



February 11, 2021

The Honourable Peter Bethlenfalvy  
Minister of Finance  
Frost Bldg S 7th Flr,  
7 Queen's Park Cres,  
Toronto, ON M7A 1Y7

Cc. Hon. Doug Ford, Premier of Ontario  
Hon. Doug Downey, Attorney General  
Hon. Lisa Macleod, Minister of Heritage, Sport, Tourism and Culture

**Re: Urgent Recommendation for Inclusion in the 2021 Provincial Spring Budget: Beverage Alcohol Price Reduction**

Dear Minister Bethlenfalvy,

Thank you for your government's continued efforts to support Ontarians. These are challenging times of an enormous magnitude and we understand the complexity of the decisions being made.

We are writing on behalf of the 11,000 hospitality members of the Ontario Restaurant Hotel & Motel Association (ORHMA). ORHMA is a not-for-profit association dating back to the 1920's. We are the largest provincial hospitality association, representing over 11,000 businesses and dedicated to fostering a positive business climate for Ontario's Hospitality Industry. ORHMA represents the industry's interest at all levels of government.

Since the COVID-19 pandemic came upon us, the hospitality industry has been devastated. Hospitality businesses experienced the negative impacts of the COVID-19 outbreak first and will be the last to recover. The journey since the start of the pandemic has been painful and the pain for most is now unbearable. The economic crisis in the foodservice sector will linger long after the pandemic is over.

According to Statistics Canada, there are over 122,000 workers or 27% of Ontario hospitality workers who have yet to return to work. This represents close to 50% of all provincial sector workers and 37% of the country's unemployed hospitality workforce.

<b>Type of Operation</b>	<b>Year on Year to Nov 2020 % Revenue Variance</b>
<b>Total Foodservice and Drinking Places</b>	-28.81
Full-Service Restaurants	-39.13
Drinking Places (Beverage Alcohol)	-56.00

There is no doubt food and beverage operations need a lifeline to be able to endure the painful journey that lies ahead. For the approximately 17,000 food and beverage establishments operating in Ontario, this lifeline can be found in Beverage Alcohol pricing. A reduction here is tangible, measurable and will float directly to an operator's bottom line where the need desperately exists. More than three quarters of all foodservice establishments in Ontario are licensed to sell and serve beverage alcohol, buying \$577,465,000 of product directly from the LCBO in 2019.

Embedded in the full retail price of beverage alcohol is a complex regime of fees, levies, markups and taxes, both Federal (e.g. Excise or Customs Duties and GST) and Provincial. Is this much different than embedded taxes and fees in gas prices or in the Federal Governments Carbon Tax?



In a capitalist, competitive and entrepreneurial society volume purchasing of goods and services favourably impacts the basic unit price. This is the case with just about all products and services being sold except purchasing beverage alcohol in the Province of Ontario.

The province's retail agency stores have been receiving a discount and the LCBO was willing to pay a delivery commission associated with delivery platforms. Why not reflect discount pricing to the province's licensees? In what ever direction this is being taken we are not asking for a "handout" we are requesting fair treatment.

During these critical times, beverage alcohol pricing reduction will directly flow to a restaurant's bottom line and will have a significant impact to the weak profit margins experienced by Ontario's foodservice operations, representing the lowest in Canada. These thin margins are reputed to be the main impediment for the lack of full-service foodservice investments from other countries specifically from the USA where previous entrees into the Canadian market have not been successful. All due to the profitability concerns mainly stemming from beverage alcohol pricing.

In 2019, in Ontario's Economic Outlook and Fiscal Review, the Minister of Finance announced that the government is committed to modernizing the rules for the retail and consumption of beverage alcohol and had previously appointed Ken Hughes as a special advisor to do just that. COVID-19 has brought an urgent need to accelerate and implement a fair beverage alcohol pricing regime for licensees.

#### **Recommendation:**

**Ontario should follow the lead of British Columbia and support Ontario's licensees by reducing beverage alcohol products by 20% as compared to consumer prices. Not only is this a fair and ethical decision but it will greatly support the province's restaurants in a very tough recovery journey.**

#### **Approach:**

To achieve the 20% discount from customer prices for wine at the LCBO we recommend that the government take the following steps:

- Maintain the current 10% discount for VQA wine
- Increase the current 5% discount for other products in all beverage alcohol categories to 10%
- Eliminate the 6% LCBO Licensee markup on licensee purchases

ORHMA recognizes that this approach would have a benefit to imports over domestic wine. We have the support of Ontario's wine industry on the wine category recommendation. We encourage the Ontario government to support the Ontario wine industry and implement their requests to eliminate the 6.1% tax on wine sold at Ontario wineries and to renew the VQA Wine Support Program along with their generic marketing program.

With our recommended approach and addressing Ontario's wine industry tax concerns we strongly believe this will support and stimulate growth in the hospitality industry and in Ontario's wine sector at a time that is critically required.

#### **Our Analysis:**

Licensees 2019 LCBO Purchases represented \$577,465,000 which is 9% of LCBO's total revenues beverage alcohol purchased by licensed establishments, such as bars and restaurants, make up the second-largest LCBO sales channel following consumer direct purchases.

The first component of a retail price is the manufacturing cost, which is reflected in the supplier's quote to the LCBO. Federal excise taxes and import duties and freight charges are added to the supplier's cost, which together comprises the landing cost. A cost of service is then added for beer products. The next charges are LCBO markup (at a variable rate depending on the product), a bottle levy, an environmental charge, and a specific levy for wines (at a fixed rate per litre), that all together constitute the base price. The final retail price is obtained by adding the 13% HST to the base price, and a container deposit that is conditional on the volume of the container (up to 20 cents).



Ontario’s licensees purchase beverage alcohol at the Basic Price and are then given a 5% discount for all products except Ontario VQA Wines where a 10% discount applies. Then a 6% mark up fee is added to end up to the final price licensees pay.

The following data illustrates a calculated a scenario of achieving a 20% price reduction to the consumer price by increasing the licensee discount of all non-VQA Wine Beverage Alcohol Products from 5% to 10%, keeping the VQA Wines at the 10% Discount and eliminating the 6% mark up fee from all products. This in turn fixes a dated system where a provider offers a discount then charges a fee back.

### Ontario Licensee Pricing Calculator

	ONTARIO OTHER & IMPORT WINES & SPIRITS	VQA ONTARIO	VQA ONTARIO & ALL OTHER
	Status Quo 5% discount plus 6.0% License Mark Up	Status Quo 10% discount plus 6.0% License Mark Up	NEW OPTION 10% discount plus 6.0% License Mark Up
<b>Bottle Size in Liters</b>	0.750	0.750	0.750
<b>Retail Selling Price</b>	\$14.95	\$14.95	\$14.95
<b>Bottle Deposit</b>	\$0.20	\$0.20	\$0.20
<b>HST 13%</b>	\$1.70	\$1.70	\$1.70
<b>Basic Price No HST - Deposit</b>	\$13.05	\$13.05	\$13.05
<b>Net of Licensee discount</b>	\$12.40	\$11.75	\$11.75
<b>LCBO Licensee mark up 6%</b>	\$0.74	\$0.70	\$0.00
<b>Net Cost to Licensee (before HST + deposit)</b>	\$13.14	\$12.45	\$11.75
<b>Actual % Discount from Basic retail</b>	0.7%	-4.6%	-10.0%
<b>Actual % Discount from Consumer retail with HST</b>	-11%	-16%	-20%



To conclude, we thank your government for your leadership and actions that you have taken to date to protect Ontarians during these difficult days and the proactive steps taken to open up our economy. Our hospitality industry is in need of a lifeline in order to persevere through the negative impacts of the pandemic which is why we at ORHMA, along with the support from other provincial organizations and various regional hotel and restaurant associations, collectively urge you to consider our recommended approach to support our industry.

This approach has been supported by the following provincial organizations:

**Wine Growers Ontario**

**Ontario Craft Wineries**

**Tourism Industry Association of Ontario (TIAO)**

**Ontario Business Improvement Areas Association (OBIAA)**

**Resorts of Ontario**

and various regional hotel and restaurant organizations such as:

**Toronto Association of Business Improvement Areas (TABIA)**

**Ottawa Coalition of Business Improvement Areas (OCOBIA)**

**Greater Toronto Hotel Association (GTHA)**

**Kingston Accommodation Partners (KAP)**

**Niagara Falls Canada Hotel Association (NFCHA)**

**Prince Edward County Accommodation Association (PECAA)**

as well as hospitality associations located in Hamilton, Lambton County, London, North Bay, Ottawa, Simcoe County, Sudbury, Thunder Bay, Timmins, Waterloo and Windsor Essex Regions.

Thank you,

A handwritten signature in black ink, appearing to read "Elenis", is positioned above the typed name.

Tony Elenis  
President & CEO  
Ontario Restaurant Hotel & Motel Association (ORHMA)