Consumer Countries/Markets

How will wine consumers respond to the liberalising retail laws in Canada?

July 25th, 2016

As with the bears that populate its northern reaches, the Canadian wine retail market is awakening, slowly, from a decades-long hibernation period where it has been among the most highly regulated alcohol markets on earth.

The move reflects a broader goal that Canada’s recently elected federal government has latched onto: the removal of regulation and bureaucracy that stifles commerce and intrudes into the lives of ordinary Canadians. The most spectacular of these is Prime Minister Justin Trudeau’s pledge to legalise marijuana for personal use, the legislation for which is expected to be published in 2017.

On a more conventional level, there is a growing realisation among federal and provincial (regional) government officials that some of Canada’s regulations are too complex and counterproductive. The Economist recently reported that oil firms in Alberta take delivery of equipment via US ports and highways because each Canadian province requires firms to get a licence, while in the US one (federal) licence is fine. The Canadian Senate’s banking committee recently published a report entitled “Tear Down These Walls” claiming that C$130 billion is lost to the economy through internal barriers.

The drinks business appears to be a prime case for reform. Liquor sales regulations are a patchwork of state control, licencing and occasionally heavy handed criminal law. Each province has the right under the constitution to make its own rules regarding alcohol sales, and this has resulted in mostly restrictive distribution and retail arrangements, the most well-known of which are the province-controlled liquor retailers LCBO (Ontario) and SAQ (Quebec).

Efforts to liberalise these rules are now coming from above and below. At the grassroots level, Canada’s burgeoning domestic craft beer industry is kicking out against penal tax rates and painful restrictions on out-of-province sales. All eyes are currently on a case to be heard shortly in front of Canada’s Supreme Court, where a man from New Brunswick challenged a fine he received for exceeding the small personal limit on beer he transported in his car from neighbouring Quebec. A lower court has ruled in his favour, and, if upheld by the highest court, the ruling could potentially overturn all inter-province alcohol transport restrictions as unconstitutional.

At the same time, some top-down initiatives are taking shape. In Ontario, changes to licencing laws have allowed branches of Loblaw’s, the dominant grocery chain in the province, to sell beer, and more recently cider. Wine sales are following shortly, and up to 300 stores will be able to
stock wine in its main store within the next year. In many cases this move is simply to move beer and wine from an adjacent store into the main supermarket, but industry leaders believe this will have a significant impact on consumer behaviour. Consumers in more liberal British Columbia – where independent liquor stores have been operating under a licencing regime for some time – are also seeing wine appearing in supermarket aisles, via a more convoluted set of regulatory changes; in Quebec wine and beer have been sold in supermarkets for some time.

Despite the reforms, some commentators have pointed out that the government attitude to wine and beer is still overly paternalistic, particularly given the impending legalisation of marijuana. The changes have thrown up some baffling legal quirks: on July 1st Ontario repealed a law which until then made it illegal for an individual to carry their glass of wine from a winery tasting room to the same winery’s restaurant (they had to give it to a waiter); similarly, if you like the wine you drank in the restaurant, you can now order it to take away from your table rather than going back into the shop and making a separate transaction.

For consumers, the cleansing of such restrictions can only be good news for both them and wine producers. The main beneficiaries in the short term are likely to be domestic producers, who are seeing some direct-shipping barriers fall and cellar-door sales liberalised. However, our view is that in the longer term, consumer choice overall will be improved, which will present growth opportunities for all wine producers selling in Canada.

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Germany turns a corner

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After years of trading down, Germany’s wine market seems to be going in the opposite direction.

With centuries of entrenched wine-drinking tradition, Germany is not only the 4th largest wine market in the world but also ranks among the most mature and developed. German wine drinkers are seasoned consumers, well accustomed to both domestic and international wines, and for whom this drink has long since featured as part of a quotidian routine.

Such markets, comprised of experienced, savvy consumers, are often slow moving and devoid of the electric dynamism and vibrancy characteristic of newly emerging markets where wine is just finding its feet. In place of kaleidoscopic shifts in patterns of consumer behaviour and purchase trends, established markets frequently exhibit much subtler changes.

Yet these changes are no less remarkable for their subtlety. In fact, that any change is afoot in an environment generally less amenable to it is testament to the meaningfulness of that change. In other words, developments in the mature German wine market are especially worthy of note, and this is precisely what our Germany Landscapes Report 2016, published last week, aims to reflect.

One clear development, which goes some way in accounting for the others, is that German drinkers are with time becoming still more involved in wine (over 1/3 of them have ‘high involvement’), coming to embrace it as part of their lifestyle to an even greater extent than previously (4 in 10 drinkers regarding wine as important to their way of life versus only 1/3 in 2015). Hand in hand with this has come a greater emphasis on the provenance of wine, the region of origin now ranking as the highest choice cue for German regular wine drinkers when selecting wine.

More specifically, whether the wine comes from close to one’s own community or from further afield has become a more significant factor for most German drinkers, who are increasingly concerned about supporting local producers. This is something an insider’s perspective can also anecdotally vouch for. When interviewing a prominent tradesperson recently we were informed that “there is a trend towards regionalism in the German wine market with many trying to get wines from their own German region”. Interestingly, this is also reflected on a more macroscopic,
national level, with most countries of origin experiencing a decline in consumption, yet German wines maintain steady sales.

As wine becomes more routine, price naturally plays a greater role. German drinkers are more and more concerned with getting the best they can for their budget, and there has been a significant increase in those who are predominantly concerned with price since 2015.

Perhaps the most striking news is the bubbling-over of the sparkling category. Sekt consumption is up significantly on 2015, and German sparkling wine drinkers are diversifying their sparkling repertoire, popping Champagne, Cava and Prosecco all with more vim than in previous years.

What this evidence suggests is that, albeit as a well established market, albeit at a slower pace than some, Germany too is on the move.

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**Major Wine Producing Countries**

**French wine production expected to drop 8% for 2016 due to poor spring weather**

French wine production is expected to decline 8% for the 2016 harvest following the damaging hailstorms and spring frost which hit several different areas across the country according to the French Minister of Agriculture Stéphane Le Foll.

Overall wine production is forecasted to hit 44.1 million hectolitres for the 2016 harvest and this assuming no other weather challenges arise between now and what is anticipated to be a late harvest.

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