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Bilateral Efforts to Liberalize Trade: A Canadian Perspective

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Bilateral Efforts to Liberalize Trade: A Canadian Perspective

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Dan Paszkowski, President & CEO
Canadian Vintners Association



Overview

- Background to Canadian Trade: A Focus on Wine
- Bilateral Agreements
 - Canada-US Free Trade Agreement
 - Canada-EU Wine and Spirits Agreement
- Benefits
- Conclusion



Canadian Wine Trade

- Wine is the number one finished agricultural retail value product in Canada
- Total annual wine sales of 457 million litres valued at \$5.8 billion (2010)
- Total domestic annual wine sales (2010)
 - Imported 68% (311 million litres)
 - Domestic 32% (146 million litres)
- Top 5 sources of wine imports to Canada (France, Italy, US, Australia, Argentina) represent 73% of total imports
- Canada exported 15 million litres of wine (2010) valued at ~\$28 million – Icewine (\$12 million)
- Canadian wine export volumes have increased 782% over the period 2000-2010, although exports remain minor on a global scale
- Top 5 wine export markets (US, China, Hong Kong China, South Korea, Singapore) representing 85% of export sales value



Emerging Markets for Canadian Wine

- United States remains Canada's largest export market representing 94% of export volume and 35% of export value
- Wine exports to Asia increased strongly in 2010, up 60% in volume sales
- Asia represents only 5% of Canada's total wine exports but 55% of export value (largely due to Icewine)
- China up 26% by volume and 83% by value
- Hong Kong, China up 464% by volume and 243% by value



Free Trade Agreements

- The facilitation of trade and avoidance of obstacles to trade provide an opportunity for economies to share mutual strengths and overcome mutual weaknesses through combined efforts
- Geographical distance is no longer a barrier to trade, ideas, concerns etc.
- While there remains a focus on multilateral WTO negotiations, many economies are reaching out to the world through various bilateral and regional free trade agreements
- Signing bilateral free trade agreements are not only creating the condition for closer relations among nations but can also provide a common platform to act in a united fashion in other multilateral forums, such as the World Trade Organization (WTO), APEC, WHO, WCO, etc.



Bilateral Wine Trade

- Bilateral agreements such as the *Canada-US Free Trade Agreement* and the *Canada-EU Wine and Spirits Agreement* provide an important alternative avenue for improving market access
 - Faster outcomes
 - Increased cooperation and relationship building
 - Tariff reduction
 - Opportunities to remove or limit non-tariff barriers



Canada-US Free Trade Agreement (CUFTA)

- The Agreement came into effect on January 1, 1989
- CUFTA was incorporated into the North American Free Trade Agreement (NAFTA), on January 1, 1994, expanding the free trade area to include Mexico
- CUFTA general agricultural provisions include:
 - Prohibition of export subsidies on bilateral trade
 - Phased elimination of all tariffs over a period of ten years
 - Maintenance of WTO rights and obligations



CUFTA and Wine

- Provides for the reduction of barriers to trade in wine which arise from measures related to their internal (domestic) sale and distribution
- Specific measures covered include listing, pricing and distribution practices
- The main objective was to provide equal treatment for Canadian and US wine across both markets



Canada-EU Wine and Spirits Agreement (CEWSA)

- Negotiations began in November 2001 and the Government of Canada and the European Union (EU) signed CEWSA on September 16, 2003
- The Agreement came into force on June 1, 2004
- The main goals of CEWSA were to:
 - Maintain stability in Canada's domestic marketing and distribution practices
 - Assure an open market for wine products
 - Specify and protect Canadian and European geographical indications
 - Mutually agree on oenological practices



CEWSA: Oenological Practices and Approved Terms

- Elimination of the costs and frustrations of barriers to trade based on mutual recognition of oenological practices, processes and product specifications in support of assured access to markets
- Recognition for protected geographical indications:
 - Fraser Valley, Lake Erie North Shore, Niagara Peninsula, Okanagan Valley, Pelee Island, Vancouver Island
- Transitional period to end the Canadian use of customary terms:
 - Entry into force of the agreement (Bordeaux, Chianti, Claret, Madeira, Malaga, Marsala, Medoc, Médoc, Mosel, Moselle)
 - December 31, 2008 (Bourgogne, Burgundy, Rhin, Rhine, Sauterne, Sauternes)
 - December 31, 2013 (Chablis, Champagne, Port, Porto, Sherry)
- The term 'Icewine', 'Vin de glace' or 'Eiswein', were defined using specific production and compositional standards which can only be used to describe wine produced from **grapes naturally frozen on the vine**

CEWSA: Certification and Management Provisions

- Simplified certification provisions under EU rules for wine produced under the supervision and control of an approved competent body (VQA Ontario or the BC Wine Authority)
- Ensured that wines would not face a more restrictive system of certification, analysis or testing
- Established a bilateral Canada-EU Wine and Spirits Management Committee to regularly (annually) review and address outstanding issues and concerns

CUFTA AND CEWSA: Wine Listing, Pricing and Distribution

- **Listing**
 - Transparency in product listings and treatment of both Canadian and US/EU products in the same way based on normal commercial considerations
- **Pricing**
 - CUFTA required that actual cost-of-service differentials between Canadian and US wines be reduced over a 7-year period
 - January 1, 1989 (could not exceed 75% of the base differential)
 - January 1, 1995 (could not exceed 0% of the base differential)
 - CEWSA required that the cost-of-service differential be no greater than the additional costs associated with the marketing of imported products, taking into account additional costs resulting from delivery methods and frequency
 - CEWSA also required that the cost-of-service differential be justified in line with standard accounting procedures by independent auditors
- **Distribution**
 - Measures were maintained which allow wineries to sell wines produced at the winery property
 - Ontario and British Columbia were permitted to maintain private wine outlets existing on October 4, 1987, which sell their own wine
 - Quebec was allowed to grandfather provisions relating to mandatory in-province bottling of wine for sale in grocery/convenience stores



Benefits of Bilateral Agreements

- Improves certainty of access
- Reduces trade protection/distortions (tariffs, subsidies, non-tariff barriers)
- Promotes greater trade and harmonization among the parties
- Facilitates resource sharing -- creates relationships across industry and government to regularly address regulatory and technical challenges
- Provides opportunities for a unique voice in government and industry forums
- Helps resolve past irritants and address existing or new concerns
- Facilitates technology transfer and ideas
- Establishes opportunities for a simplified certification process for exports
- Supports enhanced transparency



The Canadian Wine Experience

Canada's bilateral experiences have had significant implications:

1. Facilitated a long term vision for the Canadian wine industry and new approaches
2. Resulted in significant innovations:
 - Increased wine and grape production with a rapid trend to higher grape and wine quality
 - Increased investment in wine and grape research
 - Creation of VQA standards and appellation wines
 - Investment and development of wine tourism
 - Globally positioned Canada as a leader in Icewine production
3. Renewal of Canada's grape and wine industry stimulated significant ongoing winery investment and a large contribution regional and national economy
4. Elimination/reduction of liquor board cost-of-service differentials which increased foreign competition for Canadian producers
5. Removed long-standing bilateral irritants and created forums to regularly address issues and concerns



Conclusion

- Bilateral agreements have played an important and positive role in the Canadian wine industry, notwithstanding some transitional issues
- Trade forums such as the World Wine Trade Group (WWTG) and APEC continue to provide unique opportunities to:
 - rejuvenate international thinking on international wine trade
 - collaborate on a variety of international issues
 - support a harmonized environment for free trade in wine
- The APEC Regulators Forum, through its knowledge of best practices, can be a powerful mechanism to advance greater regulatory coherence and cooperation in areas of oenological practices, labelling, regulatory limits, counterfeiting, etc.
- FIVS ABRIDGE, a comprehensive and interactive database of regulations and international agreements for the wine industry, can be an invaluable tool for both industry and regulators to advance opportunities for improving wine trade and regulatory coherence