

elimination of "happy hour" in Ontario. If these trends become widespread, a considerable number of potential spirits consumers could be removed from the market.

North American demand for distilled spirits has been declining for several years, leaving Canadian plants vastly underutilized. While there may be potential for modest growth later in the decade, as a maturing population switches away from brewery products, it is doubtful that the industry's major companies will make substantial new investments in production capacity. Nonetheless, profits in the industry should remain reasonably strong and this income will be streamed toward new investment opportunities. For example, Seagram has invested heavily in U.S. and European wine production and is a major owner of DuPont, the chemical manufacturer; while Hiram Walker has become a major participant in the Canadian energy sector through Hiram Walker Resources.

5. COMPETITIVENESS ASSESSMENT

The key to competitiveness in the distilling sector is brand acceptance, availability and recognition, and in these areas the Canadian distilling industry is highly competitive internationally and has a world-wide reputation for quality. Seagram and Hiram Walker have world scale distilling plants with excellent economies of scale, and are very strong in the important U.S. market.

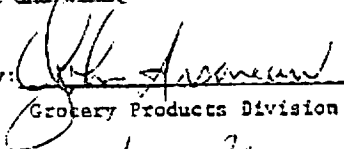
The volume of distilled spirits consumed in the North American market has been declining significantly in recent years. Shifts in consumer tastes have also caused a decline in the consumption of dark spirits, such as Canadian whiskey, in international markets. Nonetheless, the Canadian distilling industry is adapting quite readily and should remain competitive in the key U.S. market.

Adjustments required to make the industry more competitive include:

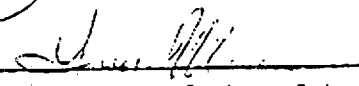
- 1) a rationalization of some production facilities to improve capacity utilization rates; and
- 2) increasing export marketing efforts to replace permanently lost domestic markets, not only in the U.S. where Canadian products are already well established, but also in offshore markets such as Japan, Europe and Latin America which are relatively unexploited by Canadian distillers.

The major Canadian distilling companies are well aware of market trends and have sufficient financial and market strength to exploit opportunities as they arise. The key difficulty facing the sector appears to be the very limited potential for new opportunities in the distilling business for the rest of the decade. As a result, both Seagram and Hiram Walker are extensively diversifying their business interests into chemicals, energy, real estate and wine.

Prepared by:


Grocery Products Division

Approved by:


Food & Consumer Products Industries
CGSRP

Department of Regional Industrial Expansion