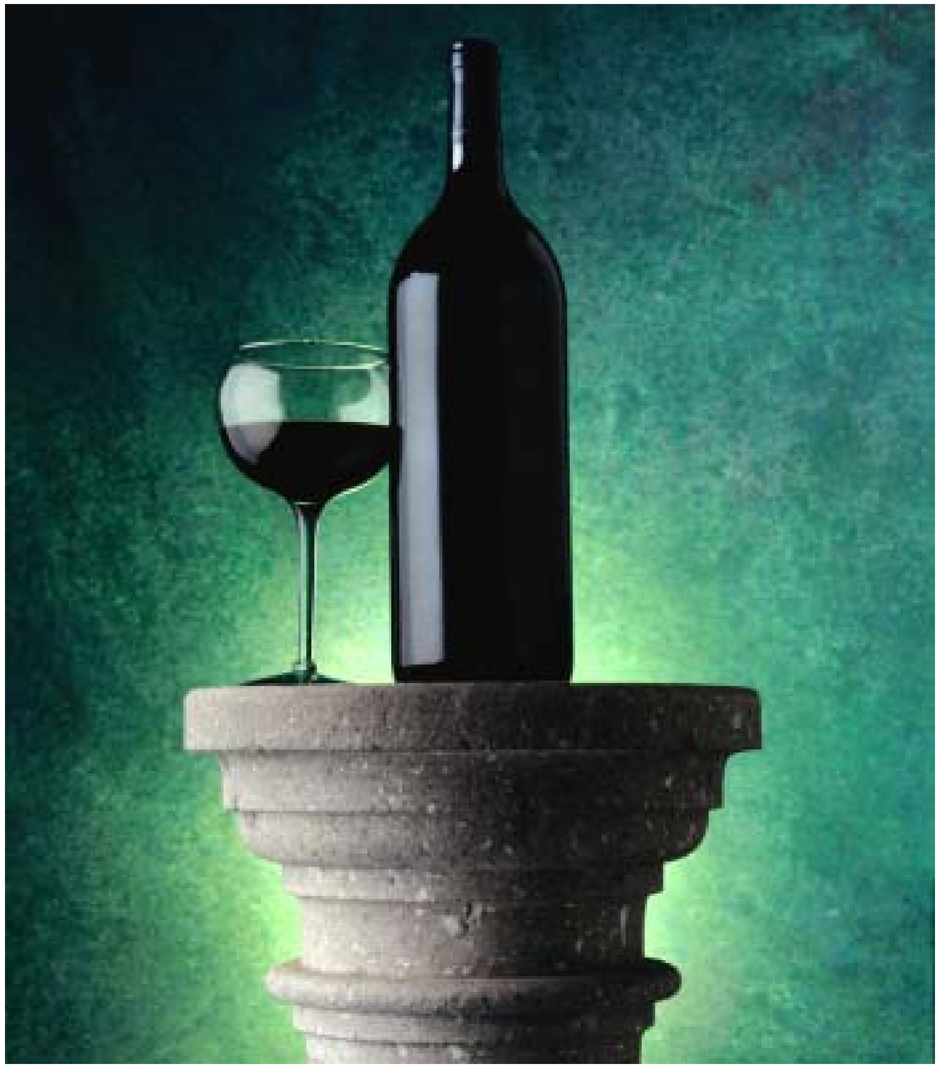
Uncorking Quebec for U.S. Wines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By Donald Businger, Catherine Goode, Hugh J. Maginnis, Marilyn L. Bailey and George C. Myles

U.S. vintners wanting to establish an export market with Quebec's wine aficionados have to leap two hurdles—a mindset biased toward French and Italian wines and an alcohol control board that protects Quebec's value-added wine bottling industry.

Exchange rates also can create a barrier. The recent elimination of tariffs on Canadian wine imports has been offset by the strong U.S. dollar of the past several years.

Market Thirsty for Quality Wines

The per capita average for wines downed each year by Quebec residents comes to 15 liters. In 2001, the amount of wines consumed by the province rounded up to 100 million liters. Put in perspective, Quebec's 7.4 million residents make up about a quarter of Canada's 31.1 million population, but they quaff one-third of all wines consumed in Canada.

The Quebec wine market also differs from the rest of Canada by its heavy reliance on European imports, mainly in bulk.

Liquor Board Protective

Unlike other countries' protective trade barriers that tend to protect wine producers, the state-owned Quebec Liquor Board (SAQ) protects the Quebec wine bottling industry, not vintners. Only 2 percent of the wine consumed in Quebec is produced by Quebec vineyards.

SAQ is also unique in its position as the sole legal importer and controller of all wines sold in Quebec. SAQ collects federal and provincial duties and taxes on alcoholic products and adds its own markup prior to sale, collecting a tidy sum for the Canadian and Quebec governments. In 2001, SAQ net sales (gross sales less taxes, discounts and returns) of wines hit $663 million, up 12 percent from a year earlier.

SAQ limits bottled wine imports by restricting their sale to its own 379 stores and 303 agencies (smaller outlying outlets). Only bulk wine bottled in Quebec can be sold where the majority of wines are sold—in the 9,200 retail grocery and convenience stores. However, U.S. and other foreign bottled wines can be purchased in Quebec's 14,000 hotels, restaurants and bars.

European Wines Dominate Market

SAQ imports most of its bulk and bottled wines from Europe. Imports from France (48-percent market share) and Italy (26-percent share) make up three-quarters of bottled wine sales. With only a 3-percent market share, the United States is the fifth largest supplier of bottled imports in Quebec.

Imported bulk wines make up over 22 percent of total Quebec sales and just under 30 percent of total imports. Wine imports from three countries—France (55-percent market share), Germany (23-percent share) and Italy (14-percent share)—make up 92 percent of Quebec's bulk wine imports. U.S. wines account for less than 1 percent.

Almost a quarter of total wine sales

come from locally bottled, "elaborated" wines, which are almost 99-percent SAQ-imported grape products blended with small amounts of grape products from Ontario and British Columbia.

What Is AOC?

SAQ categorizes wines by AOC designation (*appellation d'origine controllée*), such as Bordeau or Beaujolais. This regional designation, used mostly by producers in France and Italy, indicates a quality wine. The United States designates wines by the type of grape, such as Merlot or Riesling, instead of using an AOC label.

AOC-designated wines make up 45 percent of Quebec's total imports—56 percent of bottled and 18 percent of bulk. Imported AOC wines account for half of Quebec's wine sales, with table wines (which are less expensive) making up a third. These preferences differ from overall Canadian sales, where table wines make up 80 percent of total wine sales, and mid-quality wines the other 20 percent.

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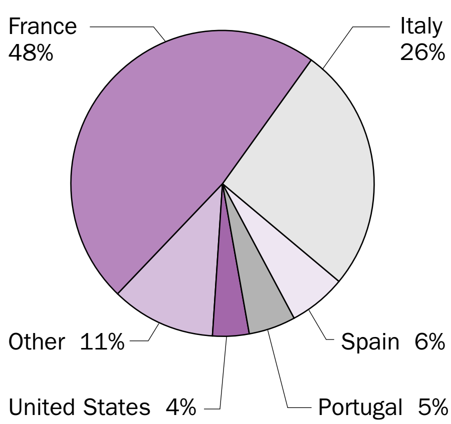
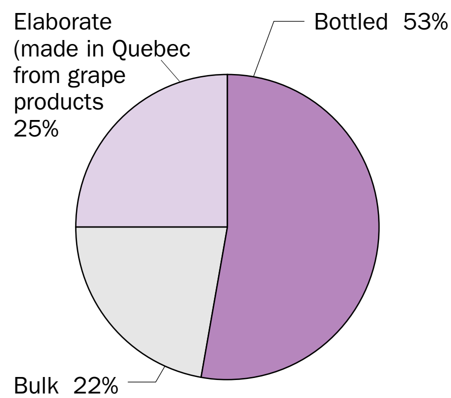
In 2001, Quebec Imported 53 Million Litres of Bottled Water

United States Was No. 5 Supplier



In 2001, SAQ Sold Nearly 100 Million Litres of Wine



Despite the higher quality of wines sold in Quebec, the average price is affordable. Almost half retailed for less than $6.50 per bottle, and 40 percent sold for $6.50-9.75. Red wines like Merlot and Cabernet Sauvignon sell much better than whites or rosés.

The good news and challenge for U.S. vintners is that Quebec is a high-consumption market for quality wines, whether AOC or not, and market share could be won from French, Italian and other suppliers.

Listing Requirements

SAQ maintains a listing of eligible general suppliers who must meet certain requirements, including a commitment to attain minimum sales of $195,000. A general listing with SAQ would put the supplier in the SAQ general catalog, and any SAQ outlet could order the wine. Private importers, such as hotels and restaurants, order wine from SAQ for a specific purpose.

U.S. suppliers might find an advantage in providing specialty products (those considered prestigious, distinctive or ethnic), especially when SAQ opens a superstore that will carry many of these items. Specialty products and private imports are not required to meet any minimum sales target.

As of April 1, 2002, SAQ conducts all wine purchases electronically, so suppliers wanting to do business in this market need

Quebec's Wine Facts

- Quebec bought 42 percent of all red wines consumed in Canada in 2000.
- Though more partial to reds, Quebec still consumed more white and rosé wines (5.9 liters per capita) than the rest of Canada in 2000.
- Quebec imported 465 million hectoliters of bulk wines in 2001—almost 99 percent of Canada's total bulk imports.
- Maison des Futailles SEC and Vincor, both based in Quebec, are Canada's biggest wine importers and dominate the province's bottling industry.

SAQ Misstep?

Wine consumers in Quebec may end up paying higher prices for fewer choices if the government-owned liquor monopoly, SAQ, proceeds with a plan to manage its purchases. The plan could also mean increased marketing costs for U.S. wines.

How did this come about? Two years ago, SAQ bought a 45-percent share in the e-commerce business Global Wines & Spirits. Shortly thereafter, SAQ announced plans to channel all its product purchases through Global's online ordering system. SAQ will require each supplier to pay a registration fee, plus product listing fees and up to a 2-percent sales commission.

This alliance of a government monopoly and private industry has been hard to swallow for many producers. Pressure from wine groups forced SAQ to offer free supplier registration until March 31, 2003. However, SAQ has purchased wines exclusively via this source since April 1, 2001.

As of March 2002, 750 wine producers in 22 countries had registered with Global. However, in an average year, SAQ buys wines from as many as 10,000 producers in 55 countries. Only a few of the 100 major companies that supply 90 percent of Quebec's wine purchases have signed up.

to register through:

Web site: www.globalwinespirits.com; or Tel.: (1-450) 442-9463

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Liberalization in Global Wine Trade

Canada's trade agreements with the United States, the European Union and among its own provinces have led to the elimination of most preferential treatment for local wines and tariffs.

However, imported wines, like domestic wines, are still subject to federal excise taxes, a general sales tax and provincial sales taxes.

In 2001, Canada also signed a Mutual Acceptance Agreement on Oenological (wine culture) Practices with the United States, Australia, Chile and New Zealand. The agreement mandated increased market access, transparent requirements and a dispute settlement mechanism. These provisions apply as long as the wines are consistent with the country of origin's domestic laws, regulations and requirements. Canadian wine imports must also comply with compositional labeling, net quantity and standardized container size requirements.

Unfortunately for bottled wine suppliers, SAQ's policy of favoring bulk imports to protect its value-added industry and monopoly was unaffected by the free trade agreements. For U.S. wine exporters, the Quebec market has been tougher to penetrate than the rest of Canada where U.S. wine exports occupy a cozy 20-percent market share, the second largest after France.

But since tariffs on U.S. wines disappeared in 1999, and there has been some liberalization of SAQ policies and practices, U.S. wines have greater potential niche markets in Quebec. With these new incentives in place, promotional and marketing efforts could be well rewarded. ■

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