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Quebec Beer Industry Overview

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Report Highlights: With the disappearance of tariffs on U.S. beers in the mid-1990s and the increasing liberalization of Société des Alcools du Québec policies and practices since that time, U.S. beer imports achieved some success in Québec, but they are definitely niche opportunities. The path to achieving export potential for smaller U.S. breweries lies most probably in partnering with smaller regional/specialty Canadian brewers.

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QUEBEC'S BEER INDUSTRY

1. SUMMARY

This is the second of two reports on the export climate for U.S. wine and beer in Quebec. The first report focuses wholly on wine (CA2021); this second report focuses on beer. This reporting was occasioned by Commercial Service counseling of several wine and beer exporters in the State of Vermont in early February 2002. It should be noted that the Foreign Agricultural Service, U.S. Department of Agriculture (which has offices at the Embassy in Ottawa Ontario but not in the Consulates in Quebec) is solely responsible for the promotion of U.S. wine exports throughout Canada and the rest of the world. The Commercial Service, U.S. Department of Commerce, has sole responsibility for the promotion of U.S. beer exports throughout Canada and the rest of the world. All values cited in this report are in Canadian currency (CDN \$ 1.00 = approximately US \$ 0.63 today).

In general, alcoholic beverage markets - wine, beer and distilled spirits - have historically been protected markets pretty much worldwide, and Quebec is no exception. Quebec has been more protectionist of its beer industry than for wine. Most beer sold (more than 95 percent) is controlled by domestic breweries, with Molson and Labatt the overwhelmingly dominant players (combined 90 percent, with roughly equal shares) as the only two national brewing companies in Quebec (see www.realbeer.com; see also www.brewers.ca). (Sleeman, with about 5 percent of the Quebec market is a smaller but national brewer of premium beers with headquarters in Guelph, Ontario and only minor brewing facilities in Quebec.) Some popular U.S. brands (e.g., Milwaukee's Best, a Miller Brewing brand, and Budweiser, an Anheuser-Busch brand) are brewed under license (respectively, by Molson and Labatt) -- see www.icriq.com entries for Molson and Labatt for further details. The Ontario brewer Sleeman has Quebec distribution for its own brands - including the American brands it acquired from Heileman's and Stroh's.

The Quebec Liquor Board (Societe des Alcools du Quebec, hereinafter referred to simply as the SAQ) "controls" the beer import market through its position as the sole legal importer of beer. In response, foreign companies have forged partnerships with domestic producers or distributors to sell inside SAQ stores or, even better, outside in grocery and convenience stores. In fact, the recent trend has been that the SAQ is increasingly out of the beer distribution business and most beer and certainly the most popular brands are sold outside the SAQ system. Also most beer is sold in recyclable bottles, with smaller percentages in aluminum cans or on tap.

With the disappearance of tariffs on U.S. beers in the mid-1990s and the increasing liberalization of SAQ policies and practices since that time, U.S. beer imports achieved some success in Quebec. However, most of the increase occurred after the U.S./Canada beer market access agreement for British Columbia and Quebec of 1994 when Heilemans and Stroh's were active in the market. The U.S. had achieved a respectable market share of Quebec's beer imports by the late 1990s, but it has dwindled in the past three years because of the bankruptcy of Heileman (1996), which was absorbed by Stroh, which in turn sold its Canadian operations to Sleeman. Stroh (owned by Sleeman) is the only beer distributor in Quebec for imported U.S. brands, and almost all of U.S. beer exports to Quebec can be attributed to large-size bottles coming from the former Heileman plant (now employee-owned) in LaCrosse, WI in which Sleeman owns a

"timeshare" for brewing its brands. Sleeman moved the brewing of regular-size bottles of Heileman and Stroh brands to its Guelph facility, thereby accounting for most of the drop in U.S. exports to Quebec (displaced by Ontario exports to Quebec).

This means that opportunities exist for U.S. exporters of beer in the Quebec market but they are definitely niche opportunities. The path to achieving export potential for smaller U.S. breweries lies most probably in partnering with smaller regional/specialty Canadian brewers (e.g., in Quebec among others are Unibroue, Les Brasseurs du Nord/Boreale, McAuslan and of course the national premium brewer Sleeman of Ontario). Other partnering opportunities would include linking up with independent food distributors with experience and strong ties to grocery and convenience stores, but also the capability of supplying bars and restaurants. END SUMMARY

2. MARKET OVERVIEW AND IMPORTS

Market Overview

Canadians drink a lot of beer, and Quebec steadily drinks the lion's share. Of total Canadian alcohol consumption, beer claimed more than half of total sales; wine and spirits were not as popular. Total beer sales in Canada in FY 2000 (ending March 31 2000) grew to \$6,723 million. In volume, this was 21 million hectoliters. (See www.statcan.ca/Daily.) Consumption has increased in value by about \$1.5 billion over the decade. Of this, Quebec's beer sales in the same period totaled almost \$1,970 million or almost 30 percent of total Canadian sales by value when it only represents less than one-quarter of the total population. The breakout of total beer sales in Quebec is \$1,742 million for domestically (Quebec) produced beer and \$229 million (value at retail) for all imported beer. In volume, Quebec's beer sales were 5.7 million hectoliters. (see Figure 1: Quebec's Percent of Canada's Beer Sales (\$), FY 2000 and Figure 2: Quebec's Percent of Canada's Beer Sales (Hectoliters), CY 2000..) Note that Statistics Canada's numbers are based on fiscal year, while Brewers Association of Canada bases theirs on calendar year. See www.brewers.ca.

Figure 1: QUEBEC'S PERCENTAGE OF CANADA'S BEER SALES (\$),
FY 2000 - \$6.7 BILLION TOTAL

Quebec	\$ 1.970 billion	29 percent
Rest of Canada	\$ 4.753 billion	71 percent
Total	\$ 6.723 billion	100 percent

Figure 2: QUEBEC'S PERCENTAGE OF CANADA'S BEER SALES (HECTOLITERS), CY 2000 -
19,535,881 HECTOLITERS TOTAL

Ontario	6,867,267	35 percent
Quebec	5,432,223	28 percent
Rest of Canada	7,236,391	37 percent
Total	19,535,881	100 percent
Imports		

By 1999, US beer imports reached 28 percent of Canada's total beer imports (or \$53 million of \$189 million). By 2001, US beer imports had fallen to 21 percent of Canada's total beer imports (or \$54.4 million of \$258 million).

In Quebec, the picture is even more dismal. By 1999, U.S. beer imports represented 33 percent of Quebec's beer imports (\$16.5 of \$49.6 million). By 2001, U.S. beer imports into Quebec had plunged just over 7 percent (or \$3.3 million of \$45.6 million). Also, Mexico and the Netherlands, share of the market has increased significantly. As explained in the summary, much of the decrease in U.S. exports of beer to Quebec can be explained by the demise of Heileman and Stroh and the shift in production by Sleeman from the United States to Ontario.

It should be noted, however, that this and the following data on imports of beer into Quebec (as contrasted to Canada as a whole) are based on statistics by port of entry not by where product is sold/consumed. Although the Quebec government revises Statistics Canada figures for all imports into Quebec and some principal products to correct for goods entering a non-Quebec port of entry for customs clearance and then transshipped to Quebec for sale/consumption, it does not do so for beer. Given that Statistics Canada has already indicated total sales of imported beers in Quebec at \$229 million (value at retail), the total value of imported beer entering Quebec ports of entry is given as only about \$45 million! Even with the adjustment for taxes and markups from the border to sale at retail, it is clear that the \$45 million is woefully understated, probably by about 60-80 percent (see the SAQ sales figure below of \$102.5 million at wholesale in "imported beers" sold to distributors/brewers with permits for re-sale outside of SAQ and the qualifiers). It is likely that much of the Mexican (and perhaps U.S.) and European beer sold in Quebec is imported into Ontario and the Maritimes, respectively, and then transshipped to Quebec. So with that big caveat refer to Figure 3: Quebec's Beer Imports (www.strategis.ic.gc.ca).

Figure 3: QUEBEC'S BEER IMPORTS (\$ MILLIONS)

	1999	2000	2001
Mexico	17.5	17.4	17.9
Netherlands	8.0	9.7	15.0
U.S.	16.5	7.4	3.3
Other	7.6	8.8	9.4
Total	49.6	43.3	45.6

Mexico's leading position is undoubtedly based on the popularity of the Corona (imported by molson) and Sol (imported by Labatt) brands, with the former shifted a couple of years ago out of the SAQ stores and into the grocery and convenience chains. Heineken (imported by Molson) appears to be the favorite among beers from the Netherlands.

3. QUEBEC AND CANADIAN TRADE POLICY

The trade policy climate for beer in Canada/Quebec had been more protectionist than for other alcoholic beverages. Under the 1989 FTA (US-Canada Free Trade Agreement), Canada refused to negotiate tariff reductions or address non-tariff barriers. Following the FTA but before NAFTA (1994), the United States reached an Agreement in Principle (1992) and a Memorandum of Understanding (MOU) with Canada on beer (1994), which led to the elimination of tariffs (import duties) and allowed distribution outside the SAQ. Unlike wine where most is bottled by SAQ or partners and sold by SAQ, most beer is produced and bottled by local brewers (Molson/Labatt) and sold outside the SAQ. Sleeman took advantage of the opening to take popular brands outside the SAQ and into grocery and convenience stores in direct competition with Molson and Labatt, and, as noted above, Molson followed suit with Corona as did Labatt with its brands. As a result, the SAQ is increasingly out of the mainstream beer distribution business in Quebec.

Under the U.S.-Canada beer accord of 1994 and its annex "Terms of Access of U.S. Beer to the Quebec Market" (see www.tcc.mec.doc.gov/cgi-bin/doiit.cgi), beer exported to Quebec from the United States could be freely distributed to all duly licensed points of sale. U.S. brewers not having a Quebec brewer's permit may market and warehouse beer privately with a beer distributors permit from the RACJ (Regie des alcools, des courses et des jeux - a Gaming Board designed to prevent abuses). once the distributor permit is obtained, the Societe des Alcools (SAQ - Liquor Board) as the sole importer of all alcoholic beverages including beer ensures orders can be placed to the U.S. supplier, clear customs, etc. Under the accord, the supplier has options to transport the beer to the distributor, arrange for the SAQ to do it, or allow the SAQ to distribute and sell the beer through its network. Suppliers must, however, under Quebec law (see next section) choose to have a specific beer brand/size sold either through the SAQ outlets or through grocery and convenience stores, but not both. The accord further established the principles that national treatment be accorded to U.S. beer exports (all taxes and administrative markups must be equal between imported and domestic beers) and that all other charges (service and transportation) be limited and be related to actual costs.

4. ROLE OF SAQ

Despite trade agreements and concessions, provinces have nonetheless maintained some restrictions on alcohol products trade. Under Canadian Federal Law (Importation of Intoxicating Liquors Act), the alcoholic beverage trade is controlled by a provincial liquor board. In Quebec, this is the SAQ (Societe des Alcools du Quebec), a state-owned corporation. "These provincial boards collect federal and provincial duties and taxes on alcohol products, and then add their own mark-up prior to sale of the product," says the Canadian Agriculture Department. The SAQ controls the sale and production of alcohol-including beer. The SAQ owns 379 stores and 303 agencies; 9,200 retail outlets in grocery and convenience stores and 14,000 hotels, restaurants, and bars, supplement its sales network (www.saq.com) "Corporate Profile". The SAQ is the only legal importer of beer to Quebec. Even among beers imported and bottled by other producers, a tax is still levied on behalf of the SAQ by Customs.

Aside from importing pre-packaged beer, the SAQ will issue permits for beer imported in bulk to be bottled by local breweries. This practice occurs rarely, and it originates from other provinces.

The SAQ mostly sells spirits and wines, but the majority of beers are sold outside in grocery stores or corner stores. In 2001, the SAQ sold \$102.5 million of beer to be sold by brewers and beer distributors (www.saq.com) - this excludes Molson and Labatt domestic beers (but includes their imported brands) and represents imported beers sold through distributors. However, SAQ sources clarified that (a) the \$102.5 million of "imported" beer includes beers brewed in other provinces (e.g., Sleeman "imports" from Ontario) and (b) it does not include roughly \$15 million in other imported beers sold through the SAQ system. The SAQ has a minimum sales requirement of \$160,000 in its stores for general listings, although it has no minimum for specialty beers. In contrast, grocery and corner stores have no such requirements.

Foreign and domestic criticisms of its listing restrictions and especially of the only partial privatization of sales in non-SAQ outlets arise from time to time. In part to address the listing concerns, the SAQ plans to open in early 2003 a new superstore (SAQ Decouverte) in downtown Montreal. There, all listing restrictions would be waived and consumers would be free for a time to buy foreign beers purchased by the SAQ (in essence every product would become a specialty product for that store). The SAQ is also modernizing with E-Commerce. Specifically, it invested \$10 million in an e-commerce joint venture with Global Wine & Spirits in 2000 with Technologies Interactives Mediagrif. This site currently deals with only wines (not beer), and although the SAQ says they would consider using it or another site for beer, there are no serious plans to date.

5. CONSUMPTION

Per Capita Consumption

The average Canadian drank almost 62 liters per capita in FY 2000, a small decline from 1999 levels. In comparison to other provinces, Quebec ranked second (95.3 liters), in per capita consumption in FY 2000, after Yukon (146.7 liters) (<http://www.fas.usda.gov/gainfiles/200107/120681159.pdf>). This was only a .1 percent increase

from the previous year for Quebec. Note that consumption statistics should not be confused with sales statistics-see www.statcan.ca for details.

Preferences

Overwhelmingly, Quebec's beer sales are concentrated in bottled, domestic beer. (Figure 4: Consumption Patterns, 1999-2001) (<http://www.brewers.ca/frames/enter-statistics.htm>)

Figure 4: CONSUMPTION PATTERNS, 1999-2001 - \$ AMOUNT (PERCENT)

	1999	2000	2001	
Imports	434,304 (7.5)	354,467 (6.3)	(N/A)	(N/A)
Draught	378,441 (6.5)	366,416 (6.5)	368,743	(N/A)
Cans	415,300 (7.1)	412,125 (7.3)	436,696	(N/A)
Bottled	4,587,848 (78.9)	4,508,669 (79.9)	4,626,784	(N/A)
Total	5,815,893 (100)	5,641,677 (100)	(N/A)	(N/A)

6. PRICES

The average price of Quebec's beers has declined over time, so they are only slightly higher than the rest of Canada's average prices. For domestic brands, Quebec averaged in the middle for prices of 24 bottle cases (\$30), 1 dozen bottles (\$15.30), 6-pack of bottles (\$7.65), and a 6-pack of cans (\$8.65). (Figure 5: Price of Beer, 2000). 2001 statistics are not yet available.

Figure 5: PRICE OF BEER, 2000

	24 Bottles	6 Bottles	6 Cans
Quebec	30.00	7.65	8.65
Canada	29.16	7.80	8.98

CS Montreal recently received from the SAQ a complete analysis of beer prices showing transparently the increase from cost at the border with federal excise taxes added after transport and after small service charges the 69 percent SAQ markup, specific provincial taxes and the GST (general sales tax at federal level of 7 percent) and PST (provincial sales tax of 7.5 percent). Both GST and PST are absorbed by the consumer and rebatable to the exporter. Most importantly, although the total markup from the border or the base price (includes transport, service and federal excise taxes) to retail may be 200-300 percent, all taxes and markups are equal and non-discriminatory among foreign beers and even between foreign beers and domestic beers.

7. PROSPECTS FOR US COMPANIES

Brewers and Distributors

opportunities exist for U.S. exporters of beer in the Quebec market but they are definitely niche opportunities. The path to achieving export potential for smaller U.S. breweries lies most probably in partnering with smaller regional/specialty Canadian brewers (e.g., in Quebec among others are Unibroue, Les Brasseurs du Nord/Boreale, McAuslan) or with a national premium brewer such as Sleeman of Ontario. Other opportunities stem from using an independent food distributor with experience and strong ties to grocery and convenience stores, as well as bars and

restaurants.

Superstore

At this location, the SAQ will not require sales minimums, so it offers an opportunity for other niche beers.

Private Imports

As with wine, beers may be imported through the SAQ private import system for sale at bars, pubs and restaurants or to private groups such as at the Montreal Beer Festival held every year (see <http://www.festivalmondialbiere.qc.ca>, which bills itself as the largest international beer event.

8. U.S. COMMERCIAL SERVICE

The U.S. Commercial Service of the U.S. Department of Commerce offers a number of excellent programs to help export-ready companies identify and secure relationships with quality distributors in foreign markets. The Gold Key Matchmaking Service, in particular, can help U.S. manufacturers identify qualified foreign distributors. Through this customized program, the U.S. Commercial Service arranges appointments for U.S. companies with pre-screened distributors (and/or other contacts identified by the client) whose interests and objectives match those of the U.S. manufacturer. Whether U.S. companies are looking for representatives, distributors, government contacts, licensing partners, joint venture partners or starting a wholly owned company, the Gold Key Matchmaking Service can be extremely helpful when entering new markets. In addition to the Gold Key Matchmaking Service, the Commercial Service offers a number of other services/resources, including market research, agent/distributor searches, and corporate matchmaking, to assist U.S. companies enter new markets.

For further information or assistance, please contact the appropriate regional offices in Canada: CS Halifax, (902) 4292482 ext. 2992; CS Quebec, (418) 692-2087; CS Montreal, (514) 398-0673; CS Ottawa, (613) 688-5217; CS Toronto, (416) 595-5414; CS Calgary, (403) 265-2116; and CS Vancouver, (604) 685-3382. CS Canada is also on the World Wide Web at: <http://www.usatrade.gov>.

CONTACT US!

The Canadian market, in particular, represents a good "first step" to U.S. small to medium sized enterprises (SME) seeking a new and exciting opportunity and we welcome the chance to assist you. When you think of exporting, think "Canada First!"

USFCS MONTREAL/DBUSINGER (514) 398-0673