

Voluntary Report – Voluntary - Public Distribution

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Report Name: The Ontario Wine Market

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Report Highlights:

Canada is the top export market for U.S. wines by value, and Ontario's provincial liquor board is a major purchaser of beverage alcohol. Imported wines are primarily sold through provincially owned and operated retail outlets, although recent regulatory changes have authorized 157 private grocery retail locations to distribute wine and beer. A comprehensive review of Ontario's beverage alcohol distribution system concluded in May 2019, recommending further expansion of beverage alcohol distribution across the province, including in private outlets. Keywords: Canada, Ontario, wine

Ontario Beverage Alcohol Market Overview

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF
AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Canada continued to be the number one export market for U.S. wines, by value, with \$413 million of export sales in 2018. Four provinces — Quebec, Ontario, Alberta, and British Columbia — make up 94 percent of the Canadian wine market.¹ Ontario alone imported 23.5 million liters and \$167 million of U.S. wine in 2018. In Canada, the authority to import and distribute alcohol rests with the provincial governments. All alcohol in Ontario must be imported and distributed through the provincially owned Liquor Control Board of Ontario (LCBO), which operates as the importer of record, wholesaler, and primary retailer for most wines. The Alcohol and Gaming Commission of Ontario (AGCO) is a Crown agency established to oversee and regulate the alcohol, gaming, and horse racing sectors. The LCBO distributes nearly all and sells most of the alcoholic beverages in the province, whereas the AGCO regulates the production and sale of alcohol in Ontario.

Ontario's retail beverage alcohol market was valued at more than \$6.5 billion in 2018 (note: throughout this report, and unless otherwise noted, all 2018 data was converted from Canadian dollars to U.S. dollars using an exchange rate of \$1 USD = \$1.3 CAD), with total wine sales reaching \$2.0 billion. Imported wines represented approximately two-thirds, or \$1.3 billion, of total retail wine sales in Ontario in 2018, while locally produced wine accounted for the remaining one-third, at \$710 million. The LCBO retail stores are by far the largest distribution channel in Ontario, and imported wines constitute roughly 75 percent of total LCBO wine sales. Imported wines account for 96 percent of sales in LCBO's Vintages category, which is comprised of premium wines.

There are three categories of Ontario-produced wine:

- [*Ontario Vintners Quality Alliance*](#) (VQA), wine that is produced from 100 percent Ontario grapes and which meets additional, specified production standards.
- *International-Canadian Blends (ICB)*, a blend of Ontario and imported wines, containing a minimum of 25 percent Ontario grape content. According to the [*Winery and Grower Alliance of Ontario*](#), most of the wine produced in Ontario (54 percent of the grape crop by volume) is used to make ICBs.
- *100 percent Ontario*, wine that contains 100 percent local grape content but does not meet all VQA production standards.

Although wine must be imported through the LCBO, currently there are four distribution channels: LCBO retail stores; on-site and off-site winery retail stores; direct delivery to hotels and restaurants; and grocery stores.

¹ See Appendix 1

LCBO Stores

With over 80 percent share of total wine sales in the province, the LCBO was the largest retail channel in the Ontario wine market in 2018, capitalizing on its network of 663 LCBO retail stores and 210 LCBO agency stores, which are privately owned retail operations located in communities too small to have an LCBO retail location. In June 2019, Ontario [announced](#) the an additional 200 agency stores are expected to open in rural communities by 2020. Canadian wines (mostly Ontario wines) represent the largest wine category at the LCBO, with 2018 sales of \$408 million. By value, U.S. wines have the largest share of the imported wines category at the LCBO with sales of \$292 million in 2018. Italy and France were the second- and third-largest foreign suppliers of imported wines with \$281 million and \$166 million of LCBO sales in 2018, respectively.

For additional information on sales and distribution, please consult the LCBO's most recent [Annual Report](#). For specific information on how to get listed and sell wine through the LCBO network, please consult the [Doing Business with LCBO](#) website.

Winery Retail Stores

A network of Winery Retail Stores (WRS) makes up the second most important wine retail channel in Ontario. According to a recent [Report to the Minister of Finance](#), there are 513 retail stores in the WRS network, split between 221 WRS located at wineries (on-site), and 292 WRS located away from wineries (off-site). Off-site WRS may only sell 100 percent Ontario wine or ICB type wines made from the winery's own production. The off-site WRS network has been consolidated over time and the majority of these licenses are now owned by Arterra Wines Canada² (doing business as The Wine Rack) and Andrew Peller Ltd. (doing business as The Wine Shop). Overall, the WRS network accounted for about 13 percent of wine sales in Ontario in 2018. As mentioned earlier, most of Ontario's wine production is blended with imported bulk wine to make ICB type wines. These wines have up to 75 percent imported content and can be sold in WRS.

Direct Deliveries

Sales of wine to licensee customers, such as bars and restaurants, can either be direct from a manufacturing winery (only for Ontario-produced wines, including ICBs) or through the LCBO wholesale channel (for imported wines and Ontario-produced wines). Ontario-produced wines delivered directly from the manufacturer to the licensee are exempt from some of the applicable fees, such as the LCBO markup. For imported wines, the LCBO is the wholesaler, and therefore all fees apply, including the markup. Many bars and restaurants buy wine through sales agents in order to get access to a wider selection than the LCBO listings, as agents may order virtually any wine from

² The Ontario Teacher's Pension Plan purchased Constellation Brands, Inc. on December 19, 2016, and then changed the name of its Canadian operating unit to Arterra Wines Canada.

overseas, a process for which the LCBO remains the importer and wholesaler of record. The LCBO assesses the standard markup as well as other fees to wines imported in this manner. The direct delivery distribution channel accounts for 3 percent of Ontario's wine sales.

Grocery Stores

In 2014, a Premier's Advisory Council on Government Assets was charged by the Ontario Premier to review a number of government assets, including the LCBO. The Council published its report, [*Striking the Right Balance: Modernizing Wine and Spirits Retailing and Distribution in Ontario*](#), in February 2016, and its recommendations resulted in the [Ontario Regulation 232/16](#), which amended the Liquor Control Act. The regulations went into effect in December 2016, allowing the sale of wine, beer and cider in licensed grocery stores for the first time in the province. Regulation 232 has been amended a further nine times since 2016, expanding access and modifying various conditions regulating the sale of wine, beer and cider in grocery stores.

In June 2019, the Ontario Special Advisor for the Beverage Alcohol Review released the [report to the Ontario Minister of Finance](#) on options to further liberalize beverage alcohol distribution. Recommendations included in the report were the basis for the June 6, 2019, Ontario provincial government [announcement](#) expanding the number of grocery stores licensed to sell wine as well as the number of LCBO agency stores.

The most recent version of Regulation 232 structures the retail sale of wine through the grocery store as follows:

- A total number of 157 grocery stores have "beer and wine authorizations," allowing them to sell wine under the following conditions:
 - o If the grocer sells [VQA wines](#), the display area must contain one or more signs indicating the availability of VQA wines for sale;
 - o At least 50 percent of the containers of wine on display in the store must contain wine that is produced using grapes from a single country and in respect of which at least one of the following criteria is satisfied:
 - The wine is quality assurance wine;³
 - The wine was produced by a small winery;⁴

³ According to Regulation 232, "quality assurance wine" means wine that is designated as meeting the quality control standards of a statutory appellation of origin regime that certifies, in the aggregate, less than 50 million liters of wine annually.

⁴ According to Regulation 232, a "small winery" is a manufacturer that satisfies two conditions: 1) the manufacturer's worldwide sales do not exceed 200,000 liters of wine annually; and 2) every affiliate of the manufacturer that manufactures wine is a small winery.

- The country where the grapes were grown produces, in the aggregate, less than 150 million liters of wine annually from grapes grown in that country.
 - At least 10 percent of the containers of wine on display in the store must contain wine manufactured by small wineries.⁴
- Of the total number of 157 grocery stores allowed to sell wine, 35 of these stores would have “restricted wine and beer authorizations” with additional restrictions attached to the sale of wine. These 35 restricted authorizations would eventually become regular “wine and beer authorizations” (i.e., unrestricted) three years after the initial authorization issuance. During the three-year period, grocery stores with “restricted wine and beer authorizations” may only sell:
- Wine that is produced by a small winery⁴ using grapes from a single country, and
 - Quality assurance wine³ produced using grapes from a single country by a winery that, at any time during the three-year period, is a mid-sized winery.⁵

In addition, at least 20 per cent of the containers of wine on display in the store must contain wine manufactured by small wineries.⁴

These “wine and beer authorizations” (restricted and unrestricted) have been auctioned by the LCBO. To date, a total of [70 grocery stores](#) throughout Ontario have been authorized to sell wine under “wine and beer authorizations,” including 35 restricted wine and beer authorizations. The remaining [87 authorizations](#), all of which will be unrestricted, have yet to be auctioned by the LCBO. The existing 35 groceries with restricted wine and beer authorizations will transition to unrestricted wine and beer authorizations [in October 2019](#).

Although grocery stores are permitted to sell both domestic and imported wine, the conditions in Regulation 232 result in most imported wine only being sold on approximately 25 to 50 percent of the available grocery store shelves. For instance, the “statutory appellations of origin” regime in the definition of “quality assurance wines”³ is interpreted to encompass the overall appellation system in a given country, thereby grouping all recognized growing regions in a country together. Therefore, all Californian American Viticultural Areas (AVAs) are disqualified since the system is federal and California produces about 3 billion liters of wine annually. At the same time, Ontario wines, due to the size of their manufacturers, qualify for grocery store distribution in both restricted and unrestricted stores.

⁵ According to Regulation 232, a “mid-sized winery” is a manufacturer that satisfies three conditions: 1) the manufacturer’s worldwide sales do not exceed 4.5 million liters of wine annually; 2) every affiliate of the manufacturer that manufactures wine is a mid-sized or small winery; and 3) the manufacturer is not a small winery.

Regardless of the type of authorization (restricted or unrestricted), groceries must adhere to the [minimum pricing for wine](#) policy. The minimum retail price for a 750ml bottle of wine in a grocery store is currently \$10.95 CAD (about \$8.42), and products must retail at the same price regardless of retail channel (i.e., the same bottle must be priced identically in grocery stores, LCBO stores, and/or winery retail stores).

In addition, the following requirements apply to grocery stores authorized to sell wine:

- Sale is only permitted during standard hours: Monday to Saturday 9:00 a.m. to 11:00 p.m., Sunday 11:00 a.m. to 6:00 p.m.;
- Limitations on alcohol by volume – maximum of 18 percent for wine;
- No cream wine, wine beverages or fortified wine is allowed;
- Wine cannot be sold in formats containing more than four liters;
- Staff selling alcohol must be a minimum of 18 years of age and have received mandatory training;

All wine available for sale in a grocery store authorized to sell wine must be purchased from the LCBO. Upon request, the LCBO will provide the grocer with a list of wines that satisfy the conditions for grocery store sales. A Wine Catalogue Committee (WCC) is assigned to review all wine submissions for inclusion in the grocery catalogue. Only products listed on LCBO's General List are eligible for sale in grocery stores, however, a producer must elect to offer their product for sale in grocery. All wines below \$10.95 CAD (about \$8.42) and all imported premium wines⁶ found on LCBO's Vintage List are excluded from the grocery channel.

Grocers and wine suppliers alike can enroll at LCBO's [portal for the grocery program](#), where the wine catalogue and access to the grocery operations team are available. [Documents and presentations directed to suppliers](#) are also available and regularly updated. The LCBO may be [contacted](#) for any questions related to their grocery program. According to the [Report to the Minister of Finance](#), wine sales through grocery stores accounted for 1 percent of total wine sales in Ontario in fiscal year 2017/18.⁷

⁶ Ontario-produced wines on the Vintages List are still eligible for grocery sales.

⁷ The Ontario and Canadian federal fiscal years begin on April 1 and end on March 31 of the subsequent year.

Wine Boutiques

Ontario Regulation 232 also allows for the creation of [wine boutiques](#). Essentially, these are off-site WRS allowed to move inside a grocery store and use the grocery's cash registers for processing wine sales. In addition to the conditions that apply to unrestricted grocery store wine and beer authorizations, the following conditions apply to the sale of wine in wine boutiques:

- Wines must be produced exclusively in Ontario;
- At least 50 percent of the containers of wine on display are VQA;
- At least 25 percent are wines manufactured by other Ontario wineries.

ICBs, allowed for sale in wine boutiques, represent the only avenue for imported wines (i.e., imported in bulk and blended with Ontario wines) to be sold in wine boutiques. A total of 70 wine boutiques have been authorized, with 68 actual authorizations being issued to date (i.e., 68 off-site WRS have been converted into wine boutiques).

Wine Pricing in Ontario

The pricing of wine in Ontario and the application of fees and charges depend on whether the wine is Ontario-produced or imported as well as the distribution channel through which the wine is sold.

1. Wine sold through the LCBO network faces the following charges⁸:
 - a. Federal excise duty – the rate is the same for all Ontario-produced and all imported wines
 - b. LCBO markup – the rate is the same for all Ontario-produced and all imported wines, currently at 71.5 percent
 - c. LCBO wine levy – the rate is the same for all Ontario-produced and all imported wines
 - d. Cost of service charge – the amount is zero for all Ontario-produced wines, and for imported wines the amount varies by geographical zone, with different amounts for U.S. wines, EU wines and all other imported wines
 - e. LCBO volume levy – the rate is the same for all Ontario-produced and all imported wines
 - f. LCBO environmental levy – the rate is the same for all Ontario-produced and all imported wines
 - g. LCBO rounding revenue – the rate is zero for Ontario-produced wines and different for imported wines
 - h. Harmonized Sales Tax – the rate is the same for all Ontario-produced and all imported wines
 - i. Container deposit fee – the amount is the same for all Ontario-produced and all imported wines

⁸ See Appendix II

2. Wines sold through Winery Retail Stores (as a reminder, this is Ontario-produced wine only, either VQA, ICBs, or 100 percent Ontario) face similar charges to wines sold through the LCBO network, with the following differences:
 - a. The federal excise duty is zero for VQA wines
 - b. The LCBO markup does not apply (it is not charged)
 - c. The LCBO wine levy does not apply (it is not charged)
 - d. Cost of Service charge does not apply (it is not charged)
 - e. A WRS basic tax of 6.1 percent for VQA and 100 percent Ontario wines or a WRS basic tax of 19.1 percent for ICB wines is applied
3. Wine sold through the direct delivery channel to licensees (restaurants and bars) faces similar charges to wine sold through the LCBO network, with the following differences:
 - a. The federal excise duty is zero for VQA wines
 - b. Cost of Service charge does not apply (it is not charged) to Ontario-produced wine
 - c. The LCBO markup only applies to imported wines and to ICBs
 - d. An LCBO Administration fee of 6.1 percent for VQA and 100 percent Ontario wines is applied
 - e. Imported wines benefit from a 5 percent licensee discount, whereas Ontario-produced wines benefit from a 10 percent licensee discount
 - f. A 6 percent licensee markup is charged on all Ontario-produced and imported wines

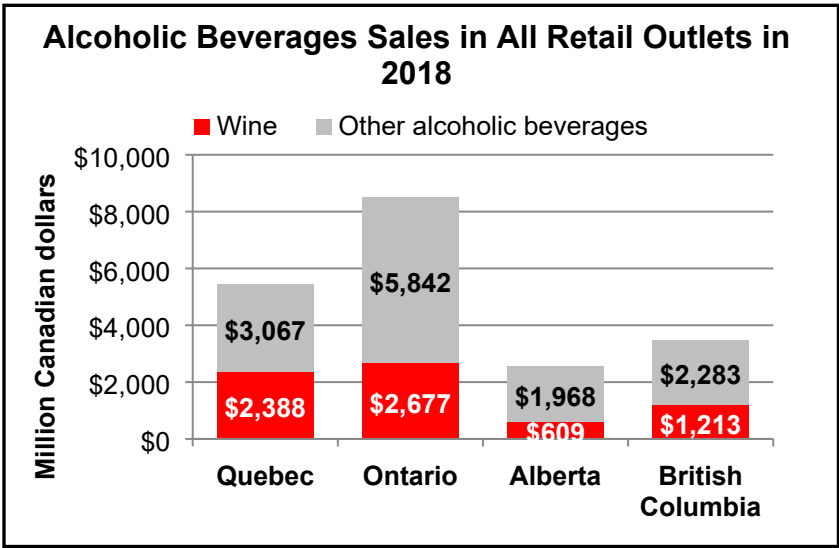
Additional details on pricing, including markups, can be found on the LCBO [Pricing Structure](#) website (also included in Appendix II) and on the [Doing Business with LCBO](#) website.

Additional Statistical Data Regarding the Ontario Wine Market



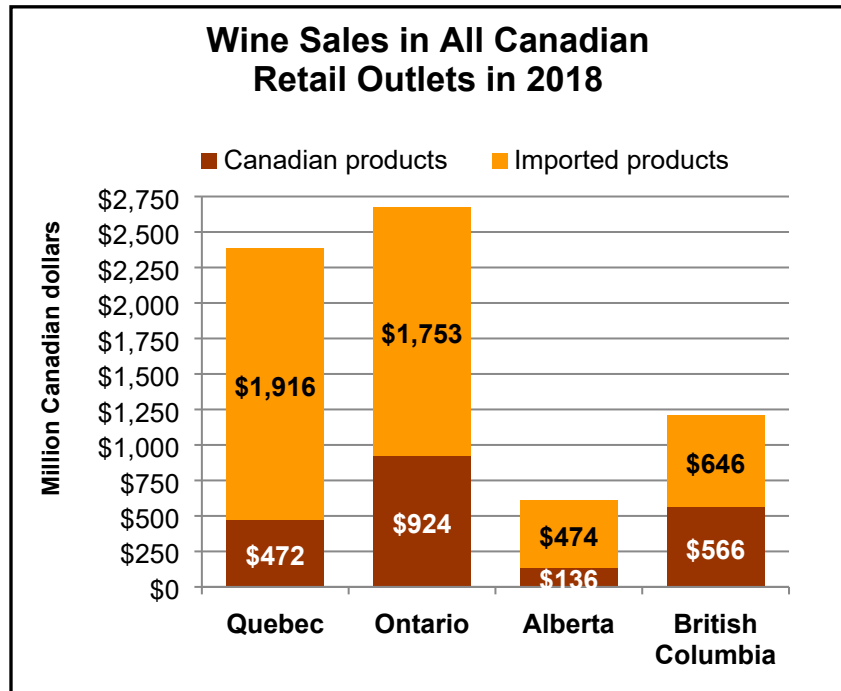
Source: Statistics Canada

Note: In Quebec, groceries and convenience stores are allowed to sell beer, cider and certain types of wines, which explains the much larger number of stores in this province compared to other provinces. In Alberta, all stores have been privatized and no longer belong to the provincial liquor authority.



Source: Statistics Canada

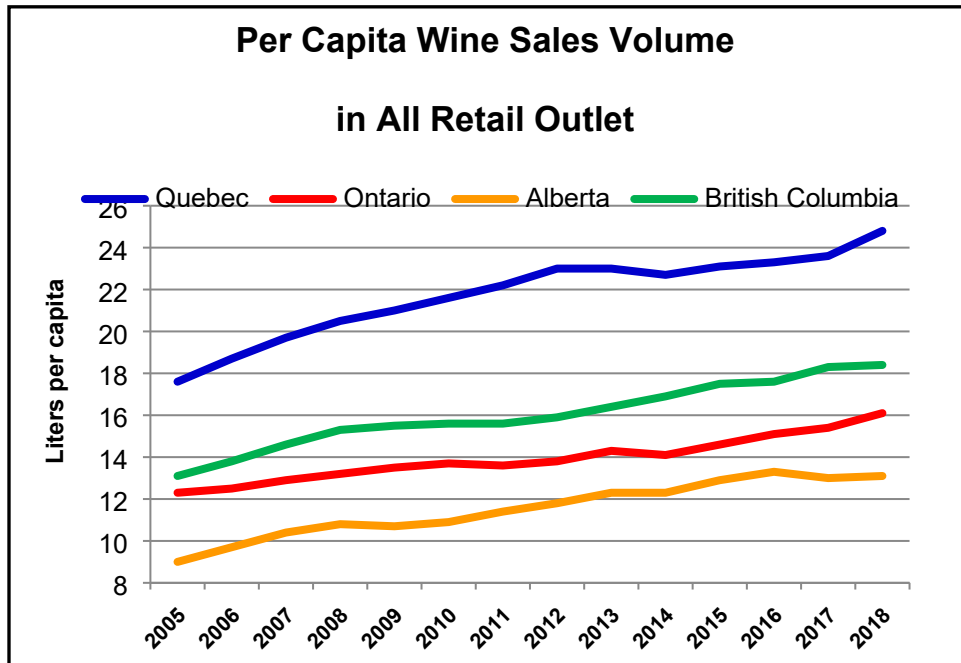
Note: According to a [report](#) by Agriculture and Agri-Food Canada (AAFC), 85 percent of wine sales in Canada go through the retail channel (all types of retail outlets, including stores owned by provincial liquor authorities, groceries, convenience stores and any other retail outlet) rather than restaurants / bars.



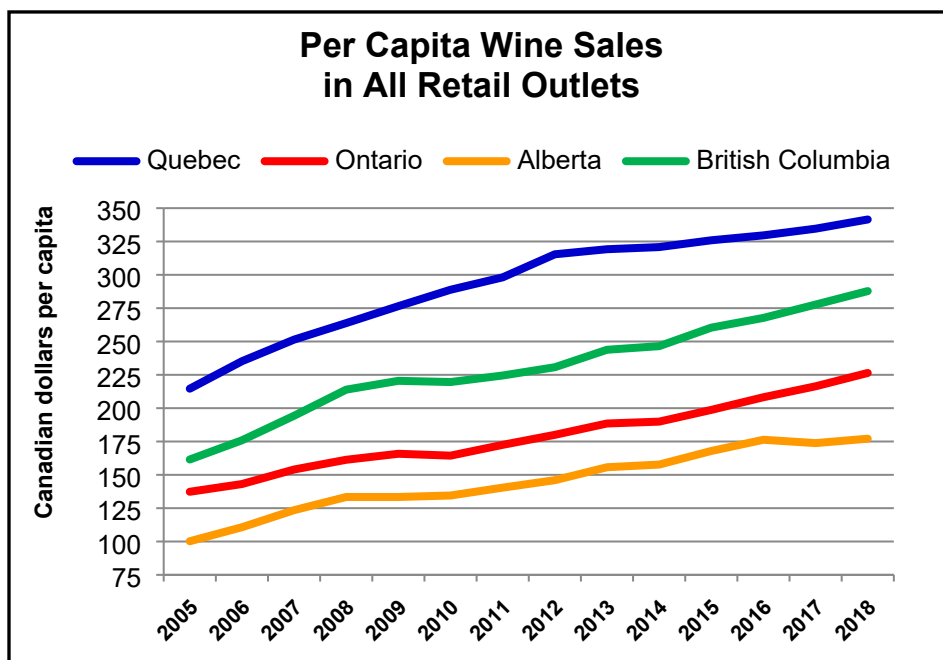
Source: Statistics Canada

Note 1: “Canadian products” for Ontario and British Columbia include wine produced domestically under provincial quality assurance programs, as well as international-Canadian blends made by combining wine imported in bulk with wine produced domestically. “Canadian products” in Quebec include foreign wine imported in bulk, bottled in the province and sold in groceries and convenience stores.

Note 2: According to a [report](#) by Agriculture and Agri-Food Canada (AAFC), 85 percent of wine sales in Canada go through the retail channel (all types of retail outlets, including stores owned by provincial liquor authorities, groceries, convenience stores and any other retail outlet) rather than restaurants / bars.

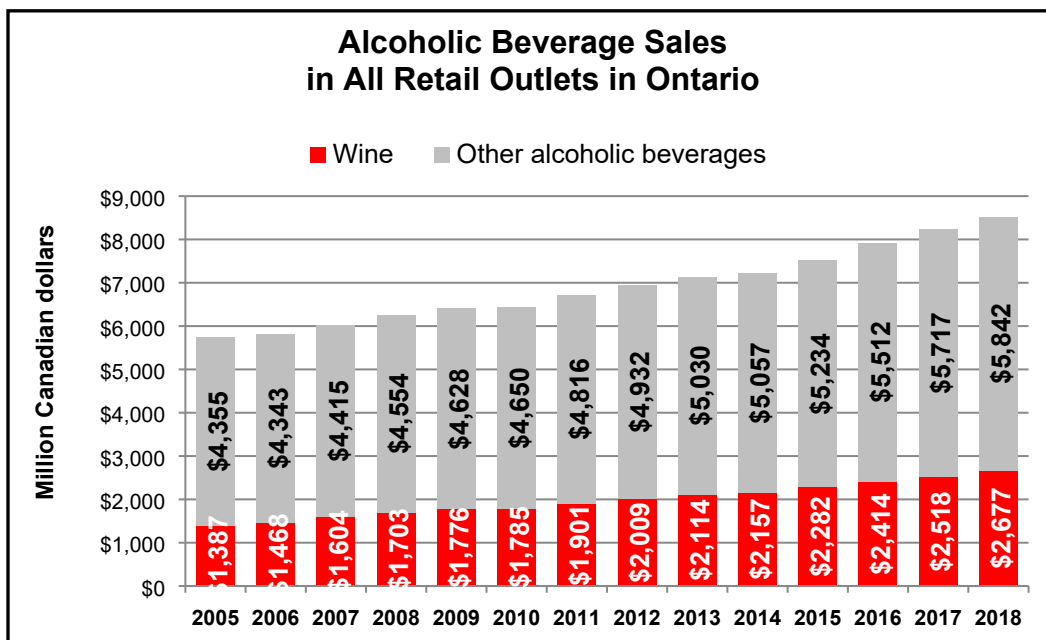


Source: Statistics Canada



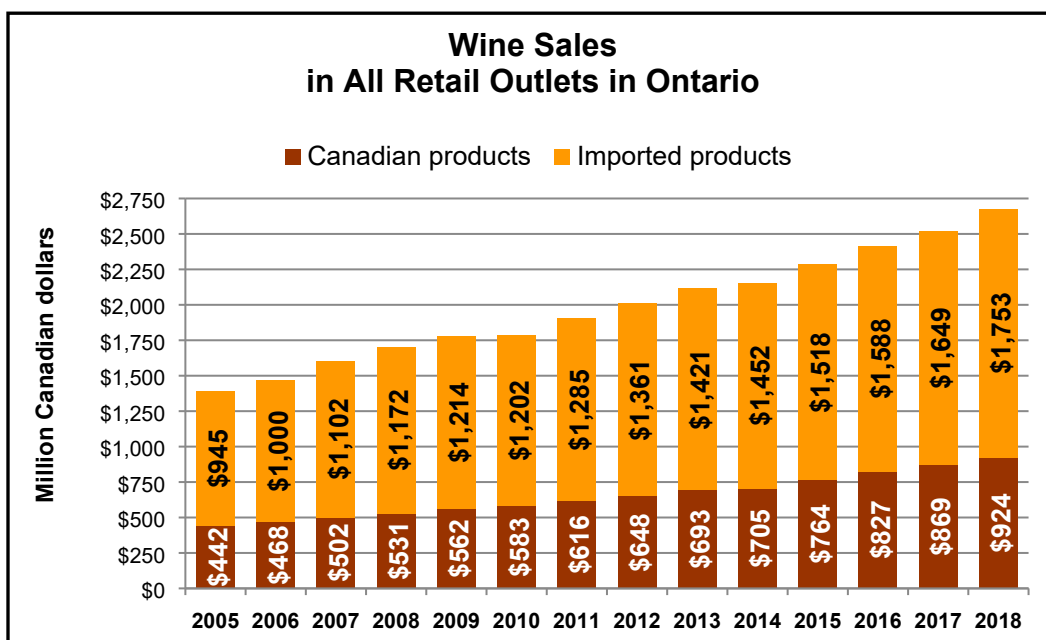
Source: Statistics Canada

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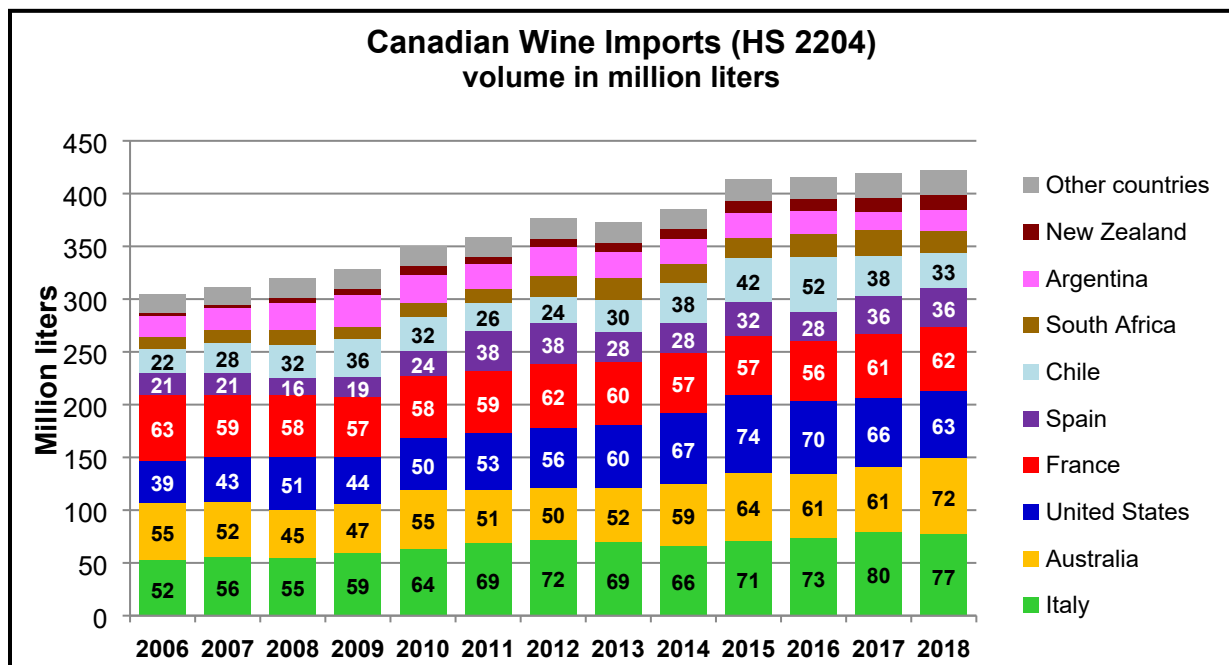
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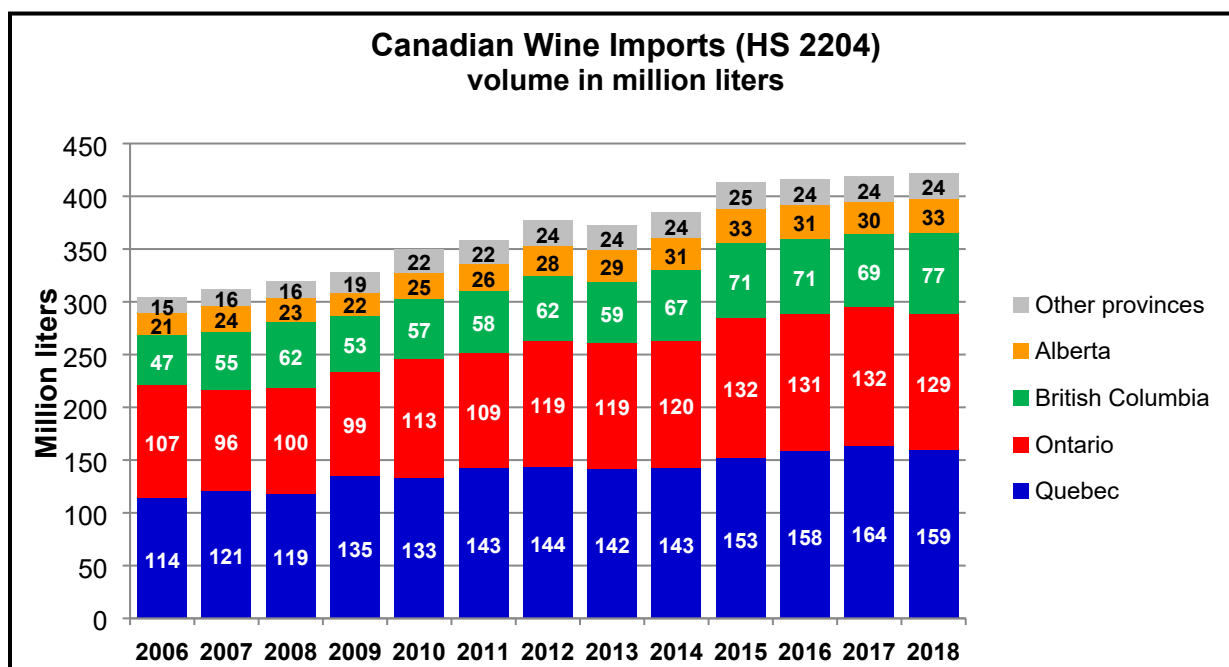


Source: Statistics Canada

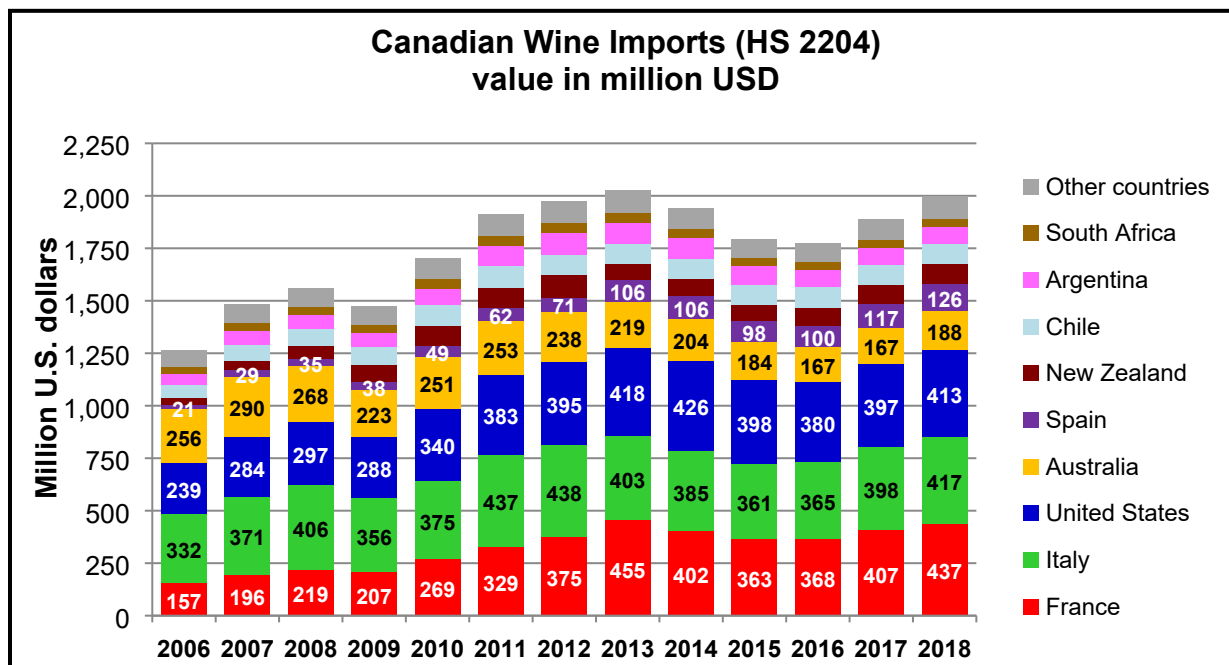
Note: "Canadian products" in Ontario include wine produced domestically under provincial quality assurance programs, as well as international-Canadian blends made by combining wine imported in bulk with wine produced domestically.



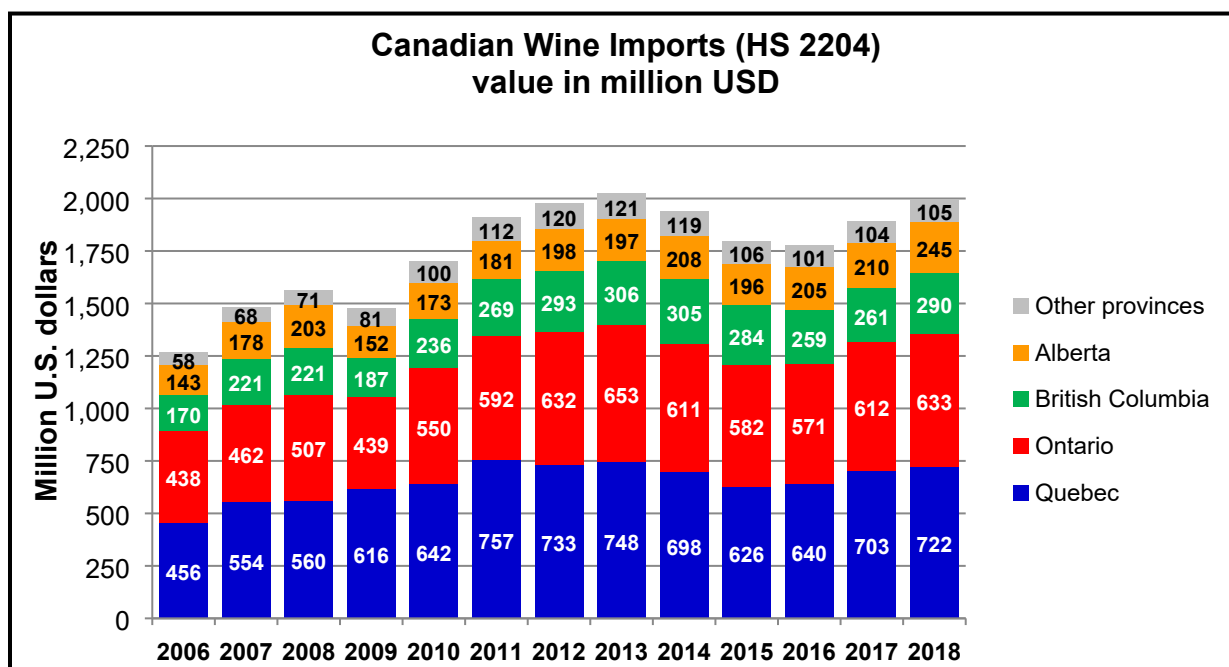
Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk



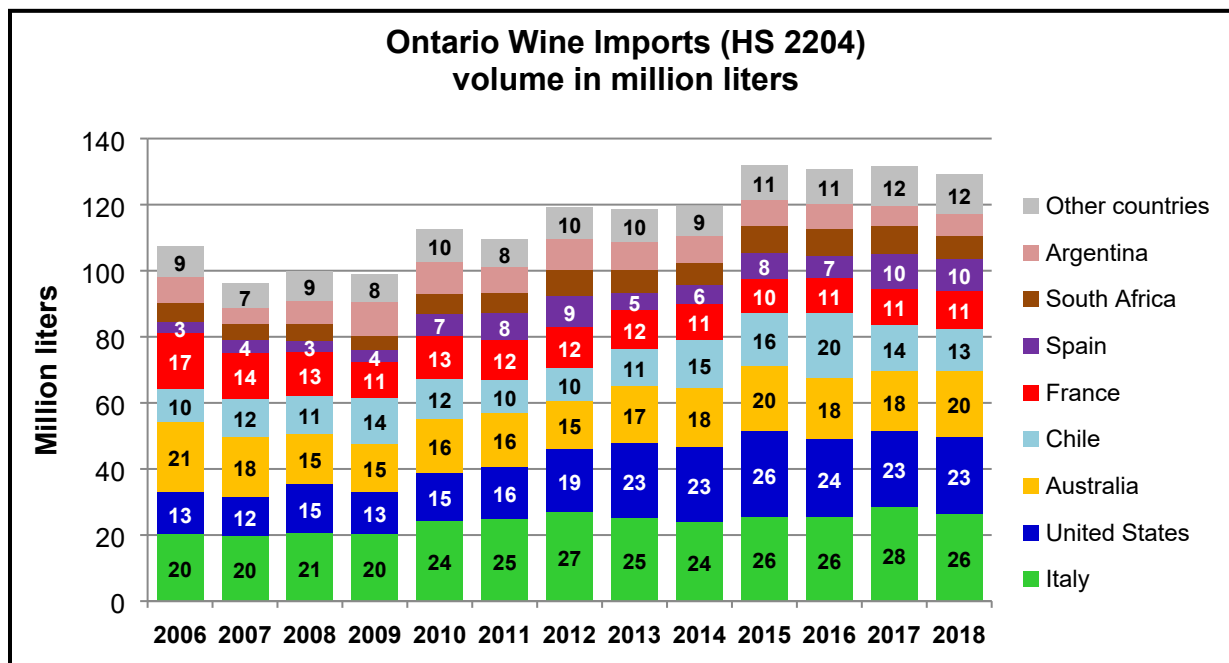
Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk



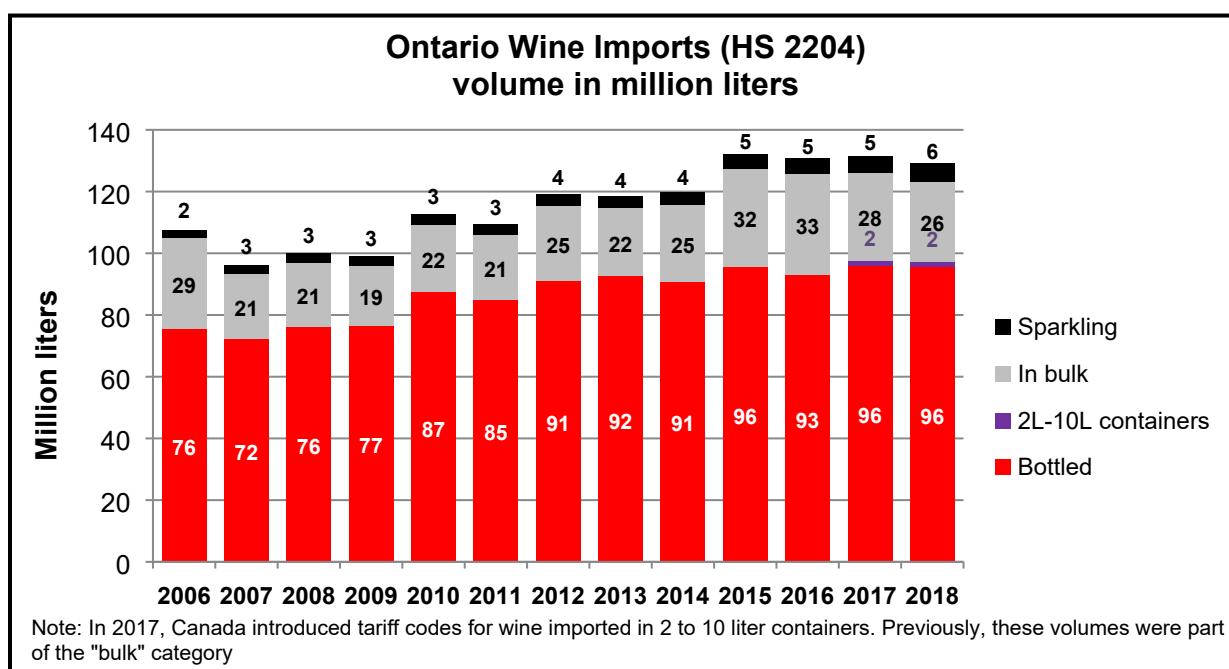
Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk



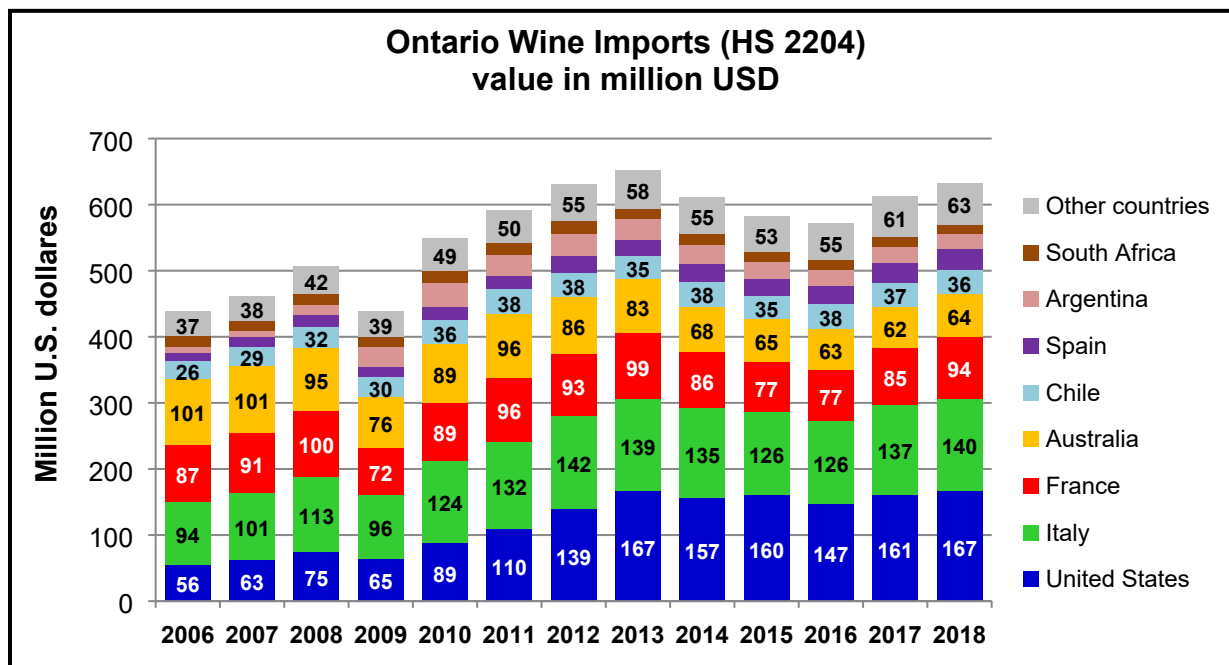
Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk



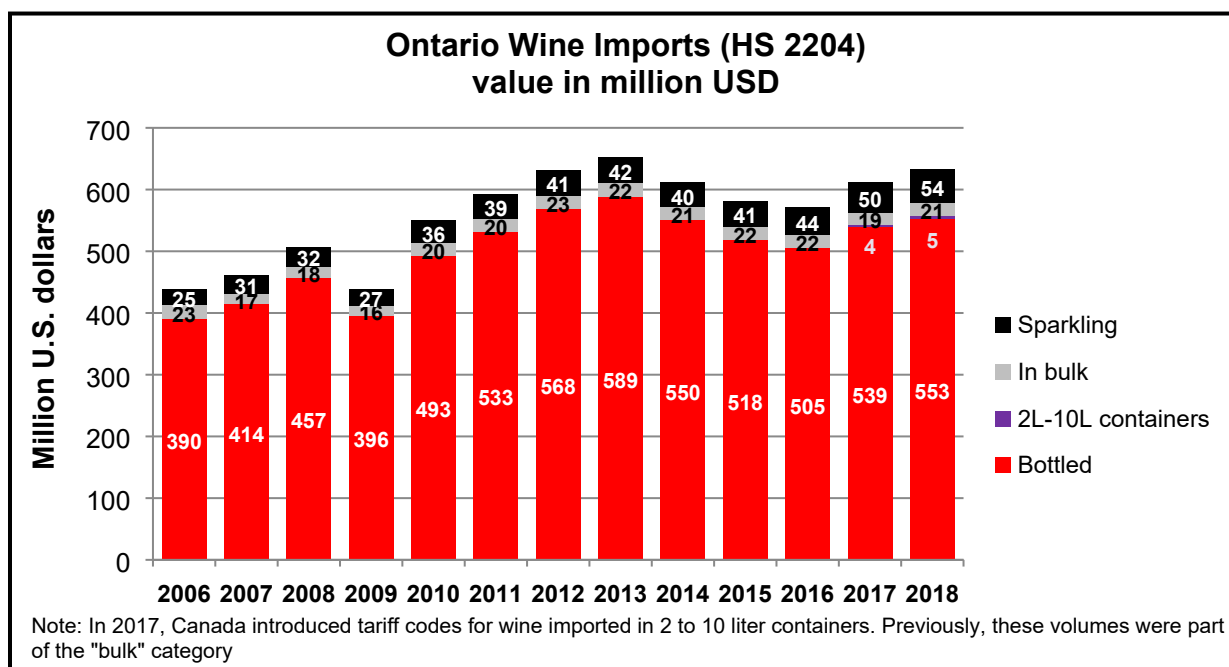
Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk



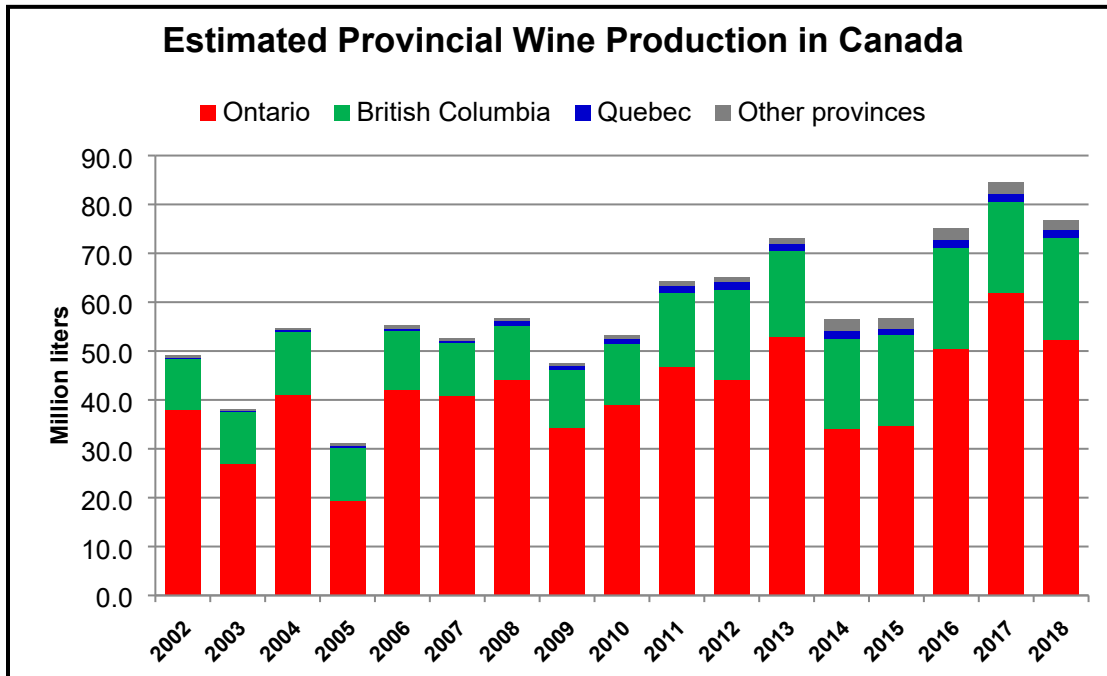
Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk



Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk

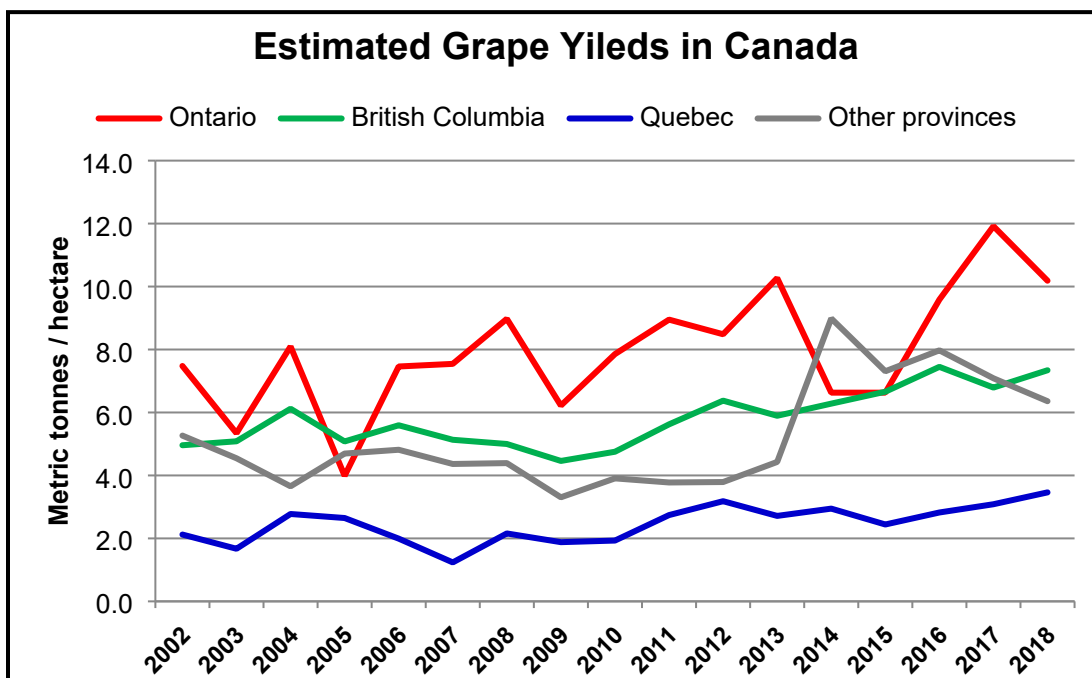


Source: Global Trade Atlas / *Includes bottled wine, sparkling wine and wine in bulk



Source: Statistics Canada and Post estimates

Note: These estimated production volumes are based on Statistics Canada data for wine grape production, to which Post applied an average yield level to derive the wine volumes. Basically, these volumes represent the total amounts of wine produced in Canada from grapes grown in Canada.



Source: Statistics Canada and Post estimates

Note: These yields are calculated using Statistics Canada provincial data on cultivated area and grape production.

Appendix II

Example of LCBO pricing calculation for wine:

LCBO PRICING EXAMPLES FOR TABLE WINE					
(\$CDN for 0.75 L bottle)					
		Domestic	EU	NAFTA	Other
PRICE COMPONENTS					
Payment to Supplier		4.7376	4.7376	4.7376	4.7376
Federal Excise ⁽¹⁾	\$0.653 per litre	0.4898	0.4898	0.4898	0.4898
Federal Import Duty	Free	-	-	-	-
Freight		-	0.2038	0.2038	0.2038
Total Landed Cost		5.2274	5.4312	5.4312	5.4312
LCBO Mark-up ⁽²⁾	71.5%	3.7376	3.8833	3.8833	3.8833
LCBO Wine Levy	\$1.62 per litre	1.2150	1.2150	1.2150	1.2150
Cost of Service ⁽³⁾	Varies	-	0.4511	0.2369	0.4872
LCBO Volume Levy	\$0.29 per litre	0.2175	0.2175	0.2175	0.2175
LCBO Environmental Levy ⁽⁴⁾	0.0893 per container	0.0893	0.0893	0.0893	0.0893
LCBO Rounding Revenue ⁽⁵⁾		-	0.0401	0.0330	0.0040
Basic Price		\$ 10.49	\$ 11.33	\$ 11.11	\$ 11.33
HST	13%	1.36	1.47	1.44	1.47
Container Deposit ⁽⁶⁾	\$0.20 per container	0.20	0.20	0.20	0.20
CONSUMER PRICE⁽⁷⁾		\$ 12.05	\$ 13.00	\$ 12.75	\$ 13.00
REVENUE DISTRIBUTION \$					
Supplier (including freight provider)		4.74	4.94	4.94	4.94
Government of Ontario		6.10	6.80	6.56	6.80
Government of Canada		1.01	1.06	1.05	1.06
Container Deposit		0.20	0.20	0.20	0.20
CONSUMER PRICE		\$ 12.05	\$ 13.00	\$ 12.75	\$ 13.00
REVENUE DISTRIBUTION %					
Supplier (including freight provider)		39%	38%	39%	38%
Government of Ontario		51%	52%	51%	52%
Government of Canada		8%	8%	8%	8%
Container Deposit		2%	2%	2%	2%
NOTES:					
1. The excise rate will be automatically adjusted by the Consumer Price Index on April 1 of every year, starting in 2018.					
2. LCBO mark-up as a share of Landed Cost.					
3. Cost of service charges are applied at a flat per litre rate by region except for domestic products.					
4. Environmental levy applies to containers that cannot be returned for refilling by manufacturer.					
5. Consumer price is rounded up to the next nickel.					
6. Products are subject to container deposit rates based on container size.					
7. Wine products are subject to floor pricing.					

Effective at Retail April 2019

Source: [LCBO pricing examples](#)

Appendix III

List of Ontario Acts and Regulations Pertaining to Wine Sales

[Ontario Regulation 232/16 – Sale of Liquor in Government Stores](#)

[Liquor Control Act](#)

[Alcohol and Gaming Regulation and Public Protection Act, 1996, S.O. 1996, c. 26, Schedule](#)

[Excise Act \(2001\)](#)

[Online LCBO Trade Resources](#)

[www.doinbusinesswithlcbo.com](#)

[New Item Submission System \(NISS\)](#)

Attachments:

No Attachments.