EDC Economics

CANADA'S ICE WINE INDUSTRY:

GRAPE EXPECTATIONS FOR GLOBAL GROWTH

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Canada

EDC

Summary

Canada is one of the world's largest producers of ice wine, a niche commodity market estimated at $6 billion in annual revenues.

- Canadian sales account for a sizable share of the global ice wine market along with the United States, Germany and Austria.
- About 75% of Canadian production is from Ontario wineries.

Sales are mainly to China and the U.S.—each accounting for about 35% of sales—with another eight countries in Europe and Asia accounting for most of the remaining 30%.

- The global ice wine market is projected to grow by 5.3% annually from 2020-2026.
- Demand for ice wine has increased in recent years due to increased knowledge about what food to pair with it, and changing consumer preferences, particularly in Asian markets, like China, South Korea and Japan.

Canada is well-positioned for global ice wine market sales in the future.

- This is due to multiple factors, including Canada's climate and the long-term risks to the industry from climate change and global warming, which may ultimately benefit Canada's wine industry.
- Potential substitutes pose challenges to Canadian ice wine producers, but the threat of competition from new entrants is currently low. This means that if Canadian producers can establish and lock in a strong market position, they could have a long, promising future.

This report describes wineries in Canada, with a focus on ice wine. The report summarizes sales, exports and imports, the number of establishments and employment for the wine industry in general, and in particular, Canada's ice wine industry's current position and future prospects.

Wine industry outlook

The global wine industry generated an estimated $407 billion in sales in 2020 and is poised for sustained growth through 2027[1]. Canada's annual revenues approximate $560 million, equivalent to about 1% of the global market. As a wine producer, Canada is a relatively small player in the market. However, in the niche ice wine segment (worth less than 2% of the total global wine market), Canada accounts for a major share of the market[2]. This trend is one reason why Canada is considered to be a higher-growth wine market for the coming years, with more than 3% annual growth projected from 2020-2027.

In particular, the "dessert wine" segment is projected to grow. As noted in *Global Wine Industry* (2020), the U.S., Canada, Japan, China and Europe will drive the estimated 3% compound average annual growth rate (CAGR) for this segment. These regional markets account for a combined market size of $55 billion (2020), and the expectation is that by 2027, will be worth about $66 billion.

China will remain among the fastest-growing market in terms of sales, led as well by Australia, India and South Korea. The Asia-Pacific market is forecast to reach $78 billion by 2027, while Latin America will expand at more than 4% CAGR through 2027, making it another attractive target market.

On the positive side for Canada, there are few global producers due to specific climate requirements. Potential environmental shifts resulting from climate change are expected to have beneficial effects for Canadian ice wine producers. As a niche product, each unit of production generates high sales margins. For instance, the average price of wine in North America is $15-$20 for a 750-ml bottle[3], whereas ice wine retails for $50-$150 for a 375-ml bottle[4].

Canadian wineries

Canada's six-digit North America Industry Classification System (NAICS) classification for wineries is defined by Statistics Canada as establishments primarily engaged in manufacturing wine or brandy from grapes or other fruit. These wineries grow grapes, manufacture wine from these and other purchased grapes (and other fruit), blend wines, and/or distill brandy. The product list includes:

- wines (with and without alcoholic content and from grapes, berries or other fruits);
- brandy (including fruit brandy);
- champagne-method and other sparkling wines;
- wine coolers; and
- alcoholic cider[5].

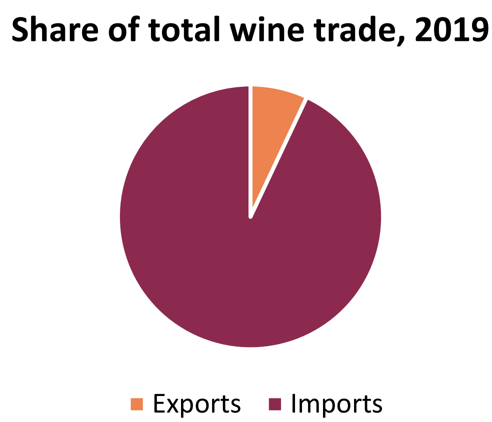
While not explicitly identified, ice wine is included in the list.

Some industry facts:

- Canada had 746 wineries as of 2019, almost all with fewer than 100 employees.
- Total revenues were $558 million, while pre-tax income was about $231 million.
- Nearly two-thirds of wineries were profitable (63.5%).

On the trade front, Canada is a net importer of wines, not surprising given the comparative advantage many other countries have over Canada. While Canada's general position in global wine markets is small, partly due to climate, it works in Canada's favour in the ice wine segment. However, in terms of overall wine trade, Canada has a deep deficit. Below is a snapshot of the wine trade in 2019.

- Total exports were $204 million.
- Total imports were $2.8 billion.



Ice wine

Ice wine falls into the dessert and fortified wine category, which also includes port, sherry, and madeira wines. Ice wine is a sweet wine made with grapes that have been frozen while still on the vine. True ice wine requires a cold climate where grapes are harvested frozen on the vine, rather than being commercially frozen.

Canadian ice wines tend to be high-end products and are expensive to make for two primary reasons:

1. Ice wine requires four to five times as many grapes, which are usually handpicked, making it a labour-intensive product. Freezing grapes also creates a naturally lower yield, resulting in less wine in

circulation. This makes ice wine rarer and more valuable, contributing to its premium status and higher price tag.

2. Alcoholic beverage distribution in Canada is stringently monitored along the supply chain, which keeps the industry fragmented. In almost all Canadian provinces, the distribution and sale of alcohol are managed exclusively by provincial alcoholic beverage authorities such as the Liquor Control Board of Ontario (LCBO). Prohibition-era legislation also allows provincial governments and liquor boards to restrict the delivery of wine from one province to another. Many wineries aren't permitted to distribute their products outside their respective provinces. For example, a winery in British Columbia isn't permitted to ship wine directly to a customer in Ontario. These restrictions and barriers to interprovincial trade constrain the development of scale and increase per-unit costs.

Canadian advantage

Canada and Germany are the world's largest ice wine producers. In Canada, 75% of ice wine comes from Ontario. Demand for ice wine has increased due to increased knowledge about how to pair ice wines with food and changing consumer preferences in various regional markets around the world. Production of ice wine is limited to a handful of countries where temperatures consistently drop below freezing during the winter. In countries including Canada, Germany, Austria, and the U.S., dessert wines can't be labelled as ice wine if grapes have been commercially frozen. This gives Canada a competitive advantage because temperatures during the growing season are warm enough to allow grapes to ripen, while remaining low enough in the winter to freeze the grapes naturally. This enables classification and labelling of the product as "true ice wine," a premium designation.

Target markets for Canadian ice wine producers

More than 60% of Canadian ice wine is currently exported to Asia. There has been a significant increase in the popularity of wine and ice wine in Asia, especially in China, South Korea and Japan. China, with its rising middle class and growing demand for wine from emerging lower-tier cities, became Canada's No. 1 ice wine export destination in 2018, with $8 million in sales, slightly higher than sales to the U.S. As the U.S. also produces ice wine, it's able to meet some of its demand from domestic production.

By contrast, China only recently began producing wine on a large scale, and it hasn't yet entered the ice wine segment. From 2012-2017, there were 131 wine products launched in China, but no ice wines. This provides an opportunity for Canadian ice wine producers to maintain their foothold and increase sales of their product to Chinese consumers without having to break into a new market.

South Korea is another promising export destination. In 2015, the Canada-Korea Free Trade Agreement went into effect and erased the 15% tariff imposed on Canadian ice wine imports. While Canadian wine is not well-known, South Korea is a niche market for high-quality alcohol, including liquors and brandies. When South Koreans travel to meet someone, they typically give a gift. These gifts can be purchased in duty-free shops at airports. In a region where counterfeit goods are prevalent, buying at duty-free shops is seen as a guarantee of authentic goods in South Korea.

For similar reasons, Japan also provides a potential market for ice wine. The duty-free channel assures customers of quality and allays concerns about counterfeit goods. Japanese consumers appreciate quality artisanal products, and tens of thousands of Japanese tourists visited the Inniskillin estate annually before COVID-19. This demand from tourism suggests Canadian exporters can develop a reliable market in Japan.

The U.S., United Kingdom, Netherlands and Germany are also significant export markets. The U.S. holds the No. 2 position, accounting for more than one-third of total ice wine exports from Canada, while the European countries fall within the Top 10 export markets. The U.S. and Germany, in particular, remain promising options because Canadian exporters already have relationships in these markets, and dessert wines can't be labelled ice wine if grapes are commercially frozen. As Germany is also one of the top producers of ice wine along with Canada, the German market is highly competitive for Canadian producers. Germany also has a long history and established reputation for wine, particularly Riesling, which may impede Canadian producers' ability to further expand into the German market.

Industry drivers

Domestic market

There are four industry drivers that affect the vineyards, wineries and domestic retail environment.

1. **Per capita disposable income**. Higher per capita income allows consumers to increase their purchases of discretionary goods such as wine and other alcoholic beverages.
2. **Adults aged 20 to 64**. This demographic in Canada covers most of the drinking age population and accounts for the largest portion of industry sales. But the number of adults in this age range in Canada is expected to decrease, which may pose a long-term risk to domestic sales.
3. **Per capita alcohol consumption**. Increased wine consumption leads to increased sales, but consumers are shifting to premium products at a higher price point such as ice wine. This may lead to a slight decrease in wine volume purchases, but an increase in ice wine sales.
4. **Per capita health expenditure.** As consumers become more health-conscious, alcohol consumption may decline. Drinking moderate amounts of wine has been shown to have potential health benefits, which may offset some of this risk. Ice wine sales compete with port and other sweet wine products often consumed in small portions by older people.

Export markets

Four industry drivers relevant to exporters also affect the global wine market.

1. **Global consumer spending**. An increase in consumer spending leads to an increase in consumption of discretionary goods such as wine. This can also shift purchases from inexpensive to higher priced items such as ice wine.
2. **The gross domestic product (GDP) of mainland China**. In China, wine products, including ice wine, have become more popular due to younger consumers and a rising middle class with increased purchasing power.
3. **The GDP of BRIC (Brazil, Russia, India, China) nations**. While China and Russia currently have relatively small wine industries[6], the markets have also experienced exponential growth from 2014-2019. India and Brazil have experienced changes in consumer trends similar to those in China, triggering an increase in wine consumption as the middle class expands. In Brazil, neighbouring countries like Argentina and Chile can easily supply Brazil with their large and active wine sectors.
4. **Adults aged 35 to 64**. This demographic has higher overall purchasing power and is more likely to regularly consume wine. Globally, this demographic is expected to increase, but at a slower rate in the coming years.

Competition in the wine industry is high and increasing

Within Canada, there are seven major ice wine producers:

- Inniskillin;
- Pillitteri Estates;
- Pelee Island;
- Peller Estates;
- Kittling Ridge;
- Reif Estate Winery; and
- Jackson Triggs.

Competition among them is primarily based on taste, quality, distribution, product line, price, branding and reputation. Where Canadian ice wine may struggle to compete is on price, which is relatively high. Such pricing may lead to a loss of market share to U.S. and German producers. In Canada, interprovincial barriers and restrictions on winery distribution and marketing prevent Canadian wineries from achieving greater scale and competitiveness, adding to challenges of pricing in competitive export markets.

Canadian branding and reputation in wine are also weaker than the long-standing reputation Germany has had for centuries, and the U.S. has had for more than half a century as California and other states have become wine-producing powerhouses. By contrast, the Canadian wine industry only became known for ice wine within the last 30 years. Europe also has its own market for dessert wines, which has existed for centuries. A campaign to educate consumers and buyers on the advantages of Canadian wines will be needed for Canadian producers and exporters to gain market share internationally.

Production costs can be high

Purchases are the most significant expense for wine manufacturers and producers, accounting for 46% of industry revenue in 2019. The most significant purchase is grapes, followed by wine bottles. High-quality grapes are essential to produce quality wines. Quality is determined by various factors, including weather conditions and agricultural methods.

Purchasing costs can fluctuate from year to year, depending on grape prices, which in turn vary depending on yields. Many wine manufacturers can grow their own grapes to avoid spending significant amounts of money on outsourced grapes. Similarly, some manufacturers also incorporate the bottling process, which can reduce costs significantly. While vertical integration of supply chains may be more difficult for small- or medium-sized wine manufacturers and producers, strategic alliances or consortiums can potentially enable smaller producers to share and minimize costs through bulk orders, discounts and pooled production costs (e.g., for bottling). Statistics Canada data indicate that about two-thirds of wineries are profitable, suggesting ice wine producers are managing these challenges.

Buyer power within the wine industry is high

Winemakers need access to retail and wholesale outlets to sell their products. These outlets, along with bars and restaurants, provide wine producers with key revenue channels. Buyers for retail outlets normally taste the wines themselves and demand significant quantities to fill shelf space. Attracting vendors can be expensive and time-consuming, particularly for small operators, as it is often difficult to supply the comparatively large volumes that vendors need. Constraints on interprovincial trade and winery distribution make it harder for smaller wineries to scale up, undermining their ability to land bulk orders, even when distributors express demand.

Larger producers can offer retailers large quantities of wine at inexpensive price points. Therefore, with the advantage of scale, they don’t struggle with this challenge as much. The larger producers also have the advantage of a consistent taste to their wines. Forming strategic alliances may help small- and medium-sized producers compete domestically and internationally. By pooling their products and selling as a group or co-operative to retailers and wholesalers, smaller producers can guarantee the quantities needed to increase distribution and get their wines onto shelves that weren’t open to them in the past.

Threat of substitution is high

Since the price of ice wine is high compared to substitute products, like beer, ordinary wine and non-alcoholic drinks, disposable income levels have a strong effect on personal ice wine expenditure. Ice wine is most often consumed during large holiday get-togethers and celebrations. Popular and well-established dessert or sparkling wines from Europe are common substitutes. These European wines also have the benefit of wider brand recognition given their long and established wine-making history.

Threat of new entry is low

Getting into the ice wine market requires new entrants to purchase special wine presses. The equipment provides more pressure than traditional wine presses while simultaneously being gentle with the grapes. Even if an existing wine producer wanted to expand production to ice wine, he/she would need to invest in specialized new equipment to be able to press grapes while frozen.

Standard barriers for new entrants are substantial, including the costs associated with land, labour and capital equipment. Agronomic and agribusiness expertise is also required.

Small-scale production is less profitable than large vineyards with vast amounts of land. Brand recognition also increases wine demand and new entrants often struggle to compete with established multinational winemakers. New entrants also need strong financial management skills and industry knowledge to be successful and develop retail distribution channels. On a global scale, they would also need access to enough grapes of a consistent quality to produce quality wine on a regular through-put basis.

Growth and the future for the Canadian ice wine industry

In the Canadian fruit and nut farming industry, grapes' share of revenue has grown steadily over the past two decades and was expected to exceed 16% ($279 million) of a total $1.7 billion in industry revenue in 2020. One of the primary causes of this trend is that growers are switching from native varieties to higher-quality, French hybrid grapes. A large and increasing portion of these grapes is used to make wine. With the increasing demand for Canadian wines, demand for grapes has also increased.

Within that market, Canadian wine retail industry revenues approximate $8 billion. This is larger than the above figures because they account for all the logistics, distribution and other services after the wineries ship out their product. The increasing demand for wine is driven by its perceived health benefits, innovation in flavour, and more advanced global distribution networks. Changing tastes and new preferences among consumers, along with increasing demand for new flavours such as Riesling wine, are expected to fuel future growth of the Canadian wine market.

The COVID-19 impact

In the short run, COVID-19 poses a significant risk to the industry. While alcohol producers, wholesalers and retailers were deemed essential businesses and have been able to operate during the pandemic, the industry has faced significant revenue shortfalls due to other government-imposed restrictions. Since ice wine is more frequently consumed at large gatherings, celebrations, and holidays, social distancing and limits on the number of people who can attend events has negatively impacted ice wine sales.

Another avenue for ice wine sales is bars and restaurants, which have been closed for significant periods, again impacting consumption and sales.

Linked to these trends is the decline in winery visits and tourism. Wineries have been closed to visitors for much of the pandemic, and restrictive conditions apply to those who do visit. Border and travel restrictions have also significantly reduced the number of visits to wineries.

Response to the pandemic's economic effects

Global warming may help to attract new entrants into the ice wine market from northern countries such as Russia, Norway, Sweden, and Denmark. As production continues to move north and/or involves commercial freezing, the Canadian wine industry may be at an advantage. Not only will competition within the industry decrease, but the Canadian wine industry will be able to expand and grow by producing a wider range of grape varietals that were not possible in a cooler climate.

Four strategic recommendations for ice wine producers

1. Expand the number and role of producer and marketing co-operatives: Small- and mid-sized wineries could establish co-operatives and other partnerships to achieve scale. The Wine Growers of Ontario provides information, analysis, and services to stakeholders along the supply chain which could help these small- and medium-sized enterprises (SMEs). Specifically, Wine Growers of Ontario builds strong partnerships with suppliers, and works with multiple distribution channels to improve offerings and sales of Ontario-produced wines. It's also the industry voice that works with government partners in their policy and regulatory decision-making processes.

These are all areas in which SMEs struggle to compete against larger producers. This co-operative and similar organizations provide an avenue in which Canadian ice wine producers can increase exposure to distribution channels and commercial opportunities. Wineries could also take a team-based approach to create a strategy that could facilitate access to different funding opportunities in foreign markets. This could lead to support within the larger wine industry and help leverage funding programs that support export growth.

Pairing ice wines with other agriculture or seafood products could provide another form of partnership for wine producers. It would allow both parties to take advantage of consistent messaging, engage in joint promotional activities, and strengthen existing trade channels with distributors. This option could also facilitate education regarding the consumption of ice wine with different food pairings.

Finally, Canadian producers can look for international partnerships to help facilitate investments and relationships specifically with hotels, restaurants, and bars in foreign markets.

2. Strengthen brand awareness: The industry needs to increase Canada's global brand as a serious wine-producing country to further develop and retain international export markets. This should start with products where Canada has a good reputation such as ice wines, rather than the more conventional wines where Canada has a hard time competing against the excellent quality and variety offered by other countries. The branding strategy should be niche-oriented and highlight products where global markets have acknowledged Canadian quality, such as in ice wines.

Based on industry experience in both domestic and global wine markets, producers believe Canadian consumers lack general knowledge about wine—let alone ice wine. Consumers tend to look for certain price points or colours, and are rarely aware of why a specific wine is special or how it's made.

A large part of the educational process goes into talking to international consumers and buyers about what makes Canadian wine unique in global markets, as well as the story and history of the wineries and the unique process for producing ice wine. While providing consumer education and placing employees on the ground in global markets may not be feasible for SME wine producers, there's an opportunity to leverage the reputation of successful Canada ice wine exporters such as Arterra. For instance, the Vintners Quality Alliance, or VQA, could play a role in supporting Canada's wine branding efforts while helping educate consumers in target markets.

3. Support wine tourism in Ontario and other provinces: Support for wine tourism in Ontario, British Columbia and possibly other provinces with nascent wine-growing regions can help build knowledge, create demand, and support pricing and sustainability for international sales growth.

Ice wine producers can work with the Tourism Industry Association of Ontario to create opportunities for buyers, influencers and media representatives from target markets to visit wineries, meet vintners, learn about the history of the winery and production process, and see the region. These activities would further facilitate the brand development of Canadian ice wine.

4. Freer and fairer trade: Protecting and enhancing fair access to global markets through advocacy and information exchange with industry and international wine organizations remains an important priority. The Canada-European Union Comprehensive Economic and Trade Agreement (CETA) supports the export of ice wine into new and existing markets within Europe. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) offers Canadian wineries new opportunities in Asian markets to increase exports. Together, these regions host existing growth markets. Ice wine producers should also seek opportunities through free trade agreements in Latin America, where growth in dessert wine sales is projected in the coming years.

Finally, federal, provincial, and diplomatic resources can help producers access market intelligence reports for global markets of interest. Export Development Canada (EDC) can also play a role in helping with this effort through our network and efforts to promote Canadian exports.

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Endnotes

[1] See https://www.reportlinker.com/p05010580/Global-Wine-Industry.html?utm_source=GNW
[2] See https://www.thecowboychannel.com/story/43591595/ice-wine-market-2021-is-estimated-to-clock-a-modest-cagr-of-53nbspduring-the-forecast-period-2021-2026-with-top-countries-data
[3] See https://www.vivino.com/wine-news/how-much-does-a-good-bottle-of-wine-cost
[4] See https://www.forbes.com/sites/thomaspellechia/2018/01/05/the-reason-a-small-bottle-of-ice-wine-is-expensive/?sh=302a40c25cdb
[5] See https://www.ic.gc.ca/app/scr/app/cis/summary-sommaire/31213
[6] Russia historically has imported wines from Georgia and brandy from Armenia, as it did during the Soviet Union. Wine importation patterns have shifted in the last decade due to tensions in Russian-Georgian relations.

About this report
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