



September 2012

How Would Trade Liberalization with Canada Impact Tasting Room Sales of New York State Wines?

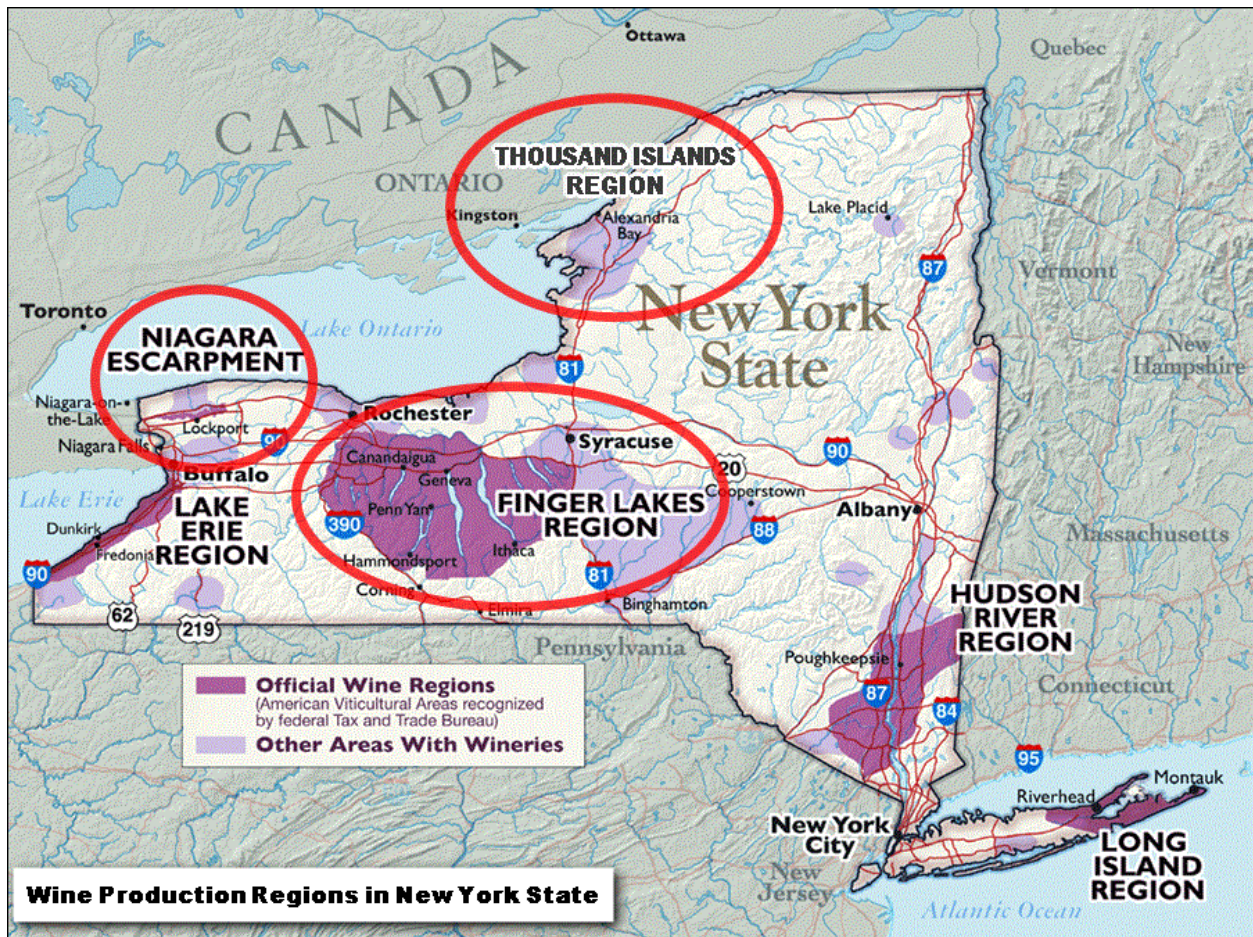
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In 2007, the Trans-Pacific Partnership (TPP) began with trade negotiations between Chile, New Zealand, Singapore, and Brunei in order to promote increased trade between those four nations. More recently Australia, Vietnam, Peru, Malaysia, the United States, Mexico, and Canada have joined the TPP negotiations. The TPP discussions between Canada and the United States have renewed an agricultural issue that has attracted attention among industry stakeholders in New York State. It concerns the regulations that Canada, and in particular Ontario, places on the importation of wine from the United States. Feedback from industry sources suggests that the combination of a Canadian duty of \$0.62 per liter and an Ontario excise tax of 39.6% creates a prohibitive barrier on sales of U.S. wines to Canadian visitors, and that this is especially important for New York wineries located close to the Ontario border. Direct sales from tasting rooms are a very important component of total revenues at wineries in New York State.

It is expected that the wineries that are members of wine trails in the Niagara Region and in the Thousand Islands Region are most affected by this trade barrier given their close proximity to Ontario's major population centers. Wineries in these regions are therefore expected to benefit the most from a policy change that removed the trade barrier facing Canadian consumers. In addition, the Finger Lakes Region (including wineries in the Canandaigua Wine Trail, the Cayuga Lake Wine Trail, the Keuka Lake Wine Trail, and the Seneca Lake Wine Trail) includes many wineries and also receives visitors travelling from Ontario. The Niagara Region, the Thousand Islands region, and the Finger Lakes Region are highlighted in the map shown below.

In order to gauge the economic impact on the wine industry in New York State, we conducted interviews with winery owners in each region. During each interview we collected information about the average number of visitors per winery, the share of visitors that were Canadian, the average sales amount per transaction (for all transactions across all visitors to the winery), and the share of total sales that were wine sales. Information from industry sources indicate that the Canadian visitors currently purchase very little wine. The purpose of this

exercise was to predict the increase in wine sales if the Canadian visitors did not face import restrictions and, as a result, developed spending patterns that were similar to other visitors. During each interview we collected information about a specific winery and also documented information that described ranges on the number of visitors to other wineries within the region. We then combined this information with data describing the number of wineries in the wine trails in each region to calculate the annual change in wine sales per region given trade liberalization with Canada.



In the table below we outline the key variables that were used to calculate the likely annual change in wine sales in each region. Here we see that the average number of visitors per winery ranged between 20,000 and 50,000 across the three regions (it ranged between 5,000 and 200,000 across individual wineries) and the share of Canadian visitors was higher the closer the region was to Canada. We used the lower bound of this variable (share of Canadian visitors) in our calculations. Overall, we see that total annual wine sales would increase by \$414.7 thousand in the Niagara region, by almost \$800 thousand in the Thousand Islands Region, and by \$1.3 million in the Finger Lakes Region. The disproportional increase in sales to the two smaller regions is not surprising given that a much larger share of their visitors are from Canada.

Projected Annual Increase in Direct Wine Sales Given Trade Liberalization with Canada^a

	Niagara Region	Thousand Island Region	Finger Lakes Region
Number of wineries in trail (total wineries)	16 (18)	7 (8)	69 (124)
Average number of visitors per winery	20,000	40,000	50,000
Share of Canadian visitors	8 to 10%	15 to 30%	4 to 6%
Average sales per transaction ^b	\$36.00	\$40.00	\$24.00
Wine sales as a percent of winery sales	90%	95%	80%
Total increase in sales of wine (\$)	\$414,720	\$798,000	\$1,324,800

^a Calculations based on information provided by winery owners in the three wine regions.

^b We assume that there are transactions from 50% of visitors (to account for the observation that many visitors travel in pairs).

The total economic impact across the three regions would be over \$2.5 million per year in increased wine sales. Wine sales are a well-recognized engine of economic development and are credited with generating substantial spillover effects in local economies. Recent multiplier effects used to describe the New York wine sector indicate that each additional \$1 spent on wine generated an additional \$7.86 to supporting industries upstream and downstream. Therefore, using this multiplier value, the increase in wine sales calculated above would translate into an increase in economic activity in New York State of \$19.9 million per year. Overall, our results indicate that the effects could be very important for individual wineries and non-trivial for the industry in aggregate.

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