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The Impact of Trade Liberalization with Canada on New York State Wineries

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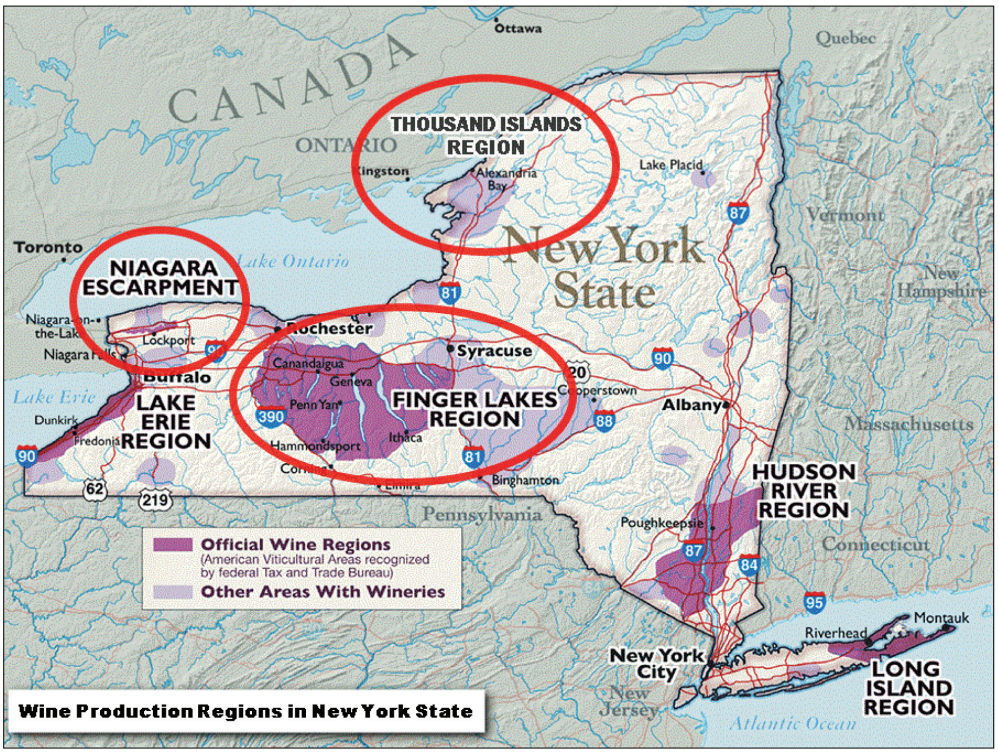
What is the Issue?

In 2007, the Trans-Pacific Partnership (TPP) began with trade negotiations between Chile, New Zealand, Singapore, and Brunei (known as the P4 block) in order to promote increased trade between those four nations. Australia, Vietnam, and Peru all joined the P4 block in 2008, followed by Malaysia in 2010. The United States joined the TPP as an observer in 2008 and, a year later, formally entered negotiations. More recently, Canada and Mexico have joined negotiations in 2012. Since 2010 there have been sixteen rounds of TPP negotiations. A primary objective of the TPP is to develop more market access and increased trade between the negotiating countries. Topics of debate have ranged from agricultural policy to intellectual-property management. Canada, in particular, has faced renewed criticism about their supply management arrangements for dairy and egg producers.

Another agricultural issue in the TPP discussions that has attracted attention among industry stakeholders in New York State 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.

Wineries that are members of wine trails in the Niagara Region and in the Thousand Islands Region are expected to be most affected by this trade barrier. 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 Trial, 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.



Wine Production Regions in New York State

The Study

In order to gauge the economic impact on the wine industry in New York State, we conducted interviews with winery owners in each of these three regions. During each interview we collected information about the average number of visitors per winery, the share of these 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 following table we outline the key variables that were used to calculate the likely annual change in wine sales in each region. 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 find that total annual wine sales would increase by $414,700 in the Niagara region, by almost $800,000 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.

Table 1: Projected Annual Increase in Direct Wine Sales Given Trade Liberalization With Canada[a]

	Niagara Region	Thousand Islands Region	Finger Lakes Region
Number of Wineries in Trail (total wineries)	16 (18)	7 (8)	69 (124)
Number of Visitors per Winery (average)	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	$24.00
Wine Sales as a Percent of Total Winery Sales	90%	95%	80%
Expected Annual Increase in Wine Sales ($)	414,720	798,000	1,324,800

[a] Calculations based on information provided by winery owners in 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

Conclusions

Based on our assumptions, if trade regulations with Canada were liberalized and Canadian visitors developed spending patterns that were similar to other visitors, we would expect a combined economic impact of $2.5 million per year in increased wine sales across the three regions. Wine sales are a well-recognized engine of economic development and are credited with generating substantial spillover effects in local economies. There has been significant growth in hospitality services and tourism activities in wine production regions in various locations across the United States, and notably in New York State. 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 (e.g., vineyard materials and wine making equipment) and downstream (e.g., bed and breakfast accommodations, restaurants, and recreational services).[1] 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. We believe our results are conservative for three reasons. First, in our calculations we use the lower bound for the share of Canadian visitors to wineries in the three regions. Second, we focus only on three wine regions in New York State and expect that there would be additional implications, albeit perhaps smaller, in the other three wine producing regions in the state. Third, we only consider wineries that belong to the wine trails in the Niagara region, the Thousand Islands region, and the Finger Lakes Region. Each of these regions, and notably the Finger Lakes region, have additional wineries that are not part of the wine trails. Furthermore, each of these regions continues to expand the number of wineries that are included in the wine trails. Overall, our results indicate that the effects could be very important for individual wineries and are non-trivial for the industry in aggregate.

[1] MKF Research LLC. "The Economic Impact of Wine, Grrapes and Grape Juice Products in New York State." (2005): 1-18. Web. 31 August 2012. Available at: http://www.newyorkwines.org/resources/aeab55e6d1464f569eb7cdc27dc62ba1.pdf

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