Third Session – Forty-Third Legislature

of the

Legislative Assembly of Manitoba

Standing Committee
on
Crown Corporations

Chairperson
Mr. Tyler Blashko
Constituency of Lagimodière

Vol. LXXX No. 1 - 9 a.m., Tuesday, January 20, 2026

ISSN 1708-6604

MANITOBA LEGISLATIVE ASSEMBLY
Forty-Third Legislature

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ASAGWARA, Uzoma, Hon.	Union Station	NDP
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LEGISLATIVE ASSEMBLY OF MANITOBA

THE STANDING COMMITTEE ON CROWN CORPORATIONS

Tuesday, January 20, 2026

TIME – 9 a.m.

LOCATION – Winnipeg, Manitoba

CHAIRPERSON – Mr. Tyler Blashko (Lagimodière)

VICE-CHAIRPERSON – MLA Shannon Corbett (Transcona)

ATTENDANCE – 6 QUORUM – 4

Members of the committee present:

Hon. Mr. Simard

Mr. Blashko, MLAs Corbett, Loiselle, Mr. Narth, Mrs. Robbins

APPEARING:

Gerry Sul, President and Chief Executive Officer, Manitoba Liquor and Lotteries Corporation

MATTERS UNDER CONSIDERATION:

Annual Report of the Manitoba Liquor and Lotteries Corporation for the fiscal year ending March 31, 2025

* * *

Clerk Assistant (Ms. Katerina Tefft): Good morning. Will the Standing Committee on Crown Corporations please come to order.

Before the committee can proceed with the business before it, it must elect a Chairperson.

Are there any nominations?

Hon. Glen Simard (Minister responsible for the Manitoba Liquor and Lotteries Corporation): Nominate Tyler Blashko as the Chair.

Clerk Assistant: Mr. Blashko has been nominated.

Are there any other nominations?

Hearing no other nominations, Mr. Blashko, will you please take the Chair.

The Chairperson: Our next item of business is the election of a Vice-Chairperson.

Are there any nominations?

MLA Robert Loiselle (St. Boniface): Like to nominate MLA Corbett.

The Chairperson: MLA Corbett has been nominated.

Are there any other nominations?

Hearing no other nominations, MLA Corbett is elected Vice-Chairperson.

This meeting has been called to consider the Annual Report of the Manitoba Liquor and Lotteries Corporation for the fiscal year ending March 31, 2025.

Before we begin, I would like to remind everyone that questions and comments must be put through the Chair using third person as opposed to directly to members and representatives.

Are there any suggestions from the committee as to how long we should sit this morning?

MLA Loiselle: I'd like to propose an hour and a half.

The Chairperson: An hour and a half has been proposed.

Mrs. Colleen Robbins (Spruce Woods): It's been agreed upon for three hours before this meeting.

The Chairperson: Okay, I hear three hours.

Is that agreed? *[Agreed]*

We will sit for three hours.

Does the honourable minister wish to make an opening statement, and would they please introduce the officials in attendance.

Mr. Simard: Yes. Good morning. Thank you for having me here today. Pleased to be here for the standing committee on the Manitoba Liquor and Lotteries Corporation.

I'd like to welcome the following officials to the corporation board and executive: Jeff Traeger, the chair of the MBLL board of directors; and Gerry Sul, president and CEO of Manitoba Liquor & Lotteries. And my deputy minister, Maurice Bouvier, as well as other MBLL staff and MNR staff in attendance.

As minister responsible for Liquor & Lotteries, I'm here this afternoon–or this morning, along with senior officials from Liquor & Lotteries, to give a presentation on the results of the '24-25 fiscal year and to field questions from the members.

I want to start off by saying, on behalf of our Manitoba government, we would like to honour the sacredness and importance of the ancestral lands of Indigenous peoples, including the Anishinaabeg, Anishininewuk, Dakota Oyate, Denesuline, Nehothnuk *[phonetic]*, Inuit and the Red River Métis. Reason we share this information with you is that it's a reminder of our treaty histories and the original homeland of all those nations which have become home to all of us here today.

I want to begin by recognizing the nearly 3,000 employees of Manitoba Liquor & Lotteries. It's their professionalism and dedication to–that drive the corporation's success. The successes of MBLL, they are the successes of Manitobans. Every achievement of this Crown corporation directly contributes to the well-being of our communities.

MBLL remains one of the Province's most important and dependable contributors to public revenues, strengthening the services Manitobans rely on every day.

French spoken

Je suis tellement fier d'être le ministre responsable pour la MBLL. C'est un de nos précieux coopérations pour notre province.

Translation

I am so proud to be the minister responsible for MBLL. It is one of our Province's valuable partnerships.

English

All profits stay right here in Manitoba, supporting programs, community initiatives and investments that improve quality of life across the province.

MBLL's commitment to social responsibility and community support continues to grow, reaching organizations, festivals, local initiatives in every region of Manitoba. We have put our mark on this province and we continue to contribute.

MBLL is a modern, versatile Crown corporation. They continue to adapt to changing consumer behaviour and evolving market conditions. They do this while keeping Manitobans at the centre of decision making, focusing on responsible operations, safe experiences and the long-term sustainability of its business lines.

MBLL's progress reflects a responsible and evolving Crown corporation, staying aligned with public expectations and ensuring its benefits remain here at home.

Almost a year ago, MBLL removed US liquor products from Liquor Mart shelves. They did so efficiently and diligently, and once again, I thank them. On top of this, Manitobans embraced Canadian alternatives, demonstrating community support and unity during a critical moment in Canada-US relations.

French spoken

À vous, les employés des sociétés des loteries et alcools : je vous remercie pour votre travail dédié, de votre passion pour service, pour mettre le Canada sur la plus grande importance dans vos pensées et surtout le Manitoba.

Translation

To you, the employees of Manitoba Liquor & Lotteries: I thank you for your dedicated work, your passion for service, for putting Canada first in your thoughts, and especially Manitoba.

English

This decision rallied Manitobans behind a shared cause: supporting Canadian and local producers while reinforcing Manitoba's commitment to standing up for national interests. MBLL leaned into this moment by highlighting local and Canadian-made products on their shelves. This paired effectively with our supports for craft producers.

MBLL continues to lead nationally in responsible gaming through its made-in-Manitoba Informed Gambling program. The corporation is deepening its work on truth and reconciliation, guided by its Indigenous Advisory Circle, and strengthening diversity, equity and inclusion in its workforce.

At the heart of all of this success are the employees of MBLL, people who show up every day with professionalism and pride. MBLL is focused on operating responsibly, supporting communities and ensuring the economic benefits of operations stay in Manitoba.

I conclude with this: MBLL's success is Manitoba's success. And together, we're building a stronger province for everyone.

Thank you, Chair.

The Chairperson: We thank the honourable minister.

Does the critic for the official opposition have an opening statement? *[interjection]* Mrs. Robbins.

Mrs. Robbins: Okay. Sorry.

Short and sweet. I welcome everyone here today. And we have several questions, and I'm going to be sharing some of my questions with–my colleague will be asking some also. It is my first standing committee so bear with me, but welcome everyone, and I look forward to getting right to the questions.

The Chairperson: We thank the member.

Does the representative from the Manitoba Liquor and Lotteries Corporation wish to make an opening statement?

Mr. Gerry Sul (President and Chief Executive Officer, Manitoba Liquor and Lotteries Corporation): Good morning, everybody, and thanks for the opportunity to be here today with you.

* (09:10)

So on behalf of our nearly 3,000 employees, we're pleased to provide today a review of Manitoba Liquor & Lotteries '24-25 annual report and, obviously, entertain any of your questions that you might have today.

So, over the past year, you know, MBLL has continued to deliver strong results while navigating through a year with some unexpected challenges this year as it relates to, as mentioned by the minister, the US liquor removal, as well as we're seeing significant declines in beverage alcohol consumption across Canada.

So guided by the leadership of our board of directors, Manitoba Liquor & Lotteries continues to focus on being a reliable deliverer–delivery of products and services to Manitobans in a socially responsible and environmentally friendly way.

In fiscal year 2024-25, with the exception for our lottery line of business, revenues grew across all lines of business. We generated $1.74 billion in revenue and delivered $730.1 million back to the Province on a $750-million budget. This is consistent with our vision statement, and that is to be consistently one of the leading and largest contributors to the Province of Manitoba.

It's important to acknowledge and applaud our 3,000 employees, but also our 3,000 private channel partners that we work collectively with, you know, across the province to deliver these revenues back to the Province of Manitoba. And that would include liquor vendors, the restauranteurs, the hotel beer vendors, VLT site holders, the private cannabis retail channel, the eight specialty wine stores in Manitoba, more than 1,000 licensees and more than 950 lottery retailers across the province of Manitoba.

So together with them, our contributions directly support the core programs and services that Manitobans rely on. We are proud that every dollar of profit that is generated by our organization goes back and stays in Manitoba. It's a great responsibility, but we take great pride in giving back to the people of Manitoba.

Our giving goes much farther beyond the $730.1 million. We contributed last year $14.3 million back to social responsibility programs. We contributed $3.6 million to community support, reaching across all of the geographies of Manitoba. And, again, we continue to focus our–or to sharpen our focus on environmental stewardship. And so using a baseline of 2017, we are on track to exceed 43 per cent reduction in GHG, or greenhouse gas emissions, and this will be completed by 2032, and we are on track to be net zero by 2050.

So looking at our three lines of business, gaming continues to be a significant contributor, contributing over 50 per cent of our overall net income back to the Province, and this is largely driven by the performance of our casinos. Revenues from our casinos grew to record levels in 2024 and '25, driven primarily by increased visitation and a lot of the good promotions that we do in the casino, and continue to see that year-over-year strong demand, very consistent what we're seeing across all the other Canadian provinces as well.

So these results kind of demonstrate the importance of maintaining modern and well-managed facilities, maintaining our gaming equipment and offerings to the consumer to make sure we're aligned with, you know, current consumer preferences and, of course, making sure that we're always staying aligned and responsible in delivering our services.

We are excited, you know, that the former gaming pause has been lifted, and we are actively working through the numerous VLT requests that have accumulated since 2018. So since 2018, we've accumulated almost 30 requests, primarily from the First Nations, to pursue additional VLTs.

As a result of the pause, we were unable to pursue those, but the pause has been lifted now, and we are actively working with those parties to continue to validate their continued interest, evaluating the infrastructure costs to, you know, bring in the telecommunications necessary to operate VLTs in there and–as well as to get a better timeline as to, you know, when they might establish and build a facility that would house the VLTs.

So, again, at the same time we want to make sure that we are aligned to social responsibility and managing the growth of VLTs through the Province of Manitoba and, of course, with that, also ensuring that we are aligned to the Province's commitment to, you know, again, path to balance and our capital expenditures.

Our VLT network continues to perform well, but at the same time only saw slight year-over-year growth supported by our ongoing machine refreshes. This segment of the business, you know, much like the restaurant industry, continues to be impacted by economic pressures and a decline of attendance. And, of course, you know, a lot of our VLTs are situated in restaurants and bars, so they are seeing that effect, as is the liquor side of the business.

PlayNow continues to be the only legal, safe and secure online gaming platform here in Manitoba, and in 2024-25, we realized that 1 and a half per cent year-over-year revenue increase.

At the same time, this was offset–you'll see in the annual report–by some increased platform costs for our host, which is British Columbia Lottery Corporation. These incremental expenses contribute to the ongoing development and maintain–making sure that we have a competitive product to deliver to Manitobans and to compete with the illegal market that continues to be a pressure out there.

In response to illegal gaming operators, Manitoba Liquor & Lotteries is a member of the Canadian Lottery Coalition, who is actively working with the other jurisdictions across Canada at–to combat the illegal gaming, you know, that's happening, and ensuring that revenues stay in our respective provinces along the way, as well as continuing to ensure that consumers are protected from the risks associated with illegal gaming operators.

So we are now actively leveraging the recent Bodog injunction ruling that we had in Manitoba to shut down Bodog from operating in the province of Manitoba. This is, you know, has sent a message to the industry. At the same time, it's an opportunity to leverage that judgment to go after and to address the individuals in Canada, the business operators, who enable it.

And so there are many enablers, you know, when we think about financial institutions, the Internet providers that are out there, the media who advertise in broadcasts and litters our Manitoba channels with that type of information. So we are actively working to combat them.

At the same time, lobbying the federal government, you know, for their part to play and basically managing the social responsibility issue that is associated with this.

Our liquor line of business continues to be challenged by material declines in consumption. Last fiscal year, we saw a decline of almost 4.6 million litres of beverage alcohol, and this has been a continuation of a trend that's been going on since–for the last five years, or since 2021, where we have declined about 10 million litres over that period of time.

This 'kis' consistent with the broader shifts in consumer behaviours and social trends that are out there, and again, this reduced per capita liquor consumption is something we're seeing across all the provinces in Canada and in–a lot of North America is seeing the same sort of trend.

Within this challenging environment, we continue to focus and look to support our local craft industry. Our local craft industry, you know, has more than 50 members currently; and again, very successful. You know, there's recent news that would suggest that we're seeing year-over-year declines of breweries shutting down, and we haven't seen that happen in a number of years here in Manitoba.

But we've worked with them to develop a new 20-point strategy to, again, help them continue to be successful in our environment and to prosper because, again, we know they're an economic benefit to the province of Manitoba.

We are actively working with the liquor vendor association, so there is an independent liquor vendor association that had kind of somewhat gone dormant. We are pleased to indicate today that, you know, again, there is some members out there who are actively trying to resurrect it, and we believe it's a really important–to have a single voice to work through.

And, at the same time, we're seeing the same thing happen with the Manitoba Brewers Association. So for a number of years, they've been looking to stand up Brewers Association to be a voice, you know, for the local craft manufacturers here in Manitoba, and we are actively and supportive of them doing so.

So during the past year, and in alignment with the provincial direction, we removed our US liquor products from the Liquor Mart shelves and we discontinued the replenishment in our warehouses or inventory.

Manitobans have embraced the alternative products here in Canada. You know, it was a great opportunity for us to lean into and support Manitoba- and Canadian-made products, and we did so in our Liquor Mart locations, as well as kind of looking at how we adjusted our selection with the removal of US products.

So, again, you know, choose Canada and enjoy Manitoba were two brands that we continued to elevate during that period of time and saw great success for not only Manitobans but the Canadian industry, as well, were very beneficial–are beneficiaries of it.

The cannabis line of business continues to demonstrate strong and sustained growth. We grew, year over year, 18.9 per cent. And the Manitoba private retail network grew by 24; so we saw 32 new and we lost eight along the way, and it was a net increase of 24. So we ended the fiscal '24-25 with 229 locations here in Manitoba.

And we continue to see the downward pressures on the price of the product, so we're seeing the price of cannabis, you know, somewhere in the $2.15 range per gram, which again, year over year, is significantly declining, creating hardships for the supplier industry; at the same time, beneficial to the consumer and to the retailers here in Manitoba.

***** (09:20)

Through our community support program, we provided funding and in-kind support to more than 350 organizations across Manitoba, which included community festivals, cultural events and charitable fundraising in order to broaden our reach–

The Chairperson: Order.

I'll just–your time has expired.

Is there leave for Mr. Sul to finish his statement? *[Agreed]*

Mr. Sul: So our–to further our reach into rural Manitoba, we've launched a new funding portal to make sure it's more accessible and create awareness so they can access our great programs that we have. We saw our commitment to community support grow by half a million dollars in the last fiscal year.

So led by our staff, we continued on our journey to deliver on our truth and reconciliation and diversity, equity and inclusion road-map goals, and it reinforces our commitment to improving our relationships and respect for Indigenous people and ensuring that all our employees are heard, they're valued and they have a sense of belonging. In relating to our truth and reconciliation journey, we are grateful for the ongoing support of our Indigenous Advisory Circle who provides insights, guidance and making–and helping us make decisions as it relates to our road map, as well as corporate decisions in the operational areas of the business.

So in closing, I want to recognize the dedication of our Manitoba Liquor & Lotteries employees across the province, their professionalism and a commitment are essential to our success and we value that we return–what we return to Manitobans each year. So I, like our staff, are proud and honoured to serve Manitobans.

Manitoba Liquor & Lotteries remains focused on operating responsibly, supporting communities, ensuring that the economic benefits of liquor, gaming and cannabis continues to stay in the province of Manitoba.

Thank you.

The Chairperson: Thank you for that statement.

The floor is now open for questions.

Mrs. Robbins: Okay, the 2024-25 annual report shows MBLL revenues increased by 2.6 per cent, yet net income declined by $2.4 million. What specific cost pressures prevented revenue growth from translating into higher net returns?

Mr. Sul: So a number of factors would contribute to that. Obviously, increased of cost of goods, and we're seeing an increase in cost of services, you know, that would increase some of our operating expenses. We have a need to increase our–and modernize our technology presence to maintain our ability to support, you know, not only the current needs of the business but also the future needs of the business. So we've seen increased spending on the technology side as well as significant capital events–investment that would result in depreciation costs increase.

So, in particular, we continue to try to make headway in the obsolescence deficit that we were in with our VLTs. So at one point in time, 95 per cent of the VLTs in the province of Manitoba were obsolete. And so we are aggressively trying to remedy that because I think we have to recognize that not only is it net income to the province, this is an important revenue stream for the various site holders across Manitoba, whether it's commercial, First Nations or the veterans out there who, you know, rely on this income stream. So almost $118 million from VLTs is returned back to the site holders.

So, again, it's not only about us; it's about–and supporting our important business partners in the private channels in–here in Manitoba. So those would be the major contributors to that, as well as the GW increases where we settled all the collective agreements with all the remaining unions.

Mrs. Robbins: Operating expenses increased by 9.3 per cent, more than three times the rate of revenue growth. Does management view this as a temporary spike or a structural cost issue?

Mr. Sul: I guess, you know, from a technology perspective–again, for many years, our capital expenditures were limited. And so we are playing catch-up as it relates to making sure that, you know, again, our technology is maintained. So I see that happening over the next number of years: continue to refresh our technologies and keep it current.

I think, you know, our focus on keeping current is not only having capabilities but it's also avoiding interruption to revenue streams to the province of Manitoba, and it's the reliability of those income streams. But it's also reliability to our business partners. So many, as I mentioned earlier–there's 3,000 business partners in Manitoba; they rely on our systems running and operating. Because again, when we're down, they're down as well.

So, you know, that's an important investment. I think there's always, every year, when we go into collective bargaining, there's always expectations that there would be increased salaries and benefits. I would think there are some offsetting expectations, in particular when you see the decline of beverage alcohol. So, again, with the decline of beverage alcohol, we see a decline in the hours allocated to Liquor Mart staff.

Secondly, you would see reduced freight cost, and that's very significant to reduce the freight cost and cost of goods, you know, and reduce equivalent for that decline in the liquor sales at the end of the day.

So when we kind of look into the future, we'll see kind of a positive variance as it relates to the decline; you know, at the same time, it reduces net income back to the Province.

The other thing–you know, and when we talked about when you're looking at the year-over-year decrease in operating expenses, another significant one to make note of would be is that in the prior year, in sundry expenses, we sold a–one of our own properties and that resulted in a $4.3-million gain. And so that wouldn't have been–you know, and when you're comparing it to the next fiscal year. So there's a big portion of that $9 million.

Mr. Simard: Yes, and I think one of the things to really underline here is as we were–we are continuing to tackle the obsolescence problem with our video lottery terminals and casinos, you know, having up-to-date and modernized equipment also contributes to increase in revenue. So the investment in having, you know, high-performing, relevant modern machines in our facilities across Manitoba has contributed to the increasing revenues and that–I shudder to think about what would've happened had that not happened.

So as we work towards reducing that, you know, almost 100 per cent obsolescence of equipment in the Liquor & Lotteries system, I think it's–maybe to underscore the importance of those investments.

Mrs. Robbins: Employee benefits costs are cited as a major driver of expense growth. What portion of total operating cost growth in '24-25 is attributable specifically to labour-related expenses?

Mr. Sul: Yes. So about $9.4 million, or 5.5 per cent, was related to general wage increases, so salaries and benefits.

Mrs. Robbins: MBLL returned $730.1 million to the Province, down slightly from the prior year.

What risk could cause the contribution to decline further over year over–for the next three to five years?

Mr. Sul: I think there's two primary factors at work out there.

So, you know, one would be the economic pressures that continue to impact particularly the younger demographic. So, you know, when you're seeing those debt-to-income ratios in that 170 per cent kind of range, it's impacting people's disposable income, and so much of our businesses, and particularly liquor and gaming, rely on disposable income. So until we see some relief there, you know, and that disposable income increases, that's one key factor to monitor out there.

And, of course, the other one I alluded to prior is the decline in beverage alcohol consumption. So when you look at, you know, I–the last five years, we've declined by almost 10 to 11 million litres. That's very significant and it's a continued kind of downward trend. And kind of–my expectations of–that will continue to happen over the next couple years for a number of reasons. I think, you know, first and foremost, obviously, social habits of younger people are changing significantly. I think you're seeing a lot of pressures from large medical organizations citing that, again, there's inherent dangers or risks associated with consuming beverage alcohol. You even look locally here in Manitoba; CancerCare had a campaign out there that suggested, you know, make your next drink non-alcoholic.

So there's a lot of voices out there and there's a lot of promotions out there about, again, the health risks associated with beverage alcohol. And then, of course, as people come of age, you know, the other thing that's kind of contributing is people diverting to cannabis. So as young people come of age, they're making that determination and–you know, do I go to down the route with liquor or is it going to be cannabis?

And we've seen through surveys where people have declined their consumption, about 12 per cent of them cited that–of those 20 per cent who have indicated that there was a decline in their consumption habits, about 12 per cent of them indicated that, again, they were directing it to cannabis. You know, that was another option.

I think the other unknown that exists out there, and we know there's already some reports out there that would suggest that GLP drugs could have effect as well in the longer term. So as it kind of impedes the cravings and addictions, at the same time, we expect that that could have an impact on beverage alcohol consumption. You know, you wouldn't have that kind of desire to consume additionally along the way.

* (09:30)

Mr. Simard: Yes, and just to elaborate a little bit more on some of the expenses, I mean, we both started our comments here, our opening comments, underscoring the importance of the employees that service Manitoba through Liquor Marts and casino and IT and you name it–distribution. And for many years they were stuck at zeros every single year in terms of salary. And there's a saying: Catch up and keep up. Well, we did the catch-up piece and we will continue to keep up with making sure that our employees are respected.

And we continue to invest not only in their well-being, but also in the important role that they play in making sure that any pivot or any new initiative that comes out of the MBLL is executed with a workforce that is valued, that is cared for.

And that's something that I'm particularly proud of the MBLL for having done under the–under their–the leadership that you hear–see here today, is that, you know, if you look at our strategic plan, the very first people you see on there are everyday employees of MBLL, whether they work at a Liquor Mart or if they're working in IT or cleaning the floors in our casinos.

Because we succeed when they succeed, and I think that's one of the most important things to remind ourselves when we work in this endeavour that we have is that our success, the province's success, is incumbent on the fact that the people who contribute not–aren't just seen as worker bees, but partners in making everyone's experience in our Liquor Marts or in our lines of business valuable. And that comes with, first of all, valuing the employees so that they can value the customer and the customer ultimately are–is all of us in Manitoba.

And we see the same not only in terms of the way that we treat our employees, but our partners, our partners and liquor vendors across Manitoba. And when we continue to do that, we continue to make people a priority and put people first, then we become a we society, not a me society and I think that's a really important thing to underscore.

Mr. Konrad Narth (La Vérendrye): I think it's important that we circle back to the stats on the expenses of the corporation in relation to the revenue growth, and that the 9.3 per cent increase in expenses is, in fact, three times the rate of revenue growth and I appreciate that the CEO, Mr. Sul, had explained that and I appreciate that.

The CEO had mentioned that 5.5 per cent of that 9.3 was related to labour cost increase. Then in the response from the minister we had heard the value on catching up and also keeping up. So I think it's important to us and to Manitobans to get a clear picture as to what that looks like moving forward.

Is the 5.5 per cent increase–and I'd like to also dive down into what makes up the remaining portion of that increase since it's substantially stronger than the revenue growth of the Crown corporation–but is that 5.5 per cent increase in labour cost something that Manitobans are to expect year after year, or this–has this been based on recent labour negotiations?

Mr. Simard: Yes. We'll put people first. I think that in–when we look at this report from '24-25 you can see that is an important distinction that we would like to underscore.

I mean, I was a teacher. And when you teach and–you have to have the right tools for the job. And you can't teach in a classroom using overhead projectors anymore. We have–we just had a great summit on AI in education just recently. We talked–like, when I started teaching, the Internet didn't even exist in terms of a teaching tool, right?

And one of the things that we have to make sure that we do in a corporation is stay relevant, make sure that the folks are taken care of. And the newest and the brightest things are costly, and we are obviously very responsible with the public purse, that we make sure that we continue to not only increase revenues to the Province but also invest in the asset that we have.

You know, agricultural producers–we've got Ag Days going on in Brandon right now in the Keystone Centre. The floor there is just packed with the newest and best technology that you can have. And some of those investments in terms of developing that technology, there's upfront costs. There's also the–you know, like, companies got to make their way out to Brandon and show their wares.

So I think the more that we can look at, I think that's an important piece. The expense, sure, but I think we look at it as an investment because the thrive–the corporation thrives when you make the proper investments over a period of time, and when you put people first and then you bargain in good faith, that's when you come to deals that are–or agreements that are equitable.

So it's not a contract; it's an agreement, right? An agreement means that both parties look at what is in front of them, the reality of the situation from the corporation's point of view and the reality of the situation from an employee's standpoint, to decide what makes sense to be able to move forward in harmony.

And I would say that in '24-25, what's now coming through in this annual report is a re-establishment of harmony within the corporation. They had just come out of a debilitating strike that had massive impacts on revenue, a massive impact on the employee retention. And when you put people first and you make the proper investments in technologies and things that matter to the corporation to be able to increase revenues like we see, then all of a sudden you start to have a kind of a self-fulfilling prophecy on how things can move forward.

So in terms of expectations for the future, I think that you can–I can assure you that you're going to have a honest broker with employees, that you'll have an honest broker that looks at investment as a key part of growing the corporation rather than allowing our assets to depreciate.

We started talking about a 95 per cent obsolescence in VLTs. I don't–you know, that can't be the status quo for our government and for the corporation, that we have to continue to renew, that we have to continue to value the work that people do.

And we value the work that people do, and we sit down at a table across from them and talk about what's beneficial not only for employees but for the corporation, where we can move together in partnership and in harmony rather than in conflict, because what we did see in that strike was massive conflict, which had really damaging impact for the corporation not only on the relationship between employee and employer, but also on the brand, but also on the trust that you have to build with Manitobans. And Manitobans want to continue to have a government that values employees.

So to–and a long way to answer your question: What can you see for the future for the corporation going forward? You'll see a corporation that bargains with its employees in good faith, and we see, in the '24-25 work, that investments in employees are exactly that: investments in people.

So maybe you want to go further, CEO?

Mr. Sul: Yes, and I think, you know, kind of when we think about kind of, you know, looking forward, again, the catching up as far as kind of our investment in our facilities, in our equipment, in our VLTs, as the minister pointed out, again that's probably our most significant capital investment year over year now, trying to catch up from the obsolescence.

One of the challenges, and I think you can appreciate, is, you know, for us to adapt to different ideologies as governments come and go, and so, at the same time, you know, you drive down a path and make investments in a certain direction and then you're redirected in another way. Very inefficient, obviously not in the greatest interest of the Province itself and our net income contributions.

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But, again, we find ourselves as an organization having to pivot, you know, and say, well, don't invest here; okay, don't invest in our casinos; don't invest in our Liquor Mart stores. And now we're having to maintain these things, and we're–again, it's expensive to play catch-up at the end of the day as opposed to taking a more regimented process of maintaining and–continuing on to maintain our investments in our organization.

To the employees, you know, thinking to the future, some of the things as we see operating costs go up, so our ratio is 16 per cent, so it's a 1 per cent decline year over year as far as the ratio of expenses to revenue. You know, some of the areas where–to control salaries and benefits costs.

One area of opportunity for us, obviously, is to reduce our reliance on external consultants, so as many organizations today have a heavy reliance on IT consultants. And it's hard to acquire that skill set, and at the same time I would say we have an over-abundance in our organization and we are actively looking to reduce that.

But at the same time, we have to be mindful of–you know, bargaining is coming up again, so a lot of the collective agreements–three of our largest collective bargaining units, which make up more than 50 per cent of our membership, are expiring in this coming year. And so we–of course, we will be going to the table with them, but, again, this would be the MGEU, which represents all our Liquor Mart employees; Unifor, that represents all of our casino employees; and then we have a Teamsters smaller supervisory unit that comes up in the fall time.

So it's your point of kind of looking forward and understanding it, so, you know, (a) it's, yes, there's going to be incremental costs as it relates to that. The technology that's–you know, we've gotten ourselves into a technology deficit. We have to keep current. We're not–you know, I like to look at it that I'm building the organization for the next person along the way, and we have to maintain it and we have to have continuity, and we can't have business interruptions.

Because, again, our business interruptions are not just to the province; it's to every–you know, the 3,000 private partners that we have out there in the province of Manitoba.

Mr. Narth: I appreciate that response. I was more so looking–you know, and I'm glad that the CEO, Mr. Sul, gave a clear image of the rationale behind that, because I think that Manitobans value what the Crown corporation provides financially to the province and to the services of the province.

And when we look at increased expenses at a rate three times what the revenue growth has been, and then when we hear a report from the corporation saying that there are societal trends that play a part in that; that less people are consuming alcohol; that we're seeing less disposable income allowing people to gamble, and, like I say, just societal pressure towards not engaging in those types of behaviours.

And not necessarily is that a bad thing, but at the end of the day, this is a corporation that has been very significantly strong in contributing to the financial position of the province, and it's been relied upon by governments in the past. So when we look at trends going in the opposite direction, I think it concerns all Manitobans, and it sure concerns us when we don't have a clear answer as to when we can foresee that the catch-up that the minister and CEO speak about will be completed, at least with some level of guidance on that.

And then when the minister speaks about employees being a valuable partner and not just, in his words, the worker bees, and that, you know, that partnership will grow and translate into continual growth in expenditure for the corporation when we also see less deliveries, less sales; is that a sustainable model?

And I guess that's my question is: The current model, is it sustainable for the corporation if we see expenses outpace revenue growth by a rate of triple, how many more years do we have to view sustainability in the–in this corporation? When can we see those numbers turn around?

And if we take an ideological approach to growing the expenditures of employees–or, as the minister refers to them, as partners–I don't think that leaves any reassurance for the average taxpayer in this problem–province when we see a significant portion, nearly half of liquor sales, being provided by private vendors throughout our province. Those private vendors are left a stagnant portion of profitability, and they're responsible for their employees and capital investment.

So I'd like to hear from either the minister or CEO–and I do realize that the CEO probably does have a, you know, closer hand to the pulse of the corporation, so may be able to answer that–is that when can we see a shift in this trend? And is it reasonable to say that if we're going to be providing less service in casinos and gambling establishments, less sale of liquor, are we going to continue to see a higher expense in staffing?

And I want to flesh that out, but also in a follow-up question, just so that you're prepared, I'd really like to get more of a clear picture as to what the remaining roughly 4 per cent of increase in expenditures that aren't made up by the 5.5 labour expense increase, and how long do we foresee before we can see some consistency in that growth?

Mr. Simard: Yes, I think that's an interesting line of questioning where we don't see investments in people as something to see as a drag on the corporation; rather increasing the reputation and ability to be able to deliver on some of the big things that Manitobas are looking for. You're only as good as the people that you employ; you're only as good as the people that you work with, and we have realities in the MBLL that we–you know, we look at in terms of those things that you were referencing about whether the sustainability of the corporation is paramount in terms of its strategic plan and its way forward.

And as you see, and last year in '24-25 annual report is that the MBLL continues to deliver for Manitobans. And it's for Manitobans, by Manitobans, I would suggest is probably a good term here, and that if you continue to treat people with respect, if you continue to involve people in the–in making sure that the corporation thrives, something to be proud of–I am proud of the MBLL. I'm proud of the work that the people in our liquid–Liquor Marts do, of our community support teams, of the MBLL Good Together, which is this massive investment in recreation across this province. And it's something that when you stand in front of a crowd or you talk to the folks who work in our distribution centres, or you go from any one of our 60-plus Liquor Marts across Manitoba, that you can look at as a source of pride, that you can look at and say, you know what? We treat these people with the respect that they deserve.

And there's different ways where you can have folks follow you into battle. Like, we're in tough times right now.

But treating them, you know, in a disrespectful manner or locking them out or forcing them on the picket line isn't the way to do it. And I think that the message that I would convey in terms of the predictability and sustainability of the MBLL, to be able to adapt to times where we have threatening tariffs or times where we have declining liquor consumption, that you're not going to be able to come through those challenges without reliable workforce, without folks that you know that you can depend on who are just as proud of the corporation as you are, where getting a job with Liquor & Lotteries is not just getting a job; it's getting a career. And there's a big difference between those two things.

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And I think that's one thing that if we can continue to work to be able to have people understand that there's value in what they do, there's value in having someone come to one of our Liquor Marts and say, hey, I'm having the–this meal. What do I pair–which wine do I use?

And having a workforce that knows, that they've been educated on these things, that they've worked on deciding on how this could work and saying, you know, this is a nice wine from the Niagara region, or from BC that I think that you should give a chance to. And then have a discussion with the folks who are coming into the stores.

And how are you going to be able to say: I want to provide this type of delivery to a customer coming through the door for the MBLL or Liquor & Lotteries, but they don't even care about me to sit across the table and look at me in an honest way.

And I think that's one of the most important things that you can do as an employer, is to have agency, to have harmony within the organization, to have folks who believe in Manitoba, who believe in what they do. And not just as a job, but as a career, as a valued piece of the future of our organization. And I'm incredibly proud of the work that the board has done with the CEO in developing that relationship with employees, to put them on the front page, to work with them on saying: How can we deliver for Manitoba?

Because ultimately that's what we're all here for. We're here to deliver for Manitobans and continue to have soaring revenues, and to continue to have a product we can be proud of. So maybe–

The Chairperson: Mr. Sul.

Mr. Sul: So I–again, I totally agree.

You know, obviously, as we watch trends in the industries, of course, it behooves us to ensure that we are adapting and to be most efficient in managing, obviously, our expenses as well as managing–making sure we're maintaining a certain level of net-income-to-revenue kind of ratio.

To answer maybe further to your questions, and you're looking for more kind of details of costs. So when I break down some of those other increases in expenses, you know, as I mentioned earlier, we were looking to expand our reach into rural Manitoba. So, again, we feel again we need to be in all areas of the province. So, again, as we indicated, we added a new portal. We've expanded our community support by half a million dollars year over year.

So, again, we continue to find ways to help build community across Manitoba and help in meaningful ways. We've added a small capital program, again, to support small initiatives in small rural areas of Manitoba. So that's been very effective in helping out, you know, in addition to the monies that we bring back to the province. Grants in lieu of taxes, as you can imagine, increasing, and expecting to see more significant increases, in particular as it relates to some of the City of Winnipeg increases we're expending in the future years. That will grow.

Maintenance costs was a significant part of it, so back to not maintaining your investment, going years without not–putting capital investment and seeing the benefit of keeping things current, you pay for it through maintenance costs. So increased break fix, maintenance parts, you know, that sort of thing is a contributor. The technology side of it–and this is something to kind of understand from a reporting perspective, from a financial reporting perspective–is that most of the new software, the most new technologies out there are cloud-based now. So you're seeing them–online subscription-based services.

Now they become–they're not capitalized any more; they are basically become operating expensed. And these are significant operating expenses as you move from material, on-premise IT solutions into subscription-based. So those will start showing up in there as well, and start increasing operating costs. Normally you wouldn't see that kind of there.

The other part is the salaries and benefits we had talked about; you know, the $5.4 million there. And then the British Columbia lotteries, so, again, as we had mentioned earlier, there's a $2.2-million increase with the new contract. But, again, the benefit is making sure that we're paying for them to maintain and keep a current solution that appeals to the current audience, and at the same time ensuring that we're competitive with an aggressive legal gaming market that exists out there.

So that's maybe some more detail for you as to kind of where some of those operating costs. But to your point, I a hundred per cent agree; we need to manage costs as an organization, and in particular watching what's happening in the VLTs. We're watching happening–what's happening in the liquor industry. We have to adapt.

At the same time, you know, we have to be responsible. It's not a case of: Hey, how do we grow liquor, and maybe in an irresponsible way. So we got to maintain that responsibility that we owe to the province of Manitoba.

At the same time, it's managing costs. So it's looking at the operations from stem to stern: how we deliver, what we deliver, where we deliver. And, again, looking internally and looking inside our organization–operational efficiencies.

Mr. Narth: Just one more–more direct question on this topic: Has there been any calculation or prediction on how many more years of erosion to the profitability potential would the corporation need to see before we see a sustainable amount of growth for the corporation?

So that would be the expense increase in relation to the revenue growth. So we see it outpacing by three times right now. We've gotten a pretty clear picture from the CEO that it's as a result of much-needed investment into the corporation.

Is there a sustainable amount of profitability that for the long term we can see being attainable by this corporation if this needs to further slide, you know, on the path that it currently is?

The Chairperson: Mr. Sul? *[interjection]*

Oh, Honourable Mr. Simard.

Mr. Simard: Yes, and I'll allow CEO to be very detailed in his response to you, but I would just point to maybe the obsolescence of those machines, right? And if we had a corporation that for, you know, a period of time in the recent past that, the equipment on the floor was allowed to become–and I'm talking about across Manitoba, not just in one location–only 5 per cent of the equipment was up to date. Obviously, we had a lot of work to do.

So when the–and, I guess I would say that the road to stability and profitability started the moment we took office, where we tried to reverse that trend. So I shudder to think of, if we would've continued down that path, where we'd be.

Mr. Sul: Yes. No, and to add to that, I would suggest that, again, it was probably for an extended period of more than seven years where, you know, our capital investment was limited. And, again, so we built up a lot of debt in the organization.

So as we kind of look forward, you know, we got to get ourselves out to–out of debt and we got to make sure from a business continuity perspective that our systems and equipment and facilities are back into a stable environment that avoids us having business interruptions along the way. But, again, we're catching up for probably more than seven years of lack of investment.

So, again, when I look at revenue trends, you know, I think we're mindful and respectful that liquor and VLTs again will continue to be fairly flat or decline into the out years. At the same time, we have to lean into what's doing good for us right now and, of course, cannabis, our casinos and, of course, online gaming are some great opportunities.

So when you look at online gaming and when you look at the opportunity, about half of the monies generated through wagers are going outside of the province of Manitoba. So, you know, somewhere in the neighbourhood of $40 million is going offshore to these illegal operators.

So as we work to combat the illegal market, again, that is a huge growth opportunity for us, for the Province of Manitoba, to be able to kind of bring that back in and keep those monies in Manitoba to support the important programs that we have in the province of Manitoba, and that's where we got to lean into. And at the same time, I'll say it again, for those areas that are declining, we have to act prudent–you know, we have to be very prudent and adjust accordingly as to, again, how do we reduce those operating costs. Because, again, we're mindful; it's not growing. So at the same time, operating expenses related to those areas shouldn't be growing as well.

Mrs. Robbins: Specialty wine store sales declined by–year over year over year have been declining. Does MBLL review this as a structural issue or as a wholesale model?

Mr. Sul: I'd say this is a reflection of the declining trends and, in particular, in the wine categories. So if you look at wine over the last five years, it's declined by, in volume, 19 per cent.

So, again, you know, those are the two areas: beer and, particularly–beer and wine are the ones that are declining significantly year over year. And, of course, their channel is playing in that–in the wine market, and that's what's impacting them, because we got the same number of operators, you know, again, same locations. Nothing's changed for them other than, like I say, is consumer demand and consumer habits.

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And I think the other thing I would add to that is that there's a growing trend towards refreshment beverages, so that's kind of the new–you know, across North America, where everybody's seeing, kind of, increase in, kind of, volume. So people are going to the ready-to-drink, the refreshment-type beverages. So, again, that's taking away from, you know, the clientele that would potentially be drinking wine.

Mrs. Robbins: Licensee sales declined, including on-premises of beer sales. What does this indicate about changing consumer behaviour?

Mr. Sul: As I said, kind of in the onset kind of thing, you know, many of the surveys out there would suggest, again, what's driving that is basically economic conditions. And, again, the hardships, the heavy debt loads, you know, that are being carried by young people. And we're hearing anecdotally and reaching out to our various partners out there to understand that people coming into restaurants now are–they're coming in less frequently. I think there was a recent survey that suggested that 56 per cent of the people were going less to restaurants.

At the same time, what we know is when they are going to restaurants, they are buying less. So they're not buying the appetizer and they're not buying the dessert anymore. And then for us, you know, as we kind of look at us and our site holders is that, you know, what do you have left now to go play the VLT machines after? So, again, seeing some of that.

So–but the licensee sales, you know, I would suggest a lot of it's driven by economic conditions affecting that age demographic.

Mrs. Robbins: How many individual US-origin liquor SKUs were removed from Manitoba Liquor & Lotteries' shelves as part of the government-directed response to the US tariffs?

Mr. Simard: Yes. Obviously, it was a very interesting time when we were under threat and still are from US tariffs. I think it was a very strong response that had an immediate impact on the–our US vendors.

They're obviously hurting because of–you know, the MBLL is one of the largest purchasers of beer, wine in the world, and to have this corporation not buy US liquor, I think, has sent a fairly strong message that, as a government, as a corporation, Manitobans do have a certain amount of strength and–in responding to those types of things.

And I think that a total of 750 pallets of American liquor products were removed from the shelves, so–and put into the distribution for storage. And, yes, I just–direct answer there.

Mr. Sul: Speaking specifically to the number of SKUs: so about 8 per cent of our sales and 8 per cent of our SKUs are attributed to US products.

And if you want to kind of break down, you know, what component that makes up of sales, so when you look at spirits, it's about 17 per cent of our sales–spirits; wine was about 11 per cent; refreshment beverages category would be 4 per cent; and then, of course, beer–much smaller, and that's about 3 per cent.

So at the end of the day, you know, we run about 10,000 SKUs. So that should give you an indication of what was removed.

Mr. Narth: I'd like to thank the CEO for that response on the amount or the portion of the total SKUs that were pulled off as a result of being American products.

Many Manitobans had noticed that some liquor that was still on the shelves were American companies and well-known American companies. And there's examples of those that I could provide if you want specific examples, but I'm sure Mr. Sul knows what I'm talking about. You know, those companies that everyone identifies as Chicago brewers, and we're still seeing them on the shelves in Manitoba liquor stores.

So would the CEO be able to provide some clarification as to what the determinant was for what was considered an American product and a non-American product, since some of those products that remained through the entire time were well-known American companies.

An Honourable Member: Yes, I think he'll elaborate on this point, but brewed in Canada, right? By Canadian workers, and I think that was a very–

The Chairperson: Sorry, Minister, I–my mic wasn't on when I recognized you. So, Honourable Minister Simard.

Mr. Simard: Yes, brewed in Canada, right? And maybe the CEO can continue on that.

Mr. Sul: The–so when the directive was established, obviously, we went through a significant exercise to kind of determine, kind of, what constituted an American product. You know, is it–if it was manufactured in Mexico and then bottled in the US, would that be considered something that we'd remove from the shelves?

So we went through an exercise, but it basically–what it comes down to is, where was it brewed or distilled or manufactured? And if that was in the USA, then they also constitute the products that we would remove. Initially, we removed from the US territories as well, so Puerto Rico and St. Croix would be other locations where we had removed originally.

But, again, sometimes it'd be the odd product, and a lot of consumers were confused because you could see that different formats were sold–were manufactured in different places. So you could have a Smirnoff size format manufactured in the US, and some manufactured in Canada. So, you know, that was also creating confusion as to what's American or what's not.

But, you know, over some–a short period of time, we were able to remedy that and get some clarity as to what constituted a US product or not.

Mr. Simard: Maybe just to add: one of the benefits here is that we have a lot of–or, we have bottlers and distillers moving their productivity to–or, the production to Canada, because of the steps that we've taken, and very proud of that, as well.

Mr. Narth: Thank you for explaining that and making it clear to Manitobans; that may not have been clear when the original messaging had come out.

Since then, we've seen that there had been American liquor that had been pulled off the shelves, and been sitting in warehousing. And just before Christmas, there was a commitment by the government and the Crown corporation to sell off some of that liquor since it was just sitting there, and that it would be a charitable cause by the government.

Would we be able to find out how much exactly has been given? There's still liquor–American liquor that's on store shelves across our province. Is that money still flowing to food banks and charitable causes, and how much liquor still remains in warehouses today, American liquor?

And if we need to follow-up on that, because there's three parts to that, is that how much was given–we realize why it was being done, it sold off, we have it in the warehouses anyway, so may as well not throw it in the garbage. And–but we also see that it's still on the shelf, so that's the second part. Where is that money going and how much is still available to be sold off?

Mr. Simard: Yes, we can get into the details of that with the CEO, but I would say that, publicly, and it's been released that $2.6 million were–has been already earmarked to charity. As you know, a lot of vendors, because we value our partnership with them, were the first to be able to purchase these items in advance.

You know, Manitobans are very charitable folks. I know I was following the–what was happening with the sale of the US products, and commonly heard if it wasn't going to charity, I wouldn't be here today. And so I do think that that has an important piece here, and just really happy and–with the fact that our MBLL staff was able to respond to pulling those items off of the shelves, that we have a distribution network that could facilitate that, you know, expertly.

* (10:10)

And then conversely, when this decision was made to support Manitobans at Christmastime who are in need of assistance, these charities, and being inspired by Manitobans. This is a Manitoba story where they looked at what was happening in other provinces and provided inspiration to be able to say, hey, Manitoba, we should be able to step up and do this too. Extremely proud of the corporation employees who were able to–and our partners across Manitoba–and to be able to make these orders seamlessly, have the deliveries made in a timely way, to have a competent rollout where everything could be expected to happen so quickly.

And so, in part–response to your question, $2.6 million was–has been distributed–or, will be distributed to charities. There are, you know, as you mentioned, still products on the shelves, and we will make sure that, you know, it's available to folks. But obviously, we are in a trade war, for lack of a better term, and that we–there's been no purchases of US liquor since.

So, CEO Sul.

Mr. Sul: So I was getting into more specifics to your question. Again, so sold, you know, so far–so, we sold $6.9 million through 'til December 31, which equates to about $3.2 million cost in the warehouse. So we are sitting right now with about 61 per cent of US inventory remaining in the warehouse.

So, again, it'll take some time to get through that. And so we're grateful that we've, you know, allowed–we've been allowed to continue to sell it through them again, so that we can kind of avoid spoilage and that–this product going to waste along the way.

So at the end of the day, to date–and I'm kind of going ahead of myself here–but at the same time, you know, again, we've only disposed of $140,000 product to date. During that period of time, I just did want to make a note that we were actively looking to sell it back to the suppliers. So we were reaching out to say, hey, do you want to take your inventory back and repurpose it into another marketplace? And we were very successful with our liquor operations team to sell back $1.1 million back to suppliers at cost.

Mrs. Robbins: So were private liquor vendors, licensees or duty-free operators compensated or otherwise supported for losses related to the US product removal?

Mr. Sul: None, other than, again, the product that they had already purchased, and so there was cash outlay on their part; they were allowed to sell the product through. So they also were given the opportunity to return the product in the beginning as well, so–again, to mitigate the risk or, you know, to their organizations or to those liquor vendors out there. So we did honour that, you know, for them to return their product if they so choose, but many elected to continue to try and sell it through, thinking it would be kind of in high demand.

Mrs. Robbins: So as–March 31, '25, is any US liquor currently on order either directly or through distributors?

Mr. Sul: That was ceased last year. So when the declaration, you know, that we'd be removing the product, at that point in time, we discontinued replenishment of our inventory in the warehouses. So there's no incremental inventory in the warehouses.

Mrs. Robbins: So the inventory you have right now of the US that's still out there, is that still going to charity?

The Chairperson: Before I recognize anyone, I'll just remind folks to direct comments through the Chair. It's been very pleasant but there's been a few slip-ups over the past half hour or so.

Mr. Sul: Yes, so all the net income is remitted back to the Province of Manitoba, so we have no part in deciding kind of the disposition or any contributions to charity. That would be a decision of the government.

An Honourable Member: Could the minister answer?

The Chairperson: Mrs. Robbins.

An Honourable Member: Could you restate the question?

Mrs. Robbins: Okay, so any of the products that are remaining on the shelves right now that you're selling, is it still going to charity?

Mr. Simard: All the profits from the sale of US liquor will go to charity, yes.

Mrs. Robbins: Has Liquor & Lotteries altered its procurement strategy or supplier just–so for–to reduce future exposure to geopolitical or trade disruptions with anyone? Like, have we looked at more Canadian and replenishing it with products?

Mr. Sul: So when–you know, of course, we're hopeful that people lean into and continue their demand for Canadian products and Manitoba products, of course. We've seen a significant uptake. People have found their way in the absence of US liquor, you know, to the great products we offer in our country. At the end of the day, you know, hopefully that kind of is a continuation of that.

But at the same time, when you think about mitigating risks, you know, the supply chain, again, we're constantly looking at, in particular, having distribution through Canada. So we're always kind of looking at finding distributors in Canada to mitigate the risks and the duration of delivery as well to have more consistent and reliable delivery time periods.

So when you're shipping from abroad, from like an–Australia or South America, you know there's a lot of wiggle room there as to, you know, how quickly something can be distributed. But we are leaning in more to use local distributors in Canada or across Canada to help kind of develop predictability in the ordering process and, at the same time, mitigating against the risks of disruptions.

So it could be like a strike in a port in Europe; it could be a labour strike in the US somewhere that, you know, again, that we're not impacted, or we're insulated from those disruptions to the business. So we are actively mitigating that risk, and we were doing that even before the US situation arised.

Mrs. Robbins: So what criteria will the Manitoba Liquor & Lotteries use to determine if and when the US liquor products will return to the shelves as purchasing, not just the stuff that's left, being the fact that some of our neighbours have already put US liquor back on their shelves? And I know it's driving some customers over there to get that product from our own province.

Mr. Simard: Yes, so, I mean, seeing we're here for the annual report for '24-25, I'd like to maybe just reiterate the fact that the government's response was to the announcement of these tariffs that were imposed on Manitoba at the time.

And I think from a go-forward perspective, it's important that we look at the geopolitical situation and determine what's going on with the threat down through the US. But we have a president who is working unpredictably, I say, to be most kind, and those geopolitical threats aren't going anywhere.

And in terms of the future, you know, we've demonstrated in the past that we'll make decisions that protect the integrity of our province and we'll comment on what happens next door as we go through last year's annual report.

Mr. Sul: And to add that, you know, so we're keenly aware of Alberta and Saskatchewan continuing to replenish their US liquor inventory. We've heard anecdotally that there are consumers who will go to Alberta or order from Alberta products into the province of Manitoba.

At the same time, we've done some surveys with some of our payment card providers and we've seen no notable increase in the purchases of liquor outside the province with Manitobans. So there's nothing been notable to see, like, hey, or see–because they can track by category of purchase and we haven't seen any notable increase. But we know that that behaviour happens and that behaviour persist–or existed before.

Mr. Simard: And just to reiterate the fact that I think, one, is this is an opportunity for Manitobans to continue to support local distillers like Patent 5 and our brewers across Manitoba. We have a very robust and healthy relationship with craft producers, and this is an opportunity for Manitobans to choose Manitoba.

Mrs. Robbins: Okay. Were any purchase orders for US liquor cancelled as a result of the removal directive? Like, were there orders on that you cancelled?

Mr. Sul: At the time of it–so–and to be clear–so when the first threat happened, because remember there was a little bit of a delay there–at that point in time, we stopped all purchase orders going out. So we actually got ahead of the game and we anticipated that they eventually would be pulling the product off the shelves, so we actually stopped in advance of it.

So it was almost, I believe, a month prior we stopped. And so anything pending, it basically was stopped in the system because, again, a lot of the systems are based on an auto-replenishment type of algorithm. *[interjection]*

* (10:20)

The Chairperson: Mrs. Robbins.

Mrs. Robbins: So did the Liquor & Lotteries incur any cancellation penalties or restocking fees or damages from the US supplies like–by stopping the orders?

Mr. Sul: None. There was no cost incurred. So it was just a matter of, you know, shutting down the purchase order delivery.

Mrs. Robbins: Did the Liquor & Lotteries negotiation price concessions, or credits or deferred deliveries from the US suppliers as a part of this process? Like, did the Liquor & Lotteries negotiate price concessions?

Mr. Sul: No, there was none made.

Mr. Narth: As we're on this topic of US product removal, is–has there been an exact calculation of the net financial impact of US product removal on MBLL's net income for this year?

Mr. Simard: Yes. I think the important part here is that consumers across Manitoba had looked to options that–outside of the US liquor and that it–I think it would be hard to quantify where discerning customers may have made a different choice had they done US liquor.

I think that what we did see, I think, with the last foray back on to the shelves is that folks are willing to purchase US liquor if it goes to a great cause. They're not really happy about the fact that we–or they were happy the fact that we were able to make this pretty strong decision to not support American producers in response to the tariff threats.

I think that in order to decide what that impact would be, I mean if it's an increase, let's say, on Sleeman's bourbon–or not bourbon, I guess, can say, but Sleeman's whiskey, as an increase because people weren't able to choose their Kentucky bourbon, I think it would be a little bit interesting to be able–exercise–to be able to say where we actually lost a consumer. We–it's our feeling that the consumer continued to purchase the liquor and they were happy to make those purchases knowing that the funds were going to–profits were going to charity. But maybe–

Mr. Sul: So back to the question: So, again, you know, it's very complicated in the fact that it's complicated by the fact we're seeing declining consumption, right, so there's another variable, kind of, in the equation.

But, you know, we've kind of roughly looked at what previous year behaviour was, and so for the non-US products that people have migrated to, we've seen roughly, like, about a $36-million increase for non-US. So that would include Canadian–you know there's a penchant for going to Irish whiskey. We saw a beneficiary being the Canadian BQA wines as an alternative to the US wines that people preferred out there.

So, again, it's a very difficult calculation because you're making assumptions on–that behaviour would be consistent year over year, but of course we know there's the decline of liquor consumption along the way. So that's a calculation we'll kind of have to play out at the end of the fiscal to calculate that out. But this is what we're seeing year to date.

Mr. Narth: So then my question would be: Is this going to be the direction moving forward?

And the reason why that's I think a valid question is because we saw the tariff interruption on Canadian goods be very short-lived between Canada and the US. There's some exceptions that were outside of the CUSMA agreement, but there was only roughly six weeks that we saw an impact on goods outside or within the CUSMA agreement, which is the negotiated trade agreement with the US, while at the same time we saw nearly a year of significant tariff implications on Manitoba products, specifically canola from China, that had a tremendous impact on the agriculture industry and a driving economic force in our province. The minister and his Premier (Mr. Kinew) sat silent on expanding this action any further than US products, so we didn't see any other products that saw tariff debate between our country and others.

So is it something that was viewed as an effective approach to battling US trade disputes? Because we saw the US administration backpedal and respect the CUSMA agreement, which was our federal trade agreement, but yet we talk of still keeping US products off the shelf and not reordering.

So the question would be two-part and we can come back to it. Let's focus on the first: How long do we foresee that we lock US liquor products out of the market since we're not doing it and we're respecting the CUSMA agreement federally in all other sectors that were negotiated through that trade agreement?

And then the second part, if you'd want to throw it in there, as well, is that: Has there been any discussion and currently is there any discussion of using liquor as a trade deal pawn with other countries who have actually implemented tariffs that have negatively affect our–affected our Manitoba economy?

Mr. Simard: Interesting question. I think I'll go back to when the decision was made to make this a very strong decision to pull US liquor off the shelves and to not order. I think it had the desired effect to understand that we weren't playing games with Manitobans and Manitoba economy; that standing up to, you know, irrational decisions by the US President–I won't even be kind enough to say US government because I think this is driven out of the Oval Office.

I do think that the most important part that we have to remember here is that we–our corporation puts a premium on Manitoba products. You know, you can go into any Liquor Mart across Manitoba, and the very first thing that you see are shelves and shelves of Manitoba products there for the consumer to browse and try.

You know, really, we have a number of different craft manufacturers and restaurants across Manitoba–The Forks Common–where these products are on the shelves or in–on tap, where folks can enjoy those. And I think that the best response that I could provide to you is that when we put Manitobans first and put Canadians first, that's where you have the biggest benefit.

And, you know, I–being in this committee, which is talking about the annual report, I don't have a crystal ball over what Donald Trump will do tomorrow. I mean, you go back to April 2025, would we be talking about fortifying, militarily, Greenland as a federal government? I think people would look at you a little crazily, but you never know what's going on with this.

And so I think the most important part, what I'm trying to get to here, is the stability of the corporation and the ability to deliver Manitoba products to Manitobans and to support the industry at home is the best response that we can do to be able to grow our economy. And our responsibility here is not to grow the US economy or the Kentucky economy, but to grow Manitobans'.

And that's why I–you know, we have a corporation that puts Manitobans first and puts folks who are doing the work here at home first, and we'll continue to do that with our partners.

***** (10:30)

You know, I look to–in '24-25, we had the first-of-its-kind craft producers summit–I guess, for lack of a better word–between the MBLL and the 45-plus producers here in Manitoba, where we talked about what are our opportunities that we can work on between people here at home, our corporation and delivering for Manitobans.

To talk about what Donald Trump will do this afternoon, I think, is risky. So I think to continue to work on building at home, increasing our ability to respond to what people want, which is putting Manitobans first. And sometimes putting Manitobans first means putting US liquor off the shelves and ignoring them for a little while.

But the world changes, and what we need to be able to continue to do is do what we did in September, where we talked about keeping, the Crown Royal jobs at home, where we continue to invest in working with Diageo and our partners across their products that are distilled here in Manitoba with grain or rye from Deloraine and water from Gimli and with Manitoba workers.

And to continue to do that, I think, in a responsible way, not only with our big producers but also our small producers, demonstrates that that's what our priority is. Our priority is Manitoba. Our priority is making sure that the people who benefit are also the people who contribute. And the only thing our neighbour to the south has done is contributed a lot of uneasiness and, I mean, lack of clarity on where he's going next. And I think that our response in '24-25 was very strong. And our continued investment at home continues to be strong as well.

And I'll move it to CEO.

Mr. Sul: And I know–again, so the uncertainty as to kind of when this would end; you know, again, it's prudent for us to continue to seek out alternative products to satisfy the consumer so they're not going to Alberta or Saskatchewan.

And at the same time, I think the longer it goes on, you know, one of the benefits would be is it might cement into people's preferences to continually choose Canadian. And, you know, it's good for our economy and the manufacturers or distillers across Canada who manufacture these products–very beneficial to our country as a whole.

But at the same time I think we're already starting to see some behaviours happen where we have licensees who have menus, and now that there's the opportunity to put the US product on the menu, they're less apt to do that.

So there is–we're already hearing of reluctance to put US products back on the menu. So they're making a conscious choice to kind of support Canada and kind of show that unity as we move forward.

So we are actively looking at alternative products and, you know, what are some alternatives to bourbon, because, again, you can only get bourbon in Kentucky. From a wine perspective, how do we have that assortment of wine that maybe has some of the same taste profiles that an American wine might have out there.

So, again, we're actively–we're going on the basis of we don't know when.

Mr. Narth: I was quite certain that we'd have to have a follow-up on this one because there was a lot in it.

So just to be clear then, are we saying that this is an anti-US approach more so than a Manitoba-first approach? Or are we safe to say that this is a Manitoba-first approach or Canada-first approach? And if so, has there been any consideration of removing foreign–you know, continually removing foreign products from the SKUs of Manitoba Liquor Marts?

We see trade discrepancy with many European countries, especially with agriculture products that the Manitoba economy relies on. Some of those are some dairy, some–and most notably dairy and beef discrepancies on trade with a number of European countries, including France, which many Manitobans enjoy purchasing wines from France, just as an example.

And then, like I said, we saw tremendous, devastating tariff implications by China on our canola industry in Manitoba.

Is there any discussion on expanding these measures to other countries and products from other countries with the Manitoba Liquor Marts?

Mr. Simard: I think, in response to your question, you know, I keep referring back to the annual report and the actions that we take–that we took at that moment in time. I mean, we work with what's in front of us. And, obviously, MBLL being one of the largest purchasers of alcohol in the world, I think has a fairly strong, you know, impact on what happens in other countries in terms of their product. And I think it's something that they've always had–the corporation had in its mind.

But we–I guess what I would say is that our focus continues to be, and always will be, on Manitobans and Manitoba strength of the corporation to be able to deliver for Manitobans. When MBLL does well, Manitoba does well, and that we continue to work on this and make sure that not only is our supply chain secure but also well managed and has the meaningful technology necessary to be able to, you know, adapt and work with current conditions.

Going back to the earlier comments in the committee here where we were talking about, you know, the investments in IT, the investments in up-to-date technology, those things are very important to be able to react in situations such as this. You know, when we talk about what we've done and what we're here to discuss, which is the annual report for '24-25, I think the focus needs to continue to be on the integrity of the corporation to be able to make decisions that reflect the will of Manitobans. And I would strongly suggest that the will of Manitobans is to make sure that Manitobans are a priority and priority does not shift to unpredictable political climate to the south. But obviously we'll continue to work in individual situations that make sense for the corporation, make sense for Canada, make sense for Manitoba.

But we're a piece of a larger puzzle here in Manitoba where we are partners with Canada. And as they lead they're, you know, they're charged to making Canada strong and diversified. And I think that we continue to be at the table to be able to just discuss those things. That's why when you reference canola and the leadership of our government, who were the first out of the gate, to be able to make the suggestion of what was realized just recently in China to the Prime Minister that this was one–obviously one of the very first things that we had advised them would be a positive thing for producers here.

So, you know, we put Canada, Manitoba first, and we'll continue to do so in the corporation. It's how we operate our business, and we'll continue to do that. But I invite the CEO.

Mr. Sul: Yes, so when we kind of look at, you know, what's on the shelf, obviously, it's the consumer demand that dictates what's on the shelf. There are no strategies or no targets as to say, you know, to remove or reduce from any other countries, despite some of the economic activities that are happening out there. But, nonetheless, we'll always follow the directive of the government in making those choices, you know, should we, take out a specific country from our inventory replenishment.

Mrs. Robbins: You brought up the Crown Royal, and Doug Ford says he's going to be pulling it off his shelves.

Why are we not retaliating back to Ontario and pulling something off from their shelves, or will we?

Mr. Simard: Crown Royal in–is an iconic Manitoba brand made with Manitoba ingredients distilled here by Manitoba workers, and the Premier (Mr. Kinew) is quite clear on his position and that his relationship with Premier Ford, you know, we do–we engage with our provincial counterparts in a respectful manner, that we continue to look for solutions.

***** (10:40)

But I mean, there's nothing that I would say here to change certain people's minds, but what I will say is that we've been banging the Crown Royal drum since the beginning of this tariff situation, where–when US liquor was pulled off the shelves, one of the–well, we would refer to this brand, Crown Royal, as being the choice of Manitobans, to continue to be the choice of Manitobans.

And I would say that our relationship across borders are really important. We recently signed a co-operation agreement with Ontario for US–or not US, for Manitoba interprovincial trade. I think that shows the continued–memorandum of understanding demonstrates our willingness to work with important partner here.

And, you know, if there are disputes, we resolve them in a diplomatic way, like we've done with the US liquor, and we'll continue to discuss with our important and valued Ontario partner.

Mr. Sul: Just to add in short, and again, I think, one of the things that may–hopefully, this has brought to light: it creates awareness of this gem that's in our backyard here in Manitoba. And hopefully we see some elevated sales and understanding of the quality of product that we offer in the province of Manitoba.

You know, again, similar concerns, because it's our No. 1 whiskey brand, from a Canadian perspective, in our Liquor Mart stores. We're hopeful, again, there are no disruptions to the flow of beverage alcohol from that facility itself.

But for us, we've had some discussions with Diageo, the representatives in Canada, and got some reassurances, you know, that their intentions are to keep the plant here and continue to invest in the plant. And they are making investments in the plant, so we know they're here to stay.

At the same time, obviously, we're aware of actions in other provinces, could have some impact on workflow in the plant itself. But I think it needs to stay here and it will stay here because, again, it's what makes the brand: our water, our grains.

Mr. Narth: I'll shift gears a little bit more to specific details on the liquor sale model, and then on the financial profitability of that model.

So I've asked this question in years past on the profit margin, the profitability of the products themselves. And the CEO, Mr. Sul, had given us a breakdown of specifically the profitability cost to retail price or sale price on–it was hard liquor, then spirits, wine and beer, and the profit margin for the Crown corporation is different on each of those.

And what brings that question up is a comment that Mr. Sul had made earlier, that we're seeing now a downward push to the cost of many liquors. So many liquors becoming more affordable I guess could be a term, or less expensive, cheaper.

So if Mr. Sul could update us on what the profitability is, since this is–and I reiterate, this is a valuable, very profitable Crown corporation owned by Manitobans for Manitobans, so I think it's fair to Manitobans to see exactly how profitable the profit potential is for this corporation and where exactly that's derived from.

Mr. Simard: Yes, before the CEO responds here, I'd just like to say, like, obviously, we've–and this was heard in the opening statements from the CEO–our renewed interest and continued discussions with the liquor vendor association, which has been newly established, has led to fruitful conversations. You know, we have a very strong relationship with the Manitoba Hotel Association, as well, who obviously a lot of beer warehouses are–and beer sales are out of that.

And in terms of the profitability, et cetera, I think that one of the points that you're making here is that–and I appreciate you making that–how the MBLL is a very profitable and well-run corporation that gives strong returns.

We have a really strong network and, you know, hybrid model in terms of how we deliver liquor and beer here in Manitoba. And we're very proud of our relationship that we have with liquor vendors and beer warehouses across Manitoba and we think that, you know, solutions or opportunities are best discovered when you have relationships with those folks.

One of the things we heard from the craft beer consultations, the first of its kind in Manitoba's history, was the re-establishment of the MBBA, which is a strong representative for those craft producers, but also in concert about what they want to see from their side, having a really strong relationship with the Manitoba Hotel Association and hear what they want to see from their side, from their business owners, and then this renewed relationship with the liquor vendors group. Then we can work towards strong solutions then.

I think that as we continue to work as a corporation to develop those relationships, relationships that have fruitful discussions and positive discussions, then we can look at what's possible. And really proud of those recent developments, and as we continue to work towards that I think that we put ourselves in a really good spot to be responsive to Manitobans' needs and our partners' needs, so.

Mr. Sul: Yes, so we work to obviously maintain our gross profit margins. So our average gross profit margin is 53 per cent. You know, again, so how we maintain that consistency, we're always mindful of price adjustments and changes, CPI increases to the various pricing components that make up the price.

So, you know, the only thing, kind of, over the years that may have eroded our margin by a category of product would be things like when we introduced, obviously, a new model for the craft manufacturers. So there's a micro and macro markup model that would have eroded some of the margins, but at the same time we've been very consistent in keeping those margins on par with the 53 per cent year-over-year.

And, of course, you know, we're always, again, as I said, mindful of adjusting prices, making CPI increases, making sure that the pricing components align to increase their inflationary costs related to our systems administration of our distribution system as well, so we have managed to keep that very consistent year over year.

Mr. Narth: It's great that the CEO had highlighted 53 per cent profit margin for the liquor portion of the corporation. I think we can all pull that out of the report quite easily, so that wasn't exactly what I was asking. I was asking cost of goods sold–profitability or profit margin–for each product. So that has been given in a breakdown in years past, and I'm just interested in, since comment was made that some liquor products are becoming less expensive, what is that doing to the cost-of-goods-sold profit margin.

So, in years past, just off the top of my head, hard liquor was somewhere around 140 per cent profit margin; beer was slightly lower, somewhere around 120-some per cent; wine was lower than that yet at roughly 100 per cent. But if the CEO could give a clear picture on accurate numbers that we currently are seeing.

***** (10:50)

Mr. Sul: So back to the actual markup. So just to clarify, obviously, refreshing beverages are 95 per cent; wine is 95 per cent; 75 per cent for beer; and 153 per cent for spirits.

But you were looking for the margin by category, and so if we go margin by category, we've got 41 per cent for beer; 53.8 per cent for ready-to-drink or RTD; 63.8 per cent for spirits; and 54.6 per cent for wine. And then if you average that out, that's the 53 per cent I reported, in what you could, you know, obviously glean from the annual report itself.

Mr. Narth: So just to paint the picture for the average Manitoban, so it's fair to say that the difference between the 100 per cent, 153 per cent, as you said, for spirits, to the 53 per cent overall profitability is due to additional operating costs.

Mr. Sul: Just to maybe try to simplify it, kind of, it's duty-paid landed costs. So it includes inbound freight, plus markup, plus system administration, distribution administration, less discounts to the channel.

Mr. Narth: So then that's going to lead me into where the minister thought that I was going already, and that's to clarify the picture on our public-private model that we have in Manitoba. And through the annual report, we can see that the private sector sale of liquor for the Crown corporation makes up roughly half of the revenue. So just wanted to clarify that I'm not reading that wrong and that that's accurate.

And then maybe if the CEO would be able to elaborate on that, to explain to Manitobans how exactly that works. How is it sold through private stores in relation to the public stores that many people in their communities across a city like Winnipeg would be accustomed to, versus those stores in rural communities that people in rural Manitoba would be accustomed to? And how are those private partners who make up half of the revenue for the Crown corporation, how would they be compensated?

Mr. Sul: Maybe I'll start and just kind of–I'll go through the breakdown.

So you're accurate in suggesting it's 52.3 per cent, basically, is the Liquor Marts' contribution to our total sales. Liquor vendors are 11 per cent; 35 per cent for licensees. So this would include beer vendors, as well, in that number. And then 2.1 per cent is accounted to the specialty wine store. And, again, for when it relates to specialty wine stores and licensees, these are sales to them, not necessarily sales to a customer at the end of the day.

So that's the breakdown. So, again, you know, it's almost 50-50 at the end of the day.

Explaining the model, you know, at the same time–so we'll start with the liquor vendor channel. Obviously, you know, we have about 160 liquor vendors across Manitoba that service many of our rural communities in the province. Again, they're eligible to offer all categories, so they offer wine, spirits, refreshment beverages and beer. They are discounted on the product and that's how they generate their margin.

So when you look at beer, it's 14.5 per cent for beer and at the time of this annual report, it was 11 and three-quarters for the all–other three categories. And that would contribute–those discounts to the liquor vendor would contribute to their net income for their facility or their site.

To that I would add that, you know, again, that's changing. So there was a recent announcement, as recent as yesterday, that went out to all the channel partners that we are introducing a new licensing model in the province of Manitoba and along with that will come with some improvements for our liquor vendor channel in particular that would see a harmonized discount that would increase that by two points. So we would see that going to 3.75. So that was just announced yesterday, or announced or notified our channel partners.

So, again, keenly aware of the importance of the role they play in Manitoba serving Manitobans. At the same time, you know, you brought up many time–or it's been brought up many times–that profitability. Again, mindful of that, we've heard that loud and clear from the vendor association, a small makeup that it is right now, and I'm sure we'll hear about it additionally to that.

But the other thing we always have to kind of remember, too, is that when we look at those channel partners, you know, for the longest time those percentages were pretty stable or static along the way, but we're always increasing prices.

So, again, you're still–you're getting a percentage of an increased sales price or, you know, at the shelf price along the way, so they're always benefiting from that. But at the same time, this was a great opportunity to, you know, create some improvements for our rural partners that would–that we value out there.

When we think of the other channels, so the licensee channels in particular, so the bars and the restaurants: so they get 14 and a half per cent off on beer and they get no discount on the other three categories. So–and the reason being is that, you know, restaurants can mark up themselves, so they can–they'll mark up their wine, their spirits. And so they get no discount, you know, through that channel.

And then, of course, the hotel beer vendors get the 14 and a half per cent as well along the way. So that's basically how the distribution model works to those partners and that's how they generate net income through our partnership.

Mr. Narth: So very similar to years past–obviously, as you've stated–we haven't seen any changes.

Now, as of yesterday, I suppose, you say that there was some changes to that model. But for the most part, the report that we're looking at to previous reports, it had been static at the 14 and a half per cent and 11 and three quarter per cent to the private partners, their profitability.

And then we've gotten the breakdown of anywhere between 97–no; it was 80-some per cent for beer profit margin, cost-of-goods-sold profit margin to 153 per cent for spirits and then overall 53 per cent profitability for the corporation.

So is it fair to say that the partnered private liquor vendors, you know, contributing 50 per cent of the sales of liquor in the province, are contributing a significantly higher profitability to the overall financial position of the corporation year after year?

Mr. Simard: Yes, I would just start off by–you know, as we've stated in this committee before, and as you know, liquor vendors across Manitoba, that's not their primary business, right. So they have a separate primary business through which liquor vendors support their efforts.

I would also say that the gross revenues–or the net revenues to the Province of Manitoba–makes those investments, whether they're in Hamiota, Kenton or Vita or in La Vérendrye constituency or Spruce Woods, for that matter, that the government and Province of Manitoba makes investments in highways, hospitals, paramedics and you name it, based on the net return that the Province can expect from MBLL.

And liquor vendors play an important part of that in making sure that Manitobans benefit. And it's about providing product to Manitobans so that they have the ability to enjoy in Deloraine what you can enjoy in Brandon. And with a corporation like ours, where we put Manitobans first and put the net revenues to

Manitobans first, I think it demonstrates the ability for us to be able to pivot on large issues.

So when investments need to happen for casinos to get rid of that 95 per cent obsolescence, the revenues generated by the MBLL through its Liquor Marts and through its private partners does pay for that.

***** (11:00)

And, you know, we have a really strong relationship with liquor vendors. That's why we went to them first when we opened up the sale of US liquor just before Christmastime where we prioritized their needs. And, you know, having a liquor vendor in a community is a very important thing. Our trade agreements with–or our agreements with those liquor vendors, as you know, protects them from other competitors, where they have the ability to be the ones who have the whole market to themselves depending on the trade analysis that we do.

So all of that work is done by the MBLL. It comes at a cost for the benefit of liquor vendors. Their ability to access our network in order to make their purchase orders, have the deliveries made, a lot of those things come at a cost, and we have to make sure that we honour our partnership with these valued partners to make sure that they get what they need.

And the model, as you heard just recently, we're not afraid of change and we're not afraid to listening, and we're not afraid to working in unison with these voices and to be able to make improvements across the board. And as we continue to work towards an improved model that is profitable for everyone, I think demonstrates why, you know, this public corporation is so important.

And our ability to be able to deliver to The Pas and then conversely to the points in between, shows that Manitobans, even though they may purchase their rural liquor from a private vendor, they do rely on the public distribution network and infrastructure to be able to make sure that they get what they need.

And as we continue to work towards delivering for Manitobans, I think that's an important perspective to keep in mind, in terms of how we–you know, items are priced and how the model is built. It's built for Manitobans first, for the whole province, so that we can deliver on our Province's promise to return health care to where it was prior to past decisions.

Mr. Sul: So, obviously, there's been a lot of focus on the gross profit, but I think, you know, what's important is–know–is what's below that line. I call it the waterline. It's kind of, you know, when you get into your operating expenses in the organization. So when you look at our net-income-to-sales ratio, we're about 36 per cent, you know, when you push it right through, and that's the drop-through to the Province of Manitoba.

I think what makes it very difficult to compare is that, in a liquor vendor or other private channel, I don't know what's below the waterline. If we were trying to compare apples and apples, what are the costs? And, you know, even in a liquor vendor, do you split your costs knowing it's not your primary line of the business? Do you split out your labour costs? The person that's ringing a sale for a bag of chips versus a cashier who's ringing a liquor sale or, you know, is somebody parsing out how those expenses are attributed to one line of the business or not, so that if you were–I know we've been trying to drive for in the past is comparing profitability line for line.

It's difficult to do much–like, you know, at Manitoba Liquor & Lotteries we have so many shared systems: equipment, labour, service divisions in the organization that all contribute to our ability to basically drive these businesses and to continue to support our business partners that are out there, that we can't carve it down to a specific channel and do that profitability comparison at the end of the day. But the liquor vendors and the hotel beer vendors are all beneficiaries of those costs that we incur internally, that you benefit from the freight, the customs clearance and things like that, that don't, you know, you don't see that part of it. You don't see the labour costs in the warehouse, the free shipping that we do out to our various business partners out there.

So, again, it makes it very difficult from a profitability perspective that that's what we want to focus on, to be able to say, line for line, unless I see what's under the covers in each of our private channel partners and that we can kind of compare it to the profitability would be equivalent on our side. But, again, there are so many costs embedded in an organization of our size that are shared and we can't say, well, you know, X per cent, and you're going to say it's 10 per cent to the liquor vendor channel it was for excise efforts and systems. We don't carve it out like that in our system, so it's very difficult, and I know we've been–for the last couple of years, we've been trying to get there in as far as at this table. But, again, it makes it very difficult if I can't see below the waterline in our business partners.

And so all we can see is the gross profit, you know, at the end of the day. And we clearly articulate it and disclose what that percentage is–it's 11 and three-quarters, soon to be 13 and three-quarters harmonized going forward. So it's a difficult question to answer, but at the same time, we're doing our best to kind of articulate, you know, what we can as far as some of the component costs.

Mr. Narth: Thank you to the CEO, Mr. Sul, for that response–a very similar response to in years past and I've asked this question now–this is the third year in a row to–see, and I think it's important. It may be me from a business background, but also I share that with many Manitobans who are looking at Crown corporations and concerned that we may not be looking at them as–from a business lens.

So, just to clarify, I don't think that in three years we needed to overcomplicate looking too deep into the profitability of the public-private model, and, as the CEO, Mr. Sul, had said, looking below the waterline into what the costs are, translating into profitability for the private stores that make up 50 per cent of the sales in Manitoba.

Essentially, they're a subcontractor for the Province and in–whether it be an electrical business, plumbing business, heavy road construction–a subcontractor, when you look at the profitability of the project or the cost for it in the public sector is–if it was a road construction project, it wouldn't play into any account the cost of the project or the profitability on the project–what the expenses are for the subcontractor, right?

So we've gotten a pretty clear picture that the private subcontractors of liquor sales in Manitoba are costing the model 11 and three-quarter per cent and 14 and a half per cent, and that's the simple cost. It really doesn't matter to the Crown corporation at this point whether they're losing a pile of money, that those are loss leaders in their business and that they're selling liquor at a loss, and it's their choice to bring people into a country store to sell them a bag of feed for pigs, or whether it be the main focus of that business.

That doesn't really matter to Manitobans. This is a corporation that we've seen being very profitable, and we should be proud of that as Manitobans, but also some trends that are also concerning from a business standpoint. And since the public-private model is what we have, I think it's important to paint that picture.

So am I right to say that the minister or the CEO wouldn't have an answer for the cost-per-dollar revenue comparison between Liquor Marts and private liquor vendors? It's something that I would think that the corporation should be working on, and I'd like to ask if that's something that could be provided to this committee at a later date.

And it doesn't need to be complicated; it can definitely exclude what that private business's cost of operation is. You don't need to worry about what their costs of hydro or rent or infrastructure expenses are because that isn't what the corporation, at the end of the day, when they deliver the profits back to Manitobans need to be worried about.

But outside of what the operating costs are for the private vendors, just taking the 11 and three-quarter and 14 and a half per cent, are we able to see a cost-per-dollar revenue comparison between public Liquor Marts, which are in our larger urban centres, and the private liquor vendors and licensees across our province?

* (11:10)

Mr. Simard: So I guess what–I'd preface that with saying: flower shop or a jewellery store that also sells liquor products, I mean–and I think the CEO was making a fairly strong point here–have different, you know, operational and revenue and marketing pieces that is different from Liquor Marts. And that when MBLL get together and our community support teams out–going out there for Liquor Marts to be able to talk about DrinkSense or responsible social responsibility, those are all benefits to Manitobans.

The Vice-Chairperson in the Chair

And I would suggest that we continue to work with liquor vendors to be able to make the harmonized changes that you heard about today and talk about delivering for our partners. And the more that we do that and the more that we continue to work in concert with our valued partners, the better we are to be able to serve the needs of Manitobans and that–the difference between the public model that–in larger rural centres, as well, such as Killarney or Swan River. They–profits and the service delivery and the net return to Manitobans goes to the roads that lead to those communities. And that we continue to have that responsibility and that we create a corporation that can respond to the needs of Manitobans.

And the important part here–and I would suggest that saying Manitobans don't care about what happens in one of their partners in a rural community and it's just a shelf in the corner, I think is fairly simplistic. I think that Manitobans do care that the facilities that provide MBLL-delivered products matter and that they're done in a responsible way and that we continue to work with these partners, our valued partners, to make sure that their service and their delivery meets the standard that Manitobans expect.

And that if we can continue to do this, whether it's in a small shop in southeastern Manitoba or a place on the Yellowhead Highway on the way to Saskatchewan, that the products that we have on the shelves for our private retailers are, you know, delivered and–adequately. So to suggest that Manitobans don't care how that works, I'd like to hear the member's perspective on that.

But I'll cede to the CEO.

Mr. Sul: I guess to answer the question, again, you know, administratively, I would tell you it would be difficult or near impossible to break it out the way it's being suggested. At the end of the day, there are so many shared costs to appreciate how you break it down.

So I'll take a simple example. We're shipping a container of wine from Australia, ships across the ocean in a container, gets to a port in Vancouver, gets destuffed, taken apart, put on a rail carrier off to Winnipeg, the logistics to put it into the warehouse. That container contains product that we don't even know who it's for. At the end of the day, it could be ordered by a liquor vendor, it could be ordered by a licensee, it could be ordered by a hotel vendor.

We don't know who to–you know, if you were to kind of dissect those costs by channel partner, we wouldn't have that ability to do that. I think about outbound freight. So we've got a carrier delivering across Manitoba. You know, how would we split up the cost based on who we're delivering to? Oh, it's going to a licensee. Oh, and some of it's going to a liquor vendor.

I guess what I'm suggesting, it would be near impossible to dissect and calculate to the level that's being asked, because there are so many shared costs. Think about the technologies, think about the labour related to it.

How would somebody, you know, realistically, administratively sort that out and split that out? And so, inevitably, in any business, anybody that does business with any business partner, there are services that are shared across channels, partners, that can't be dissected to the level of granularity, I think, that's being asked of me.

Mr. Narth: I'd like to thank Mr. Sul for that response.

Once again, unfortunately, it doesn't give Manitobans any clear picture on what the actual profitability is of the corporation and where that profitability is exactly driven from. Because what we do know for certain is the overarching costs, and we know that some of those don't exist within the private partners.

Those are the 5.5 per cent increase in this last year's budget for labour costs, right? Those costs, maybe some would be related to the distribution, but it would be limited. So definitely understand that there is differences, and it's hard to break out exactly, but I think it's reasonable to expect that we should know what our delivery and distribution costs are, what our technology costs are for the ordering system, what the advertising costs are, what specific advertising costs are supported or security costs are supported to the private vendors and those of the public.

You know, we heard 5.5 per cent increase in labour costs just in this year's financial report, and then we're seeing, year over year, a $12-million increase to operating expenses. But we've also made it very clear that the 11 and three-quarter per cent to private vendors and 14 and a half per cent to public–or private beer stores hasn't changed year over year.

So is the corporation diving deeper into these operating costs to identify the viability of the corporation, because we see that it's still profitable, but those profit margins diminish as increase of labour costs, increase in other operating expenses, but we're still not sharing it with our partners in this model. So when the minister says that it's not fair to say that Manitobans don't care, I think it's more fair to say that the government doesn't care about the Crown corporation's financial viability.

The Chairperson in the Chair

And the reason for that has been very clear to say–or see, and for me to say, by the picture that has been painted: we see a continual increase of operating costs; we don't see an increase in share with the private partners; 50 per cent of the revenue is provided by this–those private partners; and we can't dive down into analyzing where the increase in expenditures are coming for–from.

And we continue to say that trends are changing, people are consuming less alcohol, people are gambling less. But yet we're investing into areas that aren't generating additional profitability for the corporation. We have had no proof today that further investment into labour costs, transportation costs–whatever they may be; we can't break it down, and we've been told that we can't break it down. But we haven't been given any clear direction that that is going to translate into additional profitability. And that isn't going to be translated, obviously, into the private model of this corporation either.

* (11:20)

So my concern is, if there isn't any change to the model currently, we're going to continually diminish the profitability of the corporation. And at what point–this ties back to one of my original questions–at what point are we either going to be mindful of there being other partners at play here and respecting them as well, or that, overarching, the model is continually sliding into a position of diminishing profitability, and where will that stop?

At what point can we say that we're going to see an increase in revenues from the corporation and minimizing–or not minimizing, but at least seeing consistency in the–what we're seeing as the rising cost of operations?

Mr. Simard: Yes, so I do take–I do think that's an interesting path that you're taking in terms of your analysis here, and we have clear evidence based on past behaviour of what it means to gut a corporation from the inside, to not invest in capital, to not invest in employees, to reduce capacity for employees to deliver for Manitobans, to go back to that saying from the beginning where I said, catch up and keep up. I noticed that you didn't dispute the fact that there was a lot of catching up to do.

And when you have an asset like a house, and you don't fix the furnace, and you don't replace the shingles, and you don't invest in the HVAC–those are upfront costs, they matter–or you don't pay for someone who knows what they're doing to repair your home, you're dealing with black mould, your house's value diminishes, your ability to reinvest in your community because you have to leave because your home is no longer worth what it once was, I think that you would agree that it's important to continue to invest in the work that you're doing within the corporation.

Now, if it's just a matter of increasing profitability to the MBLL, perhaps, if you–would you be in support of reducing the amount of profit margin return to private sellers? I would hope not.

So this is an example of putting people first, of putting our partners first, of working with our partners to react to what it is that they need, to have a smooth delivery system, to have a corporation that can respond–like we did in the US liquor aspect, where we can deliver the way we delivered just a month ago–where we have a profitable corporation that continues to provide net profits to the Province that are sustainable for Manitobans, to make sure that the Manitobans who benefit from the purchase of liquor, whether–no matter where they are–it goes into a system that invests in health care, invests in infrastructure, invests in education.

And by destroying the assets that you have, by ignoring the fact that you need to replace machines when they become obsolete, that you can't just continue to fix obsolete machines with parts from the obsolete machines that no longer work, that that's not a viable strategy for profitability in long term, and that these–you know, there's no money for what we see in terms of investment in people, I think is a very dangerous rhetoric to take.

Since when have you ever been able to work with a relationship that you have with someone if you're not willing to sit down and talk about what's–I mean, from a bare–a basic human level? What's wrong? How can I help you? And I think that's a real distinct difference between what we do with MBLL as a public corporation with the best interests of Manitobans, and the top line of our vision and mission.

And if we continue to work in this way, to–these investments. MBLL was built by Manitobans for Manitobans. It wasn't built by Manitobans to be gutted, and I think that's something that we need to remember when we talk about this corporation and the way that we're working towards making sure that people can rely on our corporation to have the best, the brightest workers, the stability of the workforce, proud asset that we continue to invest in, one of the biggest purchasers of alcohol in the world right here in Manitoba, something that you can be proud of.

And as a government, yes, be proud when your workers are on the street with signs saying invest in us, like we saw. I think we're proud of the fact that we work with folks to be able to say you need to deliver for Manitobans. When someone comes into your Liquor Mart that you're there to help them, that you're there to make sure that they get what they need.

Or if someone is in the Interlake, orders something for their flower shop, that they get that stuff delivered in a timely manner, that it's good product, that it's reliable. And that comes with investments in the people on the back end. And I think that what the CEO has demonstrated over and over and over again that to maintain that healthy relationship with the private liquor vendors and the MBLL to bring products to Manitoba is very complex; it's a very tightly stitched sweater and that it's not easily pulled apart, as you would suggest.

The Chairperson: Before I move on to Mr. Sul, I'll just remind all members that comments should be directed through the Chair.

Mr. Sul: Certainly. Yes, I know. And, again, respect public accountability; that's why we're here today, you know, at the end of the day.

So, again, we've talked a little bit about–at length–about our operating expenses increasing and we're mindful of it. We, as an organization, know we have to be responsible to the Province of Manitoba. Again, it's publicly displayed; it's out there, so, you know, we're always working under the scrutiny of the public eye. And so, you know, we have to adapt and react to changes out there.

We talked about operating costs. At the end of the day that's not unique to Manitoba Liquor & Lotteries. Every one of these channel partners that we have, we hear it all the time: their operating costs are going up just like ours are, so, you know, we're no different when it comes to investing in technology, paying your workers the appropriate wages that they deserve. They've got systems, services that they rely on for the various other products that they might sell in their liquor vendor because, again, it's not their primary line of business.

But, again, nobody's immune to these operating cost increases, but I just want to make it abundantly clear we do track, to a very fine level of detail, operating costs and expenses. So that for that purpose we can track where there's variances and where we need to put our eyes on it and lean in and see if there's a way to kind of, you know, improve upon it to optimize our net income back to the province.

But, again, what we're being asked is, is that nobody tracks that level of granularity being asked because we keep going back to saying I want to break it down by channel partner. We track down those costs, but, again–I don't want to repeat myself–but there are things you just can't–you can't even–you can't even put that together–so I don't know how you would take, you know, an inbound freight shipment and dissect the costs by a channel partner when we don't even know who bought it, other than we're replenishing our inventory.

So until such time, do you go back in time and start to calculate that? Like, it's just too difficult, you know, to calculate. Do we have detailed calculations? Is our finance department on top of it? They certainly are and our executive team and our staff are constantly monitoring and managing.

And again–again we are proud of what we do to the province and we're proud of how we contribute. You know, again, we created the vision statement; our people created that vision statement. We know we want to be the leading provider to the province of Manitoba and, again, we care.

Sometimes it almost appears that we don't care about the profitability of the organization. We do care about it and we believe that everything we do contributes back to Manitoba. And so whether it's the net income back to the Province of Manitoba, whether it's community support, it's the social responsibility, we care just as much as we care about every channel partner that we have–liquor vendors, licensees–we're always out there; how do we make them more profitable.

* (11:30)

You know, I mentioned the announcement this week. We care; we thought, hey, this would be beneficial to the liquor vendor channel. At the end of the day they haven't seen increases; we've heard it loud and clear from them. Hey it's been 11 and three-quarters for, you know, umpteen years; we haven't done any adjustments to it. We did something, you know, at the end of the day.

So it should never come across that we don't care because we all do it together and we all do it for Manitobans at the end of the day, and again, every Manitoban care–you know, we care about every Manitoban.

Mrs. Robbins: Going to switch it over and go towards the cannabis operations.

So right now there's an increase of 10.7 per cent, driven primarily by store expansion to 229 locations. Has Manitoba Liquor & Lotteries assessed whether this market is approaching saturation?

Mr. Sul: Yes, so when we decriminalized cannabis in the province of Manitoba, it was established at that time that, again, the want, or the desire, was to have an open market. And as any open market goes, ultimately it's the consumer who will dictate when it stops.

I think we've seen prolific growth year over year over year, and even to this year we're somewhere near 247 cannabis stores, and continues to grow. But at the end of the day, it'll be the consumer that polices the growth of the cannabis industry in Manitoba.

Mrs. Robbins: So the operating expenses increased by 26.7 per cent, far exceeding the revenue growth. What drove this increase?

Mr. Simard: Yes, so what we do know is that this is a fairly new market that continues to grow, and it's–I won't say volatile, but, I mean, it has a number of–if you look at a–I would say a graph chart, within that graph chart, although the increase is–you know, from far away it looks very smooth and upward trajectory, there are some dips and valleys as it goes up.

So I think the–we're seeing some consolidations. We're seeing some acquisitions; we're seeing some closures and also that the demand for cannabis–consumers can still support more stores. And as cannabis producers and retailers continue to diversify the products that are available to its consumers, you see a return to different product, like, to try something new.

So as the growth of the industry continues to have that upward trajectory, with some blips along that upward line, I do think that we're still in that growth period. But.

Mr. Sul: Yes, so on the operating cost, obviously it's a very small portion. It's obviously a small entity, kind of–within the organization, embedded within our liquor and cannabis operations. So that that increase would be technology and salaries and benefits for the contributors to that. We've introduced some new systems for, we'll call it seat-to-sale tracking, as well with our business partners.

Mrs. Robbins: So the net income rose nearly 20 per cent, but how does the Liquor & Lotteries balance profit growth with public health and youth protection obligations?

Mr. Simard: Yes, so I think we have a couple clear indications of having controlled access to some of our stores, to have not just age-restricted, and I think that's an important thing that we've done in the past. And I'll just want to make that point before I ceded my time to CEO Sul.

Mr. Sul: Yes, so ultimately the LGCA holds responsibility for consumer awareness. So, you know, we provide funding to them to sponsor their consumer awareness campaigns.

So since the decriminalization of cannabis, they took on that responsibility along the way. So they're out there with these messaging to kind of combat inappropriate use, or ensuring moderation of use of the products.

But–and then of course the other safeguards that are in place, a lot of them are federally legislated around hours of operation, protective coverings on windows and things like that. So, again, we have limited involvement in our contributions to consumer awareness and social responsibility issues related to it.

Mrs. Robbins: I'm going to move it over to lottery and online gaming.

So the lottery net income declined by 13.4 per cent despite higher ticket sales. What cost pressures are driving this outcome?

Mr. Sul: I would suggest there's no cost pressures at all and it relates to a couple of things that drive it, and one being roll patterns.

So as you know, as the jackpot increases in value, we see incremental sales that go along with it. So when we don't see traditional patterns–because, again, it's about probability–so, again, you know, whether we see those patterns or not, whether it's won or not, will determine whether or not there's a continued roll and then, of course, that would drive incremental growth.

So, in particular, we're really driven on our lottery bottom line, or the allocation from Western Canada Lottery, from the fact that we rely on the national draw-based games like Lotto Max and Lotto 6/49.

So Lotto 6/49 had a poor year last year. But, again, it's randomness as it relates to the numbers being drawn at end of the day.

There are increased cost pressures coming with the Western Canada Lottery. So we are a partner of Western Canada Lottery, along with Alberta and Saskatchewan. And so, similarly, as they tried to move into the digital age, improve their offerings to the public and remain relevant in this digital age, there's incremental costs.

So just to help you understand is that in Manitoba, we pay equalization benefits to the other two provinces. So when we see growth in labour costs or additional staffing, Western Canada Lottery, MBLL or Manitoba, basically pays a proportionate share to the other provinces to recognize that these jobs are in the province of Manitoba. So that's probably the biggest driver of cost.

But, again, from a top line prospective, you know, I mentioned the roll patterns that we rely on. We do some predictive analysis year over year when we budget. Simulations, as to kind of what the estimated rolls would be in a particular year–but, again, that hasn't been happening.

I think the other factor that's coming into play, in particular with lottery, not resonating with the consumer as much. So, you know, scratch tickets. Maybe that's not for the younger demographic now. How do we kind of create some appeal for the various games that are out there because the next generation is not seeing maybe the appeal of participating in a lottery.

So the Interprovincial Lottery Corporation, which is made up of the five regional offices or lottery corporations across Canada–we look after Lotto 6/49, Lotto Max and the Daily Grand. They are actively–and come this April, we'll be releasing a new Lotto Max look and feel and game mechanics to it to hopefully–with that help to appeal, you know, to the fatigue maybe we're seeing in sales. As well as–the Western Canada Lottery is going to be introducing a digital online lottery in April as well.

So, again, trying to find ways to appeal to and meet the current consumer needs.

Mrs. Robbins: So you say that, in the report, like you're basically saying strong dependency is on large jackpots. So does the volatility pose a risk to stable provincial revenues, like?

Mr. Sul: Certainly, we're very vulnerable to the volatility of lottery, of course. You know, again it truly is random at the end of the day.

So we are susceptible to it at the end of the day and at the same time, where we can control the outcomes is to make sure that the products, you know–we have products that sell; whether it's scratch products, whether it's draw-based games, introducing new games.

I think in the year '24-25, we introduced something called Lightning Lotto, again trying to find ways to create appeal and stimulate people to participate in lottery products.

Mrs. Robbins: Online gaming operating expenses increased by 24.8 per cent, largely due to platform and legal costs. Is this cost growth sustainable?

Mr. Simard: Yes, and I would say, yes, I think when you think of some of the legal costs incurred, you know, being able to protect our market in Manitoba–and I think CEO Sul spoke about this in his opening comment–is that we have the threat of illegal operators operating online platforms here. And PlayNow is the only legal safe platform in Manitoba.

* (11:40)

When we filed an injunction and were successful against Bodog for their operations here in Canada when they had–you know, they're invading in a market and who knows where their profits are going. Pick an island in the Caribbean, it could be going there, or Malta or whatnot. And so these legal costs protect our market.

And so I would suggest probably the–not doing it would be a bigger threat to profitability of online gaming. But I'll allow the CEO to continue.

Mr. Sul: Yes, so to answer the question about sustainability, so, again, they'll be predictable over the next five years, you know, based on the duration of the contract that we entered into with British Columbia lotteries. Again, what we're hoping in maintaining this relationship and these incremental costs is that that will get invested in building a better platform–and more appealing, you know, obviously to the customer demographics because we have a lot of competitors. Not legal, but there–you know, there's hundreds and hundreds of competitors out there and, of course, we constantly want to kind of keep up with.

And so, you know, we've had–we have a great presence from a web perspective. You know, an area that we need to grow and it's coming nearby is obviously people want handheld; they want to be able to run their casino apps, their sports betting on their handheld devices. So part of our investment goes towards making sure that, you know, we're continuing to keep up with what the demands of the customer are. So it's an investment. At the same time, hopefully that is realized in incremental revenues.

In addition to, I think, what the minister pointed out, while that's going on, at same time, we've got to combat these illegal operators that are siphoning money off to offshore locations. You know, as I said in the onset, there's probably about $40 million to $50 million being driven offshore, and we want to recapture that because, again, they–it's illegal. You know, it's been deemed to be illegal by the judgment by Judge Harris when we ruled on the Bodog.

So, again, it's clear. Again, that money needs to stay here in Manitoba, and it's our job. And these legal costs relate to specifically fighting for our money back.

Mr. Simard: And also just to, you know, speak again about how–I think it was mentioned by the CEO how we're able to look forward to unveiling a new platform online which should drive more users and–to enjoy what they're already enjoying illegally but legally, and then those investments stay here. So, really excited about that.

Mrs. Robbins: Honourable Chair, so that was my next question. So you're saying $40 billion is what we're losing right now to offshore, approximately.

So are we concerned that then the online growth may cannibalize retail lottery sales, particularly in rural communities?

Mr. Simard: Well, yes, and what we do, there's no substitute for in-person gaming. We do see that there has been an increased migration to our in-person options. We see that in the casino environment here in Manitoba.

In terms of–you know, I was just like everybody else in Manitoba, pretty excited about that $80-million Lotto Max that was rolling for quite a few draws, and having the option to purchase that on the PlayNow app or going to the–a store anywhere in Manitoba to be able to purchase that. I don't think that's going to be going away because, you know, there are some old habits that die hard.

So I do think that that will continue. People have their numbers. They have their people. I think also having the ability for certain retailers of a lot of products to be–share in the winnings, I think, is really exciting as well.

And–but the–obviously, folks do migrate online for their ordering anything. So I think to continue to invest and have a strong platform that can suit their needs but at the same time protect Manitobans' space in that environment is extremely important.

So I would say that, rurally, the–buying tickets at the Shell is here to stay, but.

Mr. Sul: Yes, so a couple things to that, they say. You know, so one thing, we're actually seeing a growth in number of land-based or bricks-and-mortar retailers in the province of Manitoba. You know, we're coming close to almost having 1,000 retailers in the province of Manitoba, so we continue to see that kind of grow.

I think it's incumbent of us, who are members of the Interprovincial Lottery Corporation, the Western Canada Lottery Corporation, that we continue to, you know, their–hear our voice to drive out–we've got to keep our products modernized and appealing to the consumer out there so that we can continue–generate these important revenues: our income that comes back to the lottery retailers.

I think, last year, we were probably somewhere, I think it's $19 million in lottery retailer benefits, you know, that came from selling lottery. So, again, we want to keep driving that because I know it's an important source of income for the many retailers in the province of Manitoba.

Mrs. Robbins: So casino revenues increased at 4.5 per cent while operating income rose 8.4. What factors drove improved 'profability' in the casino operations?

Mr. Simard: Yes, I think going back to that point of making sure that the casino experience is a good one. Having machines and cabinets that are responsive to the changing needs and being able to change the games that people come and play, I think is extremely important.

And, you know, the casino events centre, the Regent events centre does a fantastic job of selling out New Year's Eves and bringing in world-known comedians and acts. I think, this is all part of that and making sure that the events centre is a place where–the host of the Golden Globes played there this summer–is a place that you want to have.

So you've got to make sure that whatever you have invested in those places is world class. I know that this–the Manitoba Country Music Awards, for example, you know, a really cool space there, showcasing Manitoba artists. But they're not going to come to that space and sell tickets at that place and drive traffic to the casino if you don't have the proper equipment.

So I do think that, as CEO Sul details, those investments for the casino, I think they're extremely important. We know that, you know, there was a long overdue HVAC replacement that needed to take place and then just capital upgrades, IT investments to make sure that nothing goes down. I shudder to think what would happen when all the machines in the casino turn off at once. So making sure that the infrastructure that is there is up to date.

We know with the treatment of the VLT network and, you know, almost being 100 per cent obsolete, that there are capital needs that we continue to address, so.

Mr. Sul: Yes, so, you know, looking at, obviously the casino segment, obviously you're–and we're seeing continued increases.

You know, and I alluded to, kind of earlier on, that this is across the board, across Canada. And why that is, is that again, it's that demographic that is least impacted by the debt load that's out there. So they have disposable income at their avail to be able to kind of participate.

But, you know, when we look at some of the increased operating costs, a lot of it's the investment in the gaming equipment itself; so new gaming machines. So similar to what we've been talking about before, there was a number of years where we weren't allowed to invest. So when the gaming pause was imposed, it also included our casinos.

So we weren't investing in maintaining our facility, we weren't investing in the gaming equipment. And we're somewhere in the neighbourhood of about 25 per cent of our gaming equipment on the gaming floor, our slot machines, are obsolete at the end of the day.

So, again, catch up: you know, we're still in this game of playing catch up for the years where we weren't afforded capital to kind of maintain, and given that there was a freeze on the gaming in Manitoba.

I guess the other part would be kind of maintaining our technologies. So our gaming management systems, you know, that connect all the machines together need to be upgraded, kind of on a regular basis.

So–and as well as, you know, we continue to invest in–how do we promote and attract people to come into the casinos with different kind of promotions and pageantry along the way.

***** (11:50)

Mr. Narth: In the opening remarks by the CEO, it was mentioned that the licence freeze for any new lottery licences had been lifted, and I would just like some clarification as to–out of the applications that have been made–there was mention in the opening comments that applications had been made–how many of them had been approved and what type of licences were those?

Mr. Simard: I'll just begin with kind of an opening on this is that, when there's a freeze, we're still getting requests, right? And the requests came in in order from a number of different partners across Manitoba, and that those are basically lined up.

And it's not like No. 1 like you saw on Friday where there's just a line of trucks set in Portage, and as soon as they open the gates, they start driving. There's also needs and infrastructure, items that need to be considered, business cases that were created, discussions that need to happen on how the–all of that would roll out.

So we're really happy to have removed the pause and have active conversations with a number of partners on the future and making sure that it's not–you know, the way in which we treat these is in a responsible way.

Mr. Sul: So all the gaming requests that were mentioned, they're all for VLTs, so it'd be a combination of a new site or net-new sites requesting VLTs. So potentially, you know, the site hasn't been constructed yet.

We have instances of, you know, it's additional VLTs to what would already exist. I would suggest that these 30 requests, given the age of the 30 requests, is that we have to go back and say, hey–that, you know, it's been almost seven years. Do you still want them? Do you still need them?

And, of course, now we've been doing our due diligence of understanding, you know, can we get our secure communication lines and get the necessary bandwidth in to support the VLTs that are in those locations? And so there's some due diligence that has to be done.

And then, of course, it's co-ordinating with the site holders as to, well, when will they construct the site and how do we time the acquisition or purchase of the VLTs? And of course, along goes with that, obviously, is getting the capital funds to afford to it because MBLL is responsible for the purchase of gaming equipment in Manitoba, and basically, we get reimbursed, you know, with principal and interest back from them.

But at the same time, a lot of planning that has to go into place. But they are, to the question asked, they are all VLT requests.

Mrs. Robbins: So what percentage of the casino visits do we know come from out-of-town versus local Manitobans? Do we keep track of that at all?

Mr. Sul: So I would suggest kind of, you know, you're seeing less bus tours coming in than you did because, again, there's a lot of competition out there, right? So there's casinos just across the border in Saskatchewan. There's–you know, just over the border, for those who wish to or choose to cross the border, to visit those types of casinos.

And so, you know, in the day, we knew we had a fairly high number of people coming in to visit the casino. And we still do. There's still all those bus tours, but lesser in number at the end of the day. But I–we are more of a locals casino at the end of the day.

But at the same time, knowing that we have this competition in the US and Saskatchewan, you know, we do promote and advertise accordingly to try to drive the traffic because, again, we are competing for disposable income and we want people to come to Manitoba and keep their dollars in our province.

The Chairperson: Before I move on to the next question, I'll just remind members that we agreed to sit for three hours, which is about five minutes from now.

Mr. Narth: This has come up time and time again now, so I think quickly before time wraps up we'll quickly get this question in, and that is: How does MBLL ensure that social responsibility initiatives, as we've mentioned–how do we ensure those, while important, do not undermine the corporation's core financial mandate to fund essential public services?

So I think very quick and very clear–you know, we talk of the importance of what the Crown corporation gives back to Manitoba and then we also talk about, you know, the social responsibility and we see the commercials, and I think a lot of Manitobans have questions around that. They see the commercials that say no, don't drink too much, don't gamble, and yet, we need this corporation to be sustainable and financially viable.

Mr. Simard: I think this is what–one of the–it's what makes MBLL such an important public investment, is because the efforts that we can direct and manage and invest in from a corporation's point of view align with what should be, in my opinion, government's responsibility.

And by tying investments and social responsibility for addictions treatment, for managed alcohol programs, for marketing, for DrinkSense, any investments in treating FASD, whatnot, comes at a percentage of net revenue. And because of that it's tied to the percentage of net revenue, the important part here is that there will always be funding and priorities for social responsibility. And when we have dollars that come from MBLL for social responsibility go to addictions treatment, we know that people can develop the ability to enjoy our products responsibly and–but there is a means for us to be able to respond when they don't.

And the more that we can create an environment publicly where this–and that kind of makes it a little bit different than maybe a private model is that the–it's in the public interest to make sure that people's mental health is being taken care of, that there are–the ability on online programming to be able to choose to time out or to set limits to a budget. These are all things that we tout.

We have illegal operators across the world that are trying to flood our airwaves with advertising for these illegal operators and you–we need to combat that with legal action because we think it's socially responsible that when you're watching Caillou in the morning, you don't see a bet for MGM Grand casinos, I would say.

Anyway–but the more that we understand the MBLL's role as a public corporation to invest in the public good and being able to tie that to net revenues, I think, is a really important thing. Because there's nothing better than, you know, going to a concert at the Regent event centre and maybe having a beer, and when you're out with your family or buddies or whatnot, we all know that you can enjoy these things and, who knows, put 10 bucks on red and cross your fingers to pay for your night.

But that's a good time and–but you know it's only a good time if you can do it within your means and whether it's responsible. And when we do have Manitobans who overindulge for, you know, reasons maybe that we can help them with, it would be–it's really important to do that.

So I really appreciate the member's question on social responsibility because it is a big thing for our corporation and it's why we invest so heavily in that, and the 2 per cent is a minimum. And we do have, you know, community support across Manitoba to having healthy lifestyles, whether it's an Ultimate league in Brandon or going to the ballet or MTC, MBLL is there to be able to invest in those recreational opportunities to make one's life exciting and rich. And the more that we can do those types of things, I think, is–it's better for Manitoba.

So as I see, too, the CEO here about our social responsibility efforts and, you know, more detail on that, it's just something we're extremely proud of at the MBLL.

The Chairperson: Seeing no further questions, I will now put the question on the report.

Annual Report of the Manitoba Liquor and Lotteries Corporation for the fiscal year ending March 31, 2025–pass.

The hour being 12 o'clock, what is the will of the committee?

Some Honourable Members: Rise.

The Chairperson: Committee rise.

COMMITTEE ROSE AT: *12 p.m.*

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