

Report to Members

Hillary Dawson, President

October 12, 2011

Election Debrief

- ▶ Majority-like minority government
 - Interesting dynamics– Speaker from the opposition? creating a virtual tie in the legislature
 - Unlikely opposition will want to force another election soon
 - Gov't will need to form alliances with PC's and NDP as appropriate to get bills through if Speaker comes from government
 - Good learnings from watching Harper
 - Role of House Leader key
 - Non legislative tools to implement
- ▶ Stability for the most part in local MPP's
 - Bradley, Craitor, Hudak reelected
 - New MPP's in Welland and PEC

New Cabinet

- ▶ The most surprising aspect of Ontario's new Cabinet is that there were no surprises – and no new faces.
 - Every re-elected cabinet minister was re-appointed to Cabinet.
 - Our key ministers:
 - Dwight Duncan – Finance
 - Brad Duguid – Economic Development and Innovation
 - Ted McMeekin – Agriculture
 - Margaret Best – Consumer Services
 - John Gerretsen – Attorney General
- ▶ The message for Ontarians is that serious times require an experienced and steady hand at the wheel.
 - Backbenchers are no doubt disappointed

What wasn't said in the election...

- ▶ During the pre-election and election periods, all three parties engaged in a 'conspiracy of silence' around the fiscal situation
 - No one party was willing to engage on fiscal issues:
 - Liberals wanted the election fought on hope and steady tiller, not looming future cuts
 - PCs chose to mimic Liberal fiscal position and fight election on pocketbook issues
 - NDP less credible on fiscal issues, wanted election fought on pocketbook issues as well

Back to reality...

- ▶ As the government moves to implement its platform commitments, it will face a worsening fiscal situation characterized by:
 - ~\$16B deficit in 2011-12
 - Structural (not cyclical) deficits
 - Health care: 7.1% actual growth vs. 3.6% committed growth
 - Significant education and infrastructure commitments
 - Mandate to cut program expenses
 - No new revenue measures
- ▶ Auditor General's Report
 - The Auditor General's Report on Ontario's Pre-Election Finances says that, while the current government's revenue projections are prudent, its spending projections are optimistic and aggressive because they rely on major changes to health care expenditures
 - However, since the summer, revenue has declined making the situation even worse

Some perspective.....



- ▶ Ontario vs. United Kingdom
 - Provincial and national debt to GDP ratio in Ontario is higher than the UK which is:
 - Reducing public-sector employment by 20%,
 - Raising taxes significantly,
 - Cutting or eliminating services.

Fiscal Situation will drive public policy....

- ▶ The government could try to avoid the tough decisions for a year, but that will lead to a bigger crisis for the 2013 budget
- ▶ Most likely course is to begin to address the fiscal situation over the next 12 months
 - Good time to start hard choices when opposition ill equipped to fight another election – voter aversion and no money in the coffers
- ▶ Fall Economic Statement and Drummond Report will set the path
 - The province's longer-term fiscal health has been a concern of the Liberals, which led to the appointment of former TD Economist Don Drummond earlier this year. Drummond is leading a broad-based review of the province's fiscal situation, service delivery, efficiencies, and assets.
 - The Drummond Report is a key component of laying the groundwork for future decision-making on the province's fiscal health, and something to watch closely – especially if the province chooses to divest certain assets, or explore private sector delivery of some government services

Jobs and Growth....

- ▶ Minister Duncan's primary task will be to identify "next steps" for preserving and creating jobs.
- ▶ Broadly speaking this means that public policy will be facing the following new realities:
 1. **No New Money** – Requests for new sources of government funding are unlikely to be fulfilled. Arguments for re-profiling and re-distribution of current spending are more likely to find traction, especially if you can show that government funding can be used more efficiently.
 2. **Significant Cost Reductions** – In a cost-cutting environment, government will expect belt tightening across all sectors dependent on public funding.
 3. **Regulatory Reform** – The regulatory environment may shift to include more self regulation or ways to improve outcomes while lowering costs, such as lowering on-going monitoring but higher fines for failing to meet standards. “Red Tape” is still a focus.

What does this mean for VQA wineries?

▶ Program Reviews

- Gov't will be reviewing marketing dollars (\$3 million per year), and VQA Support Program (\$6 million per year)
 - Both are in 2nd year of 5 year program allocation
 - Review expected to be complete in November/early December
 - Key issues
 - Are programs delivering as expected?
 - Best use of dollars?
 - On both fronts we feel very confident that the reviews will support a continuation of both programs on the same basis
 - Members should note that WGAO wineries will be arguing that they should receive a disproportionate share of VQA support program and have asked that resources be redirected from small wineries to large wineries ("Fair Share"). GGO would support this change because they feel that monies should flow to wineries that buy grapes from growers.
 - We may ask members to engage in this review if required.

What does this mean for VQA wineries?

- ▶ Good Environment for our key Public Policy asks
 - Additional retail access
 - Regulatory Relief
 - New approach on grape pricing
 - LCBO approach
 - Why?
 - Can frame all issues as low to no cost
 - Can show direct and immediate economic impact
 - All aligned with shared goals around premiumization

GR Strategy Update

- ▶ Key priorities – next 6–8 weeks
 - Outreach and briefing of new Cabinet Ministers and staff
 - Presentation of Retail Access package to officials at FIN/MEDT for feedback
 - Roll out of KPMG/Grant Thornton reports as part of broader media effort
 - Refinement of “Red Tape” package
- ▶ Key themes
 - Build on proven success (of industry around opportunities, of programs delivering as expected)
 - Opportunity cost of not making changes to further grow the business
- ▶ All will be influenced in tone and approach by our next steps on key issues
 - Is there any way the “industry” can collaborate on anything (gov’t would like to see some evidence of this)?
 - Some discussion of partnership on an industry economic impact study
 - Good collaboration on Industry Marketing Committee

Grape Price Negotiations

- ▶ Strong push from GGO and WGAO to settle on grape prices for 2012 harvest now (by end of calendar year)
 - ▶ Want extension of plateau pricing, perhaps to other varieties
 - ▶ Want to create an “ungraded” grape available for all non-VQA wines only, irrespective of brix
- ▶ Our principles:
 - All grape pricing is open on an equal basis to all participants and applicable to all products
 - Responsive to needs of wine market
 - Aligned with improving quality
 - Aligned with goal of modernizing relationships between grower and winery
 - Reflective of actual marketplace conditions and influences
 - Aligned with government strategies and programs to support VQA and quality enhancements to support viticulture

Our position

- ▶ For the 2012 harvest year, the WCO would be agreeable to the following:
 - Same sugar grading schedules as in 2010 and 2011 (4 varieties on 'plateau pricing' schedules)
 - Base prices for all varieties unchanged from base prices in 2011 ('100%' level to be reset as usual)
 - GGO to administer the same 'company average' calculations to facilitate 'plateau priced' grapes
 - ALL grapes would be available to all processors at the same price (end use of grapes is irrelevant)
 - The WCO would also give consideration to a '3rd tier' of pricing (as proposed by WGAO), providing no price discrimination based on end use.

Next steps & challenges

- ▶ Issue could develop in a few ways:
 - Could settle prices in alignment with our position. Likely that a modest compromise could be made on adjusting plateau and/or adding more varieties provided that this did not necessarily mean an increase in VQA pricing
 - No agreement and FMPC sets deadline for end of December. Arbitration likely and messy one at that.
 - FPMC could declare the process broken. This is not a bad outcome if it leads to some ability to direct contract. It is not a good outcome if it becomes more restrictive.

Other initiatives

▶ Label Clarity

- Still no firm policy and response from Andrew Peller, Colio and Vincor from Government's request for better signage in off site retail stores (ICB clarity to consumer)
- WCO being very diligent in demanding accountability

▶ Joint Declaration to Protect Wine Place and Origin

- Interest in having the Wine Council become a signatory
- www.protectplace.com
- Signatories include regions of Champagne, Jerez, Napa Valley, Oregon, Porto, Washington State, Walla Walla Valley, Chianti Classico, Paso Robles, Sonoma County, Tokaj, Victoria, Western Australia, Long Island and Rioja
- Members can sign up individually and are encouraged to do so
- Goal is to have larger number of Wine Council members signed up as part of broader PR initiative

Other Initiatives

- ▶ Wine Council of Ontario website
 - Separated out trade site from consumer site
 - Allows for stronger messaging
 - Will be direct link for members into reports and other key information (ie. Marketing research)
 - Please bookmark and start to visit more frequently.
- ▶ Trade Membership
 - Launching in next few weeks
 - Opportunity for businesses to develop relationships/show support for wine industry partners
 - Options delivered primarily through Wine Council website

Other initiatives

▶ Alliance of Food Processors

- WCO remains active and engaged with this coalition (Norm Beal on Board and Executive, HD on steering committee)
- Mandates around industry development and programming as well as political action

▶ Scorecard

- General desire to reset Scorecard – 50/50 plan metrics don't make sense
 - Volume versus value measures
 - Vintages not tracked as part of performance
 - Need to separate and track data from on site versus off site retail stores

How does this all look going forward?

Research compiled into case for change – Opportunity cost of not acting, benefits, methodology, economic impacts

Presentation to Key Stakeholders

Goal – to generate support for conclusions and positions

- Government – bureaucrat and Ministers
- Industry Stakeholders
- Opposition Parties
- Media

Goal of seeing conclusions around delivery of next budget
(Spring 2011)

Other GR initiatives

– Program Reviews, Renewed Scorecard, Regulatory Relief, Economic Impact Broadly

Presentation to Key Stakeholders

Goal – to support other policy goals

- Developed more around opportunities and specific government programs

Work on going and driven by both opportunity and initiative

Questions?

Research Committee

Report on Work to Date
Len Pennachetti, Chair

Research/Retail Access

- ▶ Reminder that we have been working very hard to develop our Retail Access case and other critical storytelling tools over the past several months
 - Public Opinion Research on Polling (presented at AGM)
 - New KPMG Economic Impact Study – VQA focus only
 - Extension of Grant Thornton Work on Private Wine Store model to better illustrate impact and opportunity
 - Legal work – working with the public affairs and international trade practices to ensure that we both understood further hurdles and would be able to map out path forward for model (needed legislative changes, regulatory changes, policy decisions)

KPMG Economic Impact Study

- ▶ Important that we be able to tell the VQA success story very precisely.
- ▶ Past work talked too broadly about the industry
- ▶ Want to ensure that government has a powerful confirmation of both the strength of the industry, to validate the government support of our industry and to hopefully inspire them about the potential for our industry.
- ▶ We expect this work to be complete in the next couple of weeks
- ▶ Many thanks to those of you that engaged in our survey that was a key element of this project. We couldn't have done it without you.

Grant Thornton Report

- ▶ Key objective for us in building our case for expanded retail opportunities is in being able to demonstrate that this proposition not only drives economic benefits for wineries and the broader grape and wine industry, but that the Government of Ontario (through both direct taxation and LCBO revenues), is better financially for having made the change
- ▶ Our previous work with GT had only developed the model that would work in terms of success for the retailer
- ▶ What we needed to do was extend this model to tell the broader story

Grant Thornton Report

- ▶ GT also reviewed consumption per capita data to determine if the province does not have enough retail access points for its population
- ▶ This information critical to understanding a range of stores that might be needed to support increasing consumption as a function of increasing access
- ▶ Clear from the preliminary results that with any increased consumption that was driven by this approach that Gov't (Fed, Prov and LCBO) would not be negatively affected as the additional revenues from taxes and levies were significant (rather than having any detrimental impact)
- ▶ Financial models were enhanced to show both the viability to the entrepreneur of opening these stores and the scope of potential pilots and impacts

Legal Research

- ▶ Commissioned a piece of legal research to allow us to answer key questions when it came to further refining our model
 - **How** – What is a path forward that requires the least amount of direct legislative amendments? Understandable path around each step.
 - **Issues** – What were the pitfalls in the approach that government might identify? Trade? Legislative hurdles that we might anticipate if we recommended one path over another?

Legal Research

- ▶ Recommended approach
 - Mirror the legislative and regulatory framework already in place for licensee
 - AGCO to establish stores and create and issue licenses
 - Make it lawful for members of the public to purchase wine from independent retail stores
 - Enable holders of a licence to retail wine to purchase wine in the same manner as holders of a Licence to Sell (ie. restaurants and bars)
 - Allow VQA wines to be direct delivered to holders of a Licence to retail wine

Questions?