CANADIAN VINTNERS ASSOCIATION
ASSOCIATION DES VIGNERONS DU CANADA

House of Commons Standing Committee on Finance
Pre-Budget 2017 Consultation Submission
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ABOUT THE CANADIAN VINTNERS ASSOCIATION

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. CVA proudly supports our award-winning grape wine industry, with its roots firmly planted in Canadian soil.

EXECUTIVE SUMMARY

Canada is ranked as the second most attractive market in the world for wine sales, with growth in wine consumption twice that of the rest of the world. With a strong market and increasing number of free trade agreements, international competition in the Canadian marketplace is intensifying, despite imported products representing 68% of all wines sales across Canada.

The Canadian wine industry currently provides an annual economic benefit of $6.8 billion, which is a fraction of its potential value when recognizing that domestic sales account for less than one-third of total wine sales in Canada. Canada's wine industry is growing appreciably in six provinces, offering one of the highest value-added contributions of any agricultural product and providing enhanced rural economic opportunities.

With home advantage and favourable market conditions, the Canadian industry is well-positioned to increase its competitiveness and seize greater market share in the expanding domestic marketplace with the implementation of the CVA's Budget 2017 recommendation. With greater domestic success, Canadian wineries will also achieve the scale required to increase exports, with an emphasis on high value markets. Only through this strategic investment will the Canadian wine industry fully achieve its potential, resulting in higher levels of winery investment and job growth, and providing significant value to the overall Canadian economy.

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INTRODUCTION

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 2017. As Canada strives to implement a robust growth strategy which supports sustainability and innovation, it is timely for the federal government to implement measures which will enable the Canadian wine industry to seize rapidly expanding markets across Canada and beyond our borders, create a better environment 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 other Product of Canada) wines, as well as International Canadian Blended (ICB) wines. Both are significant economic drivers. A 2013 national economic impact study concluded that the Canadian wine industry contributes $6.8 billion to the Canadian economy – 100% Canadian wines contribute $3.7 billion (including tourism) and wines blended in Canada from imported and domestic content contribute an additional $3.1 billion. This study determined 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 is reliant upon Canadian soil and is firmly rooted in rural economies across Canada; however, its impact extends well beyond direct sales and employment of Canada’s 685 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

Over the past decade, Canadians have been increasingly making wine their alcohol beverage of choice, with wine consumption increasing by 26%, compared to 0% growth for spirits and an 8.8% decline for beer. Wine sales now account for 32% of the beverage alcohol market (up from 25% in 2004-2005); yet 75% of total wine sales growth in Canada over the past decade has been claimed by wine imports, and in 2014, Canada became the world’s sixth largest wine importer.

Canadian efforts to capture increasing consumer demand have been impressive, with investment in 400 new grape wineries focused on premium wines since 2006. Still, Canadian wines do not represent a fair share of domestic market sales, as Canadian wine industry sales account for only 32% of total wine sales. This makes Canada the reverse of most wine producing countries, which appreciate strong domestic sales, such as 65% market share in the United States, 74% in Australia and 99% in South Africa, Argentina and Chile. Even China enjoys 78% of its domestic wine sales.

It is important to recognize that foreign governments provide billions of dollars in direct payments to grape growers and winemakers to increase their competitiveness. Virtually every country producing grape wine in any significant quantity maintains more robust programs supporting its wine industry than that of Canada. These programs include grape growing and production grants to support domestic and export growth, as well as export promotion funding to support market growth. For example, in 2014, total program support (including promotion) specifically allocated to the European Union wine sector amounted to approximately $US1.41 (€1.2) billion.

In addition to financial obstacles, internal barriers to trade have also restricted the Canadian wine industry's growth. It has been four years since the passage of Bill C-311, which amended the *"Importation of Intoxicating Liquors Act"* enacted in 1928. This amendment removed federal restrictions which prohibited individuals from moving wine from one province to another when purchased for personal use; however, with the exception of British Columbia, Manitoba and Nova Scotia, the remaining provinces have upheld their internal trade barriers for wine. While we are encouraged that a commitment has recently been established by the Council of the Federation, whereby the provinces have agreed to discuss internal barriers for alcohol, CVA asserts that more action is required to seize the current domestic market opportunity.

THE OPPORTUNITY

In 2015, global wine expert Rabobank identified Canada as the second most attractive market in the world for wine sales, while Vinexpo concluded that growth in wine consumption in Canada is twice that of the rest of the world. The Canadian wine industry must be in a position to take advantage of these market conditions and our primary objective is to grow the sale of Canadian produced wines in all available sales channels from coast-to-coast.

With proper support, the Canadian wine industry will build its market share beyond 32% towards a target of 50%. This is good for the Canadian wine industry and good for Canada, as we anticipate wine sales growth opportunity of 50 million litres over the next two years. Based on our economic study, we know that every $1 million increase in Canadian wine sales will lead to a minimum $3.1 million increase in gross output – revenues, taxes, jobs and wages across the wine industry value chain – an excellent investment in our economy. In building greater market share and domestic consumer support, wineries will be in a better economic position to pursue greater export sales and take advantage of the opportunities that trade agreements have to offer.

To achieve this ambitious, yet attainable goal, our 2017 pre-budget submission strongly recommends the development of a targeted investment program:

Wine Industry Innovation Program

The introduction of a specific and directed Wine Industry Innovation Program (WIIP) should be implemented to provide strategic support to increasing wine competitiveness. The growth program would be delivered via investment tax credits and/or grants designed to support initiatives to develop the Canadian wine industry through improved operational and infrastructure investments, thereby benefitting environmental sustainability, productivity and competitiveness.

Program elements should include:

- Implementation for a period of 10-years (2017-2027), with an extension based upon an economic review
- Restriction to grape-based wine
- Implemention on a per winery basis, with no corporate ownership restrictions
- Maximum $5 million annual investment per qualified grape winery.

The key objectives of the Program are to:

- Develop and grow the Canadian grape wine industry
- Increase wine tourism and cellar door sales
- Foster domestic and export markets
- Support business development including innovation, skills and training

The areas for funding priorities include:

- projects that contribute to the development of domestic and export markets
- marketing and tourism development projects
- projects that improve sustainability and production

The growth program would apply to qualified tangible or intangible investments in the winery business. The investment tax credits and/or grant would be applied to eligible winery investment expenses related to products, processes, technology, infrastructure and capital assets (buildings, roads, retail and tourism, production equipment, environmental improvements, water treatment, vineyards, etc.) intended to increase the marketability and competitiveness of the Canadian wine sector.

The growth program would result in increased investment, transfers of expertise and technology through the registration of intellectual property, higher levels of employment, a more highly skilled workforce, improved economic conditions in wine regions, more economic activity and greater future tax revenue.

WIIP Cost

TheWine Industry Innovation Program (WIIP) would benefit every winery in Canada, regardless of size, with an estimated 80% of the benefits directed to small and medium sized wineries producing less than 50,000 cases of wine per year.

			$Million		
Annual Winery Production	**Number of Wineries**	**Average use of Maximum Annual Investment**	**Average Annual Industry Investment**	**Annual Federal Cost @ 30%**	**10-Year Federal Cost**
> 1 million litres	7	100%	$35.0	$10.5	$105
500,000 to 1 million litres	8	50%	$20.0	$6.0	$60
250,000 to 500,000 litres	16	25%	$20.0	$6.0	$60
< 250,000 litres	654	5%	$163.5	$49.1	$491
Total	**685**		**$238.5**	**$71.6**	**$716**

The Canadian wine industry is highly motivated to seize the current and growing market opportunities and through this supportive program, the industry will grow substantially, benefitting rural economies, as well as the greater national economy. Whether a grant or an equivalent 30% investment tax credit, the program is estimated to stimulate $239 million in annual winery investments with a cost to the federal government of $72 million per year.

Based on an average annual revenue growth of 11.5% for 100% Canadian wines and 4% for International Canadian Blended wines, the growth program would provide a **17 fold return on the federal government investment** and double direct and indirect employment. Ultimately, the program would help grow the Canadian wine industry's national economic contribution from approximately $8 to $20 billion over the period 2017-2027.

By their very nature, wine and grapes provide long-term employment and investments that are inherently tied to Canadian soil. Unlike manufacturing or service enterprises, vineyards cannot simply get up and move to another country, which ensures that federal investments in the industry are maximized to benefit the Canadian economy, communities and labour force.

To conclude, CVA strongly recommends the introduction of a Wine Industry Innovation Program (WIIP) which aligns with government priorities, especially those related to scaling up innovative industries, investing in environmental sustainability, developing and growing markets and creating quality job opportunities for young Canadians, all of which will support a sound public investment towards supporting national economic prosperity.