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From the Vine to the Glass: Canada's Grape and Wine Industry

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From the Vine to the Glass: Canada’s Grape and Wine Industry

Penny Hope-Ross,
Business and Trade Statistics Field

Summary

With specialty products such as Icewine and Vintners Quality Alliance (VQA) standards, Canadian wine products are increasingly pleasing the palate of Canadian oenophiles and of those around the world.

This attention is largely due to a transformation that began during the late 1980s and early 1990s when growers switched from producing wines made from native species grapes (*Labrusca*) to those made from wine quality grapes (*vinifera* and French hybrid varieties).

By 2005, the planted acreage of *vinifera* varieties had virtually doubled from 11,276 acres in 1993 to 21,825 acres. On the other hand, farmers considerably reduced harvest of the old *Labrusca* varieties.

Bad weather seriously affected the 2003 and 2005 grape crop in Canada. Total Canadian grape production declined to only 45,802 metric tonnes in 2005, compared with 70,872 tonnes in 2002, the peak year. The situation was particularly acute in Ontario in 2005. The coldest winter in several years proved too much for the following crop year.

As the grape industry was switching to quality wine grapes, the Canadian wine industry, although relatively small, was growing at a remarkable pace. Its real gross domestic product increased at an average annual rate of 7.1% between 1993 and 2005.

Canadians’ taste for their own wines spurred the sales growth in this industry, as almost all of the increase was due to domestic sales.

Exports also increased but remained at levels relatively low compared with domestic sales. The most important export markets for Canadian wines are the United States and Taiwan.

In total, the value of wine sales in Canada exceeded $4.2 billion in the fiscal year ending March 31, 2005. Consumers bought a record high volume of 360 million litres of wine, of which 40% were Canadian brands and 60% imported.

Quebec residents bought the highest amount of wine, averaging 18.2 litres per adult in 2005. They were followed by consumers in British Columbia who bought 16.2 litres on average. However, the biggest increase occurred in Nova Scotia, where sales doubled during this period from a low of 6.4 litres in 1993 to a high of 13.6 litres in 2005.

Canadians are still very much a beer-drinking nation. But more and more, wines are making inroads.

In 1993, each Canadian adult bought, on average, 10.6 litres of wine. By 2005, sales had increased by 3.7 litres to 14.3 litres per adult. At the same time, beer sales fell from 91.3 litres per adult to 88.1 litres, a decline of 3.2 litres.

This study examines the transformation in the Canadian grape and wine industries, and the evolution of wine sales in Canada from 1993 to 2005.

Historical perspective: From 'foxy' grapes to high-end quality

People have been making wine in Canada for more than two centuries. But Canada's modern day success in producing high-quality wines goes back only three decades.

Efforts by European settlers in the early 1800s to cultivate high-quality European grapes were largely unsuccessful because the vines succumbed to diseases induced by hot, humid summers, and harsh cold winters.

So, for more than a century, the Canadian wine industry was based on hardy grapes that could be grown successfully from native species grapes (*Labrusca*), and crosses such as *Niagara*, *Duchess* and *Catawba*.

However, wines made from these native-based grapes had a peculiar taste, often described as "foxy." In fortified wines, such as sherry or port, a healthy export market developed for these products.

By the 1960s, the market started to shift as consumer tastes leaned more towards drier table wines with lower alcohol content, and away from sweet table wines and fortified wines.

During the 1980s, three market events shook Canada's wine industry—the signing of the Canada-US Free Trade Agreement (FTA); a major pull-out and replacement program that would revolutionize the grape growing industry; and the creation of the Vintners Quality Alliance (VQA) standard.

The FTA, along with a ruling under General Agreement on Tariffs and Trade (GATT) meant Canada had to abandon the protection offered to its wine industry. To adjust to these new trade rules and to offer more competitive wines, producers with the support of provincial and federal governments undertook a major program to replace native grape varieties with quality wine grapes (*vinifera* grapes).

The reputation of Canadian wines was enhanced by the introduction of the voluntary VQA standard in Ontario in 1988, and in British Columbia two years later. The Alliance says that the VQA symbol on a bottle of Canadian wine assures consumers of standards of production, content, varietal percentage, appellation and vintage.

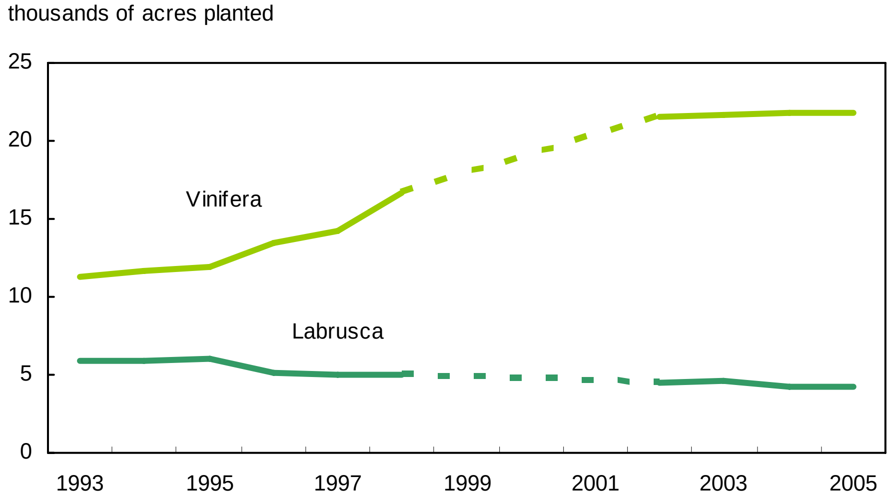
With these strict standards, the Canadian wine industry was able to dispel doubts wine drinkers may have had about Canadian wines. The result was a boost in the demand for *vinifera* grapes, the premium varieties used for wine production.

Grapes: A switch to higher quality

Grape farmers responded to the increased demand for higher quality wine grapes by increasing the acreage planted with *vinifera* varieties.

By 2005, the acreage of *vinifera* varieties planted had virtually doubled from 11,276 acres in 1993 to 21,825 acres. On the other hand, farmers had only 4,280 acres of the old *Labrusca* varieties, down from 5,854.

Chart 1 Grapes growers switched from table grapes to higher quality wine grapes



Note(s): Data from 1999 to 2001 are confidential. Consequently, the dotted lines are linear projections.
Source(s): Statistics Canada, Agriculture Division.

Canadian grape production is concentrated in only four provinces: Ontario, British Columbia, Quebec and Nova Scotia. The two leading wine grape regions in Canada are the Niagara Peninsula in Ontario and the Okanagan Valley in British Columbia.

In 2005, Canadian grape growers harvested 21,715 acres.

Ontario harvested grapes from 14,270 acres, most of which are in the Niagara Peninsula. This is more than twice the area of 6,755 in British Columbia. Quebec with 460 acres of vineyards and Nova Scotia with 230 acres, harvested much smaller areas.

Canada's vineyards have become a tourist attraction in their own right, drawing many visitors to Ontario's four wine-producing regions, and the five in British Columbia and, more recently, to Quebec for its grape and wine festivals.

Although some of the grape crop is harvested mechanically, much still has to be picked by hand. That's the job of hundreds of workers who head into the vineyards each year in September and October, as well as in January for the Icewine harvest.

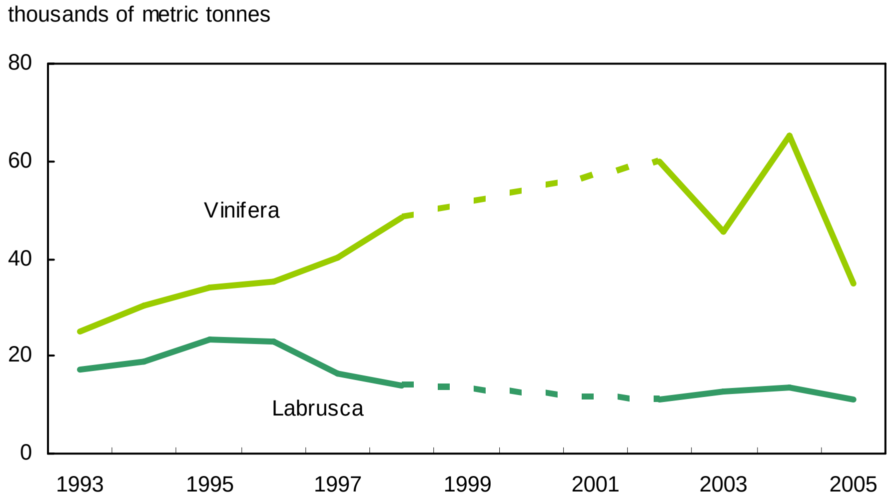
Bad weather seriously affected the 2003 and 2005 crop years. Total Canadian grape production declined from 70,872 metric tonnes in 2002 to 55,415 tonnes in 2003. In 2004, it rebounded to 78,608 tonnes, then fell again to only 45,802 tonnes in 2005.

The situation was particularly acute in Ontario in 2005. The coldest winter in several years formed a large ice pack on the south shore of Lake Ontario. This resulted in the loss of the lake's warming effect and led to some extremely cold temperatures that affected the grape plants and the next crop.[1] Many grape growers who were surveyed reported that the cold weather resulted in the destruction of their entire crop.[2]

As a result, the harvest for Ontario's grape producers declined more than 50%, from 59,307 metric tonnes in 2004 to only 29,211 tonnes in 2005.

The *Labrusca* varieties were more resilient to these weather conditions, as their production stayed relatively constant from 2002 to 2005.

Chart 2 The *vinifera* varieties were seriously affected by bad weather conditions in 2003 and 2005



Note(s): Data from 1999 to 2001 are confidential. Consequently, the dotted lines are linear projections.
Source(s): Statistics Canada, Agriculture Division.

Wine industry was small, but grew at a remarkable pace

As the grape industry was switching to wine quality grapes, the Canadian wine industry, although relatively small, was growing at a remarkable pace.

The Canadian wine industry had the eleventh highest growth rate among the 215 industry groups between 1997 and 2005. During this period, its real GDP increased at an average annual rate of 7.1%, more than double the rate of growth of 3.0% for the nation as a whole.

1. See Ken Slingerland, "2005 Grape Season Overview," *The Tender Fruit Grape Vine,* vol. 10, issue 2, November/December 2005, http://www.omafra.gov.on.ca/english/crops/hort/news/tenderfr/tf1002.pdf (accessed September 21, 2006).
2. See Verna Mitura and Mike Trant, "Canadian agriculture in 2005: A tough year in review," *VISTA on the Agri-food Industry and the Farm Community,* Statistics Canada Catalogue no. 21-004-XIE200602, June 2006, http://www.statcan.ca/english/freepub/21-004-XIE/21-004-XIE2006002.pdf (accessed September 21, 2006).

The industry is, however, relatively small, accounting for only 0.03% of the economy-wide gross domestic product in 2005. It employed close to 2,500 persons in 2004 which was only 0.14% of all manufacturing jobs.

In 2005, shipments from Canadian wineries were worth more than $832 million.

The wine industry in Ontario and British Columbia is closely linked to grape-growing. Wineries take about 80% of the annual grape production, with much of the balance going for juice or fresh fruit consumption. In Quebec, the wine sector is based primarily on value-added bottling and blending from imported bulk wines.[3]

Canadians' taste for domestic wines spurred growth

With the introduction of the FTA, it could well have been thought that domestically produced wines would be displaced by the popular Californian wines, putting Canadian wineries out of business.

In fact, the opposite occurred. Since the advent of the FTA, total sales of Canadian wines to Canadians have been fuelling the growth of the domestic wine industry.

Domestic retail sales and exports of Canadian wines (including cider, sparkling and coolers) increased by more than 5% a year on average from the fiscal year 1992/1993 to 2004/2005, reaching $1.3 billion.

Almost all of this increase can be attributed to domestic sales. Of a $557.4 million increase in total sales during the 12-year period, $517.2 million or 93% came from the Canadian retail market.

Exports of Canadian wines (including cider, sparkling and coolers) increased 87-fold from 1992/93 to 2001/02, rising from $1.3 million to $116.0 million, a stunning average increase of 64% a year. In 1992/93, exports accounted for only 0.2% of Canadian wines sales. By 2001/02, they accounted for 10.4%.

But between 2001/02 to 2004/05, the situation changed drastically. Exports of Canadian wines declined by more than 50% to $41.5 million, which represented only 3.3% of total sales.

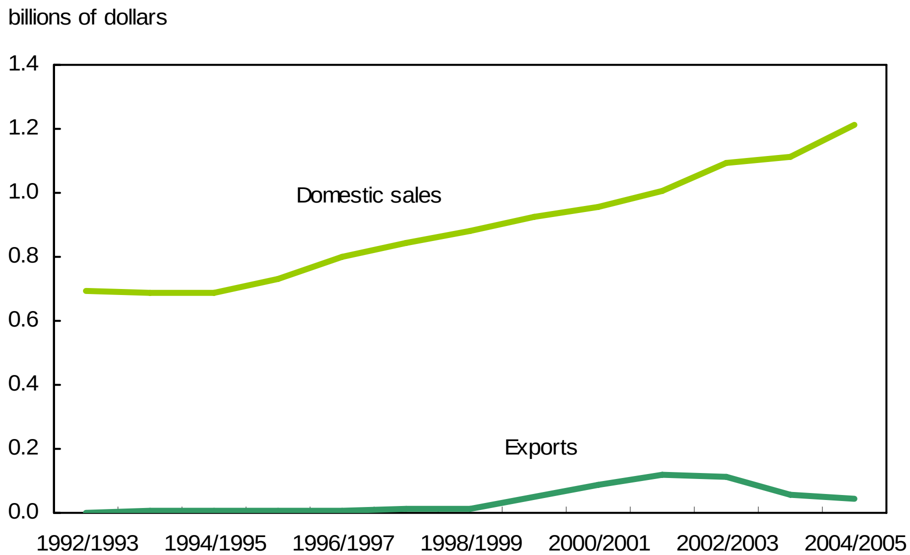
It should be noted that cider, sparkling wines and coolers accounted for most of the wine exports, as wines made from grapes accounted for a relatively small portion of total Canadian wine exports (an average of about 12% from 2000 to 2005).

The major export markets for Canada's wines are the United States and Taiwan. Historically, the United States has been Canada's main market for wine. Its share of the Canadian export market in terms of volume has grown from 87% in 1993/1994 to a peak of 94% in 2002/2003. By 2004/2005, this share had dropped to 84%.

However, trade with Europe was opened up in 2001 when Canada signed an agreement with the European Union allowing access to Canadian Icewines and other table wines. Any Canadian wines that are certified as conforming to European Union winemaking standards are eligible for export.

3. Agriculture and Agri-Food Canada, *The Canadian Wine Industry,* http://www.agr.gc.ca/misb/fb-ba/index_e.php?s1=proc-trans&s2=prof&page=wine-vin (accessed September 21, 2006).

Chart 3 Domestic sales have spurred the growth in sales of Canadian wines



Source(s): Statistics Canada, CANSIM, tables 183-0016 and 183-0006.

Icewine: A niche market

Wineries produce Icewine by allowing the grapes to freeze naturally on the vine. They are carefully picked by hand when temperatures consistently fall between minus 8 degrees and minus 13 degrees Celsius.

This provides the optimum level of sugar and flavour in the grapes. Grapes in this condition have a very low yield. Often an entire vine makes only a single bottle. That is why Icewine is of a higher price and often sold in half-bottles.

This very sweet wine with either a golden or deep, rich amber colour, is usually served as a dessert wine in small cordial glasses, chilled for one or two hours. The flavour is a combination of apricot, peach, mango, melon or other sweet fruits, and it often has a nutty aroma.

Ontario's Niagara region is currently the largest producer of Icewines, followed by British Columbia. But producers of this type of wine can also be found in Quebec and Nova Scotia.

According to Agriculture and Agri-Food Canada, between January and August 2005, Canadian producers shipped 72,293 litres of Icewine abroad, worth nearly $4.9 million. During 2004 they exported nearly 120,000 litres of Icewine worth $6.7 million.

The biggest customer of Icewine has been Taiwan, which purchased about one-quarter of the Canada's 2005 Icewine exports. It was followed by Singapore, the United States and Japan.

Canadians love their beer, but wine is making inroads

Canada is still very much a beer-drinking nation. But more and more, wines are making inroads.

In 1993, each Canadian adult bought, on average, 10.6 litres of wine. By 2005, sales had increased by 3.6 litres to 14.2 litres per adult. At the same time, beer sales fell from 91.3 litres per adult to 88.1 litres, a decline of 3.2 litres.

During this 12-year period, consumption of wine increased in all provinces. Quebec residents bought the highest amount of wine, averaging 18.2 litres per adult in 2005. They were followed by consumers in British Columbia who bought 16.2 litres on average.

However, the biggest increase occurred in Nova Scotia, where wine sales doubled from a low of 6.4 litres in 1993 to a high of 13.6 litres in 2005.

Table 1 Wine sales per adult, Canada and provinces, 1993 and 2005

	1993	2005	Change
	litres per adult		
Newfoundland and Labrador	3.9	5.4	1.5
Prince Edward Island	5.0	8.3	3.3
Nova Scotia	6.4	13.6	7.2
New Brunswick	5.8	9.1	3.3
Quebec	12.7	18.2	5.5
Ontario	9.6	12.9	3.3
Manitoba	6.4	8.8	2.4
Saskatchewan	4.7	6.2	1.5
Alberta	10.0	14.8	4.8
British Columbia	15.6	16.2	0.6
Canada	10.6	14.2	3.6

Source(s): Statistics Canada, CANSIM, tables 051-0001 and 183-0015.

In total, the value of wine sales in Canada reached $4.2 billion in the fiscal year ending March 31, 2005.

During 2004/05, consumers bought a record high volume of 360 million litres of wine, of which 40% were Canadian brands and 60% imported.

For the first time, the value of sales of wine has surpassed that of spirits in Canada. In the fiscal year ending March 31, 2005, wine accounted for 25.2% of the value of sales of alcoholic beverages, compared with 24.3% for spirits, the first time wine has jumped into second place. Beer accounted for 50.4%.

Sales of imported wines increased much more than domestic wines

Despite its growing popularity on the home front, Canadian wine still faces aggressive competition from foreign products, ranging from South Africa to Australia and Central Europe.

At first glance, the growth in Canadian wine sales is impressive. However, most of this increase has been in sales of imported wines.

Sales of imported wines have increased much more than sales of domestic wines, both in terms of value and volume. This has occurred even though the price of imported wines has increased much more than domestic wines.

For example, between 2000/2001 and 2004/2005, sales of domestic wine by volume increased 13%, a much slower rate than the 23% increase for imported brands.

In 1992/1993, consumers paid on average $6.23 a litre for domestic wine while imported wines cost $9.94 per litre. In 2005, domestic wines had increased to $8.33 a litre, while imported wine prices had gone up by over $4 to $14.04 a litre.

Canadian consumers apparently prefer their domestic wines to be white. In 2004/2005, they purchased just under 57.8 million litres of domestic white wines, compared with about 47.5 million litres of domestic reds. This probably reflects the fact that Canadian conditions favour the production of white wines.

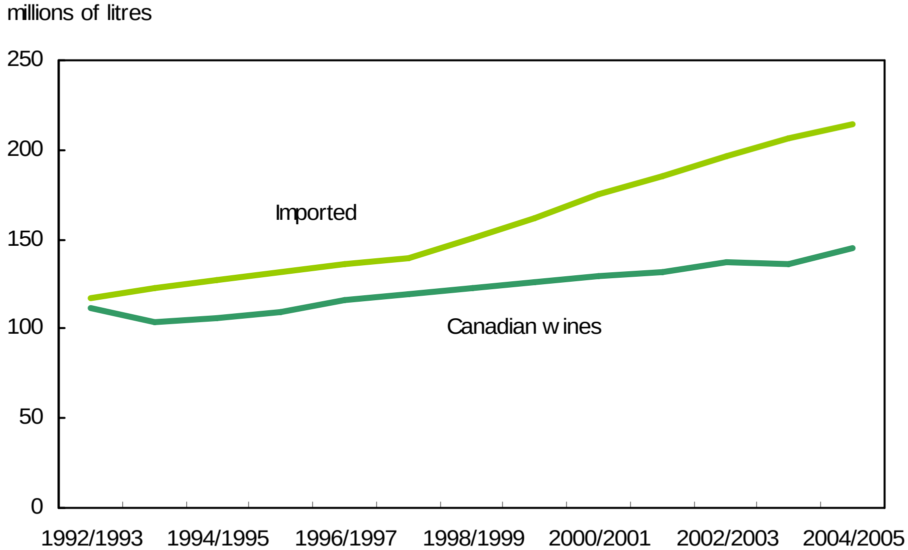
However, red wines dominated imports. In 2004/2005, consumers purchased 128.6 million litres of imported red wine, more than twice the volume of 63.5 million litres of imported white wine.

Among white wines, in 2004/2005, there was almost a 50-50 split between imported and domestic brands. However, only 27% of the red wine sold in Canada during the fiscal year was Canadian-made.

In Prince Edward Island, Saskatchewan and British Columbia, Canadian-made wine accounted for close to two-thirds of the white wine sold.

To complete the picture, wine sales that haven’t been classified as neither red or white (such as coolers, cider and sparkling) accounted for a volume of 62.9 million litres, of which 64% were from Canadian producers.

Chart 4 Imported and domestic wine sales improved with time



Source(s): Statistics Canada, CANSIM table 183-0015.