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

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**EVIDENCE**

**Thursday, May 2, 2013**

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**Chair**

**Mr. Merv Tweed**



## Standing Committee on Agriculture and Agri-Food

Thursday, May 2, 2013

•(1145)

[English]

**The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)):** Good morning, everyone.

Welcome to the Standing Committee on Agriculture and Agri-Food, meeting number 78. Our orders of the day are pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, January 31, 2013. We continue our study of the agricultural and agrifood products supply chain, the beverage sector.

Joining us today from Agriculture and Agri-Food Canada is Susie Miller, director general, sector development and analysis directorate, market and industry services branch. Boy, you have a big business card. From the Canada Revenue Agency, we have Brian McCauley, assistant commissioner, legislative policy and regulatory affairs branch.

I understand, Ms. Miller, that you are going to make an opening statement, and then we'll move to questions.

**Ms. Susie Miller (Director General, Sector Development and Analysis Directorate, Market and Industry Services Branch, Agriculture and Agri-Food Canada):** Thank you, Chair.

I would like, first of all, to take this opportunity to thank the committee for inviting us to provide an overview of the Canadian beverage industry and the work that Agriculture and Agri-Food Canada does on behalf of the industry.

My colleague, Brian McCauley, is the assistant commissioner of the legislative policy and regulatory affairs branch at CRA. He will undertake to answer questions as they relate to the CRA's role in taxation and regulation of the alcohol industry in Canada. Just to summarize, they're responsible for administering the provisions of the Excise Act, 2001, on spirits and wine, and the Excise Act, on beer. Under these statutes, CRA licenses and regulates the producers of these products, as well as collects and audits the excise duties levied on these products. The CRA is also responsible for the Importation of Intoxicating Liquors Act as it interacts with the Excise Act, 2001, and the Excise Act.

What I'd like to do is provide a short presentation in two stages. I'll provide an overview of the Canadian beverage manufacturing industry. Then I'll talk a little about what Agriculture and Agri-Food Canada does in conjunction with the development and the competitiveness of the beverage industry.

We define the beverage manufacturing industry as including alcoholic beverages, but also non-alcoholic beverages, such as soft

drinks, juices, bottled water, etc. It includes, of course, from our perspective, the inputs from the producers—grapes, fruit, grain—but it also includes the processors: wineries, breweries, distilleries, malters, bottlers, packers, roasters, and blenders, for example.

Our primary role in the market and industry services branch is to provide support to the industry in the form of market development assistance and trade resolution services, but also to remove barriers to growth and competitiveness in the industry. We proactively work with the industry to identify what their challenges are and see what we can do as government to assist in the resolution.

In terms of the industry itself—and I realize you've received a number of representations—in 2011, our numbers show that it provided direct manufacturing jobs for 25,000 Canadians, so it's not insubstantial. It represented about 17% of the overall food and beverage gross domestic product. Canada supplies 70% of all processed beverage products available in Canada. We're the largest supplier of our own market. The sales of alcoholic beverages were \$21 billion. It's a big industry. Beer remains the largest seller within the alcoholic beverages sector, at about \$9 billion, followed by wine at \$6.5 billion, and spirits at just over \$5 billion.

We're also big exporters. Canada's distillery industry exported about \$500 million in products in 2012. Those are the distilleries. The beer exports were about \$200 million. This is just the beer itself, not the ingredients for beer. For wine it was \$41 million.

A lot of these are mature categories, but on the beer side, craft beers have been performing better than the overall beer category. It is expected to provide opportunities for further growth. Wine performed well in 2012, growing in both value and volume sales.

The increase in the number of craft breweries, craft distilleries, and new wineries across the country is evidence of a thriving alcoholic beverage industry in Canada that contributes economically to all regions across the country.

You will see that the larger companies tend to be centrally located or concentrated, but there are a lot of smaller companies that are growing that are adding to the economic impact on a regional basis. That's the alcohol side.

Now, the non-alcoholic side includes soft drinks, juices, bottled water, tea and coffee. The domestic shipments were valued at about \$5.5 billion in 2011, and that involved 15,000 employees. Overall, there are 25,000 employees with 15,000 of them in the non-alcoholic beverages and the rest in alcoholic beverages. We're also exporters of non-alcoholic beverages. Interestingly enough, we shipped \$500 million of coffee and tea out of Canada, and about \$155 million of soft drinks and bottled water products.

Both the alcoholic and non-alcoholic beverage industries are very dynamic. That's probably one of the parts of the food industry where consumer demand changes quickly. We've seen that our industry is responding very well to new consumer demands, new products such as coolers, flavoured spirits, wheat beer, energy drinks, specialty coffees and teas. With the development of calorie-reduced beverages and new products that offer functional properties, the soft drink industry is being more responsive to demands for healthy products.

Although these industries are different in many ways, what we've found is that opportunities and challenges are common no matter what beverages they produce. They also have a lot in common with the food processing industry for non-beverage foods. For example, what we've seen over the last 10 years is a strong Canadian dollar, rising energy and raw material prices, and a more global environment. Packaging and landfill constraints is a big issue that has impacted the beverage industry more than some of the other food processing industries. Consumer demographics are changing as well. These are some of the challenges shared by those in the food processing industry.

We work proactively with these industries to see what we can do to help them improve their competitiveness. For example, we provide sector support and expertise on the farm inputs and manufacturing components that will ultimately benefit wineries, breweries, and distilleries. As an example of the kinds of things we undertake, last November Minister Ritz held an Agri-Processors/Producers' Summit in Toronto to facilitate discussion between the producers and the processors about approaches to enhance innovation and efficiency along the Canadian supply chain. Among the recommendations coming from that dialogue between processors and producers are specific supply chain activities to enhance competitiveness, including the incorporation of more Canadian agricultural inputs for processors, but having the dialogue to ensure that the producers are actually able to deliver what the processors need.

We're looking forward to the conclusion of your study and the recommendations you might make to improve competitiveness, particularly in the beer and spirits sector.

I appeared before you last year to talk about the value chain round tables and the work that we do there. There are two of them that I'd like to mention in reference to the beverage industry: the Horticulture Value Chain Roundtable and the Food Processing Industry Roundtable. Each of those works on specific issues that have impacts on the beverage industry, one from the fruit and vegetable production and processing side on the horticulture, and the other one more generally on the food processing side.

Each of these round tables is committed to examining challenges affecting the growth of the industry and proactively putting measures

in place not only to identify opportunities, but also to undertake actions to address the competitiveness issues.

Agriculture and Agri-Food Canada also has research support in two ways. One is through the Wine Grape Research Network at the Pacific Agri-Food Research Centre in the Okanagan Valley. It's connected with the Cool Climate Oenology and Viticulture Institute. They do work on arid viticulture, vineyard ecology and terroir, crop protection, oenology, and wine sensory quality to assist the wine industry.

• (1150)

We're also a supporter, through our program funding, of the Canadian Malting Barley Technical Centre, which provides technical services to the beer industry on the utilization of Canadian malt, including the evaluation of new varieties and technical assistance on how best to use this to get the best product.

We also have a regulatory role. The Minister of Agriculture and Agri-Food has the responsibility to ensure adherence to the ministerial order for the issuance of age and origin certificates for distilled spirits. In plain language, that means, for example, shippers crossing over into the U.S. actually need certification from a government body to indicate that the product is Canadian whisky, because it is a protected designation, and that it really is 20 years old, 8 years old, or 10 years old. The Minister of Agriculture and Agri-Food has the responsibility for ensuring that's done and for the requirements of the Spirit Drinks Trade Act, which basically says there are certain liquor, alcohol, or spirit products that can only originate from a particular country, such as grappa from Italy. He also provides input and advice to the Minister of Industry on the protection of wine and spirit drinks under the Trade-marks Act.

We're also co-leaders on the international stage of the World Wine Trade Group, which is an organization of non-European wine-makers, such as Australia, the U.S., and Argentina, etc, who collaborate on issues related to international wine trade.

We also contribute to the committee on internal trade in Canada, toward resolving issues on internal trade and movement of products across Canada.

We also work with our colleagues at CRA, Finance, International Trade, etc, in either a formal or an informal way to address specific issues across departments.

With the implementation of Growing Forward 2, there was certainly a lot of investment to the wine and beverage industry. Many of these programs have been retained. We're now in the process of receiving applications and reviewing them, and decisions will be made sometime in the next three or four months.

We have retained the AgriMarketing program, and Minister Ritz announced the AgriInnovation program in November, I believe. The industry organizations and associations, plus individual companies, have access to those programs, and with the signing of the cost-shared agreements with the provinces and territories, what we have seen is a greater interest in moving beyond, and inclusion of the food processing industry, including the beverage sector.

Essentially, these programs are available to ensure that industry and government can work together for investments in the development of technology that will continue to keep the competitiveness of the beverage industry in Canada at the forefront among the agriculture and food sectors.

Thank you, Mr. Chair, for your time today.

My colleague and I would be pleased to answer any questions that may arise.

• (1155)

**The Chair:** Thank you.

Go ahead, Ms. Brosseau.

**Ms. Ruth Ellen Brosseau (Berthier—Maskinongé, NDP):** Thank you, Mr. Chair.

I'd like to thank our witnesses today. I'm sorry, but with votes, things can change at the last minute.

I just want to touch on buying Canadian. When I'm out in my riding and I do my shopping, I find more and more Canadians want to buy products from Canada. What we've seen from the wine industry is that statistics show that 30% of the market share is Canadian wine and 70% is imported.

Is the government doing something to help support Canadian businesses to make more of a buy local effort? What is the government doing to help Canadian businesses thrive?

**Ms. Susie Miller:** In response to your question, what we have within Growing Forward 2 programming are two components that we believe will help the industries.

First of all, we have had a lot of investment over the years in international marketing, but recognizing that the Canadian market is part of the global marketplace, those kinds of marketing activities can be extended to the Canadian level as well.

In addition, we have seen more interest in the provinces and territories in using cost-shared Growing Forward 2 money to assist their industry. At this point in time, not all the agreements have been signed and not all the provinces and territories have announced their programs, so we can't provide an exact identification, but we can say that there's more significant interest in assisting the industry to take its proper place within the domestic market as well.

**Ms. Ruth Ellen Brosseau:** In budget 2012, there were changes to the container sizes, a deregulation of these containers. We've heard a lot of pushback, with industry saying that these changes could negatively affect their businesses and that there may be job losses. To your knowledge, was there any consultation done before this was put in budget 2012?

• (1200)

**Ms. Susie Miller:** I can't answer that.

I can answer about the consultations going on currently, because

**Ms. Ruth Ellen Brosseau:** After the fact.

**Ms. Susie Miller:** After the fact.... That is including a number of formal consultations held last year, a series of formal meetings, including with Minister Ritz, in the fall period. We are embarking, as

of next week, on another round of discussions with the industry, which we hope to have concluded. By "we", I mean the Canadian Food Inspection Agency and Agriculture and Agri-Food Canada. The beverage manufacturers, including those for juice and wine, are high on the list of priorities to undertake those discussions.

**Ms. Ruth Ellen Brosseau:** Perfect.

We've heard from some witnesses, especially those from the spirit industry, that they want a clearer regulation. I was wondering if the government is undertaking a process to update or define liquor, beer, wine, and spirits...a clear definition.

**Ms. Susie Miller:** Could you provide more precision on what kind of updating? There are many regulations that cover these. Are these standards that you're requesting?

**Ms. Ruth Ellen Brosseau:** Yes, standards, like a clear definition of what a beer consists of, and what is a wine, and what is a whisky.

**Ms. Susie Miller:** In the current work that's ongoing, we have been working with the industry on a standard for icewine, which is critical, both for us in Canada and internationally.

In addition, although I can't speak on behalf of the Canadian Food Inspection Agency, they are undertaking a regulatory review for the implementation of regulations under the Safe Food for Canadians Act. Within that, I believe there are plans and opportunities to discuss the standards for identity of various products.

From our perspective at Agriculture and Agri-Food Canada, we work with many of the agriculture and food industries to identify what their regulatory objectives are. We would certainly be pleased to do that with the beer and spirits industry. We have regular dialogue with them.

**Ms. Ruth Ellen Brosseau:** The Canadian wine industry has asked for an excise tax for blended wines. What do you think of that?

**Mr. Brian McCauley (Assistant Commissioner, Legislative Policy and Regulatory Affairs Branch, Canada Revenue Agency):** As you know, that's a tax policy question. From a CRA perspective, we're really indifferent as to the level of tax; it's having the tax properly applied.... We're indifferent as to what the rate would be.

**The Chair:** Thank you.

Mr. Lemieux.

**Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC):** Thanks very much, Chair.

Thank you to our witnesses for being here today.

I would like to discuss some of the issues in regard to the movement of alcohol between provinces. Certainly, this agriculture committee travelled across Canada a few years ago, and we met with the wine industry. There was great frustration, in that our Canadian wine industry is very competitive, but it's easier for them to sell their product internationally than it is to sell it interprovincially to other Canadians.

In the course of this study, we've had the same types of challenges raised, a little less so by the wine industry now, because Dan Albas had his private member's bill, which was supported by the grape industry and the wine industry in terms of being able to sell their product more easily through the removal of barriers to inter-provincial trade.

We've had representatives from the beer industry, for example, and representatives from the spirits industry, who also made reference to the fact that there are barriers—and some of them are federal barriers—to the movement of spirits and beer between provinces. I have an example in my own riding, where a very successful microbrewery is penetrating the U.S. before it will penetrate a neighbouring province. Because of all the hurdles in penetrating the neighbouring provinces, it's actually easier and probably more cost-effective for them to go into the States.

Brian, I'd like to ask you this, because I think some of these things are overseen by the Revenue Canada. Can you tell us what regulations of a federal nature there are right now that inhibit the transfer or sale of spirits and beer among provinces? Why don't we start with that?

• (1205)

**Mr. Brian McCauley:** You are quite right. Last year, a private member's bill amended the Importation of Intoxicating Liquors Act to remove from the act what was a technical legal barrier to the importation from province to province of wine by an individual, and it's probably good to describe that amendment.

Essentially, it removed the federal prohibition and provided an exception for personal consumption, that people could import. It removed the federal impediment but still left all provincial authorities to regulate and to do whatever they wished in the management of liquor, alcohol, and wine within the province. So, in essence, with respect to the federal government, before, under the act, there was a prohibition, but now it's neutral. It says we aren't in that playing field.

If you wanted that same scenario for beer and spirits, it would be a similar type of amendment to the Importation of Intoxicating Liquors Act

**Mr. Pierre Lemieux:** Right. I think witnesses who came before this committee would greatly appreciate that.

Both on the reg side and on the Revenue Canada side, what impact do you think that would have on the spirits industry and on the liquor industry? Would there be a positive outcome from those types of changes?

**Mr. Brian McCauley:** I'll speak narrowly to the tax issue because Susie is probably better to speak to the market issue.

To a large degree, it would likely depend on how the provinces would respond, but certainly it would mean there would be no federal disincentive left in place. It would open the market a bit from that perspective.

**Mr. Pierre Lemieux:** From a tax perspective, I would imagine an open market is a good thing in that if companies have that greater latitude to sell their products into a wider marketplace, their sales go up and our tax revenues go up.

**Mr. Brian McCauley:** That is one theory. I say that only because the federal excise levy is levied at the manufacturer or at the winery level. That would be true if there were additional consumption induced of domestically grown product, which could be a consequence of the open market.

**Mr. Pierre Lemieux:** How about on the agriculture side, in the interaction with the industry and what you're hearing from them?

**Ms. Susie Miller:** Regarding the potential impact if this law were changed regarding spirits and beer, we have not done the analysis to date. What we have learned from undertaking the analysis on the wine side is that, generally speaking, it assists many small and medium-sized businesses, because the large businesses already have their distribution systems in place, and it's the smaller and medium-sized companies that are more likely to interact directly with the consumer.

It's a big assumption, but based on our assessment on the wine, we would expect to find positive benefits for that particular group.

**Mr. Pierre Lemieux:** I'm not surprised to hear it, because that's what we heard in committee from the proponents of those industries.

**The Chair:** Mr. Valeriote, go ahead please.

**Mr. Frank Valeriote (Guelph, Lib.):** Do you want some of my time?

**Mr. Pierre Lemieux:** No, it's okay, but thank you for offering.

**Mr. Frank Valeriote:** Thank you, Brian and Susie, for coming up.

Did you get a chance to read the transcripts of the previous witnesses' testimony before you came in, and would you have had the chance to read the transcripts for some of the witnesses' testimony on this particular topic?

I'm hoping that you'll remember this statement by Hillary Dawson. This had to do with labelling, which they are very concerned about. She said:

My members are focused on making premium VQA wines: wines of appellation, wines where labelling matters, and wines where we know that the value of being Canadian matters. It is challenging for us when the customer realizes that some bottles labelled Canadian that are in a lot of liquor boards under a giant sign that says "Canada", contain little to no Canadian content. That hurts our business because then they start to question what's on our labels.

What we've said consistently as the wine council is that we just want to be consistent with where everyone else is in the world.

Is this an issue that's been brought forward to either of you during your consultations? If it is an issue that you're aware of, is there anyone seeking a remedy to the situation?

• (1210)

**Ms. Susie Miller:** In our discussions with the wine industry, and we do have regular discussions, I don't believe this particular issue has been raised frequently. However, there always are individual company issues as well as association issues.

There certainly are opportunities for us to pursue any of the recommendations or the knowledge coming out of this committee to work with the industry to resolve specific issues. I don't know, with only that amount of information, if it's a Canadian Food Inspection Agency issue or if it's something that is being done with the particular boards, liquor boards, etc., but certainly we would be pleased to pursue that.

**Mr. Frank Valeriote:** I'm sorry, I missed that last part.

**Ms. Susie Miller:** We would be happy to pursue that, if that's the wish of the committee, and to follow up on this particular issue. Right now I don't have enough knowledge to be able to say yes or no, except that nobody has approached us specifically on this in particular.

**Mr. Frank Valeriote:** Okay. It may well be a CFIA issue.

Brian.

**Mr. Brian McCauley:** We can clarify this afterwards—we're just confirming it—but I believe it's a provincial regulation in terms of control of the marketing and labelling. It would be good to clarify that, but I think it's under provincial control. I know that we, under our acts, don't control or influence labelling. I think it may well be provincial.

That doesn't mean we might not be able to help, but it may be provincial, at the end of the day.

**Mr. Frank Valeriote:** Just so I understand the functioning of the committee—the chair may even rule this question out of order—if you hear of issues that are raised by witnesses, because you read the blues, does it take a recommendation from this committee that you look at the issue, moving forward?

Susie, you just indicated, or implied, that it would be something you'd be happy to look at.

Does it actually take a recommendation from the committee, moving forward, or once you have heard about these things at this committee—just so that we believe, at least for the moment, that these discussions are more relevant than they might otherwise be—do you take them away with you and say, “Hmm, that issue was raised; maybe we should talk to the industry about it”?

**Ms. Susie Miller:** Generally speaking, as I indicated, our group has constant contact with the industry. We have some formal mechanisms, like the value chain round tables, and we also have a lot of informal mechanisms.

We don't wait for the industry necessarily to come to us and raise an issue. Sometimes that's where we get it. Sometimes it will be an individual who writes to the minister and asks for a resolution to a particular problem. We get our knowledge from everywhere.

Certainly we do monitor your discussions, because you do have a wide variety of witnesses who come in. From that, it would be our normal practice to proactively try to find out more about a particular issue that was raised in whatever venue and then see what we could do to help.

**Mr. Frank Valeriote:** With respect to the question of Canadian content, understanding that it is a real issue for them—more significant than I had realized before they came in, because I too thought “Canadian” meant “Canadian”—are you prepared to...

I know this may be a difficult question, but are you prepared to take that forward, raise it with the minister, and pursue this matter, or is that a question of policy that you have to leave to the minister and you're not allowed to do?

**Ms. Susie Miller:** Normally in these kinds of situations, when somebody brings something to our attention, we will confer with our colleagues in various other departments, in this case CRA and CFIA, to try to identify what the issue is, whether it's within the jurisdiction of one of those agencies or something we can help with in a provincial context.

**Mr. Frank Valeriote:** Okay.

Thank you so much, Susie and Brian.

**The Chair:** I think we can always, as a committee, make recommendations to the department.

**Mr. Frank Valeriote:** Right.

**The Chair:** That's not necessarily.... Not everybody follows the recommendations of any committee, in that sense.

Mr. Hoback.

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

Thank you, witnesses, for being here, and Mr. Valeriote and colleagues.

I must say that I really like your tie today, Frank. It's a good tie, a nice red tie.

**Voices:** Oh, oh!

**Mr. Randy Hoback:** I just wanted to get that in there.

● (1215)

**Mr. Frank Valeriote:** I'm trying to get away from the beet red.

**Mr. Randy Hoback:** The beet red tie: actually, I'm going to get back to that as we talk about content, about sugar content.

I'm curious about the round tables you talked about. What was the biggest barrier identified among the growers and the producers in terms of seeing the industry grow and the movement of product across the country?

**Ms. Susie Miller:** I'm assuming you're referencing the Agri-Processors/Producers' Summit we had last November.

**Mr. Randy Hoback:** Yes.

**Ms. Susie Miller:** I think the biggest issue they're all facing is the changes in the global marketplace and the competitiveness of the industry. The world isn't as it used to be. In particular, you can't take your domestic market for granted anymore. We've seen a significant increase in Canada in the importation of products. We've definitely seen increases in exports, but we're also competing in a different world, particularly with the changes in the dollar and our competitive position vis-à-vis the U.S. I would suggest that is one of the largest challenges they're facing.

The second one is the pace of change in the industry and the need to invest in innovation to be able to provide the product that the buyers want.

A third area, and not unrelated, is the fact that the number of buyers throughout the world, not just in Canada, is shrinking.

**Mr. Randy Hoback:** When you talked about the international competition coming into Canada, is it easier for international competition or internationally produced product to go from province to province than domestically produced product?

**Ms. Susie Miller:** I haven't undertaken any analysis of that, so I couldn't respond.

**Mr. Randy Hoback:** I'm curious, because that's one thing we hear quite commonly. We're starting to see the development of a micro-distillery industry, and those would be the same issues they had in the wine sector and in the beer sector. These interprovincial trade barriers are one thing that keeps coming up, especially in the area of alcohol, and then the control the liquor boards have on shelf space, and the ability of new products to get onto the shelf.

Mr. McCauley, as far as Revenue Canada goes, on the tax side of things, are you concerned who collects the taxes? Providing you get the tax, whether it came from a liquor board store or a grocery store or a corner store, would you care?

**Mr. Brian McCauley:** With the current deficit, we certainly want to make sure we collect the appropriate level of taxes. I think it's important to appreciate that the excise tax is applied at the manufacturers' level or at the point of importation into the country. We apply and receive the excise tax before that product flows to the liquor boards and so on. Then there is the further addition, as you can well imagine, of the HST and so on. But, in a way, the regime is designed to be market neutral inasmuch as it should not favour or disfavour importation over domestic, in the sense of respecting our trade and treaty obligations.

**Mr. Randy Hoback:** So it should be balanced, and it doesn't matter where it comes in.

**Mr. Brian McCauley:** It shouldn't.

**Mr. Randy Hoback:** So how does it go from province to province? Would a distributor go through the same barriers that a domestic producer would have to?

**Mr. Brian McCauley:** And the liquor boards. It's largely a liquor board issue, in terms of whom they deal with in bringing product to their shelves.

**Mr. Randy Hoback:** Okay.

I'm just thinking here, Chair.

I was wondering if we could get you to do a written submission of the results of your round table or your sessions you had in Toronto with the different growers. Could you provide that to the committee? There's probably lots of information in there that's hard to get in a five-minute question period that we can maybe see in your submissions that would give us ideas on what the producers or the industry is saying.

Would you be willing to do a written submission?

**Ms. Susie Miller:** We do have written minutes that can be made available to the committee.

**Mr. Randy Hoback:** Can we get a written submission? I'd like to see a summary. Minutes are one thing, but a submission sums up everything in a manner we can digest a little more easily, I think.

With that, Chair, I think I'm done my question.

**The Chair:** Other than a straightforward report, I suggest it might be difficult to, because I suspect opinions prevail at those meetings, but more so just for information, to help you make good decisions.

**Ms. Susie Miller:** The report we would make available, I would suggest, is more than just the minutes. It includes background information and some recommendations for action on the industry's part.

• (1220)

**The Chair:** Good. Thank you.

Ms. Raynault.

[*Translation*]

**Ms. Francine Raynault (Joliette, NDP):** Thank you, Mr. Chair.

What can the government do to promote the development of the wine industry in the cold areas of Canada, particularly in Quebec and the maritime provinces?

In Quebec, for example, some producers had to stop growing tobacco and tried grapes, but it is not always easy.

[*English*]

**Ms. Susie Miller:** No, it's not easy.

In response, following up on Mr. McCauley's statement, it really is up to the provincial governments to determine what they are willing to do. Since the change to the Importation of Intoxicating Liquors Act on the federal side, what we have seen is that provinces are under more pressure from their industry and consumers. We've seen some action. British Columbia, for example, allows for shipments of 100% Canadian wine across provincial borders. Manitoba is not a big wine producer, but it has introduced the ability for an unlimited individual amount. Nova Scotia is looking at setting limits for what an individual could do. Right now the limit is zero, unless they put in a specific one. Some of them have personal wine limits.

What we have found is that even though the provinces have the control, they do respond well to consumer pressure once we have been able to remove the federal limitation. The industry itself is also very proactive and continues to work with both the liquor boards and the oenophile societies, the wine lovers, for example, in the various provinces and in the food service industry to encourage and facilitate this.

The change is gradual, but we have seen change even within a year.

[*Translation*]

**Ms. Francine Raynault:** Programs dealing with innovation are very much appreciated by groups of farmers. But they complain that these programs do not last long. On top of that, five-year programs in innovation work on a first come, first served basis.

Was this issue brought forward during consultations on Growing Forward 2? Is there a way to solve the problem eventually?



[English]

**Ms. Susie Miller:** During the consultations on Growing Forward 2, which directly led into decisions made on the programming, there was a great deal of interest in the industry of having a five-year horizon for some of the funding. I'll use an example in the malting barley industry. If you're going to develop a variety to suit the needs of the consumers, you can't do it in one growing season. It's the same as if you're looking at new methods for managing pests or adding nutrients. A five-year horizon is better. They actually in some cases would like ten, but a five-year horizon is better.

Essentially, in the federal programming, certainly the clusters or the five-year ones have a specific date. For other programming, funding is available through the full five-year period, and there is a mechanism where there can be continuous applications by the industry over that period of time. I would suggest it's not expected that the money for those industry-led projects would be all allocated immediately, but there would be flexibility to allow the industry, on a continuous basis, to identify their priorities.

[Translation]

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

Spirits producers—we are talking a lot about them here—complain because their products are overtaxed and are not available at all points of sale like beer and wine are.

What do you think of these comments? How could the government help this industry?

[English]

**Ms. Susie Miller:** I believe that was a big part of the purpose behind having a producer and processor summit, the one held by Minister Ritz in November. Sometimes the producers are concerned they're not getting their fair share. The processors are concerned they're put in a position of not being able to meet the requirements of the marketplace. That's why we utilize groups such as the value chain round tables to establish this dialogue between seller and buyer so that there's a win-win situation for everyone. I can't assess a particular situation, but I can say that this buyer-seller tension in the industry is not unusual. What we try to do is break down the barriers and find solutions. That actually is going to help everybody.

• (1225)

**The Chair:** Mr. Richards.

**Mr. Blake Richards (Wild Rose, CPC):** Thanks Mr. Chair, and I thank the witnesses for being here today.

We've had a number of witnesses from various parts of the beverage sector here during the course of our study, and a number of things have come up. One of the things we've heard a lot about from the grape growers and wine producers, as well as some wine consumers, and which has been addressed a little bit today in some of the other questions, is the knocking down of provincial trade barriers for their products. That's been something that's been very well received, no question. That was addressed last year with a private member's bill from a Conservative member from B.C., Dan Albas. A lot of work went into that. Previously, Ron Cannan, another one of our Conservative members from B.C., had brought forward a bill. There was a lot of work that went into that. There are still some

challenges with the provincial boards, but it's making a difference and has been very well received by the industry.

Ms. Miller, I'm wondering if you could tell me about some of the work that went into making that happen.

**Ms. Susie Miller:** Generally speaking, when the industry brings something to our attention that they feel is a barrier, the value added we have is to take a look at what the government's role is and determine whether or not we can make a difference. Certainly for the wine industry we looked at various instruments, including what role legislation plays, what role provincial bodies play, and what kind of mechanisms exist for discussion between those who are responsible for the impediment or who hold the key to resolving the issue. We like to work very closely with the industry, but we also like to work very closely with our provincial and federal colleagues.

You're right that the issue of interprovincial wine trade was there long before the private member's bill. We had initiated a dialogue with our provincial agriculture colleagues to see their perspective, to see what they felt their role was in the development of their wine industry. Essentially, they were the ones who would benefit—their farmers, their wineries, and their businesses.

We also worked interdepartmentally to see what we could do. We looked at some of the mechanisms: the internal trade committee; whether a minister could influence his colleagues in a formal federal-provincial process; whether we could do it our level, or the deputy's level, etc. Also I made mention earlier of the fact that we've undertaken some significant analysis to see what impact a change might have on the economics of the industry.

**Mr. Blake Richards:** I'm glad to hear there is constant contact and conversation with industry and with other stakeholders. We've heard here in committee a desire from the spirits and beer industries to see some of those barriers knocked down for them too. I assume you've probably had some of those conversations and interactions with them and have probably heard those things as well.

• (1230)

**Ms. Susie Miller:** We certainly haven't heard them to the extent that you have and on such a consistent basis. It generally has not been raised. If I may hazard a guess, I think our interaction generally but not exclusively happens with the larger businesses, whereas your experience covers the smaller ones as well.

**Mr. Blake Richards:** I would hope that what you've heard today, together with previous testimony from this study, and the report to come, will be on your radar screen. It would certainly be appreciated.

**The Chair:** I have to stop you there. We'll go to Mr. Allen.

**Mr. Blake Richards:** Okay.

I have more questions, but thank you.

**Mr. Malcolm Allen (Welland, NDP):** Thank you very much, Mr. Chair.

I thank the witnesses for being here. My apologies for being late, but it's defending one's riding day at PROC.

The issue in Ontario around.... I come from Niagara so clearly the wine industry is a big issue for us and there are a number of pieces to that. I apologize in advance if I'm going over the ground again since I missed the beginning of the meeting. There's a debate inside the winegrowers VQA, not all of them, and those who are bigger who do ICBs as to the excise tax piece.

First of all, I'm sure you're aware of the debate. Where do you see that at the moment? Is this a place that's really stuck or is there a way to unstick it from your perspective of finding the partners to have a dialogue? They've done this for the last 25 years. They've come together and gone apart. Then they come back together a bit then they go apart again. At the moment they seem to have gone apart again. We've heard from both sides here obviously. I'm interested to hear what your take is on that and how perhaps we can remedy that piece.

**Ms. Susie Miller:** In terms of this specific situation I don't have any words of wisdom to offer. I can only say that it's not unusual for us at the department to get representation from various aspects of the industry who may have different points of view on the best solutions. What we try to do is be neutral and bring the dialogue together and do what we can. In this case I'm also certain that our colleagues at the Ontario Ministry of Agriculture and Food are working hard for a resolution of this because overall the goal is to improve the economic performance of these companies and companies that include producers. On this particular one I have no solution to offer.

**Mr. Malcolm Allen:** I was hoping perhaps you had the magic bullet I could take home, Ms. Miller, because it is ongoing. You can imagine for us who live there who know the industry and the players. It's been ongoing for decades now, so it's a real challenge.

The industry is broken up into.... There are those vintners who are primary producers and growers and then of course there are just growers. They don't manufacture wine; they're not vintners. They are primarily growers.

This leads me to the next piece. You talked earlier about the tension between the grower industry, if you will.... In this case it would be a winery. I'm interested in the sense of how we try to alleviate.... We won't fix the tension; there will always be some. The difficulty for the grape-growing industry, unlike the grain industry where you can put grains in a bin and wait for a period of time, not forever obviously, with grapes you can't do that. You can leave them on the vine to freeze for ice wine, but if you leave them on the vine because you're looking for a better price, they'll simply rot and the birds will eat them.

You're really dealing with a perishable crop that puts the grower in that tension. In my sense, talking to growers, they feel they're under greater tension when it comes to.... I'll give you an example of what happened four years ago. This is what started the unravelling, if you will—not so much the excise tax piece—the larger vintners told their growers that they didn't need the tonnage, so drop 25% in the vineyard. They were told to cut 25% and let it drop into the vineyard because there was no market to buy it. That tension became friction more than tension, if you will.

I'm wondering if, when you're talking to them, you see this tension. I'm wondering if there's a way to have a dialogue about this,

because it's not a fixable issue; it's a dialogue to understand the perspectives.

• (1235)

**Ms. Susie Miller:** The horticulture industry in Canada offers a unique challenge given the fact that it isn't a storable product. You can keep animals such as cattle off the market, and you can store your grain, but you can't do that when it comes to seasonal products that need to be consumed or utilized in processing when they're fresh. It's not unusual that you would see more dialogue between the sellers and the buyers in this case.

There are some things we've tried to do. For example, in the Horticulture Value Chain Roundtable, one of the things the industry complained about, the producers complained about, was that they couldn't get their product into stores like Loblaws, because they just weren't buying it. The product would come on the market in July and August, and they would have no sales for it, and they'd have to sell it at a discount rate.

Loblaws, being one of the members of the round table, worked with the producers. Last year, as the first year of the trial, we actually posted available product a month ahead of time, because the retailers were saying that they needed to know if they were going to be able to get it, and if they didn't know they could get it, then they were going to go where they could be certain to get it, which would probably be a source in California or Florida.

Having this process between the buyers and sellers has meant a much greater understanding of what is available and of who needs what and when. We hope that's going to lead to a more fulsome dialogue on an ongoing basis between buyers and sellers of fresh produce.

When it comes to grapes and wineries, that's a special situation, because that's what those grapes are grown for. They're not good eating grapes.

I do know, to come back to the provinces and to provincial jurisdiction, this is something in which they're heavily involved. But we do try on a more holistic basis to get that dialogue going.

**The Chair:** Thank you.

Mr. Zimmer.

**Mr. Bob Zimmer (Prince George—Peace River, CPC):** Thanks for coming again today.

Following along on what my colleague Mr. Richards was talking about, we had the legislation that came through to increase that interprovincial wine business. We're legislators. We make laws and we expect them to be productive once they're enacted.

From your perspective—and I'll ask Mr. McCauley this too, because his title is "legislative policy and regulatory affairs branch", so I'm assuming he's going to have an answer for me—what would you recommend we do? You've seen that there are certain issues interprovincially still. What would you recommend we do to see some of those issues addressed, so that wine can more easily flow among the provinces? What can we do?

**The Chair:** Before you answer, I'll suggest that again it's not necessarily right to ask a person working for the government what his opinion is, because he takes a different direction based on his job.

If you want to try to answer it without an opinion, I would be happy to entertain it.

**Mr. Brian McCauley:** It is just an observation. The private member's bill last year that removed what was seen to be an impediment at the federal level for the movement of wine products was a way of removing what was seen to be, at least legally, a barrier. I think most people would argue that the change meant there was no real or perceived barrier at a federal level when it came to wine.

The act is the responsibility of the Minister of National Revenue. Of course, if the committee recommended that the government look at or consider that, then that would be something our minister and the government would certainly look at, and we would support her analysis of that recommendation if it dealt with beer or spirits.

I think as much has been done from the perspective of changing a statute vis-à-vis wine and grapes, the balance would be at the provincial level or in any market or through other support from Susie.

• (1240)

**Mr. Bob Zimmer:** Do you think it's fair to say that we've done what we can federally to bring down those barriers as much as we possibly can? Is it fair to say that?

**Mr. Brian McCauley:** It's fair to say that I'm not aware of any federal statute that is left that would prevent that movement. That's correct, yes.

**Mr. Bob Zimmer:** Can you follow up, Ms. Miller, with any further comments?

**Ms. Susie Miller:** There is the comment I made earlier. We have already seen positive results by way of provincial action from the removal of the federal impediments, because they then can't blame the federal statutes for their inability to act. We have observed that they are more responsive to what citizens want.

**Mr. Bob Zimmer:** Okay. To follow up on that, one big topic we've heard here of late—I guess it's a problem still with Canadian wine—is the problem of getting space on LCBO shelves and the

like. Again I'm seeking your advice. Would you see any possibility for us as legislators to bring forth legislation on a federal level that would see that issue fixed?

**Ms. Susie Miller:** I'm no regulatory expert, but I am not aware of any federal statutes that would allow us to have an impact in that particular area.

**Mr. Brian McCauley:** My understanding is that under the Constitution it is probably an area in which active federal intervention would perhaps be difficult. That being said, I would like to think that provincial governments and provincial authorities look to the results of committee considerations like these to inform their considerations when they consider changes at a provincial level.

**Mr. Bob Zimmer:** Again we could say that we've done what we can and gone as far as we can, and that's been quite far. I appreciate that opinion.

I think, for the record, that we certainly want to see more Canadian wines on LCBO shelves and would like to encourage provincial governments to see that happen.

Thanks for your time here today.

**The Chair:** Thank you.

With that, I'll thank our guests for being here today. We appreciate your time.

For the advice of the committee members, next week we're doing the honey review. There are two meetings set for it.

We also have the animal welfare issue coming forward after the break week. We need your list of witnesses, so I will ask members for them, and the sooner the better.

After that we will be reviewing the draft report on grains and oilseeds and will have the recommendations on the red meat industry to finish up.

So watch your calendars, because we are going to send you the new working schedule as of today.

Thank you.

There being no further comment, the meeting is adjourned.

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