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Chair

Mr. Merv Tweed

Standing Committee on Agriculture and Agri-Food

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● (1105)

[*English*]

The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)): Good morning, everyone. Welcome to meeting number 74 of the Standing Committee on Agriculture and Agri-Food. The orders of the day, pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, January 31, 2013, are for the study of the agricultural and agrifood products supply chain (beverage sector). That is where we're at today.

Joining us from the Canadian Vintners Association is Dan Paszkowski, president and chief executive officer. By video conference from Kelowna, British Columbia, is Dave McAnerney, president and chief executive officer of Sun-Rype Products Ltd. Welcome.

Basically we'll open the meeting with presentations by both of you, and then we'll move to the committee for questions.

I'll ask Mr. Paszkowski to start, please.

Mr. Dan Paszkowski (President and Chief Executive Officer, Canadian Vintners Association): Thank you, Mr. Chair.

Good morning, everybody. As noted, my name is Dan Paszkowski. I'm the president of the Canadian Vintners Association, better known as the CVA.

I'd like to thank you all for the occasion to provide the Canadian wine industry's perspectives on various issues and challenges facing our sector, and the opportunities to improve our contribution to the Canadian economy, and the role government can play in the development and success of this vibrant industry.

The CVA is the national voice of the Canadian wine industry, representing all scales of production and accounting for more than 90% of the wine produced and sold across Canada. CVA members are engaged in the entire value chain: grape growing, farm management, grape harvesting, wine production, bottling, retail sales, research, and tourism.

The Canadian wine industry produces 100% Canadian and VQA wines as well as International Canadian Blended, ICB, wines. Both are significant economic drivers to the Canadian economy. We recently completed a landmark national economic impact study, which found that 100% Canadian and VQA wines contributed $3.7 billion, including tourism, to the Canadian economy, and wines blended in Canada from imported and domestic content contributed an additional $3.1 billion. This is an impressive figure—$6.8 billion combined—and is the result of 500 grape wineries and 1,300 independent grape growers across the country.

Wine is synonymous with value-added production. Canadian wineries capture greater revenue than most agrifood products, not only by crushing grapes and producing wine but also by packaging, marketing, and sales. From vineyard development and grape cultivation to the final sale, wine is a highly complex process that involves numerous suppliers, distributors, and service providers throughout the value chain, compounding the economic benefits. Our impact extends well beyond direct sales and employment, with strong linkages to tourism, retail sales, bars, and restaurants.

Our recent study, which was quite conservative in its figures, concluded that each bottle of Canadian-produced wine generates an average of $31 in economic impact. This includes more than $1.2 billion in contributions to government revenue through tax and liquor board markups. Furthermore, the domestic wine industry helps support more than 31,000 jobs and is motivation for more than three million tourists visiting Canadian wineries each year. Put into context, this is four times the number of visitors to the Vancouver Olympics.

The number of wineries in Canada has grown by 300% in the last decade, with more than 100 wineries opening in the last five years. Most are small businesses focused on premium wines. The investment made by the wine industry has been a direct response to the growing consumer interest in wine and wine tourism.

Wine is increasingly becoming the beverage of choice in Canada and presently accounts for 30% of the beverage alcohol market, up from 18% in 1995. However, Canadian wine industry sales account for only 30% of total wine sales while our foreign competition commands 70% of our domestic market.

At 30%, Canada has the lowest wine sales market share of any wine-producing country in the world. For example, South Africa owns 100% of its market, Argentina 99%, and the U.S. 68%, to name just a few.

ICB wines represent 25% of domestic wine sales, yet their market share has dropped almost 8% since 2000 while imports have grown 6%.

One hundred per cent Canadian VQA wines have experienced 2% growth in market share over the past decade, yet represents only 6% of total wine sales. Disappointingly, these premium wines represent less than 4% of total wine sales in 10 of 13 jurisdictions across Canada.

More than 200 million bottles of Canadian wine are sold each year in domestic markets, each contributing more than $31 in value to our economy. By comparison, a 2010 KPMG study prepared for the Wine Council of Ontario concludes that the sale of imported wine contributes a mere 67¢ per litre.

According to a 2012 Bank of Montreal report, Canada’s wine industry has experienced 3.1% growth on average since 2005, outpacing the overall economy.

The Canadian wine industry’s objective is to grow domestic wine sales in all available wine sales channels from coast to coast. With additional sales opportunities, the Canadian wine industry will build our market share beyond 30% towards a target of owning 50% of the domestic wine sales market.

This is good for the Canadian wine industry and good for Canada. Based on our economic study, we know that every $1 million increase in Canadian wine sales will lead to a further $3.1 million increase in gross output, including revenues, taxes, jobs, and wages across the wine industry value chain. This is an excellent, savvy investment in our economy.

Canada is one of the fastest growing wine retail markets in the world, with per capita wine consumption increasing by more than 37% over the past seven years. Supportive federal government policy can assist the domestic wine industry in becoming more competitive and increasing its share of retail wine sales in Canada.

The following three areas should be considered in support of adding further value to Canada’s wine economy.

First is Growing Forward 2. We need to support a domestic market promotion campaign, including major city premier wine tasting events, to build knowledge and relationships with consumers, restaurants, and retailers. We should recognize a national wine week, providing an annual opportunity to celebrate Canadian wines and wine tourism across Canada. Furthermore, we should partner with the Canadian Tourism Commission to build on the synergies between wine and tourism, including studies, marketing, and promotions.

Second is direct-to-consumer delivery. There should be federal engagement with provincial governments to remove interprovincial barriers to wine trade, in support of federal Importation of Intoxicating Liquors Act amendments, the act that passed in June of last year.

Third is tax and regulation. We need to review the tax treatment of Canadian grape content in domestically produced blended wines to support and encourage greater inclusion of domestic ingredients. We should ensure that the proposed repeal of container size regulations takes place to reflect the competitive impacts on the Canadian wine industry. And we should index the small business tax deduction qualifying asset base thresholds to reflect inflation dating back to its origin in 1994, while indexing future asset test thresholds for inflation annually.

In conclusion, Canada’s wine industry is ripe for success. We are a value-added success story, a model for the agricultural sector, with domestic prospects to sustain our growth ambitions and new opportunities for wine country tourism, new jobs, and enhanced government revenues.

We believe that Canadian wine should occupy the majority of the shelf space in our domestic liquor outlets, not because stores are forced to do so but because Canadians prefer Canadian wine and demand it. We've seen VIA Rail shift to 100% Canadian wines on their menus, but our national airline, Air Canada, lacks a policy to guarantee a Canadian wine option on its flights. This is a disgraceful message to send Canadians and international visitors.

The CVA believes that Canadian wine can and should represent at least 50% of wine sales in Canada, but this will require government's concerted support and investment. The return on that investment is exponential for our local communities and national economy.

I'd like to conclude by inviting each one of you to become an ambassador for Canadian wine. So next time you travel, look for Canadian wine and demand it. Request Canadian wine at the meals and special events you attend, offer it to your guests and serve it with pride. Speak with your provincial counterparts about direct-to-consumer regulations to allow for the full implementation of Bill C-311. And finally, support Canadian wineries through tax and regulatory incentives, which, in the end, increase overall tax revenues through gains in market share.

Thank you. I look forward to your questions.

● (1110)

The Chair: Thank you.

I don't want to correct your information, but actually I believe Canada has two national airlines, WestJet and Air Canada.

Voices: Oh, oh!

The Chair: Mr. McAnerney.

Mr. Dave McAnerney (President and Chief Executive Officer, Sun-Rype Products Ltd.): Thank you, Mr. Chair.

Hopefully everyone can hear me all right at that end.

The Chair: Yes, very good. Thank you.

Mr. Dave McAnerney: I certainly appreciate the opportunity to speak with the standing committee today about our industry. For those of you not from western Canada, I thought I'd take a little bit of time to talk about Sun-Rype. If you're from western Canada, you're probably quite familiar with our brand.

Since 1946 Sun-Rype has been western Canada's leading juice brand, with products that include our “not from concentrate” apple juice, which is the number one juice SKU in the shelf-stable category, a product that supports apple growers in B.C.'s Okanagan fruit-growing region. We rely on fresh apples versus imported concentrates.

We're also known for our leading 100% fruit-snack brands, such as Fruit to Go and FruitSource, which are made using proprietary processes developed at Sun-Rype.

The Chair: Dave, can I interrupt you for one minute, please?

Mr. Dave McAnerney: When Sun-Rype commercialized this process in the early 1990s, we were the only company globally making 100% pure fruit snacks on a commercial scale.

The Chair: Dave, can I ask you just to stop for—

Mr. Dave McAnerney: Yes.

The Chair: Because we're interpreting as you go, may I just ask you to pause occasionally and speak a little bit slower to help us out. Thank you.

Mr. Dave McAnerney: Okay.

Sun-Rype was recently selected as one of three companies to receive a Grant Thornton food industry leadership award, given to companies that embody the spirit of leadership, innovation, and business success.

Innovation is clearly in our DNA and Sun-Rype is aligned with Agriculture and Agri-Food Canada on the importance of innovation. We're also expanding geographically, something that provides both challenges and opportunities.

Sun-Rype made acquisitions in 2010 and 2011, and now own and operate two facilities in Washington State, along with our main facility in Kelowna, British Columbia. We now employ over 320 employees in Canada and 125 employees in the U.S., making a considerable economic impact in both the Okanagan Valley and central Washington.

In 2008, we expanded our distribution in the U.S.A by leveraging relationships with North American retailers such as Costco and Safeway, and we now have over 5,000 points of distribution in the U.S. for our fruit snacks. We're also selling beverage products in selective channels in the U.S.A.

While we believe we have an exciting and differentiated product portfolio, brand awareness is critical to success in new markets, such as the U.S.A, and building awareness is expensive and takes time. Ultimately, growth through acquisitions, innovation, and geographic expansion are all critical to surviving in today's tough economy, as ever contracting margins make growth an absolute requirement.

We operate in a highly competitive North American grocery industry, so despite having a strong brand, leading markets here in our home market, and a track record of leading innovation, Sun-Rype is struggling financially.

A number of factors are challenging our profitability: first, the incredible scale and leverage of major customers who are constantly pushing for lower prices. Second is the scale of our competitors. We compete against multi-billion dollar multinational companies, and in a flat economy these companies are willing to sell at low or no margin in an effort to secure market share and force industry consolidation. Third is commodity prices. In 2010 our key commodity prices in fruit juice concentrates and purees increased over 50%, and given the competitive market conditions we were unable to pass along price increases. Finally is the factor of category declines. The shelf-stable juice category in which we compete has seen significant declines in the last few years. So consumer tastes are changing and innovation is required to address new trends.

The challenge is the cost of innovation. A single stock-keeping unit, or a SKU, now costs over $1 million to launch nationally and the likelihood of success is low, so we need every bit of support our government can offer to small, innovative food companies in Canada. Investment in Canadian food companies capable of growing on a North American and global stage will have a strong payback for Canada in terms of jobs and other revenue streams.

There is a clear consolidation trend going on in our industry that is leading to job loss. The FBC reports that since 2007, more than 85 processing plants have closed and scores of multinationals have moved production south, resulting in increased imports, while exports decrease.

We believe Canada has done many things well to support food companies, including SR and ED credits, which Sun-Rype has taken advantage of over the years. Moreover, the CFIA, which is often criticized, is taking a much more proactive role in joint investigation of food safety concerns and labelling requirements than their U.S. counterparts, such as the FDA. We've found the Kelowna-based personnel to be professional and responsive to both consumer issues and company requirements.

Finally, we want to note that new programs, such as the digital technology adoption pilot program, are appreciated by Sun-Rype. But despite these positive benefits in operating in Canada, small food companies need even more support to remain viable. As such, I ask that our government consider options to improve the ability of small innovative food companies to compete. Options to consider include expanding programs for funding students involved in R and D and marketing of new products, and with respect to capital expenditures, low interest loans and grants to fund capacity expansions and new technologies. At present, we are looking at payback periods of more than six years in a high-risk industry. Such payback periods will ultimately lead to a lack of investment in Canada without government support.

● (1115)

Finally, I ask that we ensure that the standards to which we hold our domestically produced products are held as well for imported products, and this would apply to the level of scrutiny the manufacturing facilities are under, as well as labelling requirements. As an example, just last week I noticed products imported from Poland that had no French on the label, which seemed odd to me.

In closing, I wish to emphasize the importance the small food companies have in creating employment in Canada. We're under immense pressure from local food companies, and without stronger support, Canada will continue to lose jobs to the trend of consolidation.

I thank you for the opportunity to address the standing committee today.

● (1120)

The Chair: Thank you very much.

Go ahead, Madame Raynault.

[*Translation*]

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

My question is for the president of the Canadian Vintners Association.

You say that Canadian wine producers hold 30% of market share, which is the smallest in the world. Your objective to attain 50% is commendable, but will our climate allow you to increase production? What are you going to do to reach that objective?

[*English*]

Mr. Dan Paszkowski: Thank you.

We do have boundaries that we'll be challenged to overcome. We will never be as large a wine-producing country as many others around the world, just based upon our climate and our geography. We believe we can make the 50% target. We do have new opportunities in Quebec for wineries. We have a growing wine industry in Nova Scotia. There still are parts of Ontario and parts of British Columbia that provide new opportunities for growth in grape growing.

Subtle changes in climate also open up new areas to us, which we haven't been able to plant in before. British Columbia is a case in point. There are small areas now farther north of the Okanagan where planting is successfully taking place, but there will have to be investments made in tilling the land, planting grapes. Grapevines take three to five years to mature, so it's a long-term process.

If we get the support of our liquor boards across Canada, we believe we can meet that 50% target within, say, 2015 to 2020. It's entirely possible. It'll be possibly faster if the liquor boards are willing to support Canadian wines across this country, as I mentioned. It is shocking to see the statistics, to find that 10 of 13 liquor boards sell less than 4% of total wines that are VQA.

We get very, very small opportunities for sales. We work well with the liquor boards, but there are opportunities for greater sales. In the province of Quebec, for example, VQA sales represent less than 1% of total wine sales in that province. I see there being great opportunities in Quebec to sell more Canadian wine products.

[*Translation*]

Ms. Francine Raynault: What are you going to do to increase the sales of Canadian wine?

[*English*]

Mr. Dan Paszkowski: A big part is to win at home. That was an area that I just mentioned in terms of the recommendations. Growing Forward 2 now offers opportunities to promote our wines in our own domestic market, where in the past the funding was only available to grow export markets. The most successful wine-producing jurisdictions around the world have first built their own domestic market. Once they conquered their domestic market, they moved into the export market.

We export about $30 million per year of wine, and we want to build our export markets. But to be successful, we have to win at home, and to win at home we have to be able to compete with our competition. On a regular basis, we see California, Europe, Australia, and New Zealand doing premium wine tastings in major metropolitan areas across the country. Liquor boards love it. We can't do that. We don't have the funding to be able to do it. Federal dollars have not been available up until now with Growing Forward 2. We had a small program called Canada à la Carte back in 2000, which supported the promotion of Canadian wines across the country. That program was cut more than 10 years ago, and we're hoping to revisit that.

Once we're able to show Canadians the quality of our wines, we believe liquor boards will start carrying our wines and we'll be able to increase our sales and move our market share from 30% to 50%. Prior to the free trade agreement, we did have 50% of the market. The world changed and we're starting to grow that back again. We're very confident we can do it, but we need a little bit of support to get there.

[*Translation*]

Ms. Francine Raynault: As you know, the Joliette region used to produce a lot of tobacco. Nowadays, many producers are turning toward wine production.

What can we do to further the development of rural communities that have converted to wine production?

● (1125)

[*English*]

Mr. Dan Paszkowski: You mentioned tobacco. Research and development can support in some ways. For example, some of the tobacco kilns in those regions are now being turned into drying kilns for grapes in order to produce wines in the appassimento style. There are opportunities there for new products, and that's extremely important in new wine-producing regions.

As well, for example, excise tax support of international Canadian blends: these are wines that are blended from domestic and international wines. In some of the areas, the grapes that can be grown would be more conducive towards going into the international Canadian blended wines. There are opportunities there for growth, so research into new grape varietals in cool climate centres would be helpful as well. But I mentioned in my presentation that the tax dilemma we have with international Canadian blended wines is that we don't pay excise tax on 100% Canadian wines, but we do pay excise tax on wines that are not made from 100% Canadian content products.

Twenty-five per cent of wine sales in Canada are international Canadian blends, which can have as much as 40% and 50% Canadian content in those blends, but they don't get the same benefit as 100% Canadian wines even though they're using the same grapes that are grown in Canada. There are opportunities there for growth. If we are able to find a way to exempt the Canadian content from tax, in those wines we'd be able to make greater investments in new regions, in new technologies, and in growing the 100% Canadian side of the market as well.

There are some areas that can be helpful.

The Chair: Thank you.

Mr. Lemieux.

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

Just to follow up on that, if 100% Canadian wines aren't taxed as much as Canadian international blends, I would think that's actually a good thing for the Canadian wine industry. I mean, 100% Canadian wines would be a good thing. My understanding with Canadian international blends is that they might go as high as 40% to 50%, but they might go a whole lot lower too. I would actually think that it would be a favourable tax status for 100% Canadian wines and would be more advantageous to our grape growers and to our Canadian homegrown wine industry.

Mr. Dan Paszkowski: The premium side of our business has to grow. Its history has grown from international Canadian blended wines with the funds up there invested in tourism, to help develop tourism routes and to help new 100% Canadian wineries to develop.

You're absolutely correct. We're not asking for an excise tax exemption or program on the entire content of the international Canadian blends, only on the Canadian content.

Mr. Pierre Lemieux: Right—

Mr. Dan Paszkowski: There are some wines that may have less, and there are some that would have more, but the benefit would go towards those that have greater Canadian content.

Mr. Pierre Lemieux: But I would think, and I'm guessing here—and you know the industry better than I—that they're blends because it's cheaper to blend. In other words, the unit cost per production for a Canadian international blend wine is less than a 100% Canadian-grape-based wine. Therefore, if the price were to drop noticeably on the blends—as taxes drop, the price drops—that in fact would undermine the 100% Canadian wine industry.

Mr. Dan Paszkowski: No, it wouldn't undermine the 100%—

Mr. Pierre Lemieux: Well, wouldn't consumers buy more Canadian international blend wines because they cost less? That's one of the complaints, isn't it? There's too much international visibility on wine and wine types of products in LCBOs. That's not federal, but I've been in the LCBO, and you have to look long and hard to see all the Canadian wines.

Mr. Dan Paszkowski: There are two types of wines we're talking about. We have two categories of wine in Canada. One is the blended wines. One is the 100% Canadian VQA premium wines. They are two completely different categories attracting two completely different types of consumers. On the blended wines, you're right: they sell for less than $10 per bottle. The 100% premium wines sell for typically more than $10 but over $15 per bottle.

The vast majority of consumers in Canada are consuming blended wine and blended wine products. If we didn't support the blended wine industry, if we didn't have a blended wine industry, that 25% of total sales in Canada would disappear overnight. Producers around the world who are producing blended wines are producing wines in such large quantities that they can get their production costs down to very low levels to be able to capture that market.

● (1130)

Mr. Pierre Lemieux: I'm not saying the Canadian international blended wine should be jettisoned. I'm just commenting on the different tax regimes and what the potential impact would be. That's all. I'm not saying they should be yanked; I'm not saying that industry should go away.

I did want to ask another question on container sizes. You made a comment about repealing container sizes. Could you elaborate on that and how that would be advantageous to the wine industry.

Mr. Dan Paszkowski: It wouldn't be advantageous.

Mr. Pierre Lemieux: It would or would not?

Mr. Dan Paszkowski: It would not be advantageous.

Mr. Pierre Lemieux: I thought you were saying the wine industry would want to repeal the container size restrictions.

Mr. Dan Paszkowski: No. The government announced in Budget 2012 that they were planning on repealing the container size regulations. Our view is that if that proceeds, the competitiveness of the Canadian wine industry has to be taken into account. A decision to repeal the container size regulations is for foods—food products, in general. Wine gets caught up in that even though we are a different product from your average food product. So the container size regulations that we have in place are extremely important to the Canadian wine industry's competitiveness.

We're not the only jurisdiction around the world that has container size regulations; the United States has them, the European Union has them. However, if they are repealed, we are very, very concerned, being a small wine-producing country, that larger producers can come in with large box-size formats, for example, with economies of scale and be able to undercut the Canadian wine industry.

Mr. Pierre Lemieux: Right, but if the consumer is seeking that out, wouldn't it be advantageous for our industry to be responsive to that need? For example, I was just in a liquor store within the last week and I noticed that there are now one litre...from Canadian companies. I believe they're one litre—not bottles, but what would you call them?

Mr. Dan Paszkowski: Tetra Paks.

Mr. Pierre Lemieux: Yes, it's something along those lines. So there's some innovation going on in container sizes, and I would think our industry is fully capable of being competitive on that level. I don't know why our industry would shy away from that.

Mr. Dan Paszkowski: You're absolutely correct. We have come up with new glass formats—

Mr. Pierre Lemieux: Yes, exactly.

Mr. Dan Paszkowski: We have come up with Tetra Paks, we have come up with bag-in-box.

Mr. Pierre Lemieux: That's great.

Mr. Dan Paszkowski: We now have aluminum formats. The issue is not the format: we have been competitive, we have come up with new innovations. The importers have come up with innovations that are all operating within the 12 container-size formats that we currently have, ranging from 50-millilitre bottles to a maximum of a 4-litre bottle. If you eliminate those 12 formats and open it up to any size format, we could have hundreds of different-sized wine bottles, and in an industry of our size it would be very challenging for us to be able to compete with a product that may be 15 millilitre less and five pennies less than another bottle—

The Chair: I have to stop you there. We're way past the time, sorry.

Mr. Valeriote.

Mr. Frank Valeriote (Guelph, Lib.): Pierre, I gather you're favouring the brown paper bag model, and it's interesting to hear your protectionist comments when you talk about the excise tax. I'd like to unpack that protectionist approach that Pierre is taking a bit here.

I'm looking at the first bullet point under tax and regulation of your presentation. It says that we should review the tax treatment of Canadian grape content in domestically produced blended wines. I heard you talk about imported blended wines and wanting, presumably, a tariff or excise tax reduction for the Canadian content in imported blended wines. Is that an issue at all?

Mr. Dan Paszkowski: No. What we do in Canada is import foreign wines and we blend them with Canadian wines to be sold under a category known as international Canadian blends. Each bottle produced in Canada has Canadian content in those products. The Province of Ontario regulates that to have 30% Canadian content in that bottle. It's a requirement to bottle all those products in Canada.

What we're saying is that we have an excise exemption on the Canadian content in 100% Canadian wines. We also believe we should have some form of excise benefit for the Canadian content in Canadian blended wines produced in Canada. We aren't exporting any Canadian wines to a different country for blending to return back to Canada. So what we're looking for is the same treatment for the grape going into a VQA wine as the grape going into a blended wine, if that grape is grown in Canada.

● (1135)

Mr. Frank Valeriote: Is that the only area you speak about when you talk about taxes? That is the specific harm you'd like fixed, in essence.

Mr. Dan Paszkowski: It's a critical one. When we got the excise benefit in 2006, the excise tax increased by 21% on all other wines. So between 2006 and 2012, blended wines have paid an extra $80 million in tax.

Mr. Frank Valeriote: I'd like to pick up on a theme that is pervasive throughout the document, where you talk about South Africa owning 100% of its market and Argentina 96% and then you encourage VIA and our airline industry to sell Canadian wine. Then you mentioned liquor control boards not stocking enough Canadian wines to choose from. I'm not in sales, but I can only imagine they stock what the consumers are buying.

Two questions arise. First, are you suggesting they stock more Canadian wines in the hope that Canadians will buy more Canadian wines? Can you unpack that a bit? I'm not certain what you're saying. Second, I can only imagine.... I know that Italians tend to drink only Italian wines and that comes from a sense of pride in an industry that's been around for thousands of years. Is it only pride in those countries that causes them to purchase their own wines, or alternatively, and I'm hoping you know this, are there tariff barriers in these other countries that encourage them to drink only their own wines and not to import Canadian wines?

Mr. Dan Paszkowski: In large part, many of those countries produce more wine than they can consume in their own country. It's not just pride, it's quality. We believe we're producing a quality product. On a weekly basis we're winning highly acclaimed international awards around the world and we'd like the opportunity to sell those products in liquor boards across the country. If those products aren't selling, we have no reason to be putting forward this request. The fastest growing category in the LCBO right now is VQA wines.

Mr. Frank Valeriote: Are you being denied shelf space? Is that...?

Mr. Dan Paszkowski: We're being given a certain amount of shelf space but not a significant amount. We believe that we have more wine to sell today than we did 10 years ago. We're requesting additional shelf space to be able to get a greater percentage of market share in Canada. You've got liquor boards that are putting out calls for wine and asking for more Australian wine and lower amounts of Canadian wine and vice versa in different circumstances.

But if you look at 10 jurisdictions across this country and see their sales of 100% Canadian wines amounting to less than 4% of their total sales, there's something wrong there. Canadians are looking for our wines. Canadians are asking for direct-to-consumer delivery across interprovincial borders, because they can't find our wines in their stores. There are opportunities there. As I mentioned, the opportunity to help us promote our wines across Canada will open up those opportunities.

The Chair: Thank you.

Mr. Richards.

Mr. Blake Richards (Wild Rose, CPC): Thanks, Mr. Chair, and thank you for being here today, both of you, whether you're here in person or by video conference.

I'll start with you, Mr. Paszkowski. In your opening remarks you asked all of us to be advocates of Canadian wine, and I can tell you that I think we make some of the best wines anywhere in the world here in Canada. I really believe that. A few weeks ago, we had the Winery and Grower Alliance of Ontario here. I told them, and I'll tell you the same thing, that I'm a big lover of Burgundy varieties and some of the Pinots and Chardonnays being made here in Canada are among the best in the world.

I think we need to encourage more Canadians to enjoy some of the great wines. We've got ice wines being made here in Canada that I think are among the best in the world as well. In Quebec, some ice ciders are being made that I think are just outstanding. We've got some great products here in Canada and we definitely need to do more to showcase them.

I want to focus on a couple of things. First, I happen to chair the tourism caucus, so I noticed in your remarks about the impact on tourism. If we have some time, I'd like to focus on that. But before I get to that, I'd like to ask you a couple of other questions. What percentage of wine sales in Canada are Canadian wines?

● (1140)

Mr. Dan Paszkowski: Of total wine sales in Canada, you're looking at about 5% to 6% being VQA. You're looking at 25% being international-Canadian blends and the remainder being imported wines.

Mr. Blake Richards: Okay. We need to do a better job as Canadians in enjoying our own products, and I'll tell you that I'm happy to lead the way on that.

What about exports? Do we export much wine, and, if so, where do we export it? What percentage of sales from our Canadian wineries is sold here in Canada and what percentage is exported?

Mr. Dan Paszkowski: Our top three export markets would be the United States, China, and Hong Kong, with about 75% of total exports going to the United States and China.

I mentioned that the value of exports is roughly around \$28 million for 2011, and the volume of wine moving is about 2.5 million litres out of roughly 135 million litres of production in Canada. So it's a very small percentage of total production.

Mr. Blake Richards: That leads me to another question.

Sometimes, trade barriers can be in the way of those types of things, obviously. I know that from interprovincial trade barriers within Canada. Dan Albas, my colleague from Okanagan, brought forward—I think you mentioned this—changes to knock down some of those interprovincial barriers.

I recognize that there are some challenges within the provincial jurisdictions themselves that have to be dealt with, in allowing that to fully take the effect it could. I would imagine you support those changes.

What are your thoughts on those and what impact have you seen as a result of them?

Mr. Dan Paszkowski: Absolutely. We've been pushing for this since 2007, so the private member's bill by Dan Albas and the support from Ron Cannan and a number of MPs from every side of the House made a historic change in amending that piece of legislation.

We've had limited success with the provinces, where, as I mentioned, we're approaching the one-year anniversary of the passage of Bill C-311. Manitoba and British Columbia are the only two jurisdictions that have opened up their borders to wine being shipped directly from a winery to a consumer. Nova Scotia and Quebec have passed enabling legislation for it. We believe that Nova Scotia is going to do the right thing and open it up as British Columbia has. In the case of Quebec, it's our understanding that they're going to do what Saskatchewan, Prince Edward Island, and Ontario have done and allow for a constituent to bring home one case per person per trip, which makes it extremely difficult.

The Chair: I have to stop you there.

Mr. Blake Richards: I'm just trying to get in a couple more things, but I guess we'll have to do that after—

The Chair: It seems ironic that we would limit what people can bring in and out of Canada as opposed to another country. It doesn't make sense to me.

Ms. Brosseau, go ahead.

● (1145)

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

I would like to thank both of our witnesses.

Dave, I'm going to ask you a few questions because I think we've been focusing a lot on the wine.

Something that caught my attention earlier was the repeal of container sizes, because when this was slipped into Budget 2012—it was in the omnibus budget bill, a huge bill—it slipped under the radar. What we've learned afterwards is that there was really no consultation done on this. Everybody that my colleagues and I have talked to is completely against these changes.

What do you think about the deregulation and changes of the container sizes?

Mr. Dave McAnerney: My view is that if there's going to be deregulation, you need to make sure there is an equal playing field in North America, which I don't believe is the case today.

I think it would negatively impact many food processors in Canada. I'm not sure it would have a significant impact on our business, but as I look at the Canadian food industry, I do think it would have a negative impact. Again, there needs to be a level playing field.

When I look at the sorts of operations south of the border, I see lower wages and lower benefit costs. I don't believe that the plants in the U.S. operate at the same safety standards nor with the same standards for food safety, in terms of plant....

While I think we have relatively strong access to U.S. markets, it's still more problematic shipping products to the U.S. than would be the reverse, shipping from the U.S. into Canada.

Ms. Ruth Ellen Brosseau: Absolutely. Every company I've heard from, every player in this industry, has told me that this could cause job loss. This can close plants. This is a big change, and it's not positive. It's not a job creation measure.

You have 300 Canadians employed with Sun-Rype?

Mr. Dave McAnerney: Correct.

Ms. Ruth Ellen Brosseau: Where do the apples come from? Are they Canadian apples? Are they from other countries?

Mr. Dave McAnerney: Because our apple juice is not from concentrate, we're a little bit unique in that we rely on fresh apples. We are contracted in British Columbia for 100% of the process-grade apples, so we're an important revenue stream for the growers in the Okanagan.

The growers are also struggling financially. It's not a healthy industry here in the Okanagan. They certainly rely on us. There are other outlets; if we weren't here, they would be forced to ship their apples to processors south of the border at a much greater freight cost.

We get 100% of the apples grown in British Columbia for process-grade, but that's not enough to supply our needs. Our demand domestically is greater than that.

Historically we've sourced excess requirements out of Washington state. That's one of the reasons why we've made our acquisitions in Washington state, to make sure that we're not constrained by apple supply. There have been a number of years where we've actually had to hold off on production and sales because we quite simply couldn't get enough apples.

Ms. Ruth Ellen Brosseau: Do you have any recommendations on any way in which the federal government could help you? I know that "buy local" is a huge, huge movement. We were talking about buying Canadian wine, and I hear more and more Canadians who want to support local. They want to make sure that they are giving money back, and that it's staying here in Canada.

It makes me come to think of a national food strategy, something that we do not have in Canada. Would you support something like that, an ongoing vision for Canada on how we're going to feed ourselves—beverages, beer, wine, food—but something that's more long term, supporting not just a buy local but a buy Canadian initiative?

Mr. Dave McAnerney: Yes, I'd say that's a great idea, and it's important for two reasons. Not only is it good for jobs in Canada, but it's really good for the environment.

When I look at the global food chain—I mentioned the product I saw being imported all the way from Poland—I don't understand why we're shipping juice in a packaged container all the way across the globe when we could be supporting local. So I certainly think that's a great idea.

In our industry we're fortunate in that many of the regular retailers are also recognizing the benefits of that. Within our organization we're trying to figure out how to partner and how to maximize the value the consumer sees in supporting local.

One of our customers, for example, is the Save-On Overwaitea group. We've done some wonderful promotions in conjunction with BC Tree Fruits and the growers promoting not only Sun-Rype juice and snacks but also locally grown apples. That has been very effective, and it has driven a lot of sales.

I think anything the government can do to continue to support awareness of the positive benefits that supporting local has on the environment, as well as on the economy, would be a step in the right direction.

● (1150)

The Chair: Thank you.

Mr. Zimmer, you have the floor.

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

I just wanted to say that I'm from British Columbia, Dave, and I grew up on Sun-Rype apple juice in the old cans, if you remember that. You had to open them with a can opener. So I go way back with Sun-Rype.

An hon. member: How old are you?

Voices: Oh, oh!

Mr. Bob Zimmer: I'm not as old as Merv.

At any rate, I have a couple of questions. You explained a little bit of this, but what percentages of your product are completely sourced in either Canada or the U.S.? Does anything you sell come from outside of North America?

Mr. Dave McAnerney: Outside of North America? No.

Again, a significant amount of our business is our apple juice. I think our supply of apples is quite different depending on the crop year. We can see swings of 50% in tonnage available from Canada, but I would say that in a strong crop year in Canada, probably 75% to 80% of our apples are sourced from British Columbia. In a tough year, we could have less than 50% of our apples.

Our fruit snacks are also made with apple inputs from British Columbia. We're manufacturing, in Kelowna, purées from apples as well as juice concentrates, which are inputs into our fruit snacks. One hundred per cent of our fruit snacks, which are now sold throughout North America, are produced in Kelowna.

Mr. Bob Zimmer: Of the juice industry output that is consumed in North America—let's say even Canada—how much is produced in Canada?

Mr. Dave McAnerney: I wouldn't have visibility to those numbers. I know that the eastern-based company Lassonde is also an apple processor and would be a large consumer of apples in that part of the world. But beyond that, we are the only two companies I'm aware of that are using locally grown fruit on a large scale.

Mr. Bob Zimmer: I'm asking, because we see some products that come into Canada, and we don't always know whether they're from North America or maybe from other parts of the world. So you don't have a figure of how much juice that's consumed in Canada is from offshore?

Mr. Dave McAnerney: I don't have a figure, but it would be significant, because, quite frankly, there are not enough apples and other fruit products grown in Canada to support the demand for product. I assume other manufacturers are relying 100% on imported concentrates.

Mr. Bob Zimmer: Okay. I have a last question for you, Dave. We want you to be successful. We want Sun-Rype to continue, obviously, in B.C. It's one of those names we grew up with and we're fond of. It's a good product. But what three things would you ask us for today? You mentioned some already—some help financially, possibly, some loans—but if you could have a top-three list to make Sun-Rype successful, what could we do to help you do that? What would three or five or whatever number of things would you name?

Mr. Dave McAnerney: Again, I think our requests would have to be pragmatic. What we ask for Sun-Rype has to be a good investment for Canada and something that creates jobs. Number one on my list is support for innovation. I think innovative food companies have the ability to grow beyond Canada, to grow on a North American scale and even a global scale. I feel very good about what Sun-Rype has done. I feel very positive about the steps we're taking to grow into the U.S., but at the end of the day there's going to be a relentless pursuit of innovation to meet ongoing and changing consumer needs. So anything the government can do to support innovation, whether that's increasing the amount available through SR and ED credits or by creating employment for students who are focused on innovation, would be number one on the list.

I think beyond that would be to support companies willing to invest in capital expansions. Capital investments drive a significant amount of economic activity and benefit in the regions where we see those investments occurring. I think anything that government can do to support companies willing to invest in Canada is a good investment for Canada.

So those would be numbers one and two on my list. Beyond that, I think we have to make sure there's a level playing field with imported products. I think we hold our Canadian manufacturers to a very high standard—as I think we should—but then I don't believe that's the case for imported products. As a case in point, we go through annual HACCP inspections with CFIA—I think that's a good step—but what are the expectations for someone importing products? As a case in point, there are now globally recognized food safety programs, such as SQF, and to suggest that anyone importing food products into Canada have that certification would seem like a reasonable step to me.

● (1155)

The Chair: Thank you.

Mr. Atamanenko.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): Thanks to both of you for being here.

I'm going to target my questions to you, Mr. McAnerney. I'm hoping to have some time so my colleague Andrew can ask a few questions. I think he wanted to ask Dan a few questions.

It doesn't make any sense that here we have this overabundance of fruit in our country, and yet we have a struggling industry such as yours. I'd like to thank you and congratulate you for supporting the B.C. apple industry, because that's extremely important. It makes no sense that we've had, as you mentioned, 85 processing plants close in our country or move south. Obviously, this is a spinoff of NAFTA, because we've opened the borders and we have Washington State apples undercutting those of our farmers.

In 2007 our committee made some recommendations and members of all parties supported a recommendation that the federal government give preference to local farmers when making purchases for federal government institutions. The response from the government was that we'd have to be careful because of trade obligations. Assuming we could do this—and other countries have done this—would this help your industry, if there would be a certain amount of juice and other products from your industry that would be supported by federal procurement as part of a national food strategy?

Mr. Dave McAnerney: I'm not sure how to answer that.

I guess to the first point, do we have an overabundance of fruit? My understanding is that we probably don't have enough. I've talked to retailers who have said they struggle to get enough B.C.-produced apples.

I'm pro free trade. I think it's important that industries are efficient, and they have to be viable. That's why what I'm suggesting that we support capital investments by companies that show growth and innovation. I believe that innovative companies are the ones that will have an ability to expand on a larger scale. Anything that we can do to support local industries is a positive step. As my colleague has suggested, awareness campaigns in the wine industry on the benefits of supporting the local industries would be beneficial.

Mr. Alex Atamanenko: Thank you.

Andrew, go ahead.

Mr. Andrew Cash (Davenport, NDP): Thank you.

I have a couple of questions about the discrepancies in the price of wine coming into Canada from very far away. You mentioned Australian wine. I think for many casual wine drinkers, especially where I come from in Toronto, we've got all these choices of Australian wine and very few choices of Canadian wine in, for example, the LCBO. The price point becomes prohibitive. If you're going to spend $15, you're likely going to spend it on Australian wine. It breaks my heart, to be quite honest, because I know there are great Canadian wines from Ontario. I see on the chart here that the wine industry in Ontario is significant.

What can the federal government do to start to change that game?

Mr. Dan Paszkowski: That's a good question. Look at countries such as Argentina, where they're growing thousands and thousands of hectares of grapes and producing at an extremely low price, given the costs of production and labour. They're able to ship their product to Canada. If they're selling in large volumes, the liquor boards can negotiate quite a low price to meet the sales point that they're trying to reach, and, as wine producers, we have to play that game as well.

You mentioned a $15 per bottle price point. I can take a look at the LCBO, and out of our highest premium wines that are sold at the LCBO, only 7% are over $15 per bottle. The liquor boards demand a price point of whatever that is, $13, $14 per bottle. We've got to do what we can do to meet the demand of the only retailer in the province or in the country. We've got to look at our products and do some blending of our wines to be able to meet the requirements of the retailer. That's the environment that we operate in.

● (1200)

Mr. Andrew Cash: You mentioned a very interesting little point at the end there that Canadian wine is the only wine available on a VIA train and that it should perhaps be the same on Air Canada. VIA is a crown corporation; Air Canada is not.

Are you suggesting that large national companies that are in the beverage and food business of some sort, whether it's an arena—say, for example, the Bell Centre—or other privately held companies should be encouraged in some way to carry Canadian wine? I'm just trying to understand why you picked out Air Canada.

Mr. Dan Paszkowski: We encourage everybody in Canada to go local and serve Canadian products, Canadian beverages, where and if possible and if affordable. When I mentioned Air Canada, the request that we put to Air Canada was that they serve at least one white and one red wine, and possibly a dessert wine in first class, and possibly provide a Canadian offering in economy class, which I think, as many of you know, travelling every week, that is not always the case. It may be hit and miss when you get a Canadian wine on Air Canada. Porter Airlines offers Canadian wine. WestJet has moved toward Canadian wines. VIA Rail has gone toward Canadian wines. We're not saying they should only offer Canadian wine but that “You're a Canadian airline. Offer some Canadian wine on all your flights and we'll be able to provide it to you at a competitive price”.

But in terms of sports arenas, etc., no.... Of course, we would like them to be serving Canadian wines, as I think the beer industry would like them to be serving Canadian beers. We believe in our product and we're hopeful that more Canadians will be consuming it if it's more readily available across the country.

The airline industry is a fantastic place to start. With three million tourists going to wineries, there are huge opportunities there for our industry.

The Chair: Mr. Hoback, you have the last comments.

Mr. Randy Hoback (Prince Albert, CPC): Thank you, Chair. I just have a few comments.

One of the things I always find amazing here in Canada.... When you travel abroad and look at their grocery stores—one thing I do when I travel down in Central and South America with ParlAmericas, and so on, is I try to get to a local grocery store and get a feel for what things cost—I'm just amazed at the selection they have from different vineyards, of different types of wines in their grocery stores.

I just wonder about this here in Canada. Do you think the liquor board system the provinces have set up is restricting the quantity of Canadian varieties of wines available to Canadian consumers?

Mr. Dan Paszkowski: We work well with the liquor boards. We think there are opportunities. The challenge that we have is that 10 years ago we produced a small amount of wine, and now we produce thousands of different brands and products, and most jurisdictions haven't caught up in being able to provide us with that shelf space. We understand the fact that they're going to be selling a product that their consumers want, right? Nobody wants to put a bottle of wine on their shelf and let it sit there for six months. It has to move the same way as a can of peas moves in a retail store.

Part of the challenge we have is that we're a relatively young industry and we don't have the promotional horsepower that some of our foreign competitors have. You're looking at Europe having $255 million over a five-year period to promote their wines in third-country markets. You get the nice magazines paid for by foreign governments that the LCBO or the BCLDB is giving out to the consumers in their jurisdictions. That's what we compete against. So if consumers had better knowledge, they'd buy more wine.

● (1205)

Mr. Randy Hoback: But I must assume, though, that it must be hard for a new vintner to get market access when you have to go through one stop, whereas if you had, let's say, four or five different companies offering different varieties of wine, wouldn't they have more Canadian varieties on their shelf space?

Mr. Dan Paszkowski: Yes, it is a challenge for a small vintner because the margins are low in the wine industry. If you're looking at selling your product at your own winery and, outside of the taxes, bringing home 90% of the value of the product you produce versus 35% by selling at the liquor board—which all want a certain amount of volume, which you may not be able to provide—it's very challenging in the earlier years. Small lot programs are available at liquor boards. They do try to support that.

Mr. Randy Hoback: But it has to be restricted because a liquor board store only has so many square feet.

Mr. Dan Paszkowski: Absolutely.

Mr. Randy Hoback: But if we had four or five different grocery stores offering different varieties, again, it gives you a lot more options, other than just one liquor board store.

Mr. Dan Paszkowski: This is why we're looking for direct-to-consumer delivery. Given that brick-and-mortar stores only have so much shelf space, this would provide an opportunity for consumers to take advantage of those hard-to-get wines that aren't sold at a liquor board but may be at some point in the future. This will assist the liquor boards by giving them an example: if you put it on the shelf, they want it to sell. If Canadians know more about the product, it gives us more opportunity to get our wines onto their shelves, and the liquor boards will know they're going to be successful in trying to move it.

Mr. Randy Hoback: Okay.

Thank you, Chair.

The Chair: Thank you to our guests today.

Dave, I'll just tell you that I'm a Sun-Rype fan. I grew up on it as well, so I hope it can move across Canada and North America.

I personally think that one of our challenges in the wine industry, and probably in the alcohol industry, is the fact that it's dominated by government-run agencies that restrict the ability of markets to define who they are and what they want. I would love to buy more Canadian product. My guy says if I want to bring in Ontario wine, I have to buy a case, because he won't put it on his shelf, which is sad.

So thank you, and we appreciate your input.

If there are no other comments, I'll adjourn. See you next week.

The meeting is adjourned.