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The Canadian Wine Industry: A Summary View

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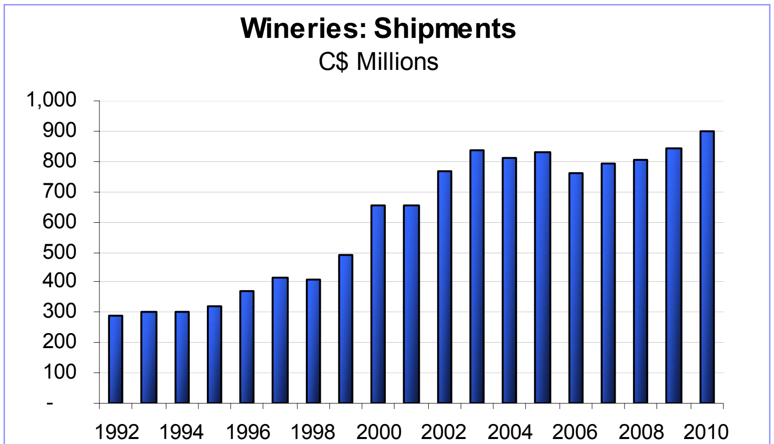
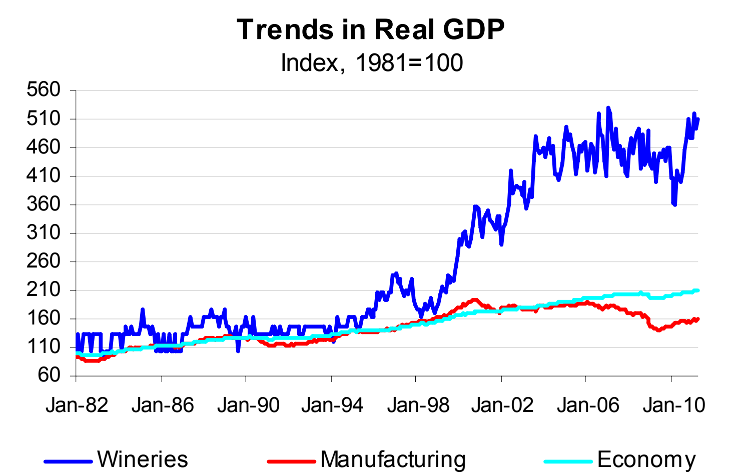
The Canadian wine industry comprises operations mainly engaged in making wine or brandy, from grapes or other fruit, including firms engaged in the following operations: growing grapes and manufacturing wine; manufacturing wine from purchased grapes and other fruit; blending wines; or distilling brandy.

The industry is small, accounting for only 0.3% of the manufacturing sector and 0.03% of the overall economy. It is the smallest beverage segment, with a 9% average output share in the past five years. Breweries and soft drinks & ice are much larger, while distilleries are only marginally so. Wine industry sales amounted to C$897 million in 2010.

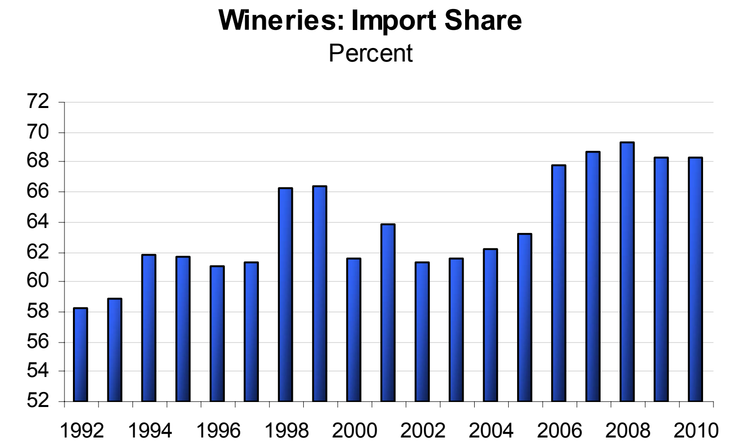
The wine industry has grown at a relatively fast pace, particularly since the late 1990s. Wineries output—measured by real GDP—has grown at an average annual rate of 7.6% since 1998, much faster than the overall beverage sector (1%). The industry's expansion contrasts with a declining output trend for manufacturing as a whole.

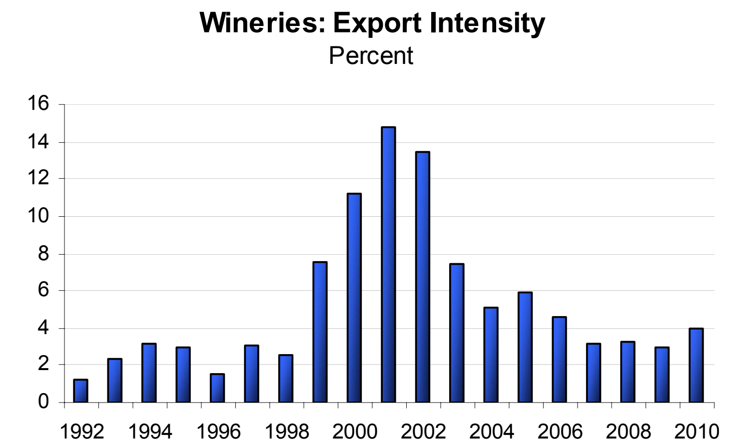




After a period of sluggish growth through much of the 1990s, industry activity quickened substantially. The acceleration reflects a shift from native grape species (vitis labrusca) to wine-quality grapes (vitis vinifera); the creation of the Vintners Quality Alliance (VQA) standard to enhance quality; expanded efforts to promote Canadian wine; and industry consolidation in the 1990s.

Brisk growth notwithstanding, climate conditions limit the scale and the competitiveness of Canadian wine production. Grape-growing is confined to a few small regions and a short season can prevent grapes from reaching maturity. Adverse weather can cause big fluctuations in production from year to year (e.g., 2003 and 2005), making it difficult to serve markets with consistency.





The industry is concentrated in Ontario and B.C., where climate favours grape cultivation in some areas, and in Quebec. Based on operations, half of the industry is located in Ontario and one-third in B.C. Quebec, where production largely involves bottling and blending imported wines, is the third largest producing province, with slightly less than 10% of all facilities.

The industry is fragmented, with most operations being small. Only a few wineries are reported to have 200 or more workers, which would make them medium or large by international standards. The larger firms have wine production interests in two or more provinces.

The industry relies almost completely on the domestic market which has grown briskly. Still, it is not dominant in its home market, with a share of about one-third in 2010. Moreover, Canadian producers have been ceding ground as import competition has intensified.

Fostering brisk import growth are the loonie's strength, the expansion of "New World" output (e.g., Australia, Argentina), and constraints on red wine production in Canada. The main import sources are France, Italy, the United States, and Australia. While imports from "New World" producers are making inroads, France—the largest supplier of imports to Canada—has seen its share slip.

Wine exports are small compared with overall shipments and have declined notably after 2002, following a period of strong growth. Thus, export intensity has fallen from 15% in 2001 to 4% in 2010, reflecting lost competitiveness due to the loonie's increasing strength over that period and a significant expansion of global wine production.

The U.S. is the largest foreign market for Canadian wines, taking over 40% of all exports last year, followed by China with about 20%. In addition, sales to the United States have increased at a brisk rate, which contrasts with a downward trend in total wine exports from Canada.

Industry activity should strengthen in line with improving economic conditions over the next few years. Indeed, production has picked up since early last year. However, output will likely be checked by cautious consumers and the loonie's strength. Spending restraint will limit the size of the market while currency appreciation will hurt the industry's competitiveness and ability to gain or hold onto market share.

Still, to enhance its prospects, the industry must focus on gaining market share at home and abroad. Raising consumer awareness of the quality of its products will be critical in this regard. While exports will continue to play a limited role, fast-growth markets, where incomes are rising quickly and consumption is low, should be targeted.

The industry should also take steps to relieve production constraints, with efforts perhaps centering on grape varieties more suitable to Canadian climate (without sacrificing yield and taste) and on technologies that reduce the adverse effects of climate. Examples of the latter are the use of windmills by some Ontario wineries to prevent cold air from settling over their vineyards and the development of Icewine (from grapes frozen naturally on the vine) as a niche product.