

BRIEFING NOTE



Ontario Artisan Wineries

July 17, 2022

Issue

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

Background

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

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

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

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

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

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

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

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

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

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

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

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

Policy Option

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

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

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

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

Attachment 1: LCBO Calculator

| | |
|--|---------|
| Still/wine = Blank, Sparkling = S, Fortified or = C, Cider = D, Creams & Flavoured = M, Light wine <7% = L | |
| 100% ON = Blank, <100% ON = QC | |
| WRS=Blank, Wine Boutique=B | |
| Bottle Size (L) | 0.750 |
| Alcohol Content % | 12.0% |
| Bottles per Selling Unit | 3 |
| Retail selling price (including deposit) | \$20.00 |
| Minimum Retail Price Check | Ok |

LCBO

| | WRS | LCBO | VQA Direct Delivery to Licensee | Non VQA Direct Delivery to Licensee | Non VQA Tied House |
|---------------------------|---------|--------|---------------------------------------|--|-----------------------|
| Selling Price | 20.00 | 20.00 | 18.02 | 18.02 | 18.02 |
| Container Deposit | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| H.S.T. | 2.28 | 2.28 | 2.05 | 2.05 | 2.05 |
| Net Licensee Price | | | 15.37 | 15.37 | 15.37 |
| 10% Discount | | | 1.75 | 1.75 | 1.75 |
| Basic Price | 17.52 | 17.52 | 17.52 | 17.52 | 17.52 |
| Basic Tax/LCBO Admin Fee | 0.9898 | | 0.9898 | | |
| Environmental Tax/Fee | 0.0893 | 0.0893 | 0.0893 | 0.0893 | 0.0893 |
| Bottle Tax/Levy | 0.2175 | 0.2175 | 0.2175 | 0.2175 | 0.2175 |
| LCBO Wine Levy | 0.0000 | 1.2150 | 0.0000 | 1.2150 | 1.2150 |
| LCBO Mark-up | 0.0000 | 6.6707 | 0.0000 | 6.6707 | 6.6707 |
| Total Landed Cost | 16.2256 | 9.3296 | 16.2256 | 9.3296 | 9.3296 |
| Federal Excise Tax | 0 | 0 | 0 | 0 | 0 |
| Supplier Quote | 0.0000 | 9.3296 | 16.2256 | 9.3296 | 9.3296 |

| | WRS | LCBO | VQA Direct Delivery to Licensee ⁴ | Non VQA Direct Delivery to Licensee | Non VQA Tied House ⁵ |
|--|-------|-------|--|--|---------------------------------------|
| Revenue Distribution \$³ | | | | | |
| Winery ² | 16.23 | 9.33 | 14.47 | 8.80 | 11.20 |
| Provincial ¹ | 2.70 | 9.59 | 2.56 | 5.58 | 5.83 |
| Federal ¹ | 0.88 | 0.88 | 0.79 | 0.79 | 0.79 |
| Container Deposit | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 |
| Total | 20.00 | 20.00 | 18.02 | 16.00 | 18.02 |

| | WRS | LCBO | VQA Direct Delivery to Licensee ⁴ | Non VQA Direct Delivery to Licensee | Non VQA Tied House ⁴ |
|---|-----|------|--|--|---------------------------------------|
| Revenue Distribution %³ | | | | | |
| Winery ² | 81% | 47% | 80% | 52% | 62% |
| Provincial ¹ | 13% | 48% | 14% | 42% | 32% |
| Federal ¹ | 4% | 4% | 4% | 4% | 4% |
| Container Deposit | 1% | 1% | 1% | 1% | 1% |

³ Distribution may not add to 100% due to rounding.

⁴ on VQA Direct Delivery, there is an unassigned amount paid to the winery, which is calculated at \$0.1567 per litre and is deducted from the remittance to the LCBO.

⁵ as been separated into GST (5%) and CRST (8%).

Revenue distribution for VQA Tied House is the same as VQA DD.

⁶ on VQA Tied House sales, there is an additional 10% discount (which is 10% of the basic price) afforded to the winery, which is deducted from the remittance to the LCBO.

| Pricing Components | Rate | Metric |
|---|-----------|---------------|
| Table Mark-up | 71.5% | ad valorem |
| Light Wine <7% Mark-up | 64.6% | ad valorem |
| Fortified <=20% Mark-up | 69.5% | ad valorem |
| Cream & Flavoured/Fortified >20% Mark-up | 114.0% | ad valorem |
| Cooler/Cider Mark-up | 60.6% | ad valorem |
| Bulk Cider Mark-up | 46.4% | ad valorem |
| Wine Levy | \$ 1.62 | per litre |
| Bottle Tax/Levy | \$ 0.29 | per litre |
| Cooler/Cider Bottle Tax/Levy | \$ 0.28 | per litre |
| Environmental Tax/Fee | \$ 0.0893 | per container |
| Container Deposit >100 mL and <=630 mL | \$ 0.10 | per container |
| Container Deposit >630 mL | \$ 0.20 | per container |
| WRS Basic Tax (100% ON)/LCBO Admin Fee (VQA DD) | 6.1% | ad valorem |
| WRS Basic Tax (<100% ON) | 19.1% | ad valorem |
| Wine Boutique Basic Tax (100% ON) | 9.6% | ad valorem |
| Wine Boutique Tax (<100% ON) | 22.6% | ad valorem |
| Licensee Markup | 0.0% | ad valorem |
| HST (GST Portion) | 5.0% | ad valorem |
| HST (PST Portion) | 8.0% | ad valorem |
| Non-Refillable Charge | 4.0% | ad valorem |
| Bulk Cider MRP | \$ 3.051 | per litre |
| Cooler/Cider MRP (<4.1% alcohol by volume) | \$ 3.779 | per litre |
| Cooler/Cider MRP (4.1% & <4.9% alcohol by volume) | \$ 3.834 | per litre |
| Cooler/Cider MRP (4.9% & <5.6% alcohol by volume) | \$ 3.935 | per litre |
| Cooler/Cider MRP (5.6% - 7% litres of absolute alcohol) | \$ 73.065 | per litre |
| Excise >7% alcohol by volume | \$ 0.688 | per litre |
| Excise <1.2% and <=7% alcohol by volume | \$ 0.330 | per litre |
| Excise <=1.2% alcohol by volume | \$ 0.022 | per litre |