taxes, retail prices for Canadian w[illegible]key have risen 45% since April 1981, drastically reducing domestic demand and pricing many premium quality brands out of the market. The results include capacity utilization of less than 50% and a weakened contribution by the industry to the national economy.

2. STRENGTHS AND WEAKNESSES

a) Structural

- Canadian distillers have a solid world-wide reputation for quality and are very competitive in our major export market, the United States. Both Seagram and Hiram Walker have world scale distilling plants in both countries, with excellent economies of scale.

- Production facilities range in size from plants employing 4 people or fewer to plants employing up to 1,000. That there are substantial economies of scale in production is evidenced by the fact that the 8 plants employing more than 200 people account for 64% of industry shipments.

- Vertical and horizontal integration is not a significant factor in the industry. However, the large distilling companies have made an effort to diversify their holdings in recent years, and some of the smaller distillers are slowly following in the same footsteps. Some of this diversification has been into another segment of the alcoholic beverage area - wine.

- Many of the distilleries have diversified their interests to differing extents. For example, Seagram has a major investment in E.I. du Pont de Nemours & Co. of the United States in addition to wine interests; Hiram Walker has major investments in the oil and gas industry. Other smaller distilleries have followed a similar course; for example, Potter Distilleries Limited now has a wine subsidiary, Beaupré Wines (Canada) Ltd.

b) International Trade Related Factors

- Canadian tariff duties applied to distilled spirits range from 31.3¢/gallon proof for whiskey to $1.38/gallon proof for rum. Some distilled spirits not produced in Canada, such as tequila, may enter duty free. U.S. tariffs on distilled spirits range from 39¢/gallon proof for Scotch and Irish whiskeys to $3.40/gallon proof for some brandies. Appropriate excise duties are also applied in both countries. These tariffs do not appear to have hindered the trade of distilled products between the two countries.

- The distribution monopoly held by the provincial governments acts as a significant non-tariff barrier to trade by limiting the number of brand listings available to U.S. distillers, thereby restricting access to the Canadian market. The U.S. distilling industry is very vocal in its complaints about its limited opportunity to compete, although similar state-run monopolies exist in 18 states, called control market areas, which tend to discourage the sale of Canadian bottled whiskey in favour of U.S.-bottled Canadian whiskey. The elimination of these market barriers could improve the outlook for the Canadian industry somewhat, while it is unknown what effect increasing the number of U.S. brand listings in Canadian markets would have on domestic distillers.

- Conditions in the U.S. distilling market bear some resemblance to those in Canada. The industry is being faced with decreasing demand, while dark liquors lose market share to white goods (vodka, gin, white rum, etc.) and to specialty liquors such as brandy, cordials and sweet pre-mixed drinks.