

- Innovations in the brewing industry include the rapid introduction of "light" beers to appeal to more health-conscious consumers. The industry leader in this area is the Miller Lite brand, although Anheuser-Busch is rapidly expanding in the "light" beer market. Both Anheuser-Busch and Miller are investing in new plant capacity and are poised to grab 70% of the U.S. beer market by 1990. This will result in even greater over-capacity which could lead to more mergers in an effort to create more production efficiencies among smaller producers. Industry experts predict that no brewer under 20 million bbl. will survive the decade because of the economies of scale needed to compete in production and marketing on a national basis.

c) Technological Factors

The brewing industry generally employs mature technology, with advances coming mainly in the area of packaging. The major Canadian brewers have undertaken to install new high-speed bottling equipment in their larger plants, but the general uptake of this equipment is hindered by the small sizes of production runs.

Recently, the brewing industry has introduced innovative new products (low calorie and low alcohol beers) and a variety of packaging shapes and sizes in an effort to appeal to changing consumer tastes. This closely mirrors changes taking place in the U.S. brewing market.

3. FEDERAL AND PROVINCIAL PROGRAMS AND POLICIES

The federal government has no industrial development programs targeted specifically at the brewing industry.

EXEMPT 20(1)(4)(c)(d)

The major governmental influence exerted on the industry is that of the provincial governments which control licensing, pricing and distribution within their jurisdictions. The provinces have used these powers to effectively balkanize the Canadian market, thereby reducing economies of scale in the industry.

The brewing industry feels that tax levels have reached the point where they are having a significant depressing impact on demand. Generally in Canada, some 50% of the retail selling price of beer is accounted for by federal and provincial taxes, while comparable taxes in the U.S. make up only 16% of the retail price.

4. EVOLVING ENVIRONMENT

The key to understanding the future outlook for the brewing industry is found in the shifting importance of various demographic age groups. The aging of the "baby boom" generation will have a strong effect on overall consumer preferences. For brewers, the decline in the size of the 21-35 age group will severely restrict growth prospects. In fact, demand growth is already sluggish and a decline in overall consumption could result from the aging of this largely beer-drinking group.

There are also strong indications that the next 5-10 years will see an increasing health-consciousness among North American consumers. Low calorie and low alcohol beverages may benefit from these trends at the expense of other products. Current concerns regarding drinking and driving have prompted several U.S. states to raise their legal drinking age. If this trend becomes widespread, a considerable number of potential consumers could be removed from the market. As well, Canadian jurisdictions are becoming increasingly concerned with this issue, as demonstrated by Ontario's recent ban on "happy hours" promotions.

As a result of the above factors, market demand in the brewery sector in both Canada and the U.S. will grow only slowly in the coming years, leaving both countries with overcapacity for the foreseeable future. This will