

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

Cliff #: 38174

Date: October 17, 2016

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

ISSUE: Independent Wine Stores

BACKGROUND:

There are 11 (originally 12) Independent Wine Stores (IWS). These stores date from the 1980s and no new licences have been issued since then. They are permitted to sell all types of wine plus cider, sake and wine-based coolers.

Until April 2015, the stores purchased their liquor from LDB at a 30% discount off the LDB retail price. This discount rate was substantially higher than that given other private retailers, e.g. LRS 16% and RAS 12%, and reflected the perceived need to have a higher discount to be financially viable given the inability to sell beer and spirits.

In April 2015, LDB moved to a new single wholesale price model for all retailers. The new wholesale price is roughly equivalent to the previous LRS 16% discount and therefore, IWS's lost a considerable financial advantage.

The IWS operators lobbied government for relief and asked to be converted to LRS's and/or allow them to sell to restaurants and/or allow them to directly import liquor bypassing the LDB.

IWS wine purchases after April 2015 were initially lower than average due to stores purchasing higher volumes shortly before April 1 to take advantage of the 30% discount before the new single wholesale price was implemented. Since August 2015, purchases have rebounded and are in line with what the stores were purchasing pre-April 2015. While purchase levels indicate the stores are retaining their customer base, their profit margins under the new wholesale pricing scheme are unknown.

DISCUSSION:

In spring 2015, government amended the *Liquor Control and Licensing Act* regulations to permit IWS's to convert to a LRS, subject to complying with the 1 km rule. The regulations provide a 10 year window to apply. One IWS has converted to date.

The IWS's wanted the conversion authority to not include the 1 km rule but removing it would be very strongly opposed by LRS operators and their industry associations.

In early 2016, government provided IWS's with the option of relocating to grocery stores to sell only BC wine from grocery store shelves. This option was time limited and expired in August with no uptake from any IWS's. IWS's are also permitted to relocate to grocery stores under the store within a store model to sell all types of wine but none have yet done so.

Government considered their request to directly import wine (i.e. be their own agent) but did not approve the request ^{s.13}

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In regard to selling to restaurants and others in the hospitality industry, government has received similar requests from other liquor retailers and their industry associations. This issue is still under review.

More recently, John Clerides of Marquis Wine Cellars wrote to the LCLB requesting the ability to offer wine samples (and presumably make sales) at a luxury car show in Vancouver. In 2014, in response to Parliamentary Secretary's Yap report recommendations, the regulations were amended to permit private liquor retailers to obtain an endorsement on their licence to set up a temporary "pop up store" at a food or beverage festival. This provision is intended to provide patrons the opportunity to purchase liquor they had sampled at a culinary festival and is not applicable to other events.

Mr. Clerides has also in recent months sent emails to the Deputy Minister and raised issues respecting LDB pricing generally and on specific products. ^{s.21}

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NEXT STEPS:

None

Contact: Barry Bieller, Senior Policy Analyst, LCLB
Telephone: 250 952-5755

Reviewed by				
Dir:	ED:	ADM: DS	DM: TM	MIN:

MINISTRY OF SMALL BUSINESS AND RED TAPE REDUCTION
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DECISION NOTE

Cliff #: 38159

Date: October 17, 2016

PREPARED FOR: Honourable Coralee Oakes, Minister

ISSUE: Special Wine Store licence – 2nd auction round

BACKGROUND:

The regulations under the Special Wine Store Licence Auction Act permit up to 18 auctions with 6 having been held to date. Each of the first auctions was held over a 24 hour period with 2 auctions per week. The winner of the auctions has applied for their special wine store licences and the first special wine store licence (SWSL) is expected to be issued in October with the remainder likely through the rest of the calendar year and into early 2017. Timing is largely dependent on the business plans of the successful bidder.

DISCUSSION:

A new development in the BC wine industry may have some impact in determining how many licences to issue. The surplus of BC grapes that has been in place for the past 4 years has been almost totally reduced due to increased sales and limited new acreage coming into production. Wineries have a number of different and profitable sales channels available to them – hospitality, other private retail, farmgate sales – and may reduce the volume and variety of wine they are prepared or able to sell to the SWSL and VQA stores. According to Save on Foods, wine SKU availability has decreased by 15% since April 2015 when they opened their first VQA store. (A SKU represents one particular product in a stated size from one manufacturer, e.g. a 750 ml bottle of Gray Monk chardonnay.)

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A lack of BC wine for other liquor retailers is less impactful on them given they can sell all types of wine from any country in addition to the popular “cellared in Canada” wines produced by the major BC commercial wineries.

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Issue 4: Auction dates

For the initial auctions, the following timelines were put in place:

- Feb 18 – policy directive issued announcing SWSL process along with auction application form and information guide
- March 18 – application deadline
- April 19 – first auction held

Considerations

Going forward, industry will still need sufficient time to review the material and make an investment decision. While some potential bidders may have participated in the 1st round and can likely make these decisions fairly promptly it can be expected that there may be some new entrants. Once the applications are approved by LCLB there is less need for an extended time period for the applicants to deal with BC Auction as the steps to register are quite straightforward and BC Auction is now experienced in dealing with grocery store queries.

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It is proposed that 2 auctions per week be held – Tuesday and Thursday with each starting at 12:00 noon and ending at the same time a day later.

RECOMMENDATION: See above

Approved / Not Approved	Date:
Comments:	

Prepared by: Barry Bieller, Senior Policy Analyst, LCLB
Telephone: 250 952-5755

Reviewed by			
Dir:	ED:	ADM:	DM: TM

MINISTRY OF SMALL BUSINESS AND RED TAPE REDUCTION
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INFORMATION NOTE

Cliff #: 38155

Date: October 5, 2016

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

ISSUE: BC Tree Fruits Cooperative

BACKGROUND: The BC Tree Fruits Cooperative (BCTFC) is a member-owned organization that promotes the interests of its 500 member-farmers who own the packing houses, BC Tree Fruits and their associated assets. The BCTFC is responsible for the marketing of its BC Fruit commodities as well as for brokering imported fresh fruit and vegetable commodities to many countries worldwide. BC Tree Fruits is one of the largest apple exporting companies in North America.

The BCTFC prioritizes worldwide fruit sales and maintaining existing major markets, however it also pursues joint ventures in the import/export environment and related value added services as a way to increase diversification of supply and market activities. In order to realize higher returns for its members on deficient process-grade apples, which were otherwise being sold at a loss to juice manufacturers, the BCTFC launched the BC Tree Fruits Cider Company in 2015.

DISCUSSION: The BCTFC is a sophisticated and active stakeholder and has made a number of historical requests to the Liquor Distribution Branch (LDB), including:

1. Application for Land Based Winery (LBW) designation; and,
2. Mark-up relief for BCTFC 100 per cent BC products.

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As an alternative, Ministry staff has been working with the BCTFC, the Ministry of Agriculture (AGRI), the federal departments of Western Economic Diversification

Canada (WED) and Agriculture and Agri-Food Canada (AAF) to support the identification of strategic opportunities and potential funding streams for the BCTFC.

The Ministry organized a session with the BCTFC, AGRI, WED and the AAF September 23, 2016 at the BCTFC Head Office in Kelowna, which included networking, presentations and a tour of the Cidery. There is widespread support from government to identifying opportunities for alignment and a commitment to continue this collaborative, cross-government approach following the session. A follow up meeting was held with key contacts September 30, 2016.

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SBRT staff will continue to facilitate engagement with the BCTFC, AAF, AGRI and WED on a bi-weekly basis.

Contact: Karyn Scott, Executive Director, Management Services Division

Telephone: (office) 250-387-4056 (Cell) s.17

Reviewed by				
Dir:	ED: KS	A/ADM: TC	DM: TM	MIN: