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Canada

Wine

Controversial Quebec Plan for Wine Marketing

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Report Highlights: Wine consumers in the Canadian province of Quebec may end up paying higher prices for a reduced selection of products if the government-owned liquor monopoly proceeds with a controversial new plan to manage alcohol-beverage purchases. Moreover, U.S. wine exporters will likely face increased costs in marketing U.S. wines in the Quebec market under the proposed import regime.

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Wine consumers in the Canadian province of Quebec may end up paying higher prices for a reduced selection of products if the government-owned liquor monopoly proceeds with a controversial new plan to manage alcohol-beverage purchases. Moreover, U.S. wine exporters will likely face increased costs in marketing U.S. wines in the Quebec market under the proposed import regime.

Two years ago, the Societé des Alcools du Québec (SAQ) paid C$3.2 million for a 45 percent share in Global Wines & Spirits, an e-commerce business-to-business platform. Shortly thereafter, SAQ chairman Gaetan Frigon revealed plans to channel all of its product purchases through Global's on-line order-tracking system. Plans are also underway for SAQ to require a registration fee of C$1,395 per company, plus product listing fees and up to two percent commission to Global on sales.

This decision has upset wine producers, which in essence would allow the SAQ to profit from Global's commissions on its own purchases. According to trade sources, the monopoly initially tried to coerce wine producers around the world to register with Global by April 1, 2002 or else lose future orders. Spirits and beer companies were given a later date for compliance.

However, pressure from wine-trade associations in the European Community and Australia recently led the SAQ to offer free registration until March 31, 2003. SAQ has also promised to allow producers to use their own electronic platforms if they fully integrate with Global's. However, SAQ has remained steadfast in its intention to purchase wine exclusively on the electronic platform after April 1.

To date, 750 wine producers in 22 countries have registered with Global, according to Michel Lemay, Global's vice president of marketing. However, in an average year, SAQ buys wines from as many as 10,000 producers in 55 countries.

Although more than 90 percent of Quebec's wine purchases come from about 100 major brand owners, such as Beringer-Blass, Southcorp, Robert Mondavi, Baron Philippe Rothschild and Vincor, few of them have yet to sign on with Global. These companies are particularly upset by the prospect that private shareholders would share profits made through a government-mandated monopoly.

"What is particularly galling to us is that there are other independent shareholders benefitting from the work of a government monopoly," said Don Triggs, chairman of Vincor International, which owns several Canadian wineries, including Inniskillin, and California's R.H. Phillips and Washington's Hogue Cellars. "It's just another way of taxing the consumer."

Most wine producers and all Quebec agents (which promote a winery's products and manage its affairs in the province) contacted asked not to be named or quoted directly, saying they feared reprisals from the liquor monopoly.

Quebec wine agents opposing the plan said that, while they do not object to using an electronic platform, they have not been provided with information to allow them to develop compatible systems. They also say the liquor board has not detailed what the future costs of working with the system will be.

In addition, wine agents in the province are questioning the legality of what they call a second level of monopoly and particularly a "privately owned toll gate" into the market. "Quebec represents 25 percent of our business in Canada," Triggs said. "We do not have the option of saying we will not be there."

Nonetheless, with the deadline looming, liquor store shelves in Quebec could look very different in the near future.

The SAQ is the largest single purchaser of wine in the world; it owns 350 retail outlets in Quebec and licenses more than 10,000 retail outlets in grocery chains and convenience stores, which can only sell products bottled in the province.

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