USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Template Version 2.09

Voluntary Report - Public distribution

Date: 10/9/2007

GAIN Report Number: CA7054

Canada

Agricultural Situation

Canadian Beer Market for U.S. Exporters

2007

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Report Highlights:
As disposable income continues to rise, Canadians are becoming more attracted to premium products. Craft beers are seeing impressive growth and imported premium beer brands have become popular, while premium domestic brands have had difficulty maintaining sales growth. Nevertheless, penetration of Canada's alcoholic beverage industry remains difficult, due to the strict regulatory environment and government domination of the sales channel.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Ottawa [CA1]
[CA]

Overview of Canadian Market

The United States and Canada enjoy the world's largest and strongest trading partnership. Canada is also the top U.S. agricultural export market. More than 60% of total Canadian agricultural imports are U.S. product. Two-way merchandise trade between Canada and the U.S. reached $534 billion in 2006, translating into $1.5 billion in goods crossing the border every single day. When services are added, the daily total exceeds $1.6 billion.

Canada, with its close proximity to the U.S. and shared language, is sometimes overlooked by companies that are looking to expand beyond supplying the U.S. domestic market to becoming first-time exporters. Canada's population and financial center in Toronto, as well as the government seat and high-technology corridor in Ottawa, make Ontario the logical first step for many producers looking to export into a foreign market.

The U.S. – Canada Free Trade Agreement (FTA) and the North America Free Trade Agreement (NAFTA) have created duty free access for most products entering Canada from the U.S., including beer. However, a federal excise tax for alcohol containing beverages is imposed on domestic and imported products.

The legal drinking age in Canada is 19 years in most provinces, and 18 years in Alberta, Manitoba and Quebec.

Advertising of alcoholic products is legislated according to type and is controlled at both the federal and the provincial levels. Each province passes its own legislation on broadcast and print advertising, but must act within the federal regulations for television and radio advertising.

The Canadian Radio-Television and Telecommunication Commission (CRTC) (http://www.crtc.gc.ca/eng/welcome.htm) is responsible for the Code for Broadcast Advertising of Alcoholic Beverages. An Act passed in 1996 permits all alcoholic products to be advertised – replacing previous legislation that prohibited spirits from being advertising in broadcasts. The legislation has several stipulations that are aimed at promoting moderate, safe and legal consumption. Among the most important are the regulations prohibiting advertising from being appealing to children; depicting consumption of alcoholic drinks or indicating inebriation; or conveying the influence of alcohol while operating machinery.

Other industry groups also have codes regarding alcohol advertising. Advertising Standards Canada (http://www.adstandards.com/en/industryIndex.asp) pre-clears all scripts for alcohol advertising before production, and ensures that advertisements meet the varying provincial and federal government standards, in addition to its own.

Canadian Alcoholic Beverage Importation and Distribution System

The Canadian alcoholic beverage industry as a whole is not easy to penetrate whether it is beer or wine. The strict regulatory environment in Canada for the sale of alcoholic drinks means that government stores dominate the sales channel. The purchase, control and sale of alcoholic drinks are under provincial jurisdiction and controlled through provincial liquor boards. In most provinces, the liquor boards control the sale of alcoholic products directly, by selling it through government-owned and run liquor stores. There are a few notable exceptions. As each province has its own distinct way of handling the import and distribution of beer, it is advisable to contact the Liquor Board in each province directly for details of their listing procedures. This report will focus mainly on the province of Ontario.

Imported beers for sale in Ontario are imported by the Liquor Control Board of Ontario (LCBO) for distribution through the LCBO or through an industry-run, but government-regulated, network of retail stores under the banner of The Beer Store (TBS). The LCBO is responsible for authorizing pricing and completing liquid approval and labeling and packaging approvals. For further information on these requirements, check out the LCBO website at www.lcbo.com under "Trade Resources". Application for importation and sale of beer with the LCBO should be made directly with the LCBO. Beers that are to be sold in TBS must be listed separately with TBS. Applications for this listing should be made to TBS directly (http:thebeerstore.ca). See www.lcbotrade.com/selling-beer.thm for information on listing in both LCBO and TBS.

Summary of Requirements for Listing a Product at TBS:

- Brewer must sign the TBS User Agreement. This is the contract between the Brewer and TBS. The contract is the same for every brewer within the system. Only an actual brewer can enter into an agreement with TBS. TBS will not sign the agreement with co-packers, agents or export companies.

- Brewer must provide TBS with proof of $5,000,000 product liability insurance. On the insurance certificate it must state that TBS is co-insured in regards to sales at TBS.

- Brewer must pay TBS a one time listing fee per store per Stock Keeping Unit (SKU).

- TBS is a completely open system which means that a brewer can list as many SKU's as they wish in whatever stores they choose as long as they have completed the above 3 criteria.

- Once a brewer's product arrives in TBS stores it is given 1 full year to meet a sales criteria. If the product meets that sales threshold the product remains in the store. If the product does not meet the threshold then it is removed from sale and de-listed from the store.

- TBS has a list of Basic and Elected Services that they charge brewers once the product is sold. Information on what type of services is provided and the associated fees would be provided to the brewer.

Once the TBS has agreed to sell an import brewers brand, TBS notifies the LCBO and they purchase the product from the brewer and import the product into Ontario. TBS purchases the imported product directly from the LCBO and not the brewer. When the product arrives in Ontario it goes into the LCBO warehouse and they distribute the product to TBS retail and distribution center locations. The LCBO may not wish to carry a brewer's brand in their own retail stores, but they are required to import and distribute to TBS any imported beer product TBS requires to meet the need.

Domestic beer is sold exclusively through TBS but they also sell a number of imported beers. Imported beers are primarily sold through the LCBO. TBS has 441 retail locations throughout the province to service the home consumer market. TBS has also 6 large Distribution Centers spread through the province to deliver beer for all brewers in the system, over 17,000 on-premise (licensee) accounts, and more than 270 trucks. TBS sells product from over 80 brewers from around the world and has over 350 brands of beer. TBS supplies restaurants, pubs, etc. with domestic beers while the LCBO supplies imported beers to these establishments. The LCBO runs over 600 retail locations which sell beer, wine and spirits.

The Alcohol and Gaming Commission of Ontario (AGCO) is responsible for enforcing the regulations under the Liquor Control Act of Ontario and ensuring that beer sold through TBS is taxed at the same rate as the LCBO. The AGCO approves mark-ups, so prices tend to be consistent with beer sold through the LCBO. The AGCO requires that a licensed agent in Ontario must represent all imported brewers. You can find more information on the AGCO website at www.agco.on.ca

Listing fees are charged by TBS based on an initial fee plus a fee for the number of stores in which the products appear. TBS shelves are stocked full of domestic beers in various size bottles, cans, 6, 12 and 24 pack sizes. The Beer Store does not carry a lot of imported beers due to lack of space. To obtain a listing in Ontario, the LCBO is probably the best bet for U.S. beer brewers.

It is mandatory that brewers secure the services of a local beer agent to represent them in the Canadian market. The local agent should already have the contacts with the LCBO and applications for listings are placed through the agent. FAS Ottawa has a one-on-one matchmaker program in place to aid in finding an agent. (Review report "Canada Connect Matchmaker Program" CA6040 on the FAS web site: http://fas.usda.gov, attaché reports.) Through this program a local Canadian alcoholic beverage industry consultant will arrange one-on-one meetings between you and local beer agents.

In Ontario, the Ontario Imported Wine Spirit Beer Association (OIWSBA) is an excellent source of information on the importing of beer into Canada, as well as agent listings. Contact information:

Ian Campbell
Executive Director
OIWSBA
103 Warden Avenue
Toronto, Ontario
M1N 2Z5
Tel: (416) 699-9535
Fax: (416) 699-3907
Email: ian.Campbell@oiwsba.com
Website: www.oiwsba.com

Only Alberta has fully privatized its retail sales of alcoholic drinks; however, the liquor stores are still only permitted to be specialists. Currently, most of Alberta's liquor stores are small, privately owned businesses. The largest, Willow Park Wine & Spirits, has a large 33,000 square foot flagship store in Calgary and 13 satellite stores across the city.

British Columbia is in the process of building a network of private retail stores attached to existing licensee businesses (such as bars and pubs) that will be prohibited from competing with each other or with the liquor board's other retail stores. This is similar to the situation in Saskatchewan and Manitoba, where some alcohol can be sold from licensed hotels.

Only in Quebec and Newfoundland can beer be sold in independent food stores. In Quebec, domestic beer is either sold in convenience stores, grocery stores or independent food stores; it is not sold in the province's liquor board stores. Newfoundland allows domestic beer sales in its independent food stores in addition to its liquor board stores. No other province allows the general sale of beer in independent food stores.

Outside of the exceptions of duty free and on-site brewery and winery sales, all liquor sales in Canada are through provincially run retail monopolies. A U.S. brewer wishing to investigate the Canadian market is advised to contact the provincial liquor board in the province they wish to enter. A list of the various liquor boards follows:

List of Provincial Liquor Boards

Alberta Gaming and Liquor Commission
50 Corriveau Avenue
St. Albert, Alberta T8N 3T5
Tel: 780-447-8600
Fax: 780-447-8919
Web Site: http://www.aglc.gov.ab.ca

British Columbia Liquor Distribution Branch
2625 Rupert Street
Vancouver, British Columbia V5M 3T5
Tel: 604-252-3000
Fax: 604-252-3044
Web Site: communications@bcliquorstores.com
Web Site: www.bcliquorstores.com

Saskatchewan Liquor and Gaming Authority
2500 Victoria Avenue, P.O. Box 5054
Regina, Saskatchewan S4P 3M3
Tel: 306-787-4213
Fax: 306-787-8468
Web Site: www.slga.gov.sk.ca

Manitoba Liquor Control Commission
1555 Buffalo Place, P.O. Box 1023
Winnipeg, Manitoba R3C 2X1
Tel: 204-284-2501
Fax: 204-475-7666
Web Site: www.mlcc.mb.ca

Liquor Control Board of Ontario
55 Lake Shore Blvd. East
Toronto, Ontario M5E 1A4
Tel: 800-668-5226
Fax: 416-864-6864
Web Site: www.lcbo.com and www.vintages.com
Specific to Beer: http://www.lcbotrade.com/selling_beer.htm
LCBO Purchasing Department
Email: purchasing.department@lcbo.com

Societe des alcohols du Quebec (SAQ)
905, Av. De Lorimier
Montreal, Quebec H2K 3V9
Tel: 514-873-7027
Fax: 514-873-6788
Web Site: www.saq.com

New Brunswick Liquor Corporation
P.O. Box 20787, 170 Wilsey Road
Fredericton, New Brunswick E3B 5B8
Tel: 506-452-6826
Fax: 506-462-2024
Email: info@anbl.com
Web Site: www.nbliquor.com

Newfoundland and Labrador Liquor Corporation
P.O. Box 8750, Station A
St. John's, Newfoundland A1B 3V1
Tel: 709-724-1100
Fax: 709-754-0321
Email: info@nfliquor.com
Web Site: www.nfliquor.com

Prince Edward Island Liquor Control Commission
P.O. Box 967, 3 Garfield Street
Charlottetown, PEI C1A 7M4
Tel: 902-368-5710
Fax: 902-368-5735
Email: http://www.peilcc.ca/

Nova Scotia Liquor Corporation
93 Chain Lake Drive
Halifax, N.S. B3S 1A3
Tel: 902-450-6752
Fax: 902-450-5104
Web Site: www.nsliquor.ns.ca

Yukon Liquor Corporation
Building 278, 9031 Quartz Road
Whitehorse, Yukon Y1A 4P9
Tel: 867-667-5245
Fax: 867-393-6306
Email: Yukon.liquor@gov.yk.ca
Web Site: www.ylc.yk.ca

Northwest Territories Liquor Licensing Board
31 Capital Drive, Suite 210
Hay River, NWT X0E 1G2
Tel: 867-874-2906
Fax: 867-874-6011

Nunavut Liquor Commission
31 Capital Drive, Suite 210
Hay River, NWT X0A 1G2
Tel: 867-874-2100
Fax: 867-874-2180

Trends

As disposable income continues to rise, Canadians are becoming more attracted to premium products. Most of the product areas recording the highest growth rates are premium-priced ones. And although craft beers are seeing impressive growth and imported premium beer brands have become popular, premium domestic brands have had difficulty maintaining sales growth.

Although beer sales generally have remained flat, premium imported beers and economy priced lager have been growing while standard or middle-of-the-road priced lagers have been declining. Between 1999 and 2005 beer imports rose 64%, and this was largely from premium-priced product. Despite increasing sales of economy beer, Canadians still find the premium quality attributes that imported beer offers to be very attractive. Craft beer producers have a devoted and growing following among premium consumers. The Ontario Craft Brewers currently have 5% of the Ontario market, a figure that they hope to increase to 12% by 2014; Quebec's craft brewers have a similar penetration of the Quebec market. These craft beers may continue to do well, but their growth will remain limited in comparison to imported products.

Imports are seen as more sophisticated than domestic products. Outside of the microbreweries, and craft wineries, everything Canadian is considered markedly less sophisticated than anything imported. Stella Artois and Heineken, which are mass-market brands in several markets overseas, are considered classy in Canada. Coors Light and Budweiser have replaced Molson Canadian and Labatt Blue, despite their relatively similar flavors and positioning. Exotic and unfamiliar flavors are also popular (e.g., German wheat beers are finding favor with some Canadians).

Tables

Table 1. Sales of Beer by Sub-sector: % Total Volume Growth 2001 – 2006

% Total Volume Growth

	2005/06	2001-06 CAGR	2001/06 Total
Lager by price platform	1.9	1.2	6.0
-Premium Lager	7.0	7.8	45.4
-Standard Lager	-4.0	-3.1	-14.5
-Economy Lager	14.6	11.4	71.5
Dark Beer	2.6	1.0	5.1
-Pale Ale	5.9	8.4	49.4
-Other Dark Beer	1.4	-1.1	-5.4
Stout	1.1	1.2	6.3
Non/low Alcohol Beer	-5.2	-5.5	-24.6
-Low-Alcohol Beer	-5.2	-5.5	-24.6
-Non-Alcohol Beer	--	--	--
Beer	2.0	1.1	5.9

Source: Official statistics, Trade Associations, Trade Press, Company research, Store checks, Trade interviews, Euromonitor International estimates.

Table 2. Sales of Beer by Sub-sector: % Total Value Growth 2001-2006

% Cdn. currency, current value growth

	2005/06	2001-06 CAGR	2001/06 Total
Lager by Price Platform	0.4	1.4	7.3
-Premium Lager	9.3	10.7	66.3
-Standard Lager	-5.0	-2.4	-11.5
-Economy Lager	11.6	9.4	56.8
Dark Beer	4.1	3.3	17.7
-Pale Ale	7.4	11.0	68.6
-Other Dark Beer	3.1	1.4	7.2
Stout	3.1	3.6	19.2
Non-/Low Alcohol Beer	-4.4	-4.4	-20.1
- Low- Alcohol Beer	-4.4	-4.4	-20.1
-Non- Alcohol Beer	--	--	--
Beer	1.0	`.7	8.9

Source: Official statistics, Trade Associations, Trade Press, Company research, Store checks, Trade interviews, Euromonitor International estimates

Table 3. Beer: Production, Imports and Exports: Total Volume 2001-2005

Million Liters	2001	2002	2003	2004	2005
Production	2555.1	2536.8	2155.5	2451.7	2315.6
Imports	183.9	201.7	219.5	210.7	254.7

Source: Official Statistics, Trade Press, GTIS, Euromonitor International

Table 4. Beer Exports by Country of Destination: Total Volume 2001-2005

Million Liters	2001	2002	2003	2004	2005
United States	438.2	395.8	391.0	365.4	355.4

Source: GTIS, Euromonitor International

Table 5. Beer Imports by Country of Origin: Total Volume 2001-2005

Million Liters	2001	2002	2003	2004	2005
Belgium	7.4	11.4	14.6	18.6	28.3
Brazil	--	0.0	9.7	4.7	4.4
Czech Republic	1.9	2.5	2.7	3.0	3.3
Denmark	2.8	3.4	4.1	4.9	5.4
Germany	12.4	15.9	17.1	16.0	18.2
Ireland	13.4	13.8	12.4	8.3	11.1
Mexico	40.7	43.3	44.2	44.3	52.5
Netherlands	35.0	42.7	46.6	41.4	45.7
United Kingdom	13.3	13.5	14.0	13.9	10.5
United States	49.6	46.4	45.9	45.8	61.0
Other Countries	7.5	8.5	8.4	9.9	1.43
Total	183.9	201.7	219.5	210.7	254.7

Source: GTIS, Euromonitor International

Table 6. Beer Imports by Country of Origin: Total Value 2001-2005

C$Million	2001	2002	2003	2004	2005
Belgium	10.0	17.7	23.3	38.1	60.2
Brazil	--	0.1	14.9	8.4	8.1
Czech Republic	2.6	3.8	4.0	4.6	5.2
Denmark	3.5	4.2	4.9	6.5	7.1
Germany	16.4	21.7	23.2	22.3	24.8
Ireland	18.9	19.0	18.3	14.8	21.8
Mexico	65.0	77.4	80.4	80.8	96.2
Netherlands	59.6	68.8	75.2	75.1	88.7
United Kingdom	18.2	18.5	22.1	25.3	22.2
United States	55.0	35.4	48.2	60.0	84.8
Other Countries	10.2	12.0	12.1	15.2	23.0
Total	259.5	299.4	336.6	351.1	442.1

Source: GTIS, Euromonitor International

Table 7 Forecast Sales of Beer by Sub-sector. Total Volume 2006-2011

Million Liters	2006	2007	2008	2009	2010	2011
Lager by price platform	1979.6	2003.3	2020.1	2034.0	2077.6	2016.9
-Premium Lager	310.2	325.9	348.5	371.7	385.8	404.4
-Standard Lager	1161.5	1129.8	1104.0	1061.1	1038.8	1024.4
-Economy Lager	507.9	547.6	567.7	601.2	653.0	6778.1
Dark Beer	262.8	268.5	273.9	278.7	282.3	288.0
-Pale Ale	71.5	74.5	78.5	80.9	82.4	85.0
-Other dark Beer	191.3	194.0	195.5	197.8	200.0	202.9
Stout	10.2	10.3	10.4	10.4	10.5	10.6
Non-/Low Alcohol Beer	2.1	2.0	1.9	1.9	1.9	1.8
-Low-Alcohol Beer	2.1	2.0	1.9	1.9	1.9	1.8
-Non-Alcohol Beer	--	--	--	--	--	--
Beer	2254.7	2284.0	2306.4	2325.0	2372.3	2407.2

Source: Official Statistics, Trade Associations, Trade Press, Company research, Trade Interviews, Euromonitor International estimates

Table 8. Forecast Sales of Beer by Sub-sector. Total Value 2006-2011

C$Million	2006	2007	2008	2009	2010	2011
Lager by price platform	11895.6	11793.5	11718.5	11696.4	11810.3	11941.9
-Premium Lager	2524.0	2661.4	2849.6	3047.3	3178.6	3362.6
-Standard Lager	7298.9	6968.7	6682.7	6361.2	6171.3	6021.7
-Economy Lager	2072.7	2163.4	2186.2	2287.9	2460.4	2557.6
Dark Beer	2238.5	2299.4	2347.0	2402.0	2455.5	2526.4
-Pale Ale	546.5	571.7	608.2	628.3	646.2	669.6
-Other dark Beer	1692.0	1727.7	1738.8	1773.7	1809.3	1856.8
Stout	118.0	119.7	122.0	123.6	125.5	127.1
Non-/Low Alcohol Beer	7.7	7.4	7.1	6.9	6.7	6.4
-Low-Alcohol Beer	7.7	7.4	7.1	6.9	6.7	6.4
-Non-Alcohol Beer	--	--	--	--	--	--
Beer	14259.9	14219.9	14194.6	14228.9	14398.0	14601.9

Source: Official Statistics, Trade Associations, Trade Press, Company research, Trade Interviews, Euromonitor International estimates

Table 9 Forecast Sales of Beer by Sub-sector: % Total Volume Growth 2006-2011

% Total Volume Growth	2006 – 11 CAGR	2006/11 Total
Lager by price platform	1.3	6.4
-Premium Lager	5.4	30.4
-Standard Lager	-2.5	-11.8
-Economy Lager	6.0	33.5
Dark Beer	1.8	9.6
-Pale Ale	3.5	18.9
-Other Dark Beer	1.2	6.1
Stout	0.7	3.7
Non-Low alcohol Beer	-3.0	-14.1
-Low-Alcohol Beer	-3.0	-14.1
-Non-Alcohol Beer	--	--
Beer	1.3	6.8

Source: Official Statistics, Trade Associations, Trade Press, Company research, Trade Interviews, Euromonitor International estimates