

Members Update

Critical Issues Update

The Agenda Has been Busy

- Protecting your Wine Council assets
- Wine Secretariat
- VQA Support program – Interim Payments
- Grape Pricing Discussions/Crop Issues
 - Blending Licenses
- AGCO Regulatory Review
- LCBO Issues
- Ministry of Health – Menu Labeling
- Other work
- Growing our Access to Market
 - Farmers' Markets
 - Private Retail

Protecting Wine Council Assets

- We have been in protracted discussions both as an industry through our Industry Marketing Committee and with the government on industry making an appropriate investment in proprietary marketing tools like the Guide, Wine Route and Website – all of which we own
- Including the guide in the government plan is always at our option
 - We have decided that it is important, this year, to ensure that it is not degraded by the government putting some artificial value on the Guide's value
 - It is also time that it was made clear to the industry that its not OK for a large winery like Constellation or Peller to demand to pay the same as the smallest winery in Ontario in the context of being “fair”
- After a fulsome discussion at the Board, we resubmitted our plan to the government and removed our assets and have offered them to other members of the industry at a rate that is respectful of your role as members and owners of this asset
- We are still planning to deliver a fulsome plan of \$3.25 million dollars with the full suite of programs that our industry has asked for
 - Our Guide and Website will be 100% complimentary to that effort

Wine Secretariat - Approach

- Established after the December 16 announcement of the government's reinvestment in the VQA wine strategy
- Working group of government and industry (WCO, GGO, LCBO, VQAO, AGCO, WGAO)
- Focus on three key areas
 - Strategic targets for the sector
 - Program allocations and design
 - Forum for consultation on Farmers' Markets initiative
- Has “working tables” to hone down on specific issues
 - Targets
 - Dialogue on Farmers' Markets
- Approach has been one of openness
 - No going behind anyone's back directly to government

Wine Secretariat - Strategic Targets

- Government tasked the Secretariat to come back with Strategic Targets for the Sector
 - They came to the table with very “traditional measures” – jobs, exports, innovation
- We brought to the table something equally important – Industry Health
 - What has always been challenging both for government and the industry is that they are trying to measure a lot of numbers but the numbers don't tell them a lot about what is doing on.
 - We have challenged that thinking by proposing that a key piece of analysis that we have to benchmark and analyze is how is the industry doing from an economic health perspective
 - You can measure sales, but if each sale is at a loss to the winery, their health is not good
 - We brought to the table an approach that has been used in New Zealand and Australia

Wine Secretariat - Strategic Targets

- This survey and its results tell us many key things that current data measures traditionally captured by government don't tell you
 - Examples – how is the industry performing by size of winery
- What also makes this good is that Deloitte gives each winery back a copy of their results benchmarked against their peers (by size) and the industry
 - This is an incredibly practical tool for all wineries to use in their business analysis and planning
- This provides government far more insight than the application that they are using now for the VQA support program
 - We have proposed that this survey could for the most part replace that application form
 - Government may still want a few additional details that they could build into this form
- We are keen to make this happen
 - This would be a study that we believe would also highlight the structural issues in our industry

Wine Secretariat - Strategic Targets

- We are looking at other targets and/or numbers that will be monitored
 - Pushing hard for clear sales targets (dollars) at LCBO
 - Isolating on and off site sales numbers
 - Government will want to track productivity, exports, volume, grape usage etc
- Key for us will be to have shared accountability for the performance of the strategy
 - Not fair to have VQA wineries held accountable for sales targets – has to be shared with LCBO, government
 - Expectation will be that we will also have targets for DD, WRS sales as well so we are being thoughtful about that
- What can't happen is that we exit this phase of the Secretariat's work with no targets

Wine Secretariat - Program Allocations

- Secretariat has also asked us to comment on how the dollars need to be allocated within the \$15 million per year
 - Their view is \$9 million to VQA Support, \$3 million to marketing , \$3 million to viticulture
 - Would be willing to look at other ways if there is consensus in the industry
- Our view is that this allocation is right
 - Ongoing need for marketing and less than \$3 million would be challenging
 - Viticulture dollars will need to allow for supporting reinvestments in rootstock/remediation that may emerge from issues like leaf roll and red blotch and \$3 million will be important from that perspective
 - \$9 million gets us back to a 150,000 litre cap for the program
 - We will continue to press for this element of the fund to be indexed or converted to tax relief as it should be
- We have not heard strong concerns from our members that we need to shift things around
 - Unlikely that we could reach consensus on a shift anyways

VQA Support Program - Interim Payments

- For a couple of years, WCO has been lobbying government to find a way to get the VQA Support Program dollars to you quicker
- Have been successful for this year and can anticipate a similar approach going forward
- Will still have application process – and may ask for more data if industry health initiative goes ahead
 - Important to note that wineries not completing application may have to wait rather than hold up the show
- Should have received material from the Ministry last week

Application Periods 2014/15	Qualifying LCBO Sales Periods	Target Grant Payment Date
#1: Feb 24 – Mar 21	April 2013 – Dec 2013 (approx. 9 months) Includes 10 of the LCBO's 13 sales periods, including the highest volume promotional periods of the year (i.e. the Ontario wines promotion in September/October + holiday periods in November and December)	May 23, 2014
#2: May 16 – June 13	Jan 2014 – March 2014 (approx. 3 months) Balance of LCBO's sales periods.	July 31, 2014

Grapes and the Crop

- Clearly a lot of concerns about the crop this year
- As this issue evolves so will grape pricing this year
 - Trying to take a longer term view on pricing collectively – stop year to year look at supply and demand, look at getting the grapes priced and cropped appropriately
 - Informal discussions to date – like last time we are trying to stay away from the formal negotiations structure of the FPMC process. Time consuming and expensive
- Notional discussions about adding varieties to the plateau, a clearance price for uncontracted/unwanted grapes, multi year deal
- One of our key goals is to get the sugar scales on the plateau varieties lowered to pre plateau levels
- Likely not resolved until March at the earliest
 - We are still waiting to see the harvest report from the GGO

Grapes and the Crop

- A lot of dialogue on getting blending licenses as a knee jerk reaction to potential crop issues
 - WGAO advertising opportunity to do ICB as a cure-all for crop problems
- WCO supports all getting blending licenses but have encouraged government to understand that its not a panacea and should be viewed more as a business decision. Clear reasons:
 - LCBO is not looking to grow its portfolio of ICB wines. This barrier in the marketplace is not unsubstantial.
 - Many wineries did not have the experience of the past short crop where brands were allowed to convert to a blended platform because of the short crop – an approach that our members will not want to support as a solution.
 - Blending licenses do not come with new blending rules. Wineries will still have to find that 25% domestic content for a blend which still may be challenging.
 - A blending license will also necessitate newer wineries to apply for an Excise License – and with it its monthly remittances, inventory production and movement reports and the inevitable audits. This will come even if the winery has zero ICB sales.
- Will want to see this resolved, but likely to come as part of AGCO review not a one-off from government

AGCO Regulatory Review

- Work on this continues.
- Were planning to have report out now but has been some delays as AGCO has reallocated resource to focus on farmers' market issues
- Findings Report should be out in March and we will see their ideas on what they can address and how
 - Focus on areas that they can fix themselves
 - Other issues were raised (ie off site warehousing) but unclear if they will have the mandate to fix it – will get mentioned in report as issues though
- Follow up round table with all of the sectors on the report on the areas that AGCO can act on

LCBO Issues

- Several members of our industry have been part of a broader strategy working group chaired by Nancy Cardinal at the LCBO
- While the work of that group goes well, we have been discussing with Nancy to find a way to have a more direct dialogue with smaller wineries on issues and programs that affect them most directly.
 - She has been very excited about the opportunity to do this and we are thrilled that she will be engaging her team to work with us on these issues
- In the next couple of weeks a working group will be invited to engage in this discussion.
 - Chaired by Carolyn O'Grady-Gold and reporting in to the larger group
 - Focus will be on existing programs and any proposed changes that are coming from Nancy's strategy group

LCBO Issues

- Initial discussions on topics for discussion have been:
 - Keys to Success: LAW Program, Direct Delivery, Vintages
 - What does success in LCBO Wines look like?
 - Planning an exit strategy – working with Astrid when a wine isn't selling
 - Clustering of programming to deliver better results for smaller wineries
- LCBO will look to us for some suggestions on participants but the committee will be at their invitation
 - All meetings in Toronto at LCBO. Frequency TBC
 - Will be looking for people particularly with experience in the general list side of the business as that is where much of the strategic focus is on currently.
- What we will ensure we do as part of that process will be:
 - To ensure that our members on the committee are prepared and supported with research and input – perhaps with a bigger group to give direct input to the committee members if folks are interested
 - Reach out to our members on a regular basis for feedback on any proposed enhancements or changes
- Let us know if you want to engage.....
 - This will be an important process and one that we want to ensure best represents the breadth of experience and success that we know we have in our business

Menu Labeling

- Government introduced legislation on Monday that would require restaurants, grocery and convenience of more than 20 outlets to post calorie counts on their menus for both food and alcohol.
- There seems to be an appetite for producing a set of ranges that restaurants can use
 - Will be important that beverage alcohol groups try and propose the same approach to the issue
 - Supported by the Ministry of Finance in this regard
- LCBO has indicated that any testing that might be required will not be at cost to the wineries
- Will keep members posted on any actions we need them to take as this moves forward
- Likely that this initiative will die on the order paper before the election since the NDP does not feel it goes far enough
 - But that could change.....

Other work....

- Fly Committee
 - Town of Lincoln - Have been directly engaged in getting support for a hands on research initiative that has driven positive results
 - Are optimistic that the second year of research will be equally fruitful
 - Members in Lincoln reporting large improvements
- Special Events Policy Committee
 - Town of Lincoln – will be set up shortly
 - Wine Council will have direct representation
 - Will want to ensure ongoing dialogue with wineries in the Town to get a policy on the books that meets winery needs
- Tourism Development Initiatives
 - EPIC, South Coast Wineries
 - Lead sessions in both communities with wineries, tourism officials, economic development and other interested businesses (accommodation, culinary) to learn best practices and focus efforts on getting benefits out of their wine country positioning
 - Extremely successful
- Water research – Prince Edward County
 - More on this in the Sustainability report