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Chair

Mr. Paul Steckle

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● (1110)

[*English*]

The Chair (Mr. Paul Steckle (Huron—Bruce, Lib.)): We want to bring this meeting to order.

I realize that on our orders of the day we have a motion by you, Mr. Anderson. I'm going to ask that we defer that until the next section of our meeting because the vintners are here. We want to give them an hour, and we'll have occasion, particularly once we go in camera and even before that, to deal with that motion. But I think we need to deal with the vintners first since we'd be taking it out of their time. So if we could, we'll give them their hour, and then we will proceed to that motion.

Could I have consensus on that?

Some hon. members: Agreed.

The Chair: We will begin our hearing this morning. From the Vintners Association we have with us William Ross, president, and we have also with us Vicki Bas, director of research. These people have been on the Hill many times, and I'm sure most of you have spoken with them at one time or another. They have an issue that has been with us for a long time, and I think we need to find some resolution and finally a conclusion to this.

William, are you speaking on this matter? If you could, give us about ten minutes or so of your time, and then we will proceed to the taking of questions and responses.

You're on, Mr. Ross.

Mr. William Ross (President, Canadian Vintners Association): Thank you, Mr. Chairman. I'd like to thank you very much for having us here today.

Since 100% of my members are farmers, we thought it important we have a chance to speak before this committee. Our objective in speaking to you is really to obtain this committee's support for our request for some relief on excise tax as it's applied to Canadian wine only. That's wine derived from Canadian grapes only.

The Canadian Vintners Association is a national association of Canadian vintners. We only have about 35 direct corporate members, but we have the Wine Association of Nova Scotia, the British Columbia Wine Institute, and the Wine Council of Ontario all as dues-paying, director-appointing members. When you include their membership, we have over 100 wineries involved with the CVA, representing over 90% of Canada's wine production.

We've put our proposal forward to the finance committee and we've also spoken to the Senate Standing Committee on Agriculture and Forestry—and I can tell you our proposal does not have anything to do with grain cars. We've modelled it to some extent on what the Americans do and what the Australians do, and as you know, they are very large wine suppliers to the Canadian market. Our request is that the finance department exempt all 100% Canadian-produced wine from excise duty up to an annual production level of 500,000 litres, and that the excise duty then be phased in from 500,000 to 900,000 litres, at which point it would be fully paid, at 51.2¢ a litre. We also ask that this excise duty rate not be increased, that it be capped at 51.2¢ a litre.

I should just remind you that our wine industry is special, and that imported wines have over two-thirds of the market and Canadian wines hold one-third of the market. But of that, only 3% or 4% is 100% Canadian wine, and the rest is blends of Canadian grape and imported grape.

The wine industry is also special in that we probably lever in the order of $500 million or more in tourism revenues. We have gross retail sales of about $1.2 billion, and of that we contribute about $750 million a year to federal and provincial governments through taxation and liquor board monopolies.

I should also say that we succeed at what we do without any significant protection. The tariff on wine is 3.74¢ a litre, and as you know, wine from Chile and the U.S.A. is duty-free, so essentially we have maybe $6 million total in tariff protection. We really have no other subsidies. There is a small amount of money from Agriculture Canada for national wine standards, a couple of hundred thousand dollars for exports, and the rest is just from the industry.

To an extent, Mr. Chairman, we are a poster child, if you will, for the agricultural policy framework. We produce an environmentally friendly, safe, technologically advanced, value-added branded product. Our farmer members plant grapes and nurture them through to a $40 bottle of VQA wine on your table.

The only aspect, really, of the agricultural policy framework we do not tap into is the one I think you call business risk management. It's really a transfer of federal moneys into the farm sector.

We are here primarily because we have a non-level playing field. From an international point of view, as I said, we have no tariff protection and no federal financial support. Internationally, the U.S. A. and Australia each give a special tax break, and our request to the finance committee is modelled somewhat on the U.S. one.

Many major countries have no excise tax whatsoever on wine. These include Spain, Portugal, Italy, Germany, Greece, Austria. While the EU does not give a preferential tax break on wine, the EU, as you well know in this committee, is a great subsidizer. This year they'll put 1.2 billion euros into grape and wine. This is out of Brussels alone. This doesn't count what Paris may do or what Madrid may do. Of that, 454 million euros this year have gone to grubbing up vines and putting in new ones.

Domestically, we are one of only a few foods and beverages that attract GST. With the exception of beer and distilled spirits, wine is the only food or beverage upon which excise duty is levied.

It's interesting, sir, that you can go down tonight to one of these you-vint shops and you can buy a $65 kit, Italian grapes. It not only has no excise tax on it, but it also has no GST on it. So this is the competition we're up against: the you-vints, the homemade wine. There's a break of $50,000. There's no excise at all.

So internationally we face this tough competition, either subsidies or tax preferences. Domestically, when you look at your dinner table tonight when you go home, you have supply-managed goods. You have beef and grains, etc., all of which draw somehow from the government. We basically draw nothing.

I would like to put into perspective the cost to the treasury of this request of ours. Canada consumes just over 300 million litres of wine per year. About two-thirds of that—over 200 million litres—is imported. Of the remaining 100 million litres or so, about 85 million litres are blends. We're not asking for a break on blends; we're asking only for a break on that 12 million to 15 million litres of wine that is produced from 100% Canadian grapes. At 51¢ a litre over 15 million litres, that would be about $7.5 million, the gross take, the gross reduction to the treasury.

When I've spoken to the finance department, the officials admit that this could be in fact a net benefit to the treasury, but that, as you know, sir, is not how they operate. They just report the gross hit. But the net could be zero.

For our wineries, this is tremendous. If you take a small winery, 50,000 litres, that's $25,000 and 5,000 cases. That's a small winery. Right off the top, right up front, he's paying $25,000 in excise tax. That $25,000 could be going to new machinery, new investment, the promotion to fight off that heavily subsidized European wine.

So a minimum cost to the treasury, we think...because we've modeled it on what the U.S. is doing and, to an extent, what Australia is doing. By the way, Australia just had a tremendous increase in their tax break for wine—preferential, only for Australian wineries. We think we could easily defend WTO and NAFTA attacks because we've modeled it essentially to their models.

On wine prices, we are sensitive to the issues of concern about alcoholic beverages. We are not suggesting we're going to lower wine prices. Our companies need this money; 51¢ a litre is a lot more than 90% of the companies make on a bottle of wine. So we don't see wine prices going down and we see this as highly doable.

I would make one last comment. Many of the smaller wineries—and I'm pleading primarily on behalf of smaller wineries, so larger wineries would get it because it's only on the Canadian wine, not on the blends—are small mom-and-pop operations. They're figuring out their excise tax at the dinner table at 10 o'clock at night. Getting rid of some of this for the smaller wineries would be tremendous, not just the actual not paying of the tax, but also the cost of the bookkeeping.

In conclusion, the finance committee has approved, made a recommendation of an excise tax break for us. It's not exactly what we wanted, but in principle they agree that this targeted tax break would be a good economic incentive for the sector. It would drive, hopefully, some of our wineries to plant more indigenous grapes, put more Canadian grapes into the ground, and import less for blending.

● (1115)

We've also had very good and favourable comments from some people in this room, as well as from Minister Mitchell and the Deputy Minister of Agriculture. The Chamber of Commerce of Canada last year passed a resolution supporting this. We think it's consistent with what the chamber has said and with what Minister Goodale has said himself in terms of targeted tax breaks being a good economic driver.

With that I'll stop and open to questions. Thank you very much.

The Chair: Thank you, Mr. Ross.

For expedient use of time this morning, given that we have a fair complement of members here and everyone wants in, let's limit our round to five minutes, and then if we have time left over, we'll go back.

Mr. Ritz.

Mr. Gerry Ritz (Battlefords—Lloydminster, CPC): Thank you, Mr. Chair.

Thank you for bringing this forward here today, folks. I listened to your proposal, and you're actually decrying the regulatory burden most small producers are finding themselves under. We seem to be doing more paperwork and less productive work at this time.

You say more grapes in the ground could be a result of this. Is there a transition period required? Grapes don't go into production as soon as you plant them; it takes years to get them—

● (1120)

Mr. William Ross: It's three to four years.

Mr. Gerry Ritz: Country of origin labelling is a big thing some of the folks in the States are talking about that you folks are quite proud of—and rightly so—in the Canadian brands. Do you see that as a plus or minus as you're exporting?

Mr. William Ross: It's definitely a plus.

Mr. Gerry Ritz: You're saying the Standing Committee on Finance has put forward a proposal in their package for Minister Goodale for the budget. Was it a unanimous decision?

Ms. Vicki Bas (Director of Research, Canadian Vintners Association): Yes.

Mr. Gerry Ritz: Good. That helps.

You have a tremendous amount listed under “current support”. I don't see Industry or International Trade listed there. Have you made presentations to them as well?

Mr. William Ross: I was speaking on behalf of the wine industry.

Mr. Gerry Ritz: I'm talking about the Minister of Industry and the Minister of International Trade. You have everybody else listed.

Mr. William Ross: I haven't met with the Minister of industry. I've met with the office of Minister Jim Peterson and I am told they are supportive of it, but I have not seen anything specific from Minister Peterson.

We've met with Mr. Mitchell, and he's expressed his support, as has the deputy minister. The bureaucrats have expressed support from the agriculture and foreign affairs departments.

Mr. Gerry Ritz: Good.

You're not concerned about WTO or NAFTA challenges, and you're saying this could be easily defended. The concern I have is that we have a lot of issues that could be easily defended, but it still takes two years of purgatory for producers. Are you willing to take that risk?

Mr. William Ross: I think so. The last time I appeared before this committee I was the director general international for Agriculture Canada, several years ago. I think it's more a question of whether this committee is prepared to take the risk.

Our negotiators stand up to the Europeans and Americans on supply management. This is a situation where the U.S.A. gives a preference. If I have a small guy selling in Chicago up against an American small guy, that American has a better tax break than our guy. It's not a level playing field for our exporters into the U.S.A. Australia just tripled the break. Correct me if I'm wrong, but they've just changed it, with the tax break in Australia, so that you get all your excise back up to $1 million in sales, and that's at the wholesale level, to a maximum of $290,000 per winery. New Zealand tells me that since they can't knock the Australians back, they're going to try to get the same break.

Mr. Gerry Ritz: You actually have two issues you're identifying here, sir. One, of course, is the excise tax, which is the predominating factor, and also GST. Were you looking for movement on both of those issues, or will you take one out of two?

Mr. William Ross: We're talking only excise. I just mentioned the GST as a $75-million contribution from these types of wine sales.

Mr. Gerry Ritz: Thank you.

I'll defer to Mr. Miller.

The Chair: Mr. Miller, you can carry on for another two minutes.

Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC): Thank you.

Mr. Ross, you mentioned Peru and Chile as sources of wines coming in duty free. Could you talk a little more about that?

Mr. William Ross: We have a free trade agreement with Chile, and the wine comes in duty free. With the U.S.A. we have the free trade agreement, and so the wine comes in duty free. From Europe it doesn't come in duty free, but there's only 3.74¢ a litre added, which is nothing. But they have these huge subsidies that drive down the prices in Canada, which hurts us. You know the brands: Piat d’Or, Kressman, Lion Rouge—these huge subsidies. Australia has this huge production. We're little guys and we're hurting.

Mr. Larry Miller: That's fine. I was aware of the U.S. one; I wasn't of the Peru and Chile ones.

Another question is this. They talked about there being no GST on these wine kits that come in. What is the rationale behind that?

Mr. William Ross: I've asked the finance department that.

Mr. Larry Miller: This is nothing that's just happened.

Mr. William Ross: No. I'm not sure what the rationale is, sir.

Mr. Larry Miller: Okay. Is it something you're pursuing?

Mr. William Ross: No, I was just pointing out that sometimes officials at Finance will say, gee, it's a preference; you're targeting this area. I say, come on, you're targeting. You don't even put GST on kits. You have no excise on the kits; you don't have excise on $50,000 in sales; there's no excise on home production; and the Liquor Control Board of Ontario estimates 6% of wine is illegitimate, and another—I think it's 12% or 14%—is kits in you-vints. Then there's the other...whatever percentage it is.

The small guy with his legitimately commercial winery, paying his 51¢, is competing against areas where's there's no GST or excise. But we're not targeting them. We're not asking, sir, for subsidies; we're not asking for tariff protection, though as you know, agriculture has a lot of both of them. What we are asking for is that they take a little bit less, that's all.

● (1125)

The Chair: Your time has expired for the Conservative Party.

Now we move to Madame Rivard.

[*Translation*]

Ms. Denise Poirier-Rivard (Châteauguay—Saint-Constant, BQ): Mr. Ross, the imported wine bottling industry is very important in Quebec.

[*English*]

Mr. William Ross: Since I took my *niveau B*, I've served in Columbia. My Spanish has ruined any French I had. *Je m'excuse.*

[*Translation*]

Ms. Denise Poirier-Rivard: Since regretfully, I cannot speak to you in Spanish, I will speak French. Let me start again, Mr. Ross.

The imported wine bottling industry is very important in Quebec. Would your proposal hurt Quebec bottlers?

[*English*]

Mr. William Ross: I don't think so. We have l'Association des Vignerons du Québec, which consists of the indigenous wineries producing small amounts from Quebec grapes. They are extremely supportive of this. I haven't heard anything negative, and I should say one of the major bottlers in Quebec is Vincor, from which my chair comes. They are very supportive of this. They don't see a damage to those.

[*Translation*]

Ms. Denise Poirier-Rivard: The Canadian wine industry is flourishing. Can you explain to me why the government should be providing assistance to a flourishing industry?

[*English*]

Mr. William Ross: It's difficult, because when you're a farmer and you're looking for value-added.... If you are out in Saskatchewan...I used to be head of the grain marketing side at Agriculture Canada, and you value-added or added income to your farm because somebody worked off the farm, or you had APF.

The wine industry looks very prosperous. I've just lost two members through bankruptcy. There's a lot of consolidation in the industry. It's a combination of science and art. There's a saying in the wine industry that if you have too much money, God will make you buy a winery.

People are going into it for the love of it, not to make a lot of money at these small levels. It's retiring people, mom-and-pop operations, and a lot of them are grape growers who are value-adding.

A lot of what you see is the value-added. When you see restaurants, retail stores, maybe a little jazz festival, it's to value-add, because they can't make enough money on the wine, and so they're moving up the line.

I know it looks prosperous, but it's not nearly as prosperous as it looks. And 51¢ per litre is much more than I would say 80% of the wineries clear on a bottle of wine. If you go to the Liquor Control Board in Ontario today and buy a $10 bottle of VQA wine, $3.74 will go to the producer.

I'm not sure that helps, but we're just asking that you take less. Look at your dinner table tonight. The only thing that's attracting GST is the wine, unless you're drinking Coca-Cola or something, and the only think attracting excise is the wine. These are all farmers, and the chicken and the ice cream and the butter are all protected in some way. We just think it's an unlevel playing field. In fact, it is an unlevel playing field.

[*Translation*]

Ms. Denise Poirier-Rivard: Do the examples that you've just given fall into the category of agri-tourism?

[*English*]

Mr. William Ross: Yes. In my presentation there are various estimates, so I'll be very conservative. There's at least $0.5 billion a year in agri-tourism. You've seen it in your own province, of course. I've visited some of the wonderful wineries in Quebec. That's one of the advantages. People won't come to a major factory, but you see what happens in the Okanagan or in Niagara. That levers tremendous economic benefit for the country and for the region through tourism.

[*Translation*]

Ms. Denise Poirier-Rivard: Do I still have the floor?

[*English*]

The Chair: You have one more short question.

[*Translation*]

Ms. Denise Poirier-Rivard: Thank you.

There are few actual growers in Quebec. Are these growers interested in producing under the VQA standard and if so, why?

● (1130)

[*English*]

Mr. William Ross: Yes, they are interested in producing under the VQA standard. We have a national wine standards committee and I happen to be the chair, appointed by the former Minister of Agriculture. L'association de vignerons participates, and the SAQ participates. They are all supportive of national wine standards—three different levels. They participate in all the committees and are very supportive. We're hopeful that the L'association de vignerons du Québec will actually join the Canadian Vintners Association. We've talked about it, but they're just not big enough yet. So we have good, strong support from Quebec, and they do want to go to VQA wines.

[*Translation*]

Ms. Denise Poirier-Rivard: Thank you.

[*English*]

The Chair: Thank you, Madame Poirier-Rivard.

We'll go to Mr. Kilgour for five minutes.

Hon. David Kilgour (Edmonton—Mill Woods—Beaumont, Lib.): Mr. Chairman, I have a very short statement and some questions.

Mr. Ross said he thought his industry was the poster child for Canadian agriculture. I'd like to suggest it should be the poster child for what's wrong with Canadian policy on agriculture. Why don't we look after our producers of grapes, wheat, beef, or whatever, the way the United States, the European Union, and other more far-sighted countries are doing? That's one of the things I've learned since being on this committee.

I'd like to propose that we unanimously agree to waive all the notices, and pass a motion along the lines of the proposal that's been made here today.

The Chair: Mr. Kilgour, can we ask that you hold that motion until we have had a chance to go through the process of people asking their questions? You can ask your question now.

Hon. David Kilgour: Sure.

I take it, Mr. Ross and Ms. Bas, when you talk about 100%-produced wine, that's per producer, as implied in your proposal.

Mr. William Ross: Yes. The request is only for tax relief on wine that is 100% Canadian. We are not proposing any tax relief on any wine that's blended, and 85% of the fees of the Canadian Vintners Association is paid on the basis of those blended wines. This is only as an incentive from the soil to the table, if you will.

Hon. David Kilgour: Thank you.

But do you mean per producer? Is that implied in your proposal? Are you taking a global approach to it, or a producer approach?

Mr. William Ross: Yes, it's per producer.

Hon. David Kilgour: Okay.

You mentioned the 3.7% tariff. How long has that been there, and how did that come about?

Mr. William Ross: It's quite historic, Mr. Kilgour. We anticipate it will be dealt away in the WTO round on some wine-for-wine aspect. We understand that. We know that our trade negotiators may have to get rid of that.

Hon. David Kilgour: On the eightfold in your economic impact, can you give us a little more clarity on what you mean by that?

Mr. William Ross: Yes. Thank you for pointing that out. I should have mentioned it earlier.

The Wine Council of Ontario, in the last couple of years, hired KPMG to look at the economic impact of wine production in Ontario. Coincidentally, the British Columbia Wine Institute hired a company called Grant Thornton to do a similar study to better understand the economic impact of their wine sectors. You see the numbers there. I was quite amazed they came out so close. What they found was that domestic wine levered eight times the economic benefit to the region that foreign wine did.

It goes back to Madam's question on tourism. You can go into a B. C. LDB and buy a bottle of Kressman, and that's it. We export more ice wine—somebody asked me today—maybe even some table wines through the bus tours coming through, which all go to hotels, restaurants, or the Shaw Festival. Those bus tours and that level of tourism provide such tremendous economic benefit. The link between the wine industry and tourism is so great that when SARS came along tourism dropped and the wine industry really suffered.

Hon. David Kilgour: Down below you talk about 1.2 billion euros, and you mention the 450 million euros for new vines. What other things are they doing?

Mr. William Ross: Of the 1.2 billion euros in CAP wine and grape funding from Europe in 2004, 454 million euros is going into grubbing up old vines and putting in new ones.

We can't compete with a $7 Chardonnay. We have to niche-target high-level VQA—maybe $15 or $20 a bottle. But now we've got Europe paying these guys to produce these broader ones and come up at a target directly at us. There's nothing we can do about it—they're supposed to be green-boxed.

So again, it's just that unlevel playing field. We do not have $454 million here. We don't have $454 here going into grubbing up vines.

● (1135)

The Chair: Your time has expired, Mr. Kilgour, so we'll move to the Conservatives.

Mr. Bezan.

Mr. James Bezan (Selkirk—Interlake, CPC): Are all members of the Vintners Association grape growers?

Mr. William Ross: I have one member who contracts only. He's in Richmond, B.C., and is probably my smallest member. He's not a grape grower, but he contracts grape growers in the Okanagan because you can't grow grapes in Richmond, B.C. Otherwise, 100% of them grow their own grapes and contract.

Mr. James Bezan: One of the arguments you're making is that the excise duty is being leveraged on agricultural producers.

Mr. William Ross: We're in the agriculture sector. That's why I asked Mr. Steckle if he would accommodate us.

Mr. James Bezan: With the exception of that one individual, who is strictly into value-added, all the others are farmers.

Mr. William Ross: Right, but then he contracts with firms in Okanagan to grow the grapes.

Mr. James Bezan: So in that situation, if there is a break on the excise duty, how would that improve the individual grape growers who are contracted to provide him with grapes?

Mr. William Ross: We're only talking about VQA kinds of wine here. If you produce more VQA wines, you require more 100% Canadian-grown grapes. On the other aspect, particularly in Ontario we grow a lot of what they call hybrid grapes that go into these Canadian blends. So it will provide an incentive for the grape growers to value-add, to grow better grapes in Ontario, so they can go into VQA wines. Instead of growing Seyval blanc 2340, they'll be growing Chardonnay, or Sauvignon blanc.

Mr. James Bezan: So in your opinion, with a reduction in the excise duty would there be more acres planted in vines?

Mr. William Ross: There would be more acres planted, and the acres that were planted would be upgraded to better-producing grapes—more acceptable to consumers.

Mr. James Bezan: My understanding is that grapes in Ontario are marketed through a marketing board, but that isn't so in B.C.

Mr. William Ross: That's correct.

Mr. James Bezan: Is that how they market them in Quebec?

Mr. William Ross: I think it's like in B.C. Most of them are growers, l'Association des vignerons. I've toured them. They're growing their own grapes and making their own wine on site.

I should say that the grape growers of Ontario are fully behind this.

Mr. James Bezan: Okay. So if you're going to see an increase in acreage for grape production, you anticipate that would happen evenly across the provinces.

Mr. William Ross: We anticipate an increase in acreage and an increase in grape quality. Of course we have climatic restrictions, so you can only go so far in growth. But we anticipate an increase in the number of acres planted in Ontario, in Quebec, in B.C., and in Nova Scotia. They're even growing them now in New Brunswick. We anticipate an improvement in quality, particularly in Ontario.

Mr. James Bezan: One of the things we often discuss around this table with all commodities is interprovincial trade. We know that with alcohol, spirits, beer, and I suspect wine, there isn't a really level playing field between provinces. I just wonder if you can share with us what the interprovincial barriers might be.

Mr. William Ross: As you know, there are provincial monopolies. For example, Ontario will give you a break if you're producing in Ontario and selling to a restaurant. They take less. It's the same in B.C. But there are no reciprocals. As you know, the AIT, Agreement on Internal Trade, has some problems still and is not working very well. You've identified an area here that's another policy file of ours—working to enhance the flow of wine.

If I live in Gatineau, it's illegal for me to order online from one of my members. If I live on this side of the river, it's not illegal for me to order from Ontario, but it's illegal to order from B.C.—to cross borders. So we are trying to enhance free trade within Canada for wine, but that's another file.

● (1140)

Mr. James Bezan: I have a final question.

I didn't catch, in your presentation, exactly what the finance committee has suggested as a break on excise.

Mr. William Ross: What they've recommended, sir, is that it's essentially ours except they've reduced the 500,000 litres to 400,000 litres. We've asked for no tax whatsoever up to 500,000 litres. They've recommended up to 400,000 litres—we don't know why—and then the rest is the same.

The Chair: We have a copy here for you, Mr. Bezan, so we can read that for you if you want.

We'll move to Mr. Easter for five minutes.

Hon. Wayne Easter (Malpeque, Lib.): Thank you, Mr. Chair.

Welcome, folks. I'm pleased to see you're here and I really do believe this makes a lot of sense.

You said earlier, Bill, in response to a question, or maybe it was in your opening remarks, that on balance there could even be a net benefit to the treasury. How do you mean that, through the economic spinoff by people coming in and so on, or what?

Mr. William Ross: Yes. Also, if we were all of a sudden able to produce and sell more higher-priced wine and were able to do it at a better profit, and we were able to take that $25,000 and hire a new salesperson or a new assistant winemaker, with the income tax, corporate taxes, GST—even Finance agrees—all those taxes, if this works, should probably out balance the $6 million or $7 million lost in excise. We're trying to incentivize the sector. That's where we would see it. On balance, the overall tax income to the federal government wouldn't change. I've asked Finance Canada if they had economic models that could do this, and they said, no, we report the gross cut, but they admit that the net could be as low as zero or even positive.

Hon. Wayne Easter: Why do you only go 500,000 litres and then have it pro-rated, or whatever, from 500,000 litres to 900,000 litres? Why do you pick that number?

Mr. William Ross: It's somewhat similar to the U.S.A. I'm an old trade guy. Somebody asked me a question earlier about WTO and NAFTA concerns. I was trying to keep it fairly close to the U.S.A. What we're asking for is a Canadian solution for a Canadian issue, but the U.S.A. has a system where they get a tax break up to about 100,000 litres and then it's phased out to 250,000 litres. Once you make 250,000 litres there is no tax. It's somewhat modelled on the U.S.A.

We have a bit of a different thing that we have to keep in mind. In Canada we have 100% Canadian wine and then we have these blended wines. In the U.S. you don't differentiate. It's virtually either imported or American. Normally they don't have blended from imports. They don't have that in the U.S.A. or in Australia. We have this situation where we're just targeting the 100%. When they target their wines, I suppose they're all 100% U.S.A. wines.

Hon. Wayne Easter: So this is strictly 100% Canadian grapes, then? It's only in Canadian grapes?

Mr. William Ross: Yes.

Hon. Wayne Easter: Those are all the questions I have, Mr. Chair. I do think we need to put together a letter, but we'll do that later.

The Chair: We'll go to Mr. Gaudet for a short period.

[*Translation*]

Mr. Roger Gaudet (Montcalm, BQ): I have two quick questions for you?

Where do you bottle your wine?

[*English*]

Mr. William Ross: The majority of the wines are bottled in situ. That's how you have estate-bottled wines. These wines are bottled at the winery in 95% of the cases. Some may be contract because bottling lines are expensive. Actually, a lot of the wineries are small enough, sir, that there are firms in the Okanagan and in the Niagara that have large semi-trailers that actually go to your winery and bottle for you.

[*Translation*]

Mr. Roger Gaudet: My next question is also my last one.

How will you go about allocating the 500,000 or 400,000 litres that will receive some excise tax relief? Will this be decided by the province? How will this work? Will Ontario and British Columbia be allocated the full 500,000 litres eligible for excise tax relief, with the other provinces receiving no break at all?

● (1145)

[*English*]

Mr. William Ross: It's each winery that will get the benefit. It would be the individual winery. If you have wineries in Quebec, say if you have 5, or 10, or 20 making 100% their own wine, because some wineries in Quebec will blend, they'll say *produit du Québec*, but it's actually with some Chilean or something. It would depend on the winery. It's pro each winery. Each winery would get the break.

[*Translation*]

Mr. Roger Gaudet: Therefore, each winery would get a share.

[*English*]

Mr. William Ross: The winery gets to keep the money.

[*Translation*]

Mr. Roger Gaudet: Thank you. That answers my question. I have nothing further.

[*English*]

The Chair: Ms. Ur.

Mrs. Rose-Marie Ur (Lambton—Kent—Middlesex, Lib.): Thank you, Mr. Chair.

I thank you for your presentation.

I have a few quick questions. I think you said in your opening remarks about supply management that you didn't have the same government support that supply management people have. If we had everything supply managed, we wouldn't have the problems we have today. I suppose supply management is a mother issue to me. I think it's important to recognize that they aren't here complaining about different things and they are going through the hoops, and the highs and lows, where some other industries are having a bit of difficulty to say the least.

That being said, you indicated something in regard to the kits, and I wasn't aware of this. Have they been a real negative impact to your industry?

Mr. William Ross: Yes, they have. They only allow it in B.C. and Ontario, and we have resisted them strongly in Alberta and Saskatchewan. In Alberta they had some politicians who were looking at kits, and we fought against that, so far with success.

Mrs. Rose-Marie Ur: I am not a kit person, nor have I used one. It can't be nearly the kind of wine that's produced through a winery, I'm sure. You only get what you pay for, in my opinion. So are they a real detriment to the wineries?

Mr. William Ross: For the smaller wineries, Madam, they are a detriment. You've probably been yourself to weddings where all the wine is homemade or kit-made. Even the excise act today gives a break for up to $50,000 in sales, and that's not policed. So you have areas out there that aren't taxed, competing with our little guys who are taxed, and it's quite legitimate.

Mrs. Rose-Marie Ur: I think it's important to bring forth that to the Department of Finance too, when we write our letter, that this is another venue we can bring forward where this is a bit of a problem.

How large do you think your industry can get?

Mr. William Ross: It can get larger and it definitely can get a lot larger in these quality wines, which will have more indigenous VQA-type wines, estate bottled, 100% Canadian, as opposed to all these blends. But you're correct, it's limited by climate and land.

I would just make a comment. I didn't mean to indicate to anybody on this committee that we are complaining about supply management or complaining about any other areas. I was just using it contextually for an agriculture committee that there are agriculture policies and programs in this country that pour billions into the agriculture sector to do good, to support it, whatever. I used to be with Agriculture Canada and I understood that, so I'm not saying you shouldn't do this. I'm just saying we don't benefit from that. And we're not even asking for it; we're just asking if they'd take a little bit less.

Mrs. Rose-Marie Ur: Since you were with Agriculture Canada, are there any programs within that industry that could help with the replacement of vines, replanting? Would this be an option that—

Mr. William Ross: When the free trade agreement came about in 1989 with the U.S.A., federal and provincial governments helped with grubbing out some vines at that time. It was a one-off program to do an adjustment to the free trade agreement and a WTO-GATT decision actually at that time. We haven't asked the government for that. We've asked them for such things as domestic marketing money because there was a domestic marketing program, and at the moment they don't have a program that would help us compete, say, with a subsidized flow from Europe.

Mrs. Rose-Marie Ur: Would you have any concern if the feds removed the tax, that the province would scoop up that little void if we remove the tax?

Mr. William Ross: We sure heard that when we talked about gasoline taxes, but we would hope not. The Wine Council of Ontario and the British Columbia Wine Institute work very closely with their provincial governments, and we have provincial government representatives on our wine standards committee, for example, from Ontario, B.C., New Brunswick, and Nova Scotia. We're hoping they won't take advantage of us.

● (1150)

Mrs. Rose-Marie Ur: Right.

Now, this is a health question that I'm posing. You hear in the paper where everyone should have a glass of red wine a day. What kind of product would Ontario produce that would meet that requirement?

Mr. William Ross: We produce in Ontario and in B.C., and indeed in Quebec, very good red wine. I have seen studies done independently, not by us but by some researchers, that Canadian red wine, i.e. cold-climate red wine, has more resveratrol , which is an anti-carcinogenic, an antioxidant. Oregon, Ontario, B.C. are higher in the good things, but you're supposed to have a glass a day and not wait for two weeks and have 14.

Some hon. members: Oh, oh!

Mrs. Rose-Marie Ur: Yes, right. And that's not the way I hurt my foot.

Some hon. members: Oh, oh!

Mrs. Rose-Marie Ur: I wish it were. I'd be a lot happier.

The Chair: A vicious rumour.

Mrs. Rose-Marie Ur: Yes, it's a rumour.

The Chair: Thank you, Mrs. Ur.

Mrs. Rose-Marie Ur: Thank you, Mr. Chair.

The Chair: Thank you very much. We'll give the last word to the Conservative Party. We want to keep it within five minutes.

Mr. Gerry Ritz: I have just a couple of quick points.

The vintners that you represent, your grape acres—and I'm getting into western jargon here—are they up or down? Historically, are you gaining?

Mr. William Ross: Gaining. In B.C. the grape acreage has about doubled in the last six years. In Ontario it's growing as well. In southern B.C., for example, they're going into areas that were simply desert. In Ontario, and to some extent in the Okanagan, they're replacing apple with peach, which hasn't been doing it for them.

Mr. Gerry Ritz: I have one other quick point. You were saying kits have been detrimental, a bit of a drag on the market. Would better cross-border provincial access help that situation? In Saskatchewan, I can get kits easier than I can get Ontario wine. Would better access to other provincial markets help you in going head-to-head with kits?

Mr. William Ross: Yes, definitely.

The Chair: Mr. Anderson.

Mr. David Anderson (Cypress Hills—Grasslands, CPC): I'd like to hear your thoughts on the question of whether foreign wines are able to access those interprovincial markets easier than your wines are. Would that be a correct statement or not?

Mr. William Ross: Generally speaking they are, because foreign companies are huge and well positioned to do this. In Quebec, for example, there's a disposition that's Eurocentric. In the SAQ, I think 85% is French and Italian. There's very little Canadian wine in Quebec. It's a monopoly. They buy European, and that's the way it is.

The LCBO have vintages, and we're slowly making progress with the LCBO. The other provinces merely say get out there and market. We have a program on domestic marketing we're trying to get going to put us out there better.

The problem is, sir, there's so much money going into the sector in Europe, in the old world, and in the new world you have these huge companies, like Constellation and Wolf Blass and Jacobs Creek. They're huge companies that can simply pour it in at you. There are over 200 grape-based wineries in the country; three are publicly traded and one is foreign-owned, that is in play, if you will. The rest is 100% owned by Canadians, usually family owned.

Mr. David Anderson: Your industry seems to be expanding and you're doing fairly well. Do you have any suggestions for the federal government that would help you in that situation of getting your wines onto the markets interprovincially? I realize a lot of it's provincial jurisdiction, but do you have any suggestions that the federal government should hear on how to improve that for you?

Mr. William Ross: We have two, I suppose. One is to give us this excise break so the individual wineries would have a better capability. As I said, $25,000 or $35,000 more a year would allow them to hire somebody to do an ad campaign. The other one is that we've been working on national wine standards. The agriculture department has been extremely supportive, and we're very grateful for what the agriculture department has been doing. They've been paying the cost and participating in a process to embed national wine standards for Canada in the Canadian Agriculture Products Act, so we would have national enforcement. They've been very good there. So national wine standards and excise are the two biggest.

One we're concerned about, of course—and you've heard about it in the House—is warning labels. It's not that wine is bad for you; abuse is. Maybe I could make a comment on warning labels. We are very cognizant of the problems of the abuse of alcohol. We have a small social responsibility fund and we put 100% of that into programs targeted to pregnant women—not drinking while you're pregnant, and fetal alcohol syndrome. We contribute to the Canadian Centre on Substance Abuse and we've given some to the Manitoba Addictions Research Foundation. We're very aware of that.

There's a movement in the House now, as you know, to have labels on wine. We're saying that if you're going to move that way, do it scientifically—evidence-based, science-based—research where there are labels and see if it works, because we think there are better ways to do that. But that's another issue.

So the issues we have federally are excise, national wine standards, domestic marketing, and avoiding warning labels.

● (1155)

Mr. David Anderson: A comment on the national standards. We've talked here about trying to set national standards for meat so we could be able to move it interprovincially but wouldn't have to meet all the international standards. It sounds as if you're in a similar situation, where it could help you to have a national standard that would allow you to move interprovincially. It wouldn't necessarily have to be the same as—

Mr. William Ross: It would facilitate interprovincial trade also. We have a big problem. Our star, if you will, on the world stage is ice wine. We have tremendous problems in Asia, particularly, on false ice wine. If we had a national wine standard, we could have CFIA certify exports and bring legitimacy to that process.

The Chair: Thank you, Mr. Anderson.

We must terminate the questioning.

Thank you, Mr. Ross and Ms. Bas, for coming this morning. We ran it right to the wire, but as promised, I said I would try to have you come before the committee at some point and we got you in.

Hon. David Kilgour: Can we offer them lunch, Mr. Chair?

Mrs. Rose-Marie Ur: No wine, unfortunately.

The Chair: Absolutely. We do this to very select people. We have no wine to offer you today, though.

Mr. William Ross: I'm sorry I didn't bring any samples.

The Chair: We're not concluding this meeting yet. We're going to continue. But let me thank you on behalf of the committee and wish all of you, particularly the two of you here this morning, a Merry Christmas and all the best of the season.

The reason for the meeting, of course, is to clarify this matter of taxation. What I hope this committee would recommend is that we would see a letter of recommendation, similar to the one the finance committee put forward, with the exception that we raise it to $500,000 rather than $400,000. If we can find concurrence in this, I would receive a motion that the clerk, through the chair, forward that recommendation to the finance department.

Is that something we can agree to?

Hon. Wayne Easter: I so move.

(Motion agreed to [See *Minutes of Proceedings*])

The Chair: That's how we do business around here, Mr. Ross.

Thank you very much for your cooperation.

As promised, I said I would hear that motion and I want to put that motion of Mr. Anderson's forward before we have our in camera meeting.

Mr. Anderson, would you speak to your motion, please?

Mr. David Anderson: Everyone has the motion, and in the spirit of cooperation we have just experienced, I'd like to ask that we pass it.

Obviously the issue has been around for years. It's been a bit of a moving target as to what to do with these cars. I guess it's important for us, particularly, that we find out what's best for western Canadian farmers and producers.

I think this new proposal addresses some of the questions that were raised about the other proposals, particularly FRCC. It addresses some of the issues about expanding and improving the governance group, addresses issues about protecting taxpayers, and gives farmers a similar or better deal. So in the absence of a clear procurement process, the government not having done that, I would ask that we be allowed to bring these folks forward and hear their proposal.

That's what the motion is about.

The Chair: In the spirit of hearing motions, I also have to hear commentary.

Mr. Easter.

Hon. Wayne Easter: I'm very strongly opposed to the motion, Mr. Chair. Contrary to what Mr. Anderson said, it doesn't address the issues. In fact, I think it draws away from a proposal that would enhance farmers' control of the car fleet. Just look at some of the players in this proposal: Inland Terminal Association of Canada, the Western Grain Elevator Association.

Anyway, I have several points on this motion, Mr. Chair. Three of the five groups listed have previously appeared before this committee and they absolutely did not, in testimony before this committee, indicate they were in the midst of preparing a specific proposal. That is point number one.

Point number two, in the summary of their proposal and their letter to Minister Lapierre, they say, “The model is built on the premise that the cars would be made available to this new organization at a nominal fee”. This new organization that somehow developed out of thin air in the last two weeks was, I think, set up to instill confusion into the matter. But the model they talk about in testimony before this committee is flatly contradicted in both the testimony of three of the organizations signatory to the proposal and in a submission to this committee dated November 23, 2004.

At that time, in their brief to this committee, the Western Grain Elevator Association stated their position on hopper cars and the FRCC proposal along these lines. They said in their brief that when they found out that “the Federal Government was seriouslyconsidering transferring ownership of the hopper car fleet.... The WGEA was”—and there are other words in there—“absolutely astounded....”

In testimony, the Western Grain Elevator Association stated that if the cars were transferred at a nominal fee, “the FRCC would not be motivated by commercial factors in their management of those cars”. That was on November 23. They said that then, and now they're putting a proposal that does that. These are just nothing but massive contradictions from these groups that are now putting forward a new proposal at the last minute.

The fact of the matter is, Mr. Chair, the federal government announced its intent to dispose of the cars in 1996. This is December 2004, and the only proposal that was developed with sound research over those years was the FRCC proposal. In fact, Transport Canada admitted in testimony before this committee that the proposal made sense. It's been cross-checked by auditors and a number of other factors. You can go back to the evidence and find that.

I'm left with the question on this motion, Mr. Chair, of why are the railways johnny-come-latelies? When they found out the federal government was serious in transferring cars to a wide section of farm groups, the FRCC, they then finally got around to submitting proposals themselves, but not proposals that were checked out from a business plan point of view. The question is, why now? These groups have been sitting on the sidelines since 1996. Now we have a sound proposal before us. Where have they been for the last eight years?

I just see this motion as adding confusion. I would encourage members to vote against the motion and get on with doing what we should do, which is recognizing the merit of the FRCC's proposal. Let's get it done and get it transferred to the farm groups so they can assist the farm industry.

● (1200)

The Chair: Is there someone from the Bloc who wants to speak to this? No?

I have to take one from the Conservative Party first.

No, Mr. Anderson, you will speak last.

Mr. James Bezan: I'm in favour of the motion. I think it is prudent on our behalf to consider all the proposals that are out there. This may be a late proposal, but we should look at it, especially in light of what happened over the weekend with three producer groups pulling out of the FRCC coalition. With Ontario Wheat Board and Ontario Soybean Growers and Ontario Corn Producers' Association pulling out, we have to give due consideration to the other options that are out there. It would be irresponsible of us to not look at everything out there when we're dealing with such a serious asset of the federal government and of the Canadian taxpayer.

The Chair: Mr. Kilgour.

Hon. David Kilgour: Mr. Chair, I suppose I should declare a conflict of interest. I got a campaign donation from somebody who was one of the interveners on behalf of the farm coalition.

● (1205)

The Chair: Thank you.

Because Mr. Kilgour can't, Ms. Ur, do you have a comment?

Mrs. Rose-Marie Ur: When we've had the railways in this process, they've been quite open to the fact that they were getting $4,300-plus for maintenance until FRCC came up with its figures at $1,500. If we're going to be genuine about being upfront, being open and transparent, I find it very unfavourable on behalf of the railway companies to take the government for a ride like that, if indeed the FRCC can do that job for $1,500.

I haven't been on this subject matter for the last eight years, but from what I have seen, many of those presenters have been here before, as Wayne has indicated, and from what I have learned at committee, FRCC has put its plans on the table in a very forthright way. Some had questioned that it didn't go more in depth, but at that time it also indicated that if you're in business, you don't put all your figures on the table. That's not the way those transactions happen.

I hope I've seen this correctly at committee. I would find it difficult under those circumstances, unfortunately, because I have the utmost respect for Mr. Anderson, to support his motion.

The Chair: I'll go to Mr. Ritz, and I will have Mr. Anderson have the last word.

You have the floor, sir.

Mr. Gerry Ritz: Thank you, Mr. Chair.

Just to refute a couple of points, Mr. Easter's talking about johnny-come-lately. Well, the government didn't get serious about this until about the last month or six weeks. The timeframe is the government's; it's not of the presenters' choosing.

The big concern I have is this. He said no one else put forward a proposal. CN did a year ago, and the government has yet to respond that it has even received it. I'm no fan of the railways either. We talk about who's on whose list. A lot of farm groups that have come forward to this latest proposal were supporters of the FRCC proposal eight years ago and have withdrawn over questions that haven't been answered and different things that have come up. The FRCC seems to be losing everybody's support from the producers' side, other than the government's. Other producers that make use of the cars and so on are coming forward and saying, wait a minute, this doesn't answer our specific concerns.

Nine of the supporters on the 16 list that we see now for FRCC are all convinced that they will have better car allocation out of this, and yet the FRCC is giving us a mixed message as to whether it will be in the middle of the car allocation or it will not, in its lease system, be in car allocation. Those members themselves, of the few I've talked to, have some serious concerns as well. I've always been a proponent of a better cycle time for rail cars. We know we need that, but it comes down to allocation of cars as much as who owns the cars.

The Chair: Mr. Anderson, for the last word. Then we'll have the question.

Mr. David Anderson: I have just a couple of comments.

Governments played around with this issue for eight years. It was not the FRCC or the railways or this new group. In fact, Transport Canada itself says it hasn't done due diligence on either the rate cap or the maintenance factors on the cars. Everybody says that's a critical thing that needs to be determined, so this motion actually gives some time to discover that. There's been no clear procurement process, because the government had not given an indication that it's serious about dealing with the cars until just a couple of months ago. These folks were given less than a week to put their proposal together, and then Wayne sits and talks about the contradictions that are in the proposal.

I would argue that's a reason to bring them here. If there are massive contradictions, as Mr. Easter says, that's a good reason to bring them here and have them discuss those contradictions or the positive aspects of their proposal right here.

Some of these same groups have supported the FRCC in the past and have pulled away. We need to understand some of those reasons. I just think it's bizarre to say that we're not going to bring in witnesses because we don't want to hear another proposal on the disposal of $200 million worth of government assets.

In response to Rose-Marie's intervention, this has nothing to do with the railways. This proposal is not talking about railways and doesn't deal with them.

The Chair: Okay, we've heard. Unless the Bloc has anything to add to this, I'm ready to have the question called.

(Motion negatived [See *Minutes of Proceedings*])

● (1210)

The Chair: Let's just suspend for a quick moment, if you want a coffee or something. If you want to do that, then we'll reconvene here in a few moments.

[*Proceedings continue in camera*]

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