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RAISING THE GLASS

Local wine is big business, and it's getting bigger. The wines rank among the best in the world. But there's one problem – only about one in 10 VQA wines makes it to the LCBO shelves.

Hamilton Business reporter Meredith MacLeod peels back the layers of the grape trade (PAGE 14)

10.08.14

OCTOBER 2014 | VOLUME THREE | ISSUE TEN | HAMILTONBUSINESS.COM

THE HAMILTON SPECTATOR

COVER STORY

PHOTOS BY BARRY GRAY, THE HAMILTON SPECTATOR

A taste for success

Ontario's wine industry has matured more quickly than most could imagine

STORIES BY MEREDITH MACLEOD
Hamilton Business

THE ADAGE GOES that if you want to make a small fortune in the wine business, you need to start with a large one.

Winemaking is romantic and sophisticated. It's the art and science of turning the seven or eight drops of juice from each grape into something to be savoured and celebrated.

It's equal parts farming and tourism and in all ways it's big business in Ontario, accounting for an estimated $3.3 billion in economic impact and 13,000 jobs.

Growth has come quickly.

There are 140 wine producers in Niagara now, up from 23 in 1990. They range from grape growers selling a few hundred cases of wine from their gate, to so-called "Bay Street" winemakers spending fortunes made in other businesses on their dream of making wine, to the giant multinational Constellation Brands, the biggest in the world.

Niagara wines are getting more attention on the international scene and have almost entirely left behind their bad reputation. The always sought-after young consumer, who doesn't remember the Baby Duck years of poor quality, is drinking more wine.

As well, the wine industry is benefiting from the eat local movement and the desire for food and drink "experiences" among tourists.

Niagara's reputation has grown well beyond icewine to whites such as reislings and sauvignon blanc, and more recently, to reds, including pinot noir.

Innovators are constantly experimenting with new varietals, evolved methods in the vineyard and adapted winemaking techniques. Brock University and Niagara College are graduating winemakers that are in demand all over the world.

And Niagara's modern wine industry has not even hit middle age.

"I like to say that what it took them in France to do in 1,000 years and in California 200 years, we did here in 35 years," said Norm Beal, owner of Peninsula Ridge Estates Winery.

"We should be very proud of what we've done in Ontario."

BUT MANY in the industry say the fundamentals of the business are out of whack.

Insiders say in order to turn a profit, production has to be in the 15,000 to 20,000 case range because the fixed costs of grape production and winemaking are high. But to sell all that wine requires selling through Ontario's monopoly distributor, the LCBO.

A common observation in Ontario's wine country is that lone point of mass distribution, the LCBO, "doesn't have rubber walls."

There is only so much shelf space and heavy competition to get on them. For every new entry, something else has to go. Vineland Estates managing partner Allan Schmidt says they submit six to eight products a year for consideration and one or two may get listed.

Vineland has six wines on the general list at the LCBO but sells nine in Hong Kong and its entire catalogue in Alberta.

"I think we're treading water overall," said Beal. "We're not selling a lot more VQA Ontario wine than we were seven or eight years ago."

Growing the grapes and making the wine is easy but selling the bottles is really hard, says Beal.

Insiders say changing Ontario's liquor monopoly — in place nearly a century — would transform the industry overnight. The small wine shops located inside grocery stores, owned by a consortium of wineries including Andrew Peller and Trius Winery Hillebrand and Thirty Bench, were grandfathered after the Free Trade Agreement was signed.

But no licences to sell wine off winery premises have been issued since. The wine industry, along with the province's growing craft brewery sector, is lobbying for that to change.

Beal, who came to the wine business after a successful career as an oil executive and commodities trader, says he's confident the monopoly will end. There are plenty of challenges, including the simple inertia of having not changed the system since the days of Prohibition, he says.

CONTINUED ON P.15

CONTINUED FROM P.14

Then there is the lobbying power of the breweries behind the Beer Store and the unions.

Ontario's wine industry doesn't want to see the LCBO privatized. Rather, they want the provincially owned liquor board to face competition from private players. Advocates say that would give more choice to consumers and add to the tax coffers of the province.

The Wine Council of Ontario's vision is not alcohol sales in convenience stores, but rather high-end boutiques with sommeliers, tasting rooms, wine education programs.

"I can't get my wine to wealthy people in Yorkville, who I think would buy it and enjoy it," said Graham Rennie of Rennie Estates Winery.

"So they go to the LCBO and buy French or Italian or Australian wine out of the Vintages section."

Relative to other wine making regions worldwide, Canada's is young, small and unknown, except for its icewine.

"People still think of us as the land of snow and ice," said Rennie. "You go to Rome, London, Paris, Rio de Janeiro, Sydney and they have no clue we're in the wine business. Plus, we're small. We make 60 million litres of Ontario wine. That's a drop in the bucket or a couple of wineries in California."

The number of wineries in Niagara has doubled in the past 10 years, said Schmidt of Vineland, who is also president of the Wine Council of Ontario.

Schmidt says the LCBO is an extremely effective retailer and works hard to promote Ontario wines. But shelve space is too limited to support the industry and offer suitable choice to consumers.

"At my winery, I have to go international to build a brand before I can sell at the LCBO."

Graham Rennie in his Beamsville winery.

DID YOU KNOW?

Royal DeMaria Winery in Beamsville produces the world's most expensive icewine. Its 2000 Chardonnay sells for $250,000. There are 18 bottles left and the price will increase with each bottle sold. The last bottle will sell for $500,000.

Rockway Glen Winery is the only winery in Ontario with an 18-hole golf course (recently voted best place to play by Golf Digest) and an antique wine museum.

Frogpond Farm in Niagara-on-the-Lake is Ontario's first certified organic winery.

Old World ways, New World wine

Graham Rennie is on a quest to make the best red wine in Ontario and to do so, he's reaching back into an age-old drying technique.

His Rennie Estates Winery produces four wines in small, artisanal batches of about 600 cases a year. Grapes are handpicked from Rennie's 20-hectare sloping vineyard, Heron Pond Benchland, on the Beamsville Bench.

"Our vineyard produces super premium fruit and our wines win many awards. The Pinot and Chardonnay are amazing but in my heart I want to make a rich, powerful, complex red wine that improves with age and is luxurious and full-bodied."

That takes long, hot summers and while those come along every few years, Rennie says the real answer is appassimento. The Old World method concentrates flavours by drying the grapes.

"It's unique in Niagara. We do it very slowly," said Rennie. The technique is used in northern Italy where they make rich reds called amarones.

"Ontario is one of the biggest markets for Italian amarone wines," said Rennie.

There are about half a dozen Niagara producers making appassimento wines, each with their own methods, says Rennie. A few use quick-drying techniques, but Rennie and Foreign Affair and Cave Spring use a slow-drying method.

Rennie dries his grapes for 80 to 100 days in a chamber developed through a partnership with Vineland Research Centre. The fruit loses about 35 to 45 per cent of its volume while sugars and flavours are concentrated.

Rennie has his wine made to his specifications at Malivoire Winery, where it's aged in French oak barrels for 18 to 20 months. The first vintage using the chamber was released in 2011.

Rennie sells to about 35 restaurants and directly to wine lovers. The most expensive is G, a blend of Merlot, Cabernet Sauvignon and Cabernet Franc, at $55 a bottle.

Like many in the wine business, he came to the vineyards after making his money elsewhere. Rennie owns an investment firm in Oakville and bought his vineyard in 1997.

At the time, he paid more per acre than anyone ever had for a vineyard and plenty of people told him he was crazy.

"Now, 15 years later, it looks like such a bargain."

And Ontario is behind in growth because of it, says Schmidt. VQA wines account for about 7 to 8 per cent of market share. In British Columbia, which has provincially owned wine stores alongside private operators, that number is 20 to 25 per cent. Provincial revenue suffers too, he says.

B.C.'s liquor sales amount to $195 per person. It's about $70 lower in Ontario. Changing the system could add $800 million to provincial coffers, he said.

On the up side, Schmidt says if Ontario changed its alcohol system tomorrow, the wine industry would be ready to take advantage.

THERE HAS BEEN about $30 million of investment in wineries in new, more efficient equipment and tourist amenities, says Schmidt. Vineland, for instance, has just installed a digital sorter that classifies grapes by their intensity of colour.

CONTINUED ON P.16

COVER STORY

GARY YOKOYAMA, THE HAMILTON SPECTATOR

Dillon's Small Batch Distillers makes vodka from Niagara wines, giving it a distinctive flavour.

Bringing spirit to Niagara grapes

GEOFF DILLON hopes Niagara will become as well known for spirits as it is for wine.

He is the president and founder of Dillon's Small Batch Distillers, which makes vodka and gin out of wine bought from local wineries.

Dillon, who studied biology and economics in school, said he loves distilling because it perfectly combines art and science. He moved from Muskoka to start the business in a former trucking shed in Beamsville 19 months ago.

"We came to Niagara because it's the perfect place to do a grape-based business. And the tourism base is already here," he said.

"Grapes are huge for us. What we do is super unique but the wine is expensive, it's hard to get and it's hard to work with. We're really flipping spirits on their heads. Vodka used to have no flavour. Ours is the opposite. We do very little filtering so that we can highlight the ingredients."

The results have already gained recognition. Dillon's Unfiltered Gin won double gold at the San Francisco World Spirits Competition. Its vodka took silver at the same show and bronze at the New York International Spirits Competition.

Dillon's products include rose, cherry and strawberry gin, a fruit spirit called pear eau de vie, rye whisky and white rye that is aged in oak barrels. There is also a line of 11 flavours of bitters (made with distilled wine) that are sold in Williams Sonoma, Crate and Barrel and boutique food stores.

It already sells some of its products in the LCBO and in more than 250 restaurants and bars in the GTA, along with liquor stores in Alberta, Manitoba, Saskatchewan and Florida.

The copper stills used to distil the wine were custom-made in Germany. Dillon laments they aren't polished but they don't stay cool long enough. Production is constantly ramping up.

The wine is heated and the steam climbs up through a helmet at the top holding a couple of kilograms of 22 botanicals, such as juniper, orange and coriander that flavour the mixture.

It's then piped to a condenser where it cools.

The concentrated liquid, in this case gin, pours out of a spigot into large metal barrels. It is 80 per cent alcohol at that point and water is added to bring that down to 40 per cent.

Dillon's father Peter Dillon, a chemistry professor and hobby farmer, and his father-in-law Gary Huggins, a serial entrepreneur, are partners with him on the venture.

"My dad had a ludicrous spirit collection when I was growing up. His students would bring him spirits from around the world. That's where it started."

CONTINUED FROM P.15

There is also plenty of additional land available to grow grapes.

"The only thing we have a shortage of is shelves."

Beal, a Hamilton native, looked at Napa Valley, Sonoma, even Long Island before he considered Niagara for his next venture.

He found an abandoned orchard in 1998 and opened his Peninsula Ridge winery in 2000. There were about 25 wineries then.

Beal says one major problem is that the LCBO charges a 30 per cent import fee on Ontario wines, the same as that levied on international brands.

"That's a strangling point for growth. There is a lot expansion but I wouldn't say it's a healthy industry."

Schmidt says his winery makes more on a sale in Hong Kong than it makes at a liquor store in Ontario.

Beal points out the business models of wineries make it a challenge to go after bank financing. Long planning cycles mean waiting five to 10 years for a strong first harvest and then up to three years after that for those bottles to be ready to sell.

So all the costs come up front and cash flow is many years behind.

That puts operators unprepared for that reality behind the eight ball, says Beal.

"There is a significant amount of failure in the industry. There is a lot of fear in the industry that if anybody speaks negatively, it will hurt the brand. But there is a reality. I doubt there are many wineries that opened since 2000 that have made an acceptable return on investment."

Schmidt at the wine council agrees.

"The return on investment just isn't there right now. The smaller wineries are holding out, thinking it will get better."

Only the smallest, cottage wineries can make a go by selling only from their gate.

Beal says restaurant sales depend on brand recognition, too. A customer will usually not order an unfamiliar name and restaurant owners won't hang on to brands that don't sell.

The veterans like Henry of Pelham and Cave Springs were able to build strong brands at the LCBO with little competition, says Beal. But since free trade, the government has moved its markup from zero to 68 per cent.

Though Beal's biggest customer is the LCBO and he thinks the agency has done a good job marketing Ontario wines, the markup structure is not sustainable, he says. On a $12.95 bottle, Beal makes $6.43. And that's before merchandising, shelf space and listing fees take more gulps from the glass.

VQA BY THE NUMBERS

$346 million: 2013 sales of VQA wine
17.4M litres: 2013 VQA production
$12.29: added value to Ontario economy for each VQA bottle sold
$215M: total value added to the Ontario economy
LCBO: $116.5M in sales
Winery: $115.8M in sale
Interprovincial and export: $60M in sales
Licensees: $53.7M in sales
15,000: acres of wine grapes in Ontario
64,400 tonnes: wine grapes grown in Ontario
$89M: value of crop in 2012 in Ontario
$40,000/acre: value of vineyard land in Ontario
1.8 million: winery visitors in Ontario

SOURCE: ECONOMIC IMPACT OF ONTARIO VQA WINES, KPMG

ALL OF THE challenges mean the industry has shifted from small farmers experimenting with grape vines to deep-pocketed investors using GPS technology, soil testing and weather mapping to determine the types of vines to plant and exactly where they should go.

Linda Bramble, who has documented the evolution of Niagara's wine industry for years, says the region's winemakers are producing wines across the price spectrum that stand up to anything made anywhere in the world.

Ontario wines are winning top awards at international wine shows and getting the attention of the world's best wine writers.

Along with producing great wine, Ontario's wineries are capturing tourist dollars, with well-capitalized wineries focused on a tourist experience, says Bramble.

"If you go to properties such as Hidden Bench, it's small and charming. Jackson-Triggs or Stratus or Southbrook have internationally known architecture.

CONTINUED ON P.17

NIAGARA WINE

Niagara is broken into two regional appellations: Niagara-on-the-Lake and Niagara Escarpment. Within the two are 10 sub-appellations, including the Beamsville Bench, the Niagara River, St. David's Bench and Twenty Mile Bench.

There are 140 wineries in Niagara, up from 102 in 2008 and 66 in 2003

Niagara has about half of the acreage dedicated to wine grapes in Canada and about one-quarter of the country's 500 wineries.

Making wine in Niagara dates back to 1873.

Inniskillin was granted the first winery licence since Prohibition in 1974 and Chateau des Charmes and Cave Springs Vineyard planted their vineyards in 1978

First commercial ice wine was produced in 1984

Vinters Quality Alliance was launched and standards for 100 per cent Canadian grapes became law in 1999

CONTINUED FROM P.16

Malivoire is another wonder."

Among Niagara's great advantages is the proximity of one of the world's big tourist attractions at Niagara Falls and North America's fourth-biggest metropolis, says Schmidt. The region has cultivated a food and theatre culture, as well.

But Bramble says for every one of the big, successful players like Henry of Pelham, Konzelmann, Cave Springs, there are many more marginal wineries that are always, but quietly, up for sale.

The most high profile failure was the 2008 bankruptcy of Niagara Vintners Inc., a collective of 19 grape growers who pooled their crops and investment to produce under the 20 Bees VQA brand.

Toronto-based Diamond Estates Winery and Spirits bought the vineyards and winery and still produces under the 20 Bees label. It also owns EastDell Estates, Lakeview Cellars, Birchwood Estate and Thomas & Vaughan. The company has partnered with Canadian-born comedian Dan Aykroyd on his Niagara line of wines and with the NHL Alumni Association on a line of wines called Hat Trick.

And even one of the most established wineries in Niagara isn't resting on its laurels.

Chateau des Charmes in Nigara-on-the-Lake is about 15 years into a massive hybridization project to discover new varieties suitable for Niagara's soil and climate.

"Chardonnay, pinot noir, reislings and cabernet franc have done really well here," said Paul-Andre Bosc, president. "Are they absolutely tailored to our climate? No. We are attempting to find out with precision new varieties that are tailored to our climate."

Paul Bosc Sr., who shocked everyone by ripping out 60 acres of native labrusca varieties such as concord and Niagara vines to plant French varietals in the late 1970s, took each of his winery's 14 grape varieties and crossed it with the others. That resulted in about 1,200 plant offsprings.

A few vines of each cross were planted. Some grew no fruit at all, others show low yields or poor fruit quality. But many dozens have showed promise.

The project will have been for nothing if the result isn't better-tasting, distinctive wine, says Bosc.

Bosc Sr. is making tiny lots of wine for tasting. He says if the project is successful, new wines could be available for sale in five years.

"We're hoping that, out of the 1,200 we started with, that maybe one day we'll have four or five new varieties. The introduction of just a few will make a big impact."

The wine business is constantly humbling, he says, but he can't help but think of a future of winemaking in Canada with Canadian-bred grape varieties.

Offering something unique in the marketplace would be a huge advantage to the industry, which has always been an underdog.

"Very few people back in the late 1980s or early 1990s who worked in the industry would have said it had this kind of potential," said Bosc.

Bosc says the sector is now poised for another chapter that will require the same kind of visionary and innovative leaders who founded and nurtured it.

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BARRY GRAY, THE HAMILTON SPECTATOR

Jayne Douglas, co-owner of Ridge Road Estate Winery, one of two wineries in Hamilton.

Customers pitch in at winery

JAYNE DOUGLAS loves that her Hamilton winery, Ridge Road Estates, is the gateway to the Niagara wine region.

Douglas and husband Sean established the winery on the Vinemount property that has been in her family since 1875. The couple bought the fruit farm from Douglas's grandmother in 1994.

"I think it was the creative outlet we both really craved," said Douglas, who worked in human resources and interior design. Sean is an accountant by trade who studied winemaking on the side.

After clearing and planting vines, the couple started off by selling fruit, grape juice and yeast to amateur winemakers. In 2007, they released their first vintage.

"We opened a winery and a tasting room ... What we've found is that Hamilton folks are very loyal and very supportive of us."

Customers are so loyal, they help with picking and sorting at harvest time, says Douglas.

Ridge Road's wine list of 13 products features three reds, including a baco noir selling in the LCBO, sparkling wines, reislings and chardonnay.

"Our niche is that we're keeping it real here. Our price point is $15.95."

Following changes in Ontario's liquor laws to allow Ontario-grown wines to be sold at farmers markets, Ridge Road and three other wineries launched a shared booth at the Hamilton Farmers Market.

The winery produces about 3,000 cases a year. A foundation has been poured for an expansion to reach the target production of 5,000 but that will come in time, says Douglas.

Ridge Road, named by Ontario Tourism as one of the top three wine and culinary destinations in the province in 2012, is one of two wineries within the boundaries of Hamilton.

The other is the ambitious Puddicombe Estates in Winona. The farm, which has been in the same family for eight generations, features a retail store, a café, a children's village, a bed and breakfast in a repurposed caboose and a train running through the property.

The current winery was launched in 2000 and in 2010, the family established the Puddicombe Cider Co., which makes Sir Isaac's pear cider.

COVER STORY

BARRY GRAY, THE HAMILTON SPECTATOR

Domaine Queylus is one of the newer wineries in the Niagara region.

A winery built on a dream

DOMAINE QUEYLUS was launched by 12 friends who love Burgundy wine — and who discovered after a few glasses one night they shared a dream of owning a winery.

Gilles Chevalier, a Montreal-based financial planner, visited Niagara in 2006 and tasted the wines of Thomas Bachelder.

"I came back to Montreal and said this is the next big place."

The business plan is simple.

"We are 12 guys who want to put a bottle of wine on a table in front of our friends and be proud of it."

Though some profit would be nice, it's not the ultimate goal for the partnership that includes three accountants, a doctor and a restaurateur.

"It's a passion for us."

He and his partners searched for property until a 10-hectare orchard in Beamsville came up for sale.

After clearing the trees, the investors hired a consultant from Bordeaux. Soil samples were sent to a lab in France.

The result was a detailed map of the property that laid out how grape vines should be planted.

One small parcel has the same blue clay that grows Bordeaux merlots. Domaine Queylus also makes Pinot Noir, Cabernet Franc and Chardonnay.

"Our big advantage is that we know nothing," said Chevalier. "We don't try to be smart. We hire the best consultants possible and follow their advice."

The first harvest came in 2010. Then partners convinced Bachelder to come on board and they bought a winery in St. Ann in 2013 and another vineyard in Jordan.

"We put our money in the vineyard and the equipment," said Chevalier. "The building is a square metal building. It is not a nice and fancy winery."

The investment in equipment includes a pneumatic punch down — referred to as a Porsche on the ceiling thanks to its cost. It gently extracts flavour and aroma from the grapes.

Domaine Queylus ages its wine in barrels for 18 months and another six months in bottles. The 2012 vintage will be released in October.

Chevalier says Niagara is gaining a strong international reputation for high-end wines. Domaine Queylus's entry-level bottle is $30. The winery has its first listing in the LCBO Vintages section and 70 per cent of the inventory sold in a week, says Chevalier.

"We are very proud to be in Niagara," he said, saying the region can produce wines to satisfy any taste and any level of quality.

"I am a strong believer in the potential there. It will be the next place on the wine map."

Richard Slingerland, of Pillitteri Estate Winery, the largest ice wine producer in the world.

China loves Canadian ice wine

PILLITTERI ESTATE WINERY in Niagara-on-the-Lake is the largest estate maker of ice wine in the world and it wants to keep growing.

Canada has a lock on ice wine, producing 85 to 90 per cent of the ice wine made globally.

The third-generation winery produces a little more than 30 per cent of Canada's ice wine, according to Richard Slingerland, vice-president of sales.

He also heads up Chinese exports, a rapidly growing market for Pillitteri's products.

China now accounts for 40 per cent of total sales. Pillitteri started seeking markets abroad just a couple of years after opening in 1993.

"It was difficult to sell wine in Ontario. The LCBO wasn't interested in anyone's products. And the wine region and the wine route was not in existence. Canadian wines were not well known."

So Slingerland's uncle, Charlie Pillitteri, started travelling to Europe, Taiwan, Japan and then to China. Pillitteri now has several distributors in China, as well as a dozen franchised stores, and restaurant sales. The stores carry a range of Canadian products, including maple syrup and Saskatoon berries, along with products from three other Niagara wineries.

"We aren't competing with the wineries down the street, it's about making a name as a wine industry in Canada. Our competition is French, German and Italian."

Emerging wine nations — Australia, Chile, South Africa — are investing lots of money in supporting and branding their homegrown industry, says Slingerland.

Only five per cent of Chinese drink wine, but with a population of 1.4 billion, it's a huge market.

For rich Chinese, sipping on Canadian ice wine is a sign of status, so much so, that raising prices actually boosted sales. The middle class is also gravitating to wine, says Slingerland.

"But they'll buy a few bottles. The upper class buys case loads."

China may be the giant, but the Pillitteris, who employ 50 people full time, are growing sales of ice wine and reds and whites across Europe, Asia and the U.S.

Last year's bitterly cold winter was a boon for the winery, which counts on ice wine for 60 per cent of its sales. At 350 tonnes of seven varietals of grapes, it was the largest harvest in the 21-year history of the vineyard.

Pillitteri also bought 890 tonnes of grapes to produce about 600,000 375 mL bottles.

About 40 per cent of the winery's ice wine is sold in Canada.

The business was founded by Slingerland's grandparents, Gary and Lena Pillitteri. The couple's three children are executives, with Slingerland's mother handling finance and his father managing the vineyard.