

MINISTRY OF SMALL BUSINESS AND RED TAPE REDUCTION  
AND MINISTER RESPONSIBLE FOR LIQUOR DISTRIBUTION BRANCH  
**MEETING NOTE**

Cliff #: 37098

Date: October 26, 2015

**PREPARED FOR:** Honourable Coralee Oakes, Minister of Small Business and Red Tape Reduction and Minister Responsible for Liquor Distribution Branch

**ISSUE:** Tour of ContainerWorld Forwarding Services Inc. (ContainerWorld)

**BACKGROUND:**

- Minister Oakes is scheduled to take a tour of ContainerWorld's facilities on November 2, 2015.
- ContainerWorld is a privately held, BC-based company that provides warehousing services for the LDB. They also provide warehousing and distribution services to other stakeholders in the alcohol beverage industry.
- Some recent issues that involve ContainerWorld and that should be noted include:
  - Allowing third party storage for private liquor retailers;
  - LDB warehouse relocation; and
  - Retail Accounting Centre (RAC) decommissioning.

**DISCUSSION:**

Allowing Third Party Storage for Private Liquor Retailers

- Recent licensing changes made by the LCLB permit private retailers to store product off-site in third party warehouses. This change was prescribed in Liquor Policy Review recommendation #60.
  - Previously private retailers were only permitted to store liquor in their own licensed premises.
- The LDB originally chose not to permit ContainerWorld and other agent stocking warehouses to provide third party warehouse services to private retailers, but recently changed its stance in order to facilitate the implementation of Liquor Policy Review recommendation #60.
- However, for excise duty-deferred products (i.e. import wine and spirits), a somewhat cumbersome process now has to be followed when private retailers choose to use ContainerWorld to store their product.
  - As an agent stocking warehouse, ContainerWorld is one of only a few warehouses in the province that is permitted to store import wine and spirits excise duty-deferred until the LDB receives orders for those products.

- ContainerWorld cannot clear import products through excise because the LDB is the importer of record. The result is that when a private retailer orders product, the product now has to be assembled and shipped from ContainerWorld to the LDB distribution centre, cleared through excise and then returned to ContainerWorld for storage.
- s.13,s.17
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#### LDB Warehouse Relocation

- ContainerWorld currently stocks a large amount of product for the LDB, due to a lack of space in the LDB's warehouses.
- In addition to this, the LDB is not currently able to make use of demand planning, and suppliers choose to plan their own safety stock. This leads to suppliers overstocking in ContainerWorld to ensure sufficient inventory.
- This may change in the future with the new LDB warehouse. In the new warehouse, the LDB expects to have more storage space and will be able to store more product.
- Furthermore, the implementation of modernized systems and technology will allow the LDB to use demand planning tools to accurately anticipate how much product the LDB will need.
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#### RAC Decommissioning

- ContainerWorld is one of a number of warehouses that contains a RAC.
- The LDB uses RACs for the accounting and storage of LDB-owned inventory at duty-paid cost at third party warehouses. This inventory consists mainly of import beer.
  - Under the *Importation of Intoxicating Liquors Act*, the LDB is the sole importer of record of beverage alcohol in the province of BC.
  - In some instances, the LDB defers payment of excise duty and as a result, the product enters the Customs Bond area of the warehouse for storage.
  - When the LDB wants to move product out of Customs Bond and into the RAC, the LDB pays duty and GST to the Canada Border Services Agency (CBSA) and the inventory is stored in the RAC.

- RACs were put in place because import beer customs clearance through the Customs Bond area of a warehouse took approximately two weeks to clear. Because of this long processing time, RACs were used to store duty-paid, import beer inventory that could be more quickly distributed to wholesale customers.
- CBSA has agreed to streamline the clearance process. As a result, there is no longer a need for RACs.
- As noted above, the current process involves product moving from the Customs Bond area of a warehouse into the RAC, where inventory is stored until required for order fulfilment and shipment to wholesale customers.
- In the future, product will be shipped out of the Customs Bond area directly to wholesale customers.
- These changes are anticipated to come into effect by summer 2016.
- Both the LDB and ContainerWorld will benefit from the RAC decommissioning as it will result in a more efficient process and will require less paperwork from both parties.
- Most recently, the LDB and ContainerWorld met on October 2 and will continue to work together to determine the new procedure.

#### **CONCLUSION:**

- The issues noted above are recent issues involving ContainerWorld. They may or may not come up during the tour.

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MINISTRY OF SMALL BUSINESS AND RED TAPE REDUCTION  
AND MINISTER RESPONSIBLE FOR LIQUOR DISTRIBUTION BRANCH  
**INFORMATION NOTE**

Cliff #: 37230

Date: November 25, 2015

**PREPARED FOR:** Honourable Coralee Oakes, Minister of Small Business and Red Tape Reduction and Minister Responsible for Liquor Distribution Branch

**ISSUE:** Timeline of Events – Commercial Wineries

**BACKGROUND:**

- A briefing note sent to the Minister's Office (Attorney General and Minister of Justice, Suzanne Anton, at the time) on April 8, 2015, referred to an "overpayment" of commissions to commercial wineries. This reference was based on an LDB position that cannot be factually demonstrated.
- A complete timeline of events is provided below.

**DISCUSSION:**

- As part of the move to a new wholesale pricing model, the LDB reviewed all sales agreements in place prior to April 1.
- As stated in their pre-April 1 sales agreement, commercial wineries received a 7 per cent commission for their direct-delivery sales to wholesale customers.
- During the review, the LDB determined that the commission was paid based on retail price. The LDB did not think this approach was appropriate and characterized it at the time as a technical error because they believed the vague language in the agreement should be interpreted differently.
- The LDB then amended the sales agreements to clearly state the 7 per cent commission was to be based on wholesale price.
- The commercial wineries were informed of this change. The replacement sales agreements were sent to commercial wineries between March 27 and March 30, 2015.
- In response to this, Josie Tyabji (Constellation Brands) wrote a letter to the LDB's CFO, requesting that the commission rate be increased from 7 per cent to 8.2 per cent to account for the reduced commissions that commercial wineries would receive with the amendment. The LDB denied this request, taking the position with Ms. Tyabji that commissions should have been paid based on the actual price paid and any additional amounts were overpaid in error.
- On April 8, a briefing note was sent to the Minister's Office, informing her of Ms. Tyabji's request and the LDB's response.

- On August 20, the LDB received a freedom of information request from a political party. This request included the April 8 briefing note, along with a number of other briefing notes (FOI # LDB -2015-52718).
- On October 5, in response to the freedom of information request, the April 8 briefing note was sent to the applicant.
- On October 8, the topic was raised in Question Period. Following question period, the LDB was asked to review the matter.
- The LDB further reviewed the matter, including previous sales agreements, and determined that the LDB's original characterization that overpayments had been made in "error" was not factually demonstrable, as the commissions had been paid in this manner during the entire lifespan of the program.
- Given this, the LDB briefed the Minister on the different interpretations of the sales agreement and informed her that the LDB's statement in the briefing note should have been clearly qualified as a position versus a statement of fact.
- Notwithstanding the fact that historical arrangements were based on the retail price, the LDB continues to believe that the commission is more appropriately based on the wholesale amount going forward.

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