

# *BC Wine – Wine Labelling Issues*

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# Wine labelling in Canada - the 'Cellared in Canada' controversy

- Cellared in Canada wines are wines blended in Canada from cheap imported bulk wines and varying percentages of Canadian wine
- Currently labelled as:

*Cellared in Canada by [insert winery name and address] from imported and domestic wines*

- Has been a divisive issue within the industry – a very important part of the business for the large commercial wineries; but many producers feel that this labelling practice is damaging the 'Canadian brand'
- Resolution should allow the industry to move forward in a more cohesive manner to focus on more strategic issues; negative media attention damaging to the industry – creates confusion and distrust
- Industry needs to put the issue behind it and move forward on a more positive track

# Cellared in Canada



# Background

- Under *Canadian Food and Drugs Act Regulations* ‘country of origin’ labelling is required for wine (but not for beer or spirits) and is regulated by the Canadian Food Inspection Agency (CFIA) – origin must be shown on the ‘principal display panel’
- ‘Product of Canada’ – requires 100% Canadian content (changed from 75% in 2008)
- ‘Product of [import country]’ – requires 75% country content
- ‘Blended in Canada from [name countries] wines’ – in descending order of content
- ‘Made in Canada from (name countries) grapes (or juices)’

# Exception for Canadian Blended Wines

- 1994 Interim order by Agriculture Agri-Food Canada (now CFIA) after 5 years of negotiations between industry associations, grape growers and the AAFC
  - officially included in the Canada General Standards Board Wine Standards in 1996
  - approved by the National Wine Standards Committee in 2005 after another 5 years of consultation
  - accepted by LCBO in trade letter in 2006
  - has never been permanently implemented into law since the process of completing Canada's *National Wine Standards* came to an unsuccessful end in 2008
- Currently the 'exception' remains found only in the *CFIA Guide to Food Labelling and Advertising (Section 10.7.2)*

# Differing views on why the order was 'interim'

- Pending inclusion of the designation in the *National Standard of Canada for Wine* when issued
- Others believe it was a temporary measure to help the industry while it was in the process of converting from *labrusca* to *vinifera* grapes

# Reform initiatives

- The *Label Clarity Working Group* created by the Wine Council of Ontario in 2009 recommended that CIC be replaced with ‘Blended from International and Canadian Wines’
- In March, 2010, the Wine Council of Ontario requested that CFIA:
  - adopt the label which reads “Blended from International and Canadian Wine”
  - include a minimum 25% Canadian content in blended wines
  - list the countries of origin on the back label in descending order
- LCBO and Ontario wine retail stores changed signage to ‘International – Canadian Blends’ and BC LDB changed its signage to ‘Bottled in British Columbia from Domestic and International Wines’

# Reform proposals (continued)

- The CFIA is looking at origin labelling on wine through its *Food Labelling Modernization* initiative which began in 2013
- In 2012, the CVA recommended to the CFIA that CIC be changed to 'Blended in Canada' or 'Bottled in Canada' from imported and domestic wines – encourage voluntary placement on the principle display panel, and voluntary disclosure of country of original details where possible
- CFIA will draft new labelling regulations in early 2017 with a goal of incorporating into new law in 2018

# Formal comment of BC Wine Appellation Task Group

Although the mandate of the BC Wine Appellation Task Group is to recommend changes to the Wines of Marked Quality Regulations, issues surrounding the labeling and presentation of imported wines that are blended and bottled in BC, known as 'ICB' wines, were raised repeatedly during the process of industry engagement that the Task Group undertook. The Wines of Marked Quality Regulations are designed to ensure the identity and authenticity of BC wine. The concerns raised about ICB labeling and presentation were related to consumer confusion about the identity of origin of these imported wines, and specifically the common conflation of these wines with wines of British Columbia

# Recommendation of the Kedge Business School/Wine Industry Leaders Forum (2016)

That the industry support the removal of the statement “As an interim measure, the statement ‘Cellared in Canada’ by (naming the company), (address) from imported and/or domestic wines’ may also be used as a country of origin statement for wines blended in Canada” from the CFIA guidance on Labelling Requirements for Alcoholic Beverages

# British Columbia Wine Institute

The BCWI board has asked the Minister of Health to put in place an 18 month sunset period on removal of the interim measure in the CFIA guidance on Labelling Requirements for Alcoholic Beverages and that during such period there be federal stakeholder industry consultations on modernization of the existing regulation

# Canadian Vintners Association

- The Canadian Vintners Association recently completed industry interviews and roundtable discussions on the ‘Cellared in Canada’ labelling issue
- The industry discussions identified consensus on the following
  - a resolution on blended wine labelling is urgent - negative publicity impacts all categories of the industry
  - VQA and ICB/CIC consumers are different and don’t compete against each other
  - The term “Cellared in Canada” is outdated, confusing and needs to be replaced
  - Generally, industry agreed that listing all countries of origin on labels would be burdensome and difficult

# Bulk wine is a different product



# VQA/Canadian and CIC/ICB: two different markets?

VQA & Canadian Wine Consumers	CIC & ICB Wine Consumers
Higher end consumers – shop around for different wines, willing to pay more, pay attention to varieties	Buyers heavily driven by price/value and brand loyalty is much stronger than for VQA wine buyers
Wine enthusiasts – drink and explore various categories such as various countries, varieties	Brand focused and not country of origin focused
Very focused on where products are coming from – vintage, vineyard	Buyers do not read the labels – blending to taste is more important than country of origin; looking for pairing suggestions
VQA wines really competing against the higher priced imports	Really choosing between ICB and cheap imported wines from USA, France, Italy; rarely purchase VQA wines
Typical customer is upper income, well educated, even split between men and women	Typical customer is average income, less highly educated, more likely to be female
Yearly spend on wine is \$74; \$1864 on all alcohol products	Yearly spend on wine is \$135; \$2155 on all alcohol products

# Arguments for change

- Source of frustration among some stakeholders
- Transparency and honesty in product labelling
- Consumers are not buying what they think they are buying
- Country of origin is important in product selection
- CIC wines perceived by consumers as Canadian even though there may be little Canadian content especially in BC where there is no minimum Canadian content requirement
- Reputation of Canadian wines in export markets
- International labelling standards

# Arguments for the status quo

- CIC/ICB consumers do not read labels
- Wine blending to taste more important than country of origin
- Listing countries not practical
- Allows economies of scale for commercial wineries
- Allows commercial wineries to compete at all price points
- CIC/ICB generates employment and economic activity

# Do Canadian wines and CIC products compete?

100% Canadian wine	CIC or International Canadian blends
Made from 100% Canadian grapes (VQA or Product of Canada)	Made from a blend of imported and domestic grapes
Generally priced > \$10/bottle	Generally priced < \$10 bottle
11% of Canadian market sales	21% of Canadian market sales
Utilize 20% of Canadian grapes	Utilize 80% of Canadian grapes (Ontario)
Consumers tend to explore brands and varieties	Consumers shopping for price, brand, consistent flavour profile
Exempt from federal sales tax	Contribute federal sales tax (\$0.62/litre)
20,700 jobs - \$727 million in wages	10,600 jobs - \$464 million in wages (>Ontario)

# Is blended wine important for the Canadian industry?

- Significant differences between BC and Ontario
- 80% of Canadian grape production goes into international blended wines, nearly all of which is in Ontario
- Ontario *Wine Content Act* requires a minimum 25% Ontario grape content
- Canada is the 12<sup>th</sup> largest importer of bulk wines (2015) – 115 million litres representing 29% of all our wine imports – principally from Australia, Chile, USA, Spain and South Africa
- LCBO reports sales of \$275 million for ICB wines; \$139 million for VQA wines

# Are VQA/Canadian and CIC/ICB different markets?

- A recent (October 2016) report by The Strategic Counsel to the CVA concluded that ICB customers are different from VQA customers: two distinct buying categories
- LCBO reports Average VQA price is \$14.16 compared to \$7.72 for ICB/CIC product
- VQA sold in 750 ml format; most ICB/CIC sold in 1.5L or larger formats
- ICB and VQA prices are becoming closer at the bottom of the VQA price point – prices of some VQA wines are getting as cheap as ICB wines, so they may be starting to compete

# Is listing of countries of origin practical?

- Most blended wines rely on sourcing from a range of countries, which change based on pricing, availability and seasonality
- Cost implications of constant labelling changes as blend varies
- High auditing costs as this would require review of documentation to trace and substantiate origin
- Cost benefit analysis by NZ and Australia (2005) concluded that costs would far exceed benefits
- Yet that is what the current Canadian requirements, absent the exemption, and various international standards, prescribe

# Does the CIC issue affect our international reputation?

- Canada does not export blended wines
- Accuracy in labelling of country of origin is crucial for a region to be taken seriously at the international level
- We should adhere to international standards such as the International Organization of Vine and Wine
- In 2010, Jancis Robinson highlighted the issue of cellared in Canada wine in the international press, describing the Canadian wine market as in turmoil as a result of large producers packaging bulk imported wine as Canadian and consumers purchasing them in the mistaken belief that they are domestic wines

# Is the 'Cellared in Canada' label designation misleading?

- The issue is integrity and honesty
- The phrase 'Cellared in Canada' suggests that the wine is a Canadian wine – offends values of truth and transparency
- What is the consumer perception? Do consumers believe that they are buying Canadian wines, and supporting local growers and vintners? Do they care?
- Reference to 'cellared' is misleading. In the wine context, 'cellared' connotes ageing process to refine and enhance certain attributes
- Reference to 'Blended or Bottled in Canada' would be more accurate

# Merchandizing and marketing/branding practices (may be more important)

- Shelving practices – shelving ICB wines next to VQA
- Restaurants listing CIC as Canadian
- Producers who use same or similar brand for CIC and domestic – using successful VQA brands to brand name lower prices ICB wines



# Labelling alternatives

1. Cellared in Canada from international and domestic grapes – part of the problem is the notion that it is cellared
2. Blended in Canada from international and domestic grapes – does not identify country of origin
3. Bottled in Canada from international and domestic grapes – is there any value added that justifies reference to Canada
4. Blended from international and domestic grapes – Should there be a threshold of Canadian content required before the phrase ‘blend of international and Canadian grapes’ is permitted?
5. ‘Made in Canada’ – doesn’t work - blending does not constitute a ‘substantial transformation’ – doesn’t result in a new product bearing a new name

# Final CVA Recommendation

## – December 13, 2016

- Recommend to the Minister of Agriculture and CFIA the new labelling designation
- *“International Blend from Imported and Domestic Wines”*
- Rational:
  - Eliminates the use of ‘Canada’
  - Creates clearer demarcations between VQA and non-VQA Canadian wines and ICB
  - Addresses concerns of consumer confusion, avoids ongoing discord within the industry

# Shelving practices



# CVA Code of Conduct

- CVA encourages private retailers to change signage to conform with the new labelling designation
- CVA will develop a Code of Conduct
  - Clear and transparent signage in retail channels
  - Appropriate category shelving and separation in retail channels
  - Product merchandising to support consumer clarity
  - Improved consumer information, including digital information – including web link with consumer information on blended wine, blended wine labelling

# Contacts



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