CANADIAN VINTNERS ASSOCIATION — ASSOCIATION DES VIGNERONS DU CANADA

House of Commons Standing Committee on Finance
Pre-Budget 2015 Consultation Submission
August 6, 2014

EXECUTIVE SUMMARY

The Canadian Vintners Association (CVA) is the national association of the Canadian wine industry representing wineries across Canada responsible for more than 90% of annual wine production. CVA members are engaged in the entire wine value chain from grape growing, farm management, grape harvesting, wine production, bottling, retail sales, research and tourism.

Canada's wine industry is growing significantly in six provinces across Canada, offering one of the highest valued-added contributions to an agricultural product and providing enhanced rural economic opportunities. Canada is also ranked as the second most attractive market in the world for wine sales and growth in wine consumption is three times faster than the global average. It is vital that the recommendations in this pre-budget submission be implemented, as the opportunity to capture new market share in a growing industry is essential to the sustainable development and long-term prosperity of Canada's wine industry.

This pre-budget submission contains two recommendations, both of which will contribute to higher levels of job growth and business competitiveness across Canada:

1. Amend the Excise Act, 2001, to implement a sliding scale excise exemption based on the percentage Canadian agricultural content in wines sold in Canada.

2. Provide $35 million over 5 years to support a Canadian Domestic Wine Market Development Program.

INTRODUCTION

The CVA welcomes the opportunity to provide comments to the House of Commons Standing Committee on Finance, as part of the pre-budget consultation process for Budget 2015. As Canada emerges onto a stronger financial position with the goal of returning to a balanced fiscal framework in 2015, it is timely for the federal government to consider and implement measures which will position the Canadian wine industry to expand markets across Canada and beyond our borders, create a better environment

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for private sector investment and enhance the long-term drivers for jobs and economic growth.

CANADIAN WINE INDUSTRY

The Canadian wine industry produces 100% Canadian (VQA and Product of Canada) wines, as well as International Canadian Blended (ICB) wines. Both are significant economic drivers. A recent (2013) national economic impact study concluded that the Canadian wine industry contributes $6.8 billion to the Canadian economy – 100% Canadian wines contribute $3.69 billion (including tourism) and wines blended in Canada from imported and domestic content contribute an additional $3.08 billion. This study, which was quite conservative in its figures, concluded that each bottle of Canadian produced wine generates an average of $31 in economic impact. The economic impact also includes more than $1.2 billion in contributions to government revenue through tax and liquor board mark-ups.

Canadian wineries capture greater revenue than most agri-food products, by not only crushing grapes and producing wine, but also by packaging, marketing and sales. From vineyard development and grape cultivation to the final sale, wine is a highly complex process that involves numerous suppliers, distributors and service providers throughout the value chain, compounding the economic benefits.

Our domestic industry impact extends well beyond direct sales and employment of Canada's 500 grape wineries and 1,600 independent grape growers, as strong linkages to tourism, retail sales, bars and restaurants support more than 31,000 jobs. The Canadian wine industry infrastructure is also motivation for more than 3 million tourists visiting Canadian wineries each year, which is four times the number of visitors to the Vancouver Olympics.

THE CHALLENGE

The number of wineries in Canada has grown by 300% in the last decade, including more than 100 wineries opening in the past 5 years alone. Most are small businesses focused on premium wines, located in specific regions that support an appropriate climate for grape growing. As wine is increasingly becoming the beverage of choice in Canada – it presently accounts for 32% of the beverage alcohol market, up from 18% in 1995 – the investments made by industry have been a direct response to the growing consumer interest in wine and winery tourism.

Still, Canadian wines do not represent a fair share of our domestic sales market and Canadian wine industry sales account for only 31% of total wine sales, while foreign competition commands 69% of our market. Canada is the reverse of most wine producing countries, which appreciate strong domestic sales, such as 68% market share in the United States, 80% in Australia and 99% in South Africa, Argentina and Chile. Even China enjoys 57% of its domestic wine sales.

Despite federal efforts through Bill C-311 to open inter-provincial shipping of wine for personal use, most provinces still do not permit this sales channel and Canadian wineries must rely almost exclusively on liquor boards for retail sales. Provincial and territorial liquor boards regularly look for new opportunities to work with wine industry groups that can provide additional marketing dollars and integrated campaigns, which the Canadian wine industry is presently unable to support. To this end, the Canadian wine industry is not able to leverage its home advantage, despite a growing domestic wine market.

THE OPPORTUNITY

According to global wine expert Rabobank, Canada is ranked as the second most attractive market in the world for wine sales and growth in Canadian wine consumption is three times faster than the global average (VineExpo, 2013). Total wine sales market share has grown by 14% between 1995 and 2013, while dropping by 10% for beer and 4% for spirits. It is imperative that the Canadian wine industry take advantage of this current opportunity, especially considering that 80% of total wine sales growth over the past decade has been claimed by imports.

The Canadian wine industry's primary objective is to grow domestic wine sales in all available sales channels from coast to coast. With additional opportunities, the Canadian wine industry will build its market share beyond 31% towards a target of 50%. This is good for the Canadian wine industry and good for Canada. Based on our economic study, we know that every $1 million increase in Canadian wine sales will lead to a further $3.1 million increase in gross output – revenues, taxes, jobs and wages across the wine industry value chain – an excellent and savvy investment in our economy.

WINNING AT HOME

Canada is one of the fastest growing wine retail markets in the world, with per capita wine consumption having increased by almost 40% over the past 7 years. We believe that we can grow both our 100% Canadian and ICB businesses, increasing our national economic impact from $6.8 billion to $10 billion over the next 5 years. Focusing on integrating marketing, tourism and trade initiatives will help the Canadian wine industry leverage the growing consumer interest in wine, support Canadian wineries and grape growers, as well as tourism operators, restaurants and other stakeholders across the value chain. In building greater market share and domestic consumer support, export sales will also grow as a result of increased global awareness of Canada's thriving wine industry.

To achieve our goals, our industry requires supportive policy and programs, as well as a level tax playing field for Canadian grapes. It is also critical to continue our pursuit of premium quality wines, investing in the Canadian wine brand, nurturing wine tourism and increasing the availability of Canadian wines in domestic markets. Through our ability to increase competitiveness, the Canadian wine industry will benefit the Canadian economy and support rural economic development and job creation across the country.

Our pre-budget submission includes two recommendations reflective of our two product lines, 100% Canadian and ICB wines, with the goal of improving Canada's taxation regime, business competitiveness and maximizing the number and types of jobs for Canadians.

1. Tax Fairness–Sliding Scale Excise Exemption on Canadian Content

In Budget 2006, the government reduced the tax burden on Canadian wine businesses by implementing an excise exemption on all wines produced and sold in Canada made from 100% Canadian agricultural content. This tax measure has proven highly successful with the number of wineries doubling from 235 in 2006 to more than 500 today, while delivering more than $200 million in excise benefits that is re-invested back into the economy to stimulate jobs and economic growth.

Although the tax measure has been highly successful, it excluded an important segment of Canadian grape usage, which has cost the Canadian industry approximately $50 million over the past 8 years. Presently, grapes dedicated to 100% Canadian wines are excise exempt, while the same grapes used in ICB wines are charged full excise duty. Currently, 11 million litres of Canadian wine is produced from 15,000 tonnes of Canadian grapes to be blended into ICB wines, which costs $7 million in annual excise duty.

All Canadian grape content should be treated equally and be excise exempt. Implementing a sliding scale excise exemption based on Canadian grape content, regardless of place of production, would foster investment and help build a strong foundation for job creation, while providing fair and equal support for all Canadian grapes.

Amending the Excise Act to implement a sliding scale excise exemption will cost $7 million per year. After 5 years, based on 4% annual growth in ICB wine sales revenue, this measure will stimulate 8,000 tonnes of new grape demand, $50 million in federal tax revenues, $655 million contribution to the Canadian economy and create 2,300 jobs. The excise benefit will be reinvested by ICB producers into grape purchases, product innovation, VQA and ICB marketing investments, capital investment in new technology, infrastructure, etc.

Recommendation #1

The CVA recommends that the federal government amend the Excise Act, 2001 to implement a sliding scale excise exemption based on the percentage Canadian agricultural content in wines sold in Canada.

2. Canadian Wine Promotion and Market Development

Canada is a highly attractive market for wine sales with all wine producing countries seeking opportunities to access Canada's retail system. Our import competition has access to generous government program funding, high levels of foreign wine subsidies, as well as tariff reductions from a growing number of bilateral trade agreements (i.e., NAFTA, Chile, EU, TPP, etc.), which is evident in the strong sales of imported wines in Canada. These import marketing and trade advantages must be balanced with greater domestic opportunities to help the Canadian wine industry grow and prosper. It is unacceptable that 100% Canadian wines have a 10% market share in Canada, and VQA wines represent less than a 4% market share in 10 of 13 provinces and territories.

In 2013, the AgriMarketing Program (AMP), for the first time in more than a decade, allowed for a limited portion of its export funding to be allocated to domestic promotion. This funding has assisted the CVA to conduct a national Domestic Market Development Strategy and develop a Canadian Wine Brand, inclusive of all major wine regions in Canada. To deliver this strategy, enhanced federal funding is now required to position the Canadian wine industry to:

- Improve consumer knowledge about the quality, diversity and value of Canadian wine
- Increase demand for Canadian wine at retail stores and restaurants
- Celebrate Canadian wine across the country, including Canada's 150 Anniversary in 2017 and launch a Canada Wine Month
- Increase awareness of regional wines and the VQA system
- Increase the number of tourist visitors to Canada's wine regions
- Expand annual market share sales growth
- Position the industry to emerge stronger and better equipped to complete globally.

Through federal program assistance to establish a Canadian Domestic Wine Market Development Program, valued at $35 million over 5 years, we believe we can grow the 100% Canadian wines by 11% in annual wine sales revenue growth. This would effectively stimulate 34,000 tonnes of new grape demand, $119 million in direct federal tax revenue, $2.58 billion economic impact for the Canadian economy, and support the creation of 14,500 jobs. After 5 years, the program would be assessed for its impact.

Recommendation #2

The CVA recommends that the federal government provide $35 million over 5 years to support a Canadian Domestic Wine Market Development Program.