Legislative
Assembly
of Ontario

Assemblée
législative
de l'Ontario

STANDING COMMITTEE ON GOVERNMENT AGENCIES

REPORT ON AGENCIES, BOARDS AND COMMISSIONS

LIQUOR CONTROL BOARD OF ONTARIO

2nd Session, 40th Parliament
62 Elizabeth II

Library and Archives Canada Cataloguing in Publication Data

Library and Archives Canada Cataloguing in Publication

Ontario. Legislative Assembly. Standing Committee on Government Agencies
Report on agencies, boards and commissions [electronic resource] : Liquor Control Board of Ontario.

Electronic monograph in PDF format.
Issued also in French under title: Rapport sur les organismes, conseils et commissions : Régie des alcools de l'Ontario.
Issued also in printed form.
Includes bibliographical references.
ISBN 978-1-4606-2875-1

1. Liquor Control Board of Ontario--Auditing. 2. Alcoholic beverage industry--Ontario. 3. Alcoholic beverage industry--Government policy--Ontario. I. Title.

HD9364 C33 O56 2013 353.3'7 C2013-964023-1

Legislative Assembly of Ontario

Assemblée législative de l'Ontario

The Honourable Dave Levac, MPP
Speaker of the Legislative Assembly

Sir,

Your Standing Committee on Government Agencies has the honour to present its Report and commends it to the House.

Lorenzo Berardinetti, MPP
Chair

Queen's Park
September 2013

STANDING COMMITTEE ON GOVERNMENT AGENCIES
COMITÉ PERMANENT DES ORGANISMES GOUVERNEMENTAUX
Toronto, Ontario M7A 1A2

STANDING COMMITTEE ON GOVERNMENT AGENCIES

MEMBERSHIP LIST

2nd Session, 40th Parliament

LORENZO BERARDINETTI
Chair

JOE DICKSON
Vice-Chair

LAURA ALBANESE

PHIL MCNEELY

RANDY PETTAPIECE

LISA THOMPSON

JIM MCDONELL

PAUL MILLER

MONIQUE TAYLOR

CINDY FORSTER regularly served as a substitute member of the Committee

---

SYLWIA PRZEZDZIECKI
Clerk of the Committee

ANDREW MCNAUGHT
Research Officer

STANDING COMMITTEE ON GOVERNMENT AGENCIES

MEMBERSHIP LIST

1st Session, 40th Parliament

BILL MAURO
Chair

PHIL MCNEELY
Vice-Chair

DONNA CANSFIELD

HELENA JACZEK

JIM MCDONELL

RANDY PETTAPIECE

PETER TABUNS

MONIQUE TAYLOR

LISA THOMPSON

CINDY FORSTER regularly served as a substitute member of the Committee

---

TREVOR DAY
Clerk of the Committee

LARRY JOHNSTON
Research Officer

CONTENTS

INTRODUCTION

Standing Order 108(f) of the Legislature's Standing Orders gives the Standing Committee on Government Agencies a mandate to review the operation of all agencies, boards and commissions to which the Lieutenant Governor in Council makes some or all of the appointments, and all corporations to which the provincial government is a majority shareholder. In reporting to the House, the Committee may make recommendations on such matters as redundancy and overlapping, accountability, and whether the mandate and role of an agency should be revised and whether the agency should be sunsetted.

In accordance with its terms of reference, the Committee reviewed the Liquor Control Board of Ontario on June 25 (Niagara Falls) and June 27, 2012 (Trenton).

Appearing before the Committee from the Liquor Control Board of Ontario were Philip Olsson, Chair; Bob Downey, Senior Vice-President, Sales and Marketing; Patrick Ford, Senior Director of Policy and Government Relations; Rob Dutton, Senior Vice-President, Finance and Administration and CFO; and Bob Peter, President and Chief Executive Officer.

In addition, 12 stakeholders addressed the Committee: the Centre for Addiction and Mental Health; County Cider Co.; the Grape Growers of Ontario; Mothers Against Drunk Driving; the Ontario Craft Brewers Association; the Ontario Public Service Employees Union; the Ontario Viticulture Association; the Prince Edward County Wine Growers Association; Robert Thomas Estate Vineyards and Winery Inc.; the Spirits Canada Association of Canadian Distillers; the Wine Council of Ontario; and the Winery and Growers Alliance of Ontario.

The Committee wishes to express its appreciation to all the witnesses who took the time to make presentations.

This report presents the Committee's findings on the Liquor Control Board of Ontario. We urge the Minister responsible for this agency to give serious and thoughtful consideration to the Committee's recommendations.

OVERVIEW OF THE LIQUOR CONTROL BOARD OF ONTARIO

Established in 1927, the Liquor Control Board of Ontario (LCBO or the Board) regulates the production, importation, distribution and retail sale of alcoholic beverages in Ontario. The Board became a Crown corporation in 1975 and now operates under the authority of the *Liquor Control Act*. The LCBO is one of the world's largest buyers and retailers of beverage alcohol. Its primary customers are individual consumers, bars and restaurants.

As described in the agency's Mission Statement, the LCBO's mandate is to act as "a socially responsible, performance-driven, innovative and profitable retailer" of beverage alcohol products in Ontario.

The Board's specific responsibilities are set out in s. 3(1) of the *Liquor Control Act*, which provides that the Board is to

- buy, import and control the sale, transportation and delivery of liquor;
- establish retail stores for the sale of liquor;
- authorize manufacturers of beer, spirits and wine to sell their products in stores owned and operated by the manufacturer and authorize Brewers Retail to operate beer stores;
- determine (subject to the *Liquor Licence Act*) the municipalities within which government stores will be established;
- establish prices (identical at all stores) for beer, wine and spirits;
- determine the nature and capacity of liquor packaging, and administer or participate in waste management programs for packaging;
- control the sale and delivery of sacramental wines and appoint one or more vendors of these products; and
- lease or purchase (subject to the approval of the Lieutenant Governor in Council) land and buildings.

The LCBO falls under the authority of the Ministry of Finance. A Memorandum of Understanding, dated March 2010, clarifies the "accountability relationships" between the Ministry and the Board.

Update on Operations and Performance

The Committee's review began with opening remarks from LCBO Chair Philip Olsson. The Chair's presentation focused on the operations and performance of the Board since the agency was last reviewed in 2006.

Management

According to Mr. Olsson, the LCBO's strong performance in recent years can be attributed in large part to sound management practices and high quality personnel. The Chair recalled that when he first joined the Board as vice-chair in 2004, he assumed that the agency's record profits were due to its monopoly position and the mark-ups on alcoholic beverages that were set in consultation with the Ministry of Finance. He no longer holds that 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.

The Chair described a corporate culture that emphasizes constant improvement, a philosophy that has allowed the Board to "evolve with the times and keep pace with its customers' changing expectations." He also noted that this assessment of the Board's approach to management was shared by the firm of Deloitte, which reviewed the Board's operations in 2005.

In Mr. Olsson's view, "the LCBO's performance since 2006 demonstrates continued good management and [the] ongoing improvement that the province expects from its operational agencies."

The Chair also expressed his support for the Board's current President and CEO, Bob Peter. When Mr. Peter arrived at the Board 11 years ago, he brought 34 years of experience in the Canadian retail sector that included time as President of Simpsons and The Bay. In Mr. Olsson's opinion, "the government and the people of Ontario are very fortunate to have such a retail industry expert at the helm of this crown agency."

Social Responsibility

An important aspect of the LCBO's mandate is to ensure that alcohol is sold in a "socially responsible" manner. Central to this role is the Board's *Challenge and Refusal* program, designed to prevent the sale of alcohol to minors and those who are intoxicated. Statistics provided to the Committee showed that

- the number of annual challenges made by LCBO staff had more than tripled since 2006 (from less than 2 million to just under 6 million); and
- the number of individuals refused service had more than doubled since 2006 (from about 125,000 to over 250,000).

According to Mr. Olsson, these numbers are "testimony to the increased vigilance of our staff."

The Board is also actively engaged in public education on the responsible use of alcohol. Specific programs mentioned included the *Deflate the Elephant* campaign, which addresses drinking and driving, and a partnership with the Centre for Addiction and Mental Health to make information available on low-risk drinking guidelines and responsible hosting.

Revenues and Sales

Acting as a profitable retailer is the second half of the Board's mandate. As stated by the Board's Chair, the key measure of the LCBO's profitability is net income (almost all of which is transferred to the government in the form of a dividend).

Figures presented to the Committee in June 2012 showed that the agency's net income had increased steadily over the previous five years, increasing by 27.6% to $1.65 billion in 2011-2012. As a result, the Board was able to transfer

$350 million more to the province in fiscal 2011-2012 than it did in 2006-2007. Sales growth during this period was also reported to have exceeded trends in the overall provincial retail sector by 2% per year.

Expenses

The Board attributes its revenue growth, in part, to improved cost control and efficiency. Mr. Olsson noted in this respect that store labour costs represent the largest component of the LCBO's expenses. Accordingly, the Board attaches a high priority to ensuring that money spent on salaries and benefits is reflected in overall profitability. Since 2006-2007, both the number of units sold and net sales increased at a rate that was significantly greater than the number of hours store employees worked. These figures were offered as evidence of increased labour productivity at LCBO stores.

Better inventory control is also said to have enhanced efficiency at the Board. Over the last several years the Board has made efforts to ensure that product flows smoothly from supplier to warehouse to store shelf. These efforts resulted in a decline in the working capital for inventory from $111.8 million in 2000-2001 to negative $7.7 million in fiscal 2011-2012. In today's dollars, this means a savings of $170 million in working capital, a savings reflected in a reduced need for warehouse space and staff hours to handle inventory.

Pricing and Procurement

Mr. Olsson prefaced his remarks on pricing by acknowledging that prices in Ontario are typically higher than those in the United States. This price differential, he said, is due mainly to the fact that states do not have the same commitment to social responsibility and do not derive the same levels of revenue from the sale of alcohol. Within Canada, however, surveys have consistently shown that Ontario has the lowest retail prices, even when compared with the privatized market in Alberta.

As outlined by the Board's Chair, prices at the LCBO are set according to a fixed mark-up structure, and in accordance with the minimum prices prescribed by legislation. This pricing mechanism performs two functions: it ensures "consistent and fair treatment" of suppliers, and it supports the public policy objective of socially responsible alcohol consumption. The Chair emphasized that successive governments have endorsed this pricing mechanism.

Mr. Olsson also addressed the findings of the Auditor General's *2011 Annual Report*, which suggested that the LCBO could increase revenues by using its purchasing power to negotiate lower quotes from suppliers. The Chair said that the Board is "always interested" in proposals for enhancing revenue, and that it is reviewing the Auditor General's recommendations, as well as other revenue-generating options.

Vendor Funding

Vendor revenues for promotional programs such as air miles, advertising flyers and "sold space" in LCBO stores have increased 62% since 2006-2007 to $110 million annually. Mr. Olsson stressed that these figures should be kept in mind when considering the Auditor General's comments on the Board's procurement practices. Although the LCBO does not always obtain the lowest possible prices from its suppliers, the Chair suggested that this is "heavily offset" by the $110 million in vendor funding.

Ontario Wine

One of the LCBO's strategic objectives is to promote the sale of Ontario wine, and in particular, Vintners Quality Alliance (VQA) wine (wine produced from 100% Ontario grape content). Mr. Olsson noted that this objective reflects both government policy and increased customer demand.

To meet this objective, the LCBO offers a wide range of programs. For example, Ontario wine is prominently displayed in stores, staff receive education about the different types of Ontario products, and there is an annual *goLOCAL* campaign in the fall. These efforts were said to have contributed to a 101.1% growth in VQA wine sales since 2006-2007, a figure that contrasts with the 24.7% increase in imported wine sales over the same period.

Ontario Craft Beer

Craft beer is the only sales category that has out-performed VQA wine over the past six years. Sales have grown by 50% in each of the past few years, and by 421% since 2006. The LCBO promotes craft beer in much the same way it promotes Ontario wines.

Support to Charities

Although the LCBO does not make charitable donations (all profits are transferred to the province), staff and customers do engage in fundraising for various charities. In 2011-2012, over $6 million was raised for the United Way, Mothers Against Drunk Driving (MADD), Ontario Children's Hospitals and other charitable organizations. This represents a four-fold increase from 2006.

Environmental Programs

In the opinion of the Board's Chair, "Ontario has the best recycling system for beverage alcohol containers of anywhere we know." He noted that, prior to 2007, alcoholic beverage containers sold at the LCBO were recycled only through municipal curbside Blue Box programs, achieving a landfill diversion rate of 67%. Today more than 80% of LCBO containers are being diverted through the Ontario Deposit Return Program (introduced in 2007). In addition, some containers continue to be recycled through the Blue Box, a program the LCBO funds through Stewardship Ontario. These programs have achieved a combined return and recycling rate of 93%.

Customer Satisfaction

The LCBO's most recent annual consumer tracking survey revealed that customer satisfaction sits at 84%, up from 74% in 2006. Mr. Olsson said these results reflect the Board's "preoccupation" with customer service. Consumer-oriented service, he said, is why the LCBO is frequently cited as a retailing leader in such areas as supply chain, marketing, consumer research, staff development, and store design.

Concluding Remarks

Mr. Olsson concluded his opening remarks with the following assessment of his agency's performance:

> 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.

STAKEHOLDER TESTIMONY

Support for the Ontario Wine Industry

A recurring theme during the Committee's hearings was the question of whether the LCBO is doing enough (or too much) to support the Ontario wine industry. The testimony on this issue is summarized below.

Current Programs

Many LCBO programs that support the Ontario wine industry were mentioned in the course of the Committee's hearings. Some of the programs highlighted by Board officials and by stakeholders are noted below:

- *Shelf Space*: In 2010-2011 the LCBO worked with stakeholders to expand the shelf-space devoted to Ontario wines. The Board says that the retail space afforded local products generally exceeds their market share.
- *Prominent Display*: Ontario wines are given the "best retailing space," typically at the front of the store, and more than 250 LCBO stores provide special VQA wine displays. All of the LCBO's new stores have larger VQA sections; renovated stores also provide more space for VQA wines.
- *Free Delivery*: Imported wines must pay for their freight, which in turn is marked up; Ontario wines are not charged for their freight and it is not included in the pricing formula.
- *Licensee Discounts*: Licensees (bars and restaurants) receive a 10% discount on the retail price of Ontario wines versus a 5% discount for imports.
- *Best of Ontario*: Four LCBO stores have a Best of Ontario section dedicated to Ontario wine; three more are planned for 2011-12. The products in these sections are grouped by grape variety to facilitate shopping.
- *WOW (World of Ontario Wines) Leader*s: 300 LCBO store employees are trained and designated to promote Ontario wines with customers and colleagues.
- *Ontario Superstars*: Two Ontario VQA wines are highlighted each month in more than 290 LCBO stores, with dedicated shelf space and free promotional materials; a Superstar wine is featured in every issue of *Food & Drink*.
- *Annual Promotion*: Every fall, Ontario wines and wineries are highlighted in all LCBO stores as part of the annual *goLOCAL* promotion (no other jurisdiction receives this type of promotion). Ontario wine sales increased by 8.7% during the 2010 promotion.
- *VINTAGES VQA Programs*: Ontario wine regions and new VQA wines and producers are featured monthly for customers through regular VINTAGES programs such as Alanna's Pick, Local Talent and VQA Flagship In-store Discovery.

- *Go-to-Market*: Small wineries are able to deliver directly to local stores (local to the winery) and to larger stores in metropolitan areas like Toronto and Ottawa. The idea is to give new producers an "in-store presence" that will help them grow sales for wider distribution.

In the Board's view, a comprehensive range of programs, together with staff training, have contributed to a significant increase in Ontario wine sales in recent years, particularly in the VQA category. The Committee received the following statistics:

- More than 900 different Ontario VQA wines from over 80 different wineries were sold in the LCBO in 2010-2011.
- Ontario VQA table wine sales in 2010-2011 grew by 14.8% over the previous year; VQA sales are up 18.5% so far this year.
- Total Ontario wine, including International Canadian Blend wines, grew by 6.9% over 2009-2010.
- The number of Ontario table wines available in LCBO stores in 2010-2011 increased from 431 to 461 over the previous year (291 of these were VQA products).
- Ontario wine listings increased by 7%, and VQA listings increased by 13% from 2009-2010.
- VQA wine sales (as noted by the Chair) have increased by 101.1% since 2006-2007.[1]

Program Costs

Ontario wineries testified that high program fees at the LCBO now represent a significant business cost for domestic producers. The Wine Council of Ontario, for example, presented a chart showing that the cost of doing business with the LCBO had doubled in the previous three years. Government pressure on the Board to boost revenues, the Council said, is to blame for the most recent round of "aggressive" fee increases.

To illustrate its concerns, the Wine Council quoted two of its member wineries:

> 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

[1] LCBO presentations to the Standing Committee on Government Agencies, June 25 and 27, 2012; and *LCBO Annual Report 2010-11*, p. 32.

> 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%.
>
> . . .
>
> 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.

In the same vein, the Prince Edward County Winegrowers Association said that the cost of retailing wine with the LCBO has become "prohibitive." In the Association's view, the opportunities to participate in promotions such as in-store tastings are limited, the procedures attached to them are complicated and time-consuming, and there is a lack of consistency in the way wines are retailed at LCBO stores. The Association said "It is incumbent upon the LCBO to offer practical and affordable options for small Ontario producers."

Market Share Targets

Wine producers and grape-growers maintain that the province and the LCBO should be doing more to increase Ontario's market share. They backed this up with figures showing that imported wines currently account for 69% of LCBO sales, while Ontario wines represent 31%.[2] The disparity is even greater in the VINTAGES category, where imports make up 96% of sales and local wines are 4% of the total. This situation was compared with that in other wine-producing jurisdictions, where local wines dominate their respective marketplaces.

Several witnesses spoke to this issue in the context of a strategic plan that was adopted over a decade ago by winemakers, grape growers, the LCBO and the provincial government. As described by the Grape Growers of Ontario, *Poised for Greatness* set out a course for developing the wine industry over the ensuing 20 years and set specific targets that were to be met incrementally until 2020. At

[2] See the presentations of the Winery and Growers Alliance of Ontario, the Grape Growers of Ontario, and the Ontario Viticulture Association. Robert Thomas Estate Vineyards and Winery said that the market share for Ontario wine has declined to 39% today. According to the LCBO, however, using criteria agreed upon by the LCBO and the government, Ontario wines currently hold a 43% market share.

the time the plan was adopted, Ontario wines accounted for 42% of all sales. The plan called for Ontario's market share to grow to 50% of sales by the year 2011.

If one accepts the industry figure of 31%, the market share for local wines has declined significantly in the years since the 50% target was set. Although the industry admitted that the LCBO is not entirely to blame, it did advocate a stronger commitment to specific targets. The Grape Growers of Ontario, for example, made the following 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.

The Grape Growers acknowledged, however, that, to achieve a 50% market share for Ontario wine, "that may mean giving up some of the shelf space of the importers or the blenders to 100% Ontario grown."

The Winery and Grower Alliance of Ontario recommended that the LCBO "incorporate VQA and International Canadian Blends targets as a significant part of [its] performance management and bonus system for fiscal 2013-2014."

Red Tape

Several stakeholders testified that regulatory compliance costs are acting as a barrier to growth. For example, a common complaint made to the Winery and Grower Alliance of Ontario is that wineries are subject to duplicative audit requirements.

The Prince Edward County Winegrowers Association noted that all wineries are required to report retail sales to the LCBO. These obligations include filling out, every month, a three-part spread sheet listing every wine produced by the winery and how much was sold through retail outlets and licensees. One small winery owner said that it takes her staff two full days each month to meet these reporting requirements.[3] She also said that many producers now use a computer program known as POSsimplicity, a data management system developed in Niagara that keeps track of retail information, but the LCBO does not accept data collected in this format.

Speaking on behalf of the more than 100 small artisanal wineries in Ontario, the representative from the Ontario Viticulture Association said:

---

[3] Lynn Sullivan (Prince Edward County Winegrowers Association), Trenton, June 27, 2012.

> 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.

LCBO Response

Board officials responded to a number of these stakeholder concerns in their return appearance before the Committee in Trenton.

On the subject of program costs, the Board noted that, in fact, the fees for some of the agency's most popular programs, such as limited-time offers, end-aisle participation and shelf-extender participation, have not increased since 2010. New programs have been introduced, but these are optional.

The Board also said it is well aware of the burden imposed on smaller operations by forms and other compliance obligations. (Officials noted that this information is collected for the Alcohol and Gaming Commission of Ontario and for the revenue group at the Ministry of Finance.) The Board's vice-president of finance informed the Committee that his department is currently working on "slimming down" the forms that wineries must complete, and that there "will be some good news in a month or two for them on that front."

The Board acknowledged that Ontario's share of the marketplace (43%, according to the Board) does not represent the kind of increase that had been hoped for when *Poised for Greatness* set the 50% target over a decade ago. (One of the reasons for slower than expected growth, it was noted, was three crop failures over this period.)

It is the Board's position, however, that market share alone should not define success. As stated by the director of policy and government relations:

> [I]t's the LCBO's strong view that market share is not the metric that we should be using for measuring performance and success and growth within this industry. . . . In order for us to achieve rapid growth towards 50% or whatever kind of market share, we would have to restrict, remove, reduce the sale of the wines that those customers want in our marketplace. Our view is strongly that instead what we should be measuring is the absolute growth by dollars – in

> other words, that's focusing on premiumizing, selling more 100% VQA wine – instead of solely basing it on market share. Through recent discussions with the industry and with the government, there's a consensus that our focus should be on absolute dollar sales growth, rather than worrying about whether or not imported wines are popular at this stage.[4]

Board Chair Philip Olsson urged Ontario producers to look to the export market for future growth:

> We've got to face a fact, and the fact is that the government has put almost innumerable programs in place to help an industry mature. There's a very large subsidy. . . . One of the consequences has been that it is so easy and profitable to perform in this market that we've failed in our very first objective, which was to create a globally competitive industry, because they don't export. They don't even export to Quebec.
>
> As someone here on the panel said, sometimes people need a little shove. We accept that. We get shoved a lot. Maybe you just need to shove the industry a little bit – personal opinion.

New Retailing Options

Some within the Ontario wine industry firmly believe that new retailing options, beyond the LCBO framework, are the key to growing domestic wine sales. Options mentioned during the Committee's review included private wine stores, farmers' markets, and convenience stores. For its part, the LCBO has announced that it will open dozens of new stores over the next two years.

New LCBO Stores

One of the findings of the Drummond Report was that the Board should consider growing its bottom line by pursuing a "more aggressive store-expansion program while continuing to promote socially responsible consumption."

The Board said it was "delighted" with this recommendation, and noted that it has been negotiating with the government for years to substantially expand its retailing program (the LCBO typically opens between 15 and 18 new stores each year). As a result of these negotiations, the LCBO will be opening 70 new stores

[4] Patrick Ford, June 27, 2012.

over the next two years (35 in each year); it is estimated that the 20,000 linear feet of new shelf space will increase Ontario wine sales by $3.5 million.

Private Stores

The Wine Council of Ontario, which represents the majority of commercially active wineries in the province, argued that the existing retailing model is stifling the growth of the domestic wine industry:

> 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.

The solution, the Wine Council said, is for Ontario to introduce private wine stores. Specifically, it proposed that existing licences for on-site stores (stores operated by wineries on their own vineyards) be extended to authorize the sale of wine off-site.

According to the Council's projections, the additional sales generated through retail diversification would add $250 million annually to provincial tax revenues, provide greater selection for the consumer, and create employment in key areas of the province. Moreover, the Council said that retail diversification is supported by public opinion data; research it commissioned on regulatory and trade issues concluded that the proposal is "viable, sustainable, and would offer . . . benefits to the province." The Council also said that private wine stores in British Columbia, Nova Scotia and Quebec are "flourishing" alongside government-operated outlets.

The Prince Edward County Winegrowers Association proposed the creation of a centrally located Prince Edward County wine store as a means of supporting local businesses, and as a way of serving visitors who do not have the time or fuel to visit on-site wineries. A new retail outlet is needed, the Association said, because local LCBO retail outlets (Trenton, Picton, Belleville) offer only a small percentage of locally produced wine. As a result, most small producers in the region have to rely on their on-site winery stores.

On the other hand, private wine stores do not have universal support within the industry. For example, the Winery and Grower Alliance of Ontario told the Committee that

> 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.

The Grape Growers of Ontario said that private stores "would just continue to dilute the marketplace." One winery suggested that, "rather than reinventing the wheel with a new model of fine wine stores that will be selling both domestic and imported wine," it would be better to follow the recommendation of the Drummond report (i.e., more LCBO outlets).[5]

Farmers' Markets

Several stakeholders supported the sale of Ontario wines at farmers' markets, but expressed frustration with getting this proposal off the ground.[6] From the Ontario Viticulture Association:

> 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.

Convenience Stores

A perennial issue is whether convenience stores should be permitted to sell alcohol. In July 2012 the Ontario Convenience Stores Association released a petition, signed by 112,500 Ontarians, calling on the government to extend the

---

[5] Robert Thomas Estate Vineyards and Winery.

[6] Winery and Grower Alliance of Ontario; Grape Growers of Ontario; Ontario Viticulture Association; Prince Edward County Winegrowers Association.

province's alcohol retailing system to convenience stores. Association CEO Dave Bryans made the following statement at that time:

> The alcohol retailing system in Ontario was designed in 1927 – 85 years ago – and hasn't fundamentally changed. But Ontarians are now speaking loud and clear: It's time we moved the discussion forward on modernizing alcohol retailing in Ontario to include convenience stores. The people who have signed this petition are New Democrats, Liberals and Conservatives. They're parents, neighbours and responsible adults who want the same simple convenience that their friends and relatives outside Ontario enjoy.[7]

Of the stakeholders appearing before the Committee, only the Wine Council of Ontario explicitly endorsed adding convenience stores to the province's alcohol retailing network.

LCBO Response

In its response to stakeholders the Board noted that any decision to alter the existing retail framework rests with the government, not the LCBO. It was acknowledged, however, that the Board is usually consulted on such matters.

The Board made two general observations. First, it is the Board's view that Ontario producers have the best retailing opportunities within the LCBO system. The current system allows them to grow and compete – with the assistance of the various LCBO support programs – against the best products in world. Outside that system, local producers would be operating in an isolated setting that is very competitive in terms of pricing, packaging, and marketing.

It was also pointed out that an expanded retail system would mean more alcohol sold in an unregulated environment. Currently, alcohol is sold through a mix of public and private stores. Contrary to popular perception, the LCBO represents less than half of the actual number of outlets in the province, with The Beer Store, on-site wineries and duty-free outlets accounting for the majority. A less regulated market, the Board suggested, could have a negative impact on socially responsible consumption.

Private Stores

Board Chair Philip Olsson observed that only the Wine Council of Ontario recommended a fundamental change to the current retailing system. He also noted that the Wine Council itself acknowledged that as much as 85% of the

---

[7] As reported in "112,500 Ontarians add their voices to call for beer and wine in convenience stores," *Freeourbeer.ca*, July 25, 2012, http://freeourbeer.ca/home/2012/07/25/112500-ontarians-call-for-beer-and-wine-in-convenience-stores/, accessed September 11, 2012.

product sold at private stores would be imports, leaving only 15% for Ontario wine. This has been the experience in British Columbia, he said, noting as well that revenues to the B.C. liquor board have been dropping steadily since private stores were introduced several years ago.

Farmers' Markets

The main issue here is public health. When asked how wine sold at farmers' markets could be quality tested, the Board's Chair said he "doesn't have an answer to that 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[s] has been."

Convenience Stores

The Board expressed three concerns with the proposal to expand alcohol retailing to convenience stores. First, from a social responsibility point of view, it was suggested that the experience in jurisdictions that have allowed convenience stores to sell alcohol "has not been a happy one."

Board officials also said it would be unreasonable to expect a convenience store (or any other private retail outlet) to promote Ontario products. As noted by the director of policy, "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, he said, lend themselves to the sale of high-volume, low cost foreign products.

The Board's third concern with the convenience store option is the significant impact it would have on LCBO profitability and the dividend transferred to the province.

Committee Recommendation

Ontario's wine industry has expanded dramatically over the last 40 years, with the number of wineries increasing from fewer than 10 to more than 180 during that time. Craft brewers and cider producers are now experiencing similar growth.

This expansion makes it difficult for the existing retailing framework to accommodate all the wines, ciders, craft beers and distilled spirits produced in this province. Small producers face the particular challenge of competing for limited shelf space with large, well-established operations.

Stakeholders appearing before the Committee presented a number of options for change that would, in their view, enhance the ability of small producers to retail their products outside the existing LCBO structure. LCBO officials, on the other hand, cautioned that there may be unintended consequences associated with these proposals. Moreover, the changes could not be implemented overnight.

We believe these issues warrant further consideration.

RECOMMENDATION

The Committee recommends the immediate creation of a Market Access Task Force composed of representatives of the Ministry of Finance, the LCBO, small volume wine, beer, cider and spirit producers, regional tourism organizations and local Chambers of Commerce to address issues pertaining to access to local retail opportunities for small businesses producing 100% Ontario content wine, beer, cider and spirits in compliance with Ontario's international trade obligations.

The Committee recommends that the Task Force's terms of reference include

(a) a consideration of greater access to local retail markets by small wine, beer, cider and spirit producers, including the associated legislative and regulatory changes; and

(b) the study of changes that may be appropriate to the system for determining the location of agency stores and the process for awarding the relevant authorizations.

Agency Stores

The LCBO's agency store program was established in 1962 to service those areas of the province where the population could not support a regular LCBO outlet. Agency stores operate in conjunction with an established retailer, such as a general store. Beverage alcohol is purchased by the agency store operator from the nearest LCBO store at a discount, and resold in the agency store at the same price as in regular LCBO stores.

Originally located in northern Ontario, agency stores began operating in southern Ontario in the 1990s as a low-cost way of servicing small communities. At the time of the Committtee's review, 217 agency stores were generating about 2.4% of the LCBO's total sales.

OPSEU's Presentation

The LCBO's agency store program was the focus of the presentation made by the Ontario Public Service Employees Union. OPSEU represents more than 6,000 employees working at LCBO retail outlets, distribution centres, and head office.

OPSEU maintains that the province could "substantially" increase its revenues if it were to convert high-earning agency stores to regular LCBO outlets. The union noted by way of background that although the agency store program in northern Ontario has remained largely unchanged since 1995, 141 new agency stores have opened in the southern part of the province since that time, and that some of these are located in close proximity to existing LCBO stores. OPSEU described this trend as "privatization through the backdoor."

According to union figures, an agency store in southern Ontario generates average annual sales of $1.3 million. In total, these sales represent 90% of the $200 million in sales from all agency stores.

OPSEU estimates that there are approximately 100 agency stores in southern Ontario that could be repatriated into the public system. Each of these stores has annual sales in excess of $700,000, and the 100 stores combined generate sales of $161 million. The union says that if these stores were brought into the public system (by opening LCBO outlets when agency contracts expire), the province could reap an additional $340-$370 million cash dividend over the next ten years.

OPSEU recommended that either the LCBO or the government initiate an immediate review of the agency store program, with a view to returning "unrecovered revenues" to the province.

LCBO Response

LCBO officials addressed two aspects of the OPSEU presentation. First, it was noted that the Board is not expanding the agency store program. Although new stores have opened since 2003, these were approved under a previous government.

Second, the Board questioned certain assumptions underlying OPSEU's revenue projections. For example, the union's analysis appeared to assume that new LCBO stores would capture all of the beer sales from the former agency stores. In fact, beer sold at agency stores is provided by The Beer Store, a private company. Accordingly, beer revenues should have been deducted from the union's estimates of agency store gross sales.

More generally, the Board's Chair made the following observation about the OPSEU proposal:

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

Mr. Olsson also pointed out that, if the LCBO were to invest in new government-run stores in small communities (which might or might not need them), it would have to explain this decision to the people in high-growth communities such as Brampton and Milton.

Pricing and Procurement

The Auditor General's *2011 Annual Report* included the results of a value-for-money audit of the LCBO's new product procurement program.[8] Among other things, the report considered the Board's purchasing and pricing practices. This part of the report received some coverage in the news media.

Under the *Liquor Control Act*, the Board has power to set retail prices for the products it sells. In accordance with its mandate, prices are set to promote social responsibility in the sale and consumption of alcohol and to generate revenue for the province. As described by the Auditor, however, the Board's procurement practices could be viewed as counterintuitive. Rather than using its purchasing power to obtain products from suppliers at the lowest possible cost, the Board instead works backwards from a pre-determined retail price:

> The LCBO's purchasing process differs from those used by private-sector retailers. In the private sector, retailers attempt to buy their products at the lowest possible cost. Although one might expect the LCBO – one of the largest purchasers of alcohol in the world – to follow a similar approach, the LCBO's purchasing process does not focus on cost. Instead, it focuses on the retail price it wants to charge for a product. Suppliers submit a retail price within an established retail price range set out in the LCBO's call for products and then work backwards, applying the LCBO's fixed-pricing structure to determine the wholesale cost they will charge the LCBO. If a supplier's cost quote results in an amount that does not match the agreed-upon retail price, the LCBO will ask it to raise or lower the wholesale cost of the product. . . . [We] found examples where suppliers submitted wholesale quotes that were significantly lower or higher than what the LCBO expected, so the LCBO requested that the supplier revise the quote, which effectively either raised or lowered the price it paid the supplier for the product.[9]

The Auditor recommended that the Board implement, on a trial basis, a strategy that enables it to more fully exercise its purchasing power. Specifically, the Auditor said the Board should allow suppliers to offer their products at whatever cost they are willing to accept in order to have it sold at the LCBO, and then apply a *variable* mark-up to arrive at the desired retail price. (A variable mark-up could be set higher than the current fixed mark-up, thereby allowing the Board to purchase products at a lower cost while maintaining minimum retail prices.)

---

[8] Auditor General of Ontario, *2011 Annual Report*, Chapter 3, Section 3.08.
[9] Ibid., pp. 187-188.

Although the Auditor's proposal would not mean lower prices for consumers, it would allow the Board to increase profitability by lowering purchasing costs. In this way, the proposed strategy would be consistent with the Board's mandate to generate profits and ensure responsible alcohol consumption.

LCBO Response

When asked about the Auditor's findings, Board officials stressed that the LCBO's procurement program has survived several changes of government, and suggested that the main reason for the program's longevity is its transparency to suppliers. CEO Bob Peter, for example, noted that the current marketplace is very competitive, and that when the Board puts out a call for a product within a certain price range, they get 400 to 500 responses for the one listing. In this respect, he said, "we think we get a pretty fair deal."

Mr. Peter also urged caution about moving to flexible mark-ups, as this could upset the Board's relationship with suppliers:

> 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.[10]

The Board also took issue with the Auditor's finding that suppliers are being asked to come back with higher quotations. In fact, the Board said, "this happens on very rare occasions." In practice, it is more often the case that a supplier will be asked to lower its quote. When a supplier is asked to raise its offer, it is usually because there has been a "miscalculation in their pricing formula." Adjustments in these cases, the Board said, are usually minor.

Public Health and Protection

The Committee received substantially similar submissions from Mothers Against Drunk Driving (MADD) and the Centre for Addiction and Mental Health (CAMH). Both presentations addressed the social and financial costs associated with alcohol, and both recommended that the province pursue policies that research has identified as effective at reducing alcohol-related harm.

[10] As suggested by the Board's CEO, at least one stakeholder, the Winery and Grower Alliance of Ontario, is opposed to flexible mark-ups. The Alliance told the Committee that flexible mark-ups could lead to a price cutting war that would invariably be won by foreign suppliers with large economies of scale.

Dr. Norman Giesbrecht (CAMH) and Andrew Murie (MADD) highlighted the fact that alcohol is a drug with many adverse effects, including social problems, trauma, and chronic diseases for the drinker, and a heavy financial burden on society. According to Dr. Giesbrecht, the research shows that, in Ontario alone, the cost of health care, social services, law enforcement, corrections, prevention, and lost productivity was $5.3 billion in 2002. Mr. Murie provided national data on the cost of alcohol-related health care.

Dr. Giesbrecht also said that as overall alcohol consumption in a population increases so, too, do its harmful effects. Mr. Murie noted that overall alcohol sales per capita in Canada increased by 13% from 1996 to 2009.

According to these witnesses, national and international research has identified three public policies that have proven to be effective at minimizing the negative effects of alcohol:

- *Pricing and Taxes*: Pricing and taxation policies contribute to lower alcohol consumption and therefore reduce social and health problems. As a general rule, there should be a legislated minimum price on alcohol, and price increases should be tied to the cost of living. The LCBO, which ties alcohol prices to a three-year average of the CPI index, was described as the model in this regard, not only in Canada but internationally.
- *Availability*: An increase in the number of outlets selling alcohol and longer business hours is associated with high-risk drinking and other related problems. This is the finding of research from Calgary, Australia, and the United Kingdom. In Ontario the number of LCBO outlets has increased from 601 to 623 over the last six years, which suggests that the Board has struck the right balance between customer expectations and social responsibility.
- *Government Control*: Government control over the sale of alcohol is the most effective way to minimize the harmful effects of alcohol. By contrast, strong evidence suggests that alcohol-related problems flourish under privatization. These problems are associated with a dramatic increase in the density of outlets (the number of stores per capita), longer hours of sale, and less attention to "challenge and refusal" programs. Recent polls suggest that only 29% of Ontarians support full privatization of the sale of alcohol.

Dr. Giesbrecht also commented on what he sees as a worrying trend in Ontario:

> [T]he 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.

Mr. Murie concluded his remarks on behalf of MADD with an observation on the LCBO's approach to social responsibility:

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

Craft Beer

Members of the Ontario Craft Brewers Association highlighted the rapid growth of the craft beer industry in Ontario, and stressed the importance of the LCBO to this sector's future.

The Association mentioned for example that it works with the Board in the delivery of a number of successful programs. These include the introduction in 2007 of a brand, the Ontario Craft Brewers (OCB) Discovery Pack, which contains a sample of four to six different beers from OCB member breweries. Other programs include seminars for craft brewers on how to work with the LCBO, craft beer signage in LCBO outlets, in-store events, and many insert publications. In addition, the Association said that better access to refrigerated areas in LCBO stores has been a key factor in the growth of craft beer sales. As well, easy access to all levels of LCBO management has contributed to the industry's development.

Figures presented to the Committee underlined the Association's view that the future of the craft beer industry is closely tied to its relationship with the LCBO. Currently, craft beer has a market share of 3% (twice the 2007 figure), and is doubling its share every five years. Sales are growing at 10% per year. Within the LCBO system, craft beer sales are growing at between 30% and 50% annually. By contrast, in 2007 craft brewers' premium-priced beer sales through

The Beer Store were 150% of LCBO sales; however, in 2011 they were just 70% of LCBO sales, and it was predicted that this will decline to 40% by 2016.

In fact, craft breweries were united in the view that the number one impediment to even stronger growth in their sector is The Beer Store (TBS). TBS is a private entity, owned by large multi-national companies, with a near-monopoly on the sale of beer in Ontario. Currently, its only competition comes from the (limited) beer section of LCBO stores and on-site brewery stores.[11]

Of particular concern to craft brewers is the fact that, under the TBS regime, decisions about shelving and display at beer stores are made by the industry's two dominant players. For craft brewers, this means that "much of our beer is literally behind a wall." As explained by the representative from the Steam Whistle brewery:

> [P]art 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 [against] 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.

Distilled Spirits

The Spirits Canada Association of Canadian Distillers, represented by CEO Jan Westcott, appeared before the Committee on behalf of the distilled spirits manufacturers of Ontario. Mr. Westcott's presentation described the importance of spirits manufacturers to the economy, and provided his Association's assessment of the LCBO's performance. He concluded with a plea for equal treatment of spirits manufacturers *vis-à-vis* the Ontario wine industry.

Mr. Westcott told the Committee that distillers make the largest annual contribution to the LCBO's income. In addition, a study conducted by the Ministry of Agriculture, Food and Rural Affairs in 2010 revealed that this sector contributed $1.1 billion in commodity and sales tax revenues to the province, and an additional $900 million to the provincial gross domestic product. It was also noted that "the value of our local cereal grain purchases is every bit as important as the Ontario grape wine crop. We buy the highest-quality corn and other cereals and pay a premium to get the best materials."

[11] TBS is owned 48.5% by the Labatt Brewing Company, a subsidiary of Anheuser-Busch InBev of Belgium; 48.5% by Molson Coors Brewing Company, headquartered in the United States; and 3% by Sleeman Breweries, a branch of Sapporo of Japan.

With respect to the LCBO's performance, Mr. Westcott argued that the agency stacks up well against the other alcohol retailers in the province (TBS and off-site winery stores[12]), and presented the following figures in support of his assessment:

- Since 2000 the LCBO's dividend has doubled to $1.6 billion; over the same period, the combined return to the province from TBS and private wine stores has increased from $539 million to $555 million, a 3% increase.
- The LCBO's net return of $1.6 billion was earned on net sales of $4.6 billion, a net return ratio of 35% of sales; the return to the province from TBS and private wine stores was 23% of net sales.

These figures, Mr. Westcott said, show that we have three retailers, "each operating in the same geographic market, under identical market conditions, selling to similar customers, yet one has a 100% improvement in its return to the province and the others have a 3% return to the province."

Ontario distillers, Mr. Westcott said, strongly support continued government control of the alcohol retail system: "We believe the LCBO provides Ontario with the right mix of a modern retail environment for beverage alcohol balanced with an appropriate social responsibility mandate."

Mr. Westcott concluded his remarks by expressing his Association's concerns in two areas. First, distillers perceive that the Ontario wine industry is receiving preferential treatment. As the only domestic supplier of alcohol that sells exclusively through the LCBO, spirits manufacturers believe they have borne a disproportionate share of rising program costs at the provincial retailer. Moreover, unlike other suppliers, these costs are not subsidized through LCBO and government support programs.[13]

A second concern of distillers is that Canada's tax regime is putting the domestic spirits industry at a disadvantage. The effect of our tax policies, Mr. Westcott said, is that gross profit margins in Canada are about 20%, which compares with 30% in American states with comparable regulatory regimes. This disproportionate taxation of Canadian products "makes it increasingly difficult" for domestic producers to compete, and could discourage foreign investment.

Cider

In his presentation to the Committee, Grant Howes, owner of the County Cider Co. in Prince Edward County, said that cider is the LCBO's fastest growing category of business, and that most of this growth is domestic, even though Canadian cideries are competing against large foreign producers.

---

[12] There are 290 off-site winery stores (also known as "winery retail outlets"), the vast majority of which are owned by Vincor and Andrew Peller.

[13] As an aside, Mr. Westcott suggested that it may be time to review subsidies for the Ontario wine industry, as it appears that they have "done their job."

Mr. Howes spoke about mark-ups, marketing and delivery. The mark-up on domestic cider, he said, is 67%, which is higher than the mark-ups for VQA wines and craft beers. He said that local cider should be treated the same as other Ontario products.

Mr. Howes echoed the complaints of craft brewers about having to market products through The Beer Store, a private entity dominated by large foreign-based competitors. He also said that the current regulatory system has created an oligopoly in delivery services that is hindering the growth of the cider industry.

In reply, LCBO officials clarified that the actual mark-up on domestic cider sold in cans and bottles is 54.6% (not 67%), and that this is six points lower than the mark-up on imported cider. The mark-up on domestic cider sold as draft is 40.4%. By contrast, the mark-up on VQA wines is 60.5%, which means that there is in fact a higher tax load on Ontario wine than there is on Ontario cider.

With respect to the so-called “oligopoly” on delivery services, the LCBO’s Chair assured the Committee that this is something that the Board has been looking into, and that it will be developing a new policy to address the current practice of reliance on three delivery services.

Committee Recommendation

The Committee recommends the immediate creation of a Market Access Task Force composed of representatives of the Ministry of Finance, the LCBO, small volume wine, beer, cider and spirit producers, regional tourism organizations and local Chambers of Commerce to address issues pertaining to access to local retail opportunities for small businesses producing 100% Ontario content wine, beer, cider and spirits in compliance with Ontario's international trade obligations.

The Committee recommends that the Task Force's terms of reference include

(a) a consideration of greater access to local retail markets by small wine, beer, cider and spirit producers, including the associated legislative and regulatory changes; and

(b) the study of changes that may be appropriate to the system for determining the location of agency stores and the process for awarding the relevant authorizations.

WITNESS LIST

Witness	Date of Appearance
Centre for Addiction and Mental Health	June 25, 2012
County Cider Co.	June 27, 2012
Grape Growers of Ontario	June 25, 2012
Liquor Control Board of Ontario	June 25 and 27, 2012
Mothers Against Drunk Driving	June 27, 2012
Ontario Craft Brewers Association	June 25, 2012
Ontario Public Service Employees Union	June 27, 2012
Ontario Viticulture Association	June 25, 2012
Prince Edward County Wine Growers Association	June 27, 2012
Robert Thomas Estate Vineyards and Winery Inc.	June 27, 2012
Spirits Canada Association of Canadian Distillers	June 27, 2012
Wine Council of Ontario	June 25, 2012
Winery and Growers Alliance of Ontario	June 25, 2012

Appendix

Dissenting Opinion

from the

Progressive Conservative Members of the Committee

Government Agencies Committee

Agency Review: Liquor Control Board of Ontario

Dissenting Opinion: Ontario PC Caucus

The Liquor Control Board of Ontario was established in 1927, the same year Charles Lindbergh flew the first solo flight across the Atlantic Ocean. The name tells you a lot about the philosophy behind this government monopoly. Why does the sale of beer, wine and spirits in Ontario need to be run by a "control board," when people in neighbouring Michigan, New York and Quebec can buy the same products in corner stores or grocery stores? In fact, in whatever direction you leave Ontario, consumers have more choices in where they can buy alcohol. Some argue that only the government can prevent the sale of alcohol to minors. We do think that's important, but it's a job already being done by the private sector in thousands of restaurants, bars, resorts and arenas across the province.

As a monopoly, the LCBO hasn't had to be smart about the way it runs its business. Provincial auditor Jim McCarter recently noted that the LCBO actually goes to some suppliers and asks them to raise their wholesale prices to make them conform to an LCBO formula. What real company would do that?

The LCBO is also planning to add 70 new stores over the next two years at a cost of $100 million. We believe this government money would be better spent on MRI scans and life-saving medications than new shelf space for vodka bottles.

Competition is just the tonic the alcohol retail industry requires. Ontario wineries have long wanted the opportunity to reach their customers directly through stores in urban areas. Corner store operators and grocery store chains have long requested the ability to sell alcohol, as their counterparts do in many other places. We would look for ways to increase market access by allowing wine, beer and spirits to be sold in locations other than the LCBO. For example, the Ontario Wine Council has recently launched a campaign to promote the idea of new local wine stores, called MyWineShop.ca. We like this idea and it is one way we could expand market access. At the same time, we would work with the LCBO to reduce bureaucratic systems that make it more difficult for our smaller wineries to operate.

These are options the Ontario government should seriously consider, not dismiss out of hand. More choice and competition in alcohol retailing would be fair to both consumers and Ontario's award-winning wineries and rapidly growing craft brewers. Both are entitled to a system with a level playing field that encourages variety and selection of product.

The province should consider all options for increasing choice and competition, ranging from the sale, partial sale or greater private franchising of the LCBO – but not to create a new private sector monopoly. The province should also end The Beer Store monopoly and allow sales in corner or grocery stores. Our goal is to get better value and service for consumers, and ultimately for taxpayers. Competition and choice are the ways to achieve that goal.