Legislative Assembly of Ontario

Assemblée législative de l'Ontario

STANDING COMMITTEE ON GOVERNMENT AGENCIES

REPORT ON AGENCIES, BOARDS AND COMMISSIONS

THE LIQUOR CONTROL BOARD OF ONTARIO

2nd Session, 38th Parliament
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The Honourable Mike Brown, 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.

Julia Munro

Julia Munro, MPP
Chair of the Committee

Queen's Park
December 2006

STANDING COMMITTEE ON GOVERNMENT AGENCIES
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INTRODUCTION

Under Standing Order 106(e) the Standing Committee on Government Agencies is given the mandate to review the operation of all agencies, boards and commissions (ABCs) to which the Lieutenant Governor in Council makes some or all of the appointments, and all corporations to which the Crown in right of Ontario is a majority shareholder. The Committee is empowered to make recommendations on such matters as the redundancy of ABCs, their accountability, whether they should be sunsetted and whether their mandate and roles should be revised.

In accordance with its terms of reference, the Committee reviewed the Liquor Control Board of Ontario on 5 September 2006.

Appearing before the Committee from the Liquor Control Board of Ontario (LCBO) were Mr. Philip Olsson, Acting Chair and CEO; Mr. Patrick Ford, Director, Corporate Policy; Mr. Bob Peter, President and Chief Operating Officer; Mr. Alex Browning, Senior Vice President, Finance and Administration and Chief Financial Officer; and Ms. Tamara Burns, Vice President, Merchandising.

Five stakeholder groups addressed the Committee. The Ontario Public Service Employees Union was represented by Ms. Leah Casselman, President; Ms. Jo Ann Fisher, Acting Chair, LCBO division; Mr. Mike Sullivan, Vice-Chair, LCBO division; and Mr. Terry Moore, Sector Supervisor, LCBO division. Also addressing the committee were the Environmental Commissioner of Ontario, Mr. Gord Miller; the Grape Growers of Ontario, represented by Ms. Debbie Zimmerman, CEO; Mothers Against Drunk Driving, represented by Mr. Andrew Murie, CEO; and the Ontario Craft Brewers, represented by Mr. John Hay, President.

The Committee wishes to express its appreciation to all the witnesses who appeared before it during its public hearings on this agency.

This report presents the Committee's findings on the LCBO. The Committee urges the Minister responsible for the LCBO to give serious and thoughtful consideration to the Committee's recommendations.

THE LIQUOR CONTROL BOARD OF ONTARIO

The Liquor Control Board of Ontario (LCBO or the Board) regulates the production, importation, distribution and retail sale of alcoholic beverages in Ontario. The LCBO was established in 1927 following the repeal of Prohibition. It became a Crown corporation (also known as an operational enterprise) in 1975 and now operates under the authority of the *Liquor Control Act*. The LCBO is the world's largest single purchaser and retailer of beverage alcohol.

Mandate

Under section 3(1) of the *Liquor Control Act*, the main responsibilities of the LCBO are to:

- test, buy, import and control the sale, transportation and delivery of liquor;
- establish retail stores for the sale of liquor;
- determine (subject to the *Liquor Licence Act*) the municipalities within which government stores will be established;
- establish prices for beer, wine and spirits (identical at all stores);
- determine the nature and capacity of liquor 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 Public Infrastructure Renewal. A Memorandum of Understanding, dated 1989, clarifies the objectives and performance expectations of the Board.

Programs and Services

The LCBO's principal programs and activities are summarized below.

LCBO Stores

The LCBO retails its listings through 597 stores of a variety of types:

- *Flagship stores* range in size up to 25,000 square feet or more, and are located in large urban centres, carrying a global assortment of LCBO General Purchase (formerly known as the General List) and VINTAGES products and gifts. They also offer a range of LCBO customer services and special events, including: demonstration kitchens; Vintners Quality Alliance (VQA)[1] sections; listening stations where customers can select music for purchase; and a gift centre.
- *Full-service stores* range in size up to 20,000 square feet in major and medium-sized urban markets. They offer a wide assortment of products (2,500-3,000), a gift centre, and a VINTAGES boutique. They also stage special events to suit their local markets.
- *IMAGE stores* are found in both major and smaller urban markets. They operate with between 7,000 to 10,000 square feet and carry between

[1] The Vintners Quality Alliance—VQA—is an Appellation of Origin system by which consumers can identify wines made from 100% Ontario grapes. It is an independent alliance, with representatives from Ontario's wineries, grape growers, the LCBO, and academic, hospitality and research institutions forming its Board of Directors.

1,800 to 2,000 General Purchase products as well as a VINTAGES boutique.

- *Regular stores* are generally smaller in size and sales volume, with many locations in secondary markets and rural areas.
- *Mini-stores and kiosks* operate with 600 to 3,000 square feet in high-traffic shopping areas, and are designed to service a specific customer niche, or close perceived gaps in under-serviced areas. Examples are the Chinese kiosk in Markham and the Kosher kiosk in Thornhill.

According to the Board's 2002-03 *Annual Report*, almost one quarter (150) of its stores had been upgraded in the past five years. The 2003-04 *Annual Report* indicates that the LCBO plans to spend $75 million between now and 2008 to build or upgrade another 160 stores.

Agency Stores

The LCBO established the agency store program in 1962 to provide retail beverage alcohol service in areas of the province where the population could not support a regular LCBO store. 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.

Traditionally located in Northern Ontario, agency stores began operating in the 1990s in Southern Ontario as a cost-effective way to deliver service to small communities. In fiscal 2004-05, the agency store network expanded from 181 to 194 stores, and sales reached 1.9% of total LCBO net sales.

Vintages

Most of the LCBO's products are marketed through its General Purchase program. VINTAGES is the premium products division. The LCBO accesses fine wines, premium spirits and speciality beers from around the world, and sells them in about 180 of its retail stores, as well as through its *Classics Catalogue* and other publications. Twice a month, VINTAGES releases more than 100 new products in selected stores. It also sponsors regular "thematic" releases, which focus on a particular region or style. In 2004-05, VINTAGES brought more than 4,465 products to market, and achieved $189.3 million in sales.

Testing Services

The LCBO operates a Quality Assurance laboratory, which tests thousands of products annually to ensure they are safe to drink, authentic and of the highest quality. The lab ensures that products are free of glass particles and other defects, are tamper-resistant, and that their labels comply with federal guidelines. The lab also tests samples seized by enforcement officers to confirm whether they were illegally manufactured or smuggled into Ontario. In 2004-05, the lab conducted about 370,000 tests.

Sacramental Wine Vendors

The LCBO appoints sacramental wine vendors to keep sacramental wine for sale and use only in religious ceremonies conducted by priests, rabbis or ministers authorized to preside at such ceremonies in a regular place of worship. Sacramental wine vendor authorizations are awarded through an application process, have a term of two years, and cost $100 per year.

Social Responsibility Program

The LCBO's social responsibility programs include encouraging the responsible use of alcohol, fund-raising for worthy causes, environmental awareness, and (as noted above) protecting public health by performing safety and quality tests on alcohol products before they are sold in LCBO stores.

Every full- and part-time LCBO employee must take a training program that prepares them for dealing with customers who appear intoxicated or under-age, second-party purchasers (a customer buying alcohol for someone who is not legally entitled to purchase it), and the handling of difficult refusals at the check-out counter. Staff are trained to challenge and refuse service to any would-be customer who appears to be impaired, or who appears to be under-age and cannot produce valid ID. In 2004-05, LCBO employees challenged 1.4 million customers; 89,000 were refused service.

Operational Overview

Income Statements, 2000-2005

Table 1 on the next page provides detailed income statements for fiscal years 2000-01 to 2004-05, plus projected figures for 2005-06.

TABLE 1: INCOME STATEMENTS, 2000/01 TO 2005/06

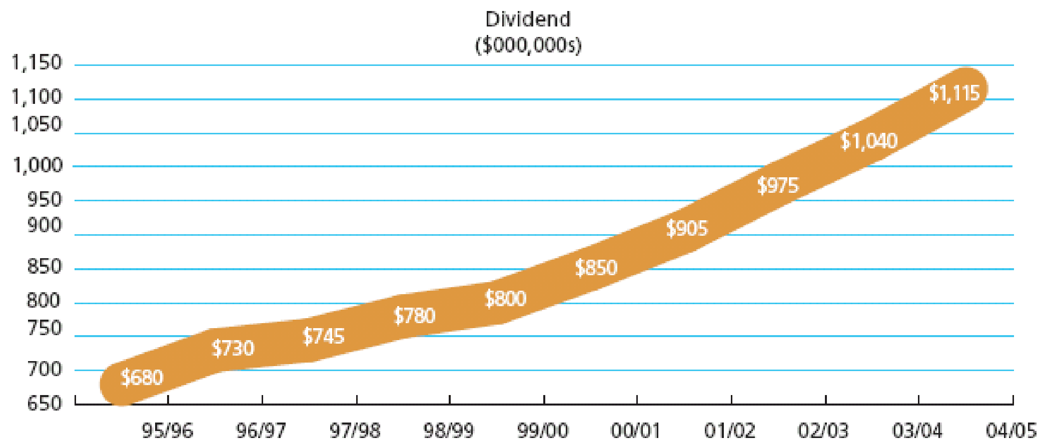
(000's)	2000-01 Actual	2001-02 Actual	2002-03 Actual	2003-04 Actual	2004-05 Actual	2005-06 Plan
Litre Sales	301,301	331,633	354,790	371,532	376,406	392,575
Unit Sales	250,277	275,418	298,587	311,083	328,913	345,467
Gross Sales	3,177,916	3,417,729	3,622,049	3,857,394	4,101,684	4,309,882
Discounts	22,611	22,171	23,853	25,576	27,335	30,245
GST	185,632	200,190	211,623	225,787	240,213	255,723
PST	255,347	275,072	288,884	308,134	328,753	346,721
Net Sales	2,714,326	2,920,296	3,097,690	3,297,897	3,505,383	3,677,193
Product Cost	1,336,621	1,472,656	1,587,079	1,645,326	1,723,615	1,817,497
In-Bound Freight	53,954	56,365	66,660	81,148	86,410	91,616
Gross Margin	1,323,751	1,391,276	1,443,951	1,571,422	1,695,358	1,768,080
% of Net Sales	48.8%	47.6%	46.6%	47.6%	48.4%	48.1%
Divisional Expenses:						
Retail Operations	11,842	12,555	13,211	13,261	13,521	14,014
Retail Stores	271,556	272,851	287,012	304,007	324,169	333,589
Total Retail	283,397	285,407	300,222	317,268	337,689	347,603
Retail Store Development & Real Estate	3,023	3,768	4,166	4,201	4,569	4,630
Warehouses	28,546	33,707	40,786	40,864	43,477	44,778
Specialty Services	3,736	3,097	2,253	2,153	2,076	2,182
Logistics Head Office	1,960	2,186	2,247	2,437	2,473	2,574
Total Logistics	34,242	38,990	45,285	45,454	48,026	49,534
Merchandising	7,573	8,450	9,159	8,892	9,512	10,238
Marketing Programs	21,754	22,323	20,729	21,142	17,823	23,944
Total Sales & Marketing	29,327	30,773	29,888	30,033	27,335	34,182
Information Technology	12,648	13,540	14,142	15,199	14,582	16,117
Human Resources	5,829	6,349	6,863	6,910	7,449	8,167
Finance & Administration Division*	9,778	13,217	13,839	14,437	14,676	15,115
Chairman, President, Security, Planning	2,333	2,605	2,629	2,779	3,218	2,825
Executive Offices	7,893	7,795	7,852	8,636	8,375	8,929
HR Programs	823	1,856	4,426	3,822	4,610	5,017
Other Corporate Programs	2,333	452	406	551	3,293	2,295
Head Office Common	1,718	1,904	2,526	2,467	2,682	2,747
Total Divisional Expenses	393,346	406,654	432,245	451,757	476,506	497,161
Contractual Severance Payments	3,423	3,467	4,046	4,469	3,602	4,596
Depreciation	40,546	44,260	47,602	49,917	50,703	54,000
Credit/Debit Card Charges	9,943	11,475	13,189	14,799	16,867	17,376
Sales Promotion	4,814	5,120	4,681	3,502	2,156	2,058
Out-Bound Freight	15,404	17,825	21,726	22.234	23,319	24,014
Total Operating Expenses	467,476	488,801	523,488	546,679	573,153	599,205
% of Net Sales	17.2%	16.7%	16.9%	16.6%	16.4%	16.3%
Operating Income	856,275	902,475	920,463	1,024,743	1,122,205	1,168,875
% of Net Sales	31.5%	30.9%	29.7%	31.1%	32.0%	31.8%
Add: 0ther Income	19,998	18,436	19,079	20,684	24,605	19,610
Net Income	876,273	920,913	939,542	l,045,427	1,146,810	1,188,485
% of Net Sales	32.3%	31.5%	30.3%	31.7%	32.7%	32.3%
Dividends	850,000	905,000	975,000	1,040,000	1,115,000	1,170,000
Capital Expenditures	55,689	55,735	75,061	53,434	47,465	59,000

*Due to a report structure change, Supply Chain accounts are now included in Finance & Administration Division figures.

Source: LCBO *Annual Financial Plan 2005-2006*

Dividend to the Province

The LCBO remits an annual dividend (net of expenses and excluding taxes) to the provincial treasury. The following graph illustrates the dividend remitted to the province for the last ten fiscal years.

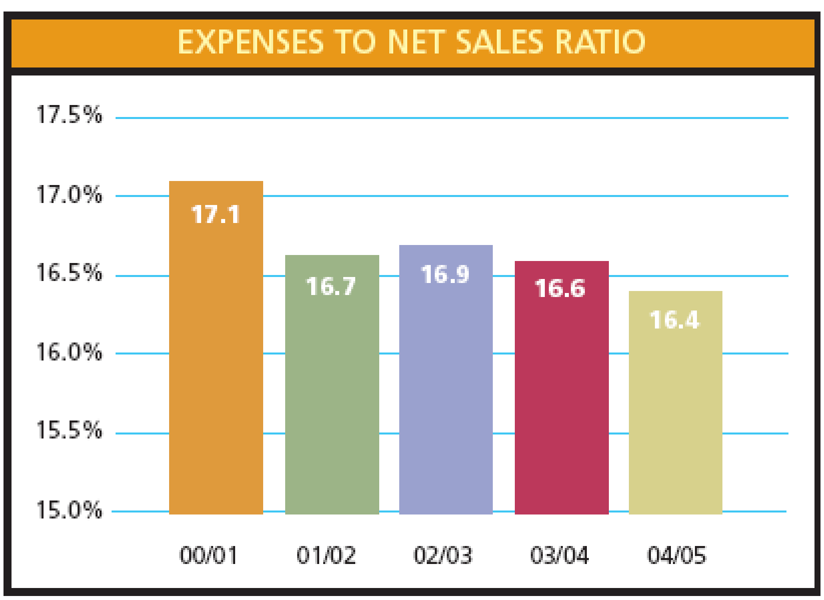


Source: LCBO *Annual Report, 2004-05*

The LCBO also transfers Provincial Sales Tax to the province each year. In 2004-05, this amount totalled $329 million.

Expense Ratios

The following graph shows the LCBO's expenses-to-net-sales ratio, a common measure used in retail enterprises, for the last five years.



Source: LCBO *Annual Report*, 2004-05

Productivity Indicators

Table 2 shows how the LCBO has managed key productivity indicators since 2000.

TABLE 2: PRODUCTIVITY INDICATORS

	00-01	01-02	02-03	03-04	04-05
Store salary to sales	7.8%	7.3%	7.3%	7.1%	7.0%
Store expenses, % of sales	11.0%	10.3%	10.4%	10.3%	10.4%
Store salary per unit sold	$0.87	$0.80	$0.77	$0.78	$0.76
Store expenses per unit sold	$1.22	$1.12	$1.10	$1.13	$1.13
Unit sales per hour	25.5	28.7	31.5	32.3	33.5
Sales per customer	$27.86	$28.10	$28.51	$29.38	$30.80
Sales per square foot	$1,693	1,752	$1,755	$1,800	$1,859

Source: LCBO *Annual Report, 2004-05*

Operating Expenses

In 2004-05, the Board had 3,500 permanent employees and 3,400 casual employees. Tables 3 provide a breakdown of operating expenses including salaries and benefits.

TABLE 3: OPERATING EXPENSES ($000)

	00-01	01-02	02-03	03-04	04-05
Salaries and Benefits	266,929	272,594	291,762	305,664	322,094
Depreciation	40,546	44,260	47,602	49,917	50,703
Other Expenses	160,615	172,779	186,595	193,197	202,539
Total Operating Expenses	468,090	489,633	525,959	548,778	575,336

Source: LCBO Annual Report, 2004-05

Structure and Organization of the Board

Under s. 2 of the *Liquor Control Act*, the Liquor Control Board consists of up to seven members, appointed by the Lieutenant Governor in Council (i.e., the cabinet). Members may serve for a term of up to five years, but usually serve for three years. The cabinet designates the chair and may designate a vice-chair. The chair also serves as the LCBO's full-time chief executive officer. Other Board members serve part-time. The Board has met 72 times in the last three years. The Board also operates an audit and governance review committee, composed of three members elected annually by the Board.

In 2005, the chair received a salary of approximately $270,000. The vice-chair receives a per diem of $150, and the regular members, $100. The vice-chair, Philip J. Olson, is now acting as chair as per s. 2(4) of the *Liquor Control Act*.

Table 4 lists the name, position and term of appointment for current Board members.

TABLE 4: THE BOARD OF DIRECTORS

Board Member	Position	Term of Appointment
Philip J. Olsson	Vice-Chair	June 17, 2004 – June 16, 2007
Jean Simpson	Member	November 3, 2004 – November 2, 2007
Laurel Murray	Member	August 8, 2005 – August 7, 2008
Stephen Diamond	Member	September 21, 2005 – September 20, 2008
Geoffrey Larmer	Member	May 30, 2006 – May 29, 2009
Vacancy	-	-

DISCUSSION AND RECOMMENDATIONS

Opening Remarks

Officials of the LCBO were invited to appear before the Committee and to begin their dialogue with Members by making some opening remarks.

LCBO Acting Chair and CEO Philip Olsson provided a brief overview of the Board's operations. Mr. Olsson discussed the importance of the LCBO's social responsibility role and its transformation into an innovative, dynamic and efficient retailer. By embracing change and implementing improvements effectively, the LCBO has over the past 15 years transformed itself from a monolithic government agency into a well-respected and award-winning retailer, twice named Innovative Retailer of the Year by the Retail Council of Canada, to name but one of many awards.

The LCBO is now frequently cited as a leading proponent of retailing in areas such as supply chain, marketing, consumer research, staff development and store design.

Five-year strategic plans and rigorously benchmarked performance against these and other plans have enabled the LCBO to better anticipate, understand and respond to forces shaping Ontario's beverage alcohol marketplace. Successful implementation of these plans has also enabled the LCBO to not only meet but exceed its financial goals, reflected in 11 consecutive years of record dividend transfers, while also adding value to the shopping experience. In fiscal 2005-06, the LCBO dividend was an all-time high of $1.2 billion, 7.6% above the previous year.

Mr. Olsson closed his presentation by noting that the LCBO was eager to benefit from sound recommendations for improvement from the Committee and from other reviews.

Mr. Olsson and other Board officials also offered comments and observations in discussion with Committee Members around a number of specific issues.

Recycling, Bottle Return and Tetra Paks

The LCBO's environmental strategy states the following five goals:

- reducing package waste;

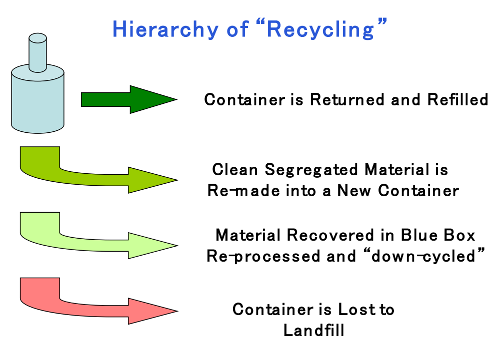
- increasing Blue Box recovery of LCBO containers from 64% to 80%;
- improving all aspects of environmental management;
- reducing consumption of energy and utilities by 10%; and
- promoting re-use and conservation.[2]

Section 25(5) of the *Waste Diversion Act, 2002,* stipulates that participating industries must reimburse municipalities for 50% of the costs of running their Blue Box Program. The LCBO contributes a certain amount—currently $5 million—each year, based on a complicated formula encompassing variables such as weight and type of material. Since 1998, the LCBO has contributed $35 million to municipalities to help cover the costs of recycling beverage alcohol containers in municipal Blue Box Programs.

The LCBO has been criticized for its reliance on Blue Box systems to divert beverage alcohol containers from landfill, rather than implementing a bottle return system, whereby consumers pay a deposit for each item purchased and receive a rebate upon returning the empty. The LCBO has consistently maintained that it would be impractical to implement such a program. The majority of its suppliers are foreign and would not be able to reuse the returned bottles. Furthermore, the LCBO reports that its total bottle recovery rate of 64% is comparable to the rate of recovery for all beverage containers obtained in British Columbia, where the Liquor Distribution Branch is responsible, in part, for the operation of the bottle return program.

The LCBO therefore defends its reliance on the municipal Blue Box Programs and its use of alternative packaging such as aseptic containers (also known as Tetra Paks), noting that these packages are environmentally-friendly and reduce the burden on recycling programs by removing heavy glass from the system.

The Environmental Commissioner expressed skepticism about the LCBO's reluctance to implement a bottle return program and its use of aseptic containers. He presented information clarifying the "hierarchy" of recycling, as shown in the following illustration:

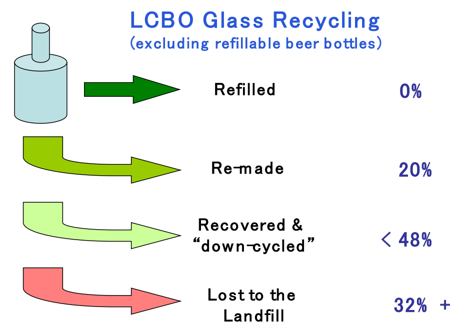


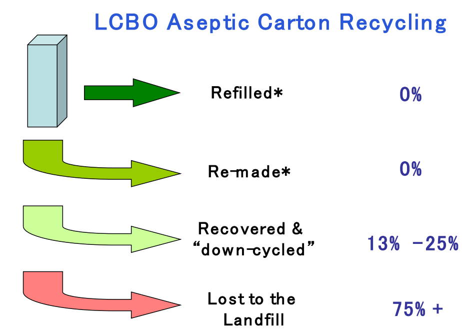
Source: The Environmental Commissioner of Ontario

[2] LCBO, "Backgrounder: LCBO Environmental Strategy," *News Release*, 27 April 2006. Internet site at http://www.lcbo.com/lcbo-ear/media_releases/content?pf_id=585, accessed 24 August 2006

The Commissioner suggested that the top system, which enables containers to be returned and refilled, is the ideal recycling system. A system which remakes material into new containers is the second best alternative. A system which takes materials recovered from a Blue Box Program and reprocesses them into lower-quality materials such as landfill is third in the hierarchy, and is sometimes called down-cycling. Finally, the least-preferred end state is one in which containers are lost to landfill (technically, this is not a form of recycling).

According to the Environmental Commissioner, the LCBO's glass and aseptic carton programs have the following recycling profiles:





Source: The Environmental Commissioner of Ontario

Thus, while the LCBO reports that its overall glass recovery rate is approximately 64%, the Environmental Commissioner suggested that the bulk of this material is primarily "down-cycled," or used to make lower quality material such as landfill and aggregate. Similarly, none of the LCBO's aseptic containers are refilled or re-made into new containers. The Commissioner commented that the environmental benefits of Tetra Paks in relation to glass were as of yet uncertain.

The LCBO noted that the use of aseptic beverage alcohol containers, a reduce strategy, has only emerged in the past year and therefore no data yet exists on their recycling potential. The Committee also noted that historic data on the recycling of aseptic containers suggests that schools have not processed children's juice boxes through the Blue Box Program. Regardless, the Commissioner argued that it should be a societal objective to move up the recycling hierarchy, so that a higher percentage of products are refilled or remade.

The Committee therefore recommends that:

1. **The LCBO implement a deposit-return system for all LCBO containers.**

Under a deposit-return system, the Commissioner suggested that Ontario producers could reuse bottles if they wished while foreign bottles could be melted down and remade into new containers. The Blue Box program would still be used, perhaps more efficiently, once the heavy glass was out of the system.

According to the Commissioner, the new system could potentially be financed from the following sources:

- unredeemed deposits (deposits that are not collected by the consumer);
- the $5 million annual contribution that the LCBO makes to the Blue Box Program; or
- the environmental levy collected on non-refillable containers (amounting to approximately $65 million per year according to the Commissioner).

The Environmental Commissioner also recommended that the LCBO be designated as a prescribed agency under Ontario's *Environmental Bill of Rights* so that its policies would be subject to review and comment by the general public.

The Committee therefore recommends that:

2. **Consideration be given to designating the LCBO as a prescribed agency under Ontario's Environmental Bill of Rights.**

The Committee also asked the LCBO why it does not have Blue Boxes at its retail stores, to provide a deposit for Ontarians who do not have access to a municipal Blue Box Program. The LCBO indicated that it would explore this option.

The Committee therefore recommends that:

3. **Blue Boxes be made available at LCBO retail outlets until a deposit-return system is in place across the province.**

Agency Stores

As noted above, the LCBO established the agency store program in 1962 to provide retail beverage alcohol service in areas of the province where the population could not support a regular LCBO store. Traditionally located in Northern Ontario, agency stores began operating in the 1990s in Southern Ontario as a cost-effective way to deliver services to small communities that might not otherwise have access to an LCBO outlet.

However, officials from the Ontario Public Service Employees Union alleged that the LCBO is engaged in, in OPSEU's language, a covert form of privatization through the expansion of its agency store network. According to OPSEU, between 1995 and 2005, the number of agency stores has doubled from 82 to 194.[3] Total agency store sales increased from $17 to $78 million.[4]

OPSEU officials argued that the expansion of agency stores is a threat to the social responsibility mandate of the LCBO. Representatives referred to a report authored by leading public health organizations that concluded that public alcohol distribution systems are typically more restrained in their promotion of alcohol sales and more likely to challenge and refuse sales to the under-aged or intoxicated.[5] While the LCBO has a program to monitor agency stores, OPSEU contends that it is inadequate to ensure that these outlets are not selling to minors or people who are intoxicated. When asked by committee members for evidence of this assertion, OPSEU indicated they only had anecdotal reports, and provided no actual evidence to support these allegations.

LCBO officials replied that private operators risk losing their license if they sell alcohol to minors or intoxicated individuals. In response to the Committee's request for further information, the LCBO added that all agency store employees involved in retailing beverage alcohol must complete the LCBO's mandatory training program to ensure the responsible sale of beverage alcohol. All challenges and refusals of service for reasons of age or intoxication must be documented and submitted to the LCBO on a monthly basis. In 2005/06, LCBO agency stores challenged 49,271 potential customers and refused service to 4,126. Of the total number of refusals, 3,009 were for reasons of age, 867 were for reasons of intoxication and 250 were for other reasons, such as an attempted purchase for a third party (e.g., underage).

OPSEU officials also maintained that agency stores threaten existing LCBO outlets and employees. Agency stores are permitted to operate a maximum of 83 hours per week and may also remain open on public holidays. Many LCBO stores have been restricted to 56 hours per week, and some have been ordered to close one day per week between September and May.

OPSEU officials also alleged that there is no policy requiring public notification or public hearings for new agency stores or renewal of agency licenses. According to OPSEU the selection of the individual store operator is made by the LCBO through a competitive bidding process, once again with no mechanism for local input. LCBO representatives noted that the local municipality is consulted prior to the LCBO taking out advertisements in local papers when it is seeking applicants.

LCBO officials also indicated that the organization does not approve agency stores that are located less than 10 kilometres from an existing LCBO outlet. The Committee noted that agency stores may help to preserve a fragile business district in a small community. If a new LCBO store were built some distance

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[3] The LCBO's *Annual Reports* confirm these figures.

[4] The LCBO's *Annual Financial Plan*, 2005-06, indicates that agency store sales were $72.7 million in 2005-06.

[5] Addictions Ontario et al., "Alcohol and Public Health: The Implications of Changes to Ontario's Beverage Alcohol System," submission to the Beverage Alcohol System Review Panel, 25 February 2005. Internet site at http://www.apolnet.ca/infopacks/controls/priv/OntarioBeverageAlcoholSystemReviewPublicHealthSubmission.pdf#search=%22%22alcohol%20and%20public%20health%22%20ontario%22, accessed 13 September 2006.

away, these communities might lose this traffic. LCBO officials also commented that, in all cases but one, agency stores buy their alcohol from the local LCBO outlet, helping to preserve jobs at that location.

Some Committee Members suggested that some agency stores were generating more sales than small LCBO outlets, and therefore questioned the rationale for opening an agency store. The LCBO notes that it has not converted any agency stores into LCBO outlets, but that one or two agency stores have sales that could merit consideration for such a conversion.

The Committee therefore recommends that:

4. **Where possible, and allowing for special local circumstances, agency stores should maintain hours of operation that are comparable to those of neighbouring LCBO stores.**

5. **Where possible, existing agency stores be replaced with regular LCBO stores where the agency store sales volumes meet the minimum level to sustain an LCBO-run outlet.**

6. **No new agency store location be considered unless it is demonstrated that:**

- **there is no existing LCBO outlet within 10 kilometres of the proposed agency store location;**
- **the proposed host community cannot be served through an existing LCBO store; and**
- **current and future demand is not sufficient to sustain either a regular "stand alone" LCBO store or an LCBO-operated kiosk.**

Domestic Small Producers

Grape Growers of Ontario

During its presentation before the Committee, the LCBO distributed a list of its numerous programs promoting the sale of VQA and Ontario wines.

Close to 300 LCBO store employees are designated as the local Ontario wine advocate or WOW (World of Ontario Wines) Leader to promote Ontario wine sales. These employees are trained in educating customers about the difference between VQA wines and cellared in Canada wines. Two VQA "superstar" wines are selected every month, with dedicated shelving, no-charge promotional materials and a profile in *Food & Drink*. A VINTAGES VQA "Discovery" wine is also selected every month for promotion. VQA wines are also placed prominently near the front of the store in all LCBO outlets.

The CEO of the Grape Growers of Ontario (GGO) expressed approval of LCBO programs promoting Ontario wines, and indicated that such support is justified because each vine planted in Ontario generates $13 in tax for the province. However, the CEO stated that several outstanding issues prevent Ontario wines from improving their market position.

Many small VQA wineries do not have access to the LCBO because they need to have a certain number of cases available for sale. The LCBO grants shelf space based on market share, giving Ontario wines an extra 4% in order to promote them.

Furthermore, there are approximately 290 off-site winery retail store licenses available in Ontario, the majority of which are owned by Vincor/Constellation and Andrés. Small wineries are unable to benefit from these stores, which sell their own products.

The CEO of the Grape Growers of Ontario also highlighted the misconception that Ontario wine is 100% Ontario grown, when it is often blended.

In response to the Committee's request for further information, the LCBO informed the Committee that the following trade rulings and agreements have capped the number of off-site winery retail store licences at 290 since 1993:

- a 1987 GATT (General Agreement on Tariffs and Trade) Panel ruling regarding wine sales and Canada's national treatment obligations under that agreement;

- the Canada/US Free Trade Agreement (later NAFTA), Article 804 2(b) stating that Canada may "maintain a measure requiring wine store outlets in existence on October 4, 1987 in the provinces of Ontario and British Columbia to discriminate in favour of wine of those provinces to a degree no greater than the discrimination required by such existing measures"; and

- the Canada-European Union Agreement on Trade in Wine and Spirits, 1989 and 2003.

The Committee therefore recommends that:

7. **More shelf space be granted to 100% Ontario wine.**

8. **The LCBO review ways to enhance retail opportunities for small and medium VQA wineries, given Ontario's obligations under trade treaties that have capped the number of off-site winery retail store licences at 290 since 1993.**

9. **The LCBO further promote consumers' understanding of the distinctive nature of VQA wine and Ontario-grown wine.**

Ontario Craft Brewers

In its presentation to the Committee, the LCBO discussed several programs it offers to Ontario craft brewers. Craft brewers direct-deliver to LCBO stores. Each small brewer decides how many stores it can distribute to with its resources. The LCBO's beer category management team works with that brewer to facilitate the matching of the brewery and stores. The district manager and store manager then take over to work with that small brewer and promote successful sales of that product in their store.

Forty LCBO stores have specific fixtures to highlight Ontario craft beer. From the LCBO's perspective, the size of a brewery doesn't limit its possibility or its potential with the LCBO. Rather, it is up to the amount of work performed, the size of the craft brewer's infrastructure, and how many stores it wishes to support with its distribution system.

The President of the Ontario Craft Brewers (OCB) spoke positively of the services provided by the LCBO to small breweries. The Committee learned that sales of OCB products have grown between 30% and 50% in the last year at the LCBO, in part because consumers are increasingly demanding premium products.[6]

However, the President expressed some concern about the LCBO's shelving policy, which awards products shelf space based on sales volume. Under such a system, it is fairly easy for a new product to be given initial shelf space, but much more difficult to retain it. Craft brewers do not have the advertising budget of larger brewers that permits them to attract customers quickly. A growth-based shelf space policy might improve the position of microbrewers, particularly in the early stages of a product's launch. The OCB responded to requests for further information by stating that the typical shelf time granted by the LCBO is one to two months, while microbrewery products need six months to a year in order to establish a brand identity. The OCB is presently working with the LCBO to increase this shelf time.

Because the LCBO is a premium retailer, it demands a higher cost of service (COS) fee than for example, the Beer Store, though all beer suppliers are charged the same fee. It costs microbrewers approximately $5 extra per case of 24 beer to sell their products in the LCBO as compared to the brewers' own stores. Given the already small margins of these products, the service fees can be onerous. The OCB responded to requests for further information by clarifying that the LCBO has a COS of $60.60 per hectolitre (100 litres) of product. The COS at Brewers Retail is approximately $41 per hectolitre. However, Brewers Retail also charges an additional $6 per hectolitre to brewers selling through the LCBO, as Brewers Retail must handle the empty bottles.

According to the OCB, a typical small brewer can expect a profit margin of 4% in dealing strictly with the LCBO. If the hypothetical brewer were dealing strictly with Brewers Retail, its profit margin would be approximately 8%.

The LCBO responded to the Committee's request for further information by noting that it allocates shelf space by store on the basis of product sales within that particular store. The term "market share" refers to the roll-up of product sales into their categories (e.g., Vodka or Chilean Wine) and the share that category has in the overall store portfolio based on product sales.

The LCBO states that space allocation on this basis is critical to ensuring operational efficiency and is the industry standard practice for all large retailers. If, for example, a high volume sales product was "under-shelved" relative to its overall share of sales within a store, additional staff time and operating cost would be needed to keep the product "in stock."

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[6] The LCBO noted that sales of mid-market Canadian beers have suffered as a consequence.

The Committee therefore recommends that:

10. **The LCBO consider implementing a growth-based shelf space policy, to permit craft brewers a sufficient amount of time to expose their products.**

11. **The LCBO employ enhanced measures to carry, display and promote craft brewery products.**

12. **The LCBO consider giving microbrewers a rebate on their Cost of Service (COS) fee, perhaps scaled to sales volumes.**

Social Responsibility

LCBO officials provided the Committee with details about the organization's social responsibility programs and partnerships. The LCBO maintains a successful challenge and refusal program and also forges partnerships with organizations such as Mothers Against Drunk Driving (MADD), with which it develops advertising campaigns. The LCBO indicated that one of the measures of success of these campaigns is obtained by asking research participants whether they would exercise greater care with respect to consuming alcohol after viewing the ads.

The Committee questioned LCBO officials about the organization's monitoring of drinking and driving deaths/injuries and other alcohol-related deaths and illnesses. Officials revealed that the LCBO obtains this data from other organizations and employs it in developing social responsibility programs, and provided the Committee with the data in its post-hearing submissions. The LCBO stressed that it uses the most up-to-date data on alcohol-related motor vehicle accidents to inform campaign development. Independent third-party research guides LCBO campaign and program development, and where possible, post-test evaluation.

During the Committee hearings, LCBO officials agreed that trends in alcohol-related deaths and injuries would be an important measure of the effectiveness of their programs, in combination with related measures of effectiveness from law enforcement agencies. In its later submissions, the LCBO stated that it would not be possible to evaluate any single campaign in terms of changes in injury and death rates. The LCBO also stressed that it promotes responsible drinking, and that its campaigns are not designed to address problem drinking and dependence, serious issues best confronted by expert organizations.

The Committee therefore recommends that:

13. **The LCBO continue to improve its social responsibility programs**.

The CEO of MADD stressed that organization's continued support for the LCBO as a government-controlled alcohol monopoly, citing a World Health Organization (WHO) study indicating that government monopolies are a key means for controlling alcohol-related harms.[7] MADD also stressed that a public monopoly is able to dedicate a specific percentage of its budget to social responsibility.

The Committee therefore recommends that:

14. **The LCBO consider increasing the percentage of its budget devoted to social responsibility, approximately $2.5 million at present.**

LCBO officials were asked about their cooperation with the Ontario Provincial Police and First Nations' police services in order to address the issue of bootlegging LCBO alcohol into dry communities. Individuals are known to purchase extremely large quantities of alcohol at LCBO outlets for resale in these communities. The LCBO concurred that this was a longstanding problem and that it was actively involved in discussions aimed at its resolution.

The Committee therefore recommends that:

15. **The LCBO develop a strategy to address the longstanding problem of the sale of large quantities of alcohol to known bootleggers, in partnership with the Ontario Provincial Police and First Nations' police services.**

Board Issues

Mr. Olsson, acting part-time Chairman and CEO, was asked about his dual responsibilities. According to Mr. Olsson, the LCBO has requested that legislation be drafted separating the Chair and CEO functions. It has been proposed that the Chair be made a part-time, non-executive position.

The Committee therefore recommends that:

16. The LCBO formally separate its Chair and CEO functions.

Miscellaneous

Sales and Profitability

At the request of the Committee, LCBO officials provided general information about the organization's programs to improve sales and increase profitability. In the last 15 years, the LCBO transformed itself by improving customer service, upgrading its stores, and training its staff. In the last four years, the LCBO has focussed on improving the management of its supply chain. The LCBO now turns[8] its inventory 7.6 times per year, as opposed to its former rate of 5 times per year. In other words, the LCBO keeps a smaller stock and orders more frequently, which keeps less money tied up in inventory. A new point-of-sale system has allowed for further improved inventory management in addition to reducing the sales transaction time to approximately one second.

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[7] WHO, *Global Status Report: Alcohol Policy* (Geneva: WHO, 2004), p. 16. Internet site at http://www.who.int/substance_abuse/publications/en/Alcohol%20Policy%20Report.pdf, accessed 13 September 2006.

[8] Sells its total stock.

The LCBO revealed that in the future, it plans to expand its Vintages corners, improve its selection of beer, and add tasting bars and kitchens to more stores to permit wine appreciation events and cooking classes.

Customer Satisfaction

At the request of the Committee, the LCBO indicated that it measures customer satisfaction using three methods:

- 2,500 customers are annually interviewed in-depth about their shopping experience;
- 700 customers are surveyed by telephone every month; and
- 700 professional shoppers go into stores across the province every month to report on store practices.

Although the LCBO was not asked to report on trends in customer satisfaction, material on the organization's website indicates that 78% of shoppers now rate their shopping experience as very high, compared to rates in the low 70%s when the interviews began in 1998.

SUMMARY OF RECOMMENDATIONS

The Committee recommends that:

1. The LCBO implement a deposit-return system for all LCBO containers.

2. Consideration be given to designating the LCBO as a prescribed agency under Ontario's *Environmental Bill of Rights*.

3. Blue Boxes be made available at LCBO retail outlets until a deposit-return system is in place across the province.

4. Where possible, and allowing for special local circumstances, agency stores should maintain hours of operation that are comparable to those of neighbouring LCBO stores.

5. Where possible, existing agency stores be replaced with regular LCBO stores where the agency store sales volumes meet the minimum level to sustain an LCBO-outlet.

6. No new agency store location be considered unless it is demonstrated that:

   - there is no existing LCBO outlet within 10 kilometres of the proposed agency store location;

   - the proposed host community cannot be served through an existing LCBO store; and

   - current and future demand is not sufficient to sustain either a regular "stand alone" LCBO store or an LCBO-operated kiosk.

7. More shelf space be granted to 100% Ontario wine.

8. The LCBO review ways to enhance retail opportunities for small and medium VQA wineries, given Ontario's obligations under trade treaties that have capped the number of off-site winery retail stores licences at 290 since 1993.

9. The LCBO further promote consumers' understanding of the distinctive nature of VQA wine and Ontario-grown wine.

10. The LCBO consider implementing a growth-based shelf space policy, to permit craft brewers a sufficient amount of time to expose their products.

11. The LCBO employ enhanced measures to carry, display and promote craft brewery products.

12. The LCBO consider giving microbrewers a rebate on their Cost of Service (COS) fee, perhaps scaled to sales volume.

13. The LCBO continue to improve its social responsibility programs.

14. The LCBO consider increasing the percentage of its budget devoted to social responsibility, approximately $2.5 million at present.

15. The LCBO develop a strategy to address the longstanding problem of the sale of large quantities of alcohol to known bootleggers in partnership with the Ontario Provincial Police and First Nations' police services.

16. The LCBO formally separate its Chair and CEO functions.