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Canada

Wine

Quebec as a Market for U.S. Wines

2002

Approved by:
Norval E. Francis, Jr.
U.S. Embassy
Prepared by:
Donald Businger & Catherine Goode, FCS Montreal and Marilyn Bailey, FAS Ottawa

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Report Highlights:
Quebecers drink over 15 liters of wine per capita per annum for a total of roughly 100 million liters or one-third of Canadian wine consumption. Although the Quebec Liquor Board (SAQ) controls the Quebec market through its position as the sole legal importer of wine, beer and distilled spirits, with the disappearance of tariffs on U.S. wines and increasing liberalization of SAQ policies and practices, U.S. wines have some potential in niche markets in Quebec.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
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1. SUMMARY

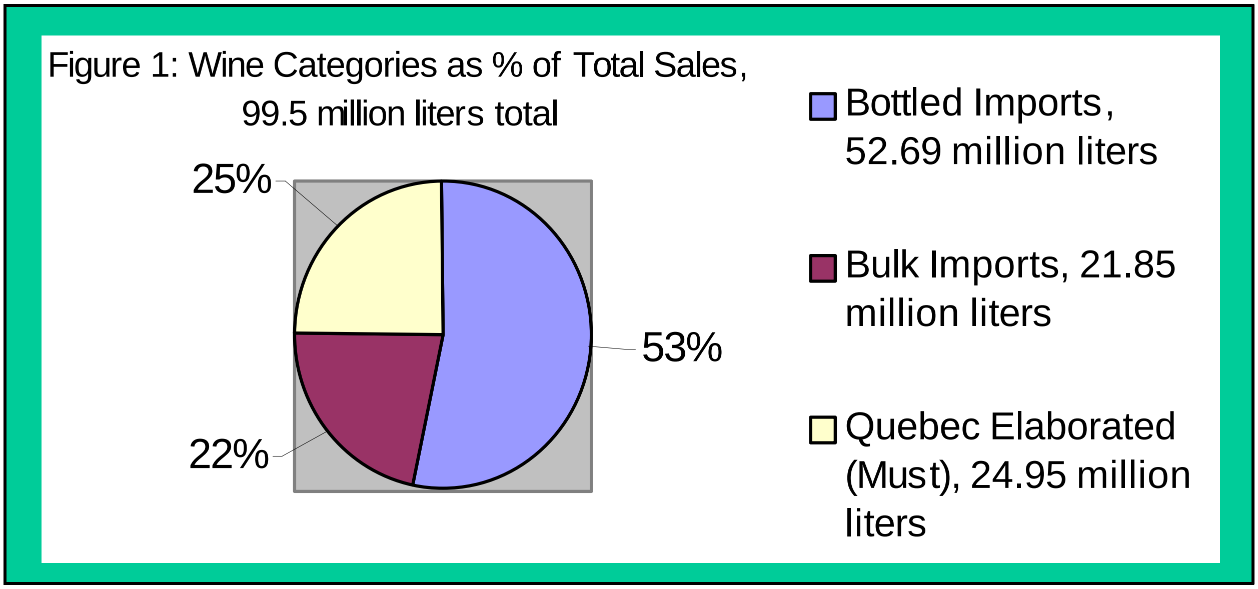
In general, alcoholic beverage markets – wine, beer and distilled spirits – have historically been protected markets worldwide, and Quebec is no exception despite its unique wine regime. The Quebec wine regime is not based on protecting a domestic wine-growing business (Quebec wine growers account for less than 2 percent of the market). Rather, the Quebec Liquor Board (Societe des Alcools du Quebec, hereinafter referred to simply as the SAQ) "controls" the wine market through its position as the sole legal importer of wine, through importing a significant portion of wine to be sold in bulk and promoting bottling of bulk wine by Quebec firms, and through the requirement that "finished" wine imports (bottled outside Quebec) can only be sold within the SAQ stores and not in groceries or convenience stores. Nonetheless, with the disappearance of tariffs on U.S. wines and the increasing liberalization of SAQ policies and practices, U.S. wines have some potential in niche markets in Quebec. As the current U.S. market share is quite small (just over 3%), there is room for growth from a small base, although negative factors such as the exchange rate, Quebec consumer attachment to European wines, and dealing with the SAQ need to be addressed by U.S. exporters.

USDA wine export promotion programs have focused on California and the California Wine Institute; Oregon and Washington, through the Northwest Wine Promotion Coalition; and New York through the New York Wine and Grape Foundation (contact information in paragraph 9). END SUMMARY

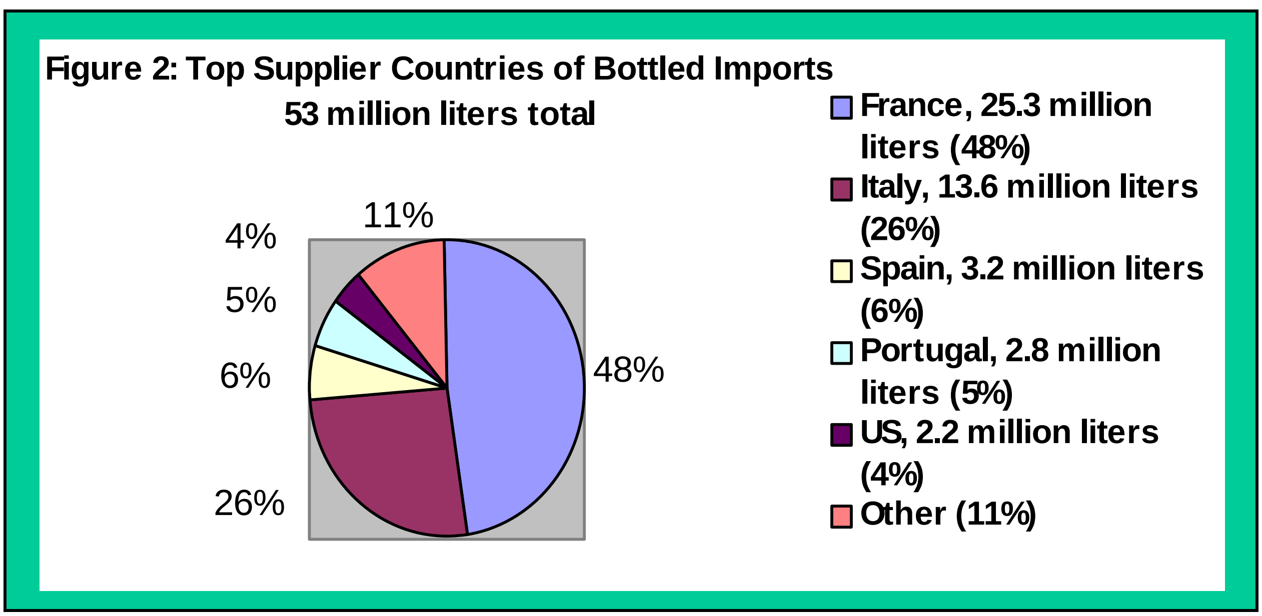
2. MARKET OVERVIEW

Quebec drinks a lot of wine – in fact over 15 liters per capita per annum for a total of roughly 100 million liters, which represents over one-third of Canadian wine consumption. Wine sales in Quebec reached 99.5 millions of liters in 2001. Quebec distinguishes itself from the rest of Canada not only by its relatively high wine consumption/sales but also by its heavy reliance on importing wines (especially European wines, including some high-quality wines) in bulk and bottling them in Quebec. This system is maintained by supplying these wines outside SAQ stores and selling wines bottled outside Quebec only inside SAQ stores with listing requirements.

The breakdown of total wine sales by categories -- imported bottled, imported bulk and locally mixed or processed wines – is presented in Figure 1 (data for 2001). This data shows that of total wine sales imported bottled wines make up over half (53%) of total sales and over 70% of total imports.



France (47.6%) and Italy (25.7) account for 73% of imported bottled wines. The USA is the fifth largest supplier of bottled imported wines in Quebec. See Figure 2 (2001 data).



Imported bulk wines make up over one-fifth (22%) of total sales and just under 30% of total imports, and French (55%), Germany 23%, and Ital (14%) account for 92% of bulk imports. (The USA accounts for less than 1% of bulk imports and U.S. suppliers have generally to date declined to export in bulk to Quebec.) (See Figure 3 - data 2001).

Locally processed wines in Quebec amounted to one-quarter (25%) of total wines sales, and are based on very small imports of grape products from Ontario and British Columbia and almost 99% on Quebec-supplied grape products to "elaborate" wine.

Figure 3: Top Supplier Countries of Bulk Imports as % of Sales Volume

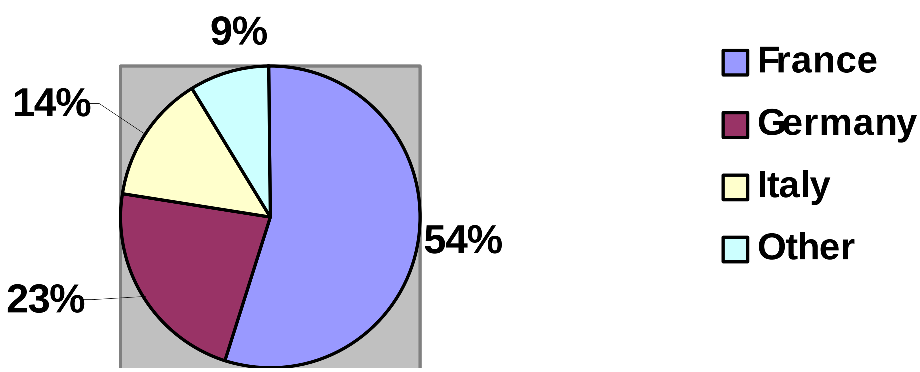
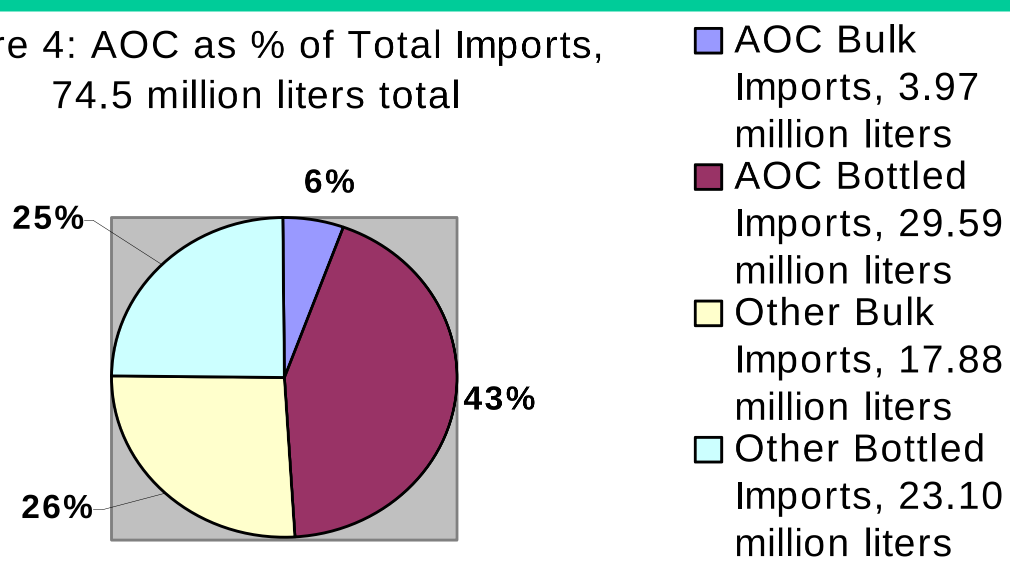


Figure 4: AOC as % of Total Imports, 74.5 million liters total



The SAQ also further breaks down wine sales by whether the imported bottled wines and bulk wines are AOC wines (quality wines based on "appellation d'origine controllee") as in Figure 4 (data 2001). (Traditionally, the SAQ has relied on European – primarily French and some Italian - AOC wines based on origin such as "Bordeaux" or "Beaujolais" for quality imports, whereas the USA and Germany and some other countries rely not on AOC but on the type of grape such as "Merlot" or "Riesling".) AOC bulk imports account for 18% of all bulk imports, AOC bottled imports 56% of all bottled imports and total AOC wines 45% of total imported wines.

Imported AOC wines make up half of wine sales, and table wines a third. This contrasts to the Canadian figure of less expensive table wines ("vins ordinaires") being roughly 80% of total wine sales and mid-premium-priced wines only 20% of sales. On this score, Quebec is a better wine market for U.S. suppliers of quality wines. The "niche" of the market really available to competitive U.S. suppliers is the imported quality wine market, whether AOC or not, and market share would be won primarily from French, Italian and other bottled wine suppliers from outside Canada.

Despite the higher quality of wines sold in Quebec, the average price is very affordable. More than half of all wines sold were priced at retail for less than CDN $10 (all figures in this report are in Canadian dollars), and almost 40% sold for between $10-15. Red wines were overwhelmingly more popular than white or rose, and the Quebecois demonstrated a strong preference for Merlot and Cabernet Sauvignon (www.saq.com "Quebec – a unique market" – this web-site also has a host of other statistics).

3. QUEBEC AND CANADIAN TRADE POLICY RE IMPORTED WINES

As noted above, wine and other alcoholic beverage markets have historically been either protected or controlled. However, Canada and Quebec have liberalized trade policies for imported wine under a series of trade agreements with the USA (notably the U.S.-Canada Free Trade Agreement or FTA), the European Union (EU), and other Canadian provinces (the inter-provincial Agreement on Internal Trade or AIT).

According to an Agriculture and Agri-Food Canada report on "The Canadian Wine Industry" (www.agr.gc.ca/food/profiles/wine/wine_e.html), Canada and its provinces have had to eliminate most preferences they traditionally gave to locally produced wines from other provinces or imports in order to comply with these trade agreements. (In the case of Quebec, the "preferences" were not to locally produced wines as much as to the SAQ's wine imports in bulk to protect value-added and the monopoly.) This report notes that in the mid-late 1980's Canada was forced by a GATT ruling in favor of the EU to extend "national treatment" (equal or non-discriminatory treatment for foreign vis-à-vis domestic suppliers) with regards to listings and distribution and the phasing out of differential price markups. (However, Quebec's restriction of bottled wines being sold in SAQ and only bulk wines outside SAQ was upheld and still exists today.) Similarly, under the Canada-US FTA national treatment was extended to US wines for listings and distribution and differential price markups were virtually eliminated by 1995 and under the 10-year phase-out of almost all tariffs (excepting notably beer in the FTA, tariffs for which were eliminated under subsequent accords in 1992/1994) wines were included, so tariffs were eliminated by 1999. The AIT in 1996 liberalized inter-provincial policies. The Quebec Ministry of Industry and Commerce also published a report on the free agreement and impact on U.S. wine suppliers ("Accord de Libre-Echange", ch. 8 Vins et Spiritueux, pp. 148-153).

On December 18, 2001, Canada signed a Mutual Acceptance Agreement on Oenological Practices with the U.S., Australia, Chile and New Zealand. This mandated increased market access, transparency requirements and a dispute settlement mechanism. According to the agreement, each signatory will allow the importation of wines from every other participating country as long as they are made consistent with the country of origin's domestic laws, regulations and requirements on oenological practices. This provision was intended to erode "different wine making practices" as a reason to bar imports. The California wine industry was pleased with the agreement and viewed it as a step towards freer trade in wines (www.wineinstitute.org/communications/statistics/mutual_acceptance_agreement.htm)

The Canadian Food and Inspection Agency (CFIA) and the provincial liquor boards including the SAQ work together to ensure conformity of wines to Canadian Food and Drug Act standards. All imported and domestic wines to be sold in Quebec must be analyzed and tested by the SAQ laboratory on behalf of CFIA and the province. The SAQ publishes allowable limits for all ingredients. Products must also comply with compositional labeling, net quantity and standardized container size requirements under the Food and Drug and Consumer Packaging and Labeling Acts.

4. QUEBEC REGULATIONS AND POLICIES RE IMPORTED WINES – ROLE OF THE SAQ

Despite trade concessions and liberalization, provinces have nonetheless maintained some restrictions on alcohol trade and Quebec is no exception. 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," as stated in the A report cited above. The SAQ controls the sale and importation of all alcoholic products, including wine in accord with Quebec law (Societe des Alcools du Quebec, Loi sur la L.R.Q., c. S-13, last modified 20 June 2001). The SAQ owns 379 stores and 303 agencies (outlets such as kiosks in outlying regions); and 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 wine into Quebec; and in addition to imports of bottled wines for sale in its stores and imports of bulk wines bottled in Quebec for sale in grocery and convenience stores, the SAQ authorizes private imports for consumption in other venues (hotels, events, clubs, etc.). Even among wines imported and bottled by other producers (notably La Maison des Futailles and Vincor), a tax is still levied on behalf of the SAQ by Customs.

On taxation, there is a federal excise tax for alcoholic beverages including wine, which is imposed ex-"factory" (point of shipment to provincial liquor board warehouses or stores) on domestic products and at the border on imports. This is consistent with international "national treatment" rules on equal and non-discriminatory taxation. In addition, the general sales tax (federal GST) and provincial sales tax (PST) are imposed equally on domestic and imported wines but, like value-added taxes in Europe are passed on to the consumer and are recoverable by the business, so again imported wine faces no price disadvantage from sales taxes.

Under the trade agreements, each provincial liquor board including the SAQ still has the right to maintain listing requirements as long as they are non-discriminatory and related to reasonable commercial factors. The SAQ's listing requirements can be summarized as follows:

general listing: for 2001/2002 requires a commitment by the supplier to attain minimum sales of $300,000; a general listing allows any SAQ store to order from the general catalogue; application may be made by either an accredited promotional agent or by the supplier

specialty product listing: there is no commitment by a supplier to meet any minimum sales target, but the SAQ advises that repeat orders may as a practical matter be based on attainment of say $5000 in each of three consecutive quarters; a specialty product listing expands on the general catalogue and allows certain products which are prestigious, distinctive, ethnic, etc. to be purchased on an ad hoc basis by SAQ outlets

private imports: no listing is required for private imports; all that is required is that a hotel, restaurant, event organizer, private club, etc. order from and pay the SAQ for the imported wine for the private purpose stated

The SAQ is 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. By letter of March 5, 2001 to all suppliers it gave notice that no later than April 1, 2002 it would conduct all business-to-business purchases of wine only electronically. Hence, future and current suppliers must register by April 1, 2002 at www.globalwinespirits.com or by telephone at 450-442-9463.

The SAQ has proven to be a lucrative investment for the Quebec government. The past three years have been the most prosperous ever -- net sales jumped from $1.14 billion in 1998 to $1.55 billion in 2001. The SAQ collected $982 in tax revenues, dividend payment and duties in 2000-$727 million for the Quebec and federal governments and $255 million for the federal; and it has added almost 1,000 jobs since 1998, at 5,000 employees in 2001. However, while the SAQ has succeeded in both importing tremendous varieties of foreign wines in bottle and bulk for re-sale to consumers at reasonable prices with good profits to the government, 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 where all listing restrictions would be waived and consumers would be free for a time to buy foreign wines purchased by the SAQ (in essence every product would become a specialty product for that store).

5. IMPORTS

Despite the government's control over domestic wine production and sales, only 1.5% of wine is actually grown in Quebec. Quebec relies heavily on wine imported from other provinces and especially countries outside Canada. About 70% of wines imported into Quebec have been bottled in other countries or provinces over the past five years. The other 30% is imported in bulk and then bottled in Quebec (this ignores Quebec domestic wines which are fractional and wines produced in Quebec from grape mixtures, which is significant but not for quality wines).

Major countries of origin for both bulk and bottled wine include France (43.7%), Italy (21.2%), Spain (5.1%), and Chile (4.1%). Trade with other provinces took 3rd place (14.6%). Quebec's cultural ties with France explain its strong taste for French wines especially reds. The most popular red and white appellations are listed below:

Most Popular Appellations, 2000

	White Wines	Red Wines
1)	12.5% Muscadet	10.3% Bordeaux
2)	12.4% Bordeaux	5.6% Montepulciano d'Abruzzo
3)	9.5% Colli Albani	4.4% Valpolicella
4)	7.7% Alsace	4.3% Cotes-du-Rhone
5)	5.2% Orvieto Classico	3.7% Valencia
6)	5.0% Bourgogne Aligote	3.5% Brouilly
7)	3.6% Chablis	3.2% Costieres-de-Nimes
8)	3.3% Trebbiano d'Abruzzo	3.2% Chianti
9)	3.3% Cotes-du-Rhone	3.1% Languedoc
10)	2.8% Castelli Romani	2.9% Cotes-du-Ventoux

Quebec's consumers like high quality bottled wines. Over half of international bottled imports (as a percentage of sales) came from AOC regions. Inter-provincial trade consists mainly of bottled Ontario or British Colombia wines. Quebec bought 42% of all red wines consumed in Canada. White and rose wines were not as popular, but Quebec still consumed the highest per capita (5.9 liters) of white wine in 2000 in Canada.

Medium to high quality wines also exist in Quebec's bulk wine imports. Quebec imported 465 million hectoliters of bulk wine in 2001-- almost 99% of Canada's total bulk imports. France dominated bulk wine imports, followed by Germany and Italy. Bulk imports from the U.S. account for only 1% of Quebec's bulk imports. About 20% of bulk wine came from AOC regions.

Maison des Futailles SEC and Vincor, based in Quebec, are Canada's and Quebec's biggest wine importers.

6. BOTTLING

Further, Quebec law stipulates that all wines sold at retail outside SAQ's stores and outlets (i.e., groceries/depanneurs, excluding hotels, restaurants, etc.) be bottled in Quebec. (For marketing reasons, however, the label on wines sold outside of SAQ outlets may say "product of xxx " [e.g., Chili] "imported by yyy" [e.g., Dumont of Rougemont] without reference to having been bottled in Quebec.)

In Quebec, there are two major bottlers. Dumont is the largest bottler of wine in Quebec, with 63% of market share. It is a division of Vincor. The other bottler is the Maison des Futailles SEC. Formed in 1999 through a limited partnership between the SAQ, Vins Andres du Quebec and the Societe de Vin Internationale, it bottles more than a third of all wine sold in Quebec.

7. U.S. PROSPECTS

As a result of the US-Canada Free Trade Agreement's full implementation as of January 1, 1999 – with the elimination of tariffs and other liberalizations, the US has doubled its exports to Canada during 1995-2000. In 2000, U.S. wine exports to Quebec totaled $21 million.

However, U.S. wine exports to Quebec are small when compared to the rest of Canada. The U.S. is the second largest source of wine imports to Canada, accounting for almost 20%, despite the exchange rate. France leads at one-third of wine imports, followed by Italy in third place (16.8%), and Chile (11.2%). However, while Quebec takes almost 36% of Canada's total foreign wine imports (2nd in Canada behind Ontario at 38%), the U.S. exports to Quebec are still small but growing. The U.S. ranked fifth (4%) as a supplier of bottled wines imported to Quebec in 2000.

California, New York and New Jersey dominate American wine exports to Quebec (see www.strategis.gc.ca – trade data online)..

8. BARRIERS TO EXPANSION AND POTENTIAL FOR US COMPANIES

The elimination of tariffs on imported U.S. wines has been offset by the unfavorable exchange rate. To the extent the Canadian dollar strengthens from here, the potential for greater competitiveness by U.S. wines will be enhanced, particularly if the Euro also strengthens.

U.S. suppliers will have to compete with European wines that have been favored by Quebec consumers and will have to address issues about listings by the SAQ and packaging and labeling requirements. Some Quebec food distributors that handle wines may be of assistance in promoting U.S. wines, but of course all bottled wines have to be imported by the SAQ and limited to that distribution channel. Many U.S. wine suppliers may wish to take advantage of the specialty product listings and private imports if they cannot meet the general listing $300,000 requirement. The 2003 opening of the SAQ Decouverte superstore should present an opportunity as well for U.S. suppliers who want direct access to consumers of quality wines.

9. CONTACT INFORMATION

As mentioned in the summary, the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture has responsibility for U.S. export promotion of wines worldwide, including Canada and Quebec. The contact for FAS at US Embassy Ottawa is:

Ms. Marilyn Bailey
Foreign Agricultural Service
United States Embassy
Ottawa, Canada
Tel: 613-688-5266
Fax: 613-688-3124
E-Mail: baileym@fas.usda.gov
Organization E-Mail: agottawa@fas.usda.gov

Companies wishing to enter the Canadian market are encouraged to utilize the "Canada Connect" program. The program assists US exporters in establishing relationships with agents/brokers and/or distributors in Canada and is offered by the United States Department of Agriculture, Foreign Agriculture Service, U.S. Embassy, Canada in cooperation with the U.S. Commercial Service and is provided by a respected market research firm, Faye Clack Marketing and Communications, Inc.

Contact:
Ms. Cory Clack-Streef
Faye Clack Marketing & Communications Inc.
170 Robert Speck Pkwy.
Mississauga, Ontario L4Z 3G1
Tel: 905-206-0577
Fax: 905-206-0581
E-Mail: cstreef@fayeclack.com

Contact information for USDA/FAS partners promoting California, Northwest and New York wines follows:

Wine Institute of California, Canadian Office
Suite 200, 4145 North Service Road
Burlington, Ontario L7L 6A3
Tel: 905-336-8932
Fax: 905-319-4211
Email: rick.slomka@sympatico.ca

New York Wine & Grape Foundation
350 Elm Street
Penn Yan, NY 11933
Tel: 315-536-7442
Fax: 315-536-0719
web site: www.nywine.com
email: uncork@nywine.com

Northwest Wine Promotion Coalition
c/o Forefront Communications
30 Tresillian Road
Toronto, Ontario M3H 1L6
Tel: 416-398-3335
Fax: 416-398-6630
email: alyons@idirect.com

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