The industry requires a great deal more development if it is to compete with European and Californian vintners in the longer term. There are currently large surpluses of European wines, partially due to EEC agricultural policy, which, combined with California surpluses, will continue to put downward pressure on prices. Profits in the industry probably will not rise substantially in the next few years because of the price depressing effect of the current world glut in wine production. Costs of production are high in Canada due to the shortness of the growing season, lack of appropriate land for grape growing and overall climate factors. Although the quality of Canadian wine is improving, domestic producers will continue to face a pricing problem in coming years. Nonetheless, Canadian wine makers will need to make substantial investments in the coming years to improve production processes, increase efficiencies of scale to lower costs and to improve quality.

EXEMPT 15(1)

5. <u>Competitiveness Assessment</u>

EXEMPT 15(1)

Canadian wines are finding increasing acceptance in the domestic market following a major shift in emphasis from sweet, sparkling "party" wines to higher quality table wines based on European and Californian style grapes and methods, although the image that Canadian wines are of vastly inferior quality is still difficult to overcome.

EXEMPT 15(1)

Adjustments required to make the industry more competitive include:

1) increased production of high quality vinifera grapes for sale at a lower price, especially in British Columbia where the grape marketing board and land use policies combine to raise grape prices to about double the price of imported grapes;

2) effective expansion of the domestic market through lessening the restrictions on interprovincial trade in domestic wine and through active marketing campaigns by domestic producers; and

3) increased production scale to capitalize on improving plant efficiencies through larger grape harvests, or perhaps through increased grape imports.

Given the market incentives of expanding consumption and a freer domestic regulatory environment, domestic wine producers and their parent companies are fully capable of making the required investments to improve the competitiveness of the sector. The key inhibiting factors, however, tend to result from government intervention in the market to limit the free movement of domestic wines within Canada, and to increase the price of raw materials in an attempt to support the incomes of grape producers.

Prepared by: ____________

Grocery Products Division

Approved by: ____________

Food and Consumer Products Industries
CGSRP

Department of Regional Industrial Expansion