

lead to increasingly aggressive marketing and some rationalization, especially in the U.S. market. As noted before, industry analysts predict that the minimum viable size for brewing companies in the U.S. will soon be 20 million bbl. of output per year; therefore, the trend among U.S. brewers is to national distribution and aggressive marketing in an effort to boost market share.

Over the coming years, Canadian brewers expect that the prospects for continued growth in profits and shipments are limited. The major brewing companies, recognizing this trend, are using profits to diversify into other interests, such as food, communications and professional sports franchises, and to intensify exports in the U.S.

5. COMPETITIVENESS ASSESSMENT

Within the current regulatory environment that favours indigenous producers, the Canadian brewing industry is very competitive, with the three major firms competing fiercely for market share in a stagnant domestic market. The major firms have also increased their exporting efforts in an attempt to increase capacity utilization.

Restrictive provincial regulations have resulted in an industry structure fragmented along provincial lines. This has made many Canadian operations vulnerable to a much larger and rationalizing U.S. industry should the regulatory environment change drastically. Nonetheless, the industry is currently strong and profitable because of its protected status, and the major firms are using it as a base from which to diversify into other business opportunities.

Adjustments required to make the industry more competitive include:

- 1) the elimination of barriers to inter-provincial trade in brewery products, thereby allowing national brewers to rationalize their operations and regional brewers to more readily penetrate national markets.
- 2) extensive rationalization will be required to increase economies of scale should trade be liberalized with the U.S., with the potential employment loss mainly in the Atlantic and Prairie provinces; and
- 3) greater penetration of the large U.S. market by Canadian brewers to compensate for a stagnating domestic market and to increase production volume and economies of scale.

The elimination of inter-provincial barriers to trade would require extensive negotiations with provincial authorities.

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