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U.S. Wine Exports to Canada Show Explosive Growth

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Report Highlights:

In 2010 U.S. wines exports posted an impressive 30 percent jump to total \$269 million. At 12 percent, growth in volume was also substantial. In value terms, American wines increased in market share to 16 percent, behind France and Italy but now ahead of Australia in this rapidly growing market.

Achievements in 2010 also include the U.S. registering the strongest growth by any supplier in Quebec, Canada's largest provincial market for wine, and California wines moving to the top sales position in Vintages, the premium wine section in Ontario's liquor control board stores. The strong showing has roots in increased overall consumer demand, a weaker U.S. dollar especially relative to European currencies, and consumer interest in the wide array of U.S. varietals and price points. Canada remains an extremely difficult market to enter and/or thrive in due to the monopoly purchasing powers by the provincial liquor control boards. Growth in U.S. exports coincides with sustained marketing efforts by the California Wine Institute, the New York Wine and Grape Foundation and the Northwest Wine Coalition across Canada.

Market Overview

The year 2010 was an excellent one for American wines in the Canadian market. Canada's total imports of wine from the United States grew over 30 percent, from \$206.5 million in 2009 to \$269 million in 2010. Since 2005, Canadian imports of American wine have grown over 117 percent. American wines have been steadily increasing their market share in Canada over the last five years. Depending on whether value or quantity, the United States ranks as third or fourth top supplier. This places American wines within only a few percentage points of perennial market leaders, France and Italy, and competing with another popular wine producer, Australia, for third rank.

	2005	2006	2007	2008	2009	2010
France	27%	26%	25%	26%	24%	22%
Italy	17%	19%	19%	19%	20%	20%
United States	12%	12%	13%	14%	14%	16%
Australia	22%	20%	20%	17%	15%	15%
Argentina	2%	3%	3%	4%	6%	6%
Chile	5%	5%	5%	5%	6%	6%
Spain	4%	4%	4%	4%	5%	5%

Source: *Global Trade Atlas*

In Ontario, Canada's largest province by population, U.S. wines became the number one seller in the Liquor Control Board of Ontario's (LCBO) Vintages sections. Vintages focuses on premium wine and spirits. In the 12 months ending January 2011, sales of U.S. wines grew 21.5 percent to total \$70.8 million. This equals a 20.1 percent market share, greater than either France or Italy.

In 2010, the United States exported more than \$1.1 billion of wine. In value terms, Canada was the United States' biggest market, accounting for over \$292 million of exports. California remains the most popular American origin for Canadian imports of wine. Washington, Oregon and New York follow in second, third and fourth respectively. Each of these states showed double digit growth from 2009 to 2010.

Canadian Imports of Wine from United States (HS 2204) – State Breakdown

Value in US Dollars

	2007	2008	2009	2010	% Change 2009/2010
United States	195,551,715	218,731,253	206,567,489	268,973,175	30%
California	185,639,816	208,175,213	198,722,929	257,466,324	30%
Washington	3,952,043	3,988,454	2,827,901	4,959,016	75%
Oregon	1,964,505	2,619,782	1,972,793	3,318,141	68%
New York	2,485,722	1,832,580	1,737,772	2,119,694	22%
All other states	1,509,629	2,115,224	1,306,094	1,110,000	-15%

Source: *Global Trade Atlas*

In terms of volume, imports of American wines increased by over 5 million liters from 2009 to 2010. This represents a growth rate of 12 percent and makes American wines one of the fastest growing

segments of the Canadian wine market. With the rate of growth for the dollar value of exports outpacing the rate of growth for volume, it appears that American wine producers are obtaining improved prices for their products.

Canadian Imports of Wine - Quantity					
Partner Country	Unit	2008	2009	2010	% Change 2009/2010
World	Liters	319,858,333	328,214,049	350,002,613	7%
Italy	Liters	55,147,232	59,477,629	63,902,550	7%
France	Liters	58,099,362	57,104,502	58,390,111	2%
Australia	Liters	45,026,557	46,535,741	55,007,194	18%
United States	Liters	50,739,625	44,393,346	49,828,356	12%
Chile	Liters	31,955,100	36,285,678	31,619,336	-13%
Argentina	Liters	24,716,038	29,884,133	26,816,396	-10%
Spain	Liters	16,017,370	18,571,960	24,204,609	30%
South Africa	Liters	14,313,132	11,658,348	13,481,618	16%
Portugal	Liters	7,087,857	7,790,653	7,644,807	-2%
Germany	Liters	7,387,321	5,872,708	6,117,344	4%
All Other Countries	Liters	9,368,739	10,639,351	12,990,292	22%

Source: Global Trade Atlas

Factors

The strength of the Canadian dollar relative to the American dollar is one factor that has made American wines more competitive in the Canadian market. The Canadian dollar has risen from approximately \$0.79 cents in March 2009 to more than \$1.02 in March 2011, a jump of 29.48 percent. By comparison, the Canadian dollar has only appreciated by approximately 20 percent over the same time period and averaged 73 cents to one Euro in March 2011. Additionally, domestic wines, such as those in the Vintner's Quality Alliance (VQA) program, have risen in price, improving the price perception of American wines.

Also, Canadian per capita consumption of wine has increased overall. According to Agriculture and Agri-Food Canada, per capita consumption of wine increased from 11.3 liters annually in 2000 to 14.6 liters annually in 2007, the last year for which data is available. Wine's popularity in Canada has been increasing as beer's has been decreasing. From 1997 to 2007, beer fell from 52 percent of alcohol sales to 47 percent. During the same time period, wine sales jumped from 21 percent of overall alcohol sales to 28 percent.

Both the premium and super premium wine markets have received a boost from Canada's ageing population. According to Euromonitor, well-off consumers, middle aged and older, have a preference for higher quality wines and are willing to pay more for them. Canadian consumers on the other end of the spectrum, young and/or otherwise new to wine consumption are looking for diversity in wine varietals and price points. The wide array of U.S. wines offers these consumers the choice they are seeking.

According to a study commissioned by VinExpo, the international wine and spirits showcase, 68 percent of the wine consumed in Canada in 2010 was red. This presents an excellent opportunity for

American wineries looking to export to Canada as soil and climate make it difficult to produce large quantities of high quality reds in Canada.

Canadian Imports by Province

In Canada, the authority to import and distribute alcohol rests with the provincial governments. Most provinces operate the sole retail outlets in the jurisdiction. Alberta is the only province to have privatized its liquor distribution, but the Alberta Gaming and Liquor Commission still issues liquor licenses and regulates the industry, including approving the warehouses where manufacturers ship their products for licensee purchases. Each provincial liquor control board has its own rules and regulations for getting listings or placements in their stores. Some require minimum sales quotas to be met in order to keep a listing. Earning a listing in Canada is a very involved process that very often requires the services of an agent in the Canadian market. The table below illustrates a breakdown of wine imports by province.

Canadian Imports of Wine (HS 2004) – Provincial Breakdown

Value in US Dollars

	2007	2008	2009	2010	% Change 2009/2010
All Provinces	1,483,816,691	1,561,859,941	1,476,088,393	1,700,652,444	15%
Quebec	554,396,982	560,229,024	616,120,852	642,075,506	4%
Ontario	462,290,984	506,971,980	438,918,431	549,168,128	25%
Alberta	221,086,929	220,602,997	187,358,279	235,806,975	26%
British Columbia	177,858,358	203,345,785	152,449,350	173,466,367	14%
Nova Scotia	25,905,703	26,140,781	22,963,662	29,133,439	27%
Manitoba	4,520,489	4,055,050	21,458,512	25,720,942	20%
New Brunswick	13,984,583	13,144,984	11,435,799	15,188,417	33%
Newfoundland Labrador	12,552,352	13,619,365	12,134,780	14,757,249	22%
Saskatchewan	9,102,988	11,740,866	11,286,526	12,461,565	10%
Prince Edward Island	2,111,945	2,009,110	1,962,203	2,873,857	46%

Source: Global Trade Atlas

Though its percentage increase in imports was the lowest in the country in 2009-2010, Quebec remains by far the largest importer of wine overall. In Société des alcools du Québec (SAQ) stores (the provincial liquor control board stores), U.S. wines made the biggest jump in sales in the still wine segment from 2009 to 2010, growing 21.9 percent. This is an increase from 6.8 million liters in 2009 to over 8.3 million liters sold in 2010. In Canada four provinces – Quebec, Ontario, Alberta and British Columbia - make up 94 percent of the wine market. American wines have put in a strong showing in all of them, including showing the largest percentage of growth of any country in the top three markets, see the charts below. All data in the four provincial tables below are from Global Trade Atlas.

Wine Imports by Top Five Origins: Quebec

Value in US Dollars

	2008	2009	2010	% Change 2009/2010

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Total Sales	560,229,024	616,120,852	642,075,506	4.21
France	233,521,133	234,801,847	228,526,508	-2.67
Italy	119,341,992	136,532,578	144,983,631	6.19
United States	43,532,722	56,275,822	72,349,357	28.56
Australia	38,988,715	43,965,610	46,453,515	5.66
Spain	32,967,191	37,136,249	41,133,125	10.76

Wine Imports by Top Five Origins: Ontario				
<i>Value in US Dollars</i>				
	2008	2009	2010	% Change 2009/2010
Total Sales	506,971,980	438,918,431	549,239,717	25.13
Italy	113,148,143	96,090,153	123,498,478	28.52
Australia	95,086,332	76,260,493	88,723,481	16.34
United States	75,254,783	64,604,427	88,589,009	37.13
France	99,900,637	72,151,528	88,416,043	22.54
Chile	32,492,296	30,039,240	35,683,921	18.79

Wine Imports by Top Five Origins: Alberta				
<i>Value in US Dollars</i>				
	2008	2009	2010	% Change 2009/2010
Total Sales	220,602,997	187,358,279	235,807,881	25.86
United States	44,879,678	40,448,830	54,651,167	35.11
Australia	60,831,241	45,502,730	51,303,230	12.75
Italy	32,658,367	27,258,961	36,420,014	33.61
France	31,802,055	20,162,529	24,331,747	20.68
Chile	11,447,714	12,600,225	14,690,322	16.59

Wine Imports by Top Five Origins: British Columbia				
<i>Value in US Dollars</i>				
	2008	2009	2010	% Change 2009/2010
Total Sales	203,345,785	152,449,350	173,466,367	13.79
Australia	53,996,799	34,927,150	37,955,583	8.67
United States	41,137,450	31,501,669	35,885,920	13.92
France	31,093,357	19,526,858	23,056,472	18.08
Italy	21,676,265	17,629,120	20,720,256	17.53
Chile	19,436,512	15,851,629	16,112,178	1.64

Outlook

VinExpo estimates that by 2014, Canadian consumption will grow by approximately 19 percent, outpacing the global rate of 3.18 percent. Proximity and an already established presence in the

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Canadian market mean American wine producers are well positioned to take advantage of this growth, even with a probable increase in competition that will accompany a stronger market.