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Report Highlights:

The Government of Ontario delivered its 2015 Budget on April 23, 2015. The most important developments for U.S. agricultural interests surround the province's changes to its liquor distribution system to allow grocery store sales of beer. This report includes a summary of proposed changes, as well as direct quotes from the speech of the Ontario Minister of Finance, Charles Sousa, and the budget itself.

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Introduction

The Government of Ontario delivered its 2015 Budget on April 23, 2015. Direct quotes from the speech of the Ontario Minister of Finance, Charles Sousa, and the budget itself are included below.

The most important developments for U.S. producers surround the province’s changes to its liquor distribution system, which follow like-minded reforms in other provinces. In the budget, Ontario pledges to allow up to 150 grocery stores to sell beer by May 1, 2017. This number would increase to 450 over the next 10 years. There is no mention of origin requirements for this beer. By contrast, several measures meant to promote the domestic brewing industry were announced. The Beer Store, one of two entities allowed to sell beer in the province, will offer small and craft brewers with manufacturing in the province of Ontario an opportunity to become shareholders. As well, craft brewers will be allowed to operate more than one on-site store if they have more than one manufacturing site. Also, the province announced an additional three cents per litre tax on beer to take place in November 2015. Additional increases will take place annually until 2018.

The budget acknowledges the province will continue to work on the recommendations from the [Premier's Advisory Council on Government Assets](#). Among government entities covered by this study was the Liquor Control Board of Ontario. The Advisory Council supported efforts of the LCBO to "modernize" and will engage wine and spirits stakeholders in the coming months. Future changes could include changes to its pricing and mark up systems.

Other agricultural topics of interest in this year's provincial budget include production insurance programs, progress on the Premier's challenge to double the agri-food sector by 2020, interprovincial trade and the horse racing industry.

Quotes from [Budget Speech](#)

*Delivered by Ontario Minister of Finance, Charles Sousa
April 23, 2015*

"First, we're modernizing Ontario's distribution and sale of beer, improving choice and maintaining our social responsibility in the process.

As part of this, for the first time in its history, Ontario will permit the sale of beer in grocery stores. We are doing this while taking the necessary steps to maintain social responsibility.

It's the biggest change in alcohol distribution and sale since the Prohibition era."

"We are also continuing to support growth and innovation in Ontario's agriculture and agri-food industry with initiatives that support farmers and producers.

Working together with the sector, we have already seen great progress.

Between 2013 and 2014, the agri-food sector created over 17,000 net new jobs. Total employment rose to over 780,000, and exports increased by 5.5 per cent to almost \$12.5 billion."

Quotes from [2015 Ontario Budget](#)

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Reforming Beverage Alcohol Sales

Ontario will permit the sale of beer in grocery stores for the first time in its history. Ontario is also entering into a new agreement with the owners of the Beer Store that returns the framework closer to its original cooperative roots, opening up ownership to small and craft brewers. At the same time, the LCBO will modernize its practices to improve the retail experience for all Ontarians. The Premier's Advisory Council on Government Assets will continue to refine its recommendations on how to maximize value in the wine retailing sector. Selling alcohol is a public trust and the government will

continue to adhere to the principle of social responsibility supporting the safe consumption of alcohol in light of the expansion of alcohol distribution channels in the province.”

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- “Introduce competition into the retailing system by authorizing up to 450 Ontario grocery stores to sell beer subject to certain restrictions.
- Support Ontario’s craft beer industry by reducing red tape and expanding retail opportunities for the sector.
- Enter into a new, fundamentally revised Beer Framework with the Beer Store that balances the interests of government, taxpayers, brewers, restaurants and bars, and Ontario consumers in a socially responsible way.
- Continue to modernize the LCBO’s retail practices and the retailing of wine and spirits to increase the benefit of the retail system for consumers, suppliers and all Ontarians.”

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“Recommendations for Beer Retailing and Distribution

Unlocking the value of Provincial assets and redeploying that value to better serve the public is a responsible way of managing assets for the public good. In its initial report released in November 2014, the Council described Ontario’s beverage alcohol retail system as consisting of three quasi-monopolies: the privately owned Brewers Retail Inc., operating as the Beer Store, the Liquor Control Board of Ontario (LCBO) and off-site Winery Retail Stores. The Council believed the Province had an opportunity to retain the system’s efficiencies, enhance the customer experience, increase access in a managed and socially responsible way, and give taxpayers a fairer share of the benefits of the system, while keeping prices below the Canadian average. The government agreed with the Council’s initial findings and asked it to move to the second phase of its review. In this phase, the Council engaged more directly with the LCBO and key stakeholders to refine its findings. After considering the Council’s work and recommendations, the Province is developing a path forward for beverage alcohol retailing in Ontario to maximize returns to Ontario and create a fairer, more consumer-friendly retail system.

Grocery Store Sales of Beer in Ontario

The Province will authorize the sale of beer in grocery stores to improve consumer service, in a manner that meets the government’s social responsibility mandate for the sale of alcohol beverages in Ontario. Introducing competition into this retail market should incent innovation, while improving customer convenience. The government will move as quickly as possible to open up grocery store sales of beer in urban population centres across Ontario. The Province will work to have sales available in up to 150 stores by May 1, 2017. Depending on consumer demand, up to 450 such stores could be put in place over the next 10 years. The government continues to be committed to social responsibility as it relates to beverage alcohol distribution. The LCBO and/or Alcohol and Gaming Commission of Ontario (AGCO) will oversee the sale of beer at grocers and the government will mandate in law that the sale of alcohol be restricted to set hours, that alcohol be placed in a designated section of each store, and that grocers implement the necessary staff training for the sale of alcohol to the public.

Ontario's Craft Brewers

Ontario benefits from a thriving craft beer industry that is creating jobs and providing increased choice to consumers. The government remains committed to supporting Ontario's craft beer industry by reducing red tape and expanding retail opportunities. To meet this commitment, the Province is changing beer retailing in Ontario by:

- Requiring the Beer Store to promote the sale of small brewers' products through merchandising, promotion and the allocation of shelf space. All new private retailers will also be required to support the sale of small brewers' products.
- Allowing small brewers (under 25,000 hectolitres of annual production) to operate a second on-site store if they have more than one production site, providing greater exposure to customers. This change will encourage new capital investments, create jobs and increase tourism opportunities for Ontario's growing beer manufacturing sector, while enhancing the retail system for both consumers and manufacturers.
- Directing the LCBO to amend its beer delivery policies to allow small beer manufacturers with a licensed production facility in Ontario and with annual worldwide beer production of less than 150,000 hectolitres to arrange for pooled delivery of their products from their Ontario production facilities to the LCBO and licensed establishments (i.e., bars and restaurants) and to use third-party carriers and warehousing. This change will create opportunities for manufacturers to cut costs and streamline their business practices.

The Beer Store

The Council has successfully negotiated a framework of key principles with the Beer Store and its owners. The government has accepted the key principles and is now negotiating a New Beer Framework, a binding agreement based on these principles, with the Beer Store and its owners. The New Beer Framework will improve the fairness, transparency and consumer appeal of the Beer Store, while maintaining its operation as a low-cost, efficient distributor of beer in Ontario. Some of the key principles to be included in the New Beer Framework are:

- Brewers with manufacturing facilities in Ontario can qualify for a meaningful opportunity to become equity shareholders of the Beer Store. All transactions between the Beer Store and its shareholders will be conducted in a transparent, auditable and commercially reasonable manner.
- The Beer Store will operate under a new best practices governance structure that will provide fair representation for all shareholders and include independent directors representing the broader public interest. An independent Beer Store Ombudsperson will be appointed to ensure brewer and customer complaints are handled in an unbiased manner.
- The Beer Store will spend \$100 million in capital improvements over the next four years, 80 per cent with respect to its retail stores. Customers will see more modern self-service and open-concept formats at stores.
- Changes to the Beer Store's retailing and marketing practices will ensure all brewers are treated fairly and will provide additional retail opportunities including:
 - Establishing a new category called "Craft";
 - Dedicating a minimum of 20 per cent of shelf space to small brewers;
 - Allocating shelf space based on local market share adjusted for a brand's growth;

- Providing additional merchandising, marketing and promotional activities and listing opportunities to all brewers, including growing brands and brewers; and
- Introducing a new tiered rate sheet that will set fees for all brewers, resulting in lower service fees for small brewers than for larger brewers.
- Implementing a two-year restriction on price increases for the Beer Store's main brewers' most popular beer products will keep the price of beer below the Canadian average. Beer prices will continue to be subject to annual minimum price increases to ensure responsible consumption.
- Responding to consumer demands and preferences, the LCBO will conduct a 10-store pilot across Ontario to explore the viability of offering 12-packs. Based on an evaluation of the pilot, the Province will have the option to expand the sale of 12-packs in up to 60 stores.
- Indexing the current 2015 LCBO cost of service charges on beer to inflation in subsequent years.
- Renewing the Ontario Deposit Return Program contract (currently to end in February 2017). The Program will be extended to the end of the New Beer Framework on certain revised terms. The fee payable to the Beer Store will be reduced by approximately \$1 million per year and the fee will no longer be indexed annually to inflation.
- Adjusting the Beer Store's policies for sales to certain small licensees (i.e., restaurants and bars) to allow them to buy up to 250 cases of beer a year at retail prices to better meet their inventory demands. This will provide a benefit to almost 9,000 of the province's licensees.

The New Beer Framework will be in effect for an initial period of 10 years, subject to a renewal for five years. This will provide for some degree of long-term stability for planning purposes, without locking in the proposed model. The government is introducing legislation to permit implementation of the Council's findings.

Government Revenues from the Sale of Beer

The Province will introduce legislation to increase its annual revenues from all beer sold in Ontario by approximately \$100 million, phased in over four years, by implementing a new three cents per litre beer charge in November 2015. The new charge will increase by three cents per litre every year until 2018, or approximately 25 cents per 24-pack annually, on average.

Council Next Steps

Over the coming months, the Council will engage with wine and spirits stakeholders on reforms to their sectors. The LCBO will proceed with consumer enhancement initiatives, which are built into their 2015–16 Business Plan. As this work progresses, the Council will continue to work with the LCBO on enhancing their pricing and mark-up strategies to better leverage their buying power in a transparent and rule-based manner.

Social Responsibility Initiatives

Selling alcohol responsibly is a public trust that the government takes very seriously. As part of the Province's efforts to ensure alcohol is sold in a socially responsible manner, the government will establish and enforce social responsibility standards for any new retailers of beverage alcohol. Additionally, the Province will move to rationalize the AGCO's and LCBO's oversight of beverage alcohol retailing in Ontario to, among other things, ensure all current and future activities are aligned to support the Province's social responsibility goals and priorities. The Ministry of Finance will work with the Ministry of Health and Long-Term Care to continue to develop initiatives to support safe consumption of alcohol, in light of the expansion of alcohol sales in Ontario."

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"Growing Opportunities Interprovincially

Interprovincial trade plays an essential role in the economy, supporting thousands of jobs across the province. In 2014, Ontario's interprovincial exports of goods and services were valued at \$134 billion. Quebec remains Ontario's largest provincial export market, accounting for more than one-third of total interprovincial exports, followed by Alberta and British Columbia.

Barriers to interprovincial trade can add unnecessary obstacles to doing business across Canada and hinder economic potential. Canada's Premiers recognize this economic reality and are working together to strengthen and modernize the internal trade framework. Ontario is co-leading this renewal with Manitoba, Saskatchewan and Nova Scotia to secure an ambitious and balanced updated internal trade agreement that levels the playing field for trade within Canada.

Ontario–Quebec Partnerships

At a joint meeting of ministers held in Toronto in November 2014, the Premiers of Ontario and Quebec committed to reinvigorating the Ontario–Quebec Trade and Cooperation Agreement (OQTCA). The objectives include increasing regional trade and investment, enhancing the region as a centre of productivity and innovation, and promoting it as an export hub within Canada. The two provinces agreed to work together to:

- Align OQTCA government procurement commitments with those of the CETA, to ensure that Ontario and Quebec suppliers are treated no less favourably than European Union suppliers in each other's markets;
- Enhance the OQTCA regulatory cooperation chapter to share information on proposed regulations and regulatory best practices, with a view to having a tangible impact on business; and
- Explore opportunities to conduct joint trade missions for industries of mutual interest, or to countries or regions of mutual interest, with a view to leveraging existing resources and international linkages.

Ontario and Quebec also signed agreements to work together to keep electricity affordable and reliable, tackle climate change, build modern infrastructure and support La Francophonie. The next joint meeting will take place in Quebec City later this year.

See Chapter III: National Leadership — Strong Ontario, Strong Canada for more details about Ontario's intergovernmental relations."

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“Enabling Long-Term Success for Ontario’s Horse Racing Industry

The horse racing industry is vital to rural communities across Ontario and is an important part of Ontario’s rich heritage. The industry supports rural jobs and economic development in the agricultural sector, particularly as they relate to the horse breeding sector.”

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“Supporting the Agriculture and Agri-Food Sector

Ontario’s agri-food sector, including both agricultural production and food processing, supports over 780,000 jobs and \$34 billion in economic activity. The Province’s suite of business risk management programs helps farmers manage risks beyond their control, like fluctuating costs and market pricing. The government continues to support farmers through these programs and, through AgriCorp, make changes to ensure it is meeting the needs of Ontario’s producers. Going forward, the Province will ensure that production insurance programs provide the funding and support that farmers need to mitigate risk

The Premier’s Agri-Food Challenge

Ontario’s diverse and dynamic agri-food sector, which ranges from farming and food processing to wholesale and retail food services, continues to advance. In October 2013, the Premier challenged the sector to double its growth rate and create more than 120,000 jobs by 2020. The industry is responding and making progress on these goals. Between 2013 and 2014, the agri-food sector created over 17,000 net new jobs, with total employment rising to over 780,000, and exports from the sector increased by 5.5 per cent to almost \$12.5 billion.

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’ **Revenue Changes Highlights** of key 2014–15 revenue changes from the 2014 Budget forecast are as follows:

...

- Net income from the Liquor Control Board of Ontario is projected to be slightly higher, reflecting stronger sales, while net income from the Ontario Lottery and Gaming Corporation is projected to be lower, reflecting lower-than-anticipated sales, primarily in the lottery business”

Revenue

TABLE 2.22 Revenue				
(\$ Millions)				
	2012-13	Actual 2013-14	Interim 2014-15	Plan 2015-16
Taxation Revenue				
Personal Income Tax	25,574	26,929	29,028	30,377
Sales Tax ¹	20,957	20,481	21,740	22,982
Corporations Tax	12,093	11,423	10,148	11,342
Education Property Tax ²	5,511	5,457	5,632	5,715
Employer Health Tax	5,137	5,283	5,430	5,680
Ontario Health Premium	3,067	3,128	3,350	3,458
Gasoline Tax	2,390	2,363	2,383	2,457
Land Transfer Tax	1,484	1,614	1,758	1,782
Tobacco Tax	1,142	1,110	1,163	1,262
Fuel Tax	710	718	738	752
Beer and Wine Tax	560	557	566	575
Electricity Payments-In-Lieu of Taxes	324	543	209	524
Other Taxes	469	360	509	491
	79,418	79,966	82,654	87,397
Government of Canada				
Canada Health Transfer	11,315	11,940	12,413	13,065
Canada Social Transfer	4,591	4,689	4,847	4,976
Equalization	3,261	3,169	1,988	2,363
Infrastructure Programs	116	123	149	308
Labour Market Programs	897	909	909	914
Social Housing	483	474	458	448
Wait Times Reduction Fund	97	96	-	-
Other Federal Payments	901	877	949	816
	21,661	22,277	21,713	22,890
Government Business Enterprises				
Ontario Lottery and Gaming Corporation	1,816	2,009	1,935	1,920
Liquor Control Board of Ontario	1,721	1,723	1,811	1,880
Ontario Power Generation Inc./Hydro One Inc.	932	1,605	1,565	1,012
	4,469	5,337	5,311	4,812
Other Non-Tax Revenue				
Reimbursements	932	962	989	980
Vehicle and Driver Registration Fees	1,125	1,248	1,442	1,592
Electricity Debt Retirement Charge	939	954	948	865
Power Supply Contract Recoveries	1,323	1,296	920	793
Sales and Rentals	1,188	1,160	2,260	2,803
Other Fees and Licences	760	759	914	979
Net Reduction of Power Purchase Contract Liability	263	243	217	172
Royalties	226	242	248	262
Miscellaneous Other Non-Tax Revenue ³	1,065	1,467	901	845
	7,821	8,331	8,839	9,291
Total Revenue	113,369	115,911	118,517	124,390

¹ Sales Tax revenue is net of the Ontario Sales Tax Credit and the energy component of the Ontario Energy and Property Tax Credit.

² Education Property Tax revenue is net of the property tax credit component of the Ontario Energy and Property Tax Credit and the Ontario Senior Homeowners' Property Tax Grant.

³ Relatively high Miscellaneous Other Non-Tax Revenue in 2013-14 reflects the gain on the sale of the Province's shares of General Motors Company and higher recoveries of prior-year expenditures.

Note: Numbers may not add due to rounding.

Expenses

TABLE 2.23 Total Expense
(\$ Millions)

Ministry Expense	2012-13	Actual 2013-14	Interim 2014-15	Plan 2015-16
Aboriginal Affairs ¹	65	63	68.6	74.5
Agriculture, Food and Rural Affairs ¹	1,016	864	924.9	1,028.8
Attorney General	1,683	1,813	1,780.3	1,779.8
Board of Internal Economy ²	197	199	300.9	210.5
Children and Youth Services	3,911	3,997	4,173.9	4,315.7
Citizenship, Immigration and International Trade	161	152	155.9	158.6
Community and Social Services	9,696	9,977	10,568.6	11,114.9
Community Safety and Correctional Services ¹	2,309	2,380	2,496.1	2,466.6
Economic Development, Employment and Infrastructure / Research and Innovation ¹	998	992	1,111.6	1,219.9
Education ¹	23,142	23,645	24,594.2	25,230.7
Energy ¹	340	311	316.9	322.9
Environment and Climate Change ¹	485	480	485.6	503.3
Executive Offices	30	30	44.6	33.8
Finance ¹	806	845	821.3	860.9
Francophone Affairs, Office of	5	5	5.6	8.4
Government and Consumer Services	596	594	596.6	601.9
Health and Long-Term Care	47,594	48,933	50,172.7	50,770.9
Labour	281	303	307.7	310.5
Municipal Affairs and Housing ¹	830	845	884.5	920.0
Natural Resources and Forestry ¹	694	720	724.4	720.2
Northern Development and Mines	718	719	757.4	756.7
Tourism, Culture and Sport ¹	1,424	1,337	1,256.5	1,274.3
Training, Colleges and Universities	7,337	7,572	7,741.6	7,809.7
Transportation	2,478	2,823	2,965.6	3,456.8
Treasury Board Secretariat ¹	588	232	424.1	490.2
Interest on Debt ³	10,341	10,572	10,675.0	11,410.1
Other Expense ¹	4,863	5,962	5,094.9	5,541.5
Program Review Savings Target	-	-	-	(490.0)
Year-End Savings ⁴	-	-	-	(1,000.0)
Total Expense	122,589	126,364	129,450.1	131,902.0

¹ Details on other ministry expense can be found in Table 2.24, Details of Other Expense.

² The 2014-15 amount includes projected expenses for the 2014 general election.

³ Interest on debt is net of interest capitalized during construction of tangible capital assets of \$232 million in 2012-13, \$134 million in 2013-14, \$193 million in 2014-15 and \$170 million in 2015-16.

⁴ As in past years, the Year-End Savings provision reflects anticipated underspending that has historically arisen at year-end due to factors such as program efficiencies, and changes in project startups and implementation plans.

Note: Numbers may not add due to rounding.

Details of Other Expenses

TABLE 2.24 Details of Other Expense				
(\$ Millions)				
Ministry Expense	2012-13	Actual 2013-14	Interim 2014-15	Plan 2015-16
Aboriginal Affairs				
One-Time Investments Including Settlements	-	12	3.3	-
Agriculture, Food and Rural Affairs				
Time-Limited Investments in Infrastructure	19	132	40.5	12.5
Time-Limited Assistance	-	17	6.5	-
Community Safety and Correctional Services				
Time-Limited Support for 2015 Pan/Parapan American Games Security	1	5	45.6	182.7
Economic Development, Employment and Infrastructure / Research and Innovation				
Federal-Provincial Infrastructure Programs	-	-	-	235.2
Education				
Teachers' Pension Plan ¹	895	873	571.0	71.0
One-Time Savings — Labour Savings	(1,296)	-	-	-
Energy				
Ontario Clean Energy Benefit	994	1,006	1,080.0	860.0
Environment and Climate Change				
Time-Limited Investments	78	-	-	-
Finance				
Ontario Municipal Partnership Fund	592	569	541.5	512.5
Power Supply Contract Costs	1,323	1,296	920.0	793.0
Municipal Affairs and Housing				
Time-Limited Investments in Municipal Social and Affordable Housing	158	155	153.3	160.3
Time-Limited Investments	42	208	7.3	-
Natural Resources and Forestry				
Emergency Forest Firefighting	180	92	79.4	69.8
Tourism, Culture and Sport				
Time-Limited Investments to Support 2015 Pan/ Parapan American Games	358	332	468.6	904.6
Treasury Board Secretariat				
Operating Contingency Fund	-	-	50.0	550.0
Capital Contingency Fund	-	-	-	100.0
Pension and Other Employee Future Benefits	1,519	1,265	1,128.0	1,090.0
Total Other Expense	4,863	5,962	5,094.9	5,541.5

¹ Numbers reflect Public Sector Accounting Board pension expense. Ontario's matching contributions to the plan grow from \$1,393 million in 2012-13 to \$1,593 million in 2015-16.

Note: Numbers may not add due to rounding.