2020-6-1

**To:** Standing Committee on Finance & Economic Affairs

**From:** Darren Smith, President & CEO, Lake of Bays Brewing Company Limited

**Re:** Economic and Fiscal Update Act 2020; impact of COVID-19 on Ontario's tourism sector.

Dear Committee Members,

Thank you for taking the time to review our submission with respect to COVID-19 impacts on the province's tourism sector. In it, I will describe our company and the impact of COVID-19 on our operations, and put forward some suggestions as to how the province may be able to help businesses like ours recover from this crisis.

Founded in 2010, Lake of Bays Brewing Company is a long-running member of the Ontario craft beer industry. The company sells beer through all major retail channels in Ontario, as well as several other Canadian provinces, and operates two, soon to be three, direct sales outlets in the Muskoka region. Under normal circumstances, we employ roughly 75 people.

COVID-19 has affected our business in several ways. Beer sales to bars & restaurants, which normally constitute 20-25% of our wholesale beer business, have stopped almost entirely. In addition, our two existing retail & restaurant outlets in Baysville and Huntsville have moved to take-out business only, resulting in a significant drop in revenue – a decline of over 80% at our Huntsville location, for example. We have managed to keep many of our staff on payroll, but have had to lay off most staff in front-line customer service and sales roles, as there is simply no work for them to do. In addition, we are in the midst of constructing a third location in Bracebridge, which was slated to open in late April, and will now hopefully be open by late June, after a delay of roughly two months due to various COVID-related restrictions on construction activity.

We understand that the emergency lockdown measures imposed over the past several months were a difficult but necessary step to keep Ontarians safe. Now, we are focused on how and when we will be able to resume normal (or somewhat normal) operations and begin to dig out from the financial hit caused by the pandemic. We believe that with the right policy approach, government can help significantly in this regard – and that this help can come as much, or more, in the form of a sensible approach to regulation to stimulate activity, than in simple continuance of cash supports to affected businesses.

As a business located in an area of the province heavily dependent on tourism for its livelihood, likely the biggest help the province could provide would be to work with other levels of government to establish clear, consistent recommendations on tourism & travel within Ontario, first for domestic audiences and ultimately for international ones. Thus far, we have seen a variety of messages from local, provincial and federal leaders, ranging from "travel is OK" to "stay away or face fines," and "support local business" to "bring everything from home and don't leave your cottage." While no-one wants to see a surge of cases in rural parts of the province, I fear that a greater and more permanent harm may be caused if people are made to feel unwelcome in communities that depend on their visits for economic survival, and potentially make lasting changes to their vacation or lifestyle habits as a result. As case numbers drop, government might consider publishing guidelines for safe travel within the province, rather than discouraging it outright, and also examine whether local governments can (or should) enact restrictions on movement in excess of those imposed by the province. Government may also need to consider making sector-by-sector, and region-by-region, decisions on which support measures to keep in place, and for how long, as some areas may need help for longer than others.

From an industry-specific perspective, some of the hardest-hit businesses in our sector will be breweries located in areas dependent on tourism, and their local clienteles in the bar, restaurant & hospitality sector. As hospitality establishments are permitted to reopen, consider evaluating each operation's ability to maintain the required measures in terms of sanitation and physical distancing, as opposed to applying across-the-board capacity restrictions (for example, to 25% or 50% of an establishment's rated occupancy), which may have the effect of unduly restricting some establishments' capacity to serve guests and generate revenue to recoup losses incurred during the pandemic.

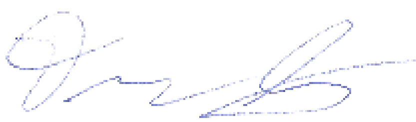
A further thought relates to off-sales, or the order permitting bars & restaurants to sell alcohol for take-home consumption. This is at present a temporary measure through December 31 of this year, but government should consider making it permanent, with added structure or controls as needed. Many jurisdictions elsewhere in North America and Europe operate such regimes with success. Take-home volumes sold by liquor licence holders are unlikely to compete significantly with existing retail channels, as restaurant operators will be unable to match the retail prices offered through regular outlets, but the modest increase in sales could make a big difference for individual operators who may take years to reattain their pre-COVID business levels. As an anecdotal example, at Lake of Bays Brewing, we have seen some uptake on packaged beer from our bar & restaurant clients, but the volume is not significant relative to those flowing through our regular retail channels. If there is concern about an excess of supply on the marketplace, an off-sales licence could be offered as a "bolt on" for which licence holders apply, and which would be granted at the AGCO's discretion, as opposed to an automatic component of all licences. It would also be worthwhile to consider an outcomes-based approach, as opposed to a granular, prescriptive one – for example, stating broadly in the regulations that a regular liquor licence shall not be used to operate an establishment whose primary activity is take-home liquor sales, rather than, say, prescribing that every transaction for take-home alcohol must also include food. Our experience in the market has been that prescriptive regulations intended to prevent abuse sometimes lead to abuse or exploitation by bad actors anyways, while at the same time unduly constraining law-abiding operators.

In the brewery context specifically, we are still stymied by a regulatory constraint limiting beer manufacturers to 2 direct retail stores, province-wide, regardless of how many sites a manufacturer might operate. This means that, for example, when we complete our third manufacturing site in Bracebridge later this month, it will not be eligible for a retail store licence, because we already have such licences at our Baysville and Huntsville locations. We have invested more than $1.3 million to open this outlet, including cost overruns in excess of $100,000 due to construction delays caused by COVID, and when we open, we will face constraints on our ability to seat and serve guests for months to come. Beyond that, it may take years for our region to return to the visitor volumes and business levels it enjoyed prior to the outbreak. Having the ability to sell take-home beer out of this location will be critical to its long-term viability. We intend to make use of the temporary off-sales provision referenced in the previous paragraph, but are unsure whether or not this will represent a long-term solution.

Times of crisis may test us collectively, but they also cause us to think critically about prior habits and modes of doing, and consider whether there may be a better way forward. The COVID crisis creates an opportunity to shine daylight into some of the dustier corners of Ontario's legislative & regulatory framework, and seriously consider whether certain measures continue to serve the public good, or are simply restraining activity for no discernible reason. From removing a requirement for cideries to maintain 5 acres of planted fruit trees adjacent to their retail stores (recently announced, to much delight within our industry), to opening up direct retailing opportunities for licence holders as laid out in this letter, to a whole host of other measures (loosening restrictions on patios, allowing manufacturers to retail other craft alcohol products, removing prescriptive limits on products other than beer which may be sold in manufacturers' stores), the beverage alcohol and hospitality sectors are a "target-rich" environment for regulations which could easily be amended to unlock growth and speed the recovery of some of the hardest-hit parts of the province.

Thank you for your attention to our sector and please feel free to contact me if you have any questions or wish to discuss further.

Sincerely,



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