

September 2, 2009

Rich Coleman
Minister of Housing and Social Development
PO Box 9058 Stn Prov Govt
Victoria, BC V8W9E2

URGENT

Dear Minister,

As you know, the Canadian Federation of Independent Business (CFIB) is a non-profit, non-partisan business association that seeks to give independent business a greater voice in determining the laws that govern business and the country. With 105,000 members across Canada, including 10,000 in British Columbia, we are the largest organization exclusively representing the interests of small and medium-sized businesses to all levels of government.

We are writing on behalf of our members who own and operate VQA wine stores throughout BC. There are currently 17 VQA Stores, of which 6 are CFIB members. These small businesses deal with a very complex and onerous set of rules and regulations that most other small businesses in BC do not experience. Their passion for wine and commitment to the wine industry's success keeps their businesses going. While on the surface it may appear that the concerns of VQA stores are simply a reflection of the industry they're in, many of these concerns are a result of government action, or lack thereof, and hence should be remedied by government. No small business should have to go out of business due to government regulation.

The BC Wine Institute (BCWI) was a corporation created under the *British Columbia Wine Act*. They are now a voluntary industry trade association. The BCWI's stakeholders, VQA stores and wineries, are reliant on the BCWI to implement regulations that support, not stifle, their operations. However, it is our understanding that the BCWI's operations are not transparent to stakeholders, and is unnecessarily administratively burdensome. Given that the provincial government has delegated authority to the BCWI, the government has the responsibility to ensure that the BCWI is well operated and meets the needs of the industry it was designed to support. As is clearly outlined in the contracts between BCWI and VQA Store owners, the BCWI accepts no level of responsibility or accountability for VQA Stores, to VQA Store Owners, or their operations. However, we are extremely concerned the BCWI is in the process of "taking back" and demanding closure of three VQA Store licenses. Two of these licenses are held by our members. VQA stores are a critical component of the wine industry, and should not be stifled by the BCWI's operations.

VQA store owners have been communicating with members of government since 2006 regarding their concerns. See the enclosed response letter from Minister John Les. One of our members, Discover Wines in Kelowna BC, has recently outlined their extensive list of regulatory challenges in a letter to the government. VQA Store owners are strongly committed to this industry and the promotion of BC wines and have won numerous business awards.

CFIB would like to raise five main concerns with respect to the conditions VQA stores must operate in BC. These issues are interrelated and, together, amount to an unreasonable burden on small businesses:

1 – Taking back licenses: Two of our members are part of the original group of VQA Store licenses. Part of the requirements for acquiring a VQA Store license, by the BCWI Board at that time, were that the VQA Store was in a small community. If you look at all the original licenses, they were smaller stores in smaller communities to serve that community with a good selection of BC wines and help promote BC wines. They continue to serve their communities well, however will never have the sales that a larger store in a major city will have. As I am sure you can appreciate, it seems completely unreasonable to VQA Stores for the BCWI to change their contract to include high minimum sales projections, and then to take back licenses and close these small businesses for the very reason they were allowed to open. It is also our understanding that these stores are profitable and we question why any profitable small business in BC would be forced to close due to government regulation in a downturned economy. We are told that two of our member's (Carol's Wines and Arrowsmith Wine Shoppe) have been informed that their licenses will be pulled as of September 30, 2009 and we find this completely unacceptable. We ask that you rectify this issue immediately.

2 – Product exclusivity: By law, VQA stores are not allowed to sell any products other than VQA wine. This limits their ability to market their store and attract new local customers, and therefore is highly dependent on tourism, the growing season and the health of the BC wine industry. Minister John Les suggested in his letter that VQA Store concerns were due to "the short grape crop in 2005." Minister Rich Coleman suggested that expanding the products sold by our member would result in a "BC wine store program that would significantly harm the [VQA] brand." VQA Store Owners are inherently supportive of the VQA brand, and their objective is to ensure its survival. However, many BC wineries have abandoned the VQA brand, even though they qualify, due to its regulatory burden of compliance. Many BCWI member wineries do not produce VQA wine. As well, our members have shown us that 33-43% of BCWI member wineries presently do not sell in VQA Stores - the percentage depends upon the VQA Store location. As a result, wines that should be available at VQA wine stores, especially products most recognizable to tourists and the general public, are not.

3 – Licensing and unfair competition from BCWI: One specific incident illustrates how BCWI appears to be working against, rather than in support of, VQA stores. In September 2006, your ministry awarded a \$50,000 grant to BCWI in order to explore the development of a VQA wine and culinary centre in downtown Vancouver, with the objective of making it a tourism destination for the 2010 Olympics. Vancouver-based VQA stores have traditionally filled this role for both residents and tourists in downtown Vancouver. However, as aforementioned, they are limited by regulations on the products they have in-store.

CFIB is concerned that the Ministry of Agriculture has provided a grant that could be used to directly fund our member's competitor. Would you be able to provide the rationale for providing this grant to BCWI? Isn't BCWI supposed to market wines based on revenue it collects from member wineries, rather than by obtaining outside grants? Why weren't the existing VQA wine stores allowed to fulfill this market? If this is such a desired product, why are no other businesses allowed to apply for a license? Why is the government supporting this project?

4 – Fees and unfair competition from BCWI: We understand that BCWI uses the fees collected by the VQA wine stores to market through the Liquor distribution branch stores, in direct competition with our members. Marketing is also spent on other distribution channels, like restaurants and exporting, which compete for VQA wine allocations. Again, we question whether this practice violates the principles of why these fees were collected in the first place - the general promotion of BC wines. It also appears as though the current fee structure is inflexible and has not been adjusted to reflect changes to the funding by the government to the BCWI. The BCWI fees doubled from 2000-2002 (2%-4%) for all wines sold through VQA Wine Stores and more than doubled again (to 10%) in February 2009 for non-BCWI members selling VQA wines. These are fully VQA certified

wines by the British Columbia Wine Authority. How are VQA Stores expected to survive and grow with such limited access to products? What is the process for requesting a review of the fee structure? How are the current fees allocated? What steps is the government taking to improve the transparency and accountability of the BCWI fees?

5 - Administrative and red tape burden: Our members have suggested that there have been serious and potentially financially harmful administrative errors on the part of BCWI that have not been adequately acknowledged or fully addressed. What controls are in place to ensure administrative errors are addressed swiftly? What plan is in place to upgrade their inventory control and customer database system? What is being done to improve BCWI's administrative infrastructure?

CFIB hopes that although the provincial government has delegated authority of VQA Store licenses, the matters addressed in this letter and in the letters of our members (enclosed) will be given full consideration. In the response to the letter written by our member, Minister Rich Coleman stated: "it is the government's view that these are internal matters between the BCWI, the store operators, and the wineries." We have 2 members (Carol's Wines and Arrowsmith Wine Shoppe) who have only until September 30th to save their businesses. We urge the government reconsider this perspective and to undertake a review of the BCWI, with the objective of ensuring that VQA wine stores remain viable and vibrant promoter of BC's wine industry.

We look forward to your response to the issues raised and we would welcome the opportunity to meet with you to discuss these issues as soon as possible. Considering we are discussing the closure of two small BC business we would hope to hear from you before September 11th.

Sincerely,

Brian Bonney
Director of Provincial Affairs, BC

cc: Honourable Steve Thomson, Minister of Agriculture and Lands
Honourable Iain Black, Minister of Small Business, Technology and Economic Development
Eugene Kwan, BC Wine Authority
Terry Quick, Owner, Arrowsmith Wine Shoppe
Carol Briggs, Owner, Carol's Wines
Suzanne Mick and Tracy Gray, Owners, Discover Wines