integrated market. Brewing is an industry with very large economies of scale giving tremendous productivity advantages to those companies with high-volume operations. Canadian brewing companies are relatively small compared to the major U.S. brewers; in fact, industry analysts predict that the minimum viable size for brewing companies wishing to market nation-wide in the U.S. will soon be 20 million bbl. of output per year, although breweries concentrating on regional markets will survive at a lower level of activity. This indicates that Canadian producers could find themselves unable to compete in a continentally integrated market without substantial rationalization and expansion.

- Exacerbating the problem of a small domestic industry relative to that in the U.S., the operations of the major Canadian brewers are fragmented along provincial lines because of provincial regulations that effectively balkanize the domestic market. Significant regulatory barriers exist in each province to protect indigenous brewing operations. For example, provincial regulations require that a company must have a brewing establishment in the province before its products can be displayed in retail stores and this is why regional brands are generally available only in the province where they are brewed, although "out of province" beers can often be sold if a special surtax is paid. This system results in a fragmented market and limits the economies of scale available to the industry.

- Alternatively, the U.S. brewing industry is undergoing a major rationalization with companies competing very aggressively for market share in a slowly growing domestic market (0.5% in 1983). The two industry leaders, Anheuser-Busch and Miller Brewing, now control 54.5% of the U.S. market, while the second-tier companies such as Stroh, G. Heileman and Adolph Coors have been purchasing other brewing companies and marketing aggressively in an attempt to break out of traditional regional markets and capture more of the national market share.

b) International Trade-Related Factors

- The Canadian brewing industry is protected by an import duty rate of 15¢/gallon plus excise duty equivalent to the excise tax applied to Canadian brewery products. The U.S. imposes a duty on brewery products of 6¢/gallon plus appropriate excise duty. These tariff levels do not represent a significant barrier to trade. Rather, the Canadian industry is afforded greater protection by the provincially-controlled domestic distribution system which acts as an effective barrier to brewery products imported from outside the province, and by a pricing system favouring indigenous operations. In most provinces, the provincial government has a straight monopoly on the sale of alcoholic beverages, or has delegated some portion of that monopoly to domestic producers. The U.S. does not tend to have a similar system of distribution monopolies, making access to markets dependent on securing the appropriate importing agent.

- Because of protected provincial markets, Canada imported only $19 million in brewery products in 1983 (exclusive of licencing revenue) while exporting $157 million worth, of which over 99% is directed to the U.S. market. The major Canadian exporter is Molson (the second largest U.S. import) while Moosehead Breweries of Saint John, N.B. is also surprisingly strong in the U.S. (fourth largest imported brand). These brands are directed at the premium end of the U.S. market.

- In 1983, U.S. brewers shipped 177.5 million bbl. or 208.3 million hectolitres for domestic consumption, representing $11.8 billion in sales and making it the largest brewing industry in the world. The industry currently has excess capacity of about 40 million bbl. - approximately double the total capacity of the Canadian industry - and brewers have been reducing prices to the point of selling some brands at prices below cost of production in an effort to keep plants occupied. In 1983, U.S. brewers spent an estimated $700 million on advertising (more than the total value shipped by any single Canadian brewer), reflecting the increased aggressiveness of the major firms.