- In 1983, the total U.S. consumption of distille pirits was 157 million cases, a 5.5% decline since 1979. Surprisingly, consumption of imported Canadian whiskey increased slightly over the period, faring much better than U.S. whiskeys and other imports such as Scotch. The resilience of Canadian whiskey was mainly due to the increased imports of "bulk Canadian" whiskey to be bottled in the U.S. This has resulted in an extended variety of brands and price levels providing consumers with a wide range of choice. In 1983, the less expensive, so-called "bulk-brands" accounted for over 64% of Canadian whiskey sales in the U.S.

c) Technological Factors

- The Canadian distilling industry is as sophisticated technologically as its major competitors. Technology development in the industry currently stresses modernization of plants to achieve lower cost production as well as product development. Packaging is a concern since usage of glass bottles is very expensive; there has been some consideration of usage of PET (plastic) bottles but the general feeling seems to be that image concerns and the associated cost of new bottling lines would delay any early acceptance of this technology.

- Product innovation in the distilling industry is concentrating on developing new, sweet tasting products to appeal to younger drinkers. Much of the emphasis has been on cream based liqueurs in an attempt to copy the recent success of Bailey's Irish Cream.

d) Other Factors

The distilling industry is very sensitive to high and fluctuating interest rates. For example, whiskey must age for a minimum of three years before being packaged and sold and therefore must be carried as inventory. This ties up a distilling company's working capital, making it more vulnerable to changes in the capital markets.

3. FEDERAL AND PROVINCIAL PROGRAMS AND POLICIES

The major constraining factor on distilling sector growth and viability, as viewed by the industry, is the high level of government taxation on their products. The total impact of federal and provincial taxes and mark-ups on the end price of distilled spirits is extremely large. The industry estimates that over 80% of the retail price of spirits in provincial liquor board outlets is accounted for by mark-ups and taxes. By comparison, all taxes in the U.S. account for less than 50% of the retail price of distilled spirits, although retail mark-ups are subsequently added by private retailers.

4. EVOLVING ENVIRONMENT

The key to understanding the future outlook for the alcoholic beverages industries 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. The distilled beverages industry could experience some modest growth as older consumers switch to spirits and away from brewery products. In particular, rising affluence among "baby boomers" could trigger a resurgence in the dark spirits market, especially for upscale, premium-priced products.

There are strong indications that the next 5-10 years will also 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 and have caused tougher restrictions in Canada, including the recent