impact that our business has from an environmental footprint perspective. What we've engaged in over the past four to five years is a campaign to significantly reduce our utilities consumption.

It started, in part, as we build new stores, with building them to a much higher standard than what they have historically been built to. We have eight stores across our network at this stage of the game that are built to what's known as the LEED—Leadership in Energy and Environmental Design—standard. We're not building every new store to a LEED standard, in part because we partner with developers in the construction of them, but we use what we learn from each of those stores to replicate the best attributes for each subsequent new store that we build.

Building to a LEED standard can be more expensive, of course, and there are savings that come with it, but we're able to target and prioritize the elements that work best. For example, we've now got somewhere between 30 and 35 stores that we've built just over the past three to four years that have a walk-in cold room for keeping beer and other products chilled where they rely on what's known as a free-air system. In other words, for seven or eight months of the year, they're drawing external air in to chill that space. One of those large walk-in cold rooms, bigger than this table size that we have here, is using less energy on a year-over-year basis than our old 12-foot open refrigeration units had.

We established a target, starting two years ago, to over a five-year period reduce our total utilities consumption by 10%. Following our second full year, we're now at an 8% reduction from our baseline, and that's with a larger number of stores than what we had at the beginning of that process.

Those are just a few elements. I could go on for some time; we have quite a few other elements that help drive those costs down. But it's an example of where we can do the right thing for the environment and reduce our operating costs at the same time.

The Vice-Chair (Mr. Phil McNeely): Thank you. Time is up. We'll go to the official opposition and Ms. Munro.

Mrs. Julia Munro: If I could just continue with the questions that I had in the last round, I want to go back to the dividend. I've forgotten what "MRP" is. Of the many acronyms, what is MRP?

Mr. Rob Dutton: Minimum retail price.

Mrs. Julia Munro: Okay, thank you. The question that I just want to finish up on the dividend section—I know in 2010, by the notes, that it didn't include the RST, but would the dividend then normally include the taxes that are going to the government?

Mr. Rob Dutton: No.

Mrs. Julia Munro: So they would be separate.

Mr. Rob Dutton: Yes.

Mr. Philip J. Olsson: None of our published numbers—you will not see an LCBO published number that includes any taxes paid to government.

Mrs. Julia Munro: Okay. I assumed that, but I thought I needed to ask the question.

Mr. Philip J. Olsson: It's a good question, and it's something that there seems to be a great deal of confusion about in the minds of the public and press.

Mrs. Julia Munro: Well, that's exactly why I wanted to put that on the record.

I mentioned earlier that there were certainly people I represent who have had some concerns. One of them is the issue of delivery of alcohol to restaurants and the pricing. I'd like to use this round to have some discussion on that, because it seems to me that it's a bit like robbing from Peter to pay Paul. At the same time as we've put a lot of effort into the promotion of tourism and things like that, we seem to have a negative when it comes to restaurants and the price they pay for alcohol.

Mr. Philip J. Olsson: I would ask Patrick Ford to respond to this question.

Mr. Patrick Ford: First of all, the licensee community: There are 17,000 licensees in the province and they are, I guess, alongside the Beer Store, our biggest single customer base. We have a very strong appreciation for the fact that there are an awful lot of great businesses out there, from mom-and-pop operations through to large province-wide chains, that we do business with.

We make a point of establishing unique opportunities for the licensee sector. For example, we have a range of products that are exclusive to be sold to restaurants and bars, which provides them the opportunity to offer something that's a little bit different than would otherwise be available in stores. Bob Downey's team provides to the hospitality sector, across the board, advance notice of any time that we have an upcoming sale, a limited-time offer—those kinds of discounts—so that they can plan their purchases in a way to assist with that as well. We meet routinely with representatives of the licensee sector to find other ways in which we can support and assist them in that regard.

However, decisions with respect to the markup structure are ones that would be taken in consultation with the government and with the Minister of Finance. Certainly we have introduced measures, historically, which have aided that sector as well, but that has been, because of the fiscal impact that it would have, in consultation with the Minister of Finance. For example, a number of years ago we introduced the use of credit cards for licensees, which, while it had a net negative impact on the net income for the LCBO because there's a cost of using credit cards that's borne by the retailer, it was viewed to be a good thing to do to support this sector.

Those are the key points that are hitting me at this stage.

Mr. Rob Dutton: To your point on pricing, though—and I've always found it rather ironic that the licensee community criticizes us for our unhealthy margins, and our net effective margins tend to range between about 75% and 140% on our products, which is not that unusual compared to other retailers. What's fascinating is that licensees have an average markup on spirits of 400% and on wines and beer of 300%. Just a little point of clarification there.

Mrs. Julia Munro: I told you I was acting on behalf of those who have expressed that concern to me.

I also wanted to know: At which point is it your decision and at which point is it the Ministry of Finance's? I appreciate the answer.

Mr. Philip J. Olsson: Just to be clear: As Patrick said, everything we do, as it relates to markups and such, is of course a consultative process with Finance. We don't have an influence on beer prices to consumers versus licensees. Those policies are determined by the manufacturers themselves.

Mrs. Julia Munro: One other question, and actually it was triggered by the reference made to using credit cards: I've always wondered about a monopoly having air plan miles. Normally, in the private sector one would do that as a little niche thing to attract more consumers. Why does the LCBO have air plan miles?

Mr. Philip J. Olsson: I'd like to tell you, by the way: That was the first question I asked when I came on the board, so I can assure you that Mr. Peter is keen to answer it.

Mr. Bob Peter: I had the same question when I came on board. Anyway, air miles is a wonderful tool. I'll tell you, it has many different facets, but first off, we make money at it, several million dollars, so it's a revenue generator. That's one. Two, it gives the customer a reward. Three, one of the pressures we have, or Bob Downey has in sales and marketing, is that lots of vendors or suppliers want to off-price their products, and we have a cap. We don't off-price more than 100 or so items in any given month. There's a pressure to do an awful lot more than that. They have the opportunity to use air miles to promote their product, and we continue to sell our product at full margin. So it enhances our revenue we give the government, on that side of it, it allows the suppliers an opportunity to promote their products without disrupting the pricing, and we get fabulous marketing information back. We know what people's shopping baskets are, we know where people shop, in various stores, which our marketing research people use constantly when we're planning new stores and locations of them, and when we open a store, we can see where the new people have come from and the effect on other stores.

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So we get marketing information, we make money, we give an outlet for the suppliers to promote their product. There's a lot of wins, but at first look, it wouldn't seem that. Interestingly, Newfoundland has followed, Nova

Scotia has it now, and Manitoba, so they're all following us and learning accordingly. It has been a wonderful win for us.

Mrs. Julia Munro: Thank you. I was always curious about that, and obviously you were too at one time.

Mr. Bob Peter: Yes, I was.

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

Mr. Rod Jackson: How much time do we have left, Chair?

The Vice-Chair (Mr. Phil McNeely): Three minutes.

Mr. Rod Jackson: Okay. This might take more than three minutes to answer, but I'll give it a shot anyway. In the Drummond report, it suggested that in order to maximize profitability, the LCBO should engage in a more aggressive store expansion program. Is there something the LCBO is considering? If so, how much would it improve profitability by, or otherwise?

Mr. Philip J. Olsson: We'll give you an answer to the extent time allows. We were delighted to see that in the report, because we've been negotiating with government for years to materially expand the program, and I can report that we have. Bob?

Mr. Bob Peter: Yes, historically, we've opened between 15 and 18 new or relocated stores a year. This year that we're currently in, we're opening 35, and next year, 35. So there will be a substantial expansion of the network of new stores and replacing older, antiquated stores with much larger ones. In terms of what that will deliver to the bottom line, it will deliver—

Mr. Rob Dutton: About $40 million to $45 million a year.

Mr. Rod Jackson: Thank you.

The Vice-Chair (Mr. Phil McNeely): Have you finished your questioning? We'll go on to the third party. Ms. Forster.

Ms. Cindy Forster: Going back to an earlier question, when we were talking about restaurants and bars, what is the LCBO position with respect to allowing restaurants and bars to purchase at wholesale prices? From the direct consumer experience, that doesn't guarantee that you're going to get lower prices in the restaurant that you're in. On the weekend, actually, I was in a restaurant here locally and they were featuring a wine that I actually had bought a bottle of last week when I was in Toronto, that I paid, I don't know, $12 or $13 for, but I was being charged $9 for a six-ounce glass of it.

With respect to that, what is your position about allowing restaurants and bars to actually purchase at a wholesale price, and what price do they actually purchase at, at the moment?

Mr. Philip J. Olsson: Well, I'll answer that question, but first I'd like to just assure you of my solidarity with your point of view.

Mr. Patrick Ford: First of all, I think it's commonly understood within the hospitality sector, depending on the business model that a restaurant or bar may have, that a fair percentage of their margins may be found in their alcohol products. So it's not uncommon to have that kind of experience of paying $9 for a glass. The licensee, of course, has a lot of costs tied up in that: overhead, carrying inventory, staffing, insurance and so on.

The actual price that we sell the product at—there's a formula, as there is to all beverage alcohol pricing. It works out, for most of the products, to be a 5% discount—not a large discount, but a 5% discount on the alcohol sold. That amount, for the sale of Ontario VQA wine—actually, pardon me, for all Ontario wine, VQA and other Ontario wine—is doubled to a 10% discount.

As Mr. Olsson mentioned earlier, the LCBO does not actually set the prices, though, for the beer that's sold. The vast majority of beer that is sold to restaurants and bars is sold by the Beer Store, and those rates that they sell those products at are set exclusively by the supplier itself: the Molson, the Labatt, the manufacturer of the product.

Ms. Cindy Forster: The other question that has come up from time to time is perhaps allowing for the sale of wines in farmers' markets. In states like Pennsylvania and Ohio, it's permitted. What is the position of the board on something like that?

Mr. Philip J. Olsson: First, I'll just make an overall comment, and then I'll ask Patrick to address it, because we have had extensive discussions about this.

I always remind myself, my staff and all constituencies that we exist for the responsible sale of alcohol, so our attitude about that is not a function of monopolist practices, because it probably would be a relatively modest amount and things that we wouldn't necessarily sell anyway.

There are significant social responsibility impacts of that, which I would ask Patrick to address.

Mr. Patrick Ford: Further to Phil's point, any decisions regarding the broader beverage alcohol marketplace—the framework, what kinds of retailers there are beyond the LCBO and so on—is clearly a government decision and not one that the LCBO has any authority to make. However, when those matters are given consideration, it's not uncommon for government to consult us.

It's our view that the best opportunity that Ontario manufacturers have to compete and to become a strong, sustainable, growing sector—our wines, our beers, our spirits, our ciders, the full range of products—is inside our system. They're competing against the best in the world, which gives them that opportunity, working with the kind of marketing and support programs that Bob Downey's team provides, rather than being in an isolated setting, where they aren't getting the opportunity to continually up their game and improve their business in that regard within our walls. It's a very, very competitive environment for product, for price, for packaging, for marketing, for all those elements.

We feel strongly about the opportunity that Ontario manufacturers have been given, and we think that the format that we have here has actually really helped enhance their overall competitiveness in a broader, beyond-Ontario context.

As Phil noted, there are concerns associated with the sale of product in a less-regulated environment, for example. Ontario has a mix of private and public retail store formats. We have less than half of the actual outlets in the province. Slightly over half are run by the Beer Store, the wineries, some duty-free outlets and a couple of other small settings like that.

I think this is a question that would be really good to pose, if you're inclined, to CAMH when they arrive, to MADD when they're in on Wednesday.

From the LCBO's perspective, we take great pride in the responsible sale of alcohol. That's a number one source of pride, from repeat surveys done of our thousands of staff, about why we're in the business. They have a principal focus on ensuring the safe sale of product to persons who are of age, who are not already intoxicated. So that's our perspective on that.

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

Miss Monique Taylor: How much time do I have?

The Vice-Chair (Mr. Phil McNeely): Four minutes.

Miss Monique Taylor: That's a lot. Okay.

To branch off of Cindy's comments with regard to the market, would you feel the same perspective in taking it into convenience stores, as is done in the States and other parts of the world? How do you feel about that—if you were questioned, of course, by the government, if they were to come to you and ask you these questions.

Mr. Philip J. Olsson: That's not an unusual topic for discussion. I assume you don't just mean farmers' wines, but some subset of what we sell or something of that type.

Miss Monique Taylor: Exactly—a full range of alcohol to be distributed in convenience stores.

Mr. Philip J. Olsson: There are some very significant potential impacts of that. I would just say, first, that it has not generally been a happy experience for the governments in provinces that have tried it. It has some very significant impacts for social responsibility. We have the choice of promoting Ontario products in a variety of ways; we've referred to a number of them now. I don't think you would expect a large convenience store chain or a grocery chain to think that was very high on their list of priorities, and I think you'd see quite a different product mix and a different profitability structure. Those are three general comments I would make. Patrick, do you wish to add something to that?

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Mr. Patrick Ford: Certainly. It's Patrick Ford. To elaborate on Mr. Olsson's point about the opportunity that would exist for Ontario products, depending upon the beverage alcohol sector, between wine, spirits and beer, it's either a relatively small jurisdiction or a big jurisdiction. For Ontario wine, we're about 30th globally in terms of the size of our industry. An industry of that size needs to focus on premium product, premium opportunities, and that's what 100% Ontario VQA wines are all about. From the range of places where you could sell alcohol, the last place to sell 100% Ontario VQA wine—which is not south of $10; it's north of, and beyond—is a convenience store. Convenience stores are a model that lends itself very well to high-volume foreign producers of beer, wine and spirits. Our domestic market may function better for beer in a convenience format, but particularly for our wine industry, that's a tough market for them to be in. The mega-producers of California, of Chile, of Europe and so on would have a much easier time in that kind of setting.

The final comment, just to elaborate on Mr. Olsson's mention of the profit model: Clearly if we added many thousands of points of sale and many thousands of individual business owners to expand to have the opportunity to sell wine, beer, spirits or whatever, that would have a significant impact on the LCBO's profitability and its dividend transfer to the province.

The Vice-Chair (Mr. Phil McNeely): Thank you. Time is up. We'll go to the government and Mr. Craitor.

Mr. Kim Craitor: I was thinking, back when I was first elected—that's eight years ago—as an MPP, the first agency that I got calls about was yours, and I'm pleased to tell you, it hasn't stopped in eight years. So whether it's the grape growers that come in to see me, whether it's WGAO, whether it's the wine council—I'm really pleased to see Hillary Dawson is here—there's been lots of concerns. It's the first time I've ever seen you people. I have never, ever, in eight years, had anyone from the LCBO come and sit with me. I think Andy Brandt was the chair, and even then I didn't get to see him. So I just have a few things—I have lots of things, but I'll just deal with a few right now.

Let me just first get your opinion on something, and whether you can answer it or not we'll see. One of the things I remember that our government did, and I supported it, was the idea of protecting and preserving our agricultural lands. I believed in that. I didn't want to see it concreted over. So we made difficult decisions in protecting those lands—lots of controversy, lots of backlash at Queen's Park that we shouldn't do that, that we're taking away people's rights, that they should be able to do whatever they want with their lands: severance it, subdivide it, whatever. So my first question is a simple one. That decision to protect those lands: Can you tell me if it has had an effect on the LCBO with sales? Do you have any opinion on that? I'm not talking to you in terms of asking you to give a decision or remarks about our policy to do it, but just in terms of the LCBO. Did it have any effect, negative or positive?

Mr. Philip J. Olsson: I don't believe that we have seen any direct impact of it. There is an ongoing discussion between wine producers and grape growers. All we really have to say about that is that we could hope that it would be resolved, because we think that both industries could move ahead if they could come to some agreement on that. Perhaps one might speculate that the greenbelt policy puts some pressure on growers because they feel they have another alternative for their land, but we haven't seen any direct impact at the LCBO.

Mr. Kim Craitor: All right. You'd make a good politician.

Interjections.

Mr. Kim Craitor: That was a compliment. My colleagues are—that was a compliment. Politicians are good people.

Mr. Philip J. Olsson: Just before I go on, my chief of staff would like to make a comment here.

Mr. Patrick Ford: As we've noted, Ontario wine is our fastest-growing category—VQA specifically. Ultimately, we're going to need every acre, every hectare that can be under vines in a sustainable growing area in order to be able to supply demand. At the rate that it's growing, we will continue to need more down the road.

The only other thing I wanted to flag was—and very specific to the greenbelt—the foundation that supports the greenbelt, the Friends of the Greenbelt Foundation, actually recognized just earlier this month, with its annual Friend of the Greenbelt Award, Ms. Zimmerman from the Grape Growers, Hillary Dawson from the wine council, and our president, Bob Peter, for our contribution in the growth of VQA wine.

Mr. Kim Craitor: Thank you. The next one is to do with the federal government, Bill C-311. That's allowing—you know what it is—shipping of wines between provinces so we don't have to go through you guys. Do you have a view on that? You support it, right?

Mr. Philip J. Olsson: We don't have a view on federal legislation, but I think it's important that people understand what we're actually talking about. We're not talking about grapes that have been imprisoned and need to be freed. I'd like Mr. Peter to give you some context to that.

Mr. Bob Peter: I guess the real issue here is, importation of liquor is a provincial matter in every province, and what we're talking about—if I were Prince Edward Island or Newfoundland or whatever—is people shipping in there and not paying taxes. It's tax avoidance. Those governments have to make a decision if they're prepared to do that.

For most of those governments, their liquor control boards are a major source of revenue for their funding, and if you undermine that, then you undermine their ability to generate funds. That's the real issue at heart here.

As far as the LCBO, through private stock ordering, we can order any product available for anybody; we're quite happy to do it. We will do that and we're working on a whole new Internet online thing that will be able to list any wine for people to order as we go forward over the next year.

But a lot of the wineries in BC don't have sufficient quantity, and what you find is—I'll use the example of British Columbia. If they sell in British Columbia today, they pay no tax. In Ontario, if they sell direct, they pay 2%. So the taxation system rewards selling directly and making the most money, if you were a smart businessperson. What they're trying to accomplish, using BC, is that they can ship into Alberta paying no tax, make all the money. Well, the Alberta government wants to generate money. So the governments really have to come to grips with this issue. Once you start, it's not just going to be Canadian wine. You're going to open it up to the Americans and you're going to undermine your whole system. That's what's got to be dealt with. And it's not us that's going to deal with it; the government's going to have to come to grips with it.

We just had a case in Saskatchewan where a firm had set up and was bringing in futures from France—these are the high-end wines—and selling them primarily to Ontarians and Albertans and British Columbians in Saskatchewan, because that's the lowest price to bring wine into legally—just putting it across borders.

So the whole process is potentially starting. They've been shut down by the Saskatchewan government, but it won't take long for people to get on the bandwagon very quickly. But it will be a lot bigger than just some VQA wine in Ontario.

Mr. Kim Craitor: Well said. Thank you.

How much time do we have?

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

Mr. Kim Craitor: Okay. Let me just follow up with one last question. I'm sure that you're aware, or I would guess it, that I'm a strong supporter of our VQA wine. I passionately believe in selling 100% of the bottle of our grapes and doing everything we can to promote and get that wine out there.

Just a couple of short things: There's some suggestion of maybe having a specialized store—that's all that would be in the store, the VQA wines—to see if that would be another way of educating the public and convincing the public that they should be purchasing our wines first. Even though it may cost a bit more, we know it's ours and it's a great product.

Do you have a comment on that?

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Mr. Philip J. Olsson: Within the 30 seconds or one minute, I perhaps can't fully explore it, but I would relay to you that, when we first opened our Vintages section, we said people would buy vintage wines so we've opened an individual Vintages store. What happened? No one came. If you opened a VQA store, you might get some people who are knowledgeable and thought they wanted to come there, but the best place to market—people don't normally go to the store to buy VQA wine or French wine or anything else; they go to the store to buy some wine, and they see what's available. We think by far the very best presentation and marketing opportunity for VQA wine is in our stores, given the prominence that we give them.

Mr. Kim Craitor: Thank you.

The Vice-Chair (Mr. Phil McNeely): Thank you. I will go to the official opposition. This is the last round. Mr. Jackson.

Mr. Rod Jackson: As you know, we're going through some difficult times in Ontario economically, and certainly throughout the rest of the country as well. There's a lot of talk about public sector wages and controlling what that means to the taxpayer. The LCBO had 256 people on the last sunshine list. What do you say to critics that say salaries need to be reined in and that savings can be found by the benefits that can be passed on to consumers through this? Do you agree with the statement in general?

Mr. Bob Peter: I'd be happy to answer that. I'm Bob Peter.

In the case of the LCBO, I think there's 234 people on the sunshine list, on the last one. But in terms of salaries for management, the senior management team here has been frozen for four years now, and we've got two more, so six years—

Mr. Rod Jackson: That's just like us.

Mr. Bob Peter: Right. You guys are setting the pace for us.

Mr. Rod Jackson: I hope you get a pension.

Mr. Bob Peter: We've been frozen. So 90% of our people are unionized. They've had a contract going through; this is the final year of it. The 10% that aren't, they've had—all of them, the ones that aren't senior management, have had three years of being frozen, store managers and so forth. From that side of view, we're reined in pretty tight here.

Mr. Rod Jackson: Would you say that you have an effective performance management system in place for your store management and your executives?

Mr. Bob Peter: I would say we do. There's a small bonus for store managers who meet their sales targets and their profit targets and their expense targets component, but it's only for the 300 large stores. Overall, we're running a tight ship here.

We compete in the public place for talent, and in many cases, we're not even competitive with replacing people, so it is a concern. Having said that, I think collectively the senior team has done a good job. We basically lost very few people to outside, although we're starting to see that now. The banks are raiding a lot of Rob's people, so the pressure is building because we've got some talented people.

Mr. Rod Jackson: Good. Thank you.

I think it was in the Auditor General's report that there was some mention of questions about why it takes so long—in some cases, four to five years—to delist underperforming products that you might have. There are some questions around (a) how those products can be purchased and (b) why it takes so long to get those products off the shelf if they're not performing. What would you say to that?

Mr. Bob Peter: I'd ask Bob Downey to answer that.

Mr. Bob Downey: Yes, we do focus on turning our portfolio over. We do monthly reviews of our products for delisting. They have sales targets that they have to achieve; they've recently been updated. We made a commitment to have regular reviews of our sales targets and to get products out as frequently as possible. We thought we were doing a pretty good job, but we are putting even more effort into getting non-performing products out of the marketplace quickly now.

Mr. Rod Jackson: If you're doing a monthly review, how is it that some products stay for four to five years? Is it just that there's so many products to review that it takes a while to get around to them?

Mr. Bob Downey: No; just sometimes, there's inventory that lingers a little bit in stores, maybe just a few units of product that may not have responded to the discounts that we've applied. Generally, the vast majority of the product is gone, usually within two to three months.

Mr. Rod Jackson: So I guess that kind of answers my next question, which is sometimes we find that—and I come from a retail small business background as well. I know that there are some products that sometimes underperform at first, but given some time and some different actions in the marketplace, they can come to be important players within your portfolio. You've suggested that sometimes it takes two, three, four, five months. Can you give me some sense of what kind of things you do to make sure that your products are effective in the marketplace and not just kind of laid on a shelf to languish?

Mr. Bob Downey: Yes, we give any new product a full year to start before we even apply the sales targets. Normally, if a product is even somewhat close to that target—it may be slightly under—we'll arrange a meeting with a supplier to create a program of support if they want to invest a bit more money in promotional programs to try and get the sales up. We also look at suppliers that might have two or three products. If they're in trouble, we don't delist all their portfolio of products at the same time as well. We're very sensitive to products, in particular when they're very close to the target.

Mr. Bob Peter: I just want to give you some context of a real success story here in Ontario: John Hall, who has Kittling Ridge Forty Creek Whisky. Back in 2004, he wasn't making the minimum sales requirement. He was basically selling us one tractor-trailer load a year, which is about 1,200 cases. I had him in for a meeting and said, "John, you've got to pull up your socks or you're going to be delisted." Anyway, he went out and, store by store, did tastings all over the province. He delivers today a tractor-trailer load every three days to the LCBO. We try to give people all of the encouragement, particularly for people in Ontario, to be successful. There's a huge success story. Interestingly, he is sold all across Canada but he can't get listed in Quebec.

Mr. Rod Jackson: One other quick question, and it's perhaps more of a curiosity than anything: Surely you have a good idea of what products sell in what parts of the province, what store maybe sells more. I know that some car dealerships, for example, sell more trucks, so they carry more trucks than cars. Do you have the same sort of program in place to identify what product sells best where?

Mr. Bob Peter: Yes, we do, and there are huge variations across the province—huge variations within the city of Toronto. If you go up to Woodbridge, we sell an awful lot of Italian product. If you go to Ottawa, we sell an awful lot of French wine. If you go to Thunder Bay, we sell a huge amount of spirits and beer. There are huge variations within the network, and the assortments we put in the stores vary considerably.

Mr. Rod Jackson: Is that determined by market research you do or just simply by the sales?

Mr. Bob Peter: Market research; sales. We know what surrounding stores do. We get a profile on the area. There are variations. If we have good sales reps in an area, sometimes they're a part of it. Part of it is the mix of people and where they've come from, their backgrounds.

Mr. Rod Jackson: Thank you very much.

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

Mrs. Julia Munro: I'm afraid two minutes isn't enough, but I want to follow up. You mentioned that 90% of the staff would be unionized. I noticed in the document that you've provided us here that you're looking at the liability in terms of pensions, and the accrued benefit liability; $5.9 million is referred to as a current liability. Given that we have the demographic change of the workforce, longer life expectancy and a lower rate of interest for pension investments, are you in any conversations about where you might want to go with regard to the unfunded liability and what measures you might want to take in coming years?

Mr. Rob Dutton: As you know, we don't actually have control in either of the two pension plans, for management or for union, so we don't really have control over those factors. In terms of determining the EBO, the employee benefit obligation, we bring in actuaries every year who manage every year to confuse us most of the time. But they're the ones who come up with the figures. There was a change as we moved to international financial reporting standards from Canadian GAAP, which is generally accepted accounting principles. One of those big changes was that they forced us to take a look at the obligations over the average lifespan of the staff member, which significantly increased the obligation on our books.

In terms of how we would manage the underfunding of that obligation, that would really be for the two pension plans involved. We would have no direct input into that.

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Mrs. Julia Munro: So if you have labour discussions, then they would be through those overarching representations?

Mr. Rob Dutton: Well, it's more that the pension plans tell us and other employers what to do. If they increase their rates, they give us a heads-up, but there's certainly no negotiation around it.

Mrs. Julia Munro: But the ultimate funder, then, will be the taxpayer?

Mr. Rob Dutton: Sorry?

Mrs. Julia Munro: The ultimate obligation will rest with the taxpayer, then, as an unfunded liability?

Mr. Rob Dutton: Yes.

Mrs. Julia Munro: Thank you.

The Vice-Chair (Mr. Phil McNeely): We'll go to the third party. Miss Taylor.

Miss Monique Taylor: I've been reading here that when you purchase from suppliers you work backwards, and in some circumstances you tell, whether it be Chilean or other suppliers, that their price isn't high enough, so they have to come back with a higher price for you to purchase from. That puts the higher cost back on the consumer to still get the gained benefit of profit.

Why is it that you would do that instead of just reaping those profits from them? Do you know what I mean? I understand that we want to keep the cost at a certain level because it's management and everything like that, and it provides responsible drinking, and the whole environment, but why is it that you would rather profit from the consumer than from the supplier?

Mr. Philip J. Olsson: I'd just like to say that—it's a difficult area; that's not quite what happens. If we have any chance of being able to explain it, it will be Bob Downey.

Miss Monique Taylor: Okay. Lucky you, Bob.

Mr. Bob Downey: Well, we did expect this question might come.

First of all, let me say this happens on very rare occasions. More often, I would say, we ask the supplier to lower their price to hit that price point.

What happens is, we analyze our product assortment to look for opportunities where we might have a gap in the retail price. For example, we may have lots of products at $14 and lots at $16, but we see that the market needs a product at, say, $15.95, and that's a price point we see an opportunity at. We then invite all of our suppliers to apply for that potential listing.

What happens often—sorry, not very often—is that they'll make a miscalculation in their pricing formula and give us a price that's too low, or there may be a variable such as a freight cost or a currency exchange change that happens that has thrown their original calculation off. It's just a function of then we would say to the supplier, "You made an error in your pricing calculation." It's usually just a minor adjustment, just to hit that retail price point, which often is a psychological price point that we want it to end up at the shelf. It's a function of our fixed mark-up system, and we don't have the flexibility to take that added margin, I guess, in this case. It's really most often caused by an error in the pricing calculation the supplier has done.

Miss Monique Taylor: So we would know through history of purchasing and—so we would say, "No, no, that's impossible. You couldn't charge that cost. You must charge it at this cost"?

Mr. Bob Downey: Yes, we could do that, but then we would end up with a price point at $15.45, for example. It's usually—

Miss Monique Taylor: Are you only allowed to put on a certain amount of profit increase for yourselves?

Mr. Bob Downey: We have no flexibility.

Miss Monique Taylor: Is there a funding formula for you that you must stick to? Is that what it is? If I purchase at this, I can only add this much to sell it to the consumer. Is that how it works?

Mr. Bob Downey: That's right: It's a fixed formula that we must apply. We don't have any flexibility.

Miss Monique Taylor: So that's what it means by no flexible funding.

Mr. Bob Downey: Right.

Miss Monique Taylor: You have to purchase at a certain amount, to add this much on to get it to us, the consumer, at a certain price. Is that correct?

Mr. Bob Downey: And there are components of the pricing formula, like freight costs and currency exchange, that are variable from the time that you might first calculate the price to arrive at the market to when it actually arrives.

Miss Monique Taylor: So we're not actually telling suppliers, "No, you're not charging us enough"?

Mr. Philip J. Olsson: No, and I want to be clear—excuse me, this is Philip Olsson speaking. I want to be clear, because some of you may be aware that there were allegations—I'm not sure if they were proven or not—that one of the liquor boards was traveling to Europe to tell people to raise their prices because they use the markup system. We've never done anything of that type. I specifically instructed the management team that certainly no permanent employee would be doing that.

To use Bob's example, he's asking people to tender a product at $15.95, and someone comes in with another number. What Bob's saying is, we're not tendering for that now. If you want to tender for a lower price, then wait till we ask for those. But normally, as he said, it's a product of some error on the agent's part.

Mr. Bob Peter: One of the things you have to realize is that the price of a wine, for example, is set by the supplier. If they decide that they're losing market share or it's not performing, the supplier can take their price up or down. Likewise, in spirits: the same thing. So they get initially in the system, and if they're performing, they can announce that Yellow Tail wine is going up from $10.95 to $11.95, that their costs are going up. That's how the market competes within the monopoly. Diageo and Bacardi all monitor each other. If Captain Morgan goes from $24.95, Bacardi might go up or down to make sure they're not losing share. So there's lots of competition, and lots of competition in wine. People are very, very cognizant of what other suppliers are doing. That's where you get the competition in this particular model. But when you get a price coming in with the freight, which we never know until it finally arrives here, and it arrives at $16.04—we're normally $15.95 or $16. So to adjust that with a fixed margin, you have to take it down a penny or two, or a penny or two up to, make it work.

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

Ms. Cindy Forster: Thank you. I just want to get on the record that I have noticed a huge improvement in front-line staff in the LCBO stores that I frequent here in Niagara and in Toronto over the last, say, three or four years. With respect to marketing products, there's always someone out on the floor, interested to talk to you, to get you to try something else, something different. In the old days, you had a couple of people in there, and they were really just the cashier moving you through a line.

What percentage of your budget are you using to do this kind of training and education and what impact has that had on your profitability?

Mr. Bob Peter: Well, we do a lot of training, and every clerk has to take three compulsory courses—level 1, 2 and 3—of wine. We have another program called WOW Leaders; we have 305 or 310 of them for Ontario wines. They come down here to the wineries and so forth. We have beer advocates, people who are experts in beer, and we have spirits advocates in all the larger stores, the 300 larger stores, who go to training sessions. Then we have product consultants who are real specialists, paid more and trained more in the vintage area.

What my experience has been is that the more training we give these people, the prouder they are, and they want to share that information. So training is a really important part. Then we have all kinds of other training, whether it's special occasion permits and so forth. And then we train people on the whole area of the social responsibility, of Challenge and Refusal. We've invested a lot of money and time on it. We have a whole team that goes out, a knowledge resource team, that travels the world and makes films of all the different wine regions so these people know what's going on. We just did a big one down here a year ago in Niagara for the people to share. So we try to impart as much knowledge to the team as we possibly can, and we've found that that works in terms of once you know something, you want to share that with other people.

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The Vice-Chair (Mr. Phil McNeely): Thank you. That's time.

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

Ms. Helena Jaczek: I want to get back to the issue of social responsibility. I was pleased that you alluded to some of the evidence related to convenience stores in other jurisdictions where they sell alcohol. I'm a former medical officer of health for York region, so I have a great deal of experience with the Tobacco Control Act and the failure of clerks in convenience stores, very often, to do something as minimal as ID for age. This is something that I know the LCBO does very well on. Of course, you have the challenge-refusal aspect as well, and I notice your statistics have really improved in that regard.

You have a lot of seasonal staff. How do you deal with training, given the large volume and all those lineups at Christmastime? Does every seasonal, casual employee get this kind of training around the social responsibility issue?

Mr. Bob Peter: No one is allowed to go on the floor selling until they've had at least two days' minimum of training, and a big component of that is the social responsibility aspect. You're not allowed to ring a register or interact with any customers until you've had that.

Ms. Helena Jaczek: I just want to follow up on another potentially health-related question. In your 2010-

11 annual report, you talk about the testing of product. This is something, again, where there are some suppliers who have been questioning the need for LCBO to do this lab testing. Obviously, it's quite an expense. But I notice that something like 10.6% of the lab samples are, in fact, rejected. Could you just elaborate a little bit on what are the reasons for the rejection?

Mr. Bob Downey: We have a lot of technical standards that products need to meet, whether it's pesticides or some form of toxins, for example. So our testing is very rigorous on a number of different, varying tests. We really want to protect the public.

Ms. Helena Jaczek: What happens if you find a sample that includes something like a pesticide or perhaps is insufficient quantity? What happens to that supplier?

Mr. Bob Peter: If they didn't meet the standard, they wouldn't be listed in the LCBO. A lot of the ones that get rejected are often for insufficient labelling to meet the requirements in Canada. It's not just the liquid that's the problem; it's other packaging issues that come up.

Ms. Helena Jaczek: What happens in other provinces? How do they monitor?

Mr. Bob Peter: The only two provinces that have a lab are Quebec and Ontario. Manitoba buys our services. The other liquor boards—if the LCBO has listed it, then they feel confident listing it. Saskatchewan, in their recent Auditor General's report, was told they had to get this service, so they're coming to negotiate a new deal with using our services. They're taking a risk and a liability by not having it.

Ms. Helena Jaczek: Do you charge the other liquor control boards?

Mr. Bob Peter: Yes, we do.

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

Mrs. Donna H. Cansfield: I'm an enormous fan of your magazine. I know not everybody is, but I am. I like the recipes. I know that I can get the recipes online. Can I get the magazine online? That's my first question.

The second one is, not everybody is an enormous fan of your inserts. Part of the challenge is the glossiness, the fact that it doesn't seem to be on recyclable paper at times. Is that part of the marketing that you receive from your retailers, or is that something that comes out of the LCBO budget?

Mr. Bob Peter: Our advertising is all paid for by our suppliers. We try to do lifestyle advertising, and it's aspirational. Our paper is recyclable.

Going back to your Food and Drink example, I don't think there are many magazines or flyers that people retain in their house or cottage for years and years. Food and Drink is available online now.

We try and show a lifestyle of matching food with—pairings and so forth, and it has been very effective.

Mrs. Donna H. Cansfield: I agree with you. I think I've got every copy, going back as far as I can remember. I must admit, I've just kept the recipes, just so you know.

Mr. Philip J. Olsson: I'd just like to make a comment, because not everyone has been in politics long enough to have every copy of Food and Drink. The magazine started, not as an attempt to generate revenues—although it does pay for itself nicely now—but to encourage social responsibility, because we found, in the early years of the modernization of the LCBO, that people didn't know how to entertain properly with alcohol and they didn't know how to pair wine with food. In fact, responsible entertaining and the consumption of wine as an enhancement to food, rather than simply as an alcoholic beverage, was critical. That's the origin of Food and Drink magazine.

Mrs. Donna H. Cansfield: I thank you, personally.

We talked a little bit about the testing and how important testing is, but I was thinking of it in terms of the wines that you might be able to get at the farmers' market, for example. I didn't know that if a particular stem ends up in the wine, it in fact can produce some severe side effects. If you were looking to do fruit wines and other opportunities for sales, how would you find a way to do the testing and assessment on those prior to any kind of sale? If you want to talk about a liability, that certainly could be a significant liability.

Mr. Philip J. Olsson: We haven't encouraged it, so we don't have an answer to that question. If I could just make a statement out of the question: It would seem somewhat illogical to allow products to be sold for convenience that haven't been properly tested, as every product you find in our store has been.

Mrs. Donna H. Cansfield: Thank you. My last question is: If you had something that you would like to be able to do that you have not been able to—if you had a magic wand, as it were—what is it you would like to do?

Mr. Philip J. Olsson: One thing that we have been allowed to do—as I mentioned earlier, we've been in discussions with government for many years—is to materially enhance our capital program, and that has been granted. In fact, the only area of staff increase in our organization has been in the people who look after that particular program.

There are many things we might aspire to do, but because of their effect on other constituents or the political impact, we tend to be very cautious about making statements of that type. Bob, do you have something you'd like to mention?

Mr. Bob Peter: Just on that line that Phil mentioned on additional capital, you have to realize that the LCBO started in 1927, when spirits were the main product. Well into the late 1950s, table wine really was, if you look at the old product listings, non-existent. We still have a lot of stores that are left over from that era which we've been trying to build and replace. The stores we build today are much larger, which allows us to feature the expanded wine portfolio—which really only took off from the 1980s onward; it was very small, prior to that, and it has continued to grow—and to put in an expanded beer assortment, for the craft beers and all the other things. As we're building new stores, we're finding: Are we building them big enough? Are we having to go to four-level shelving and so forth? It's a work in progress, and it's replacing a lot of stores that were built in an era which was just rye, whisky and rum and so forth and very little else. We still have some of those stores, which make it difficult for us to execute all our programs, but over time we'll get them replaced and housing the proper assortments.

The Vice-Chair (Mr. Phil McNeely): Well, that's—

Interjection.

The Vice-Chair (Mr. Phil McNeely): I'm sorry; you have another 30 seconds.

Mr. Philip J. Olsson: Just a comment: I'd say, generally, government has been very supportive of things that we want to do that fit within overall public policy. We have to deal constantly with the wishes of constituencies to improve their position with the LCBO, and they're not bashful about going through the political process. But I take that as a sort of normal course, and that's why I'm paid these big bucks to do that.

The Vice-Chair (Mr. Phil McNeely): Thank you very much for coming this morning. We'll see you again on Wednesday, I believe, down in Trenton.

There's lunch for members and employees just next door. We are recessed until 1 o'clock today. Thank you very much.

The committee recessed from 1151 to 1302.

The Vice-Chair (Mr. Phil McNeely): Welcome back. We are proceeding with the stakeholder presentations. Each stakeholder has 10 minutes for their presentation, following which each caucus will have 10 minutes in a round for questions. The questioning will start from the official opposition.

WINERY AND GROWER ALLIANCE OF ONTARIO

The Vice-Chair (Mr. Phil McNeely): Our first delegation is the Winery and Grower Alliance of Ontario. For Hansard, make sure you give your name when you start. The time is yours, the 10 minutes.

Mr. Patrick Gedge: Thank you very much, Mr. Chairman. We certainly appreciate the opportunity to be here today. I will actually read our presentation that comes to approximately nine minutes, because if I actually talk about it, it would be 20 minutes. So I'll try and keep it very succinct.

On behalf of the Winery and Grower Alliance of Ontario, WGAO, we look forward to discussing with your committee opportunities to grow the grape and wine industry in Ontario through the LCBO. I'm Patrick Gedge, president and CEO of the WGAO, and I'm accompanied by WGAO member representatives Roger Vail, who is a member of our board of directors and a grape grower; Shari Niles, at the end of the table, executive vice-president, marketing, for Andrew Peller Ltd.; and to my immediate right, Anne Givens, who is vice-president, sales, Ontario-Atlantic, for Constellation Brands.

As background, the WGAO encompasses both wineries and independent grape growers as members, because we believe that the industry has to grow in a manner that benefits all parts of the industry. The WGAO represents both VQA and non-VQA wine produced in Ontario. Our members produce the majority of the volume of VQA wine in the province and, in total, represent some 85% of all the wine produced in the province. Our members also purchase over 85% of the wine grapes grown by independent farmers.

There are basically two types of wine produced in the province: There is the Vintners Quality Alliance, VQA, wine, which contains 100% Ontario grapes; and international-Canadian blends, ICB wines, that are a blend of Ontario grapes and imported wine. Both categories compete against imported wines, ICB generally in the under-$10 segment and VQA over $10. ICB wines are meeting the needs of the value-conscious consumers who want a consistent and predictable wine, while VQA wines are appellation- or origin-based wines that reflect the terroir of different regions in Ontario.

It's important to note that ICB wines produce the most economic value to Ontario and represent 75% of all Ontario-produced wine sales. They also utilize the majority, 54%, of the grapes grown by grape growers. VQA wine makes up 25% of the sales and uses some 46% of the grapes. As a result, in order to grow the entire industry and benefit all wineries and all grape growers, both VQA and ICB need to increase sales in the marketplace, particularly through the LCBO.

Provincially, imported wines dominate our home market, with a 69% market share, and Ontario-produced wines with the remaining 31%. In most wine-producing countries or regions, their domestic wine market share is normally over 75%. Ours is about the reverse.

As WGAO, let me make it crystal clear we support the LCBO and its structure for selling wine in Ontario. It's a highly efficient and effective organization and has a clear plan to expand and modernize its store system in Ontario, which will benefit both consumers and our industry.

The LCBO distribution structure makes selling wine in the province as a one-stop-shop system much easier for wineries in this province. Now, are there opportunities for improvement? Of course. Our sales, marketing and distribution costs need to be kept reasonable within the LCBO channel so that the industry can focus its time and investments on creating quality wines and introducing new brands to meet consumer needs.

Over the years, we've heard many ideas about the establishment of new distribution channels in Ontario over and above the LCBO. While we're always open to new opportunities, we have yet to see any analysis of another distribution channel in Ontario that would make economic sense in the province. In fact, many of these ideas would simply cannibalize our sales from the LCBO, increase the sales and marketing costs of all wineries, especially smaller VQA wineries, and provide another opportunity for imported wines to own even more of our market.

We are aware that the Auditor General made some recommendations about increasing profitability of the LCBO by allowing suppliers to price products at the lowest level possible. While on the surface this sounds reasonable, it could lead to a price-cutting competition through a public body. Under such a scenario of price-cutting, the ability of all Ontario wineries to compete, remain profitable and pay reasonable market prices for Ontario grapes could be in jeopardy. The beneficiary of such a change would invariably be those suppliers from other countries that have massive economies of scale and lower production and grape costs, and in some cases can both dump product and benefit from domestic subsidies.

As an industry in Ontario, we know that 70% of our growth in VQA wine is based on new products to the market. As a result, the industry is investing its dollars into promotional and marketing opportunities with the LCBO and investing in the new products to generate new growth. Driving consumer demand for Ontario wine is the ultimate goal, which results in additional revenue to the LCBO and new jobs and investments in the industry and the province.

We believe there are many opportunities that will support the mandate of the LCBO as well as increase sales and enhance the profitability of all wineries and growers in Ontario. Industry solutions need to be based upon the quality and value of Ontario wine in an open marketplace, not artificial regulations that in reality hinder competitiveness and innovation.

An opportunity worthy of consideration for this committee in order to increase profitability of the LCBO and treat all suppliers equally would be to move away from a fixed margin to a variable or ad valorem structure. The result would be margins that relate directly to the retail costs of products. More income would be generated to the LCBO from higher-priced products. This system is in place in many jurisdictions very successfully, including British Columbia, Nova Scotia and Saskatchewan.

Also, while it's impossible for the LCBO to be all things to all people, we've recommended to government that Ontario wine be sold through farmers' markets—again, like many jurisdictions throughout the US and Canada—and that 100% Ontario grape non-VQA wine be approved for direct delivery to licensees. Both initiatives would be particularly beneficial to small wineries in the province.

There is a fundamental need for a cohesive, long-term strategy between the LCBO, government and the domestic grape and wine industry in order to grow a sustainable and profitable industry. As a result we recommend:

(1) Create an LCBO-Ontario industry task force to establish a partnered plan and action steps, reporting back by the end of the year, that would set aggressive but achievable sales and market share targets for VQA and ICB wines at the LCBO for 2013-14 onwards.

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(2) Identify opportunities to reduce unnecessary red tape and administrative costs, saving money for both the LCBO and industry.

(3) Have the LCBO and its senior management incorporate VQA and ICB growth targets as a significant part of their performance management and bonus system for fiscal 2013-14.

Finally, while we know the committee's focus is on the LCBO, the government of Ontario should name a specific political lead or champion for the Ontario grape and wine industry in order to facilitate communication and coordination across government. Due to the nature of the industry, there are multiple ministries, regulatory bodies and agencies that impact the future success of the Ontario grape and wine industry. We need a strategic and holistic approach to ensuring that the Ontario government achieves its policy objectives while at the same time the Ontario grape and wine industry grows sustainably and profitably for both wineries and grape growers.

WGAO is very appreciative of this opportunity to present to the committee, and we look forward to any questions or comments that you may have.

The Vice-Chair (Mr. Phil McNeely): Thank you for the presentation. We'll go to the opposition party for questions. Mr. Hardeman.

Mr. Ernie Hardeman: Thank you very much for your presentation. I have a couple of questions, and I'm sure my colleagues have some too. I was wondering, on your ratio of Ontario grape and the percentages of how much is domestic market wine, how come there's so much less grape in the majority of the wine we sell? If that's how it goes, is there any advantage for us marketing more blended wines rather than focusing on Ontario grape wine, which would be VQA?

Mr. Patrick Gedge: Let me start the answer, but I think my colleagues may have other comments. We're talking about very different segments in the marketplace, and ICB wine, the blended wines—like in any other country, it's very normal to have blended wines—is highly price-sensitive. The only reason that one has foreign wine in those bottles of wine is so that you can be at the price points that the consumer is looking for and of course continue the taste profile that they expect and want. While there are regulations related to wine content, at the end of the day, the success of ICB wines is based upon having very strong price points and quality and being able to do that in a very strong and tough marketplace.

Ms. Anne Givens: I think the importance of the ICB wines is to create a barrier and help protect our VQA wines. It's really hard to sell really good-quality VQA wines at $10. But you're seeing a lot of things like brands from the United States, Chile and Argentina coming in at $8, and the only way that Ontario can defend that is through ICB. So it's really important for both to grow.

Mr. Ernie Hardeman: My question relates more to, if the percentage of imported juice or product going into the domestic wines under $10 that we're trying to capture is at the expense of not capturing enough of the market of over-$10 wines, aren't we losing ground in the grape wine industry in the province? If in fact we're not seeing enough increase in the VQA and we're seeing more increase in blended, which is mostly Chilean grape, what's the advantage to the province in encouraging a program that way?

Mr. Patrick Gedge: As an industry, our primary goal is to increase the VQA sales. The members of the WGAO produce the majority of the VQA in the province. It's obviously in our interest to promote that. But at the end of the day, it's a question of consumer demand as well. You can only produce what, at the end of the day, someone is actually going to buy. While we've had good growth rates in terms of VQA and want to continue that, it still only makes up less than half of the grape crop. Again, by having ICB wines, which make up the majority of the grape crop, that allows you to have demand for the grapes, pay for the grapes and compete in both sides of the marketplace. Over time, ideally, we'd like the VQA to continue to increase its percentages, but again, right now, VQA is 25% sales, ICB 75%, and in terms of grape usage, it's 54% of the grapes that go into ICB and 46% into the VQA.

Obviously, it's not something that's going to change in one, two, five, 10 or 15 years, that you're not going to need both of them in order to purchase all of the grape demand that is out there while at the same time being able to compete in the two major segments in the marketplace.

Does that give you a sense of it?

Mr. Ernie Hardeman: Thank you very much. The other part I couldn't quite get my mind around when you were making your presentation was the issue—it's on page 3 in the second paragraph—about, "We are aware that the Auditor General made some recommendations about increasing profitability of the LCBO" based on buying the wine at a competitive price. You're suggesting that that's going to hurt our wineries. I guess that tells me we're not competitive in the wine industry. Is that—

Mr. Patrick Gedge: No. I think as a developed wine industry, we are in fact very competitive, and our sales do increase each year, so the consumer demand is there. But it's also recognizing that in other countries, you've got completely different economic models that are there in terms of (a) the size of their market, and therefore the economies of scale; (b) what they are paying for grapes versus what we're paying for grapes; and (c) quite frankly, in a lot of those countries, they have an infrastructure of high agricultural subsidization. From that standpoint, choose the phraseology, but we're not really on a level playing field in terms of our cost structures.

If the issue in the marketplace becomes who can price down the fastest, then quite frankly, imported wines from lower-cost countries are going to be able to price down a lot faster than we can. Even today, the margins of our industry are extremely low, and we want to keep being able to invest in our industry to get new products out there to consumers. But at the same time, we want to make sure that we're competitive so that we're buying all of the quality grapes that are growing in this province at reasonable prices.

Mr. Ernie Hardeman: Thank you.

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

Mr. Randy Pettapiece: Thank you, Mr. Chair. I have a question here. It's on page 4. It's the second paragraph. The direct delivery to licensees: Is this a cost-saving measure for you? Is that what you think will happen if you can do this?

Mr. Patrick Gedge: No, it's much more giving the flexibility to wineries in terms of being able to price their products to the marketplace, to licensees. It's not a question of substituting the quality VQA that goes to licensees as much as giving the businesses more flexibility to hopefully increase our percentage of licensee sales.

Ms. Anne Givens: It's Anne Givens. What happens in licensees—as you know, with the economic downturn, their business has really been struggling, so they try to get their money through the markups. One of the ways that they can do that is for less expensive wine. It's very hard for them to buy products, let's say, at the LCBO and be able to mark that up two and three times and make their profit. If we can direct deliver it, we can certainly have specialized products for them, and then we deliver that to the restaurant and they actually consume more Ontario wine. So for the smaller producers, it's really beneficial for them to do that.

Mr. Randy Pettapiece: Would you have to set up some kind of storage facility, say, in the eastern part of the province or the northern part of the province to do something like this?

Ms. Anne Givens: Not necessarily. The licence is to ship from your winery facility, and then you courier it throughout the province.

Mr. Randy Pettapiece: I have one more question. Red tape is a hindrance to business, not only your business. In fact, some people just give up because of some of the hoops they have to jump through. Can you identify some of the unnecessary red tape, examples that you feel would help you with your industry if we got rid of some of these pieces of legislation?

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Mr. Patrick Gedge: Just as a general comment on that, this is one of those things we keep hearing about throughout the industry. Even government people are coming back and recognizing a lot of the administrative requirements that they've put on the industry have sort of evolved over the decades, and as they've added in new things to do, they haven't taken away the old things to do. So I think there is a general consensus that there are some real opportunities there.

Sometimes the problem is that you can't change 100 things at one time. When we've had discussions with the government—and we're not there yet—it's saying, "Look, could we focus on three or four things that both the industry and the government are willing to make changes on and that those changes will have some significance?"

One of the examples that I keep getting from different wineries is dealing with all of the audit requirements that they have. In fact, they get the feeling that they've got two or three different auditors coming in and actually doing the same audits as the other people, as opposed to simply auditing at one time and then you can share the information with the other agencies.

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

Ms. Cindy Forster: Thanks for being here today with us. Could you expand a little bit on the second to the last paragraph on page 2 about, "Our sales, marketing and distribution costs need to be kept reasonable within the LCBO channel," and what that means to the price of a bottle of wine or the product?

Mr. Patrick Gedge: Shari?

Ms. Shari Niles: I'll let you start, Patrick, and I'll jump in.

Mr. Patrick Gedge: I guess making the point there is that we know on one level that the LCBO has to have standards and structures for all types of wine that are in the marketplace. I don't think anyone reasonably would expect them to do certain things at a loss, particularly given the financial issues that they've been dealing with.

But at the same time, there should be a recognition that there are—again, particularly for smaller wineries in the province, their ability to be able to absorb those costs is certainly a significant challenge, particularly if they haven't got a stream or a volume that's able to go through their entire system. Those are some of the concerns that we've certainly heard from them.

Ms. Shari Niles: Maybe I can focus on the second part, as a marketing person in the Ontario wine industry. In terms of Ontario wines and where we've come from, we do have a bit of baggage, so it's almost like you have to over-deliver in order to have table stakes with our import competitors.

We also know that of all of the alcoholic beverage segments, whether you're talking about spirits, wine or beer, wine is the one that's most sensitive to innovation, and the consumers within that segment are looking for new news, something exciting, all the time. What's most important for us to succeed and grow the VQA business is to be successful with innovation, whether it's packaging product or new types of wine that haven't been out in the market. I think we've seen that in the marketplace, a couple of years ago, a real influx of new VQA products and the volume of VQA really exploding. We need to keep our focus on that if we're going to increase our share of the VQA market.

Ms. Cindy Forster: Thanks. I've got another question. Product testing: How does that work in the small wineries versus the bigger wineries? When we actually had the presentation from the LCBO this morning, they talked about product testing and the cost of it; other provinces now actually looking to Ontario to get product testing done. If there was a move to put the product out to farmers' markets, for example, what impact would that have on product testing? How would you accomplish doing that?

Ms. Shari Niles: Do you mean the product be tested before it went to the farmers' market?

Ms. Cindy Forster: Yes.

Ms. Shari Niles: Certainly the question is—and I don't know in terms of—

Ms. Anne Givens: The LCBO does a fantastic job in testing product, and I think that could be a real revenue stream for the government, whereby all products, whether they're direct-delivered or sold in a farmers' market or wherever it be sold, need to get that stamp of approval by the LCBO, certainly if you're launching for the first time—perhaps not every vintage. Certainly, the LCBO can be that governing body. They've done a fantastic job.

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

Miss Monique Taylor: Thank you for being here with us today and sharing your afternoon with us.

I have a question regarding the bottom paragraph on page 3. It said, "to increase profitability of the LCBO and treat all suppliers equally, would be to move away from a fixed margin...." Now, if I believe I got it correctly this morning, that was moving away from that fixed margin and into the ad valorem structure—the flexibility. Is that correct?

Ms. Shari Niles: Or variable.

Miss Monique Taylor: Right. My understanding is that moving into the flexible way of doing it would actually be more of a cost to our local producers. Could you comment on that?

Mr. Patrick Gedge: The basic concept is that, at this point in time, you'll have the same dollar charge against any bottle of wine, regardless of its price. I'm going to invent numbers: If the charge against an $8 bottle of wine is $2, then a charge against a $50 bottle of wine is $2. So that's your fixed.

What they do in other provinces is it will be based on a percentage that is related to the cost of the bottle of wine. Again, I'll invent numbers: 2% on an $8 bottle of wine and 2% on a $50 bottle of wine. So the actual revenue that's generated is going to be more on the more expensive wine and less on the less expensive wine.

From a competitive standpoint, if you look at Ontario wine versus imports, our wines as a whole are priced less than imported wine.

So it's something that we think would be beneficial for our industry. Again, it's done in other provinces. You're able to run models in terms of, what would the appropriate amount be? Quite frankly, the price sensitivity of a consumer buying a $50 bottle of wine is a little different than the price sensitivity of a consumer buying an $8 bottle of wine. So we think it would be good in terms of competitiveness generally. Because of the consumer segments you're dealing with, the real effect of doing it more so on the much higher-priced wine is much more acceptable to people who are buying the higher-priced. At the end of the day, it may be an opportunity, over time—as all wine gets more expensive and moves up the scale, then the total revenue going to the LCBO will increase.

Miss Monique Taylor: Thank you.

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

Ms. Cindy Forster: What is the economic impact of the wine industry to the province of Ontario with respect to the number of jobs it creates and the amount of money that gets funnelled into the economy?

Mr. Patrick Gedge: I cannot tell you how delighted I am with that question. The reality is, today we do not know. The last study that was done that covered the entire industry—and even it had weaknesses to it—was done in 2007. It estimated, for example, the number of jobs in the industry at 7,000. When you actually looked at that study, you discovered that some things like tourism were actually not fully accounted for. That was 2007; we're in 2012 now.

We've actually just initiated, over the past month, an economic impact analysis of the grape and wine industry in Ontario, just in order to get up-to-date figures. We've been able to also get the province of British Columbia and the province of Nova Scotia to join us so that not only will we have the same methodology and approach being used in Ontario to evaluate economic impact, but it will be the same methodology and approach in BC and in Nova Scotia. That, frankly, will allow us to do more intelligent benchmarking in the future, when people are talking about what we can learn from each of the industries, and it will also allow us to aggregate that up to have a better national view as to the value of the industry, and that's of course very important when we're dealing with the federal government.

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The Vice-Chair (Mr. Phil McNeely): Thank you. Your timing is impeccable. Thank you, Patrick Gedge. Time is up. We'll go to the government and Ms. Jaczek.

Ms. Helena Jaczek: Thank you very much for coming this afternoon. I'd like to get at the issue of market share. In your presentation you mentioned that Ontario-produced wines have a 31% share here in Ontario, and you allude to other countries having obviously a far higher percentage. I guess my question is, what would this have looked like, say, 10 years ago? What were both ICB and VQA Ontario wines—what was their share of the market then?

Mr. Patrick Gedge: I don't have all the figures with me, but the bottom line is that over the past 10 years, our market share has not changed. As the total sales of wine have increased, we've retained basically the same market share of Ontario product as have the imports. So from a market share standpoint, we have not eaten into the imports market share, but both categories have increased their sales over the years. Obviously, given the per centage of penetration by the imports, their absolute sales have gone up through the roof over 10 years while ours haven't, because we have a much smaller market share.

Ms. Helena Jaczek: So that's notwithstanding the extensive shelf space? I know when I go into the LCBO, there seems to be this huge promotional effort related to both VQA and ICB. So you're saying you're just keeping pace?

Mr. Patrick Gedge: We're just keeping pace.

Ms. Helena Jaczek: Thank you.

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

Mr. Kim Craitor: Thank you. As I said, this is pretty cool. I was telling the LCBO that in eight years as an MPP, I've never seen them. I've never, ever got to meet them. The reason I say that is, this is the first time in eight years I've actually had all the stakeholders in the same room. I'm used to seeing yourself, WGAO; I'm glad to see Debbie Zimmerman, who represents the growers, and Hillary is here, and the LCBO. That's a first. So I'm going to say a couple of comments, because I've got you in the same room.

Since eight years, probably the number one topic I've had as an MPP is wines. Logically, it makes sense because in my riding, your riding, that's one of the major industries, one of the major, major industries. So I'm going to say to all of you, because you're here, it's about time that we all worked together. I'm not being critical of anyone, but it's about time.

Patrick, you mentioned a couple of things in here, so I'm going to repeat them. You know my philosophy is that no grape belongs on the ground; it belongs in the bottle for Ontario wines. I've said that over and over, and it's something I passionately believe in. I've tried everything I can think of to make that happen, along with all of you.

I'm going to say, number one, I do believe the government, my government and all governments—it's time that we do have a special committee formed. It's time that we work, as a government, collectively. You are so right when you say that there are so many different government agencies that deal with wineries. I'm going to tell you, at the bureaucratic level I've learned that they do not even communicate with each other. It's very frustrating for me as a politician. So, number one, I totally agree with that, and I know all the other stakeholders would agree with that.

Number two, I think it's time that you collectively work together. I'm not being critical. I get the opportunity, to my colleagues—I get WGAO that comes in, then I get the grape growers that come in, then I get the wine council that comes in, so I hear all their different positions. I'm telling you, in order to achieve things through the government, you need to have one voice and you need to be going in the same direction. But to try to have three different voices going in three different directions and then trying to get a government trying to decide what's the right way to go, it just isn't going to work. It's kind of similar to what we do at regional council, when you come in and have that regional council day for the Niagara region. It works. So I'm hoping, since you're all in the same room—I told you, it's the first time I've ever seen this in eight years—that maybe this time we can do that.

Finally, I want to say that we do have a good system, with the Grape Growers of Ontario. They represent the growers; they negotiate the prices. I think that works well. VQA works well. We fund them, but they're certainly trying to promote, and doing a good job at VQA—and yourself, representing the big wineries and the smaller ones together. You really have an opportunity to move government forward, but you've just got to do it collectively—and I keep repeating it, because that's what it's going to take.

You don't have to comment. It's meant for everyone who's in the room—from all the stakeholders that I have the pleasure to meet and know and try to work with.

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

Mrs. Donna H. Cansfield: I guess there's a difference of information, because I have from the annual general meeting of the LCBO that in fact Ontario VQA Vintages wine sales grew by 7% over the previous year and are anticipated to grow as well, and that total key trends in Ontario—ICB and VQA are up 6.9%. So there is an opportunity for growth.

I have two questions. One relates to, there are programs that support and encourage Ontario wines. I would suspect they are very closely watched by NAFTA, because there are some real challenges here. So what are the opportunities that you see over and above what I call the art of the possible in terms of what can be done to encourage additional sales?

My second question is, if I recall from my other days, it's Moscato as Baby Duck, right?

Ms. Shari Niles: Moscato the grape?

Mrs. Donna H. Cansfield: Yes.

Ms. Shari Niles: No, it's not Moscato in Baby Duck.

Mrs. Donna H. Cansfield: Which one was Baby Duck?

Ms. Shari Niles: Baby Duck is a sparkling wine product. It's just not Moscato-based.

Mrs. Donna H. Cansfield: What's the grape?

Ms. Shari Niles: Vidal.

Mrs. Donna H. Cansfield: Oh, Vidal. Because this is the great rage, I hear, in New York or something, and I'm starting to worry.

My question, actually, isn't related to that. It's related to the change in climate and the ability of the different kinds of grapes to adapt in terms of, you've got a longer summer, a hotter summer, less water, all of those things. Do you see a trend in the change of the type of grape that you're growing—the quantity and the production, that end of it—and how you think, taking that out a few years, that's going to change the industry going forward?

I have those two questions.

Mr. Roger Vail: Grapes are definitely changing in the future and even now. As growers, we are trying to expand our actual plantings. We're developing new varieties. We're taking on new significant plantings, investing huge amounts of money based on the fact that we know that the future is very, very strong. There is the doomsday attitude of 2014—when the Wine Content Act is going to sunset. But if you're a good grower and you work with your buyer, you always will find a market for your product.

The Moscato rage: Yes, California took off. Gallo went from zero cases to five million cases in a year. It is something that is there. I'm actually growing some Moscato now. I imported the vines from California. I'm the only one in Canada growing them.

The market overall, when we look at WGAO compared to grape growers overall—63,000 tonnes of grapes last year, the majority of it going into ICB wines. I represent growers, because of the fact that I feel that I've got a lot of friends out there; and we're not all VQA growers. We're not against VQA. We know VQA has to grow, and that's where we want it to be. But if we only rely on the VQA, we could end up finding ourselves not growing grapes. We're in a greenbelt. We have to grow, and the way we do it is by being fiscally responsible, trying to produce the grapes as cheap as we can to be able to give them to the winery. It's a challenge, but the market is there and it's good.

Mrs. Donna H. Cansfield: And the second part of the question—

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

Mrs. Donna H. Cansfield: It was around the opportunities you see in terms of the art of the possible vis-à-vis NAFTA.

Mr. Patrick Gedge: I think there are all sorts of opportunities. The existing government programs that exist—there are three of them. The Ontario Vineyard Improvement Program through OMAFRA, and the VQA marketing program, VQA support program, through MEDI, have absolutely no relevance on free trade or breaking free trade. Those are straightforward programs and they've never been even questioned in terms of the free trade context.

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I think one of the most important things is to make sure that the programs that we have are operating as efficiently and effectively as possible in providing the ROI that both the government needs for any business support program but also that the industry needs in order to make it successful. None of us has come forward and suggested that there should be a whole slew of additional programs by the government, because quite frankly we recognize that you're not in a position to put more dollars in the marketplace. But work with us as an industry to make the dollars that exist work harder for us and harder for you. That's our key focus.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. We're out of time. Thank you very much to the Winery and Grower Alliance of Ontario for being here today and giving us this good information.

GRAPE GROWERS OF ONTARIO

The Vice-Chair (Mr. Phil McNeely): We'll now go on to the Grape Growers of Ontario and we'll start with the third party after the presentation.

You have 10 minutes for your presentation.

Ms. Debbie Zimmerman: Thank you very much and good afternoon. I wanted to just begin by saying, on behalf of the over 500 members of the Grape Growers of Ontario, thank you for this opportunity to present our thoughts and ideas as you deliberate and review the

LCBO. It is of note that the GGO as an organization is, in 2012, celebrating 65 years of service to its members and industry. You must be wondering why this is important to today's hearings, but it's critical to understand our industry's growth and the importance of our partnerships.

Winston Churchill once said, "The farther backward you can look, the farther forward you can see." What we do know over 65 years of grape growing in Ontario is that the LCBO has been an active partner in our industry. The very fact that the government of Ontario regulates alcohol through the LCBO makes the government the de facto senior partner in the Ontario grape and wine industry, which makes this critically important to the ongoing success of the grape and wine industry.

In 1999, we came together as an industry to create a shared vision for the future—winemakers, growers, the LCBO and government. This common destination, or as the document was called, Poised for Greatness, mapped out a course for the next 20 years. This collaborative approach with all partners was clear and set critical targets that would be met incrementally until 2020.

The following is a quote from the 1999 plan: "In Ontario, people who love wines will be voting with their wallets. More than 60% of their purchases will be rich Ontario reds or crisp fruity whites. In the vineyards of the Niagara Peninsula, Pelee Island and along the north shore of Lake Erie, more than 90% of Ontario grapes will be used to produce VQA wines." Optimism was high in 1999, and sales of Ontario wine at that time accounted for 42% of all sales. Industry sales targets were set to grow at 6% annually, with the expectation that in 2011 the domestic share of total Ontario sales would be 50%. The LCBO had committed, through its own brand vision, to ensure the Ontario wine section would become a destination for wine lovers, expanding vintages, which focused on the industry's signature wines, increase self-space, and reinvent the Ontario wine section and assist small wineries to participate more effectively at the LCBO.

Fast forward to 2011, and sadly, the expected 50% domestic share of sales in Ontario has faded to a mere 39%—I heard 31% today, but you're going to hear a lot of different figures. This decline should not be seen as solely the LCBO's responsibility as they are only accountable for the distribution channel they control. In Ontario, wine is sold through the LCBO, off-site winery retail stores, on-farm wines stores and direct delivery to licensees. In fact, each of these distribution channels has different markups, adding more complexity to the issue of selling wine in Ontario.

It is, however, widely understood that the Ontario grape and wine industry is a key economic driver to the Ontario economy. With over 15,000 wine grape acres in the province, each acre of grapes produces provincial tax and levy revenue of $12,758 per acre. Additionally, if you factor in the economic impact of Ontario wine sales, the total impact to the province is $33,000 per acre, and if you multiply that by 15,074 acres, we have an overall benefit to the province of around $500 million.

It should be noted that an imported bottle of wine delivers only 67 cents of economic impact benefit as compared to the direct and indirect value-added economic impact of 100% Ontario-grown wine at $12.29 a bottle.

The LCBO knows that Ontario wine provides a good return to the Ontario taxpayer and to the government as the LCBO has created campaigns such as Go Local and, launching this year, I Love Canada; and we have no doubt they're willing to do more. The Ontario government knows 100% Ontario wine provides a good rate of return as they have invested over $9 million per year for the past seven years in the wine sector and have provided grape growers $3 million in each of four years to invest and improve their vineyards. The economic return of our Ontario industry is clear and measurable, and meets all of the tests of the recently released Drummond report. In fact, Drummond recommended that the LCBO "continually compare the merits of providing supports to Ontario producers against the desired policy outcomes." Drummond also suggested that the LCBO be maintained as a government business enterprise. We also agree with this recommendation.

What we need now is the government of Ontario to direct the LCBO to set clear, measured targets for growth in the Ontario wine categories and vintages, targets that are specifically designed for domestic growth and will include doubling the volume in vintages in a year. These targets should be reviewed annually, with consultation from the industry. A new transparent scorecard should be developed with the industry to track these key metrics.

Our focus as growers is growth in Ontario wines, because, as stewards of Ontario's greenbelt, most of Ontario's vineyards are covered by the Greenbelt Act, 2005. We're expected to maintain this agricultural base. We can't remain profitable or sustainable if we don't have a collaborative approach.

Promoting Ontario wine though the LCBO is good for the entire value chain. We also support the opportunity for 100% Ontario-grown wines to be sold at farmers' markets.

It is not my intent today to provide a list of suggestions to change the retail merchandising practices of the LCBO as they have qualified staff for that. The GGO supports the LCBO as the socially responsible distribution channel of choice for Ontario consumers, but we want the government of Ontario to direct the LCBO to ensure their reporting metrics reflect the economic impact of our industry in their stores and programs.

As your partner, we applaud the decision to open an additional 32 stores and the expansion of shelf space that is the equivalent of 40 retail stores over the next few years. Keep up the good work. But our ask is that the government of Ontario reset and create specific targets for growth of Ontario wine at the LCBO, targets that are agreed upon by all partners.

Owning only 39% of our home market is not acceptable. As grape growers and stewards of the 15,000 acres in Ontario, maintaining the legislated greenbelt, we're not asking for any special privileges; we just want our fair share of the marketplace in our home province. Thank you very much.

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The Vice-Chair (Mr. Phil McNeely): Thank you very much for the presentation.

We now go to the third party. Miss Taylor.

Miss Monique Taylor: Thank you very much for being here with us today. There have been some suggestions that an alternative-store system to sell wine in Ontario might include selling imported wine or fine wine. Can you provide some additional information on this proposed wine store system and how it would impact grape growers in Ontario?

Ms. Debbie Zimmerman: There has been a proposal—and I don't think it has yet been considered by the government to any great degree—for an alternative distribution channel to sell fine wine, and it would also, to perhaps meet trade challenges from NAFTA, include imported wine.

We've looked at the system and we've analyzed it. In our preliminary review, it looks like it would only sell about 45 more tonnes of grapes per store, so we think that system alone would just continue to dilute the marketplace. It's one of the reasons why we, in fact, support the LCBO but encourage them to set more local targets and more targets for 100% Ontario-grown.

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

Ms. Cindy Forster: Thank you, Debbie, for being here with us today.

I just have one question, about the direct delivery to licensees. Are there currently direct deliveries to some licensees? We talked about that with our previous presenters, and I wasn't aware that there were.

Ms. Debbie Zimmerman: Yes. There's a direct-delivery benefit to licensees, and it's only for VQA wines. I think the difference is, for 100% Ontario-grown, is what was trying to be articulated prior to your question, and that would be a direct-delivery benefit to, say, banquet halls and specialty products. So there would be a direct-delivery benefit for those that are not VQA. That would be probably one of the asks for 100% Ontario-grown as well.

Ms. Cindy Forster: My second question is around the economic impact of Ontario wines—the sale of Ontario wines versus imported wines, so—

Ms. Debbie Zimmerman: There are actually three categories. I should be clear. There are imported wines; there are blended wines, which have less than 30%—now 25%—in the bottle—and, of course, our main concern is, when 2014 comes around and that policy lifts, that we will be in oversupply by 9,000 tonnes. The government of Ontario is well aware of our concerns. The 40/25 is an important policy that is allowing for growth in both VQA and ICB. But the intent is to grow more VQA wines in this province, and that is the category we're focused on, as growers. We certainly deliver a lot of grapes to the international-Canadian blend, but we want to see more growth and we support the government's initiative in 2009 to see that growth move forward. So, 40/25 as a policy is of great concern to us. So we have imported wines; we have blended wines; we have VQA wines. In that ICB section is also considered 100% Ontario wines. So you could have a blend of both wines that have around 25% in the bottle currently, or other wines that are 100% Ontario or have a variety of content in a bottle of wine. Obviously, our focus is on the growth of Ontario, because that has the best benefit for all of us, going forward.

Ms. Cindy Forster: So what you're looking for is to actually have that policy extended past 2014.

Ms. Debbie Zimmerman: Exactly. What's important is that the government directed in 2009 that the focus would be on growing 100% Ontario. So what we don't have, and you've heard by the numbers today—there's a variety of numbers in terms of market share. What we don't have in Ontario is a market share that is owned solely, 100%, by Ontario. It is still a mix of international-Canadian blend, the blended side, and a mix of VQA. We are less than 50% right now. We would like to see that share of VQA wines grow. The purchasing habits of the international-Canadian blend players that WGOA represents include, obviously, that 25% in the bottle. We want to ensure that, going forward, there is growth of 100% Ontario. ICB is an important part of our market, but we certainly want to see the grapes taken up in the marketplace by 100% Ontario-grown. But that will not happen by 2014. We need a longer period of time, so we need the MOU extended beyond 2014 while the growth of Ontario continues to grow in the marketplace. It has been very slow, and unfortunately, over the 20 years, the expectations aren't there yet.

Ms. Cindy Forster: Thank you.

The Vice-Chair (Mr. Phil McNeely): No further questions? We'll go to the government side and Mr. Craitor.

Mr. Kim Craitor: Thank you, Mr. Chair. Hey, this is exciting to have everybody here together.

Patrick, I was reading your report again, and I noticed that—I can't believe it—Debbie, you and Patrick agree on something, and that's a good sign. In a unique way, you've said it. Patrick suggested that the LCBO and the senior management incorporate VQA and ICB growth targets as a significant part of their performance management and bonus system for the year 2013-14, and you've suggested that it's time for the government to set up clear, measurable targets for growth in the Ontario wine categories and vintages. So although you've said it in a different way, you're saying the same thing, which I totally agree with. That's a good start. That's what I call co-operation.

The other thing is, I just wanted to be able to put it on the record to say that in the eight years that I've been fortunate to be the MPP, the grape growers' association has done just a great job representing the growers.

Ms. Debbie Zimmerman: Thank you.

Mr. Kim Craitor: I know they come in regularly, and I see them. I think it's a unique way of having that one voice that goes out to the industry and sets a price so that the growers know where they stand from the beginning. It's a bit like a union, to my brothers and sisters on the other side. So I just want to say congratulations. I'm hopeful now, because we're all here together—maybe I have high expectations—that some really good things will come out, because we're all in the same room saying it.

We all want the same thing; that's the best part of it. We want to ensure that all the grapes that are grown in Ontario either end up blended—and we want to promote VQA; that's our number one. We're all trying to get there; it's just different ways of doing it. I think there's a real opportunity, and having us together in the room, I just feel that some good things are going to come out of this.

I don't have a question; I just wanted to make those comments.

Ms. Debbie Zimmerman: Thank you.

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

Mrs. Donna H. Cansfield: Hi, Debbie. How are you?

Ms. Debbie Zimmerman: I'm fine.

Mrs. Donna H. Cansfield: Nice to see you.

Ms. Debbie Zimmerman: You as well.

Mrs. Donna H. Cansfield: I'm going to ask a couple of questions. You've put some targets together, or you've identified an economic impact that's based on 100%. I can't dispute your numbers, but what I can dispute is the productivity of those numbers. That is a real challenge for the grape growers, because you've got too many variables. So my question would be—and you probably can't do it now—on the risk management side and the actuarial side of what, again, I call the art of the possible. If it's not possible now, Debbie, that's fine.

It's interesting; you indicated in your comments here that Drummond recommended that the LCBO "continually compare the merits of providing supports to Ontario producers against desired policy outcomes." For example, he said that the board provides discounted shipping and premium shelf space to support and promote Ontario producers. Drummond says, "These may not represent profit-maximizing strategies, and their policy merits should be balanced against reduced profitability." So the challenge becomes part of the responsibility of the LCBO in terms of their mandate; the fact that we are a capitalized market, so we deal with NAFTA; that we have that wonderful thing called choice: You can't force anybody or mandate somebody to purchase a bottle of anybody's wine. So my question to you is on the issue around performance and targets, and what actually is possible and is reasonable, because you can't anticipate an expectation that the LCBO cannot possibly deliver—or any government.

Ms. Debbie Zimmerman: No, and I think that's very true. One of the reasons why I think—you know, it's a bit of risk to put Drummond's recommendation in there, because we're actually saying, "Measure us against it." But we're saying that the economic output from growing in your home market—again, we're in a highly regulated marketplace. We have a number of pieces of legislation that affect us as growers, and there are many, many pieces of legislation that affect the wine industry, none of which is any more challenging than the greenbelt. Actually, we've embraced it and been successful within it, but as long as the government controls the monopoly called the LCBO—and that's not a bad word; it's a distribution channel—they should be able to set the targets which we all have to be measured against. We're quite prepared to be measured against those targets as an industry, because we not only create jobs and maintain the land and produce wine, which has a huge tax value, which you're building hospitals and schools against—we're good with that.

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If we need to be measured against the targets and if we need to change the way in which we need to do business, we're prepared to do that as well. We, as growers, have done that. We have gone back; we've done a varietal plan; we've worked with the wineries in assessing which variety we should be growing.

Don't forget: We're working in a very interesting marketplace. One of the largest companies in the world, called Constellation, is in our home market. They bring in wine from all over the world and they blend it in with our domestic product, and we have to be successful in the marketplace with that. We don't begrudge that, because a lot of our grapes go into a bottle of wine that is blended with Canadian and imported product, but we'd love to have a marketplace that also supports us, going forward, to grow our 100% Ontario wine.

Government sets policy quite often that we have to be judged against. We're all right with that as long as it's fair and reasonable and equitable. As long as you control the distribution channel called the LCBO, I think the government should be able to work with the LCBO on some targets and make it measurable for all of us, but also make it fair in our own home market. In no place else in the world does any domestic marketplace not own their own market at home. We do not in Ontario. You can go to anywhere in the world that has a wine industry, and most of them are, at best, 75% market share. We only have 39%, and I'm being generous because I've included a number of other things in that number.

Mrs. Donna H. Cansfield: But you have to admit as well that it's a fairly young industry.

Ms. Debbie Zimmerman: It's 65 years old, from our perspective.

Mrs. Donna H. Cansfield: Yes, right, but in comparison to France or Portugal or Spain or even Australia or California, it's just by virtue of what they're able to do.

My question again to you is: You'll never get to 100% because NAFTA rules would never allow 100% Ontario wines and nothing else being sold—

Ms. Debbie Zimmerman: No, and I think it would be unreasonable to suggest that.

Mrs. Donna H. Cansfield: So what is reasonable? What is a reasonable target for you?

Ms. Debbie Zimmerman: Fifty per cent.

Mrs. Donna H. Cansfield: You want 50%.

Ms. Debbie Zimmerman: In 1999, everybody came together on a document called Poised for Greatness. The government signed on, the LCBO signed on, we signed on, and the wine council at the time signed on. We are nowhere near that. We were supposed to be, in 2011, at 50%. We are nowhere near that. There must have been a vision back then that has somehow been lost. We need to re-grasp that vision and come forward and say, "What was missing?" Sure, there are a lot of things that happened, but I think I wanted to qualify that it's not just the LCBO that was responsible for those targets not being met. We are all responsible, but to a certain degree, a lot of that responsibility rests with government and policy and the targets you want the LCBO to be measured against.

Mrs. Donna H. Cansfield: So maybe there's an opportunity to look at something like a centre of excellence for the wine industry in terms of that broader picture that Kim speaks about and getting all the players to the table and getting them to play nicely in the sandbox.

Ms. Debbie Zimmerman: Yes. We have to hold hands with two partners now. Before we were holding hands with one. We now have two associations that represent distinct business entities. We're okay holding hands with another partner if that's what is needed to get the job done.

The Vice-Chair (Mr. Phil McNeely): Time is up. We'll go to the official opposition and Ms. Munro.

Mrs. Julia Munro: Thank you very much for coming and providing us with your insight. I want to push the insight a little further because much of the conversation with my friend Donna Cansfield dealt with the issue of reaching that goal. If you were able to take the magic wand, what would be the kinds of things that you would want to see happen that would bring that number up to the 50%, or closer to it than we are now?

Ms. Debbie Zimmerman: We think that the programs that the LCBO has embarked upon more currently—increasing shelf space and adding more stores—is certainly going to help with that target and that goal for us long-term.

One of the things we want to see the government do is maintain the current policy that we have called 40/25. It was announced in 2009 that there would be a minimum of 25% in a bottle of blended wine, but that companies who blend must ensure that 40% of their purchases are Ontario. We don't think that's unreasonable and we're hoping that that will be maintained as Ontario wine sales grow and of course as we as growers are able to meet those targets for wineries—which we are today. In fact, since the government policy was announced in 2009, we are now at 62,000 tonnes of grapes that have been purchased in the last year, and it is expected that this will continue to grow, because there is a focus on Ontario. That blended bottle of wine, obviously, is one area in which we can actually affect content and growth for Ontario long-term.

Mrs. Julia Munro: I was going to ask you if you've done any or used other studies with regard to the commitment of Ontarians to purchase Ontario wine.

Ms. Debbie Zimmerman: Do you know, it's a funny thing. The analogy has always eluded me—why BC is so passionate about its wines and Ontario seems to be lagging in terms of getting there. I don't know if it's confusion over labelling; it could be. It could be the fact that a lot of people don't quite understand what "VQA" means. There have been a lot of consumer studies done on getting people more interested in Ontario wine. We're certainly seeing that; we're seeing the growth in small and medium-sized wineries. We're certainly seeing more people choosing Ontario wine. I think, obviously, the availability of what's on the shelf is going to make a difference. Again, I'll say that the LCBO has embraced that by improving the number of stores. I think we're getting there. One specific thing: We need to be more passionate about what we have in this province.

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

Mr. Ernie Hardeman: Thank you, Debbie, for the presentation. I want to go along in the same vein of the last two questioners and deal with the 1999 projections. I'm looking at that and seeing, first of all, that the people are going to vote with their wallets. Am I to understand from that that they are willing to pay more for good wine?

Ms. Debbie Zimmerman: I don't think voting with their wallets was intended to be that. Voting with their wallets would have meant they go out and buy Ontario wine to get to meet the targets. I think we have a variety of price points, as was expressed by the previous presenters: from $10 up to very expensive wines. VQA wines are certainly a large part of what makes us successful as growers, but they're not all at the highest price point.

Mr. Ernie Hardeman: The other thing that took me by surprise: That same projection looked at that 90% of Ontario's grapes grown would go into VQA wines, and some other more very optimistic projections. In the next page, at the bottom of the page, you talk about that you want the LCBO to make more projections and more targets. I'd like to know what makes you think that they're going to meet the next targets any better than the last one. Do you really believe that we can achieve the targets of 1999 with one marketer of wines?

Ms. Debbie Zimmerman: We don't have just one marketer of wines in this province. We have many distribution channels already: the off-site winery stores; the on-site wine stores—or what they call on-farm stores; we have direct delivery to licensees; and we have the LCBO. Our concern is adding another channel that waters down the market even further. The targets that were established in 1999—I wasn't involved at the time but I know the people that were, and some of them are sitting in this room today, so you might want to ask them the question of why they didn't meet those targets. There were probably a lot of things within the marketplace that didn't help it along, but what we're seeing is that, even today in a recessionary period, people are still buying wine; we just need to encourage them to buy more. We want our partner, which is government-controlled, to set the targets that help to achieve some of the goals that were set in 1999.

Mr. Ernie Hardeman: But these other marketing avenues that are available today didn't exist in 1999—

Ms. Debbie Zimmerman: No, they did.

Mr. Ernie Hardeman: They've been added on at that time. Do you think that the answer today is to put the focus back on the LCBO to increase our consumption, or do you think that there are opportunities beyond what we presently have outside the LCBO? Where should the focus be? As this committee looks at the function of the LCBO, should we be looking at encouraging them to promote more Ontario or get them to agree that there are other ways of marketing products that would be more beneficial to our wine industry?

Ms. Debbie Zimmerman: I presume you're alluding to an alternative distribution channel.

Mr. Ernie Hardeman: Not necessarily.

Ms. Debbie Zimmerman: I think what we're asking—because, again, the LCBO is one of the best marketers in the world. Everybody knows that because there are a lot of importers who'd love to get into our marketplace because of the LCBO's being a very good marketer. So I could never fault them about the way they market product. We just want them to market more Ontario product.

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Mr. Ernie Hardeman: I was going to say, I'm not sure that they are the best marketers in the world. They're the only marketers in the world that have a monopoly to market their product to a defined audience, so—

Ms. Debbie Zimmerman: I would still say they're one of the best marketers in the world.

Mr. Ernie Hardeman: I'm not saying there's anything wrong with that. I'm just suggesting, is there a need to be looking at other opportunities? Our present system, as we've heard from previous presenters and as we heard from you, is not moving us up the ladder very fast to get to that 50% of Ontario product.

Ms. Debbie Zimmerman: I don't disagree with that, and I think, as long as the government controls this present system—Drummond referred to the LCBO as a business enterprise. As long as the government controls the business enterprise, they can work with them to set the goals and objectives for that business enterprise.

Mr. Ernie Hardeman: Thank you.

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

Mr. Randy Pettapiece: I just have a short question. We've been talking about growing your market share, which is certainly something you want. You've been somewhat stagnant, I guess, over the years. I'm a little concerned, with the economy as it is right now, that it may be difficult to get people to purchase more expensive wines. They may go to the other end and purchase the least expensive wines.

Have you got some sort of business plan that you're working on—you don't have to explain the whole thing—that you could present to the LCBO and the government that would move you towards your targets?

Ms. Debbie Zimmerman: We do have what we call, for us—we plan out for our future by the number of vineyards that we have currently planted. As I mentioned earlier, we are in a greenbelt. The most vineyards in the greenbelt are in the Niagara Peninsula. We're probably the only wine region in the world that is unique in that regard.

So what we know is—and we are regulated to be in agriculture, as growers, for a number of years. We also know and can anticipate, through a system we created, how many acres or how many grapes are going to be grown into the future. The challenge is we know what our targets need to be, but we don't know what the government's expectations are in terms of the revenue they expect from the LCBO.

Those are the two things we'd have to marry up, because if the government has an expectation on revenues, it makes it more challenging for us in terms of where they expect those revenues to come from. That's why we need to align some of what we think are going to be our targets with the targets of the LCBO, but that emphasis, we believe, should be at least 50% market share in this province. That may mean giving up some of the shelf space of the importers or the blenders to 100% Ontario grown. We don't think that's unreasonable, given the fact that legislation governing us is, in fact, keeping us in agriculture.

We want to be sustainable, and we want to be profitable. There's nothing wrong with that in a province that's supposed to be about growing the marketplace.

The Vice-Chair (Mr. Phil McNeely): The time is up, but thank you, Ms. Zimmerman, for the very good presentation on behalf of the Grape Growers of Ontario.

CENTRE FOR ADDICTION AND MENTAL HEALTH

The Vice-Chair (Mr. Phil McNeely): The next presentation is Centre for Addiction and Mental Health, Dr. Norman Giesbrecht. You can come forward. You have 10 minutes to make your presentation, and state your name at the outset. Thank you.

Dr. Norman Giesbrecht: I am Norman Giesbrecht. Thank you for the opportunity to speak to you this afternoon. The main focus of my remarks is the harms from alcohol and the role that government-run retail systems can play in reducing the harm.

Alcohol is a popular substance. About 80% of adult Ontarians reported consuming alcohol in the past 12 months. Taken in small quantities and in certain contexts, it can provide social benefits to consumers and health benefits for some older adults. The sale of alcohol also provides profits to businesses, including producers, distributors and retailers, and revenues to governments.

However, alcohol is a drug with many effects, including a wide range of risks and harms. Alcohol consumption can lead to numerous social problems, trauma and chronic diseases for the drinker. It also has negative consequences that affect the drinker's family, social contacts, co-workers, community members and strangers.

A 2010 report by an international group of 15 leading alcohol specialists identified the following major alcohol-related health conditions:

—cancers of the head and neck, liver, colorectum and breast;

—neuropsychiatric conditions, such as alcohol dependence syndrome, alcohol abuse, and depression;

—diabetes—alcohol can be protective in small amounts or increase risk in larger amounts;

—cardiovascular conditions, including ischemic heart disease, hypertensive disease, cerebrovascular disease—it can be protective of these diseases in small amounts or have adverse effects with heavier drinking;

—gastrointestinal conditions, including liver cirrhosis and pancreatitis;

—infectious diseases, including tuberculosis and pneumonia;

—maternal and perinatal conditions, such as fetal alcohol syndrome and disorders;

—acute toxic effects—alcohol poisoning;

—accidents involving road and other transportation incidents, drowning and burning injuries, and occupational and machine injuries;

—self-inflicted injuries or death; and

—violence inflicted on others.

Each of these chronic conditions or types of trauma contribute a substantial financial burden, be it health, social services, law enforcement or other responses. For Ontario alone, the cost of direct health care, law enforcement, corrections, prevention, lost productivity and other alcohol-related problems was estimated to be $5.3 billion per year in 2002 by Jürgen Rehm and his colleagues from CAMH.

Furthermore, the World Health Organization reports that alcohol is the second of 10 leading risk factors for disease and disability in high-income countries such as Canada, the first being tobacco.

Government-controlled-and-run liquor stores play an important role in preventing these harms. To understand how, it is important to consider certain facts and principles related to alcohol and its effects. The health and social harm from alcohol is greater than the health benefits. As the overall consumption in a population increases, heavy drinking and harms from drinking are also likely to increase. These harms are not limited to persons who are alcoholics or heavy drinkers; many harms occur primarily to people who are occasional heavy drinkers. Controlling the availability of alcohol is critical to controlling overall consumption and furthermore to reducing occasional heavy drinking, as well as preventing alcohol-related harms such as drinking and driving, violence, and alcohol-related diseases.

Over several decades, top international and national researchers have evaluated the effectiveness of different policies and interventions in controlling overall consumption, high-risk drinking and harm from alcohol. These evaluations have included population-level policies that impact all consumers, and secondly, more focused interventions. The first group includes pricing and taxation policies, as well as controls on physical availability, such as number of outlets, hours and days of sale, and government-run retail systems. The second group includes a number of drinking-and-driving countermeasures, including minimum legal drinking age and brief interventions for those drinking at hazardous levels.

As noted, government-controlled liquor sales is one of several state interventions that has been consistently shown to prevent alcohol-related problems. Furthermore, our surveys have shown that about two thirds of adult Ontarians are supportive of the LCBO and are opposed to privatization.

Ontarians have been fortunate to have governments that have taken a cautious approach with regard to alcohol distribution and retailing and an active role in controlling alcohol-related risks, including drinking and driving. In line with the international research, the Ministry of Finance has introduced indexed minimum pricing of alcoholic beverages. The Safer Bars program to reduce alcohol-related violence in licensed premises was also developed in Ontario by Kathryn Graham of CAMH.

CAMH researchers have recently estimated that drinking-and-driving policies and programs introduced since 1969 have prevented over 5,000 deaths and 180,000 serious injuries, for a cost savings ranging up to $78 billion over 40 years. These benefits could be eroded by privatizing alcohol distribution and retailing in Ontario.

The government-run Liquor Control Board of Ontario provides good service to customers, with staff who are not only knowledgeable about the products that they sell but, as importantly, trained in responsible sales. Their Challenge and Refusal program is considered exemplary. Research from other provinces and internationally indicates that intoxicated and underage persons are much more likely to be served under a private system. Furthermore, the social responsibility of the LCBO, in partnership with Mothers Against Drunk Driving and other stakeholders, draws attention to risks of over-drinking and guidance on how hosts and other concerned citizens can intervene to prevent alcohol-related harms. The control functions of the LCBO are a keystone of good alcohol policy for the province.

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Nevertheless, the dramatic increase in alcohol marketing and promotion in Ontario is worrisome, including ads on transit vehicles, numerous newspaper inserts and other venues such as YouTube, Twitter and Facebook. It gives the impression that alcohol is essential for all social occasions. It may contribute to impulse buying and stimulate an increase in overall consumption. Also, the occasional public health messages about health and safety risks are likely to be lost with the high volume of advertising of alcoholic products.

Unfortunately, the increase of alcohol-related problems and the financial costs to the province are typically not part of public or media discussions of privatization. What are the main effects of privatization? International research points to several: a dramatic increase in the density of outlets—the number of stores per capita; longer hours of sale; lower hourly pay for store staff; lower attention to challenge-and-refusal protocols; and increased risk of social problems, trauma or chronic disease related to alcohol.

Michael Livingston from Melbourne has studied the impacts of increased density and concentration of alcohol outlets in that city. He found that an increase in density was associated with an increase in general assaults, domestic violence, chronic alcohol-related disease and heavy drinking by youth, with a stronger association with private bottle shops than with licensed premises.

A number of studies suggest that the results of privatization will be higher alcohol consumption, higher-risk drinking and greater harms for Ontarians. Timothy Stockwell from BC and colleagues examined the effects of partial privatization of alcohol outlets in British Columbia. They found that alcohol sales increased more sharply in those areas of BC with the higher proportion of private alcohol outlets, and those areas also experienced elevated rates of liver cirrhosis mortality. Alcohol-related deaths increased significantly, by 3.25%, for each 20% increase in private store density.

Jürgen Rehm of CAMH and colleagues estimated the potential impacts of privatization of alcohol outlets in Canada. They projected that privatization would lead to a 10% increase in alcohol consumption, a 16.5% increase in alcohol-related mortality, an 8.4% increase in years of life lost, and an 8.2% increase in alcohol-related acute care hospital days, with a substantial increase in health care and other costs. Not only is privatization likely to lead to greater harms; once privatization occurs, a return to a precautionary approach, including public ownership of the sale and distribution of alcohol, is unlikely to be politically feasible, even when it is clear that greater harms have resulted from privatization.

Alcohol is no ordinary commodity. It is a substantial contributor to social problems, trauma and chronic disease. In order to reduce the harm from alcohol, we need to continue to give priority to population-level policies, including avoiding privatizing alcohol retailing and not increasing the density of alcohol outlets. Government decisions around alcohol should be made in the public interest and informed by a public health perspective. Thank you very much.

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

Ms. Helena Jaczek: Thank you very much for coming here today and giving us, obviously, the perspective of the Centre for Addiction and Mental Health. I am a physician and former medical officer of health, so of course, the public health impacts of alcohol are something that I'm keenly interested in.

Where would you rate Ontario, in terms of its balance between consumer demand and social responsibility, in terms of alcohol use and abuse? You've quoted some studies from other provinces. Can you look at these rates of alcohol-related suicide, chronic disease and trauma and give us a sense of where we stand, perhaps, in Canada and even beyond that?

Dr. Norman Giesbrecht: I think that Ontario is probably somewhere in the middle. I think that provinces such as Alberta and BC are likely going to have higher rates of problems. Their overall rate of consumption has increased more steeply, on a per capita basis, than has Ontario's in recent years. I realize that from the point of view of the industry, increased sales are good. From the point of view of public health, they're not so good.

Ms. Helena Jaczek: Let's just keep talking about public health for a bit because we've heard a lot about the industry. To what would you attribute higher rates of harm in BC and Alberta?

Dr. Norman Giesbrecht: Increased sales.

Ms. Helena Jaczek: How have they achieved those increased sales?

Dr. Norman Giesbrecht: They've increased those sales in Alberta by completely privatizing in 1993 and in BC by partially privatizing from about 2000 onward.

Ms. Helena Jaczek: So you think that's a truly significant—

Dr. Norman Giesbrecht: That's one of the studies I cited, yes.

Ms. Helena Jaczek: Yes.

Dr. Norman Giesbrecht: And that has contributed overall. That also contributed to liver cirrhosis mortality in BC.

Ms. Helena Jaczek: Exactly. How does CAMH actually work with the LCBO? Do you have a sort of ongoing relationship in terms of looking at social responsibility?

Dr. Norman Giesbrecht: Yes.

Ms. Helena Jaczek: Could you outline some of those?

Dr. Norman Giesbrecht: Yes. We work with them on several levels. We work with them in terms of requesting data that we use for our studies, and they've been very helpful in that respect. We've also worked with them with regard to distributing the low-risk drinking guidelines, and I understand that's going to be done this summer. We work with them on exchanging ideas and plans with regard to some of the issues we're dealing with. We provide data to them with regard to drinking and youth, and other things.

Ms. Helena Jaczek: Certainly in the LCBO's annual report, they mention some specific programs that they've engaged in. Some of these programs are things like Deflate the Elephant; that's just one example they've given. How would you rate the effectiveness? Would you like to see more of these kinds of programs? Would you have any suggestions on how to impact people's behaviour?

Dr. Norman Giesbrecht: I think that those programs that draw attention to the risks of over-serving, the risks of drinking and driving, the risks of binge drinking and so on are very useful. I think it's really important that these programs be evaluated, not only in terms of the quality of their presentation but their real impact on the people who engage in these behaviours.

Ms. Helena Jaczek: As you may have heard, if you were here earlier, obviously, there are many stakeholders in this particular business. Do you have any recommendations to government how to balance all these competing interests?

Dr. Norman Giesbrecht: Well, I think that the consumers like the LCBO, as I indicated in my remarks. I think that it's difficult to balance these different agendas. However, if the intent of increasing the number of outlets is to bring in more revenue, the other alternative would be to raise the price and not increase the number of outlets, because by raising the price, you would make sure that consumption is flatlined, but your revenue would increase. But if you increase the number of outlets by 5%, 10%, whatever, you're likely going to increase the number of problems. If you do full-cost accounting, the revenues will not offset the cost to health and social problems.

Ms. Helena Jaczek: Okay. Could you just expand a little bit on price sensitivity? I imagine CAMH has looked at this a little bit.

Dr. Norman Giesbrecht: Yes. There's still lots of flexibility that—people will be willing to pay more. I'm not talking about a huge increase, but a modest increase in prices would likely benefit the broader public health agenda and revenue generation as well.

Ms. Helena Jaczek: In terms of the demographics related to some of these suicides related to alcohol use or trauma or chronic disease, do you see a significant difference in terms of economic capacity of the patient? In other words, is there a relationship between income and these situations?

Dr. Norman Giesbrecht: Alcohol problems affect people from all walks of life. Binge drinking is more common among youth and young adults. The chronic problems, of course, because they're chronic, take years to develop. They're likely to be greater among the middle-aged and older. So there's a whole diversity of problems.

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Ms. Helena Jaczek: So there's a price sensitivity to a certain extent, but it seems to impact just about everybody.

Dr. Norman Giesbrecht: A price sensitivity to a certain extent—and of course, the impact on the light drinker is going to be modest; the impact on the heavier drinker is going to be greater. Heavy drinkers are very sensitive to increases in price, so they would modify their drinking.

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

Mrs. Donna H. Cansfield: You identified that there is a correlation between price point and consumption and the ability to pay.

Dr. Norman Giesbrecht: Yes.

Mrs. Donna H. Cansfield: The vast majority of people will have a drink sometime in their life. I would suspect that there's a small percentage, and maybe you know that percentage, of people who abuse this particular substance—and then that sort of fiscal impact on the health care system. I know there are some figures floating around; I've seen some of them. So I think that needs to be taken into consideration, as well, when we're having the discussion.

As you heard, we're talking about the economic viability of a particular commodity and its impact on the livelihood of people who grow that commodity, the people who produce the commodity, and then obviously the people who consume the commodity.

There's a small portion of those who over-consume or become addicted to that commodity, that impacts the social fabric, if you like, of Ontario. Do you know a number? Do you have an idea?

Dr. Norman Giesbrecht: Number? I missed—

Mrs. Donna H. Cansfield: The number of people who are impacted. Are we talking 10% of the population who are addicted to alcohol?

Dr. Norman Giesbrecht: The number I have from the most recent statistics is that about 13% were considered to drink at hazardous or harmful levels.

Mrs. Donna H. Cansfield: Can you define what's hazardous or harmful?

Dr. Norman Giesbrecht: These are people who would be drinking well over the lowest drinking guidelines. The lowest drinking guidelines are around 14 or 15 drinks per week for a male or 10 drinks per week for a woman. They would also be scoring on what's called an audit scale, which asks questions about whether they've tried to stop drinking and had difficulty, whether they feel compelled to drink, whether their physician or similar health care person has spoken to them about their alcohol use, and so on and so forth.

Mrs. Donna H. Cansfield: Do you have a breakdown in terms of the age of that demographic?

Dr. Norman Giesbrecht: No, I wouldn't have it here.

Mrs. Donna H. Cansfield: I would just be curious, because then obviously the marketing, the targeting, would make a difference, wouldn't it?

Dr. Norman Giesbrecht: Yes.

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

We'll go to the official opposition and Ms. Munro.

Mrs. Julia Munro: Thank you very much. As you mentioned, we've had other spokespeople who are stakeholders in the industry and not one looking from this perspective. I was interested in the fact that when you were speaking about the issue around privatization, the way I understood your logic was that there's a greater availability, and it's that availability that is the tipping point in terms of what you see as a result. Is alcoholism a cause or a result?

Dr. Norman Giesbrecht: A cause or result of what?

Mrs. Julia Munro: Are people alcoholics by virtue of being alcoholics, or is it a manifestation of something else?

Dr. Norman Giesbrecht: It's a combination. There are some genetic factors with regard to a person becoming an alcoholic. There are also social factors and group factors.

When I'm talking about availability, the main concern is not necessarily the alcoholic; the main concern is the people who are drinking heavily on occasion, because there's many more of them. If we focus only on the alcoholics, we're missing the point. The availability of alcohol has a ripple effect and increases overall consumption and also increases the percentage of people drinking in a high-risk manner, and therefore has a great impact on the range of problems.

Mrs. Julia Munro: The other question I wanted to ask was, because you mentioned the availability, does that mean if the LCBO goes ahead—I believe, this morning, it was eight new locations—does that create the same availability as it would in another province?

Dr. Norman Giesbrecht: The LCBO, I think, has almost 600 stores right now, and they're adding eight stores. Is that what you're asking?

Mrs. Julia Munro: Yes.

Dr. Norman Giesbrecht: That would not be a dramatic change in availability. If, let's say, these eight stores were the stores that sold the most alcohol—if they were the largest stores—that would have an impact. The bottom line is whether the overall volume of alcohol distributed on a per capita basis in Ontario increases. That's what will drive the increase in the risk.

Mrs. Julia Munro: My final point was when you were talking about the possibility that raising taxes might discourage some people from an increased cost, would you—looking at the issue around taxes on tobacco, what that did was create a huge market for contraband.

Dr. Norman Giesbrecht: The studies that are done on alcohol as far as tax have been the most definitive and the best-quality studies that I know of. They've demonstrated over and over again that the overall sales of alcohol and damage from alcohol, including chronic disease, liver cirrhosis, suicide, homicide, family violence, drinking and driving—all of these things have been impacted by the price of alcohol, which is related to taxes.

There is, of course, some contraband alcohol, but the proof is in the pudding. If you find an increase in tax and you find that these problems go down, then you've had an impact, because the liver doesn't differentiate between contraband alcohol and legal alcohol. So there has been a real impact on overall consumption from the tax policy.

Mrs. Julia Munro: Thank you.

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

Mr. Randy Pettapiece: I just have one question. We talked about Alberta, that they've increased their sales, stores and whatever else, and so their consumption is starting to do this. I would wonder what income has to do with that. We know that Alberta is going through a boom time right now. I would suggest that disposable incomes probably are higher out there than they are in some other parts of the country. Do you have an opinion on that?

Dr. Norman Giesbrecht: Yes. I think that's a very good point. I think that you need to look at both the availability through the density of outlets or the hours of sale or that sort of thing, as well as the availability through income.

What happened in Alberta in 1993 was very curious. They had, I think, a 300% increase in the density of outlets, almost overnight. At the same time, when privatization was introduced in 1993, initially the average price of the highest-volume brands went up. So you had two things working in opposite directions: You had availability increasing through the density of outlets and you had a flattening because the price went up.

I think that you're right: In more recent years, the trend of sales in Alberta on a per capita basis has been steeper than in previous years, and I think that has been driven by a combination of things: the density of outlets and disposable income.

Mr. Randy Pettapiece: I was out in Alberta back in 1974, I think. That was the first time that I'd gone into a bar and was allowed to carry a 12-pack out with me. I'd never seen that done before. Alberta has had outlets available for years other than an LCBO store, if I might use that term. I would suggest that the number of outlets might not have the same impact as increased income would because people, if they've got the money and they want alcohol, will buy it. They're going to get it someplace. That's kind of what my point was on that. Thank you.

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

Mr. Ernie Hardeman: Thank you very much for your presentation. I just have one question. It's on the bottom of page 2, going on to page 3: "Furthermore, the social responsibility activities of the LCBO, in partnership with MADD and other stakeholders, draw attention to risks of over-drinking and guidance on how hosts and other concerned citizens can intervene to prevent alcohol-related harms. The control functions of the LCBO are a keystone of good alcohol policy for the province."

I get a lot of calls in my office about this, as it relates to the next paragraph: "Nevertheless, the dramatic increase in alcohol marketing and promotion in Ontario is worrisome, including ads on transit vehicles, numerous newspaper inserts, and other venues such as YouTube, Twitter and Facebook."

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They're bought and paid for by the same people. Is there a challenge there, that the person who is marketing the product or the company marketing the product and the LCBO is also the people that are put in charge of trying to get me to quit drinking? It's just contradictory, and I'm not going to pay attention to either side of that argument. So I wondered if you could speak to that.

Dr. Norman Giesbrecht: I think that there is a challenge. I know that some years ago, in the early 1990s, there was a lot of pressure to sell more alcohol—at least, that was rumoured. I think that that's possibly when, under a previous government, there was an increase in marketing. I think that from a public health perspective, the people I work with and the people I know from the public health community are concerned about the marketing, and I think that is something that needs to be looked at.

Mr. Ernie Hardeman: We're reviewing the LCBO and whether they're functioning properly or what should be changed to make them function even better. Would it be appropriate to look at taking away one of those two responsibilities? One is to be promoting alcohol and the other is to be telling me to stop doing it. Should that be done through another organization? Does that make sense? I would have the concern that if it was a private business, they would in fact hope that their advertising to get me to quit drinking didn't work very well, so they would buy bad ads. I just think it's unachievable to put their heart in both sides of that story. Could you make a comment on that?

Dr. Norman Giesbrecht: To put it in perspective, while I'm standing by the statement that I think the increased advertising and the marketing and the ads on transit vehicles and so on is worrisome, I would think that if you go south of the border—and in many of the states you do not have liquor boards—and you look at the marketing there, it's much more aggressive. So I think you need to put that in perspective.

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

Ms. Cindy Forster: Thank you for being here today. I, as well, come from a health background. I'm a registered nurse by trade and so the health issues and the social impact issues are very important to me.

In Alberta, in 1993, they privatized. Have there been any studies with respect to—or do they even have any programs such as the LCBO has, in collaboration with CAMH and various other agencies, around responsible drinking, around education of their employees for selling to minors, for selling to people who may be under the influence? I guess the bare question: How effective can that program be when you have 300, 400 or 500 different operators in a kind of independent system?

Dr. Norman Giesbrecht: My understanding is that Alberta does have some programs like that. I referred to some research that has shown that some comparison has been drawn with other provinces, and if the system is sold fully private, there is not the same incentive by the manager or operator of a store to challenge and refuse service. I think part of it is that the staff are not paid very much. I think that the staff are not as committed to that aspect of their work. I think that in many cases, if it's a small store, if it's a mom-and-pop sort of store, you may have family members working there and so on and so forth, so there may be a lot of opportunities, if you will, for the person who is serving the alcohol to look the other way and say, "Oh, well. I know this person. He's probably underage, but he's my buddy," or "He looks a bit intoxicated, but I'll let him go." I think that if you have a government-run system, you're going to have better checks and balances on that aspect.

Ms. Cindy Forster: And is there any kind of government monitoring agency with respect to the privatization of the alcohol system?

Dr. Norman Giesbrecht: They have done periodic reviews of that, and one of the findings from the Economist is that the privatization system did not really generate as much revenue as would have been the case if they had stuck to a government-run system in Alberta.

Ms. Cindy Forster: Thank you.

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

Miss Monique Taylor: Thank you for being here with us today. I'm not sure if my questioning is going to—if you'll be able to answer that in the position that you are in. Please feel free to say so if that's the case.

I am the critic for children and youth services for the NDP and I see a lot of cutbacks for children with mental health issues. In being a new MPP in my area, I also hear of the lack of facilities for people who are facing drug addictions, alcohol addictions, and them not having—I mean, there's the instant detox, but then there are the huge wait times.

What can the government do? Do you find less of a funding impact—are you involved in that aspect of it that you could answer these kinds of funding questions, and what do you see the government doing better to help this system along?

Dr. Norman Giesbrecht: Well, I think you predicted correctly: I'm not in a very good position to answer that question. My training is in sociology. I do alcohol policy research. I'm not a clinician. I think you've touched on a very important point and I think that probably more attention needs to be on these issues and others, but I can't give you concrete on that—sorry.

Miss Monique Taylor: Okay. Thank you. I have no further questions, then.

The Vice-Chair (Mr. Phil McNeely): Thank you very much, Dr. Giesbrecht, for coming in on behalf of the Centre for Addiction and Mental Health.

We'll now take a three- or four-minute recess to stretch. We'll resume in three minutes. Thank you.

The committee recessed from 1448 to 1455.

WINE COUNCIL OF ONTARIO

The Vice-Chair (Mr. Phil McNeely): The next presentation is by the Wine Council of Ontario. You have 10 minutes. State your name as you start your presentation.

Mr. Ed Madronich: Thank you for the opportunity to be here. My name is Ed Madronich. I am the chair of the Wine Council of Ontario. I am here with Hillary Dawson, who is our president. I am also the owner of Flat Rock Cellars, a winery in Jordan, Ontario.

Just quickly on who we are—and I think you all have the presentation. I'll go through the key points within the presentation, not each of the points. The wine council represents over 80 members. The vast majority are commercially active wineries, and we have members throughout the province, right from Windsor to Owen Sound to Prince Edward county. Within the marketplace where all wineries are able to participate, wine council members represent 75% of Ontario VQA wine sales. We are a powerful catalyst for building the brand and the culture of the province of Ontario, and I think that's a really important point as we grow our industry. It's a great cultural element that we're adding to the province of Ontario.

Our industry is one that delivers significant value to the province, and if I may, we are vertically integrated businesses. Unlike most industries where you're a manufacturer, you take products from everywhere, you bring them in and then you ship those products out and you're focused in on just manufacturing jobs—say, the auto sector—we are vertically integrated businesses.

At a winery like Flat Rock Cellars, I employ vineyard workers, who protect the greenbelt and grow grapes. I bring those grapes in. I manufacture those grapes with the harvest team, with winemaking staff. I have a professional marketing and sales department, but I'm also tourism, where I retail it. I obviously also sell those products globally and create a lot of construction jobs. So unlike most industries, we are very strong, vertically integrated businesses. When you sell one bottle of wine, it means jobs throughout that entire value chain.

Just to reinforce that, KPMG recently validated these kinds of results. We've created 1,300 incremental jobs in the past four years. We've created almost $200 million, in this past fiscal year alone, in value to the province of Ontario, and we're growing economic impact where other industries are remaining status quo. That was one of the highlights of the KPMG report.

We have been encouraged with the growth in this economic impact, and for every litre of VQA wine sold, we are generating $12.29 of value-added impact over and above taxes, and that growth since 2007, which is great and exciting for our industry. At the end of the day, we know we are contributing a great amount to the province of Ontario, and obviously more than imported product that's being sold here.

We can summarize our two core concerns under these themes and illustrate our challenges and opportunities, and these are growth, profitability and levelling the playing field.

First, growth: We know we have, over the next three years, about half a million cases, above and beyond what we project to sell, that we need to sell. We'll talk a little bit more about that. We also have a growth in production. We feel there is consumer demand for this wine; we just need an opportunity to sell this wine to keep pace, and we obviously really want to sell it.

Profitability is another challenge, and that relates directly back to our growth. Our biggest challenge: Our ability to continue to maintain or reinvigorate our momentum continues to be restrained by the cost within that system. Today, we'll be talking about those three things.

First of all, just take a look at this chart. I think, visually, this sort of exemplifies the challenges. Vintages is the one channel in which we can grow our premium side of the business—sort of the above $15. When we look at the releases that we've been able to have every two weeks, the number of releases for Ontario wines has remained flat over the past three years, while we see imports continuing to grow. That obviously is a challenge, as we have more and more new wineries who see that as their one channel to be able to retail their products to the citizens of Ontario.

Just to put that in perspective, we talked about those 500,000 cases that we have that are commercially viable and ready to sell over the next three years. If we look at trying to sell those through Vintages, at an average purchase or release of 125 cases, that's an additional 4,000 releases through Vintages alone, and currently we're at about 200 per year. So you can see the magnitude of the challenge that we as an industry face in trying to sell all the product that we have available out there.

The most important thing to understand is that even if a winery does get their wine in—so even if I get my opportunity to sell that, and it sells through, it hits all the targets—there is no guarantee that that wine will be bought again. So for our VQA wineries—I know, as a winery, that my vineyard is coming online again next year. Without a guarantee of a place to sell that wine, it's a real challenge for me as a business.

One of the disappointing things is that some of our most successful wineries that we've seen over the past 20 years are having their most disappointing results in the Vintages channel at this present time.

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Second, one of the challenges we have is accommodating the volume at the price points that we're looking for. A lot of the wineries that are opening up are premium wineries. That's where our success is. We have an amazing place to grow grapes in Ontario, and we're growing these premium, high-quality, award-winning wines that are priced over $15. We need a channel to be able to sell this volume, and we can't just continue to force it again and again through the same channel if there isn't that ability to do so. Distribution is challenging, and getting and keeping those listings is a huge challenge to us as we go forward.

I want to highlight something. We love to compare, as Canadians. We compared Ontario to BC, and I think the next slide really gives you an indication of the embracing that the BC government has done of BC wines. They have a third of our population, yet they have more than three times the listings of the brands per 100,000 people than we do in the province of Ontario. They sell the same amount of VQA wine through the BCLDB—actually, a little bit more—as we do through the LCBO. Again, they have a third of the population that we do in Ontario. The opportunity is there. They give a lot of preferential treatment to the VQA wineries in British Columbia: four free features each year, focuses during periods of sales, where we have one here in Ontario. There are lots of opportunities there for us to be able to grow and see success through this channel.

It is also important for the committee to appreciate the third challenge to our business. The pressure from the government to drive revenue makes the LCBO turn to suppliers for some of that money, a strong incentive to aggressively raise fees. For VQA, it has meant that programs that were designed and implemented for us to grow now have significant fees attached to them. We have done an illustration there on the chart to show you, and basically it shows you that the cost of doing business for us at the LCBO has doubled in the last three years.

I want to highlight a couple of quotes from some of our members, because I think they sometimes say it best.

"From 2008 through 2011, our winery has seen a nearly 60% jump in the cost of merchandising our products at the LCBO. This unsustainable trend is a result of rapid program fee increases and new programming we often feel coerced into participating in. While we cannot be 'forced' to participate, declining an LCBO invitation leaves a feeling of risk that we may not be asked to participate in a more desirable program again in the future, or fear of losing market share to a competitor. Through the time of these rapid fee increases, we have only seen marginal" sales growth of 8% and volume growth of 5.8%.

A second quote: "Small wineries compete on the world stage with very large conglomerates which have endless resources to develop their markets. They can lower price points, buy advertising at the LCBO and spread these costs over large sales volumes. Small producers pay the very same rates, but have nowhere near the sales volumes to justify the costs. On a per unit basis, small wineries pay an extraordinarily high price, and this cost is borne by the winery, not the customer nor the LCBO."

I just wanted to highlight some of the feedback that our members gave regarding the impact to their business on an ongoing basis.

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

Mr. Ed Madronich: Thank you.

Our analysis is clear on some things. Simply opening more LCBO stores will not address our issue—same problem; it's just more stores to deal with. We're hearing that more stores are opening up but no more products are entering those stores. It's the same selection of products, just more stores. Unless there is a substantial shift in the way the LCBO does business, there is no ability for the existing system to accommodate the wine that is available in the marketplace. We will continue to fall behind our competitors, who have far more favourable home market opportunities and programs.

Just so everybody knows, free trade aside, wineries in California have a 60% competitive advantage over me trying to sell in California. The reverse is not true. I have no competitive advantage over a California winery in my home marketplace.

I'm going to quickly skip over to our approach, because I think this is the most important thing that I want to get across. I've heard a lot of talk today about how we are going to change this or how we are going to do this. We have researched and proposed the establishment of private wine shops in support of our goals for growth, profitability and levelling the playing field. First, we know that the province would like to drive more revenue. To us, that necessarily means diversification of access points in a way that is aligned with retail models in other provinces, especially those with wine-producing regions. That diversity of retail offering in those environments has driven great results for their home-market wineries and has been very helpful to observe and understand. In fact, we believe it will add $250 million per year to the province of Ontario in incremental taxation revenue.

We also pursued the development of a model that lessens the burden of risk and capital cost on the public purse. Our model proposes that the risk in investment comes from the private sector.

Finally, we're supported in our model with significant public opinion research, model analysis from Grant Thornton and a significant piece of legal work that looked at the legislative, regulatory and trade issues to satisfy ourselves that what we were proposing was viable, sustainable and would offer the benefits to the province that we believed it would. Essentially, what we're talking about is adding more licences. We have over 15,000 licensees in the province of Ontario that are allowed to sell beverage alcohol direct to consumers. They are currently on-premise. We are suggesting that those licences be extended to sell off-premise as well.

The challenges for VQA wine clearly can be focused for us on opportunities for growth, profitability and levelling the playing field. We have 500,000 cases of wine over the next three years to sell, which we know customers out there want to buy. We know the challenges with the LCBO of accommodating that growth. This is not a criticism of the LCBO on their efforts. They are believers in Ontario wine. I know they want to sell more and more Ontario wine, and they're doing a fabulous job at it. However, we are committed to finding a solution that can deliver increased government revenues, accelerate growth and profitability of Ontario wineries, a greater selection for the Ontario consumer, and generate more employment in key areas of the province, and we believe that our proposal would do so.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. We'll go to the official opposition for the first 10 minutes of questions. Mr. Hardeman.

Mr. Ernie Hardeman: Thank you, Ed, for the presentation. You talk about needing to increase the ability to market that which the LCBO, in your report, says that they won't be able to handle. Obviously, they can handle as many bottles as we can ship them, but they won't be able to market those bottles. Could you just quickly describe to me what that means in changing the marketing structure?

Mr. Ed Madronich: Okay. Right now, the LCBO has 600 or so stores, and as they grow those stores, it's still the same number of SKUs. The shelf space is not expanding. What has happened in the Ontario industry is that we've had tremendous success in the growth of wineries. So all of us wineries want to put our wine in the one retail channel that we can sell in. Unfortunately, they only have a certain amount of opportunities for listings, which means that as more wineries come on, existing wineries lose those listings or the new wineries don't have an opportunity to sell into these stores. I think the BC example demonstrates that they have over 1,000 listings in BCLDB, whereas we have around half of that in the LCBO.

So that really is our challenge: How are we going to accommodate all these great wines that are available and get them to the citizens of Ontario?

Ms. Hillary Dawson: Just let me add to that. I think the real crunch that we're having—you heard the LCBO talk about it today—is that we're a premium price business. We're the highest price points that they sell, on average, in the LCBO, and that lends itself to selling at Vintages. The general list channel is not necessarily set up to accommodate that volume, and what we're saying is, that half-million cases that we're talking about are primarily focused at the premium end. So we see a real challenge in trying to move that volume of wine through a system like Vintages, in particular, which can only accommodate small SKUs, small releases. You can see the numbers and that number of opportunities is not growing over time; the amount of SKUs available that would be perfectly legitimately sold in that channel are not having a place.

Mr. Ernie Hardeman: Going on with the marketing, you speak about 4,000 releases that we need to find a home for; currently, we have 200 per year. Marketing from outside the major marketer in the province, how would I know as a consumer of wine—which I'm not, of course, but if I was looking, how would I find these new releases, not knowing where they're going to be, if they're not sold from central locations? What's the activity that the human being is going to participate in in order to make that happen?

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Mr. Ed Madronich: I think that's a great question. The LCBO does a great job in what it's designed to do. The reality is, when it comes to retailing products, whether it's soap or clothes, there are all sorts of different ways that we can purchase. It can be convenience, where it's 7-Eleven; it can be Costco, which is big bulk; it can be Holt Renfrew; it can be the Gap. There are a variety of different experiences. The LCBO delivers one very, very good experience, which is more of a big-box experience than, "Move lots of cases of wine."

Our proposal is to allow different retailing models to be successful and allow entrepreneurs to determine the best way that they can service their customers. A customer will then, yes, have to go to a bunch of different places, but they will get different experiences, like they would at any other retailing system.

Mr. Ernie Hardeman: This committee, of course, is charged with the responsibility of reviewing the LCBO, how it works and what can be improved to make it work even better. Making the assumption that that's what we're going to do—solve the problems that we hear about within the LCBO—do you believe that there are things that we could do at the LCBO that would accomplish the challenges that you've put in your report?

Mr. Ed Madronich: Certainly there are certain things that we can do at the LCBO. Some of the things that we identify are, obviously, providing more listing spaces for the LCBO. That means reducing the quota, potentially, for some of those Ontario wines. The quota is definitely lower in British Columbia. Obviously, the support programs that we use—the marketing dollars, the VQA support programs—are very, very important to our industry. That VQA support program attempts to level the playing field when it comes to imports coming into the province of Ontario.

Yes, there are certain things that we can do that can enhance. Will we get all the way to where we think this proposal works? We don't necessarily think so; that's why we put it forward. Our belief on this proposal is that it's great for the province of Ontario because it collects more revenue for health care and education. We believe it's great for the province of Ontario because its citizens will get more choice. We believe it's great for the province of Ontario because wineries will be successful and create new jobs in struggling areas like Niagara.

It's sort of a win-win-win across the board, as we see this proposal. We think it's the strongest proposal. Are there other alternatives out there that we can do, that we have to do, I think, if we don't do this? Definitely, there are some things. But we believe that this is the thing that's best for the citizens of Ontario.

Ms. Hillary Dawson: I'd also add to that that we did focus on the cost of doing business at the LCBO. Let's take the pressure off of VQA wines in this channel for costs. We think there are better ways for the LCBO to get the needed dollars for the province without coming to the smallest wineries, to the home team, for those costs, which are incrementally much larger for them than they are for big imports or for blended wines in our marketplace.

Imports are heavily supported in markets. We just ran a big Italian promotion that has been underwritten by the EU. In our industry, we can support these things in a limited way, but the wineries carry the burden rather than the government. Pricing of programming is no concern to big imports, but it is a concern to us.

Mr. Ernie Hardeman: Thank you very much.

Mr. Chairman, I want to correct one of my statements. I believe that's in order. I do drink wine, but I just want to point out that it's always Ontario wine.

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

Mr. Randy Pettapiece: I just have a short question. It seems to me, from what we've heard from your group and the other wine-producing groups, that production isn't the problem here. You have the supply and availability of your product. It seems that we have a marketing problem in this province. I just wonder: Do you have any suggestions you could suggest to the LCBO to help you in your marketing end of it?

Mr. Ed Madronich: I actually don't necessarily think it's a marketing problem. I think there are people out there who want to buy Ontario wines, and the wines are there. I think it's a distribution problem. The fact of the matter is, the LCBO only lists a certain number of Ontario wines. If I live in Thunder Bay, Ottawa, North Bay, I can only get those wines. It's very difficult, unless you call the winery and know the winery and all that stuff. But when their one retailer can only list X number of wines and it's that same number for every single retail store throughout the province, that is a challenge. It is not, I don't think, a marketing problem. I think people want to buy Ontario wines. It is a distribution problem.

I look at my experience when I worked for Vincor. Don Triggs, who was a leader of our industry, always said it's all about distribution, distribution, distribution. That is the key challenge that we have for small VQA wine producers in the province of Ontario, which is the future of our wine industry, because those are the only businesses that have been created in the last 20 years.

Mr. Randy Pettapiece: I guess I used the wrong term here. I should have used "distribution" sort of for marketing—I understand it. Thank you.

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

Mrs. Julia Munro: Yes, just a couple of quick comments. When you talk about the private wine shops, is that what you mean, private?

Mr. Ed Madronich: Yes.

Mrs. Julia Munro: As opposed to outside the LCBO system.

Mr. Ed Madronich: Yes, I mean independent operators opening up an independent wine shop.

Mrs. Julia Munro: Obviously, that would be quite a sea change for many people to accept. I'm just wondering whether or not, when you look at page 9 of your third issue, on the margins and these merchandising costs, is that an interim step? Is that something that should be revisited? And is the reason why there are the 200 labels an arbitrary thing? Is there some reason why it can't go to 300 or 400?

Mr. Ed Madronich: That would be an LCBO question. They can certainly go as high as they want or as much as they can fit into their stores. That's obviously their choice on the number of skews that they're going to put in and what skews they select.

Just to your first comment about the sea change in the way people think of things, I'm going to beg to differ slightly, in that there's actually, when you think about it, 15,000 licensees that currently sell product in the province of Ontario. There are private retailers that already exist. There are 300 private wine shops in the province of Ontario that already exist that sell over two million cases of wine, and I'll talk about that. There's the Beer Store, which is also a private retailer in the province of Ontario. So there is a considerable amount of private retail in the province of Ontario.

The only problem is that the wineries in the province of Ontario are not allowed to sell in any of those channels. Whereas in the market for Ontario wines our Ontario wineries sell about six and a half million cases of wine, five million of those cases are sold by two companies, and the other 1.5 million cases are competed against with everybody in the industry, including those two big companies. So the opportunity to expand is, I don't think, revolutionary; it actually exists in the marketplace.

The government has announced that VQA is its focus, yet VQA is denied the opportunity to have that distribution. The challenge is that the legal framework and the regulations that we work in were designed 20, 30, 40 years ago, and it does not reflect the current marketplace where we have independent small wineries popping up all over the place, which is great to see and it's great for the province of Ontario, but we're functioning with a system that was created 30 years ago that didn't anticipate this great success.

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

Ms. Cindy Forster: If there are 300 private wine stores right now, what do they do about staff education, about monitoring youth coming in to make purchases, monitoring people coming in who may be under the influence? And who picks up the costs currently for making sure that people are educated, and who does the monitoring to ensure that that's happening?

Mr. Ed Madronich: I can speak a little bit to that, because I did work for Vincor, who did own 165 of those stores. Certainly, there is a lot of education on going in and training the staff to make sure they are socially responsible, and we see very little to no issues.

What I will say, and what's very interesting about it, is that I have that responsibility. As a winery, I have an on-site retail store. My licence is tied to my being socially responsible. I terminate people for serving anybody who comes into my winery drunk. There is a zero-tolerance policy at my winery. I would argue that my standards and the standards of all wineries in the province of Ontario are at the highest level, because my livelihood is based on me maintaining that manufacturing licence. If I am socially irresponsible in my service, I lose my licence. So I hear the ma-and-pa operations, which I am, that were more worried about profit; our profit is directly tied to our level of social responsibility.

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Ms. Cindy Forster: When I look on page 9 of your presentation, you've got a cost outlined with your marketing for the LCBO. What does that cost per case or cost per bottle?

Mr. Ed Madronich: There was a great example that somebody gave that they're launching—just to put it in perspective, another example. Maybe, Hillary, you have that one. I'll maybe allow Hillary to give you a clear example of what happened for a Vintages Essential.

Ms. Hillary Dawson: Vintages carries a number of products year-round called Essentials, and one winery sent me the example of when they launched into the Vintages channel. Basically, the requirement was that they take advantage of several opportunities which totalled about $13,000 to launch into the system. Their initial case order was going to be about 300 cases, and they maybe made about $15-a-case profit from that. So $15 a case times 300 is $4,500, with a $13,000 bottom line to get started into the system. So it's very cost-prohibitive. As Ed noted, if we didn't have the VQA support program helping us with some of these challenges at the LCBO, we'd have very few wineries that would be able to participate in the system. That was what we saw before this program, that we couldn't get our best wines into the system because they couldn't afford it. And now, with the cost continuing to go up—sometimes not offering anything new, just offering new cost—that's been really challenging.

Ms. Cindy Forster: And what are the criteria that are used to delist you once you have a listing?

Mr. Ed Madronich: There is definitely a sales quota. The LCBO, I must say, is fair with that. Especially for Ontario wineries, they don't have a sort of zero tolerance if you're below the sales quota. They try to understand the business. They try to work with us to make sure we can stay over the quota. They certainly, in my experience, aren't—you know, if one company's, if one winery's products all fall below quota, they're not going to wipe out a winery, because they know they have some responsibility there. So there are definitely quotas, and there is definitely responsibility on the part of the Ontario winery, but the LCBO works very, very collaboratively with us to ensure that it's a fair approach, for sure.

Ms. Cindy Forster: Thank you.

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

Miss Monique Taylor: Thank you for being here with us today. Previously, when the LCBO was speaking with us, I believe the question was asked, "Could there be wine stores made up within—underneath—the LCBO to be able to deal with these issues?" I believe that they found that it wasn't cost-effective. So how is it that you believe that doing this yourselves privately could be cost-effective when you would now have all of these extra things on top of it that they're already providing, like when it comes to education of your staffing and responsible sales and all of those aspects?

Mr. Ed Madronich: It's a great question. I think Grant Thornton—we asked someone to go and demonstrate to us that it is possible and it is a viable model. There are already 300 independent off-site retail stores that only sell products from one company and they have tremendous success.

The model is very different. The LCBO has an expected return on investment that goes with the capital, that goes with everything. An independent entrepreneur has a very different business model. Their requirements are very different than what the LCBO requires to deliver to the province of Ontario. What's great about this model is that it's the independent entrepreneur who has the responsibility to build that business plan and make it work for them. So they may be the one working the store, they may be doing all of the things that need to happen: They order, they do everything. I think that's what makes it a viable option. We see it in all other wine-producing provinces. These stores exist, and they exist to great success. In British Columbia, in Nova Scotia, we see independent, private wine stores existing, flourishing side-by-side with the LCBO.

This is not competitive to the LCBO; this is an enhancement to the LCBO, and it improves the coffers of the province of Ontario. That's why we firmly believe that this goes back to a win-win: more money for the province of Ontario, more selection for the citizens of Ontario, and great success for Ontario VQA wineries, which means more jobs for the province of Ontario. So we really view this as a win-win. We understand the perceptions around it, and that's why we're here: to try to break down some of those perceptions.

Miss Monique Taylor: Have you had serious meetings with the LCBO, trying to make it work and trying to put forward these proposals to have these separate wine stores, and trying to make that deal work with them? It would benefit everybody and the wine growers at the same time.

I'm sure you could understand that I think the "privatization" word usually is the most fearful for us, especially. Working with the LCBO to try to push forward those pilot programs or things like that may be the win-win for all.

Mr. Ed Madronich: I hope they're smiling behind us. Patrick is smiling. We've only come recently to this opportunity. We have discussed it with the LCBO. I had a conversation with Patrick Ford the other day, and I said, "If it isn't the right thing for the province of Ontario, let's at least have that honest discussion and figure out what is best for the citizens of Ontario."

I am very proud of this industry. We have done some amazing things. Nobody in this province and nobody in our industry knows how good we really are, and I firmly believe that.

We're just trying to find the best way to have wild success for our industry. We're happy to talk to the LCBO. I've had that conversation with Patrick, and I've said that I want to sit down with him and look at it and figure out what is best for the citizens of Ontario. At the end of the day, we believe that this is good government policy. This isn't just good for the wineries; it is good government policy.

Ms. Hillary Dawson: The other thing I'd just like to add is that we have probably one of the best working relationships we've ever had with the LCBO in a number of years. It's not as though we're not collaborating; it's not as though we're trying to sell more wine. We've been very, very successful partners with them, especially over the past several years. I think the challenge is the system, and that's what we're trying to highlight for you today.

If they could sell all this wine, God bless them. Let's do that. That would be easier for everyone. But I just don't think it's set up that way, and I don't think we're set up to be as successful as we should want our wineries to be, for the good of the people in the province.

Miss Monique Taylor: Just as a personal comment, I've become quite the lover of red wine in the past while, and I wish you all the best of success. Hopefully, we will all be able to come together to make a plan that will work for everybody.

Mr. Ed Madronich: Thank you.

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

Mrs. Donna H. Cansfield: Hi, Hillary. How are you?

Ms. Hillary Dawson: Hi.

Mrs. Donna H. Cansfield: It's nice to see you. Thank you for your presentation.

One of the challenges I always have is when people do comparables and they're not apples and apples; they're apples and oranges. A little bit of that is with British Columbia, because British Columbia is a very small province. It has a very small wine business. It does a little export. It has four million people versus 13 million people. I was interested that you did cases but you didn't do dollars.

The other challenge is that the Fraser Institute just put out a report in 2011 looking at the viability of the sustainability of those private wine stores and whether or not they have long-term growth. Like most things, it's new, but it still has to be proven a bit.

I guess one other question you could ask is that the VQA sales that are in the private stores—are they just so much larger than in the BC liquor stores? I suspect that they're not. I suspect they're very similar. Again, those are things we could talk about.

I really wanted to ask you a couple of questions about the issue of supply and demand. At the end of the day, part of the responsibility of the LCBO is to generate sales, to generate dollars. It's a business enterprise. Small vineyards have that challenge just by virtue of their small area. Do you think it's your responsibility, a shared responsibility or just the LCBO's responsibility to market the vineyards?

Ms. Hillary Dawson: The LCBO is the monopoly retailer in this province. They do share some of the responsibility. But we're not just sitting back on our couches waiting for the purchase orders to come in from the LCBO. We're out exporting our wines. We're out hustling to restaurants every single day, where we hand-sell that wine. We're out trying to sell into other provinces. We're out trying to grow that market as much as we can. We're taking advantage of every opportunity.

When we look at the wine that's out there, it's not as though all the wine that we think needs a market has to find it there. We think it has to find it at a whole bunch of places and we're working very, very hard to get out and sell it to those places.

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So it's not solely the responsibility of the LCBO, but I'll tell you, when they have the responsibility, when they're the monopoly retailer for the province of Ontario and it's a pillar of their strategic plan, I think they take it very seriously. I think that they've invested well in it, and I think we've driven good results with the fastest-growing category and highest average price points above imports for a number of years. I think it's a win-win for everybody if they make us more successful.

Mrs. Donna H. Cansfield: I guess I have some challenge when—I mean, they have a significant number of stores, but there are 294, almost 300, stores they don't have that are private. You have direct sales to restaurants; you have your own vineyards that sell direct. They're not the only game in town when it comes to selling wine in this province, so they're not truly a total, absolute, complete and utter monopoly. There are other—

Ms. Hillary Dawson: To my members—

Mrs. Donna H. Cansfield: It doesn't mean that they can't be expanded, but there are other—

Ms. Hillary Dawson: To my members, that is a monopoly, because we don't have access to those 300 private stores. We're not able to sell there. Those are held by two companies that sell the wines of those two companies only.

Mrs. Donna H. Cansfield: Again, that was something that was set up and grandfathered many years ago.

My other question to you: Do you not think that maybe a better route might be to change the opportunity to use more grapes in our wine as opposed to just the wineries themselves? We have about 25/40. Why don't we make that 40/60? I mean, would that not make a significant difference?

Mr. Ed Madronich: Possibly, but again, from our perspective, the future and the government's direction is VQA wines, which is 100%. The reality in our marketplace—you talk about the opportunities to sell. All the wineries after 1993 that were created really can only sell to retails in the LCBO, and that really is the challenge. There aren't all those other markets, there aren't all these other opportunities for the wineries within the province of Ontario to sell. That is the one place that we can do. They have essentially a fixed number of listings that we can retail our wine at, and that's one of the challenges.

Mrs. Donna H. Cansfield: I thought that we just won a fairly significant international award for wine over in France. Don't you have one of the largest exports of ice wine in the world?

Mr. Ed Madronich: Yes, we definitely export ice wine. It's one of our biggest exports, and we are starting to export our table wine more and more, which is exciting for us. What has propelled every wine region's success is having a strong domestic market. So if you look at France, you look at Australia, you look at New Zealand, they all have strong domestic markets where they dominate their marketplace, and have a great, strong mark-up structure like California, which has a 60% advantage. If I want to sell a wine for $20 in California, I'm going to get maybe $8. If they want to sell a wine in California for $20, they get $17 or $15 or whatever it is. They have a substantial advantage within their home market versus us.

Mrs. Donna H. Cansfield: They have numbers as well. But are all your wineries VQA?

Mr. Ed Madronich: Yes.

Mrs. Donna H. Cansfield: There's nobody that uses a blended wine?

Mr. Ed Madronich: No, because I'm not allowed to do blended wine. The challenge is that all the regulations that govern my winery were created 20, 30, 40 years ago and then, when free trade came in, it said, "Okay, all you can do is this," yet all the legislation remained the same. Legislation has not kept pace with the tremendous success that the VQA wineries have had. That's not to say we want to get rid of ICB wines—great; sell them. I'm not allowed to sell them currently. They can sell, they can grow; they can do their thing. However, we need to update the legislation to reflect the policy direction that the Liberal government has said is their focus, which is VQA wines, which we all agree are the future of our industry.

I think everybody who has been up here, all the stakeholders, have all said, "We want to see VQA grow. That is the future of our industry." We all know that that's the future of our industry. Legislation and regulation need to catch up.

Mrs. Donna H. Cansfield: My understanding is that in fact your VQA has grown by 34% in the last number of years, with the new opportunities through the LCBO.

Mr. Ed Madronich: Yes.

Mrs. Donna H. Cansfield: So obviously they haven't been negligent in working with you in terms of promotion of your wines. Again, I get down to that it's an issue of supply and demand and the marketing.

Mr. Ed Madronich: Let's be clear: The LCBO has done a great job with the system that they have. I think the LCBO does a tremendous job. They've grown it; we've outpaced it. We are a higher price point.

The reality is, our industry is different. It's not two or three players. The LCBO has driven sales on a limited number of players, a limited number of wines, because they don't have that ability to sell all 2,000, 3,000 SKUs that we produce. And so the challenge is not a question of whether or not the LCBO is doing a bad job. We're not suggesting getting rid of the LCBO. We think that the LCBO is doing a great job, and we would expect them to continue. We just want to augment the system to allow for more SKUs to be sold, more selection for Ontarians and better growth for our industry.

Mrs. Donna H. Cansfield: Thank you very much, Ed. I'm going to continue to read the ongoing report out of BC around their stores and see again about the viability.

Do you have a question?

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

Ms. Helena Jaczek: Yes, just to follow up: As Donna sort of alluded to, do you know whether the 12 private wine stores that BC has, whether VQA is a higher percentage of their sales compared to BC liquor control?

Mr. Ed Madronich: That's a great question, because I think there's a little bit of a misconception. In British Columbia, there's the BCLDB, which does a tremendous job, as you can see, selling VQA wines. Those are those numbers, those are the number of SKUs, and that's what they sell. They also have 30 VQA wine stores. Those came in a number of years ago and they only sell VQA. It was only recently, in the last four or five years, six years, whatever—it's going fast—that they opened up LRS stores to retail wine. There are more than 400 or 500 of those stores that sell wine, beer and spirits, and they are very, very successful, and they're very, very successful for BC wineries. So the distribution isn't just these VQA stores, which, quite frankly, aren't really profitable. But that's 30 of the 500 or whatever the number is that are outside of the BCLDB. Those VQA wine stores have been there for a number of years.

What has happened recently in BC is that they've opened it up to import and domestic wines—and spirits and beer, quite frankly—and those retailers have been very, very successful. Because the structure is very much like our direct delivery licensees here, domestic wineries have been ridiculously successful in that channel, so it has been a wild success, I would argue. Vineyard prices, just to put it into perspective here: $50,000 and less for vineyard land here in Niagara; $150,000 an acre in the Okanagan. So it has been a wild success, I would argue, in British Columbia.

That, to me, is what we believe we can achieve here in Ontario: wild success. We are so underdeveloped, I believe, as an industry. If we can get the right legislative framework for our industry, we can be wildly successful, and that's what we're requesting.

The Vice-Chair (Mr. Phil McNeely): Thank you very much. Time has run out. Thank you for your very strong voice on behalf of the Wine Council of Ontario.

Mr. Ed Madronich: Thank you.

ONTARIO VINICULTURE ASSOCIATION

The Vice-Chair (Mr. Phil McNeely): The next presentation will be the Ontario Viniculture Association and Mr. Jim Warren. You may start your presentation, and give us your name when you do so for Hansard.

Mr. Jim Warren: First of all, thank you for the opportunity to say a few words today. Most of you people do not know me, so I can give you some background there. I'm the founder of the Stoney Ridge winery. I've been a winemaker for 27 years in Ontario. I've taught winemaking at Niagara College. I've helped at least 10 wineries get off the ground in Niagara and in New Brunswick. I'm an advocate for small wineries. I'm a consumer. I live in Miss Taylor's ward in Hamilton.

You're going to hear from me very much the same kind of thing that you've heard over and over again today, but in my experience as a teacher, repetition really isn't a bad thing.

I'd also like to correct the impression about the Ontario wine industry. It's not 65 years old; our industry goes back to the 1850s, 1860s, and during the 1870s it was extremely vital and vibrant. Our wine industry certainly does predate the liquor control board.

Also, in Ontario, excluding imported wines, there are four kinds of wines: the international-Ontario blends; VQA; 100% Ontario, which may be wines that have failed VQA or which are, because of the grapes involved, ineligible for VQA; and lastly, there are fruit wines: wines made from fruit other than grapes—perhaps honey and maple.

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I think those last two categories usually fly under the radar, and you don't hear that much spoken on behalf of those wineries. Many of them do not belong to the wine council and others cannot belong to the wine council.

In this day and age, one might legitimately wonder why anyone would wish to critique an institution as venerable and financially successful as the LCBO. As a business, it employs a lot of people in Ontario and it continues to grow every year, adding additional wonderful stores province-wide. It makes a good effort to fulfill the expectations of the three groups involved in its activities: the government, which enjoys windfall profits from its operations annually; consumers, who are offered an astonishing selection of products in every price range, which makes the word "control" in its title somewhat of an oxymoron; and its suppliers of various shapes and sizes from countries around the world.

Yet here we are today considering the perception that the LCBO, which sells far more imported wine than local wine—you've heard different figures today; my figures come from the WGAO: approximately 69% to 31%, and in Vintages, 96% imported to 4% local. So it's failing the Ontario wine industry and, likewise, the grape growers of the province. This might have been understandable during our Concord and Catawba past, but I'm not biased when I say that today we are making wines of distinction, truly world-class wines, and our sales history really has never changed to reflect this. This percentage is the opposite of most wine-producing countries, where the sale of local wines usually ranges between 70% and 100% of total wine sales. Ed just mentioned the fact that local wines dominate in so many other countries. Why can local wines not dominate in Ontario?

We have had agreements with the LCBO to change this—Debbie Zimmerman used the word "commitment" a few years back—to hit a target closer to 50% for all Ontario wine sales. This has not happened, and the LCBO has never been held accountable, while sales of imported wine continue to increase and while senior LCBO staff continue to be rewarded with significant annual bonuses—surely a conflict of interest in this day and age, in this economic climate, considering the competitive nature of the business.

The LCBO may well feel that it is doing a fantastic job—and I think most consumers would agree—while the Ontario industry, which sees the LCBO as its major customer and a partner, as well as a competitor, which is a strange relationship, would obviously like to have better sales results in its favour.

There is the feeling that where there's a will, there's a way. First of all, we need the will. As it has been indicated to me today, somebody, somewhere is going to have to sacrifice in order to make things work. To this end, the wine council, the WGAO and the GGO are constantly working for their members to facilitate the growth of the grape and wine industry. I think you've seen the knowledge, the expertise and the passion that the representatives from these organizations have.

Today, I would like to speak briefly on behalf of two other associations, OVA and FWO, that comprise over 100 mostly very small—call them artisanal—wineries, who are located all over Ontario; some in our DVAs, others everywhere from Ottawa to Muskoka to Sudbury and Simcoe, and whose voice is not often heard by the other associations. Some of them make VQA wine, but they also make 100% Ontario non-VQA grape wine and fruit wines—all of which they would like to sell at their one and only retail store to licensees and even to the LCBO. Many of them do not sell in the LCBO system, but they all have a relationship with the LCBO, whether as customer or not, as a result of the LCBO's involvement in regulatory issues, product testing, audits and submissions of monthly reports. These are wineries where the same person who pours samples for you in the tasting room is the winemaker and the sales force, and has to deal with all the paperwork each month as well. Just doing the monthly reports might take a small winemaker up to a day of his time. Well, that's to be expected.

I'm not sure if anyone has analyzed the costs of compliance for small wineries, but I do know that VQA charges are continually increasing as the LCBO tries to recover its own costs, and that testing fees work out to be much higher per bottle for small-volume wines. One wonders if wineries really require auditing every five months—and I understand that may be changing. Perhaps the issue of monthly submissions of documentation should be evaluated.

In the brief time I have today, I'd like to say a few words about the LCBO listing/delisting process and related issues, and comment on government policies involving the LCBO that unfortunately discriminate against many of these small wineries, severely restricting their participation and ability to succeed in this industry.

When we started Stoney Ridge in 1985 as a very small winery, number 18, I was immediately provided with six LCBO listings. Well, times have changed. We now have somewhere near 200 wineries and a listing process that is highly competitive and involved. It's the same for all wineries, who are expected to fulfill a number of conditions, including a marketing plan and an indication of how you will assist the LCBO to sell your product. For wineries—

The Vice-Chair (Mr. Phil McNeely): You have one minute, so if you could sum up.

Mr. Jim Warren: Oh, I've got lots to say. Maybe you can cut down on the questions.

For wineries who have only small volumes of non-VQA wines to sell, this is a daunting task. In truth, the LCBO is not anxious to list such wines, wines that may sell in small volumes and slowly, which is in conflict with their business model; and consequently, listing opportunities are rare.

The process itself requires patience while wines are considered and evaluated, and the answer is, more often than not, disappointing. I was talking with one winery today that had just recently been informed that of their eight submissions to Vintages, one had been accepted. It had nothing to do with the quality of the wine; it was all about their packaging and, perhaps in one case, the price. Wineries are obligated to hold product in reserve, and they may have to do this longer if accepted for a listing. Sometimes the order will not be as expected if the LCBO purchasing budget happens to be tight at that time. These issues help explain why there are only two or three Ontario fruit wines in general list and rarely any in Vintages.

In addition, there is no dedicated shelf space in any LCBO store for such wines, which usually end up being placed beside the ports and sherries. This doesn't help their sales.

In this pay-to-play environment, wineries are expected to participate in merchandising endeavours which small, artisanal wineries find prohibitive. They cannot afford to buy shelf extenders, or end aisles, provide limited-time offers or air miles, or take ads in glossy publications—

The Vice-Chair (Mr. Phil McNeely): Could you wrap up in 20 seconds, sir?

Mr. Jim Warren: Sure. I'll try.

If you read through the balance of the presentation on your own, you'll find that there are certain policies which do discriminate against these small players. They do not benefit via the VQA support program. It means they receive much less of a return when they sell their wine in the LCBO or when they sell their wine to licensees. It makes it very difficult, very uncompetitive for them, trying to sell their wine other than at the retail store. The retail stores are usually out in the boonies. They are extremely fragile. Like many of our wineries, they depend on people getting in their car and driving to the winery to buy their wines. It's a difficult environment.

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The Vice-Chair (Mr. Phil McNeely): Thank you very much. I think we've gone a couple of minutes over there. It'll be the third party and Miss Taylor.

Miss Monique Taylor: Thank you for being here with us today. I hope that you enjoy living on Hamilton Mountain as much as I do.

I realize that you do have quite a bit here to speak about. You were just starting to hit on a topic that—well, not starting. Your whole presentation here is about small wineries and breweries being able to get onto the shelf space. We would like to forfeit our time and give that time to you to please go ahead with your presentation.

Mr. Jim Warren: Thank you. I'll see if I can remember where I left off. I think I was on page 3.

On a $10-bottle sale, which brings a normal return of about $4 to the winery, VQA wines would receive an extra $3 in the special program. That's money which can go a long way to help market products and sustain listings.

In summary, we have wineries which could benefit by some LCBO exposure and sales, which are really not wanted there, which find it difficult to get there, which have nowhere to go if they get there and which, in the end, do not make an equivalent return on their wines as VQA. It's wonderful to support VQA, and these wineries are hoping to move in that direction. But the way it is right now, they may never get there.

If the product does not sell, for whatever reason, delisting can be a financial shock for any winery, which may be left with considerable unsold inventory on its hands as well as the LCBO invoice for putting the wine on sale. Few small wineries can afford to take this risk. Even though producers of 100% Ontario grape and fruit wines contribute only a fraction—in truth—of total wine sales, is it fair that they just accept unequal financial compensation for sales in the LCBO? Would other wineries not complain if these wineries themselves were given special consideration by the LCBO in listing or pricing or shelving?

Our larger wineries, though few in number, benefit tremendously by having considerable shelf space for their blended products exclusively in every LCBO store. I went into one store and discovered that blended wines get 50% more shelf space than VQA. There were only eight wineries represented in all that shelf space. In the VQA section, there were 26—this is an average store—wineries listed. We have 130 VQA wineries. We have 26 on sale in this store.

We are often told that LCBO stores do not have rubber walls and they simply cannot accommodate all of our wineries, yet any attempt to develop other sales channels to do just that is considered a threat to the LCBO's bottom line. To help small wineries, we need other retail options in addition to the LCBO, like the ability to sell at farmers' markets, a program that has been very successful in other provinces and several American states—not in Ontario. An effort to achieve this almost succeeded for Ontario fruit wines on a trial basis, but unfortunately that was rejected in the end by our government.

Since it is so difficult to satisfy the needs of many wineries in the LCBO, it has also been suggested to allow every winery, not just our grandfathered few, to have the opportunity to participate in more than one retail store. I don't know whether that would work or not. It's expensive. Wineries are going to have to pay the cost. But it might end up selling more wine. It has even been suggested that we could sell VQA wines in Brewers Retail stores, a move that would surely increase VQA sales. To increase sales of wine by direct delivery to licensees, it has been suggested to allow all 100% Ontario wines to receive the same financial treatment as VQA. Why should some Ontario wineries pay the LCBO more for direct-delivery sales than others, considering that the LCBO is not really involved in the sale at all and that all wineries have the same expenses? That additional revenue would certainly encourage more small wineries to try to sell to licensees.

I've mentioned some other difficulties which are pretty much to be expected in an LCBO system that is huge. It's for big business. Most of the wineries in Ontario are small business, and that's a disconnect. Something has to be done about it. When you have these policies of government, they're not initiated by the LCBO, but they're policies that discriminate. This has to be considered unfair. It's wrong in this province. Let's give these small players a chance.

VQA wines were small potatoes a few years ago. They've done extremely well. I don't understand why we downplay the quality of our fruit wines in this province, which is so well-known and respected for its fruit.

That's the end of the presentation.

The Vice-Chair (Mr. Phil McNeely): Would you like to continue? Miss Taylor, you have three more minutes. Thank you very much, then. We'll go to the government and Ms. Cansfield.

Mrs. Donna H. Cansfield: Thank you for your presentation. It was really interesting. I have a couple of questions.

Does the LCBO currently sell any fruit wines?

Mr. Jim Warren: There are perhaps two or three in general list, and two of those arrived there because the LCBO had a program for small VQA wineries which would allow them to deliver, themselves, to 10 local stores. This one fruit winery worked extremely diligently to get their fruit wine into 10 stores, knowing very well they weren't going to get much money back, certainly not what VQA wines of the same price would get. And then they pushed the envelope. They got their wines into additional stores, and through very hard work, they have managed to get a general list. That is the exception, not the rule.

Mrs. Donna H. Cansfield: Okay, I guess I share with you—I don't think it's a VQA issue or a fruit wine issue. For example, do you have any surveys that speak to how many people drink fruit wine?

Mr. Jim Warren: I don't think we do.

Mrs. Donna H. Cansfield: I mean, if it's a supply and demand issue—

Mr. Jim Warren: All I can tell you is from my own experience, I started making fruit wines in the early 1990s at Stoney Ridge, and they were always extremely popular. We always sold out our fruit wines.

One wine in particular, cranberry, is probably the top-selling fruit wine in Ontario. It's amazing how many people want cranberry wine at Thanksgiving or even for Christmas. The LCBO has sold this cranberry wine for a number of years. They've never raised the amount of wine that they purchase, even though we have liquor stores that call the winery asking for more wine. We can't deliver it to them. The LCBO doesn't order enough.

Mrs. Donna H. Cansfield: Is that a production issue that you can't—

Mr. Jim Warren: It's not a production issue, no. It's a distribution issue. They won't order enough and they will certainly not repeat a sale, which is strange considering the wine is selling extremely well.

Mrs. Donna H. Cansfield: I'm sorry, by "repeat a sale," do you mean a price point or a price point on sale?

Mr. Jim Warren: No, just a repeat order of that particular product. And Christmas follows very closely on Thanksgiving. Usually the wine is sold out by Thanksgiving and there's no more of that wine in the LCBO system for Christmas.

Mrs. Donna H. Cansfield: So then the LCBO does in fact support and help you in terms of the merchandising, for example, the cranberry wine at Thanksgiving, when there is a supply requirement.

Mr. Jim Warren: I think the LCBO understands very well that these small wineries cannot contribute the financial support that others can, and they have been very accommodating. The LCBO conducts a testing program for fruit wines called the quality-certified program, which is virtually the same as for VQA. But that's where all things end. We can put quality-certified on our label, but there are no financial benefits that accompany that certification as there are with VQA.

Mrs. Donna H. Cansfield: Okay, but that's not a LCBO issue; that's more a policy or government issue.

Mr. Jim Warren: That's true.

Mrs. Donna H. Cansfield: So in fact, the LCBO is doing what they can within their mandate to be able to support you.

Mr. Jim Warren: If they would order more wines, I'd be even happier.

Mrs. Donna H. Cansfield: Okay. Thank you very much.

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The Vice-Chair (Mr. Phil McNeely): Further questions? Thank you very much.

We'll go to the official opposition. Mr. Hardeman.

Mr. Ernie Hardeman: Thank you very much, Jim, for your presentation. I just want to go back a little bit to make sure I understand the issue of ordering the wine, selling it very quickly and then not ordering more. Is that a policy that keeps them from ordering more?

Mr. Jim Warren: Well, that seems to be the way Vintages operates. Unless you are in Vintages as an ongoing listing, which will keep drawing product to fill the shelves, that's the situation. There will not be a repeat order, even if the product sells out very quickly.

Mr. Ernie Hardeman: Let me get this straight now. The problem with shelf space at the LCBO is that we only have room for so many different labels and different types of wine, and you have to, shall we say, buy the space for it. When you have the product there, and the sales are higher than they have taken in—if you put more in than what's sold, you would end up getting it back, right?

Mr. Jim Warren: If your product does not sell, if it's delisted, you are obligated to assist the LCBO financially in reducing the price of the wine. I know of one fruit wine in particular that sold perhaps three quarters of its product over the period of time, and then was told that they'd have to take the balance back, and at a discount. For a very small fruit winery, they would have to more or less pay a fee for the privilege. That's pretty hard to take.

Mr. Ernie Hardeman: I know it's hard to take, but I understand that they have to do that. Obviously, when I have a product that I—

Mr. Jim Warren: Yes, they do. They make an agreement to that effect.

Mr. Ernie Hardeman: Yes. If I have a product and I put it in, shall we say, almost on consignment or that type of thing, obviously if it doesn't sell, I have to find some way to either send it back to the supplier or I have to sell it at a reduced price. I can understand that they do that. But my question really is, why are they inhibited or why can they not reorder? When I get a product in my store and it sells really quickly, the first thing I do is look at how fast it's selling and see how quickly I can get another order in so I won't run out. Why can they not do that?

Mr. Jim Warren: I can't answer your question. I don't know.

Mr. Ernie Hardeman: Okay. Ms. Cansfield's question seemed to indicate that it was something to do with the quality of the product and so forth. But the approval of the product would be there because you've had the first shipment—

Mr. Jim Warren: Right. The product has already been approved, yes.

Mr. Ernie Hardeman: The other thing I just generally wanted to ask—I think you mentioned in your presentation the number of fruit wineries that we have. Do you have any idea what the success rate is? I mean, there must be fruit wineries that start and then, because of the marketing challenges they face, they're not long doing it. Is that a problem?

Mr. Jim Warren: I know of two fruit wineries out of perhaps 20 that are not in business today that were in business perhaps 10 years ago—or eight years ago, in one case. Two fruit wineries, to my knowledge, have failed.

Mr. Ernie Hardeman: When we talk about failed, obviously there's different reasons why people fail. Is it evident that it was primarily the marketing of their product as opposed to the—let's be honest about it—quality of their product, that if the wine was no good, it's no wonder they failed?

Mr. Jim Warren: I don't think that was the case. I firmly believe the quality of Ontario fruit wines has increased dramatically over the last few years. These people were making award-winning wine. They had a pick-your-own apple operation up north of Toronto. They were just too far off the beaten track to bring in traffic. They were not in the LCBO; they could not get into the LCBO.

Mr. Ernie Hardeman: Does the fruit wine industry have any fruit wine on the shelf all the time?

Mr. Jim Warren: In the LCBO?

Mr. Ernie Hardeman: Yes.

Mr. Jim Warren: Yes.

Mr. Ernie Hardeman: Okay. With that, I'll turn it over.

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

Mr. Randy Pettapiece: Yes, just one: What's the volume, I guess, of the wines you're talking about? Is it a big volume in Ontario?

Mr. Jim Warren: No, we're talking about quality, not quantity, for sure. Most of these people are very passionate about what they're doing. When they got started in the business—the government was very fair in allowing them to start, way back in 1993—they were looked upon as, "This is a value-added experience for them." Once they made the investment, they soon discovered that they had bills to pay and they had better start selling more product than they perhaps had envisioned. They, like any winery, have to sell to pay fairly substantial bills. Even though it's a value-added operation for many of them, they still need to make money. They still need to sell their product.

Not only is it difficult for them to get into markets, but when they do get there and they do not make the same return as VQA wines, it's self-defeating. Why would you work so hard to sell your wine and deliver it to a licensee when you're going to be paid less than an equivalent VQA wine? And your wine probably has gone through the quality certification process, just like VQA. It's a 100% quality wine.

Mr. Randy Pettapiece: What I was trying to get at is: Because this, in the grand scale of things, is a small part of the business, maybe it's difficult for the LCBO to designate enough space.

Mr. Jim Warren: I agree. So let's give this part of the business a little better opportunity. We tried that with farmers' markets, an ideal location for fruit wines, but that was turned down by the government.

Mr. Randy Pettapiece: You would prefer that over the LCBO if you had to have a choice, let's put it that way?

Mr. Jim Warren: The two or three wineries that are in the LCBO like to be there. They still would like to make a little more money on their product, compared to VQA. Why not? But certainly farmers' markets give everybody an opportunity to sell more wine on the weekend, let's say, and help them stay in business. It is small potatoes, but that's what these people are all about. Unless they're starting to grow, they really are not an LCBO item.

Mr. Randy Pettapiece: Thank you.

The Vice-Chair (Mr. Phil McNeely): That's the end of questions. Thank you very much, Mr. Warren, for being here on behalf of the Ontario Viniculture Association.

ONTARIO CRAFT BREWERS

The Vice-Chair (Mr. Phil McNeely): We have next—we change beverages here—the Ontario Craft Brewers to make their presentation: Mr. John Hay. You may start your presentation. You have 10 minutes. If others are to join in, just give us your name so that we'll have that for Hansard.

Mr. John Hay: Thank you very much. Mr. Chairman, committee members, it's a pleasure to be here today. Just in terms of format, I'll go through these comments that are handed out quickly. I'm going to ask each one of our members, whom I'll introduce in a second, to make a couple of opening comments. Then we're yours for the rest of the period to answer questions, if that's okay.

Back into this: I'm here with some of our brewers to speak to you briefly about how important the LCBO is to our future. First, I'd like to introduce our brewers. On the far left is Steve Gill, who's the managing director of the teaching brewery in Niagara College; Cam Heaps, who's the president of Steam Whistle; Irvine Weitzman, who's the president of Mill Street; Peter Bulut, who's the president of Great Lakes Brewery; and Sean Fleming, who's the president of King Brewery.

Following my general remarks—I said that; I'll skip that. By way of background, I head up—

Interjection.

Mr. John Hay: Excellent. We wanted to bring beer but we didn't think we could.

Miss Monique Taylor: Oh, you're allowed.

Mr. John Hay: Were we? All right. We'll be right back.

By way of background, I head up the Ontario Craft Brewers Association. We currently have 30 active members, and we are in touch with all of the past members and with the other new operating breweries, of which there are about 15 in total. There are also another seven contract brewers and another 30 in various planning phases. You can have a look at this map. It shows a lot of the operating breweries on this map. It has been handed out, I believe.

In 2011, we had over 700 direct brewery jobs, which is about 25% of the total direct brewery jobs in Ontario. We have about 3% of the share. That is an increase of 400 jobs since 2003, when the key incentive programs were put in place and when our LCBO partnership program began in earnest. We estimate that another 450 new jobs will be created by 2016, five years out. These numbers were done in 2011.

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Our market share is currently about 3%—I mentioned that—and it has doubled since 2007. It's doubling about every five years right now.

We are growing our sales volume at over 10% per year. In the LCBO, where there is an excellent shopping experience, our sales are growing in the 30% to 50% range. This is, by the way, a very good indication of our full growth potential because we are competing alongside numerous import and domestic facings in the LCBO stores. Unfortunately, we do not have anywhere near the same consumer exposure or growth rates in Ontario's bulk beer retail monopoly, as much of our beer is literally behind a wall. That is another key reason why the LCBO has been and will continue to be crucial for us.

In 2007 our craft brewers' premium-priced TBS sales were 150% of LCBO sales. In 2011 they were only 70%. We predict that by 2016 they'll only be 40%. In other words, our true growth potential is expected in the LCBO. Thank goodness it exists. Most of our members sell in the LCBO, while only about half sell in the Beer Store.

We began our partnership with the LCBO in 2003, when we worked together to create a brand called Ontario Craft Brewers, OCB, and when we produced our 10-year strategic plan. I can show you that document after if anybody wants to see it. The OCB branding has worked very well and is receiving recognition far outside Ontario. The strategic plan led directly to an ongoing marketing grant which has helped enormously to build the brand and to grow sales.

A number of LCBO programs have been developed and used over the years, including many staff education sessions, a number of seminars on working with the LCBO, Ontario craft beer bulkhead signage in 90 partner stores, a fixture program featuring Ontario Craft Brewers and numerous free-standing insert publications.

In addition, there has been continually improving access to refrigerated areas—that's very key for us—new local fridge programs and community promotions, 12 Discovery Packs, numerous in-store events, a very comprehensive in-store merchandising program, wonderful co-operation on consumer communications and an ever-increasing focus on LCBO beer-driven promotions. We just had our third annual OCB craft beer launch at the Summerhill beer store and Bob Downey was one of the speakers.

These programs are all outlined in our benchmarking report, which looks like this. If anybody wants to see it afterwards I'll show it to you. It describes in a lot of detail, in the back, these LCBO programs. I don't really want to read it into the record or hand it out in the committee, so I'll show it to you after.

In addition to that, we have excellent access to the management team at all levels and have developed some simple formats for communicating that don't require a lot of paperwork. These processes are very valuable for issue resolution and idea generation.

One last thing that I don't think anybody has spoken much about is the LCBO's responsible use programs, their testing and carding programs and their "There's an elephant in the room." These are very, very good programs, and we commend them for those programs.

The LCBO objective to showcase Ontario craft beer has been and will continue to be a critical step in achieving our vision of making Ontario a North American centre for craft brewing excellence.

Thank you very much. Starting with Steve, I'll just go right across. I don't think we've used up the 10 minutes yet.

The Vice-Chair (Mr. Phil McNeely): No, you have three minutes.

Mr. John Hay: Three minutes, so you've got a few seconds each, guys, and then we're in response mode.

Mr. Steve Gill: One of the main things I'm hearing today is—again, I'm Steve Gill from Niagara College Teaching Brewery—access to market. That's really important for the craft beer industry, to be able to get our product out there and to let the people of Ontario enjoy it.

Mr. Cam Heaps: Hello again. My name is Cam from Steam Whistle. As you know, we operate in an industry with three retail opportunities, one being our own manufacturing retail store, one being through the Beer Store, owned by two of our large competitors, and then the third being the LCBO, owned by the government.

I can tell you, for a brewery that started in 2000, and here we are in 2012, we've been very fortunate to enjoy a strong level of growth and success, and a lot of that could be attributed to the LCBO retail format as well as the strength of the management team over there. It's funny, when you think of a retail operation owned by a government and one owned by your competitor, but considering such, I can honestly say that I believe the LCBO is one of the better retail environments we've worked with across this country.

Mr. Irvine Weitzman: Hi, it's Irvine Weitzman from Mill Street Brewery. As both John and Cam have pointed out, the Ontario Craft Brewers have had significant success over the last few years, and there's absolutely no question it would be impossible without the both early and enthusiastic support that we've had from the LCBO. As Cam points out, the only alternative in a practical sense for us is the Beer Store, where we have, of course, very limited visibility, which therefore depends on your own marketing. And in fact, the LCBO's visibility helps us sell into the Beer Store. Also, I think it's fair to say that as we travel the country—we now sell in most of the provinces, all except Quebec—I think Ontarians can truly be proud of the LCBO's style and ambiance that you see and experience in the LCBO.

Mr. Peter Bulut: Hi. Peter Bulut, from Great Lakes Brewery. My family has owned Great Lakes for over 20 years now and I can honestly say, in the last five to seven years, with the formation of the Ontario Craft Brewers and the support of LCBO, our growth has been its biggest, and primarily the last three years, which is really a direct result of LCBO, which now represents about one third of our business. I can honestly say, in terms of marketing and wanting new products, their arms have always been open.

Some of the comments I heard today actually resemble 2002-03, where, I think, LCBO at the time was the elephant in the room and was a little bit intimidating for a small guy. But as soon as you go knocking on the door, we found that they accepted us with open arms and started craving more products from myself and my comrades. Thank you.

Mr. Sean Fleming: Hi. Sean Fleming from King Brewery. I'm going to echo some of the similar comments made earlier here. As a smaller brewery, though, we face different challenges. From my perspective, the LCBO has been a great partner not only in helping us build brand awareness through their platforms and their selling opportunities, but also through distribution. Quite frankly, we don't have the facilities to store our product, and they've been a great help for us.

Finally, I think it's incumbent upon suppliers and producers like myself to provide great quality product, and if you don't have the product, you're not going to sell it. It's pretty basic. I think the LCBO does an excellent job of weeding out the strong product versus the weak product. Thank you.

The Vice-Chair (Mr. Phil McNeely): I thank all of you. We go to the government, and Ms. Jaczek.

Ms. Helena Jaczek: Thank you to all of you for coming down here. I'm really intrigued about that original 2003 strategic plan that you put together with the LCBO. I've got a series of questions in relation to that, John. Was the initiative essentially from the craft brewers themselves to the LCBO? In the process, it sounds from all your comments that the LCBO was kind of interested and willing and interested in sitting down with you. As you developed that strategic plan, I'm sure you put in place some targets in terms of sales volume and other items. Maybe you could elaborate on those. And over the last nine years, how realistic were those projections, and how have you done? Just so that we get a sense—we've heard from others obviously, VQA and ICB, in terms of their desires to see their market share grow and yet somehow they haven't been able to achieve what they would really like to see. Could just tell us your experience in sitting down, developing that strategic plan, the kinds of projections you put in place and your ability to achieve those?

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Mr. John Hay: I'll answer the last part of the question first, and then I'm going to ask Cam to jump in on the first part because he was very involved in the beginning. This is the plan.

The one thing about the way it started is in many ways the LCBO came to us and said, "You've really got to put a brand together"—Andy Brandt was in the chair at the time—then they helped us with some of the funding and putting the team together, and we had a fabulous team. I'm going to let Cam talk about that in a second. I want to flip over to targets.

The resulting plan called for a spend of around $4 million a year. We secured a grant of about $1.2 million and then that was the main funding. As our brewers grew and as other things came into place, our spend would have increased. The forecasts in there were to hit about a million hectolitres by 2014; we would be at around 450 now. The growth that we would expect in the LCBO far exceeded any of our expectations. You look for growth in the 10% 12%, 15%, 17% range when something takes off. This is really taking off. This industry is on fire. Where the growth hasn't been possible is in the Beer Store, and we haven't had quite as much funding. If, for example, all the beer was sold in the LCBO, we would be well past that million-hectolitre figure now.

We can come back and talk about that at length with everybody, but I think I'm going to flip to Cam for a second and let Cam talk a little bit about this process because he was very involved with it at the time.

Mr. Cam Heaps: The group that put the plan together was a collaboration of the LCBO, the AGCO, the Ontario Craft Brewers, as well as an independent marketing company that had done some work for the LCBO. They took us through—and Bob was there, as well—a strategic planning session, really trying to better understand the market for craft beer, where the consumer trends were going to come, as well as looking at some of the success the Ontario wine industry has had in working collaboratively together, and set a 10-year goal. We're just about there, to sit down and start looking at it again.

Nine years ago was a very different day in our industry than it is today. If we had not had the foresight to get together and put that plan together, we would not be in the position we're in today, which is to continue to move towards a position of leadership in North America. We would be trailing. Right now, we are comfortably in a position to actually continue forward on securing that goal of creating Ontario as a craft brewing centre here in North America. It's a position that is not owned yet in North America, and it's there for the taking.

Ms. Helena Jaczek: So you would attribute a lot of your success to bringing everybody together to the table and moving in concert, essentially, on the objectives that you outlined in your plan.

Mr. Cam Heaps: Absolutely, and it was the LCBO which initiated the first meeting.

Ms. Helena Jaczek: Can you share some of what you're looking for over the next 10 years?

Mr. Cam Heaps: Well, the easiest number to get your head around is market share. Ontario Craft Brewers, 20 years ago, had about as close to 0% of the market as possible, and here we sit today with about 3% of the market. That's happened in a very short period of time. If you look south of the border in the States, the craft brewing market is now representing about 6% of the industry, and if you look at other parts of Canada, it's creeping up over 3%. What's holding us back in Ontario largely is the Beer Store. We should be sitting at around 4.5% or 5% right now. But those are issues for another day.

I think what you'll see is, as the overall beer industry in Canada remains flat, as it has for the last 30, 40, 50 years—depending on whether you get a hot summer, it might flip a point or two north or south—if you look at those overall industry numbers, to have a segment that is on fire and has been growing in double digits for many years and continues to speed up, you can see a really major consumer trend coming which reflects what we're seeing in food: People want to support local and independent. The LCBO seems to be really in tune with that with their retailing and their customers.

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

Mrs. Donna H. Cansfield: Thank you for your presentation. I'll make a comment and then ask you a question. I don't know if one of your unintended consequences is how you market to women, because it's probably one of your more difficult areas; we don't drink a whole lot of beer. But I will tell you, because you are—

Mr. Cam Heaps: You did invent it.

Mrs. Donna H. Cansfield: We did invent it, right. But one of your unintended consequences of being in the LCBO is that I can buy one or two. As a woman, I don't buy 12 or 24 of anything that I don't know what it's going to taste like. So I go and select a little of bit of this, a little of that, and it's great; I love it. I found a great organic beer that's wonderful.

My question to you is around the 450 jobs that you have anticipated in the future. Where do you see that coming and how do you see that evolving?

Mr. John Hay: That's just based on our volume forecasts. We forecast currently for essentially, to use the term Cam was using, two more doubles. Our share doubles every five years, so we'll do two more doubles. That would take us from around 200,000 hecs to 400,000 to 800,000. Some of the jobs will end up in the larger brewers, Steam Whistle and Mill St. They'll be in the Toronto area for sure because that's close to the market. But if you look at distribution curves of how the volume is spread out, it starts to move right across the province. You could easily see almost every reasonable-sized community with a craft brewer. You'll see some farms develop craft breweries as well so that they can do the whole experience. But you could easily see small breweries—not necessarily large, but small, with four to 10 employees—right across the province. In smaller communities, they will become basically the centrepiece, the anchor business in that small downtown community. There's no reason why not. They can sell in their local licensees, they can sell in their local and LCBO stores, and then maybe in the Beer Store. It's a little expensive—well, it's a lot expensive. So yes, the jobs would be right across the province.

Mrs. Donna H. Cansfield: Thank you.

Mr. John Hay: Then, of course—

The Vice-Chair (Mr. Phil McNeely): The time—

Mr. John Hay: Maybe this is too long an answer. But as you heard Irvine say, you could go right across Canada. Maybe I'll let the other fellows comment a bit for a second on this, but there's all of the export potential. Maybe, Irvine, you should just jump in there, or if anybody else wants to.

The Vice-Chair (Mr. Phil McNeely): The time is up for you—maybe 20 seconds or so.

Mr. Irvine Weitzman: I think there's also an interesting peripheral business that has developed as a result of Ontario craft beer. As an example, Steam Whistle developed a terrific tourism business down at their brewery, and Mill St. has brew pubs in Ottawa and in the Distillery District that are creating lots of additional jobs. Most of the brewers have created an atmosphere or a pub or a restaurant or something in their individual riding that have created excitement, in addition to just serving beer.

The Vice-Chair (Mr. Phil McNeely): Thank you. We'll now go to the official opposition. Mr. Hardeman.

Mr. Ernie Hardeman: First of all, just, as they say, a tongue-in-cheek comment: I noticed in the list of your membership that you have absolutely no craft breweries in the Oxford county area. That may explain why I was so interested in your presentation and how it relates to the LCBO.

I think some of you sat through some of the other presentations, and there seems to be a real challenge, particularly in the wine industry, with the number of small wineries and how we get space in the LCBO, in relationship not to our other wineries, but in relationship to imported wines that have, under our agreements—the only outlet in town, shall we say—a right to be on our shelves too. Could you explain to me why it is that the craft beers don't have the same problem as the wineries for getting the LCBO to sell their product?

Mr. John Hay: Well, perhaps the industry—I'll start and then I'll ask people to join me. The industry is a little bit younger. It's a little different. There's quite a bit of shelf space in the LCBO. Now, there are a lot of imports there, there's a lot of domestic on the shelf, so there's shelf space there that we can go after. As Sean says, if our product is good enough and it's promoted well enough, we could get some more shelf space.

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Our focus for change is the Beer Store. It's not the LCBO; it's the Beer Store. We seem to do fairly well. We're growing 30% to 50%. North America is considered now the mecca for craft beer, and Ontario is starting to move into a lead role on that. So that helps a lot. If you look at mainstream products across the States and here, they're all going this way—down. Imports are flat; sometimes up or down. It's a wonderful time for craft beer, so we want to do everything we can to ride that wave and take advantage of that.

I'm going to just flip to Cam or Peter maybe just to add a bit.

Mr. Peter Bulut: Just to answer the question specifically, just from the outside, I don't have much knowledge in terms of the wine, but my question would be: Are these small, artisanal wineries picking up the phone and sitting down with the LCBO and getting the meeting and saying, "Hey, can I be on your shelf?" or is it just a few guys that are doing that on their behalf? Years ago, I used to think of that too, that the LCBO is such a mammoth structure that it's intimidating for a small business owner to even pick up the phone and call the managing people for that department—wine and spirits—and say, "Hey, can we have a meeting? I own X winery. I want to get my liquid on the shelf." That was a big fear for my family's brewery going through the process. You would take a meeting and then you would sort of dabble. But if that's your focal point of sales, you've got to ask the question to the individual wineries, "Were you rejected at the door? Did you even go to the door? Did you even pick up the phone?" That would be my comment.

Mr. Ernie Hardeman: Can I ask, just before we go further: On the actual shelf space or your connection to the LCBO, is that as a group, or are you in competition to each other as to who's going to sell the craft beer?

Mr. John Hay: I'll let Cam start, and then I'll add a bit.

Mr. Cam Heaps: It's a little bit of both. Just to back up, I don't know of a manufacturer in the world, large or small, who wouldn't want more shelf space. That's a fact. There's no one in this room who wouldn't take more shelf space if it was offered to them. Part of the reality of manufacturing a consumer good in any industry is going to be trying to get shelf space. The biggest threat we run up to is an industry dominated by two foreign monsters, and one of their very effective strategies is to dominate shelf space, not so much because it represents the market share in any particular store but because it reduces the amount of shelf space any one of us may get.

With regard to the wineries, I think John has a really good point. We're still very young compared to the Ontario winery industry. Hopefully we'll never run into the same problem they're having now, but we also have one other retail channel, which is the Beer Store.

Mr. Ernie Hardeman: On the same topic, if I were to go into my local LCBO and look at the section that sells the craft beers, would they be primarily Ontario craft beers or would they have imported craft beers there too?

Mr. John Hay: I'll start. There are about 90 stores where there's bulkhead signage, and the bulkhead signage says, "Ontario Craft Beer." Generally speaking, in those areas you will find Ontario craft beer. If that area is not in a cooler, you might find—which is great—some more craft beer in the cooler section. The ideal for us is when the bulkhead signage is in the cooler; that's nirvana. Sometimes, because it's extremely competitive, other manufacturers will try and sneak up and cozy up to our section, because they know there's a lot of action there. So you'll see a lot of that. Everybody has to be vigilant.

Just to answer a bit of your earlier question, we do some things as an association. We do some programs that we purchase with the grant money. We purchase a lot of image programs, which are excellent; shelf extenders, end-of-aisles, that sort of thing. They're all in here. We do those as a group, but then brewers do those on their own. It's very competitive, and we all recognize that. So brewers work on their own, and we do things together.

Mr. Ernie Hardeman: Thank you very much. The reason for the questioning is, I believe that, at least as long as I've been here, you're the first group that's come in here to tell us that your success depended on the good graces of the LCBO, so I think that's very important. If it works so well for you, we, as a committee, need to look at how it works with you to make others work better. That's really why I'm asking those questions.

With that, I'll turn it over to my colleague Ms. Munro.

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

Mrs. Julia Munro: I just wanted to thank you for coming and echo the sentiments made by my colleague Mr. Hardeman. It's a great way to end the day, to have a group come and say that this organization has been able to do for us what we needed done. I just wanted to thank you for that.

And also, just to pass on the fact that I have had beer from the King Brewery and I think that it's really quite a remarkable thing that does tie in with local food and all of this. I think a lot of people are intrigued by the idea that they can buy locally made beer. I'm sure you don't care what the motive is, but I do think that there is some of that novelty. Then people find out they really like it too.

Mr. John Hay: Thank you.

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

Miss Monique Taylor: Thank you for being here with us today. I have to agree that, yes, you are the most positive bunch that has been here today.

Mr. John Hay: It's the beer. It makes us happy.

Miss Monique Taylor: It's the bubbles.

That leads me to my question: Out of the 47, there are how many actual breweries here? One, two, three—

Mr. John Hay: Five.

Miss Monique Taylor: Five. How many of these other ones are just as successful?

Mr. John Hay: Pretty much all. Right now, we're in a phase of the growth curve where very few are failing. Now, they will fail eventually. We're seeing a couple turn over in ownership this year—a couple turned over—because a lot of people want to buy in, so they're adding investors. I get a lot of calls about, "Which brewer should I buy?" or "Who's looking for some capital?"

The odd one fails. Walkerville failed. That flipped over, but now it's back again in Windsor. Steelback went down. A couple of others are back and forth, but not a lot.

The ones that are starting up—you can get numbers up into the 50s, if you really count, and there may even be one in your riding that I don't know about. They haven't failed yet because they're just getting started; some of them are really just getting started. But some will fail, for sure.

It's a high success rate right now and we do try and help and mentor as much as we can. It's a very open, sharing group. If you want to go to a brewery and—if you want to go to Peter's brewery and say you're starting up a brewery and you're going to be a competitor right down the street, he'll help you, or his sister will help you, whatever.

There are a lot of women in the industry as well—a lot of women. It's way more than you'd ever think, either brewing or owning or managing or investing.

Miss Monique Taylor: Well, we did have one in Hamilton in Lakeport, but she sold us off and now I boycott Labatt.

Mr. John Hay: I'll make a comment about that. I can't tell you anyway near what I know, but this is safe to put on the record. If somebody wants a brewery in Lakeport, they're going to have to start from scratch. Forget anything that was there before and start from scratch and do it, and it can be done. It's a great market for craft beer.

Miss Monique Taylor: It's my understanding that they won't allow Lakeport—or sorry, Labatt owns it now and will not allow another brewery to happen in that facility. It's quite unfortunate for Hamilton.

Anyway, I'll let my colleague here finish up with some questions.

Mr. John Hay: Start from scratch. Write that off and start from scratch.

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

Ms. Cindy Forster: How many different types of beers and ales do these 45-plus craft breweries make?

Mr. John Hay: I'll hand you out a little style guide. We're at 150 on a regular basis, and you can add another probably 50 to specialty products. There are all sorts of products that are coming out that are one-offs or you can only get at the brewery. Then if you add all those other small brewers that aren't even on there, you'd be way up in the 100s—way up there. It's constantly changing.

Here, you can send those around. That's a documented list of ones that are available on a regular basis, probably all available in the LCBO. If you look at a BlackBerry or an iPhone and you get our application, you can just click on it and it will show you which LCBO store it's available in or which Beer Store, and which licensee it's available in. It's a huge variety.

Ms. Cindy Forster: How many listings do you actually get in the LCBO out of this?

Mr. John Hay: I'm trying to think of it.

Mr. Cam Heaps: It's a very hard question to answer, because the way the retail environment works in the LCBO is, there are certain flagship stores, then there are certain smaller stores. There are also retail partner stores, all of different sizes. Depending on the store you go into, there's a different number of listings amongst our group.

Ms. Cindy Forster: And you're satisfied with the space that you're currently getting?

Mr. Cam Heaps: Everybody will always want some more retail space, but it's obviously working very well for us.

Mr. Irvine Weitzman: In many cases, the smaller breweries could only handle a smaller number of stores, so it's an ideal system to work your way up through: 30 stores at first, and then, as you expand, you get into a larger and larger number of stores.

Ms. Cindy Forster: In your document here today you talked about the Beer Store and the fact that—is it the inability to actually see your product in the Beer Store?

Mr. Irvine Weitzman: Exactly.

Ms. Cindy Forster: Because I've actually only been to my local Beer Stores that are very old stores, and you really can't see anybody's beer because there are 100 cans lined up on the wall and that's a visual experience, so it's not very esthetically pleasing for anybody. Are there Beer Stores in the province that do it better than others?

Mr. John Hay: Yes. There are about 75 self-serve Beer Stores in which the product is displayed, nowhere near as elegantly as it is in the LCBO. The planning—who gets position A on the shelf—is controlled by our competitors, so that has some impact. They're paid by our competitors.

The other 365 stores or so: There are some where they have some shopping experience in the front. Mostly you'll find the owners' brands there. The rest of the stores are essentially behind a wall, so it's a microphone store. You drop off your empties and you put your order in while the guys behind you complain and the beer comes out, so there's no shopping experience. You can only sell beer in that environment if somebody knows your brand. Cam's beer, Irvine's beer, Peter's and Sean's: It would make no sense for them to put their beer behind that wall, because the consumer won't ask for it. They could work in the self-serves, maybe.

Ms. Cindy Forster: My last question is: What are the 12 Discovery Packs?

Mr. John Hay: A Discovery Pack is a six-pack of beer with six different bottles—sometimes cans—from different craft breweries. We started that with the LCBO. It took a lot of work to get started, but we love the idea and they love the idea. We're on our 12th one now. We do three a year: holiday season, spring and then summer. We're on our summer one now.

Ms. Cindy Forster: That's good. Now the women here can actually go and get a 12-pack of Discovery and not think we're wasting our money.

Mr. John Hay: Yes, you can do that, or you can get empties and fill them one at a time, either at the brewery or at the LCBO. You used to be able to do that at the Beer Store, but they cancelled it. It was too successful.

Ms. Cindy Forster: Thank you very much.

The Vice-Chair (Mr. Phil McNeely): Thank you, Mr. Hay, and all the craft brewers who came in and gave their time today. This was extremely interesting.

I thank all the members of the committee and thank those who came, and the members of the LCBO who were here.

We want to be back at the bus in about 15 minutes. We adjourn this meeting until 10 o'clock Wednesday in Trenton. Thank you.

The committee adjourned at 1644.

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