

## BRIEFING NOTE



### ***Ontario Artisan Wineries***

July 17, 2022

#### **Issue**

**Elimination of the Liquor Control Board of Ontario (“LCBO”) “Mark-up” and “Wine Levy” imposed on the direct delivery of 100% Ontario Non-Vintner Quality Alliance (“Non-VQA”) wine to a licensee.**

#### **Background**

The wine industry in Ontario is comprised of Non-VQA and VQA wines that are highly regulated by federal and provincial legislation, regulations, and policy regimes.

Ontario Artisan Wineries/Vignobles Artisans de l’Ontario is a newly formed non-profit association representing small artisan wineries from across the province that sell 100% Ontario Non-VQA wines.

Ontario Artisan Wineries produce wine in small quantities (e.g., less than 2000 cases) from 100% Ontario grapes using traditional minimal intervention winemaking practices which results in wines that have unique characteristics that are different each vintage.

The LCBO imposes a Mark-up and a Wine Levy on the direct delivery of 100% Ontario Non-VQA wine that are **not** imposed on the direct delivery of VQA wine to a licensee.

The sample LCBO Calculator form (Attachment 1, completed July 17, 2022) and below table on the sale of a \$20.00 bottle of 100% Ontario wine shows that a **VQA** Direct Delivery to a Licensee results in **80%** revenue to the VQA winery (and **14%** to the Province) while a **Non-VQA** Direct Delivery to a Licensee results in **52%** revenue to the Non-VQA winery (and **42%** to the Province).

Direct Delivery to a Licensee	VQA Wine		Non-VQA Wine	
Retail Price	\$20		\$20	
LCBO Selling Price (HST etc.)	\$18.02		\$18.02	
Winery Revenue	<b>80%</b>	14.47	<b>52%</b>	\$9.45
Provincial Fees	<b>14%</b>	\$2.56	<b>42%</b>	\$7.58

When selling 100% Ontario wine directly to a licensee the Non-VQA winery receives **28% less** revenue and pays **28% more** in provincial charges which is a serious disadvantage and unsustainable.

In the example sale of \$20.00 bottle of wine, the difference in revenue distribution arises from the fact that the Direct Delivery to a Licensee of 100% Ontario Non-VQA wine is subjected to a LCBO Mark-up (\$6.6707) and a Wine Levy (\$1.2150) which are not imposed on the Direct Delivery of VQA wine to a Licensee.

Extrapolated to the sale of 2,000 cases of wine, a VQA winery would receive \$347,280.00 in revenue and pay \$61,440.00 in provincial fees, while a Non-VQA winery would receive \$226,800.00 in revenue (**\$120,000.00 less**) and pay \$181,920.00 in provincial fees (**\$120,000.00 more**) – yet both are selling 100% Ontario made wine.

Due to the punitive charges imposed by the LCBO, Ontario Artisan Wineries cannot sell 100% Ontario wine to local licensees such as restaurants and event venues which is having a significant adverse impact on not only small artisan wineries but also restricting local agri-tourism and rural areas that need economic diversification and development.

For multiple reasons, members of Ontario Artisan Wineries do not aspire to become part of the “VQA model” and/or LCBO as it does not recognize or accommodate the realities of small artisan wine producers.

Further, like many businesses, Ontario artisan wineries are being confronted with 100-300% increases in the costs of materials (e.g., bottles), severe labour shortages, and supply chain issues.

### **Policy Option**

The LCBO Mark-up and Wine Levy imposed on the direct delivery of 100% Ontario Non-VQA wine to a licensee arise from the “natural rights” provision in subsection 4(1) of the *Liquor Control Board of Ontario Act*, S.O. 2019, which gives the LCBO “the capacity, rights and powers of a natural person for the purposes of carrying out its objects.”

Thus, the imposition of the Mark-up and Wine Levy on the direct delivery of 100% Ontario Non-VQA wine to a licensee is based on a discretionary **policy** decision by LCBO and can be changed, and it does **not** require legislative amendment(s).

The LCBO Mark-up and Wine Levy wine cannot be justified when dealing with 100% Ontario grapes/wine and it is wholly inconsistent with supporting local agri-tourism businesses.

**Ontario Artisan Wineries are seeking the elimination of the LCBO Mark-up and Wine Levy imposed on the direct delivery of 100% Ontario Non-VQA wine to a licensee.**

**Attachment 1: LCBO Calculator – see copy sent separately**