




Study of the Ontario Economic Impact of Ontario VQA Wines

Prepared for the Wine Council of
Ontario, November 14, 2011 –
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Executive Summary

The Ontario VQA wine industry has demonstrated significant success in a short time. In the past five years alone, revenue reported by the Ontario VQA wine industry has grown by 40%. The Ontario VQA wine industry appears to have weathered the recent economic downturn experienced in Canada and Ontario by continuing to report positive sales results and incremental increases to their market share. As a result of their gains in the marketplace, the VQA wine industry has increased its positive impact on the Ontario economy in a time where many industries have struggled to maintain their status quo.

In 2011, KPMG LLP ("KPMG") was retained by the Wine Council of Ontario ("WCO") to estimate the economic impact of the Ontario VQA wine industry on the Ontario economy for the fiscal year ending March 31, 2011. This assessment is based on data collected from a sample of Ontario VQA wineries and data provided by the Wine Council of Ontario. The economic impact of the Ontario VQA wine industry was calculated by Statistics Canada using the Interprovincial Input-Output Model 2007 (released in November 2010).

A. Description of the Ontario VQA Wine Industry

In this study, the Ontario VQA wine industry is defined to include the following sectors:

- Ontario VQA wineries and their Ontario-based Head Office operations (jointly referred to as "Ontario wineries"); and,
- Winery retail stores for Ontario VQA wineries.

In applying this definition, we include only those parts of the industry that are devoted to the production and sale of wine products. Therefore, we do not directly include the operations of grape growers, however, the impact associated with grape growers is embedded into this analysis by capturing the level of expenditure on grapes by VQA wineries. Note as well that the Liquor Control Board of Ontario ("LCBO") is treated as a customer of the Ontario wine industry, not as a component of the industry.

B. Economic Impact of the Ontario VQA Wine Industry in 2010/11

In the past five years, the volume of VQA wine sold at the LCBO has increased by nearly 5 million litres.¹ VQA membership has increased from 94 members in 2007 to 123 members in 2011.² From 2007 to 2011, revenue from VQA wineries increased from \$179.5 million³ to \$268.5 million⁴, a 50% increase in only four

¹ LCBO annual report 2009-2010 and LCBO annual report 2005 – 2006, VQA annual reports from 2011 and 2006

² VQA 2011 Annual Report, and VQA 2007 Annual Report

³ Summary of VQA Sales for the year ended March 31, 2011", provided by Wine Council of Ontario

⁴ "Ontario Wine Industry Market Share Report, Litres Sold for the 12 months ended March 31, 2011", provided by Wine Council of Ontario

years. Comparatively, imported wine sales at the LCBO increased by 9.4% from \$1.11 billion in 2007 to \$1.21 billion in 2010⁵ (2011 results have not yet been released as of the time of publication of this report). This growth in the Ontario VQA industry has led to the creation of over 1,300 additional jobs in the last four years. Despite the many hardships experienced by other industries in Southern Ontario during the recent economic downturn, the increase in sales volumes and market share demonstrate the resilience of the VQA members.

The impacts of the Ontario VQA industry in Ontario are also amplified as a majority of inputs utilized in the wine making process are from Ontario. In addition, in 2011 13% of the revenue reported by VQA members was from sales made outside of Ontario and miscellaneous.⁶ As a result, these export sales contribute even further to the Ontario economy, as all the production of Ontario VQA wine is done in the province.

In the fiscal year ended March 31, 2011, sales of VQA wine accounted for 26% of the sales for Ontario produced wines. Through the VQA winery operations (including retail operations) and resulting expenditures made in Ontario, the industry has an economic value-add to the Ontario economy of \$191 million. On a per litre basis, the value-added impact was \$12.29 per litre of Ontario VQA wine sold.

Exhibit I-1 details the breakdown of wine sales in Ontario in the fiscal year ended March 31, 2011.

Exhibit I-1

VQA Wine Sales in Ontario, Fiscal 2010/11 and 2006/07

Year	Value (Millions of Dollars)				Volume (Millions of Litres)		
	2010	2007	% Increase		2010	2007	% Increase
<i>Ontario VQA Wine Sold - LCBO</i>	102.1	61.9	65%		6.5	4.1	59%
<i>Ontario VQA Wine Sold at Winery Retail Stores</i>	88.5	54.2	63%		4.5	2.7	67%
<i>Ontario VQA Wine Sold through Direct Delivery from Wineries to Licensees</i>	40.7	32.7	24%		3.0	2.8	7%
<i>VQA Exports & Interprovincial</i>	37.2	30.7	21%		1.3	0.8	63%
TOTAL VQA Sales	268.5	179.5	50%		15.3	10.4	47%

Sources: LCBO reports as provided by the Wine Council of Ontario

"Summary of VQA Sales for the year ended March 31, 2011", provided by Wine Council of Ontario

Notes: Figures may not add up due to rounding.

Exhibit I-2 summarizes the economic value-added generated in Ontario by the Ontario VQA wine industry in the fiscal year ended March 31, 2011. The value-added of the Ontario VQA wine industry is estimated to be approximately \$191 million in 2010.

⁵ LCBO Annual Report 2009-2010

⁶ VQA 2011 Annual Report

Exhibit I-2**Ontario Direct and Indirect Value-Added Generated by the Ontario VQA Wine Industry, 2010 (\$ Millions)**

	VQA Wineries	VQA Winery Retail Stores	Total
Labour Income	88.7	4.0	92.7
Business Income	66.5	3.3	69.8
Government Income	27.4	1.3	28.8
Total	182.6	8.7	191.3

Sources: Statistics Canada, Interprovincial Input-Output Model 2007, Impact on GDP

Notes: Government income excludes personal or corporate income tax.

Figures may not add up due to rounding.

Exhibit I-3 summarizes the value-added generated per litre of VQA wine in Ontario by the Ontario VQA wine industry in 2010/11. The total value-added per litre of the Ontario VQA wine industry is estimated to be approximately \$12.29. This represents an increase of \$0.79 from 2007 levels.

Exhibit I-3**Ontario Direct and Indirect Value-Added Generated Per Litre by the Ontario VQA Wine Industry, 2010 (\$)**

	VQA Wineries	VQA Winery Retail Stores	Total
Labour Income	5.70	0.90	5.96
Business Income	4.27	0.74	4.48
Government Income	1.76	0.30	1.85
Total	11.73	1.94	12.29

Sources: Statistics Canada, Interprovincial Input-Output Model 2007, Impact on GDP

Notes: Government income excludes personal or corporate income tax.

Total represents total economic impact per litre of VQA wine, not the sum of VQA winery and retail store impacts as there are shared components to the volumes.

LCBO value-added impacts are not included in the analysis.

Figures may not add up due to rounding.



Introduction

This study is the most recent in a series of studies conducted on behalf of the Wine Council of Ontario to estimate the economic impact of the Ontario VQA wine industry on the Ontario economy. This analysis is based upon industry and member data which was collected directly from wineries and the WCO and processed using the Statistics Canada Input-Output Model to generate the estimated economic impact.

In 2011, KPMG LLP ("KPMG") was retained by the Wine Council of Ontario ("WCO") to:

- Assess the economic impact of the Ontario VQA wine industry on the Ontario economy in 2010/11. In this report, the results refer to the fiscal year ending March 31, 2011.⁷

The assessment of the economic impact of the Ontario VQA wine industry is a further update of our 1997 KPMG Economic Impact Study, "Economic Impact of the Ontario Wine Industry on the Economy of the Province of Ontario in 1997," which was published in 1998, and is referred to in this present study as "the 1997 study". KPMG published updates to these economic impact results in 2000, 2001, 2005 and 2008. These updates were based on outputs from the Statistics Canada 1990 Open Interprovincial Input-Output Model ("Input-Output Model") and scaled up based on overall industry growth. For this 2010 study, the scope of the work was adjusted due to the release of an updated Input-Output Model (released November 2010) by Statistics Canada, and the potential for more meaningful changes to the industry cost structure.

In this introductory chapter we provide:

- A description of the study components;
- A description of the Ontario VQA wine industry;
- An overview of the data-gathering and analysis; and
- A definition of economic impact.

A. Study Components

In this current study, we utilized the Statistics Canada Interprovincial Input-Output Model 2007 (released November 2010).

Accordingly, we:

- Collected new primary data from individual wineries on their revenues and expenditures; and
- Submitted the consolidated data to Statistics Canada to conduct a new input-output model run.

In a subsequent section of this report, we outline the impact of the Ontario VQA wine industry on the Ontario economy in 2010 in terms of employment and value-added based on the results of the Statistics Canada Input-Output Model.

⁷ At the time of this report, the LCBO 2011 Annual Report was not available. Some estimates are based on the 2010 LCBO Annual Report where necessary.

B. Description of the Ontario VQA Wine Industry

In this study, the Ontario VQA wine industry is defined to include the following:

- Ontario VQA wineries and their Ontario-based Head Office operations (jointly referred to as “Ontario VQA wineries”); and
- Winery retail stores for Ontario VQA wineries.

In applying this definition, we include only those parts of the industry that are devoted to the production and sale of VQA wine products. Grapes are the single largest commodity expenditure for the Ontario wine industry. Because of the time lag involved in producing wine, we have analyzed the impacts associated with the Ontario wine industry’s 2009 purchase of grapes. In this way, we are capturing the impacts on the Ontario grape growing industry of the 2010/11 production of wine. In 2010, Ontario grape growers supplied the Ontario VQA wine industry with \$46.7 million worth of grapes.

For the purposes of this study, the economic impacts attributable to the grape growing industry itself have not been analysed. Instead, grape expenditures by wineries have been incorporated into the winery operations analysis, thereby using winery operations as a proxy for grape growing industry activity. The analysis includes indirect and induced employment and value-added impacts generated by the grape growing industry as a result of the production of VQA wines. It does not capture subsequent indirect and induced employment and value-added as a result of grape grower operations (eg: employment within the fertilizer industry). Note as well that the Liquor Control Board of Ontario (“LCBO”) is treated as a customer of the Ontario wine industry, not as a component of the industry.

This economic impact report analyzes the expenditure flows of the Ontario VQA wine industry and determines their ultimate disposition as employment and income to various economic groups. Within each sector of the Ontario VQA wine industry, impacts are generated by all functions undertaken by the companies in that sector and by suppliers to the sector. For example, wineries generate impacts through all elements of their operations, including production, head office support, sales, and distribution.

C. Data-Gathering and Analysis

The results provided in this report are based on the collection of data provided from the WCO and some of its members, and from the LCBO. In addition, we have analyzed a good deal of publicly-available information, primarily from the Vintner’s Quality Association of Ontario. KPMG has relied on the data provided and completed no independent validation or verification of the data.

Data sampling and expansion

We surveyed a sample of small, medium, and large VQA wineries and have scaled up the sample results to approximate the Ontario VQA wine industry. Survey respondents reported data for their Ontario operations only, but included all data associated with their Head Office and retail operations in Ontario. Expenditures to entities outside of Ontario were excluded from the analysis.

To determine the revenues of the winery sector, all production is based on the prices paid by the LCBO.

Definitions

We have included the production of VQA wine in our winery economic impact results and we have included the sales of this commodity, along with wine accessories, in our winery retail store economic impact results.

To determine the revenues of the winery sector, all sales, including internal transfers to winery retail stores, were valued at the prices received by the wineries.

D. Definition of Economic Impact

Economic impacts are characterized by the employment and value-added accruing to the residents of a geographic region under study. Employment impacts are measured in full-time-equivalent jobs, while value-added is measured in dollars.

Value-added measures economic value created through the production of goods and services. Value-added impacts are composed of the following categories:

- Labour income, which includes salaries and wages, plus workers' benefits (supplementary labour income), calculated before taxes.
- Business income, which includes net before-tax income of unincorporated business, plus corporate business income before deductions for depreciation, interest, and corporate income tax.
- Government income, which consists of net indirect taxes, as well as revenues from goods and services purchased from the government. Indirect taxes include taxes such as sales taxes and property taxes, but exclude personal income taxes and corporate income taxes, which are included in the above categories. In this study, government income does not include revenues generated from the sale of wine.

Employment impacts are expressed in terms of full-time-equivalent (FTE) jobs. These numbers represent the total number of jobs, transformed into a FTE number of jobs. FTE jobs include both employee and self-employed jobs but the FTE transformation only applies to employee jobs. The transformation is based on the overall average full-time hours worked in the business and government sectors.⁸ A job in each industry reflects the existing mix of employment typical of that industry, and includes the appropriate combination of full and part-time jobs, and of permanent and temporary employment.

E. Direct and Indirect Impacts

In the results presented in this report, we estimate direct impacts (the wages and salaries paid, the business income earned, and the taxes paid by the wine industry itself), and indirect impacts (the wages and salaries paid, the business income earned, and the taxes paid by suppliers to the wine industry).

This report presents an industry perspective of two sectors of the Ontario VQA wine industry: VQA wineries and their winery retail stores. We have analyzed the economic impact of each of these segments independent of one another. Thus, indirect impacts of the VQA wineries do not include the impacts of winery retail stores; instead, these results are presented separately.

F. Induced Impacts

Induced impacts are those impacts associated with a re-spending of direct and indirect labour income generated (e.g. impacts associated with the goods and services purchased by Ontario-based suppliers' employees using their wages and salaries earned).

⁸ Statistics Canada, Interprovincial Input-Output Model 2007, Induced Impact of Salaries and Wages

G. Methodology for Impact Calculation

We have applied standard economic impact methodologies to develop estimates of direct and indirect Ontario employment and value-added. We have classified the expenditures of wineries and retail wine stores into commodity types for input to the Statistics Canada Interprovincial Input-Output Model 2007. In the case of wineries and winery retail stores, we have refined our inputs to the Input-Output Model by tracing input origins. This adds an element of refinement to the “first round” input structure of the Input-Output Model.

The Statistics Canada Input-Output Model is based on the 2007 year, and, therefore, employment figures generated by the model were adjusted to 2010 levels (2010 is our base year for all estimates and fiscal year ended March 31, 2011 expenditure data were used in our analysis). This was performed using reduction factors calculated via the Ontario Consumer Price Index in 2007 and 2010.



Ontario VQA Wine Industry Activity

This section outlines some general industry statistics, volumes and sales. The economic impact is also detailed in this section

Ontario VQA wine industry activity in 2011 is comprised of three main components:

- Wine sales in Ontario;
- Winery activities in Ontario; and
- Winery retail stores for Ontario VQA wineries.

A. Wine Sales in Ontario

According to sales data provided, 15.3 million⁹ litres of Ontario VQA wine were sold in Ontario in the fiscal year ended March 31, 2011 representing 26% of overall Ontario produced wine sales. Total sales of Ontario wines for the year ending March 31, 2011 were 58 million litres. **Exhibit II-1** details the breakdown of wine sales in Ontario in the fiscal year ended March 31, 2011.

Exhibit II-1

VQA Wine Sales in Ontario, Fiscal 2010/11 and 2006/07

Year	Value (Millions of Dollars)				Volume (Millions of Litres)		
	2010	2007	% Increase		2010	2007	% Increase
Ontario VQA Wine Sold - LCBO	102.1	61.9	65%		6.5	4.1	59%
Ontario VQA Wine Sold at Winery Retail Stores	88.5	54.2	63%		4.5	2.7	67%
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VQA Exports & Interprovincial	37.2	30.7	21%		1.3	0.8	63%
TOTAL VQA Sales	268.5	179.5	50%		15.3	10.4	47%

Sources: LCBO reports as provided by the Wine Council of Ontario

"Summary of VQA Sales for the year ended March 31, 2011", provided by Wine Council of Ontario

Notes: Figures may not add up due to rounding.

⁹ "Summary of VQA Sales for the year ended March 31, 2011", provided by Wine Council of Ontario

B. VQA Winery Activities in Ontario

As at March 31, 2011, there were 123 wineries that participated in the VQA program¹⁰, an increase of 31% from the 94 that participated in 2007¹¹. The industry sold more than 15.3 million¹² litres of VQA wine at an average value per litre of \$17.54. Ontario VQA wine sales accounted for 26% of the total sales of Ontario produced wine for the year ending March 31, 2011, up from approximately 20% in 2007.¹³

C. Economic Impacts in Ontario in 2010/11

Exhibit II-2 summarizes the economic value-added generated in Ontario by the Ontario VQA wine industry in the fiscal year ended March 31, 2011. The value-added of the Ontario VQA wine industry is estimated to be approximately \$191 million in 2010. This growth in the Ontario VQA industry has led to the creation of over 1,300 additional jobs in the last four years.

Exhibit II-2

Ontario Direct and Indirect Value-Added Generated by the Ontario VQA Wine Industry, 2010 (\$ Millions)

	VQA Wineries	VQA Winery Retail Stores	Total
Labour Income	88.7	4.0	92.7
Business Income	66.5	3.3	69.8
Government Income	27.4	1.3	28.8
Total	182.6	8.7	191.3

Sources: Statistics Canada, Interprovincial Input-Output Model 2007, Impact on GDP

Notes: Government income excludes personal or corporate income tax.

Figures may not add up due to rounding.

Exhibit II-3 summarizes the value-added generated per litre of VQA wine in Ontario by the Ontario VQA wine industry in 2010/11. The total value-added per litre of the Ontario VQA wine industry is estimated to be approximately \$12.29. This represents an increase of \$0.79 from 2007 levels.

¹⁰ VQAO Annual Report 2011

¹¹ VQAO Annual Report 2007

¹² "Summary of VQA Sales for the year ended March 31, 2011", provided by Wine Council of Ontario

¹³ Study of the Ontario Economic Impact Content of Ontario Wines vs. Foreign Wines and Ontario VQA Wines vs. Ontario Cellared-in-Canada (CIC) Wines, Prepared for the Wine Council of Ontario, September 4, 2008

Exhibit II-3**Ontario Direct and Indirect Value-Added Generated Per Litre by the Ontario VQA Wine Industry, 2010 (\$)**

	VQA Wineries	VQA Winery Retail Stores	Total
Labour Income	5.70	0.90	5.96
Business Income	4.27	0.74	4.48
Government Income	1.76	0.30	1.85
Total	11.73	1.94	12.29

Sources: Statistics Canada, Interprovincial Input-Output Model 2007, Impact on GDP

Notes: Government income excludes personal or corporate income tax

Total represents total economic impact per litre of VQA wine, not the sum of VQA winery and retail store impacts as there are shared components to the volumes

LCBO value-added impacts are not included in the analysis.

Figures may not add up due to rounding.

D. VQA Winery Expenditure Analysis

In 2010/11, Ontario VQA wineries spent an estimated \$268 million in Ontario on salaries and wages and Ontario-based suppliers. The estimated distribution of the 2010/11 expenditure for Ontario VQA wineries is shown in **Exhibit II-4**.

Exhibit II-4**Ontario VQA winery expenditures in Ontario, 2010/11 (\$ Millions)**

	Expenditures	% of Total
Wages and salaries	76	28%
Grapes	47	17%
Commodity indirect taxes	20	7%
Advertising and promotion	19	7%
Glass containers	14	5%
Non-residential building construction	14	5%
Imputed service, banks	14	5%
Land	10	4%
Other general purpose machinery	7	3%
Other printed matter	6	2%
Other (Includes items less than or equal to 1% of expenditures – eg: professional services, insurance, taxes, utilities, rent containers (other than glass), etc.)	42	16%
Total	268	100%

Sources: WCO Survey to Ontario VQA Wineries, 2011

Notes: Figures may not add up due to rounding.

E. VQA Winery Retail Stores Expenditure Analysis

In 2010/11 Ontario VQA winery retail stores spent an estimated \$9.7 million¹⁴, excluding purchases of wine, in Ontario on salaries and wages, and on goods and services sourced from Ontario-based suppliers. The estimated distribution of the 2010/11 expenditure for Ontario VQA winery retail stores is shown in **Exhibit II-6**.

Exhibit II-6

Ontario VQA winery retail store expenditures in Ontario, 2010/11 (\$ Thousands)

	Expenditures	% of Total
Wages and salaries	7,067	72%
Advertising and promotion	959	10%
Non-residential building construction	536	6%
Imputed service, banks	331	3%
Other printed matter	191	2%
Other (Includes items less than or equal to 1% of expenditures – eg: professional services, insurance, taxes, utilities, rent containers (other than glass), etc.)	664	7%
Total	<u>9,747</u>	<u>100%</u>

Sources: WCO Survey to Ontario VQA Wineries, 2011

Notes: Figures may not add up due to rounding.

F. Tourism

The impacts of wine tourism that are felt directly in the wine industry are already captured in our economic impact results for the Ontario VQA wine industry presented in Exhibit II-2. For example, these economic impact results capture Ontario wine sales from winery retail stores to wine tourists, sales from the hospitality elements of many wineries (such as restaurants), etc. What is not captured in our economic impact results is the impact of the wine tourism industry outside the Ontario wine industry itself.

Indeed wine tourism is becoming an increasingly important factor in the economy of the Niagara region and elsewhere in Ontario. As a tourism destination, Niagara attracts nearly 20 million visitors annually; over 1 million people visit the province's wineries each year. Additionally, 1% of American tourists, and 6% of Canadian tourists indicate wineries/vineyards as a main reason of interest for visiting Niagara Falls.¹⁵ Wine tourism in the region is expected to grow by 20% in the Canadian market and 28% in the American market by 2025.¹⁶

¹⁴ WCO Survey to Ontario VQA Wineries, 2011

¹⁵ Niagara Tourism Research, Travel Intentions Study Wave 11 (February '09)

¹⁶ Ontario Ministry of Tourism, Ontario Tourism Product Assessment Research Study (2009)



Conclusion

The information contained in this report represents the Ontario economic impact of the VQA wine industry as described by the Statistics Canada Interprovincial Input-Output Model (2007).

KPMG wishes to thank the Wine Council of Ontario for its support in data gathering and validation. We also thank the wineries that participated in the survey in order to populate the models used in this study.

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As one of Canada's leading professional services firms, we have an incredible opportunity to help our communities thrive by engaging our skills, knowledge, passions and financial resources to make a real difference.

As a firm with locations in more than 30 cities across Canada, we are actively connected to the communities where we operate – as a business, as an employer – in every sense. The issues that impact our communities are the same issues that impact our people and their families, our clients and our operations. So making a commitment to having a positive impact is how we recognize the significance of our relationship with the communities where we operate and live.

Being actively engaged in our communities has always been an important part of KPMG's culture. In 2009, we elevated our existing engagement to a whole new level by incorporating Community Leadership as one of the four key components of our overall business strategy.

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