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# **Standing Committee on Agriculture and Agri- Food**

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**EVIDENCE**

**Thursday, April 25, 2013**

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**Chair**

**Mr. Merv Tweed**



## Standing Committee on Agriculture and Agri-Food

Thursday, April 25, 2013

• (1105)

[English]

**The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)):** I call the meeting to order.

Good morning, everyone. Welcome to the Standing Committee on Agricultural and Agri-Food, meeting number 76. The orders of the day, pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, January 31, 2013, are for our study of the agricultural and agrifood products supply chain (beverage sector).

Joining us today from the Alliance of Canadian Wine Consumers is Shirley-Ann George, the president; and from Spirits Canada, Jan Westcott, president, and C.J. Helie, vice-president. Welcome.

I will just advise you, as we do at all committee meetings, that anything that has to be circulated to members of the committee must come through my office. So I'll expect the additives at the back of the room—

**Voices:** Oh, oh!

**The Chair:**—and will advise members of when I'm hosting.

With that, I'll welcome you.

Mr. Westcott, I'll ask you to start and then we'll go to Ms. George and then open the floor. Please proceed.

**Mr. Jan Westcott (President, Spirits Canada):** Thank you, Mr. Chair.

As the chairman said, I'm Jan Westcott, the president of Spirits Canada. On behalf of the Canadian distilled spirits manufacturers, we are pleased to appear today to provide the spirits industry's views to the committee on its beverage sector supply chain study.

I'm certain that members will have already been exposed to the great diversity in the agrifood product supply chains in Canada through testimony from other witnesses. Distilled spirits will provide more unique circumstances for your consideration.

By way of background, Canadian distilled spirits manufacturers have very significant facilities across the country, with a heavy economic emphasis found in the provinces of Alberta, Manitoba, Ontario, and Quebec. For the most part, these plants source the vast majority of their cereal grains in close proximity to their premises, often from farmers with whom they have developed long-standing relationships over many years.

In fact, distilled spirits manufacturers have a unique dual role in the grains supply chain. We are both customers, buying various cereals that will form the basis of the final products we bottle and sell around the world, and suppliers back to cattle and hog farmers of distillers' dry grains used as feed.

Currently, spirits represent 25% of the Canadian beverage alcohol market by sales value and 27% by share of consumption occasions. As Canadian spirits sales grow, whether here in Canada or abroad, we buy more from Canadian farmers.

The four primary cereal grains that are the basis of all the spirits we make in Canada are corn, rye, wheat, and barley. In the most simple terms, adding certain enzymes and yeast to these grains is how ethanol is produced through the process of fermentation. For spirits production, this fermented alcohol is then distilled, matured in wooden casks for many of our products, and then bottled.

Today I'd like to take a moment to address three challenges currently facing spirits production in Canada.

To start, we've seen corn prices rise by some 135% since 2000, as one example. What's quite interesting for me as the president of the association is the fact that most days my members certainly aren't very shy about complaining about energy cost increases, new distribution costs, more expensive media buys, or higher liquor board fees, yet no one has complained to me about paying more to farmers for their grains.

As a number of master distillers will tell you if you ask them, if you don't start with truly excellent cereal grains, you can't make really great whisky. In this context, it's noteworthy that spirits manufacturers tend to buy the best of the best from the farmer and tend to pay a significant premium for that. In fact, we're quite proud of that. We drive the business up and forward.

More impactful on the business than the corn prices has been the rise of the Canadian dollar from about 65¢ to parity vis-à-vis the American dollar. The very high tax rates on spirits in Canada essentially have eliminated any fiscal flexibility for our manufacturers to deal with this magnitude of change in foreign exchange rates. Unfortunately, instead of reducing the tax burden on industry as the Canadian dollar rose, excise duties were actually raised, creating a double whammy for the industry.

Today in Canada the federal excise burden on spirits is nearly 20¢ per standard drink, versus 10¢ on beer. As members will be aware, the excise duty on Canadian wine was eliminated in its entirety in 2006, this despite the fact that these drinks, whether they're spirits, beer, or wine, all contain exactly the same amount of alcohol, and I mean exactly: 17.12 millilitres. The impact of these changes is that, despite representing less than 30% of the beverage alcohol market, spirits' share of excise payments has gone from 38% in 2006 to nearly 45% over the last six years.

In discussions with rye farmers in Alberta and Saskatchewan, and corn farmers and wheat farmers in Ontario and Quebec, we often get asked whether the government in Ottawa views their operations as less important or less valuable than those of grape growers. To be honest, given the excise duty burden that we bear, we're never quite certain how best to answer this question.

One very significant point of differentiation for spirits is our export intensity, with approximately 70% of what we make, locally produced, exported internationally. Last year, Canadian spirits manufacturers exported very nearly half a billion dollars, representing 65% of the value of all Canadian beverage alcohol, and our members are working hard to further grow the industry's shipments out of Canada.

● (1110)

Significant new export opportunities are before us, as a number of markets that heretofore have been largely closed to us, due either to prohibitively high import tariffs or various non-tariff trade barriers, are now or soon will be open. In fact, we commend the new free trade agreements now in place with Peru and Colombia and, most recently, with Panama.

We understand that while negotiations are progressing well with Europe, there remain a number of critical elements that need political direction to conclude, including complaints by the EU about the introduction in recent years of new provincial subsidies and policy advantages for local wines, disadvantaging imports and even Canadian wines and spirits from outside that particular province.

We encourage a continued strong commitment by Canada to finalize free trade deals with the EU as well as with Japan, India, Korea, and of course the members of the Trans-Pacific Partnership. Given the range of ongoing discussions, we are extremely appreciative of the efforts of federal trade officials at both Agriculture Canada and International Trade to keep us informed of each of these negotiations and of their commitment to address spirits priorities.

The adoption of modest tax reform to provide the industry the financial wherewithal to develop new markets, combined with the reduction in international trade barriers, can be a real boon to the

Canadian spirits-producing industry and to the supplying farm community. Spirits producers are already very important buyers of Canadian cereals. For example, our Ontario plants are the fourth-largest purchaser from Ontario's corn farmers. We understand that one of our member companies in Alberta is the largest commercial rye purchaser in the country. Plus, as I said earlier, spirits pay premium prices for the premium products grown here.

To put this into perspective, think of a single railcar full of grain. It holds about 98 tonnes of corn. These 98 tonnes of corn will produce some 70,000 litres of what we call "cask-strength" alcohol—about 63% alcohol—enough to fill 350 barrels, the typical barrels you would see in one of our aging warehouses. Then, five, six, or seven years later, after losing 1% or 2% a year through evaporation—what they call "the angel's share"—there is enough whisky in those 350 barrels to fill 84,000 bottles.

A 10% increase in the industry's export sales would mean the purchase of some 300 more railcars of grain each year from Canadian farmers. That is a completely attainable goal, perhaps even a little bit conservative.

However, in order to prosper and have Canadian spirits reach their potential, governments and regulators in Canada need to start paying more attention to all of the various impediments and discriminatory practices that restrict the industry. A strong, healthy, and profitable home industry is a necessary precursor to securing sustained growth abroad—a point that I would reiterate.

I'm going to leave you with one final little thing that's happening right at the moment. The committee will probably be aware of a proposal by CFIA to require liquor importers to be registered and licensed under that agency's import licensing of non-federally regulated food and beverages.

It came as a great surprise to us that CFIA or anyone in the government could believe that spirits manufacturers are not federally regulated. I could give you a list of the acts. There are about eight of them.

In fact, we would say that alcohol manufacturers are the most heavily regulated industry in Canada at both the federal and provincial levels. A series of tough controls are already in place that ensure the safety of our products, and with a proven and tested record of effectiveness, yet CFIA proposes to duplicate systems already in place and impose new costs and red tape on our businesses for no demonstrable benefit to the health and safety of Canadians.

This is just one small example of the kind of ill-advised regulatory or policy intervention by federal and provincial governments that diverts industry resources away from productive endeavours that grow the business to non-productive exercises.

I'm going to close by just making my pitch.

In 2006 the Government of Canada made an investment in the wine industry in Canada and in the beer industry in Canada in providing some relief on excise duties. We would argue that those investments have made sense, have stimulated the industry, and have helped both the wine industry in Canada and the beer industry in Canada, particularly the small brewers, prosper and grow.

• (1115)

We're asking the Government of Canada to give the spirits industry equal consideration, particularly given the onerous level of excise taxes our products bear in this country. We need those extra dollars to drive our business forward, both to invest inside Canada on creating new products and improving our plant efficiencies and to go into new foreign markets to build our business. We have been extremely successful in exporting Canadian whisky around the world. As these new markets open up, we need to take advantage of this. We need some consideration from the government of our request.

Thank you very much. I'm happy to answer any questions.

**The Chair:** Thank you.

Ms. George, go ahead please. Welcome.

**Ms. Shirley-Ann George (President, Alliance of Canadian Wine Consumers):** Thank you.

Good morning, and thank you for the invitation to be here today.

The Alliance of Canadian Wine Consumers, better known as FreeMyGrapes, is a grassroots volunteer organization. Our goal is to make it legal to buy and ship Canadian wine across provincial borders for personal use. Today, I'll provide you with a brief update of what has happened since Bill C-311, the amendment to the IILA, was passed last year, as well as what else still needs to be done.

First, a big thank you to your colleague Dan Albas, the MP for Okanagan—Coquihalla. We are very proud to have been associated with Dan in the unanimous support he was able to garner from Parliament and from Senate. And unanimous support these days on the Hill is almost an oxymoron. We do appreciate all the efforts from both sides, from all the parties, in support of Bill C-311.

Why do we want interprovincial wine shipments? Let's start with the reality that there is overwhelming support from Canadians for this notion. In 2012, Harris/Decima research showed that, nationally,

78% of people said that these interprovincial barriers are unreasonable.

This is largely a North American problem. Imagine telling somebody in Paris they couldn't order a case of wine from Burgundy. If you told Italians they couldn't order their own product and that they could indeed incur a fine of up to \$100,000 and jail time for ordering Italian wine, they would look at you as if you had grown a second head. This is the reality in Canada. It's largely going away in the United States. Today, 40 U.S. states are open, with Montana coming on board last week.

Our wineries can ship to 90% of the U.S. market, and small wineries that make up only 5% of U.S. production have been able to garner 50% of the direct-to-consumer market. This is an example where you would think that Canadian governments would want to support Canadian small businesses, especially small rural businesses, and when they had the overwhelming support of Canadians to do so, they would be able to move forward.

You may have some witnesses who will come in and say that provinces can't do this because it's unaffordable. We look at the U.S. numbers and respond that's nonsense. In the U.S., less than 1% of U.S.-produced wine is shipped across state lines. It is indeed a very affordable measure.

Bill C-311 passed on June 28 last year, almost a year ago. What has happened? Manitoba, a province with very little wine production, immediately said its borders were open. Kudos to Manitoba. Within two weeks, B.C. announced its borders were also open, and it continues to be the most forward-looking. It has in fact named a wine envoy, whose job it is to go to the other provinces and try to get them to open up their borders for B.C. wine.

Nova Scotia passed enabling legislation on December 6, and the minister's comments on this legislation are very encouraging, but the officials in the liquor boards prior to the minister's comments were not very encouraging. So we need to wait and see what the regulation actually says, but Nova Scotia is marked as hopeful.

Recent changes that allow one case of wine per trip on your person—so it has to physically accompany you—have been enabled in P.E.I. and Saskatchewan. If you live in P.E.I., you probably make it out to B.C. once or twice in your lifetime, on average. It's probably during the summer when you're not about to put a case of wine in your trunk and drive it across Saskatchewan in the heat of the summer. So this little measure that has been passed is not something that we see as progress at all.

Both provinces have also said they're not going to do any more, although neither one has come up with any answer to the question about how in the world they're going to enforce it.

•(1120)

Unfortunately, Alberta gets the booby prize. According to reports by outside counsel, Alberta law clearly states it is legal to ship into the province. Section 89 of their law says that “an adult may import from another province liquor for the adult’s personal use or consumption”. It can’t get more clear than that, but the Alberta government’s position is that “import” means only on your person. So in free-enterprise, free-trade Alberta, we face a huge disappointment, and more work is needed there.

The Ontario law is actually silent on the importation or possession of wine from another province, but the LCBO’s position is that you can only bring in one case on your person per trip.

There was a private member’s bill by MPP Rob Milligan in 2012, but we lost that when the legislature was prorogued. He has that said he’s going to reintroduce the bill, but unfortunately this Ontario government has a very poor record on opposition bills ever even making it to committee, never mind into law.

So while Ontario is clearly benefiting by shipping their wine to other provinces, they haven’t opened their borders. To say that’s ridiculous is an understatement.

In Quebec a petition was recently tabled in the legislature with over 3,000 signatures supporting people’s ability to buy wine across provincial borders. Quebec has yet to respond to this petition, but the government has tabled enabling legislation, which if they wished, could include regulation that would allow reasonable quantities of wine to be shipped directly from a winery to Quebeckers. Unfortunately, we’ve been told that the intent of this legislation and the regulation that’s currently being written is only to allow it on your person. So there’s a real opportunity for movement in Quebec, but the effort needs to be considerable and quick.

So clearly the job is not done, although Canadians truly believed that with the passage of Bill C-311, the work was done. A significant number of them are ordering wine across provincial borders, and wineries—because it’s now a possession issue and no longer a shipment issue—are largely willing to ship across provincial borders. The reality is that it’s not legal and that there is a significant risk to anybody who does so.

We will continue to make our efforts, but we need some help with this huge loophole that is being used by too many provinces.

First, on behalf of the thousands, and thousands, and thousands of Canadian wine-lovers, we encourage you to continue Parliament’s good work in tearing down these obsolete, ineffective, Prohibition-era, job-killing, interprovincial wine barriers.

Second, every time you see one of your provincial counterparts—and I really do encourage this for those members who come from Alberta—ask them to respond to the desire of 82% of Canadians who believe that we should be able to access wine through online purchasing. It is bizarre when you think about it that if you’re an Albertan, you can go into B.C., literally load up a tractor-trailer full of wine, get in the passenger seat, drive across the Alberta border, and as long as it’s for your personal consumption, that’s perfectly legal. But if you order one bottle of wine and have it delivered to your home, you’ve broken the law.

Third, we encourage you to use all possible vehicles to promote this issue. There is a Conservative meeting happening actually on June 28, the one-year anniversary of the passage of Bill C-311. We encourage you to make sure it is filled with Canadian wine from outside the province, and that you make this public. We encourage you to find all federal-provincial opportunities to drive home the message that it is time to free our grapes. It is only together, by working in concert with consumers, the industry, and parliamentarians, that we’ll finish the job.

Thank you.

•(1125)

**The Chair:** Thank you very much.

Mr. Allen.

**Mr. Malcolm Allen (Welland, NDP):** Mr. Chair, it’s not for me to gloat with great glee across the way at my colleagues from Alberta, but thank you, Ms. George, for that, and thank you very much for the kind words about how all parties actually came together.

I have to admit it was a great joy for those of us who come from wine-growing regions—as I do, from Niagara, along with my colleague Alex from the southern interior of British Columbia—to join with Dan to ensure that we had all-party consent. Of course, Frank and his party did likewise, as did the others.

You’ve articulated some of the things we can do. I talked to my colleague, the provincial member who actually lives next door to me, in office terms. She just happens to be a New Democrat who agrees with me in how we should do interprovincial wine trade.

Do you see places where legislatively we can deal with this, or is this more of an encouragement piece? I know that a lot of us have tried to find out if there is another piece of federal legislation that has an impact we can work on. Or is it really a question of moral suasion, if you will, of opening up that border so that we really do move wine back and forth?

You spoke, Ms. George, about putting a case of wine in your car and driving back from B.C. My wife and I would probably get as far as Lloydminster and there wouldn’t be anything in the case. We’d never get back to Ontario. It might have been illegal for me to drink it, since I’m not a resident of Alberta and I might have been arrested before I got to Saskatchewan.

**Some hon. members:** Oh, oh!

**Mr. Frank Valeriote (Guelph, Lib.):** Drinking and driving is illegal.

**Mr. Malcolm Allen:** We’d stop. We don’t drink and drive. I never drink and drive, as a matter of fact.

**An hon. member:** Keep going, Malcolm.

**Mr. Malcolm Allen:** We would have to stop in that glorious province of yours and take in the sights and have to stay. It would probably take us a week to get across Alberta.

Is there anything specific you see, legislatively, that we should work on at the federal end?

**Ms. Shirley-Ann George:** Unfortunately, Bill C-311 contains the following phrase: “in quantities and as permitted by the laws of the latter province”. So it affects the receiving provinces. Unfortunately, we were not able to convince Parliament to take that out and insist that the province allow reasonable quantities.

So unless Parliament is willing to have some discussions on amending the amendment, if the provinces won't work within the spirit of the law, which you might revisit, there isn't another piece of legislation we're aware of besides the IILA under which we would be able to move forward.

**Mr. Malcolm Allen:** I appreciate that. Those of us who are very keen on this industry looked for all manner of legislation that might be an impediment.

Mr. Westcott, you talked about the sort of overlaying, duplication if you will, of regulations when it comes to importing. Can you clarify this for me? You're an exporter of a great Canadian product. You're also an importer, I would assume, based on the comments you made.

So how would we exempt the Canadian makers? There will be other importers who don't make product in this country, who want to import from elsewhere, whether they be wine brokers or whatever sort of folks they are. Would there be two pieces there?

No?

**Mr. Jan Westcott:** No, we would propose that everybody be treated the same, whether it's an imported spirit or a domestic spirit. The reality is, Canada is a trading country. We're traders and 70% of what we make leaves the country. We're very successful. More Americans drink Canadian whisky than drink Irish bourbon and Scotch whisky combined, so we've been truly successful in developing export markets.

The problem is that the American market is mature and there are new markets opening up. We have to treat everybody the same. We cannot expect to have one set of rules for our products, and then have our colleagues in the Scotch whisky business being treated differently. Everybody has to be treated the same. That's a basic tenet of trade, and we are pretty adamant about that. When you do that, you have government policy starting to interfere with the marketplace, often with lots of unintended consequences. So we think everybody should be treated the same.

We're quite willing to stand up and compete. We have exceptional products that do well against all of our major competitors in spirits, whether it's whisky or vodka or other kinds of products. Canada exports whisky, vodka, liqueurs. We've created some terrific little niche businesses. If we want to have access to other countries and be treated the same as their local producers, the principle of everybody being treated the same is critical.

•(1130)

**The Chair:** Thank you, and I can attest that everywhere I travel, the request is always for some good Canadian whisky—

**Mr. Jan Westcott:** Thank you.

**The Chair:**—and that's a fact.

Mr. Lemieux.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thank you, Chair.

I just wanted to ask, on the spirits side, about interprovincial regulations. Are there things that inhibit the transfer of spirits back and forth between provinces, or not really?

**Mr. Jan Westcott:** Absolutely.

**Mr. Pierre Lemieux:** Can you give me an example?

**Mr. Jan Westcott:** No disrespect, but we make whisky in Alberta. We have three distilleries in Alberta. Great whiskies tend to be 100% rye whisky in many cases. Those products, when they leave Alberta, are treated very badly by most other provinces.

**Mr. Pierre Lemieux:** So you mean from provincial duties?

**Mr. Jan Westcott:** By provincial governments, by provincial liquor boards. They are not treated very well.

I'll use Ontario as an example because we're in Ontario. In Ontario, if I'm a spirits producer, my only route to market—I underline, my only route to market—is the LCBO. The LCBO does a good job in some things but they tend to be a high-cost channel.

If I'm in the beer business—and I ran it for a number of years—I have the LCBO, the 800 stores of the LCBO, plus 400 private beer stores, which is a very cost-effective channel.

If I'm in the wine business, I have access to the 450 private wine stores in Ontario, some of which are adjacent to wineries, 350 of which are independent of a winery operation. Again, that's a very efficient channel to access the consumer.

Ontario is one example. Quebec is not much different. You know, we are making progress: B.C. has about 800 to 1,000 private retail stores. They used to be cold beer and wine stores. The government eventually put spirits into them. Surprise, surprise: all the growth in B.C. is there.

**Mr. Pierre Lemieux:** My question has a provincial flavour to it because we're talking about the LCBO, but on the supply chain I guess I'm looking at it more from the angle of consumer access to your product.

Right now consumers know that if you want to buy spirits, you have to go to the LCBO. If there were another type of distribution chain outside the LCBO, would you expect consumption to go up, or would you simply expect the consumer to say, “Boy, I'm really glad I can go to any store now within a 500-metre distance and not drive two kilometres to the LCBO”?

Do you find that the distribution chain in effect right now is actually inhibiting sales, or are there other factors at play that might be taking sales away? It might be price points. It might be all sorts of things.

**Mr. Jan Westcott:** Those all come into play, but they're all related.

Absolutely. Convenience for consumers has become a more and more important factor, and so if you have few places.... I'll give you an example. Quebec has 23% of the Canadian population, 12% of the national spirits sales. Now, they are skewed to wine culturally, and I understand all of that, but do you think the fact there are 18,000 grocery stores, depanneurs, corner stores selling beer and wine has had an effect on the consumer in the last 50 years? You betcha. Absolutely. So convenience plays a very significant role.

Related to that is the cost of some of those systems.

**Mr. Pierre Lemieux:** Right.

**Mr. Jan Westcott:** You know, I'll be honest. Government is not the most efficient operator in many cases. There are some that are better than others, but—

**Mr. Pierre Lemieux:** So that adds to the price. You're basically saying if there were a more efficient, more effective distribution system, the cost of your product would go down, which means that it would be easier for consumers to buy more of it.

**A voice:** Margins.

**Mr. Jan Westcott:** I'm not sure the cost would go down, but the margins would improve for the industry. You'd have more money to invest to drive your business forward.

• (1135)

**Mr. Pierre Lemieux:** In my remaining minute here, could you tell me about how you would exploit an export market? Can you give me an example of an export market and how you would export your product into that market to take full advantage of it?

**Mr. Jan Westcott:** As many people here will know, the spirits industry was a strong supporter of the free trade agreement with Colombia. We knew that some of our product was making its way to Colombia—not necessarily through official channels, but it was getting into Colombia. We saw an opportunity, almost as a foothold in South America, for Canadian whisky to do that, and we have companies today—I'm not in a position to tell you which ones—that are working.... Colombia had fairly high or differential taxes on local product versus imported product. Over time, that differential is being decreased—that's what the trade agreement achieved—and we have companies that are actively working to take Canadian whisky into that market.

The other thing that happens is that Canadian whisky becomes recognized as a geographic indication. So there's an ability to protect the reputation and the legitimacy of our product when it goes into that market.

So that would be one example. I would say that in the next three, four, five months, I hope, you'll see announcements of people doing things in that particular market to try to take advantage of it, starting in Colombia, which then becomes a base to look at other potential export countries in South America.

**Mr. Pierre Lemieux:** You're saying that the industry has the production capacity to be able to address those new markets.

**Mr. Jan Westcott:** Yes, absolutely.

**The Chair:** Mr. Valeriote.

**Mr. Frank Valeriote:** Thank you all for coming today.

Mr. Westcott, I've read your presentation and at one point you say:

Arbitrary and anachronistic regulatory product category definitions used to classify alcohol products for either taxation purposes or for access to various retail sales channels have fueled an increase in these various alternatives to distillation.

Many regulators have been slow to react to these market changes.

First, I would like some examples of the slow reactions to market changes other than interprovincial transfers, which we've talked about already.

Second, you say:

...CFIA has [been] shown to be so ineffective in enforcing non-misleading labeling prohibitions that the provinces of Ontario and Quebec adopted their own beverage alcohol labeling standards....

I'm wondering if you can enlighten us a little more on both of those issues, because our goal is actually to come up with recommendations to the minister to make your industry a little more competitive. Could you address those two and give us specific things you would like changed, so we can help you?

**Mr. Jan Westcott:** Okay. We all start with fermentation. It doesn't matter whether you're in beer, wine or spirits, you create a fermented beverage. In our case, we take that one step further and distill it to take out some of the essence of the underlying agricultural material, whether it's grapes or grain, or whatever it is.

Modern technology is now allowing people to do other things—not distillation, but very similar things—to products to take out the original flavours and some aspects of the original grains. So you have things like reverse osmosis, centrifugation, ion exchange, ultra filtration, crystallization, which essentially take wine and beer and strip it down to get almost to the same type of thing. You get a very clean liquid, with no or very few congeners in the liquid that's left, then present that to consumers as if it were a spirit.

Here is the famous example. The law in Canada, the Food and Drugs Act, says that to meet the definition of a vodka in Canada, it has to be odourless, colourless and tasteless. We had a company that was essentially a brewer that was producing material, calling it vodka—the bottle said vodka on the label—and when we went to the CFIA, the CFIA said, “We can't really do anything about that because it's vodka flavoured”. We were sitting there saying, “Excuse me. It's what? Did you not see in the Food and Drug Act...? They're buying a flavour ingredient from a flavour company, claiming that it's a vodka flavour. So it's obscene, it's obscene.”

**Mr. Frank Valeriote:** So that was one.



**Mr. Jan Westcott:** That was one. Sorry, could you just refresh me

**Mr. Frank Valeriote:** In the first question, we were talking about the regulators being slow to react to market changes.

**Mr. Jan Westcott:** I think the best example is whisky. Whiskies around the world have to meet a couple of tests. One, it can only be made from grain. Two, it has to be distilled. If you distill it all the way, you get vodka because you take all the grain essence out. Three, it has to be matured in wooden casks. If it doesn't meet those things, it's not whisky. And it has to be 40% alcohol.

We had to sue a previous federal government in Federal Court to get the government and, to a certain extent, the CFIA to change the legal definition of Canadian whisky so that it said it had to be made in Canada, that it had to be aged in Canada, and that it had to be 40% alcohol. We had to sue the government to get that change.

The reason we needed that change was that when it goes to other countries, we don't decide what scotch whisky is in Canada. Canada refers to the rules in the U.K. for what defines scotch whisky, and if you meet those rules you can call it scotch whisky in Canada, or Irish whisky or bourbon, or those kinds of things. So we needed clear Canadian regulation that would say that this is what Canadian whisky is, so that when we go to Japan the Japanese government can differentiate between real Canadian products and fake Canadian products.

•(1140)

**Mr. Frank Valeriote:** Along that same line, I know that in the agricultural industry there's a certain harmonization that we're seeking or working toward between, say, American regulations on food production and Canadian one, so that we're competitive and not allowing products into Canada that meet lower standards, frankly, than our own farmers meet.

Do we have any of that happening with respect to your industry insofar as its content, or anything like that, puts us at a disadvantage?

**A voice:** [*Inaudible—Editor*].

**Mr. Jan Westcott:** No. As C.J. says, liquor boards police that pretty effectively. They have very sophisticated labs. I think Ontario and Quebec probably have amongst the most sophisticated beverage alcohol laboratories in the world. That's not really a factor. As for Canada-U.S., we're relatively seamless. As I say, we continue to be the largest-selling whisky in the United States, so—

**The Chair:** I have to stop you there.

Mr. Storseth.

**Mr. Brian Storseth (Westlock—St. Paul, CPC):** Thank you very much, Mr. Chair.

Witnesses, as always, it's good to see you. We've had some very good information today, some of it a little more disturbing than the rest.

Ms. George, I'd first like to talk to you. Your comments about Alberta surprise me. This is a province that is reliant on trade, enterprise, and entrepreneurship. From where are you experiencing the resistance at a certain level? Is it in the bureaucracies? Is it political?

**Ms. Shirley-Ann George:** My understanding is that the association that represents Canadian liquor retailers has some people engaged there who are former members of the Alberta government and have stepped up and said they don't want the competition.

**Mr. Brian Storseth:** Thank you.

Mr. Westcott, as always, it's good to see you. This has been very interesting.

One of the things that I've found interesting about this study is the history. We had some of beer guys here with the history of the beer industry in Canada, and we're had the history of your industry in Canada.

Really, it's quite rich and quite deep. It's something that sometimes I think penalizes you, because some of the legislation that affects you comes from that long history and sometimes doesn't get updated. Would you say that's part of the problem with some of your current issues?

**Mr. Jan Westcott:** Yes, absolutely. It seems to take government—not this government in particular, but governments everywhere—a long time to get abreast of changes in the marketplace. You're correct in that many of the rules that impact our business are old, and it takes a great deal of effort to change.

To be fair, many of them are well founded, but the world has changed, right? Think of telecommunications. The rules around communications today are not the same rules we had in 1940, yet we're still bound by many of the same rules. Certainly, in terms of tax thinking, we are at a hundred years ago. I tend to think of the worst ones as being kind of like accidents of history. If we were doing it today, we absolutely wouldn't do it, because it makes no sense, and it's counterproductive.

**Mr. Brian Storseth:** What is the cost to your industry?

**Mr. Jan Westcott:** As I said, I would say that we're more successful in other countries than we are in our own country. We have had some fortunate history on our side. Canadian whisky really was introduced to Americans for the first time during the American Civil War. All their distilleries were closed and we were the suppliers, so Americans started drinking it. Prohibition provided another boost for Canadian whisky and introduced it to a lot of people.

That's not likely going to happen in India. That's not likely going to happen in China. We need a robust domestic market that's generating enough return on investment such that we can spend that money to develop those new markets, because the U.S., as I said, is a mature market.

•(1145)

**Mr. Brian Storseth:** Your industry has been very successful, which is something that we as Canadians should be very proud of in regard to the success of your industry in going into other markets as you've had access, like the United States market.

What is the cost of your ask of government?

**Mr. Jan Westcott:** I would say that it's about \$60 million. Our excise duties are \$11.69 per proof litre—so that's a litre of actual alcohol. That went up by 60¢ in 2006. We're asking the government to reduce that by a dollar. I mentioned that a glass of wine, a bottle of beer, and a mixed drink with an ounce and a half of spirits at 40% all contain the same amount of alcohol. That would take the 20¢ of excise down to about 18.5¢, so it's a pretty modest reduction.

On that revenue coming back in, we've committed to the government publicly that we would spend all of that money in reinvesting in business in Canada, behind Canadian brands. We need to innovate and create new products. We need to make sure that our plants are efficient and environmentally sound. What is critically important is that we need to spend money going into new foreign markets that are being opened up by Canada to make trade more possible.

**Mr. Brian Storseth:** In terms of jobs, would this be an increase in Canadian jobs?

**Mr. Jan Westcott:** Well, as I said, we're exporting about \$500-million worth of product from Canada right now. I think Alberta alone does about \$50 million. If you could grow that even by 10%, which is a pretty modest target, if we could take that to \$550 million, that's a lot more material that we buy from the farmers, that's a lot more throughput in our plants, more bottles that we buy, and on and on. So, absolutely, it's more jobs.

**Mr. Brian Storseth:** How much time do I have, Mr. Chair?

**The Chair:** You have no time left. Thank you.

[Translation]

Ms. Raynault, go ahead.

**Ms. Francine Raynault (Joliette, NDP):** Thank you, Mr. Chair. I will share my floor time with my colleague.

My question is for the Spirits Canada representatives .

Your industry lost about 3% of its revenue annually between 2001 and 2010. In your brief, you blame taxes, energy costs and exchange rates.

Do you think the trend towards other alcoholic beverages has put spirits at a competitive disadvantage?

[English]

**Mr. Jan Westcott:** Absolutely. Let me say right from the start that we believe in competition. Competition makes things better. It serves consumers well. It stimulates businesses to be innovative. It pushes people to try to lower costs. It has a very positive effect on the business. When government comes in and does this over here or that over there, it disrupts that ability to compete.

I worked in the wine business for seven years. I ran the beer industry association for 11 years. We all know that we compete with each other for adult consumption occasions. The old days, when a person drank only one thing, are gone. People today, if they drink—some people don't, and fair enough—they drink everything. It depends on where you are, what's available, what the circumstances are. So if you go to a ball game, I'm likely to have a beer. If I'm socializing at a reception, I may have a glass of wine. I might have a cocktail. If I'm having dinner with my wife, we're probably drinking

wine. People drink everything. There has to be an ability for each of us to compete fairly on a level playing field for that business.

[Translation]

**Ms. Francine Raynault:** How do you think the government could help you increase consumer demand for your products?

[English]

**Mr. Jan Westcott:** One of the things that we've seen in the last 15 years is that the world has changed, whether because of health reasons or.... People want to be more fit and are just more aware that if they overconsume it has undesirable consequences. We want people to use our products properly. We invest a lot of money. We invest a lot of marketing dollars to attract you to our products and to get you to be a repeat consumer. If I have any one of you as my consumer, if you turn around and use my product improperly—you drink too much, or you binge drink, or you have way too many drinks on Saturday night, and you injure yourself or you hurt yourself or you hurt somebody else—that makes me a stupid businessman because I've just blown my investment. I'd like to think we're not stupid. I think one of the things we're seeing is consumption going up modestly, but the population's been growing. What really has been happening is that people are saying, "Okay, I'm going to drink, but I'm not going to drink as much. I'm going to drink better product. I want higher quality. I want the wine that I'm drinking to be better wine".

You can't sell whisky in Canada unless it's been in a barrel for three years. There's not much three-year whisky left. The consumer's tastes and palate have moved up. If it's not a four- or five- or six-year whisky, the consumer is starting to say, "I'm not going to drink that; there's better stuff out there". So what we're seeing is modest growth in consumption, but really it's about better quality products. We win because there tends to be more margin opportunity if people value the brand and the product that they're buying more than before.

• (1150)

[Translation]

**Ms. Francine Raynault:** Thank you.

[English]

**The Chair:** Ms. Sitsabaiesan.

**Ms. Rathika Sitsabaiesan (Scarborough—Rouge River, NDP):** I agree with you that consumers, in general, are maturing in Canada. You mentioned earlier, Mr. Westcott, that you need a strong, healthy home industry in order to be able to sustain an international market, and then to be able to grow our market share. With the amount of excise tax on the spirits industry...if I'm reading this correctly, the spirits industry represents less than 30% of the alcohol beverage market share, but brings in 45% of all excise revenue.

I think in response to Mr. Storseth's question you alluded to a one-dollar reduction in your excise tax. Have you crunched any numbers as to how much that dollar value is? And how would that transform into numbers with respect to jobs or increases in purchases from farmers?

**Mr. Jan Westcott:** One thing we do know is that as we look out around the world, Canada has the lowest average gross margins available to people who make spirits. When we sell our product to one of the liquor boards, what we get back is about 18¢ of the retail dollar. For everything we do, from buying the grain, to making it, to aging it, to marketing it, everything, we get 18¢.

In Europe, where we have significant competitors in the Scotch whisky industry and the Irish whisky industry, their gross margins are around 30%. In America, where they make bourbon, and Tennessee whisky and straight whiskies, their margins are even a little bit higher. Their gross margins are about 32%.

We're a global industry. The spirits industry has been a global industry since the 1960s. The beer industry in Canada is global industry today, with the three large brewers. The wine industry is a global business. The largest winery in Canada, Vincor, is owned by one of my member companies. We're all global players.

You're sitting at the table, and you have the Scotch whisky guy from a company, and you have the Irish guy from the same company, and you have the Canadian whisky guy, and the bourbon guy, and you're trying to allocate where you're going to invest to grow your business. Canada is losing right now because the return on that investment is just not there. It makes more sense, if you're that company, to put that money behind Scotch whisky, or Irish whisky, or bourbon, than it does to put in behind Canadian whisky. We need to fix that.

One of the biggest hurdles we're facing is the ability to attract investment from the global community behind Canadian whisky. We're so lucky. We're a small country that has one of the four uniquely recognized whiskies in the world, but we have our hands tied behind our back, and we need to fix that.

**Ms. Rathika Sitsabaesan:** Is that burden because of the excise duty, or because of the change not coming with legislation with respect to the change in the dollar value?

**Mr. Jan Westcott:** It has a whole bunch of aspects, but I would say that one of the most critical is the excise tax. As I said, we're all becoming smarter and more sophisticated. The days when somebody looked at a bottle of our product and failed to recognize that the alcohol in there was the same as the alcohol in wine or the same as alcohol in beer, those are long gone. People don't drink out of our bottles. They have it in a mixed drink, usually with one-and-a-half ounces—you'd be lucky in most bars today if they get one-and-a-half ounces. We're more sophisticated, and the tax regime has to reflect that.

As I said, the Government of Canada made a decision in 2006 to make an investment in the wine industry, and they made a similar investment in the beer industry. What we're saying is to please give us some consideration.

We've seen the successes in the wine business, clearly. I came out of that business. It's fair to say that it's on fire. We need a little bit of

help, and it's at a critical time, to be able to ignite the same kind of activity, economically, around spirits.

We're all in a similar business. Our base happens to be grain as opposed to grapes, but we're virtually doing similar things.

• (1155)

**The Chair:** Thank you.

Mr. Richards, last comment.

**Mr. Blake Richards (Wild Rose, CPC):** Thank you.

Most of my questions are for you, Mr. Westcott, but I'm going to start with you, Ms. George. I have one question I want to ask you.

I know that you were very clear in your opening remarks about your support for the private member's bill that my Conservative colleague, Dan Albas, passed last year—of course, that was following up on the good work of my other colleague Ron Cannan, who was the initiator—and how important that change was for you. You were also very clear about your disappointment in the slowness of some provinces to allow that bill to really have its full effect. My home province of Alberta was the one you singled out. Certainly I've heard that concern before. As a lover of Canadian wines myself, I wish you very good luck in your quest to lobby the provinces to come on board and allow the full effect of that to take place.

I want to ask quickly if there were any other specific regulation, federally, that you could point to that you might see.... As a Conservative, I'm always looking at ways to reduce regulatory barriers and burdens. Is there one specific example of a regulatory barrier or burden that you think we could look at that would help the wine industry in Canada to continue to grow?

**Ms. Shirley-Ann George:** I am perhaps not the right person to answer that question, because I don't represent the industry and don't have the broader perspective.

I do believe, as I mentioned, that if Parliament were to even consider looking again at the IILA, for example.... There are a lot of small breweries and specialty spirit makers who would like to be able to ship their products across provincial borders as well. So if you were to consider opening it beyond wine and at same time were to remove that loophole, that would make a real difference for small Canadian wineries.

**Mr. Blake Richards:** Okay, I appreciate that.

Mr. Westcott, first, I have just a couple of background questions. For spirits, what percentage of our production here in Canada is for our domestic market and what percentage is exported? As well, can you tell me the rough value of those?

**Mr. Jan Westcott:** About 70% of what we make leaves the country. So the domestic business is 30%. We actually produce in four provinces: this is produced in Alberta; this is produced in Manitoba; these three are produced in Ontario; and this is produced in Quebec.

**Mr. Blake Richards:** What are some of the key markets? Obviously, the U.S. would be one of them, but what are some of the key markets we're exporting to?

**Mr. Jan Westcott:** The United States is our largest market. Europe would be number two. Asia is number three. One of the struggles that we have, in addition to the ones I talked about, is that our principal or traditional export markets are all struggling. The U. S. is in tough shape. Europe is in tough shape. Our largest market in Asia is Japan, and after the tsunami and the difficulties that they've had, there are difficult circumstances. We're hanging in and we're working hard, but it's a tough environment out there.

• (1200)

**Mr. Blake Richards:** What about domestic consumption? What percentage of our domestic consumption is Canadian spirits and what percentage is imported into Canada?

**Mr. Jan Westcott:** I think we're around 65% domestic, so to our good fortune, Canadians still prefer Canadian whisky. We drink everything, but we still prefer Canadian whisky. As I said, we make significant amounts of vodka in this country, and we're also very large in the liqueurs business.

**Mr. Blake Richards:** Export-wise, obviously our government has done a lot of work to try to open up new markets for a variety of Canadian products. We've been quite successful in negotiating free trade agreements and negotiating specific trade arrangements with a variety of countries. Can you tell me the impact that's had on your business and whether you have any example of specific successes that your members have seen as a result of opening up trade negotiations?

**Mr. Jan Westcott:** I mentioned Colombia. I think that is going to be a very significant success story for us, both in terms of selling our products in Colombia, and, just as importantly, as a stepping stone into the wider Latin America marketplace.

As for some of the other deals that have been done, we supported Panama. These have just been done, and as you know, in a trade deal, each country gets five to seven years to phase out the discriminatory practices. In most of those cases we're in the first one, two, or three years, and so companies are sitting there saying okay, when do we get the same tax rates as Pisco in Peru, for example? Right now, disco has very low taxes, and imported spirits have very high taxes.

I'll give you one example. In the late eighties Canada and a couple of other countries took Japan to the forerunner of the WTO, to the GATT, because Japan was treating its domestic products more favourably. They were successful. That market opened up for Canada, and in fact the leading product we were selling in Japan was 20-year-old CC, which we were selling for about a hundred bucks a bottle and we were very successful. So, yes, there's—

**Mr. Blake Richards:** Sorry to cut you off there—

**The Chair:** I have to stop you there too.

**Mr. Blake Richards:** Can I ask one very brief—

**The Chair:** You can have a very brief question in 20 seconds.

**Mr. Blake Richards:** What kind of impact do you think some of the agreements will have in the next few years once they are fully realized, and what will that mean for farmers in terms of their grain sales to distillers?

**Mr. Jan Westcott:** We are the most successful whisky in the largest, most profitable and, some would say, most discerning

beverage alcohol market in the United States. I think we can replicate that success in other markets.

As Canada negotiates these things, they are all exciting opportunities for us, some more than others. We are doing \$0.5 billion worth of sales; I think we could easily do \$1 billion as we go forward in years to come.

**Mr. Blake Richards:** Excellent, thank you.

**The Chair:** With that, I will end the meeting. I just want to make one comment.

It seems very interesting that this committee has heard a lot of delegations talk about interprovincial trade barriers, and yet you're talking about accessing the Latin American market through one country, through a free trade deal. It almost sounds as if that is going to be easier than making those transitions across Canada. I regret to have to say that.

Thank you very much for your comments today. I hope many of the things you've said will be reflected in our report at the end.

We are going to take a two-minute recess while we reset the clocks. Be back in your chairs as quickly as possible.

• (1200)

(Pause)

• (1205)

**The Chair:** Welcome back, everyone.

Joining us for the second hour, from The Pop Shoppe, is Mr. Brian Alger, chief executive officer. Welcome. Joining us by video conference from Vancouver, British Columbia—I hope the weather is nice out there—is Terry David Mulligan, as an individual but who is well known to us all. Welcome.

We will ask you to make an opening presentation of roughly seven to ten minutes each, and then we will move to questions from the floor.

Mr. Alger, we'll start with you.

**Mr. Brian Alger (Chief Executive Officer, The Pop Shoppe):** Thank you for allowing me to be here today. My name is Brian Alger. I'm the CEO and brand owner of The Pop Shoppe.

I'd like to give you a little background on Poppe Shoppe. We're a niche-market company. The Poppe Shoppe originally started in 1969 in London, Ontario, with two young entrepreneurs who saw a need in the marketplace for affordably priced soft drinks. The idea was rather simple: a small satellite bottling operation located in a retail setting would allow them to produce on-site and sell directly to consumers.

The concept was an instant success. Pop Shoppe began to look at expansion immediately. Using a franchise system, Pop Shoppe's expansion was rapid. Within a few short years, Pop Shoppe outlets spanned Canada and ranged into parts of the U.S.

In 1977, the company went public. Pop Shoppe enjoyed success well into the eighties. At the height of the company's success, they were selling over a million bottles a day. But during that time, we began to see the introduction of competitively priced private-label soft drinks. Larger soft drink producers took notice and began what is now known as the "cola wars". Pop Shoppe's model of stand-alone stores just selling soft drinks now became inconvenient for consumers to travel to. This, coupled with a losing price battle, made it impossible for Pop Shoppe to survive. However, what did remain was the truly iconic Canadian brand with a tremendous amount of brand equity.

As a serial entrepreneur, I saw an opportunity in 2005 to resurrect the iconic Canadian brand. After gaining an understanding of the soft drink market, I concluded that the area of the market in which Pop Shoppe could flourish was in the premium category. In 2006 I launched Pop Shoppe. We are a premium-positioned, single-served pop sold in glass bottles. Pop Shoppe can be found in big-box stores, convenient stores, and various types of food service operations all across Canada and parts of the U.S.

During the launch of Pop Shoppe, I encountered a number of challenges, as you would expect during the start-up of any new business. We've been able to overcome most of those challenges. However, in 2010, I began to see a shift in the consumer's attitudes towards processed foods, and I began to look at ways to make Pop Shoppe products healthier. In particular, we saw an ad campaign against the use of high-fructose corn syrup in soft drinks.

At that time I began to look at our current sweetener, high-fructose corn syrup. High-fructose corn syrup is a byproduct of corn, which contains more fructose than real sugar. Real sugar is made of sucrose, which comes from sugar cane or sugar beets. Sucrose contains equal amounts of fructose and glucose. High-fructose corn syrup does not. As a result, it's much sweeter than real sugar and so less is needed to sweeten products.

High-fructose corn syrup is widely used in the production of processed foods such as soft drinks, candies, condiments, and baked goods. High-fructose corn syrup is primarily used because of its low cost. Quite simply, it's more affordable because of the abundance of corn in North America, and it's also easier to blend and to transport, because it's a liquid. Its sweetness helps to stabilize processed foods. Currently, the U.S. has the world's highest consumption rate of high-fructose corn syrup, but Canada is close behind, along with Hungary, Slovakia, Bulgaria, and Belgium.

A closer look at high-fructose corn syrup revealed some alarming studies. One such study found evidence that the body struggles to metabolize large amounts of fructose that does not come from fruit, and there is a risk of Type 2 diabetes because fructose and sucrose are not metabolically equivalent.

Other studies suggest high-fructose corn syrup may play a role in contributing to hypertension and kidney disease. When high-fructose corn syrup is ingested, blood glucose levels spike faster and subsequently drop faster, making the body crave more sweetness. This is why some argue that high-fructose corn syrup contributes more to weight gain and appetite functions than real sugar.

Based on these findings, the decision was made to switch from high-fructose corn syrup to a more natural cane sugar. This became a challenge for a number of reasons. First was the reformulation of each flavour we produced. The conversion rate of high-fructose corn syrup to cane sugar was not equal. An outside agency was brought in to assist in the timely and expensive process. The larger cost, however, was the cane sugar itself. Our sweetener costs rose almost 50%. We know that in some cases consumers are willing to pay more for items that are better for them, but that doesn't seem to be the case when it comes to soft drinks, pop in particular.

In addition to the higher costs, availability can be an issue. Because there's a lack of producers using cane sugar, the supply isn't always available. This can create significant delays in production.

However, even in the face of supply chain issues and higher costs, I'm happy to say that today all Pop Shoppe products are made with cane sugar. I feel good about the change. I also feel that it's the responsibility of manufacturers, in partnership with the government, to make all reasonable attempts to manufacture their products in the healthiest possible manner. As a nation, we would all benefit from this initiative.

• (1210)

I feel that the government can play a significant role in the following ways: by providing incentives to brands, such as ours, that choose to eliminate high-fructose corn syrup from their products, or similar switches; by offering subsidies to manufacturers to help offset the higher cost of organic or healthier raw materials, which would be of tremendous help, especially to smaller companies such as ours; and by giving participating products access to feature-friendly, approved labels, such as "certified organic" icons, or perhaps even partner with national grocery stores to help promote these products, with specified shelf-space.

To conclude, I believe that it should be easier for brands who are trying to offer healthier choices for consumers, and that they should be rewarded for doing so,

Thank you.

**The Chair:** Thank you, very much.

Mr. Mulligan, I'll turn it over to you, for the next 10 minutes.

Welcome.

**Mr. Terry David Mulligan (As an Individual):** Thank you so much for including me in this discussion.

I doubt I'll need 10 minutes.

My take on this is different from all the other folks you've heard from, except for Shirley-Ann. I'm not a corporate type of person, but I do have information that I think would be of interest to you.

I've been hosting Tasting Room Radio, a weekly one-hour food and wine-driven show that started in the Okanagan. It's heard province-wide in Alberta, throughout the Okanagan, and in Vancouver, Victoria, and Vancouver Island.

Not only do I conduct the interviews with the winemakers, growers, and principals of the wineries, but I also edit the interviews. As a result, I listen to them over and over again, shortening them down to a proper size. The information that comes from listening to their saying what they have to say is information that I want to impart to you today.

Two years ago, as a media observer, I attended a meeting at the very beginning of the Vancouver International Wine Festival. I was stunned when I listened to the conversations in the room. The top winemakers, small and large, along with some of the principals and owners, were all having the same conversation they'd had for years. They asked, "How do we get our wines across Canada, how do we work with the liquor boards, and how do we not live under the dark cloud that is the threat of the liquor boards?" This was simply because none of them could stand up and challenge the liquor boards across the country because their products would mysteriously disappear from the shelves.

I realized that they were in a bind, that they wanted to say something, and that they wanted to change the liquor laws that were written in 1928 during Prohibition. Because I had no affiliation with any winery, I stood up and I said, "I'll go".

Then along came the Banff Food and Wine Festival, and I went to the border. I wrote to the liquor control board offices in Victoria as well as to their headquarters in Edmonton and said, "This is what I'm doing and why". I had lunch with the RCMP—they bought—and then I went to the border. The only people who met me there were the media, God bless them. They got the story out and it started things rolling. Shirley-Ann then picked up on it and we ended down the way, in my small part, with Bill C-311.

To my astonishment, after the bill had been unanimously passed in both houses, Alberta refused to honour it. The Liberal B.C. government said, "We'd love to see Ontario wines in British Columbia", and they opened the doors. Ontario said, "Nah, we don't want to see B.C. wines here on a regular basis; we're not quite there yet". It just caused a lot of anger.

Strangely enough, Alberta is the best customer that we have outside of British Columbia. We buy a lot of our own wines. My show is heard in Alberta and I'm constantly getting feedback from Alberta customers and clients saying, "Why are we always being put in the situation where we don't know if we're breaking the law by bringing wines from the Okanagan back into Alberta". It's ironic because we see Tourism of B.C. saying, "Yeah, come on in, this is wine country, come on in", and then when customers get here, they say, "But, you can't take your wines back".

If you can help in any small way, to work with your provincial counterparts to clear up these hurdles, you will have done a great thing for this country.

We have bottlenecks all over the place; look no further than Alberta and Ontario. One or two things that would help would be to embrace the idea of having free trade within Canada, not just with the United States, and, additionally, to open up wine sales to the Internet, which everybody is talking about.

● (1215)

For every small winery out there, the wineries that make 3,000 to 5,000 cases of wine, every dollar is accounted for. They need one wine to pay the bills while the other wines are progressing. Usually it's a Sauvignon Blanc or a Pinot Gris, or whatever, but that's the wine they need help with. If we could recognize that, they could pay their bills while all the reds are growing. It would be a wonderful thing if we could target one wine within the portfolio of a small winery and say we're going to support that wine as hard as we can to help the winery pay the bills while it gets the rest of the bottles ready for market.

On the Canadian embassy, I just want to say that Janet Dorozynski is a wonderful supporter of the wine industry, and I applaud her work with the embassies across the world.

Also, on Bill C-311, let's honour it as best we can. That's what it was written for.

I was going to say that no one since 1928 has been charged under the Importation of Intoxicating Liquors Act, but there was one poor schmuck who tried to come across the U.S.-Canada border many years ago. But the threat is always there. The threat is always over top of the wineries, that "We will charge you; we will make your life very uncomfortable". The liquor boards are seen as bullies. I wish I could say nicer things about them, but they don't like the spotlight; not now and not two years ago.

I'm far more interested in your questions that you have for us here, and that's why I came today.

Thank you.

**The Chair:** Thank you very much.

Go ahead, Mr. Atamanenko.

● (1220)

**Mr. Alex Atamanenko (British Columbia Southern Interior, NDP):** I thank both of you for being here.

Mr. Mulligan, you've clearly outlined the scenario. We've heard the same concerns from Ms. George earlier on today. Clearly, it's up to the provinces to put this into perspective.

Even before Dan was here and introduced this bill, I'd meet with the vintners, write a letter, give it to the minister, and he would basically say that there wasn't a lot we could do until the provinces lined up. I think the bill has now brought this to the forefront and it's forcing them to do that. Hopefully we can collaborate and solve this once and for all. I don't really have any questions. I think we all know what has to happen here.

I'm going to share my time with my colleague, but I do have one question for Mr. Alger.

Your analysis of sugar and corn and health was very interesting. I commend you for doing that. My question is this. Why are you using cane sugar and not sugar beet from Alberta?

**Mr. Brian Alger:** We do use beet sugar as well. We use both, combined cane and beet sugar as well. We spot-buy, which is the way we buy, but we do buy both.

**Mr. Alex Atamanenko:** The second part is that it's my understanding, for right or for wrong, that the sugar beet is genetically modified in Alberta. Does that make any difference?

**Mr. Brian Alger:** No it doesn't.

**Mr. Alex Atamanenko:** That's all the questions I have. I'm going to turn my questions over to my honourable colleague.

**Ms. Rathika Sitsabaiesan:** I'm going to follow in that vein.

From what I recall from your opening remarks, you're seeking assistance in having the certified organic label or whatever. Does the fact that you do purchase GMO products affect your ability to be certified?

**Mr. Brian Alger:** The difficulty is that it's either one or the other. You're either certified organic or you're not. We kind of fall in between there. We do use some artificial colours and such; we simply need to do that for some of our products, and so we're kind of caught in the middle. There's really no certification that kind of raises us above somebody who uses high-fructose corn syrup and artificial flavours and colours and such. We're kind of caught in the middle there, but there's no real middle ground. It's either that you are certified as organic or you're just like everybody else out there.

It would be nice if there were some sort of distinction made between the two. We make all the effort we can to have as much natural product as we can in our beverages, but in some cases we're just not able to do that. Having said that, it excludes us from being certified as organic. So it would be nice if there were some sort of moniker in there that would at least give us—

**Ms. Rathika Sitsabaiesan:** It would give you some sort of leg up over the large international brands that are mostly non-Canadian.

**Mr. Brian Alger:** Exactly.

**Ms. Rathika Sitsabaiesan:** I also want to commend you in taking that risk as an entrepreneur, trying to revive an older brand that is a Canadian icon from years past, and making that effort to ensure that you're being responsible, that you're making that effort for corporate social responsibility and ensuring that you're taking Canadians' health concerns and health risks into account, trying to minimize health risks as much as possible for the consumption of your product.

Other than this mid-level designation that you're looking for, what else can the federal government do to assist other Canadian manufacturers and producers within the soft drink industry to be able to compete better with the larger international brands, the large multinational corporations?

**Mr. Brian Alger:** It always boils down to the cost of manufacturing and that's where we run up against an issue. Our costs to produce goods are substantially higher because we're producing on a smaller level than some of these multinational brands are.

**Ms. Rathika Sitsabaiesan:** Right, so you already have a lower—

**Mr. Brian Alger:** Exactly, so we're already behind in that. When it moves to the raw materials procurement side of things, we're paying more for cane sugar and for beet as well, for whatever reason, if it's a lack of demand—

• (1225)

**Ms. Rathika Sitsabaiesan:** The quantities you buy.

**Mr. Brian Alger:** Exactly.

So if there were some sort of program that would assist in putting us on a level playing ground, then we would be able to flourish a bit more than we are right now.

Currently we produce all our product here in Ontario and we ship to all other provinces as well as shipping into the U.S. from our Ontario facility. So we run into a great deal of difficulty just for the simple costs of transport. We don't have the ability or the volume to have smaller satellite bottling operations throughout the province or throughout the country for that matter. So we produce everything in Ontario.

So any cost savings we can find on the raw materials side of things would certainly pay much greater dividends in being able to get our product out there and help us with the distribution of our brand.

**The Chair:** Thank you.

Mr. Hoback.

**Mr. Randy Hoback (Prince Albert, CPC):** Thank you, Chair.

Mr. Mulligan, when I saw you, I flashed back to the 1980s and the show called *Good Rockin' Tonight*. It's nice to see you. I've moved on to some other noble ventures too.

When you talk about your scenario, I give you credit for what you're doing because it's very similar to what a lot of wheat farmers faced in western Canada for many years, having a government bureaucracy controlling their future and dominating how they marketed their product, which is very similar to the liquor boards, even though they are province by province. So I give you credit.

Also to your comment about how you took a case to the border, we had farmers take a sack of wheat across the line and they got sentenced, went to jail, and sat in cells right next to drug dealers. It's pretty amazing that people grow something legal and end up in jail with drug dealers. It tells me there's definitely a problem here, and it needs to be addressed. I'm just not sure....

I think it's fair to say that the provinces are addicted to the revenues from alcohol, and until you can figure out how to break that provincial addiction, we're always going to have a problem here. I often wonder why we can't go to the grocery store and get our cheese and our bottle of wine and be done, as one can do in the United States or other countries around the world. But here in Canada, of course we can't do that.

You say you talked to a lot of producers off the record. I wonder how a new producer goes about bringing wine to market. How do they go about dealing with the liquor board stores? What's the process of acquiring that shelf space? What are some of the stories they tell you with regard to this?

**Mr. Terry David Mulligan:** You've nailed something very succinctly, which is that they go hat in hand. They are absolutely at the disposal of the liquor control boards, and they must have these boards' approval; otherwise they're not in business. It's a delicate imbalance that has to be corrected, because there has to be an alternative.

Also, more importantly, the liquor control boards have to be accountable. That's where you come in. You have to hold their feet to the fire. They have been bullying this industry for so long, they think they can't be touched. Well, they can be touched, and it's going to happen in a number of ways. What's going to happen down the road—and it's just a guess on my part—is that there will be a social movement that will find wine being moved via Internet sales. I'm now hearing it more and more. About three or four years ago, I asked if they were shipping wines, and they all said no. Now what I'm hearing is that they are shipping wines and will continue to ship them, and they dare the liquor boards to charge them.

It's right around the corner, a social movement is coming. We can talk until we're blue in the face. I think the industry itself is going to move this, if we can't.

The small wineries right now go hat in hand and ask to have one of their wines on the liquor board shelves because it'll help them a lot. If the liquor boards say no, the small wineries are buggered.

**Mr. Randy Hoback:** Let me put it in perspective here again, then. So, you buy a winery to become a small vineyard and invest  $x$  amount of dollars. I would think it would be a couple of million dollars probably before you're producing wine, and yet you still don't know whether or not you will or won't have a marketplace in Canada. Is that fair to say?

**Mr. Terry David Mulligan:** Exactly. What you can do is hope that people will notice that you're there, that they will come through the front door and you can do over-the-counter sales, but that's very tenuous. You still need the Albertans to come in and, God bless them, buy their two cases and take them back home for the winter. There's wonderful commerce between Alberta and British Columbia, both ways. Frankly, that's no way to make a living. If you're going to

be a winery, you should be able to put up a website and say, "This is what we make and we're very proud of it."

Actually, some of the best wines, period, are the ones you can't get your hands on, and most of the people who listen to my show or just follow wine, in general, are looking for those small wineries that other people haven't heard of. They love the chase for the small wineries. We need to support them.

• (1230)

**Mr. Randy Hoback:** If the liquor board says, "You didn't wear your tie right today, so we don't like you", what is the appeal process for the liquor board store?

**Mr. Terry David Mulligan:** There is no appeal process.

**Mr. Randy Hoback:** So that's it. That's end game, match, done: you're out of business.

**Mr. Terry David Mulligan:** That's it.

**Mr. Randy Hoback:** You can export, I guess. You could look at —

**Mr. Terry David Mulligan:** It's a scary thought when you think about it, but that is the process.

For example, I was the chair for the Canadian Culinary Championships in Kelowna two years ago and I interviewed the chef representing the Maritimes, who was from St. John's, before he came. I asked him whether he would be pouring a Nova Scotia wine. He said, "I've been turned down. I cannot use maritime wines". I said, "Wait a minute, you're from St. John's. Why wouldn't you use maritime wines?" He was told he could not ship wines from Nova Scotia to St. John's, and he had to use Ontario wines. It's not that that's a bad thing, but he wanted to represent where he came from and he couldn't do it. You wouldn't believe the frustration in and around that decision.

**Mr. Randy Hoback:** So if I wanted to promote my B.C. vineyard in Ontario, I couldn't even take my own samples to Ontario to promote my own vineyard from back in B.C.?

**Voices:** Oh, oh!

**The Chair:** Thank you.

I'm going to move to Mr. Valeriote.

**Mr. Frank Valeriote:** Thank you, Mr. Alger and Mr. Mulligan, for coming before the committee.

Mr. Alger, first of all, you were talking about the health of the soft drink and the additives. I'm wondering to what extent you are possibly looking at even healthier content, like Stevia or other sweeteners. I know there was a movement to aspartame some time ago. I'll be candid that I drink a lot of diet pop and I'm constantly being warned about my consumption of aspartame. I'm really not quite sure of the consequences of that. What effort is being made to introduce even healthier sweeteners, number one?



Number two, I know efforts have been made with respect to the tin cans, to make the aluminum cans much thinner and to recover pop bottles and make them recyclable. What other efforts are on the horizon to make it more environmentally sustainable?

I'll ask those two questions of you.

**Mr. Brian Alger:** I'll address the first one first.

As a small producer, it's difficult for us to put a lot of R and D money into creating different flavour profiles and to work with the new sweeteners that are coming on the market. You're exactly right that there are a lot of sweeteners coming into the market, like Stevia, which are interesting to somebody like me, to see if there's a way to be able to formulate that and work it into our beverages. The difficulty again is that it just comes down to lack of funds to be able to put that money back into R and D. I pretty much have a sit-on-the-sideline mentality and let the bigger producers work out all the kinks, and then it makes it a little bit easier for us to go in and match some of the processes they're doing to do that.

We've done some things with aspartame and we've done some blends. Ultimately, the flavour profile just isn't there, so that's where a lot more money needs to be spent on the R and D side of things to be able to see whether or not there is way to use a different type of sweetener, to get that flavour profile the consumers are looking for.

Right now there are a lot of organic sodas on the market and, in my personal opinion, the taste is just not there, not to the point where you'll get a massive amount of consumers to switch over from what they're typically used to drinking. I think more money needs to be spent on trying to develop that side of the business as well. Certainly, if I had the means to do that, I would, because it's to the benefit of our company.

On the recycling side of things, I'm happy to say that we produce all of our product in glass bottles, which are environmentally more friendly than cans and, certainly, plastic. We do everything we can possibly do on that side of the business to try to promote why glass is better for the environment. It's simply that the soda will taste better. There are a lot of attributes, but certainly the environmental one is a big issue. That's why we produce this in glass, and I'm happy about that.

• (1235)

**Mr. Frank Valeriote:** Thank you very much.

Mr. Mulligan, you talked about access to shelf space. This committee heard from producers and processors some time ago that, in some instances, to get shelf space with grocers they had to pay money to get to that space. I'm wondering if in your travels and your interviews you have heard of any vineyards having to pay money to any of these organizations to get any shelf space.

**Mr. Terry David Mulligan:** They won't talk about it. Even if asked directly, they won't talk about it. It's a very grey area you have touched on. Somebody will step forward at some point and actually spill the beans, but they didn't do it for my microphones. I haven't even heard comments off the record. It's a slippery slope: you're damned if you do, and damned if you don't. But I bet the truth is about halfway between you and me. It's an unfortunate situation. I'd love to see somebody expose it. It won't be me; it will be somebody who is on the inside. But it's a good point.

**Mr. Frank Valeriote:** Without getting rid of the liquor control boards completely, do you see a solution to this, some halfway solution that will accommodate those trying to get access to the shelf space and the control of liquor sales?

**Mr. Terry David Mulligan:** I'll go back to my comment previously, which was that they have to be held accountable. The liquor boards have been beholden to nobody. Frankly, they walk around like bullies. They walk around like an enforcement police, and they are not. That's not their job.

They have to be reconfigured. They have to have people with a grassroots feeling for the industry. They are just completely and totally out of touch. I'm sorry, but that's basically what I get from my six years of conversation with the industry. You cannot talk to them; you cannot reason with them. They are very powerful. They don't like anybody messing with their domain, and I think you can understand that.

I have just a final point. I was asking a winemaker a couple of days ago to tell me about a Bordeaux of his and how it works because I knew I'd be talking to you folks. That Bordeaux wine in the Okanagan is \$35. Then it has to be discounted to \$25. Then when it's sold, if it's sold in Ontario and gets there, it's sold for \$65. There's money being made here, lots of money, and it's at the expense of the winemaker.

**Mr. Frank Valeriote:** Thank you.

**The Chair:** Go ahead, Mr. Payne.

**Mr. LaVar Payne (Medicine Hat, CPC):** Thank you, Chair.

I'd like to thank Alex for bringing up the Alberta sugar piece for me, but I'm surprised he didn't mention Frank's tie.

**Voices:** Oh, oh!

**Mr. LaVar Payne:** Mr. Alger, I wanted to talk a little bit about Alberta sugar. What kind of ratio do you have in terms of sugar cane versus Alberta sugar?

**Mr. Brian Alger:** Primarily we spot buy, so we pretty much buy based upon the current market prices. Depending on what the prices are doing at the current time is how we make our buying decision. It simply again goes back to my original comments about shrinking margins and being able to try to distribute our brands and retain some margin.

Typically if we see that the beet sugar market is better, then that's where we'll buy it. If I had to hazard a guess I would probably say that 60% of our sugar is bought in the beet market.

**Mr. LaVar Payne:** Is there any ability to direct contract to get a better pricing with them?

**Mr. Brian Alger:** There is. Again the difficulty is that we're a relatively small producer, so we would have to make a fairly large commitment to be able to contract buy. Currently where we produce our products, we make a number of other products. All those other products are in high-fructose corn syrup and there we do that on contract buy. We buy on that simply because there are so many of those people who do want us to produce for high-fructose corn syrup, so we'll buy on contract there.

I'm kind of the lone sheep out there that produces within my facility with cane sugar, so that's what makes it difficult for me to contract buy. Typically the way it goes is that I spot buy.

**Mr. LaVar Payne:** Thank you.

Mr. Mulligan, I guess I've been breaking the law for about 20 years or so because I used to go over to B.C. and bring in a couple of cases at a time. Unfortunately, I didn't even know I was breaking the law. Now I've done it again, if you can imagine. I've been bringing Ontario wine back to my place in Alberta. I guess I'll have to talk to the premier to see about getting that changed.

It doesn't seem right that I can't have the B.C. wine or Ontario wine that I like sent to me. It does not make any sense to me. I'm a free trader, and I can't understand why in Canada we can't even have free trade amongst the provinces. It makes absolutely no sense. There are too many barriers.

I'd like your comments on that.

• (1240)

**Mr. Terry David Mulligan:** I couldn't agree with you more. If I were in the room I'd give you a hug.

I used to be a Mountie, so I do understand a small modicum of what's right and wrong and the truth and how the laws work. This law was written in 1928 at the time of Prohibition. The Americans did away with their version of that same law almost immediately after Prohibition. We're still trying to force this down the throat of people who only want to support the wine industry across the country.

Nova Scotia needs our help. There are 15 wineries there now and they're going to have 30 within a couple of years. They're really growing by leaps and bounds. Ontario is doing exceptionally well, in Prince Edward County. In B.C., there are now 40 wineries on Vancouver Island and the Gulf Islands. It's growing like crazy. The problem is that they have a speed bump in front of them and it's distribution—it's getting product out there. It is a food. It's juice. It's grape juice. It's a food product. Why can't it move across the country like all the other food products do? It's so frustrating.

I'm going to put the onus on the panel in the room I'm talking to today. It's people like you who can make this go away, who can bring this compromise and find common ground and hold them accountable. We can have an incredible industry here. I don't think we're ever going to make enough wine that we'll sell to the United States, because we only have certain areas we can grow in and they're getting tapped out.

The interesting thing that I wanted to say is that when the Americans finally did come to their agreements between states as to where and how you could ship, I think 38 or 40 of the states signed

on. They each wrote their own version of the bill, but they wrote it and honoured it.

When Internet sales started to come into play a couple of years ago, surprisingly it was only 1% of wine sales. It's not like money is going to be taken away from the liquor control boards and government coffers; it's simply going to find another way of reaching them.

**Mr. LaVar Payne:** In terms of private versus provincial stores, in Alberta we do have basically private stores. I can go to any private store and buy beer, wine or spirits. Could I have your comments and thoughts about that process?

**Mr. Terry David Mulligan:** It's fantastic. I'm heading to Edmonton on Friday and the first place I'll go is to my local wine store because, first of all, I see brands there that I would never see anywhere else. It's astonishing how robust the wine shops are in Alberta. I applaud them wholeheartedly. It's the way B.C. should be. I think we'll all get there at some point—maybe not Ontario. But the fact remains that it's a great example of what you can do with an industry. That's why I cannot believe the Alberta government is saying no, that they won't honour Bill C-311. It's stupefying. We still haven't come up with an answer as to why they have done that.

I would like to congratulate the restaurants in Montreal, by the way, who are pouring more and more B.C. wines. It's a great combination, really good wine and really good food.

**The Chair:** Thank you.

Mr. Allen.

**Mr. LaVar Payne:** Thank you to our guests.

**Mr. Malcolm Allen:** Thank you very much.

Mr. Mulligan, I greatly appreciate your advocacy on behalf of vintners across the country—obviously from a guy who lives in the heart of Niagara. It's an immensely important issue for all of us in that particular industry.

If we fix this piece—actually, when we fix it is more of the reality because I actually think this is attainable. It's slower than we'd all like, obviously, but it has been going on for a very long time. I actually think we can do this.

When we fix it, based on how you described new wineries to my friends across the way, which are quite small and may make only 3,000 to 5,000 cases a year, how do you see their getting into the chain to be able to move the product? If those restrictions are not there, how would they move their product across this country, because unfortunately and fortunately at the same time, it is a huge place to get across?

•(1245)

**Mr. Terry David Mulligan:** It's the Internet. It's now the age of the Internet and I think that is our future. We'll still have wine stores. We'll still have walk-in customers. We'll still have tasting rooms. But it's going to be the Internet that will move product across the country. By the way, we haven't touched on wine clubs. That's the latest catchphrase. All of the wineries are forming wine clubs. Apparently that's another way of moving product. You join the club. You will get a case of wine a year. It will show up at your door. It's a great way to move wines, and it's maybe the godsend the small wineries are looking for.

The big wineries are going to look after themselves. They're amalgamated. They're large. They're intercountry. But it's the small winemakers who are making sensational wines all across this country. Those are the ones I feel need our support. With Internet sales, it's a matter of a website and a credit card, and the wine is delivered to your door. Everybody is going to benefit from it including the couriers, the postal service, all of those folks.

**Mr. Malcolm Allen:** I agree. I think the Internet is the thing. Smaller wineries have wine clubs or have small restaurants to bring customers in through a different means than just the wine, and they're doing both things at the same time at the retail end.

At Strewn Winery in Niagara-on-the-Lake you can buy half a barrel when it's been fermented. You can come in with friends and pick out a barrel and it becomes yours when it's bottled. You've actually bought it before it hits the bottle. You can do that in advance, which is a unique way they have of marketing themselves.

So you're right: the entrepreneurship of the smaller wineries across this country is quite outstanding. But I wonder about the Internet becoming the only portal to move the wine. If you're looking to buy six bottles of this and six bottles of that, but it's not all from the same winery, is there a way to collate it so that so you don't have to order from different wineries and raise your shipping fees?

**Mr. Terry David Mulligan:** It's coming. It's coming. It's all coming our way. If we have this discussion in a year or two from now, I believe it will be a reality. Certainly, the wineries are ready to go down that road. Bottles on shelves is an old-school way of buying wine, but that's what we all do. It's a free-market society. Once you get your bottles on the shelves, you're on your own. You have to market. You have to support. You have to tell your story. That is really what wine is about.

It's astonishing how many stories are behind each of the labels. People have reinvented themselves. Some of them were even politicians and Parliamentarians and bureaucrats. They left their lifestyle and went into wine. They had enough money that they could start a small winery or partner in it. It seems that half of the oil business owns the wineries in the Okanagan. It seems like it, but it's not quite true.

It's an organic process, like wine-making. It's going to work itself out. Today we're one step closer to our new reality. I applaud you for what you're doing and ask that you stay the course. That's all.

**Mr. Malcolm Allen:** Thank you.

**The Chair:** Thank you.

Mr. Zimmer.

**Mr. Bob Zimmer (Prince George—Peace River, CPC):** I'd like to thank you for appearing at the committee today.

Mr. Alger, I'm definitely familiar with The Pop Shoppe brand. A lot of us grew up drinking Pop Shoppe or Pick-a-Pop. I remember it was a fun process picking out the different pops for a good price.

I see what you're trying to do: you're trying to produce a healthier soft drink. I just don't know if the public is there yet. When one buys a sugared drink, one just assumes they're all the same. Maybe that's a branding thing too. People need to catch up to where you're at.

For the record, where are your company headquarters and where are you manufacturing? Where do you manufacture your drinks in Canada?

•(1250)

**Mr. Brian Alger:** It's based in Burlington, Ontario. Our bottling facility is in Toronto.

**Mr. Bob Zimmer:** What is your company outlook for the future? It's such a competitive market—and, obviously, you know that. Where do you see yourself going?

We just bought some of this pop last summer, and we're really happy to see the brand back on the shelf. It think it was in a Zellers in Grande Prairie.

Where do you see yourself going?

**Mr. Brian Alger:** Sadly, Zellers is no more, and we haven't been able to maintain our listing with Target. We continue to knock on doors and try to get the brand out there.

It's funny listening to Terry talk about the challenges with the wine industry. We face those same challenges as well. It's just getting product on the shelves. That's what we need to do.

So we're out there. We're knocking on doors. We continue to try to grow our brand out there. I recognize the fact that we're a smaller brand and that we're in a real niche part of the market. Our bottle typically sells on a store shelf for \$1.29 for a small 355 millilitre bottle when you could buy a big honking 2 litre for 99¢ any day of the week at a local grocery store.

So we're really a niche market. I recognize that fact. I think our biggest amount of growth last year probably came from the U.S.. Pop Shoppe was a brand that was widely available throughout a number of different states within the U.S.. So we continue to push our efforts in the U.S. and try to grow our market and presence in that market.

**Mr. Bob Zimmer:** Mr. Mulligan, again it's an honour for you to be here today. As a British Columbian, I watched you as a kid and it's good to talk to you today.

About your issue, this committee has heard from supermarkets and different producers that have actually had to pay for shelf space. We've heard that. Assumptions could be made about the liquor boards, too. We can make those assumptions, but there's no evidence yet, maybe.

I have a hope. I know Dan Albas well, and we hope that this issue will be resolved quickly. I think the wine issue has been tied up with the pipeline issue between our two provinces. That's where I see it tied up. I wish our two premiers would get along and possibly work things out and get wine flowing across the border.

On a positive note, the industry is doing really, really well. Assuming that this issue will be behind us fairly soon, what do you see as next? Do you see any other future issues on the horizon for B. C. or wine in general as a possible problem? Or do you see the future as bright? If this issue is behind us, life is going to be good for wine producers.

**Mr. Terry David Mulligan:** Actually there's an unnamed troublemaker within the wine industry—notorious. Only one name ever pops up in B.C.. I was talking to him in advance of this. He was saying that he could somewhere down the way more regulations, that we will be regulated more. We seem to be a regulations-driven country.

Right now, it's good times for the wine industry; you're absolutely right. Everybody is trying to expand and move forward. There's a whole new generation discovering wines and craft beers.

We all have a different view of what the future will be. The problem is that we can talk about it until we're blue in the face: wishes, hopes and dreams. The problem is—and I hate to harp on this—that right in front of us is this monolith called the liquor boards. Until such time as they want to open themselves up to new ideas, fresh ideas, new faces, new thoughts, and new processes, it's just a frustration. It's two steps forward and three steps back. I wish I could be a little more positive in that area. I would love to be.

If and when the liquor boards decide they want to change the way they do business and how they approach and treat people, the industry will be ready to step forward. There's been growth now, but if we can just fix this, it will be one of the success stories of Canada. Period. People will come here from other parts of the world to experience our wines.

We certainly can't get our wines to them on a regular basis because we don't make enough. But we will become a wine destination when the word gets out about how good the wines are, how good the bubble is from Benjamin Bridge in the Gaspereau Valley in Nova Scotia; how good the wines are from the limestone of Prince Edward County, from Closson Chase, Norm Hardie, etc.; and Tawse in Niagara, the Speck Brothers and Henry of Pelham. We have stars.

We have wine stars. The wine world is starting to pay attention. This could turn out to be a huge bonus for us in terms of tourist dollars and destination money spent in Canada, if we could just fix this pothole in the road.

•(1255)

**Mr. Bob Zimmer:** Well, thanks. We've certainly heard you today.

Thanks.

**The Chair:** Thank you.

Madame Raynault.

[*Translation*]

**Ms. Francine Raynault:** Thank you.

Mr. Alger, your website uses very original marketing, which targets young people.

Is your brand helping you get back on track?

[*English*]

**Mr. Brian Alger:** We recognize the fact that the largest soft drink consumption comes from a younger demographic here in Canada. That's certainly where we market our brands. I think that emphasizes our need to try to be as healthy as we can, because we recognize that those buying our brand are primarily in that younger demographic. That's certainly where we do the majority of our marketing. But we also recognize the fact that we're a fairly well-known brand for an older demographic as well, so they also drive our brand.

[*Translation*]

**Ms. Francine Raynault:** You say that healthier products should be encouraged. What do you mean by that?

[*English*]

**Mr. Brian Alger:** I think there could be some assistance given to us in terms of marketing our products. I don't think it necessarily just boils down to incentives. In terms of procurement or raw materials, I think help, in terms of marketing our brand, would be a great lift to us. As I stated earlier, maybe it's a partnership with large retailers to kind of carve out a section within the retail store that promotes brands that are a little bit healthier than other brands currently offered on that shelf.

As small producers and a small company, we don't have the wherewithal to be able to market that fact. We do it as we can, which is through viral marketing and through our website. These are the methods we're able to use. If we're out doing store sampling events, we're able to promote the fact that we are a little bit healthier, that we are using a more natural sugar than is, say, a Coke or a Pepsi. However, we don't have the marketing budget to be able to really fly that flag to try to gain some market momentum and get some education to the consumer out there.

So if there's a way collectively—not just for Pop Shoppe, but for other brands that want to make that switch as well—to help promote these smaller companies, it will benefit all of us. Doing that, I think it, in turn will wake up the larger producers, who choose not to produce with more natural products simply because doing so is not great for their bottom line.

[*Translation*]

**Ms. Francine Raynault:** In my riding, Kiri cola seems to have a story similar to yours. The company tried to take advantage of its retro side, since the brand has been known for decades. But the plan did not work, and the plant closed.

What is your opinion on the future of independent soft drink producers?

[*English*]

**Mr. Brian Alger:** I know Kiri. I actually went and met with them at their plant. There was some discussion about having them co-pack our products for us, because they make fantastic products. I think the Kiri brand itself would have survived. Part of their business was co-packing. They were packing for other customers, and I think that was less lucrative for them.

It's difficult. It's a segment of retail that is dominated by two large players, and then there's a handful of small producers out there, such as me. I kind of know my place in that chain. We try to carve out and do as much business as we can being a small producer, but it's difficult when you're up against two large conglomerates that can pretty much do what they want in the market space.

It's difficult. Again, to go back to the point about finding shelf space and stuff, that gets very competitive. We lost our shelf space when Zellers closed, which was unfortunate. We weren't able to get that shelf space back with Target because they had pre-existing relationships with a lot of American companies when they came up here. That reduced the amount of shelf space for us out there. So it's difficult. All we can do is to just keep trying. We run a very fiscally responsible company. That's why, when we make these changes and our costs of raw materials go up, it does hurt our bottom line, but I think it's the right thing to do. That's the only thing I'm looking for. I believe it is a partnership.

Soft drinks have been under the gun for the last number of years. Society has blamed a lot of the overweight and obesity issues on soft drinks in particular, so we've been kind of under attack. But if there's any way to look at something that may be a little bit more alternative—because we all enjoy soft drinks—there are ways to do it.

• (1300)

**The Chair:** I have to intervene here. Thank you.

Mr. Mulligan, do you have a final comment? You have about a minute, if you want to use it.

**Mr. Terry David Mulligan:** Oh, thank you. Thank you so much. I have just a couple of things, and then I'll get out of your way because I have to go lie on the beach.

**Voices:** Oh, oh!

**Mr. Terry David Mulligan:** Some good news is that the new generation of wine drinkers, the 20-somethings, have brought with them amazing responsibility with regard to alcohol. It's quite remarkable what's happening.

Of course, the dark cloud that always hung over wine and liquor was that it was damaging relationships. It was the carnage on the highway. What we're seeing now, and what the restaurants are telling us now, is that people are drinking and eating locally. In other words, they're walking to their restaurant, they're consuming between them a bottle of wine, or having a couple of glasses, and walking home. They're not getting behind the wheel. It's quite remarkable what's happened.

That was an organic process. Nobody legislated that; it happened on its own. We're seeing wines on tap, which is a really cool thing. People can taste small amounts of wine just to see which ones they like.

There are just two things. One is that I can still go to Toronto and go to a certain wine bar on lower Church Street and say to the bartender, "Do you have any of that Riesling from British Columbia?" Like a speakeasy from 1928, that bartender will reach down between his feet and will pull out a long-neck Riesling that everybody is after. There's sort of a bootleg version of 1928 all over again that's kind of goofy in this country.

Finally, just know this: there's an entire industry, a wine industry, that is afraid to speak out and speak up because of the repercussions from doing that. That's not the way we should be running our business, and that's not Canada. If you can help change that, it'll be a high watermark for me, and hopefully for you.

Thank you.

**The Chair:** With that, thank you to our guests for your input today. It was most enlightening.

Committee, we'll see everyone next Tuesday. Have a nice weekend.

We are adjourned.





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