From: Moe Sihota (moes@telus.net)
To: Koski, Michelle AF:EX (Michelle.Koski@gov.bc.ca); Pokorny, Peter AF:EX (Peter.Pokorny@gov.bc.ca)
Cc: Avlijas, Stefan AF:EX (Stefan.Avlijas@gov.bc.ca); Miles Prodan (MProdan@winebc.com)
Subject: Fwd: FW: Wine Growers BC project
Sent: 07/14/2023 21:06:12
Attachments: image005.jpg, Wine Growers BC FINAL - 476138.pptx, Wine Growers BC - Briefing Summary - FINAL.docx
Message Body:

[EXTERNAL] This email came from an external source. Only open attachments or links that you are expecting from a known sender.

Hi Peter, Michelle- trust all is well.
Following Minister Alexis's visit to the Okanagan, Miles asked MNP to take a closer look at Crop Insurance, Agri Stability, AgriRecivery and related programs to ascertain both gaps in assistance and identify potential Policy responses.
Our key take aways are as follows;

- [illegible]
- [illegible]
- [illegible]
- [illegible]
- [illegible]
    - [illegible]
    - [illegible]

I would ask that you ask your Staff to review the attached material and that we meet thereafter. I'm sure that I'm some instances Staff will have concerns and in other areas they may see opportunity. Our goal is to arrive at a common understanding with the Province and to enlist your assistance in furthering a dialogue with the Feds.
We look forward to meeting with you as soon as reasonably possible.
Moe

---------- Forwarded message ---------
From: **AJ Gill** <AJ.Gill@mnp.ca>
Date: Thu, Jul 13, 2023 at 3:01 PM
Subject: FW: Wine Growers BC project
To: Moe Sihota (moes@telus.net) <moes@telus.net>

Moe,

Thank you for the opportunity to work with you on this project.

Warm Regards,

AJ Gill
DIRECTOR, AG RISK MANAGEMENT RESOURCES

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Impact of Severe Cold on B.C. Grape & Wine Industry

Prepared for Wine Growers of British Columbia

July 12, 2023

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PRAXITY

KINCENTRIC Best Employer CANADA 2019

2022 Freeze Event

Significant decrease in 2023 crop from bud damage + Significant loss of productive capacity due to vine mortality/death = Major Impact on the BC Wine Industry

Contents

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- Industry wide impact
- Distinction between impact on grape growers and wineries

- How existing programsmay address the impact of the freeze event
- Additional supports that may be possible
- Issues with AgriStability that present challenges for wineries

- Areas where the grape & wine industry can immediately engage the BC Ministry of Agriculture and Food to enhance existing programs

- Risk management/insurance programs could be developed to assist BC wineries when grape losses occur

Background

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Industry wide impact

Why lost crop production can't be replaced

- Virtually all BC wineries operate under a land-based licence, which requires:
  - 100% BC grapes or juice
  - At least 2 acres of vineyards adjacent to the production facility
  - Own or lease vineyards that produce sufficient grapes for at least 25% of the winery's total production
- The expected effect on the 2023 BC grape crop is widespread, averaging to an anticipated reduction of 54% [1]
- The BC wine industry and brand is based on wines produced from 100% BC grapes reflecting the local terroir of the winery.
- Even if allowed under licensing, the use of imported grapes by most BC wineries would create consumer confusion and seriously erode the brand of both individual wineries and the BC wine industry as a whole

IN SUMMARY

- BC wineries cannot source grapes from other regions
- The supply of BC grapes is anticipated to be 54% smaller for 2023 and remain smaller (29% to 45%) for the next couple years [1]
- There will not be enough grapes available to supply the production volume of BC wineries
- BC wineries will not be able to produce to capacity

1 Wines of British Columbia – June 2023 Membership Survey: Bud Damage Impact & Response (Cascadia Partners)

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Breaking down the affected businesses

Grapegrowers (primary ag producers)

- Businesses that grow wine grapes for sale to others under contract and/or on the spot market to arm's length parties
- No further processing or wine production

Wineries (secondary production from processing wine grapes in to wine)

1. **True "estate" wineries**
   - Businesses that grow wine grapes that they process into wine for wholesale/retail sale
   - Grapes may be grown in vineyards either owned or leased by the business, but the business does the farming itself (either using it owns labour and supplies or through a contract farming service)
   - The business may buy grapes from grapegrowers, but these purchased grapes are not significant to the overall business and simply meant to supplement the estate winery's own production

3. **Other wineries**
   - Winery businesses that rely primarily on grapes purchased from grapegrowers. These wineries may farm their own grapes as well, but they rely significantly on grapes grown by other grapegrowers to supply their winemaking business
   - ***This category of wineries would likely not qualify as a farming business and would be ineligible for support under existing Ag risk management programs despite being impacted by the loss of BC grape production***

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Why the distinction?

Grapegrowers

- True ag businesses
- Grapegrowers will feel the financial impact earlier in the Fall of 2023 when yields are significant lower than normal
- Financial impact is relatively easy to quantify:
  - Value of reduced grape crop yield
  - Incremental costs of removing dead vines and replanting
- Existing Ag Risk Management programs (AgriInsurance, AgriStability, AgriRecovery, BC Replant) are likely well suited to address the financial impact for these businesses (subject to possible sector specific modifications)

Wineries

- Combination of agricultural and manufacturing/processing businesses
- Because grapes are processed into wine, financial impact from loss in revenue will be felt later, as pre-2023 inventories are depleted and replaced with a much reduced 2023 vintage (less inventory to sell = less revenue)
- Impact will span multiple years since the wine production process can vary between six months (white wines) to three years (aged red wines)
- Financial impact is harder to quantify – extent of lost revenue & profit can be impacted by many factors:
  - Extent of damage in owned or leased vineyards
  - Ability to source grapes from other sources
  - Cost structure of the winery (small vs. larger operations, fixed vs. variable costs)
  - Wine pricing and marketing strategies

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Grapegrowers – timing of financial impact

2023 Crop year

- Lost revenue due to short crop
- Incremental costs to remove dead vines & obtain/plant replacement vines

→

2023/2024

- Continued lost revenue due to "carry on" bud damage & lost productive capacity (dead vines)
- Incremental costs to obtain/plant replacement vines

→

2024/25/26

- Continued lost revenue due to lost productive capacity prior to replacement vines reaching full production

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Wineries – timing of financial impact

2023 fiscal year →

- Incremental costs to remove dead vines & obtain/plant replacement vines

2024 fiscal year →

- Lost gross margin due to decreased 2023 vintage (early releases)
- Incremental costs to obtain/plant replacement vines

2025/26/27...

- Continued lost gross margin due to decreased 2023 vintage
- "Carry on" effect due to decreased production prior to replacement vines reaching full production

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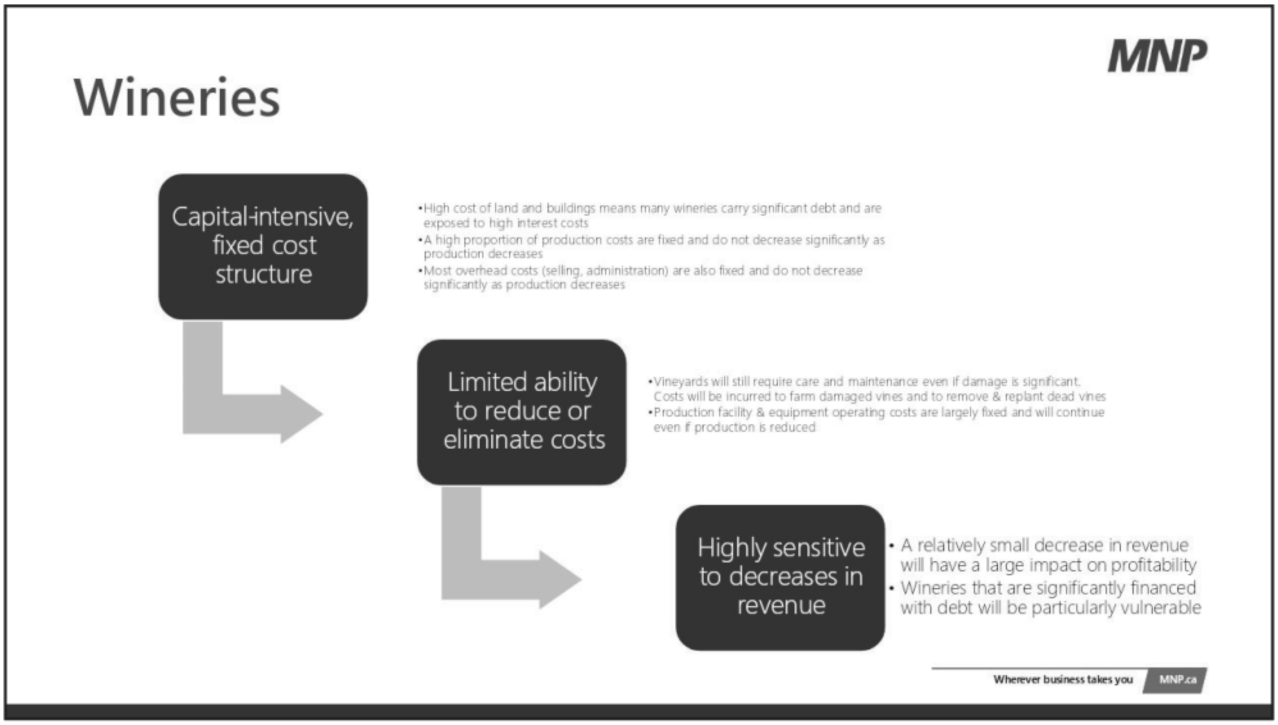
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Wineries
Capital-intensive, fixed cost structure
•High cost of land and buildings means many wineries carry significant debt and are exposed to high interest costs
•A high proportion of production costs are fixed and do not decrease significantly as production decreases
•Most overhead costs (selling, administration) are also fixed and do not decrease significantly as production decreases
Limited ability to reduce or eliminate costs
•Vineyards will still require care and maintenance even if damage is significant. Costs will be incurred to farm damaged vines and to remove & replant dead vines
•Production facility & equipment operating costs are largely fixed and will continue even if production is reduced
Highly sensitive to decreases in revenue
• A relatively small decrease in revenue will have a large impact on profitability
• Wineries that are significantly financed with debt will be particularly vulnerable
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Recovery

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Recovery

CANADA / BRITISH COLUMBIA BUSINESS RISK MANAGEMENT PROGRAMS

Business Risk Management (BRM) provides a suite of programs to help protect against financial losses to agricultural production. The design of programs is set out in national agreements and negotiated between Canada and the provinces.

There is a set of overarching policy principles incorporated into program design. These include farmers sharing in the cost of a loss, not masking market or production signals and consistency with international trade agreements. There are more program specific guidelines and regulations, also negotiated nationally, which provinces must comply with in their program design.

There are *four* programs to consider:

AgriInsurance (also known as production or crop insurance)

AgriStability

AgriInvest

AgriRecovery

AgriInsurance

Coverage against the death or top loss of vines

- Deductibles of 1% or 5% available. Deductible is determined based on the total number of vines for an enterprise.
- "New planting" rider was recently developed. It is designed for larger operations by determining the deductible on just the number of vines planted in a year. Coverage is available for two years commencing November 1 following planting.
- In 2023, coverage of up to $9.50 per vine was available (this include cost of plant $4.50 + $5.00 removal and planting)
- There seems to be gaps with the replacement of vines as the values used under AgriInsurance may not have kept up to date

Production Guarantee

- Individualized protection against a loss of yield due to an insurable peril. A farm's own historic production is used to determine coverage.
- Deductibles on 50%, 70% and 80% are offered
- Maximum values per pound set by variety from data provided by the BC Grape Council. Farmers may elect to insure grapes at less than maximum value.
- All premium rates must be certified by and independent actuary.

AgriStability

- AgriStability provides coverage on 70% of a farm's margin based on a fiveyear Olympic average (the best and worst years are removed from the calculation
- The current year margin is compared to the Olympic average. Any margin decline beyond 30% is compensated at 80%. The 30% loss trigger is based on WTO trade rules.
- The margin each year is determined by subtracting allowable expenses from allowable revenue.
- For vineyards, grape sales are generally allowable revenue.
- For land-based wineries, revenue is based on the value of wine sold based on a wholesale price (does not include retail mark up or hospitality prices) + any sales of juice or grapes.
- Subsidized program payments, such as AgriInsurance, are also considered allowable revenue.
- Wine made from purchased grapes or juice will be excluded from revenue.
- Allowable expenses are generally cash or input costs. These include labour, fuel, crop inputs and vine replacement costs.
- Allowable expenses do not include capital costs like equipment purchases or depreciation, land leasing, machinery repairs, or non-arms length labour (owner or family).
- Allowable revenue and expenses are based on amounts reported for tax purposes.
- The program also requires information on productive capacity (acres) and production (wine or juice) held in inventory at the end of each tax year.
- The tax year and structure of business enterprises does impact how

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AgriStability Issues

Is wine production eligible for coverage?

4.3.9 Processing and Resale

Income and expenses from processing are allowable for a Participant if:

- the commodities were produced on the Participant's agricultural operation; and
- the income and expenses were reported as Farming Income (or loss) by that Participant to the CRA for income tax purposes.

"Processing" is defined as changing the state of the commodity (e.g., milk to cheese, strawberries to jam, beeswax to candles, beef to beef jerky, grain to flour).

Income and expenses related to the purchase of commodities for resale are not allowable.

A purchased commodity may be considered purchased for resale if the Administrator determines that the Participant has not made an appreciable contribution to the commodity's growth or its increase in value. For example, in the case of cattle an appreciable contribution will have been made if the animals are fed for at least 60 days or gain an average of at least 90 kilograms.

Canadian Agricultural Partnership – Consolidated AgriStability Program Guidelines

- Both grapes and wine are listed as eligible commodities under Fruit on the Commodity List included in the *2022 AgriStability and AgriInvest Program – Corporation Co-operative and Special Individual Harmonized Guide (AgriStability)*
- The following inventory codes are published:

4996	Grapes (non bearing year)
4995	Grapes (planting year)
4997	Grapes (year 1 of production)
4998	Grapes (year 2+ of production)
5066	Wine (bottled)
5067	Wine (bulk/pre-bottled)

Although wine is not specifically mentioned in the processing examples, the inclusion of bottled and bulk wine in the commodity listings would seem to indicate wine is an allowable item. CONFIRMATION OF POTENTIAL COVERAGE FOR BULK & BOTTLED WINE UNDER THE AGRISTABILITY PROGRAM IS NEEDED TO ELIMINATE UNCERTAINTY

AgriStability Issues

- What level of purchased grapes is allowable before a winery is considered a non-farming business?

Many winery businesses purchase grapes at harvest time or under crop share arrangements in order to supplement their own production & facilitate growth

The Program Guidelines indicate that income and expenses related to the purchase of commodities for resale are not allowable

CLARITY IS NEEDED REGARDING WHAT LEVEL OF ANNUAL PRODUCTION FROM PURCHASED GRAPES &/OR BULK WINE IS PERMISSIBLE BEFORE A WINERY BUSINESS IS CONSIDERED INELIGIBLE FOR PROGRAM COVERAGE

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AgriStability Issues

Structural Issues – grapegrowing & farming in separate entities

- Winery businesses are often structured such that the vineyard (grapegrowing) operation is conducted in a separate entity from the winemaking operation.
- In these cases, the vineyard entity would be reporting farming income for tax purposes.
- There would be a non-arm's length sale of grapes to the winemaking entity.
- The winemaking entity would report regular business income for tax purposes.

WILL A MULTIPLE-ENTITY STRUCTURE FOR WINERY BUSINESS STILL BE ALLOWED TO PARTICIPATE IN AGRISTABILITY AS A WHOLE FARM BUSINESS ON A COMBINED BASIS, WITH WINE AS THE ENDING COMMODITY?

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AgriStability Issues

No published prices for grapes or wine

- Unlike other agricultural commodities, there are no pricing guidelines published for grapes or wine
- Grapegrowers can price their revenue based on arm's length sales or BC industry data (however surveys tend to lag more than a year behind before being published)
- There are no industry pricing guidelines for wine since it is not a commodity (a possible option might be to use the BCLDB wholesale price established for each wine product of each winery)
- It is unclear whether prices from arm's length sales of wine will be acceptable
- CLARITY ON HOW GRAPE AND WINE REVENUE AND INVENTORIES WILL BE VALUED IS NEEDED

AgriStability

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What Grape and Wine Producer Associations Can Do Now

- Request the Province seek a late participation provision from Canada. This will allow all non-AgriStability participants to enroll for 2023. Currently, any payments generated under late participation are reduced by 20%. It is seldom an issue to receive this provision following significant loss events. (Province can fund the 20% reduction as it has in the past during the fires)
- Land based wineries have not been significant users of AgriStability. It is imperative the sector receive a clear picture, as soon as possible, on how claims will be verified by the Ministry of Agriculture and Food. It will likely require outside expertise to help develop verification processes in a timely way. It is not unreasonable to request the Province pay for this assistance as the work would eventually need to be done by the province at some point. 60% of the Province's administration costs are paid by Canada.
- AgriStability is based on straightforward concepts however it can be intimidating and time consuming to file an application. Businesses of any size primarily use their accountants to prepare the submission. Businesses and their accountants need a clear indication of how the program will apply to wine production, what information is required and when.
- AgriStability can and does provide substantial support. Governments do not require additional funding from their respective Treasury Boards to provide AgriStability and will usually only consider the need for additional support for loss events after considering the impact of AgriStability.

AgriInvest

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- AgriInvest is a straightforward savings program where governments match annual producer contributions.
- The maximum matchable contribution is 1% of annual net sales to a maximum of $10,000 each year.
- Contributions are tax sheltered until withdrawn.
- Government contributions and interest earned must be withdrawn first. These withdrawals are considered taxable income in the year they are withdrawn.
- There are no restrictions on what AgriInvest withdrawals can be used for.
- Businesses who have participated for several year may have significant funds which can be used to help offset 2023 revenue losses and increased costs due to replanting.

AgriRecovery

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- AgriRecovery is a framework which sets out how governments may provide additional support for the extraordinary expenses associated with a severe loss event.
- Each AgriRecovery response is developed specifically for loss event it is intended to respond to.
- There is a set of criteria a loss event must meet to qualify for an AgriRecovery response.
- AgriRecovery guidelines explicitly state responses cannot compensate for production or revenue losses. These losses are to be covered by AgriInsurance and AgriStability.
- Any AgriRecovery response must consider the sector's capacity to manage to loss with the full utilization of AgriInsurance and AgriStability.
- AgriRecovery payments for expenses considered allowable under AgriStability are considered allowable revenue under that program meaning AgriRecovery payments can reduce AgriStability payments.
- Industry may want to fully inventory their extraordinary costs and ask the province to consider AgriRecovery.

Possible Additional Supports

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ADVANCE PAYMENTS PROGRAM

- This is a federal loan guarantee program offering up to $350,000 interest free in 2023.
- The normal interest free amount is only $100,000 but a temporary increase is in place to help farmers deal with high input and interest rate costs.
- Funds are accessed through cooperating farm organizations around the country.

Possible Additional Supports

PERENNIAL CROP RENEWAL (Replant) PROGRAM

- This program is intended to assist producers switch crop varieties to leverage technological advancements, better meet market conditions or be better adapted to the sites they are planted on.
- It is not a risk management program and is not intended to compensate for losses due to severe weather.
- The BC Grape Council is currently conducting an "Opportunities Assessment" to determine the best use of this program in the grape sector. It is anticipated no funding will be available under this program until the Opportunities Assessment is complete and only for projects which meet, yet to be established, criteria
- The severe winter freeze has provided some indication of the site suitability for grape varieties.
- Industry may wish to pursue access to the Perennial Crop Renewal program for switching to more cold tolerant varieties on susceptible sites.

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Possible Additional Supports

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TEMPORARY LICENSING EXEMPTIONS

- There has been recent discussion regarding a temporary exemption from the requirement of a land-based winery to only produce wine from BC grapes
- It is relatively straightforward for land-based wineries to switch to commercial wine production and use grapes, or juice sourced from outside BC.
- Switching from a land-based winery to a commercial winery has significant ramifications to revenue, pricing, marketing, profitability, labeling and in re-establishing classification back to a land-based winery.
- The implications are such that some wineries would reduce their production to just wines from BC grapes or be unable to survive the less favorable treatment of commercial wineries.
- The wine industry should clearly articulate the ramifications of changing to a commercial winery.
- Licensing exemptions are not in the direct control of the Agriculture Ministry and cooperation from the Liquor Distribution Branch is required. Trade issues must be considered and may be a barrier.
- BC VQA branding requirements should not be changed

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Possible Additional Supports

SUSTAINABLE CANADIAN AGRICULTURE PARTNERSHIP (SCAP) & WINE SECTOR SUPPORT PROGRAM (WSSP)

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- Many wineries may not qualify for assistance under existing Ag BRM programs because they purchase a significant portion of their grapes
- Agriculture and Agri Food Canada is currently in year two of the two-year Wine Sector Support Program (WSSP) with the following stated objective:

  The program aims to provide shortterm financial support to licensed Canadian wineries as they transition and adapt to ongoing and emerging challenges impacting the financial resilience and competitiveness of the wine industry.

- Competitiveness and resiliency are cornerstones of SCAP
- The current WSSP bases funding on the amount of wine put into production each year, regardless of whether the grapes were grown by the winery or purchased
- It may be possible to adapt or expand the parameters of the Wine Sector Support Program to help wineries adapt to the impact caused by the severe reduction in BC grape production

Actions Needed

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Engaging with Government

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- It is imperative for industry to recognize the objectives of government and the agriculture sector are quite closely aligned. Governments do value the contribution of the grape and wine industry to the BC economy and have a vested interest in a successful sector that can return to full production quickly.
- Governments must balance the needs and wants of all sectors and citizens. Ministers must receive approval from Cabinet and Treasury Board to access additional funding. Agriculture is a rather small player levering against large and numerous competing demands on funding.
- An agricultural industry sector will always have a greater chance of success accessing funding through existing programs.
- Agricultural programming is always governed by eligibility criteria and guidelines to ensure programs meet their intended purpose. Sectors which invest the time and effort into understanding programs and customize their requests to comply with program guidelines are more successful.
- The grape and wine sector is a unique combination of primary agriculture and secondary processing. As a result, multiple risk management products/programs are required to cover the broad range of risks.

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CANADA / BRITISH COLUMBIA BUSINESS RISK MANAGEMENT (BRM) PROGRAMS

The BRM Branch of the Ministry of Agriculture and Food has an existing and active grape advisory committee. Industry organizations are provided an opportunity to nominate producer committee members. Association employees have an open invitation to attend meetings as guests.

Producer representatives provide valuable insight into industry issues but tend to have a narrow focus based on their individual circumstance. In the past, Industry organizations have not consistently collated sector-wide issues to present to the advisory committee through their representatives.

The Grape Advisory Committee is a good opportunity to have issues around AgriInsurance and AgriStability addressed.

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Consultation Opportunities

CANADA / BRITISH COLUMBIA

BUSINESS RISK MANAGEMENT PROGRAMS

AgriInsurance

- Methodology and data sources for establishing insurable values for vines, top loss and grape varieties.
- Adjusting procedures
- Program design and coverage features
- Communication material

AgriStability

- Many of the current key issues were identified earlier in this presentation and likely require a special project to be addressed quickly.
- The Grape Advisory Committee is well suited to ensuring the AgriStability program is kept up to date on an ongoing basis.

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Managing Future Risk

Managing Future Risk
to the BC Wine Industry From Grape Crop Losses

- Canada / British Columbia BRM programs are designed primarily to cover primary producers (ex. grape growers).
- AgriStability may cover some of the loss in revenue for wineries due to a drop in their own production. There will be gaps.
- The wine industry may wish to look to the private insurance sector to develop additional products to cover against income losses where grape yields or quality are significantly reduced.
- There are multiple possible approaches to this. For simplicity they can be grouped into three general categories; weather derivatives, industry averages and individual production.
- Weather derivatives are the most straight forward and are offered by numerous companies. They are based on measurable weather criteria from specific weather stations. Average temperatures, minimum and maximum temperatures, sunlight, growing degree days or a customized combination of factors can be used. There needs to be sufficient historic data to evaluate the risk of future events.
- Weather derivatives have the advantage of being relatively inexpensive if payment triggers are set for only the most severe conditions. It is possible to provide options of weather stations and payment triggers. Coverage is not individualized so administration is straightforward.
- The wine industry could use weather derivatives against yield losses where specific weather conditions correlate well to yield. They would also be well suited to grape quality.

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Managing Future Risk
to the BC Wine Industry From Grape Crop Losses

- Industry averages will be more complex and expensive than weather derivatives.
- Coverage based on industry averages would require reliable data on industry average yields and careful delineation of regions or areas used to determine averages.
- Grape production has not been stable, and yields can fluctuate substantially as producers strive for quality over quantity. It may only be feasible to set payment triggers at very severe loss levels.
- There are companies on the prairies offering grain producers individualized revenue protection. It may be possible to customize these types of products to the wine industry.
- More research is required to know if these types of products might be possible.

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Impact of Severe Cold on B.C. Grapes & Wine Industry – *Brief Summary*

Prepared for Wine Growers of British Columbia

*This **BRIEF SUMMARY** compliments the more detailed Briefing Document and is intended to summarize and prioritize where industry and government should concentrate their efforts to enhance recovery.*

BC wine grape crop yields have fallen as much as 30% below historical levels because of changes in BC's climate. This was compounded by the devastating climate-change related freeze events in December 2022 resulting in a crop reduction of 54% - forecasted to result in $133 million in direct revenue lost to the BC wine industry with over $200 million in indirect economic revenue loss to suppliers, retailers, restaurants etc.

Businesses which face significant financial uncertainty will act conservatively and indecisively. The impact of delays in financial assistance will be for wineries to consider cuts to production and associated marketing, retail and related hospitality activities and employee layoffs.

Background:

The 2022 Freeze event caused both damage to buds & grapes - & loss on vines (longer term loss of productive capacity):

- 54% reduction in grape and wine production for the 2023 vintage.
- 45% of total planted acreage suffering long-term damage.
- 29% of total planted acreage needing to be replaced.

- BC wineries cannot economically source grapes from other regions & will not be able to produce to capacity.
- The Freeze event will impact grape growers & wineries differently.
- Grape growers will feel the financial impact earlier in the Fall of 2023 when yields are significantly lower than normal
- Wineries will be impacted later and for a longer period as pre-2023 inventories are depleted and replaced with a much-reduced 2023 vintage (less inventory to sell = less revenue).
- Both groups will feel the effect of loss of vineyard capacity and the cost of vine replacement
- Some wineries rely primarily on grapes purchased from independent growers. This category of wineries would likely not qualify as a farming business and would be ineligible for support under existing Ag risk management programs despite being impacted by the loss of B.C. grape production.

Recovery:

- Business Risk Management (BRM) provides a suite of programs to help protect against financial losses to agricultural production. The design of programs is set out in national agreements and negotiated between Canada and the provinces.
- Existing programs:
  - AgriInsurance (also known as production or crop insurance)
  - AgriStability
  - AgriInvest
  - AgriRecovery
- These programs have the potential to work effectively for grape growers, but further verification of actual costs related to crop loss and replant are needed. There are gaps and challenges for wineries

AgriRecovery:

- It is becoming apparent the current prices of replacement grape vines are well above the value of coverage provided by AgriInsurance. The AgriInsurance coverage is intended to offset the costs of dead vine removal, the purchase of replacement vines and the cost to plant those vines. Early indications are the available coverage of $9.50 per vine is only slightly above vine replacement cost.
- The grape sector has yet to identify any other extraordinary costs, beyond the cost of vines, associated with replanting grapes. An AgriRecovery initiative was recently announced in Ontario and Nova Scotia for grapes damaged by weather. It may be helpful to review this initiative.
- The BRM Branch and the grape sector should consult on grape replanting costs and any additional extraordinary costs industry identifies. AgriRecovery is a high priority to address because it will continue to be perceived by industry as a potential source of funds until questions around its applicability are resolved. This is something the BRM Branch should be able to resolve quickly. This will help shift industry's focus to other activities and programs.

AgriStability:

- This existing Business Risk Management (BRM) program should provide meaningful support to grape production portion of businesses and to the estate wineries which only use their own grapes to produce wine.
- Maximizing program effectiveness requires immediate action in these areas.

1. LATE PARTICIPATION
   - Canada and BC can agree now to allow non-participants to the program to enroll late. The nature of the grape losses in 2023 clearly meet the requirements to enact this provision.

2. CLARITY ON PROGRAM RULES AND GUIDELINE INTERPRETATION
   - Clarify what percentage of purchased grapes will allowed for a winery to be eligible.
   - Benchmark Production Units (BPUs) should be reviewed and updated.
   - Confirm how structural change adjustments for productive capacity will be applied given the production cycle for wineries extends beyond one year.
   - The methodology for valuing grapes and wine (both bulk wine & bottled wine) should be reviewed and documented.
   - Confirm BC is consistent with other provinces (ex. Ontario) regarding how wine is assessed as an ending commodity.

3. INTERIM PAYMENTS
    - AgriStability guidelines already permit interim (advanced) payments based on best estimates of revenue and expenses.
    - Targeted Advance Payments (TAPs) have been used in the past and are an option.
    - Money can flow to producers before their 2023 taxes are filed.
    - A clear understanding by producers, accountants and AgriStability staff increases the use of interim payments to help with replanting costs and reduce the probability of overpayments.

4. COMMUNICATION
    - The program is not well understood when it comes to wine. The mechanics of how AgriStability works for wineries and the corresponding producer-provided data requirements must be clearly communicated to producers and their accountants.
    - Outreach from the Ministry of Agriculture and Food BRM Branch (both in writing and through presentations) will increase industry acceptance of the program, improve data submissions and reduce processing time.

5. FILE REVIEW
    - Not all businesses will track production, revenue or expenses in a way that will facilitate straightforward participation in AgriStability.
    - It may be useful to review existing grape and wine AgriStability files to gauge workload and identify the most common issues encountered in program applications and data submissions.

6. ADDITIONAL RESOURCES
    - The faster program rules and parameters are clarified and communicated the more effective AgriStability will be in responding to the 2023 grape losses.
    - The BRM Branch should consider contracting additional expert resources to:
        - assist in data collection for BPU calculations & the valuation of grapes and wine
        - assist with clarification and documentation of program rules and ensure a professional level of technical writing in communication material.

Possible Additional Supports – Perennial Crop Renewal (Replant) Program

- This program is not intended to help offset weather related losses. It may, however, have some applicability in providing relief for climate change and an incentive for grape producers to be more selective in choosing varietal which will thrive sites.
- The BC Wine Grape Council is overseeing a Market Opportunity Assessment due to be completed in August. This assessment will make recommendations on how this program should be utilized by the grape sector including the need for proper funding.

Possible Additional Supports – Temporary Licensing Exemptions

- There are several B.C. LDB and LCRB policy and licensing requirements linked to the use of BC produced grapes. The severe drop in BC production in 2023, due entirely to adverse weather, will have serious implications to wineries.
- It will be necessary to grant temporary reduction or exemption from BC LDB sales agreement and Agricultural Land Reserve % and minimum acreage regulations.
- It is relatively straightforward for a land-based winery to switch to the commercial production of wine from grapes purchased from outside BC.
- Further communication is needed for wineries to fully understand the implications on profit and brand for land-based wineries to make this switch and the implications of switching back once BC production normalizes.
- Land-based and commercial Wineries should be treated equally regarding certified 100% wine including the removal of common ownership and transfer of wine restrictions.

Possible Additional Supports – Wine Sector Support Program (WSSP)

- Many wineries may not qualify for assistance under existing Ag BRM programs because they purchase a significant portion of their grapes 28.7% of wine grape acreage is independent grower operated.
- The now expired Wine Sector Support Program (WSSP) based funding on the amount of wine put into production each year, regardless of whether the grapes were grown by the winery or purchased.

Managing Future Risk:

- The Industry must coordinate broader (i.e., including various independent growers) representation on the existing BC BRM Grape Advisory Committee.
- There is opportunity to highlight issues with existing BRM programs when it comes to grapes & wine & provide suggestions for changes.
- Industry should investigate what might be possible through private insurance. Industry will likely need some funding and contracted expertise to conduct this investigation.
- It is believed there is provision within the SUSTAINABLE CANADIAN AGRICULTURE PARTNERSHIP (SCAP) to provide funding. The Industry will be required to invest time in project management and consultation, both internally and externally.

Actions Needed

Immediate Response to an Urgent Situation

We have heard directly from grape growers and winery business owners that financial assistance is urgently needed to avoid significant job losses and business failures.

***Immediate** action is needed is these areas:*

1. *AgriRecovery request from the province to help with the Gaps left form the Crop Insurance coverage to cover the current values and farm practices.*

2. *Immediately agreement to allow late enrolment for 2023 coverage for grape growers and wineries affected by the 2022 freeze event without penalties. The nature of the grape losses in 2023 clearly meet the requirement to enact this provision.*

3. *Confirm the Province's policy with respect to the eligibility of wine as an agricultural commodity. Clarity is needed around the amount of production from purchased grapes that will be permitted.*
   - *Develop and communicate clear Program guidelines for wineries, including:*
     - *Pricing of wine inventories and production*
     - *Structural change adjustments*
     - *Establishment of Benchmark Production Units (BPUs)*

4. *Reinforce commitment to the Perennial Crop Renewal Program currently underway to ensure the Replant Program is adequately funded based on the magnitude of vine losses and current cost to replace and replant.*

5. *Modernization of B.C. LDB Sale Agreements and LCRB licensing requirements.*

6. *A significant portion of BC's wineries may be determined to be ineligible for existing Agriculture Business Risk Management programs due to the proportion of their production from purchased grapes. A commitment is needed to either allow these wineries to participate in AgriStability or to immediately develop and implement a new, parallel income protection program(s) to ensure timely assistance flows to these wineries. The recently completed Wine Sector Support Program may provide a model for such a program.*

7. *Expedite the implementation of a Targeted Advance Payments (TAP) program to advance a portion of expected payments.*

Ministry of Agriculture and Food
BRIEFING NOTE FOR MINISTER FOR INFORMATION

Ref: 200630 Date: June 22, 2023

Title: British Columbia's (B.C.) Grape Crop Shortfalls and Impact to Wine Programs and Classifications

Issue: Impact of B.C.'s Grape Crop Shortfall on BC Vintners Quality Alliance (BC VQA) requirements, land-based winery classification and Agriculture Land Reserve (ALR) wine processing requirements

Background:
Climate-change related freeze events across B.C. in December 2022 have resulted in wine grape crops losses. Vintners Quality Alliance (VQA) labelling; 'land-based winery' classification[1], and processing on the ALR, each have distinct regulated requirements for B.C. grape usage. The BC VQA system together with the land based/commercial winery classification provide markup benefits to wine processors through their sales agreements with the Liquor Distribution Branch (LDB). The ALR requirements stipulate that wineries must meet certain B.C. grape input requirements to build and operate on the land. Access to B.C. grapes therefore impacts markup exemptions/rebates and processing options. Wineries can be impacted by all three, two, or one of these regulated requirements.

The BC VQA program is an 'appellation of origin' system that ensures qualifying wines meet minimum quality requirements including labeling and use of correct geographical indicators for wines made from grapes in different regions. Only wine made with 100 percent B.C. grapes can participate in the BC VQA program. There are over 200 wineries that participate in the BC VQA program, representing approximately 80 percent of all licensed grape wineries in B.C. and over 95 percent of all wine produced in B.C.

Wineries who sell BC VQA are entitled to a range of mark-up rebates/exemptions depending on whether they are classified as a land based or commercial winery (See Appendix 1: Definition of Land based and Commercial Wineries). Land-based wineries receive a 50 percent rebate mark up when selling through LDB channels and markup exemption on BC VQA and non-BC VQA wines delivered directly to private re-sellers and direct to consumers. Commercial wineries also receive a 50 percent rebate for BC VQA sales through LDB channels. (See Appendices 2 and 4). In 2021, there were 339 land-based wineries and 76 commercial wineries operating in BC.

[1] In April 1998, the then Liquor Control and Licensing Branch (LCLB) eliminated the estate winery license and the LDB developed a new class of wineries: "land-based wineries".

Wineries are further impacted by grape use requirements when they are operating on the ALR. Under the Agriculture Land Reserve Use Regulation (ALUR) to process wine on the ALR, at least 50 percent of the agricultural product must be grown on the land, or, if their farm size permits, procured from another B.C. farm (see Appendix 3). If an owner/operator is found to be in contravention of these regulations, they could theoretically be subject to compliance and enforcement action. This is unlikely because of the inherent challenges in monitoring the inputs brought into a processing facility.

The jurisdiction of the BC VQA and rebate system for wine is intertwined between B.C. Ministries. The BC VQA legislation (Wines of a Marked Quality Regulation [WMQR]) falls under the jurisdiction of the Ministry of Agriculture and Food (AF), with the responsibility for enforcement and operation of the program delegated to the BC Winery Authority (BCWA) through regulation. The *Agricultural Land Commission Act* (ALCA) and ALUR also falls under AF jurisdiction. While, the classification of land based, and commercial wineries and the respective markup benefits falls under the jurisdiction of the Ministry of Public Safety and Solicitor General's LDB.

Discussion:
In the past, the sector has requested dealing with "short crop" seasons by granting exemptions to the required proportion of B.C. grapes while still allowing the BC VQA label. However, these changes are unlikely to result in a stable, long-term sector B.C. wine sector. They could devalue the BC VQA program, result in a loss of consumer confidence and render the program inconsistent with international standards.

The change process would also be complex given the interdependent relationship of the BC VQA and winery classification system. Depending on new allowances, regulatory changes would be needed for the WMQR, and the land-based winery definition, as well as the ALUR, as all three deal with B.C. grape use. It would also require consultation with the Agricultural Land Commission, Local Government and First Nations Consultations and the support of the LDB.

Finally, changes to input requirements in these three areas would water down Government's intent to incentivize the use of agricultural inputs and use the ALR for farming. At present, as per WMQR, wineries have the option to label their wines as blends or not label with a vintage year. While not labelling the vintage year precludes some categories of wine from being designated and receiving markup exemptions or rebates, potentially other support programs could be used to offset their expected losses. Such initiatives include business risk management programming, re-plant programs and others.

Summary:

- The B.C. wine sector has, in the past, requested an exemption with BC VQA labeling requirements to deal with "short-crop" seasons.
- The wine sector is overseen by AF and Ministry of Public Safety and Solicitor General with several regulatory requirements.

- Due to several complex factors, including potential regulatory amendments, it is advisable that the “short-crop” issue is addressed through other means. This can include Business Risk Management programming or re-plant programming, among other things.

Contact: Kelly Rainforth, Director of IGR, 250-952-3266

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Appendix 1: Definition of Land-based and Commerical Wineries

The LDB has two types of winery manufacturing agreement: one for ‘commercial’ wineries, another for ‘land-based’ wineries.

Land-based wineries must:

- make all their products from agricultural inputs (grapes, fruit, honey, rice, etc.) grown or produced in B.C.;
- include at least two acres of grapevines (or fruit trees for fruit wines) and a minimum of one-quarter (25 percent) of the grapes used in wine production must be grown on land owned or leased by the winery, meaning no more than 75 percent of input grapes may be purchased from other wineries or orchards;
- produce wine using traditional winemaking techniques and must not produce wine-based refreshment beverages;
- must only purchase any outside wine or juice used to produce a winery’s vintage from another land-based winery; and,
- must not be owned by a commercial winery.

Any winery not meeting all of the requirements for a land-based winery is classified as a commercial winery.

Appendix 2: Land-based vs commerical wineries comparison

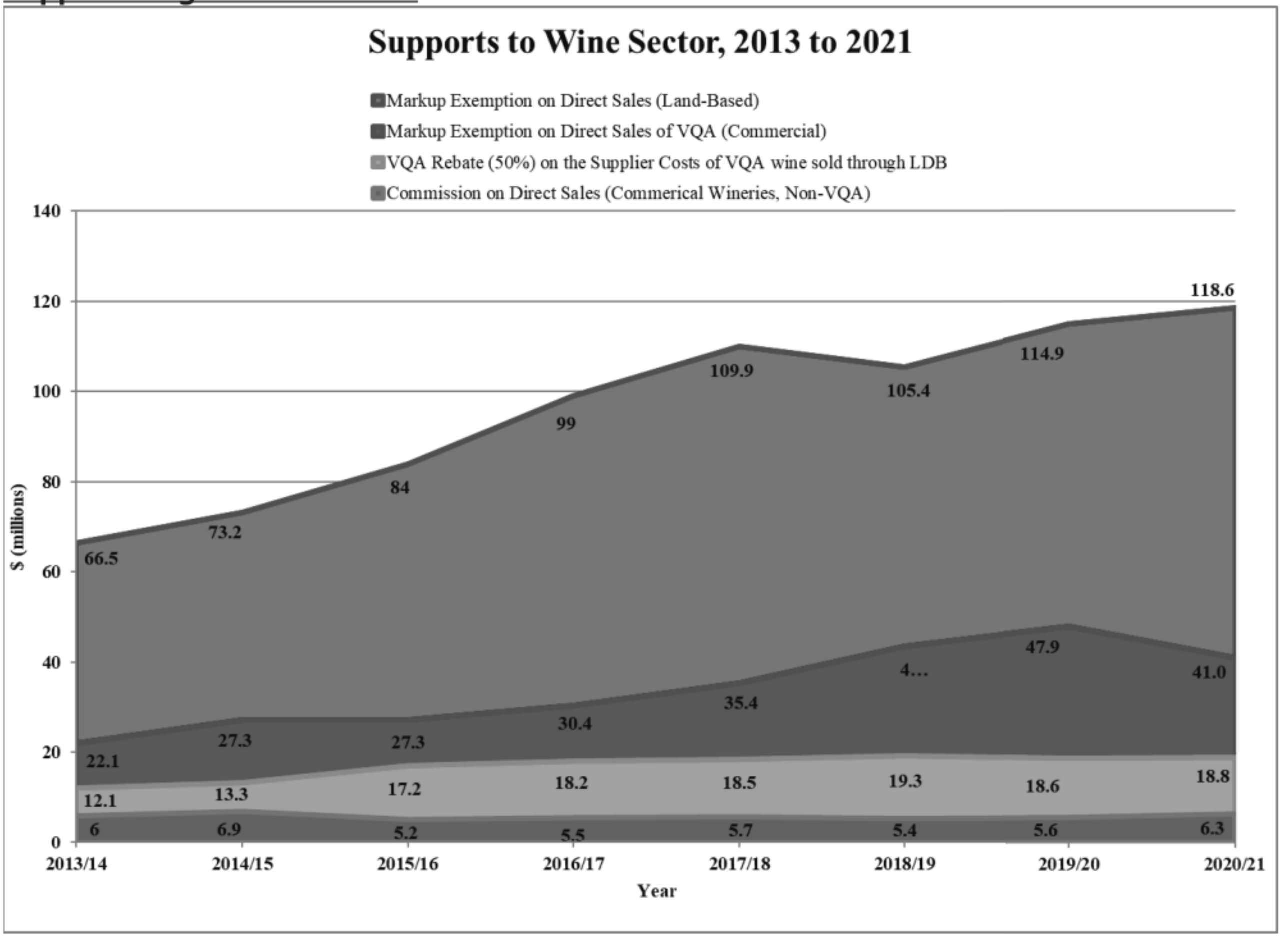
Type of Winery	Input Requirements	Land Requirements	Rebate	Mark-up
Land Based	100 percent B.C. Inputs. A minimum of 25 percent of the product must come from land owned or leased by the winery. May use wine, juice, honey or sakes acquired from other Land Based Wineries but may not use wine, juice or honey acquired from a Commercial Winery. Must not share common ownership or management with a winery classified as a Commercial Winery.	Must own or lease at least two acres of vineyards or orchards at the licensed winery site, or 2.5 acres of rice paddy, and use the land to farm and manufacture the product	Receive a 50 percent rebate for BC VQA sales through LDB channels	Full mark-up applies on non-BC VQA product sold through LDB channels Full mark-up exemption for all direct sales of non-BC VQA and BC VQA product.
Commercial	Inputs may be sourced from B.C. or elsewhere, including the wine itself (i.e., can import bulk)	None	Receive a 50 percent rebate for VQA sales through LDB channels	Remit full mark-up on all sales, except: - Do not remit mark-up on direct sales of VQA products - Receive a 7 percent commission for non-VQA products that are directly-delivered.

Appendix 3: ALUR Winery Requirements

Under the Agriculture Land Reserve Use Regulation (ALUR) least 50 percent of the primary farm product used to make alcohol products produced each year must be harvested from the agricultural land on which the alcohol production facility is located or, if the farm is over 2 hectares, 50 percent of the primary farm product could also come from a farm operation located in B.C.

Appendix 4: Wine Sector Support and Policies

Support Programs & Policies



There are four support programs provided by LDB to wineries: direct delivery; markup exemption for direct sales, rebates on VQA wines, and a commission on direct sales. In 2020/21, a total of **$184.7 million** in financial support was provided by the LDB to the B.C. wine industry through these programs.

1. ***Direct Delivery***
    - ***a.*** Any BC winery, whether land-based or commercial) selling any class of wine (whether VQA or not) may direct deliver its products to its wholesale (including hospitality) customers. With some exceptions (see below) the full wholesale mark-up applies to these sales, as if the winery had sold its product through LDB channels. Merely being permitted to direct deliver its liquor products does not in of itself impose a cost on the LDB, unless one of the other programs applies to the sale. However, it does provide a benefit to commercial wineries that it denies to commercial distilleries.

2. ***Mark-up Exemption on Direct Sales***
    a. Direct sales by land-based wineries (whether delivered to wholesale and hospitality customers or sold to the winery's onsite store) are entirely mark-up exempt. As with all mark-up exemptions, the winery retains the mark-up, instead of remitting it to the LDB. In 2020/21 LDB forfeited **$118.6 million** in revenue through this program, representing a 3.2 percent rise since 2019/20, due to increased production and sales by land-based wineries.
    b. Commercial wineries are not eligible for the general mark-up exemption on their direct sales. However, a commercial winery does qualify for a mark-up exemption on its direct sales of VQA wine, which cost the LDB **$41.0 million** in revenue in 2020/21 (a 14.4 percent decrease since 2019/20, due to increased production and sales of VQA wine by commercial wineries).

3. ***VQA Wine Rebate***
    a. Any winery—whether commercial or land-based—receives a rebate for its VQA wine vintages sold through LDB channels. The LDB pays the winery 50 percent of the duty-paid price for all the winery's VQA products purchased by the LDB. In 2020/21, the LDB rebated **$18.8 million** through this program (an increase of 1.1 percent since 2019/20).

4. ***Direct Sales Commission***
    a. The LDB pays commercial wineries a 7 percent commission on the duty-paid price for all their direct sales of non-VQA wine. In 2020/21, LDB spent **$6.3 million** in commissions through this program (a 12.5 percent increase since 2019/20).

Ministry of Agriculture and Food
BRIEFING NOTE FOR MINISTER FOR INFORMATION

Ref: 200644 Date: June 23, 2023

Title: Wine Sector Backgrounder

Issue: Understanding the landscape of wine in British Columbia

Background:
This background section serves as a snapshot of the wine sector in British Columbia. Appendix 1- History of Wine supports, benefits, and licenses in B.C. provides further details.

Number of Wineries and Vineyards:
- 451 licensed wineries, of which 394 are grape wineries.
  - 335 are land-based wineries, while 63 are commercial (see Appendix 1 for further details on license types).
  - 200 wineries have B.C. VQA SKUs.
- 1,200 vineyards in B.C. operated by wineries (625) and independent growers (609) covering 12,700 acres.

Geographic Distribution:
- The wine industry is heavily concentrated in the Thompson Okanagan Region.
  - 86.8 percent of vineyards and 57 percent of wineries are in this region.
  - 25 percent of wineries are located in the Lower Mainland.

Production Volume and Capacity:
- B.C. does not have a bulk wine region and largely only produces fine wines.
- Land-based wineries produce 9,882,076 L and $235,999,924 in value for 2021.
  - Compound annual Growth Rate (CAGR) (2016-2021): -1.9 percent in volume, +1.2 percent in value.
- Commercial wineries produced 33,865,713 L and $ 376,019,881 in value for 2021.
  - CAGR (2016-2021): +3.2 percent in volume and +6.7 percent in value.

Market Share:
- B.C.'s wine industry holds a smaller market share in the domestic market compared to more established wine regions globally.
- B.C. wineries have not made strong inroads into export markets. In 2021, B.C. exported $8.2 million in wine, a decrease of $5.2 million or 39 percent from 2020; export sales represent about 1 percent of wine produced in B.C.

Revenue, Employment and Economic Impact:
- $840.7 million in revenue and incurred expenses of $668.3 million, resulting in a gross margin of 20.5 percent, which is typical of the alcoholic beverages industry.
- 31.7 percent of wineries (n=113) are owner operated and do not have employees.
- 68.3 percent (n=243) wineries are employers.

  - 28 percent (n= 68) have 1-4 employees,70 percent (n=170) have 5-99 employees and 2 percent (n=5) have 100-499 employees.
- Wages and salaries from the sector in 2020 totaled more than $151.6 million.
- 3,110 direct employees and about 12,000-18,000 are employed indirectly (primary sector, etc).
- Overall economic impact of $3.8 billion, including a $680.9 million impact to GDP (direct, indirect, and induced).

Profitability

- 51 percent of small and medium enterprises (SME) wineries in B.C. are profitable with average net profits of an average of $198,300.
- 49 percent of SME wineries in B.C. are not profitable with average net losses of $360,700.

Diversity of Operations:

- The industry includes a mix of wineries, including family-owned and operated establishments, as well as larger corporate-owned wineries.

Regulatory Environment:

- Wineries operate in a complex and multilayered regulatory environment with multiple regulators.
- The production of wine is regulated by the Liquor and Cannabis Regulation Branch (LCRB) as well as the Liquor Distribution Branch (LDB) particularly if they are land-based, and the Ministry of Agriculture and Food (AF) if they offer B.C. VQA SKUs that are governed by the Wines of Marked Quality Regulation.
- Wineries on the Agricultural Land Reserve (ALR) are also subject to ALR regulations, including the requirement for 50 percent of inputs to be produced by the operator.
- Land-based wineries are required to produce 25 percent of their inputs.

Discussion:
The purpose of the discussion section is to contextualize the potential impacts of decreased B.C. grape yields on the wine sector and government.

The wine sector has continued to grow over the last 5 years, despite a 1.9 percent decrease in the volume of land-based wine. Growth has been supported by growth in acreages counterbalancing declining yields and the rising value of both B.C. land-based and commercial wines on a per litre basis. However, profitability in the sector remains relatively low, which makes it vulnerable to revenue drops, unless expenses also fall.

There is a lot of uncertainty about the quality and the quantity of the 2023 vintage due to the bud damage that occurred in late 2022. Impacts are not fully understood, particularly in terms of the geographic distribution of bud damage related yield losses and implications on a per winery basis related to the quantity of B.C. grapes they can produce, access and make into wine.

The replant program is aimed at addressing long-term grape yield declines, whereas AgriStability's crop insurance supports cashflow during short-term crop losses. Neither program deals with the ability of wineries to buy B.C. grapes.

Commercial wineries can buy up to 100 percent of the grapes they use from B.C. or foreign jurisdictions. B.C. VQA SKUs, however, must be made from B.C. grapes. As such, access to B.C. grapes for commercial wineries is shaped by their willingness to pay.

Land-based wineries must produce at least 25 percent of the grapes they process, and if they are located on the ALR, at least 50 percent of the grapes must be produced by their operation or through contract with another B.C. producer. Therefore, the ability to buy B.C. grapes is not only limited by willingness to pay, but also capped by their regulatory context and environment.

The ability to make wine by buying B.C. grapes is not equal across land-based (both ALR and non-ALR) and commercial wineries because of their regulatory environment (overall) and specific regulatory contexts (ALR or non-ALR). The regulatory constraints that limit the purchase of B.C. grapes means that crop damage disproportionally impacts land-based wineries on the ALR when compared to commercial wineries.

Appendix 1 - History of Wine supports, benefits, and licenses in B.C.

Contact: Zac de Vries, Sr. Program Developer, 778-974-6174

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Appendix 1 - History of Wine supports, benefits, and licenses in B.C.

Background

No liquor sector support program, either in scope or intensity, can compare with those available to the wine sector. What makes wine truly unique, however, is the original rationale of the policies crafted to support British Columbia vintners. Nearly all British Columbia's modern wine sector support programs can be traced back to the original Canada-United States Free Trade Agreement (FTA) in 1990, and efforts to shield, as much as possible, domestic wineries from any detrimental effects of the agreement.

Prior to the FTA, grape prices were artificially inflated by the B.C. Grape Marketing Board. Following the implementation of the FTA, Government and industry worked together to develop the Grape and Wine Sector Adjustment Assistance Initiative (GWSAAI) where growers were paid to remove 2,300 of the Okanagan's 3,300 acres of grape plantings, with the remaining acres consisting of higher-quality grapes better-suited to making premium wines. In 1989, the Quality Enhancement Program was enacted to compensate "Estate wineries" for the phaseout (1989 to 1994) of preferential markups resulting from the FTA. Under this program, a markup rebate was paid directly by the Ministry of Agriculture to estate wineries, based on estate wine sales through LDB stores.

While benefits for the wine industry were originally administered through the Ministry of Agriculture they later transitioned to the LDB.

In 1995, following two years of consultation with stakeholders, the Grape/Wine Industry Strategic Plan and Extended Transition Program was implemented. Its founding rationale was to be a temporary support program to assist wineries through the transition to free trade, and to improve the quality of British Columbia wines through the VQA designation. The plan provided:

- six years of annual payments (capped at $2.3 million) to wineries, scheduled to terminate at the end of the 2000-01 fiscal year.
- Markup exemption on direct sales of VQA wine by commercial wineries, and.
- Paid commissions to wineries, to encourage wineries to supply government liquor stores with VQA wine.

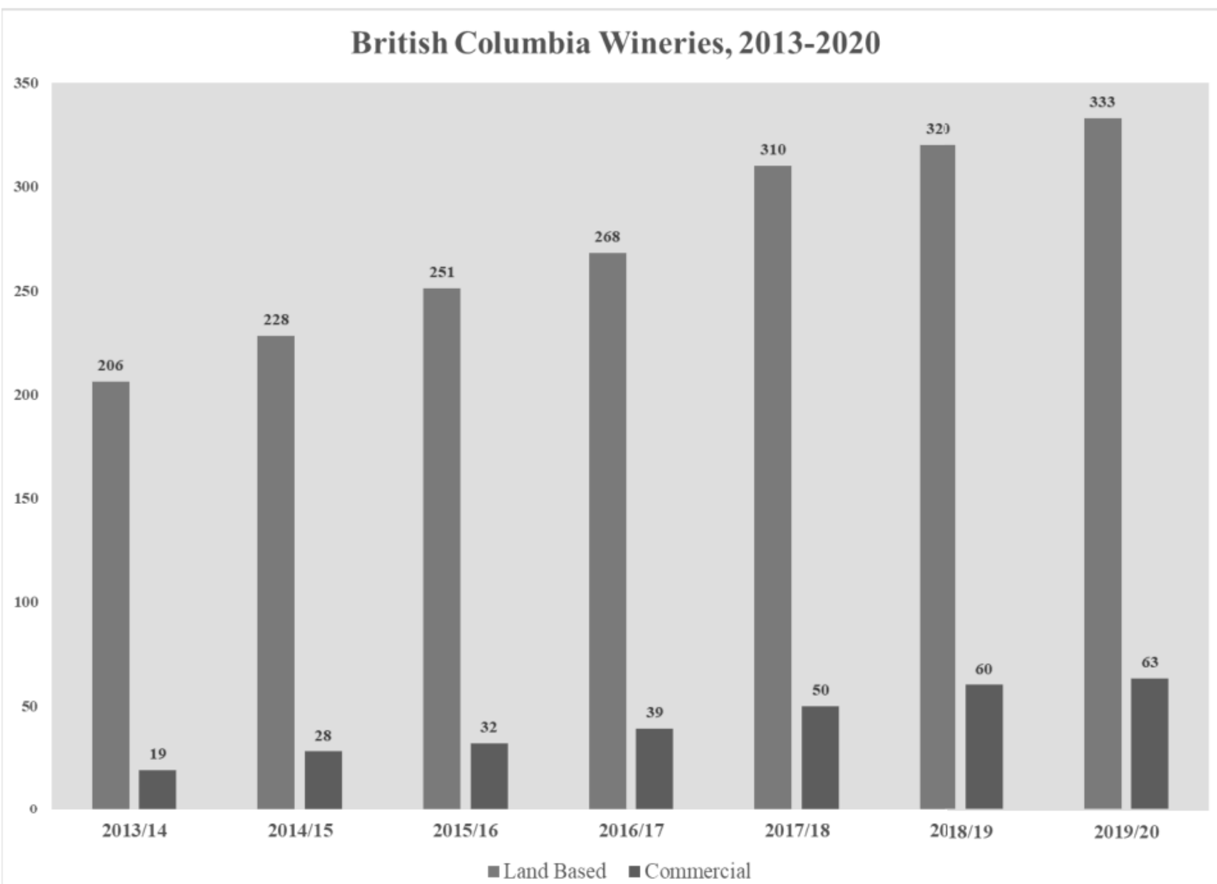
In March 2001, the VQA commission program was extended for the 2001/02 fiscal year, and then in March 2002, it was extended again for another fiscal year. In May 2003, the LDB reduced the maximum cap of VQA commissions by $1.0 million to $1.3 million, and in 2004 it was phased out entirely. One year later, the program was re-instituted as a rebate, instead of a commission. Wineries were paid 50 percent of the price they charge the LDB, and the program was made more generous by rescinding the cap on benefits. Consequently, the cost of the program to the LDB quickly escalated, from $1.3 million in 2003 to $10 million in 2009.

Originally, the package called for the elimination of the markup exemption on direct sales by estate and farmgate wineries to their wholesale customers, but this was abandoned amid concerns from industry.

In April 1998, the then Liquor Control and Licensing Branch (LCLB) eliminated the estate winery license and the LDB developed a new class of wineries — "land-based wineries". LDB amended the former requirements for estate wineries by eliminating the maximum production levels and reducing the previous vineyard size requirement. The requirement to have on-site vineyards at the winery was maintained. The wine sector remains the only liquor industry without maximum production limits for those producers benefiting from subsidy programs.

In 2020/21, LDB sold $1.3 billion worth of wine (not including wine-based refreshment beverages) through its wholesale and retail channels representing 33.4 percent of total sales.

The LDB distinguishes two classes of wineries: land-based and commercial. Any winery not meeting all of the requirements for a land-based winery is classified as a commercial winery. At the end of the 2021 fiscal year, there were 339 land-based wineries and 76 commercial wineries operating in B.C., and both classes of wineries have expanded significantly since 2013.



Land-based wineries must make all their products from agricultural inputs (grapes, fruit, honey, rice, etc.) grown or produced in British Columbia, and the winery site must include at least two acres of grapevines (or fruit trees for fruit wines). In addition, a minimum of one-quarter (25 percent) of the grapes used in wine production must be grown on land owned or leased by the winery, meaning no more than 75 percent of input grapes may be purchased from other wineries or orchards. All wine must be produced using traditional winemaking techniques and the production of wine-based refreshment beverages is prohibited. Any outside wine or juice used to produce a winery's vintage may only be purchased from another land-based winery and there can be no common ownership between a land-based winery and a commercial winery.

In 2020/21, land-based wineries generated $210 million in direct sales to their customers, both though wholesale (including hospitality) sales and retail sales through their onsite stores, while commercial wineries generated $184.7 million in direct sales to those same customers.

One key difference between programs providing support to the wine sector and those providing support to breweries and distilleries, is that there is no maximum production volume limit imposed on any land-based winery that, once exceeded, renders that winery ineligible for certain support programs. Any land-based winery, regardless of sales, size, or annual production, will retain its designation, as long as it continues to meet the applicable criteria. This departs from support programs in the beer and spirit sectors, where benefits are phased out once a brewer or distiller exceeds a specific volume of annual production. Another fundamental distinction between wine and other liquor products is the degree of direct government participation in the industry's marketing activities. For instance, the *Wines of Marked Quality Regulation* establishes the British Columbia Vintner's Quality Alliance (B.C.VQA) program, which is administered by the British Columbia Wine Authority on the government's behalf. Neither the beer nor spirits industries have a program of similar scope.

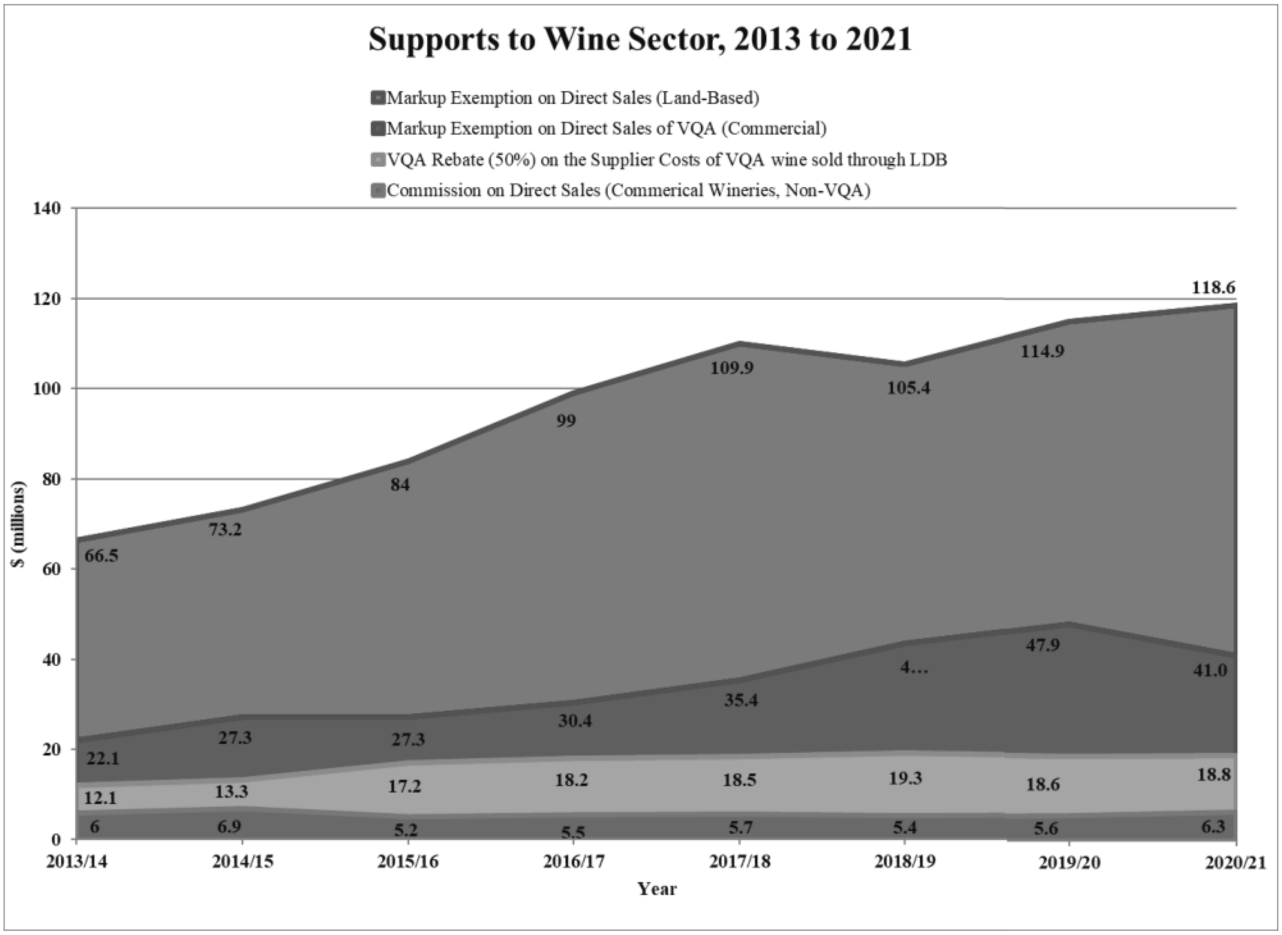
B.C.VQA is a regulatory appellation-of-origin program which ensures that qualifying vintages meet several criteria relating to origin (all agricultural inputs must be grown in B.C., and the wine must be fermented, cellared, and bottled in B.C.) and quality (wines must satisfy a tasting conducted by a panel of experts, and must be free of impurities). According to the B.C. Wine Authority, 200 wineries participate in the program (by having at least one registered SKU certified as VQA), representing 80 percent of all licensed grape wineries in B.C., and producing over 2,100 vintages.

In 2020-21, $66.7 million worth of VQA wine was sold through the LDB's wholesale channels, representing 9.0 percent of all LDB wholesale wine sales and land-based wineries sold $139.1 million worth of VQA wine in direct sales to wholesale customers (including private liquor stores, bars, and restaurants).

To help the wine industry adjust to the increase in excise taxes, the Federal Government created a 2-year, $166.2 million Wine Sector Support Program (2022-2024). The program's stated objective is to "provide short-term financial support to licensed Canadian wineries as they transition and adapt to ongoing and emerging challenges impacting the financial resilience and competitiveness of the wine industry."

Two recurring requests from the B.C. wine industry are allowing VQA wine to be kegged while retaining its mark-up exemption (currently only non-VQA wine may be kegged, with the regular wine mark-up), and exempting all "100 percent B.C." wines from any mark-up on direct sales (and not just VQA varietals) including wine produced entirely in B.C. by commercial wineries.

Support Programs & Policies



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Direct Delivery

Any B.C. winery, whether land-based or commercial) selling any class of wine (whether VQA or not) may direct deliver its products to its wholesale (including hospitality) customers. With some exceptions (see below) the full wholesale mark-up applies to these sales, as if the winery had sold its product through LDB channels. Merely being permitted to direct deliver its liquor products does not in of itself impose a cost on the LDB, unless one of the other programs applies to the sale. However, it *does* provide a benefit to commercial wineries that it denies to commercial *distilleries.*

Mark-up Exemption on Direct Sales

Direct sales by land-based wineries (whether delivered to wholesale and hospitality customers or sold to the winery's onsite store) are entirely mark-up exempt. As with all mark-up exemptions, the winery retains the mark-up, instead of remitting it to the LDB. In 2020/21 LDB forfeited **$118.6 million** in revenue through this program, representing a 3.2 percent rise since 2019/20, due to increased production and sales by land-based wineries.

Commercial wineries are not eligible for the general mark-up exemption on their direct sales. However, a commercial winery does qualify for a mark-up exemption on its direct sales of VQA wine, which cost the LDB **$41.0 million** in revenue in 2020/21 (a 14.4 percent decrease since 2019/20, due to increased production and sales of VQA wine by commercial wineries).

VQA Wine Rebate

Any winery—whether commercial or land-based—receives a rebate for its VQA wine vintages sold through LDB channels. The LDB pays the winery 50 percent of the duty-paid price for all the winery's VQA products purchased by the LDB. In 2020/21, the LDB rebated **$18.8 million** through this program (an increase of 1.1 percent since 2019/20).

Direct Sales Commission

The LDB pays commercial wineries a 7 percent commission on the duty-paid price for all their direct sales of non-VQA wine. In 2020/21, LDB spent **$6.3 million** in commissions through this program (a 12.5 percent increase since 2019/20).

Land Based Vs. Commercial Wineries

Type of Winery	Input Requirements	Land Requirements	Rebate	Mark-up
Land Based	100 percent B.C. Inputs. A minimum of 25 percent of the product must come from land owned or leased by the winery.	Must own or lease at least two acres of vineyards or orchards at the licensed winery site, or 2.5 acres of rice paddy, and use the land to farm and	Receive a 50 percent rebate for BC VQA sales through LDB channels	Full mark-up applies if the product is non-VQA and is sold through LDB channels

	May use wine, juice, honey or sakes acquired from other Land Based Wineries but may not use wine, juice or honey acquired from a Commercial Winery. Must not share common ownership or management with a winery classified as a Commercial Winery.	manufacture the product		
Commercial	Inputs may be sourced from BC or elsewhere, including the wine itself (i.e. can import bulk)	None	Receive a 50 percent rebate for VQA sales through LDB channels	Remit full mark-up on all sales, except: • Do not remit mark-up on direct sales of VQA products • Receive a 7 percent commission for non-VQA products that are directly-delivered.

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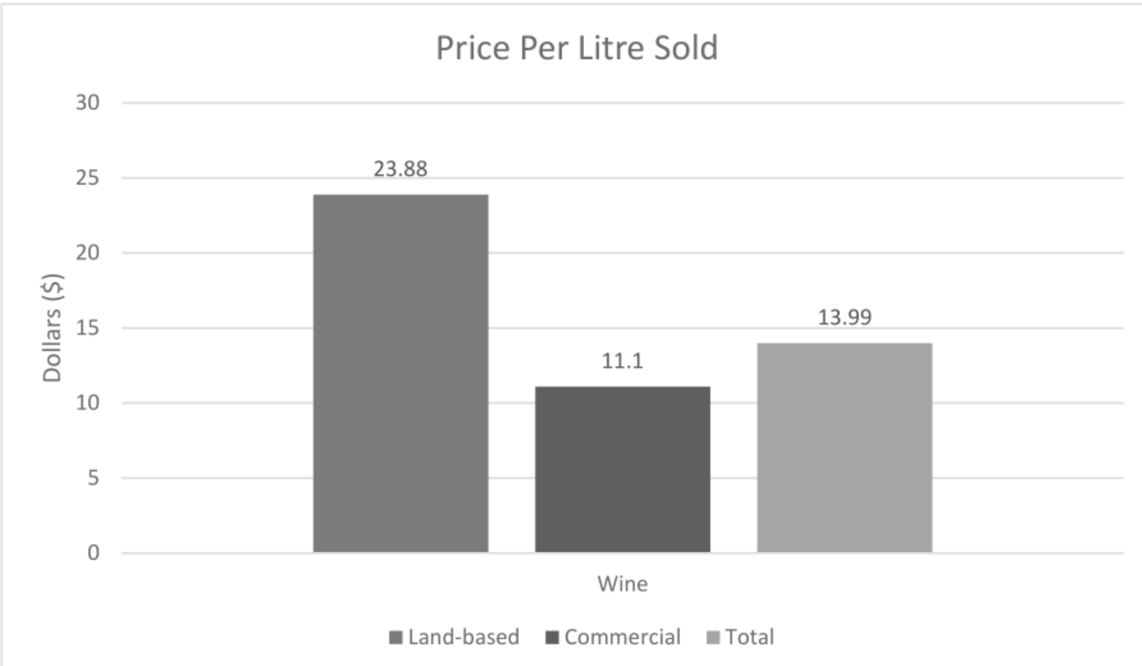
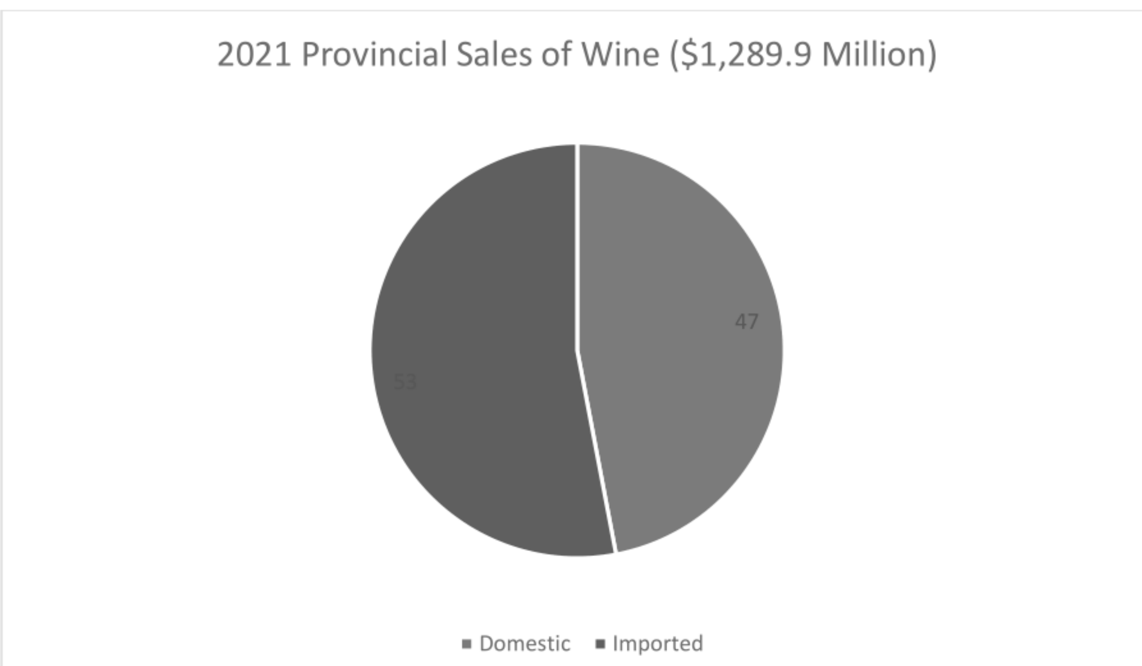
Withheld pursuant to/removed as

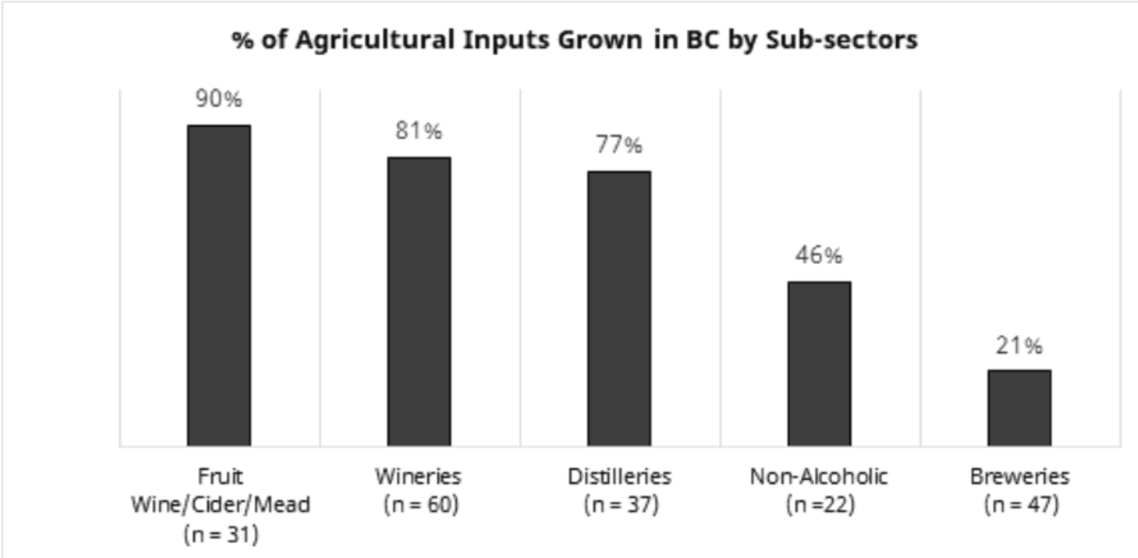
s.13 ; s.17

Beverage Framework

The Ministry of Agriculture and Food, through contract to Quatalyst Research Group created a B.C. Beverage Sector Comprehensive Framework which includes an overview, benchmarking, and a recommended development framework.







Volume and Value of LDB Sales by B.C. Processors, 2016 to 2021[36]

Year	LBW/Craft		Commercial		Total	
	Volume (L)	Value ($)	Volume (L)	Value ($)	Volume (L)	Value ($)
Wineries						
2016	10,862,628	$ 222,482,200	28,934,172	$ 271,261,763	39,796,800	$ 493,743,963
2017	12,923,405	$ 276,385,941	28,299,890	$ 261,273,709	41,223,295	$ 537,659,650
2018	14,518,036	$ 308,452,063	27,565,317	$ 262,019,923	42,083,352	$ 570,471,986
2019	8,963,915	$ 210,820,493	32,528,391	$ 366,314,996	41,492,306	$ 577,135,489
2020	9,424,776	$ 223,796,800	33,235,677	$ 380,176,943	42,660,453	$ 603,973,743
2021	9,882,076	$ 235,999,924	33,865,713	$ 376,019,881	43,747,789	$ 612,019,806
CAGR	-1.9 percent	1.2 percent	3.2 percent	6.7 percent	1.9 percent	4.4 percent

Price Per Litre Sold by B.C. Processors Compared to Average Price of All Beverage Sales in B.C., 2016 to 2021

Year	Wine		Beer		Spirits	
	LBW	Commercial	Craft	Commercial	Craft	Commercial
Sales for Products Produced by B.C. Processors						
2016	$20.48	$9.38	$3.56	$3.37	$44.69	$27.22
2017	$21.39	$9.23	$3.81	$3.42	$44.60	$27.68
2018	$21.25	$9.51	$3.88	$3.49	$43.43	$29.86
2019	$23.52	$11.26	$3.88	$3.54	$45.74	$32.60
2020	$23.75	$11.44	$3.92	$3.56	$46.08	$30.71
2021	$23.88	$11.10	$4.16	$3.51	$48.54	$16.50[38]
CAGR	3.1 percent	3.4 percent	3.2 percent	0.8 percent	1.7 percent	n/a

B.C. Beverage Exports to Outside of Canada, 2017 to 2021, by Sub-Sector

Sub-sector	2017	2018	2019	2020	2021
Breweries	$6,461,230	$7,029,292	$6,022,552	$10,371,622	$4,335,682
Wineries	$9,910,326	$10,275,133	$7,432,182	$13,371,621	$8,161,682
Distilleries	$1,505,926	$4,066,069	$6,234,963	$10,512,603	$12,665,813

Total for alcoholic beverages	**$17,877,482**	**$21,370,494**	**$19,689,697**	**$34,255,846**	**$25,163,177**
Soft drink and ice manufacturing	$37,086,141	$37,828,632	$51,037,676	$56,955,744	$55,192,607
Total	**$54,963,623**	**$59,199,126**	**$70,727,373**	**$91,211,590**	**$80,355,784**
Percent Change of Total Exports		+ 8 percent	+ 20 percent	+ 28 percent	- 12 percent

Source: Trade Data Online

Food and Beverage Processing Asset Map

The Ministry of Agriculture and Food created an asset map to map all food and beverage processing assets, including businesses, supports, and other industry assets, in 2019 and updated it in 2023. Below is a visual representation of the geographic distribution of Wineries in B.C.

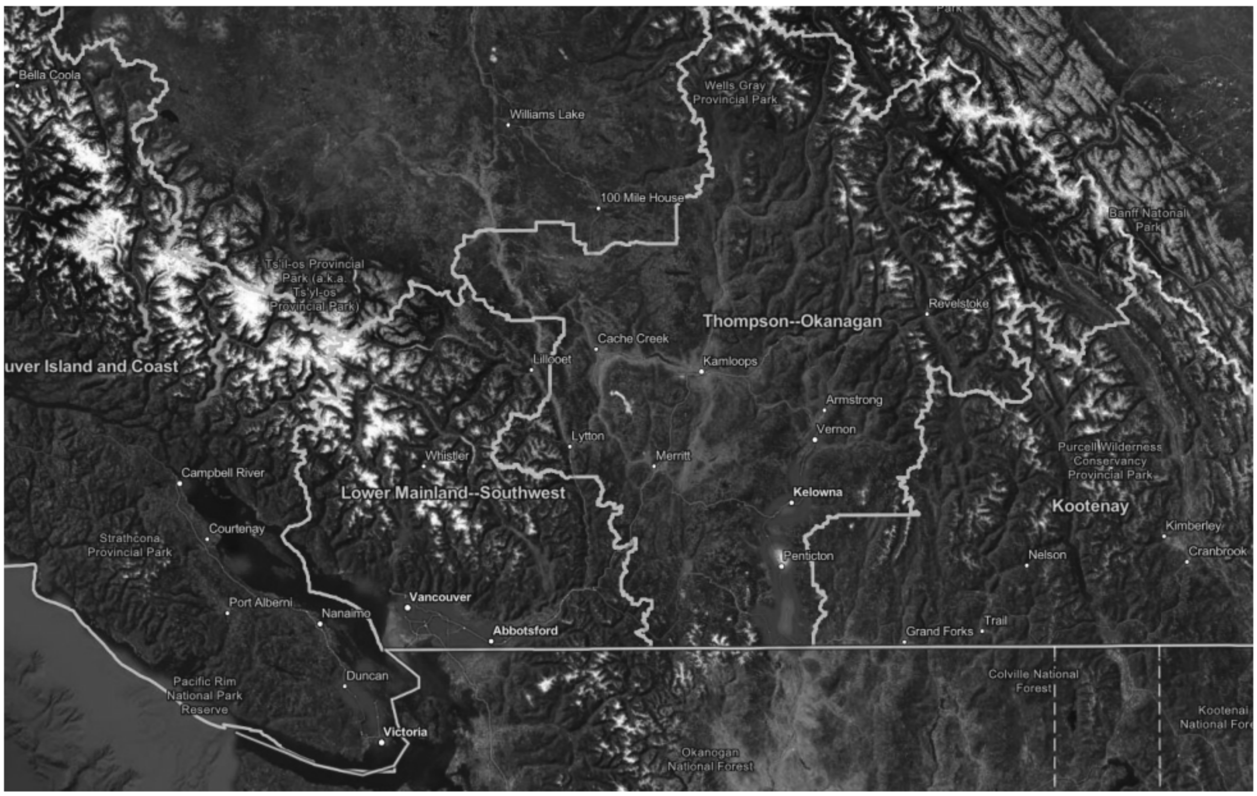


Figure 1: Heat Map depicting geographic distribution of winery assets in British Columbia

Economic Impact Report and Bud Damage

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s.13 Vineyard management practices, mitigation techniques, vine resilience, summer weather conditions, and other factors could lead to less drastic reductions in 2023 yields. The report also assumes that commercial wineries won't pivot to focus on non-VQA SKUs if there is a lack of B.C. grapes to supply their B.C. VQA SKUs (Land Based Wineries). s.13

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Vertically integrated wineries would be eligible for AgriStability if insured, but this support is better for grape growers and wineries will miss out on capturing value.

The Big Three

The largest 3 wineries in B.C. collectively own 18 wineries s.13
s.13

Mission Hill operates roughly 1200 acres through 7 wineries (CedarCreek; Martin's Lane; Sperling; CheckMate; Road 13; Red Barn; Liquidity)

Peller operates roughly 800 acres through 5 wineries (Gray Monk; Sandhill (Calona); Red Rooster; Tinhorn Creek; Black Hills Winery)

Arterra - Operates roughly 1000 acres through 6 wineries (Sumac Ridge Family Estate Winery; Culmina; Nk'Mip; Laughing Stock; Jackson Triggs; See Ya Later Ranch)

From: Koski, Michelle AF:EX (Michelle.Koski@gov.bc.ca)
To: Moe Sihota (moes@telus.net); Pokorny, Peter AF:EX (Peter.Pokorny@gov.bc.ca)
Cc: Avlijas, Stefan AF:EX (Stefan.Avlijas@gov.bc.ca); Miles Prodan (MProdan@winebc.com)
Subject: Re: Wine Growers BC project
Sent: 07/16/2023 14:48:12
Attachments: image005.jpg, image005.jpg
Message Body:

Hello Moe:
Thank you for sending this. We are reviewing the programs for any gaps and we will be in touch shortly to update you on any findings.
Talk soon.

Michelle
Get Outlook for iOS

From: Moe Sihota <moes@telus.net>
Sent: Friday, July 14, 2023 2:06:12 PM
To: Koski, Michelle AF:EX <Michelle.Koski@gov.bc.ca>; Pokorny, Peter AF:EX <Peter.Pokorny@gov.bc.ca>
Cc: Avlijas, Stefan AF:EX <Stefan.Avlijas@gov.bc.ca>; Miles Prodan <MProdan@winebc.com>
Subject: Fwd: FW: Wine Growers BC project

[EXTERNAL] This email came from an external source. Only open attachments or links that you are expecting from a known sender.

Hi Peter, Michelle- trust all is well.
Following Minister Alexis's visit to the Okanagan, Miles asked MNP to take a closer look at Crop Insurance, Agri Stability, AgriRecivery and related programs to ascertain both gaps in assistance and identify potential
Policy responses.
Our key take aways are as follows;

- While current Business Risk Management (BRM) provides a suite of programs to help protect against financial losses to agricultural production and have the potential to work effectively for grape growers, further verification of actual costs related to crop loss and replant are needed. As well, there are gaps and challenges for most wineries who in addition growing, also make value-added wine.
- As a result, significant portion of BC's wineries may be determined to be ineligible for existing Agriculture Business Risk Management programs due to the proportion of their production from purchased grapes.
- It will take two to three years for replanted vine to mature and produce juice. For that interval of time, wineries will not have enough juice to produce sufficient volumes of wine to be profitable. Most wineries do not have sufficient cash reserves to survive two or three years - this is particularly true for the small and medium sized wineries making up most of the industry. Hence the most likely scenario under the prevailing system is that two or three years from now, replanted vines will produce grapes but there won't be enough wineries in existence to purchase those grapes. Without assistance to both growers and producers we will not be able to keep the industry intact.
- This timeline has ripple effects - ranging, for example, from grape prices dropping due to lack of demand to impacts on tourism revenue let alone jobs in both farms and wineries.
- The BC wine industry immediately needs mutual government support includes:

- Federal AgriRecovery request from the province to help with the gaps left form the Crop Insurance coverage to cover the current values and farm practices.
- Confirmation from the Province on eligibility of finished wine as an agricultural commodity

I would ask that you ask your Staff to review the attached material and that we meet thereafter. I'm sure that I'm some instances Staff will have concerns and in other areas they may see opportunity. Our goal is to arrive at a common understanding with the Province and to enlist your assistance in furthering a dialogue with the Feds.
We look forward to meeting with you as soon as reasonably possible.
Moe

---------- Forwarded message ---------
From: **AJ Gill** <AJ.Gill@mnp.ca>
Date: Thu, Jul 13, 2023 at 3:01 PM
Subject: FW: Wine Growers BC project
To: Moe Sihota (moes@telus.net) <moes@telus.net>

Moe,

Thank you for the opportunity to work with you on this project.

Warm Regards,

AJ Gill
DIRECTOR, AG RISK MANAGEMENT RESOURCES

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bZMd5q4NcsP%2BZKZo1fIdd%2FU%3D&reserved=0" \nV1Y

aj.gill@mnp.ca
mnp.ca

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From: Golacka, Magdalena AF:EX (Magdalena.Golacka@gov.bc.ca)
To: Avlijas, Stefan AF:EX (Stefan.Avlijas@gov.bc.ca); s.22 Reid, Lauren AF:EX (Lauren.Reid@gov.bc.ca)
Subject: Meeting Materials for Winery Stakeholders - July 20 @ 1:00pm
Sent: 07/19/2023 16:32:01
Attachments: Fwd: FW: Wine Growers BC project.msg
Message Body:

Good morning Stefan and Lauren,

Please see attached meeting materials for the above-mentioned meeting.

Thank you kindly,

Magdalena Golacka

Administrative Coordinator

Deputy Minister's Office

Ministry of Agriculture and Food

E: magdalena.golacka@gov.bc.ca Ph: 250-978-9841