

**MINISTRY OF JUSTICE
LIQUOR DISTRIBUTION BRANCH
BRIEFING NOTE**

PURPOSE: For INFORMATION for Parliamentary Secretary John Yap

ISSUE: Overview of the Quality Enhancement Program (QEP)

SUMMARY:

- The QEP was implemented in 1995 to support the sale of BC Vintners Quality Alliance (VQA) wines in government liquor stores (BCLS). It included a total program cap of \$2.3 million annually.
- The QEP was phased out in fiscal 2003/2004 and replaced with the current VQA program, which has no cap on total program benefits. Over the last three fiscal years, benefits average \$11.1 million annually.
- The goals of phasing out and replacing the QEP were to increase support for BC VQA wine producers, improve the supply of VQA wine for BCLSs and increase sales of BC VQA wine.

BACKGROUND:

- Parliamentary Secretary Yap has requested an overview of the QEP.
- The QEP was implemented in 1995. It was the original "VQA Program" for BCLSs.
- The QEP was one of a number of initiatives that government implemented after comprehensive strategic planning around concerns raised under international trade agreements (e.g. the North American Free Trade Agreement (NAFTA), the General Agreement on Tariffs and Trade).
- Once implemented, the QEP was administered by the LDB. Before that time, the Ministry of Agriculture, Fisheries and Food administered a program with similar benefits for BC wineries.
- The purpose of the QEP was to support the sale of VQA wines in BCLSs. It had the following features:
 - The total cost of the program was capped at \$2.3 million per fiscal year.
 - There was also a cap at the individual winery level to ensure that large wineries did not receive a disproportionate share of the total cap (i.e. only 13,000 cases or 117,000 litres per year were eligible for the benefits).
 - Wine had to be priced above a certain level to qualify for the program (i.e. a minimum display price of \$8.50 per 750 ml).
 - When the LDB purchased VQA wine to be sold in BCLSs, the LDB paid the winery a commission calculated as a percentage of the BCLS retail price of the wine. The percentage amount declined over time as VQA sales increased in order to stay within the \$2.3 million cap.
 - Wineries were paid once per month.

- The QEP was phased out in fiscal 2003/2004 and a new VQA program was phased in. It was anticipated that the new VQA program would result in an improved supply of VQA wine for BCLSSs and increased sales.
- This new VQA program carries on today, and has the following features:
 - There is no cap on either the total benefits payable under the program or the benefits paid at the individual winery level.
 - When the LDB purchases VQA wine to be sold in BCLSSs, the LDB pays the winery a commission equal to 50 per cent of the winery's asking price (instead of a variable percentage of the BCLS retail price as under the QEP).
 - Wineries are paid once per month.
 - Total benefits payable under the program were initially estimated to be approximately \$6.5 million per year.
 - In fiscal 2012/13, benefits paid under the program were \$11.2 million.
 - This included \$4.6 million paid to land-based wineries and \$6.6 million paid to commercial wineries.
 - Of the \$6.6 million paid to commercial wineries:
 - 19% (\$1.2 million) went to Andrew Peller Limited;
 - 46% (\$3.0 million) went to Constellation Brands; and
 - 35% (\$2.3 million) went to the Mark Anthony Group.
- s.13

- Note also that in addition to the benefits under the current VQA program, the LDB provides markup exemptions on direct delivered 100 per cent BC grape wine made by land-based wineries as well as BC VQA wine, and also provides significant marketing support for BC VQA wine in BCLSSs.

OTHER MINISTRIES IMPACTED/CONSULTED:

- N/A

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