

## COMPETITIVENESS PROFILE

Name of Sector: DISTILLERY SECTOR

### 1. STRUCTURE AND PERFORMANCE

#### Structure:

- The Canadian distilling industry (SIC 1121) produces most types of distilled spirits, in particular Canadian whiskey, rum, vodka, gin, liqueurs, brandy and raw ethyl alcohol. Like most consumer products, the individual consumer is the focus of the industry's marketing, although a great deal is also sold through the hospitality industry. Key backward linkages are to the packaging and grain milling industries.
- In 1983, there were 32 distilleries in the industry; the number of establishments has remained fairly constant at 29 to 34 over the past 10 years. The Canadian distilling industry is dominated by two Canadian-owned multinationals, Joseph E. Seagram and Sons Ltd., and Hiram Walker and Sons Ltd., which have world-wide holdings in the distillery and winery sectors.
- Concentration levels in the distilling industry are among the highest within the food and beverage sector. Statistics Canada reported that in 1974 the 4 largest corporations accounted for 82.6 percent of shipments and the 8 largest for 95.9 percent. These figures were 74.9 percent and 94.5 percent respectively in 1980. Some rationalization seems to be occurring, as demonstrated by the recent purchase of Melchers Canada Co. by Seagram.
- Foreign ownership in the distilling industry is less than in the total food and beverage sector. In 1976, Statistics Canada reported that 46.6% of plants and 30.6% of shipments were under foreign control. These statistics reflect the fact that the majority of the firms including the two largest, Seagram and Hiram Walker, are Canadian-owned.

#### Performance:

- The distilling industry in 1983 had total shipments of \$763 million, a 2.5% decline from 1981 levels. However, the industry is highly export oriented, with exports in 1983 of \$355 million, 97% of which went to the U.S. market. In terms of volume, Canadian producers shipped 16.9 million cases, or 1.5 million hectolitres, in 1983. Imports of distilled spirits were \$132 million (4.2 million cases) of which 9% came from the U.S., 69% from the EEC and 22% from other countries. In 1971, the distilling industry accounted for 1.5% of Canada's manufacturing exports, but by 1983 this had declined to only 0.6%. However, the industry still contributes approximately 9% of food and beverage exports, while accounting for only 2.2% of sector shipments.
- The major Canadian distillers are mature and financially strong, although recent acquisitions combined with high inventories due to declining demand have depleted some of these companies' financial resources. Profits and retained earnings declined substantially in the 1981-1983 period, while the industry's overall debt/equity ratio doubled from .59 in 1981 to 1.2 in 1983, peaking at almost 1.5 in 1982.
- The volume of distilled spirits consumed has been declining significantly in recent years, although population trends would indicate that it should be growing at a moderate pace. Consumer tastes have shifted away from "dark" spirits (whiskey, dark rum, etc.), but this alone cannot fully explain lower trends in consumption. Due mainly to federal excise federal and provincial