Improving Consumer Choice: Removing Inter-Provincial Trade Barriers to Sales of 100% Canadian Wine

Issue

In an increasingly competitive global marketplace, inter-provincial barriers in Canada still prohibit growth in many businesses and industries. In 1994, provincial and territorial governments concluded the Agreement on Internal Trade providing a basis to tackle inter-provincial trade barriers. While this approach was a commendable first step towards creating a more competitive national marketplace, for some industries it has yet to deliver on its promise.

A prime example of a sector faced with inter-provincial barriers is Canada's growing wine industry. Canadian consumers have limited access to the world-class, award winning wines that Canada's 400+ grape-based wineries are producing. Federal and provincial laws and regulations prohibit the personal transport or direct delivery of Canadian wines across provincial boundaries. An amendment of these prohibitive and archaic regulations would strengthen the domestic wine industry and facilitate consumer choice.

Background

Since 1928, the federal *Importation of Intoxicating Liquors Act (IILA)* and corresponding provincial and territorial legislation has prevented the movement of liquor across provincial boundaries. Currently, it is illegal to transport or deliver alcohol across provincial borders unless it is purchased by or on behalf of a provincial liquor board, which controls cross-border movement of alcohol. The result of these laws is that it is a federal criminal offense for Canadians to take even one bottle of alcohol across a provincial border.

Canadian wineries are able to apply to provincial liquor boards, or to private Alberta and British Columbia stores, to have their products listed and sold. The retail sales application process require time, agency support and adds significant costs, which are often beyond the reach of some wineries which have neither the sales volumes to meet liquor board thresholds nor the financial means to afford the restricted profit margins due to liquor board mark-ups (e.g., 62.5 percent in Ontario, 123 percent in British Columbia). Moreover, all liquor boards have limited shelf space, and cannot physically stock the growing number of wine products from more than 400 grape-based wineries operating across Canada. Many provincial liquor boards have special order programs, but these systems are cumbersome, costly and inefficient compared to an order directly from a winery.

These rules were designed long before internet sales and just-in-time delivery became viable options for wine distribution. As the industry continues to grow, it is vital that it have access to domestic opportunities beyond its province of production. Direct sales would give Canadian wineries of all sizes a new sales channel and greater choice for Canadian wine consumers.

Reduced inter-provincial barriers would also provide an important benefit for wine tourism. With significant growth in wine and culinary tourism, out-of-province Canadian tourists are restricted by law from bringing wine home, joining a wine club, or even ordering wine online. The winery loses because it cannot build a long term loyal relationship. The customer loses because they may not be able to find the wine at their local retail store. The winery province loses because winery tourism loses its caché with Canadian tourists. It is simply wrong that Canadians who visit Canada's wine regions do not have the opportunity and choice of transporting or ordering domestic wines not readily available in their home province.

The growth of the wine industry in the four key producing provinces – Ontario, BC, Nova Scotia and Quebec – and the potential in other provinces (e.g., Prince Edward Islan, New Brunswick) is clearly beneficial to Canada. Not only does the domestic wine industry create jobs, preserve valuable agricultural land and create vibrant tourism destinations, it also adds value to the economy in many other ways. A 2008 study conducted by KPMG and commissioned by the Wine Council of Ontario concluded that the sale of one litre of 100 percent Ontario wine added $11.50 in value to the Ontario economy compared to $0.67 in added value from the sale of an imported wine.

In the United States, similar prohibitive state regulations hindered the domestic wine industry from delivering directly to out-of-state consumers. In 2005, the U.S. Supreme Court ruled that regulations restricting the direct delivery of wine between states were unconstitutional and ordered regulations to be adjusted to allow for domestic wines to be direct delivered across state jurisdictions. As a result, some 38 states now permit direct-to-consumer delivery (including 72 percent of states that have a monopoly over whole-selling and retailing of alcohol, e.g., Maine, Pennsylvania and Oregon) representing 1 percent of total wine produced in the US, excluding exports. By allowing more consumer choice, the entire domestic industry has benefited.

Changes in Canada could have the same positive impact. By removing inter-provincial barriers to domestic wine delivery, an important agricultural commodity will gain access to a larger domestic market, improving the financial stability of the industry; help it to compete against imported wines which dominate the Canadian wine sales; and enhance its overall positive impact on the economy. Importantly, Canadian consumers will have increased access to quality Canadian products.

There is clearly a growing citizen, voter and parliamentarian demand to allow Canadians to buy more Canadian wine. The Alliance of Canadian Wine Consumers' campaign has been formed to spearhead a consumer voice for change. In the last Parliament, MP Ron Cannan also introduced a motion inthe House of Commons that proposes a personal exemption to the *IILA* allowing Canadian consumers to move a limited volume of wine across provincial boundaries. MP Rick Dykstra, during 2011 pre-budget consultations, indicated that inter-provincial barriers to domestic wine delivery negatively impactsbusinesses (particularly SMEs) as well as consumers and their choices.

The time has come for Canadian governments (federal, provincial and territorial), in cooperation with the wine industry, to eliminate the barriers to trade and finally make it legal for adult Canadians to purchase 100 percent Canadian wines at out-of-province wineries or have it shipped to their home without breaking the law. This can be accomplished while meeting our trade obligations; social responsibility concerns; and delivering some tax revenues to the receiving province. Given the small impact to the overall wine volumes, the mandate and revenue stream of liquor boards will not be compromised.

Recommendations

That the federal government:

1. Work with all provinces and territories to facilitate the shipment and/or direct sale and delivery of 100 per cent Canadian wines from out-of-province/territory wineries to Canadian consumers;
2. Work with the provinces/territories and the Canadian wine industry to create a personal exemption system that would allow specified quantities of wine to be personally transported by or delivered directly to out-of-province/territory Canadian consumers; and
3. Take the needed steps unilaterally should the provinces/territories refuse to come to the table..

Submitted by St. Catharines – Thorold Chamber of Commerce , co-sponsored by the Kelowna Chamber of Commercer

The Special Issues Committee supports this resolution.