Business Page

"Heavy-handed" rescue of Canadian brewers has backfired

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Your Business
Thomson News Service

Forty-eight million cans of American beer on the shelves - and more on its way. Oh, the troubles that beset the Liquor Control Board of Ontario.

One of the silliest stories in recent memory has come full circle. On July 9, the LCBO raised the price of American beer. On Aug. 9, it lowered it again, though not quite to early 1989 levels. Earlier this year, you could by a six-pack of American beer for as little as $4.30; a six-pack of Canadian beer cost $6.60.

And price does make a difference. Let's go back a little.

By May, sales of Lone Star and Old Milwaukee and the like had risen sevenfold from a year earlier.

Things had gotten entirely out of hand, in the opinion of Canada's big beer companies. Something had to be done, they told the provincial government than. U.S. brewers had claimed a frightening seven per cent of the Ontario beer market, compared with one per cent a year ago.

People in Alberta and British Columbia will not find this surprising. U.S. beer has already swallowed up about 10 per cent of the market in these western provinces.

In Ontario though brewers were worried.

Jack Ackroyd, head of the LCBO, said the government should set a minimum price for beer in the province. Eventually, the government stepped in and raised the price of a six-pack of U.S. beer to $5.50 by imposing taxes and handling charges. Meanwhile, Canadian breweries cut their price to $6.25. Sales of American beer dried up.

Now, in August, the Ontario government's heavy-handed attempt to come to the rescue of the brewers has backfired. The government will end up losing millions of dollars in revenue from the sale of the American beer. And some people may still be laid off by the beer companies as sale-priced U.S. beer is now washing over the market.

That's because, with all that perishable American beer on its hands, the LCBO turned around Aug. 9 and slashed the price to $4.70. The sale will end in September.

SIGN OF TIMES

No one knows for sure when the trouble began, but it is a sign of the times in the beer business. Simply put, Canadian beer is too expensive.

In the battle between U.S. and Canadian brewers for a bigger share of the Canadian beer market, consumers were winning for a while.

When the beer companies saw consumers reaching for the U.S. brew, they ran to the government for help. They fumed that if things *continued the way they were going*, American beer sales would reach $200 million in a couple of years. (That's compared with last year's $3 million.)

One big brewer, Molson's warned that its profit would suffer so much that it would have to lay off a quarter of its Ontario workforce, or 200 people.

Then the government stepped in.

So consumers won and lost and won again, albeit temporarily. The whole ridiculous exercies has led to complaints by U.S. trade officials, who are accusing Canada of violating fair trading practices. Canadian brewers, for their part, are accusing the Americans of dumping beer in Canada.

Whether or not they are guilty of stifling competition, Canadian brewers are guilty of not being able to make beer as cheaply as the Americans. Saving $2.30 on a six-pack was nice while it lasted. Let's hope the breweries can streamline their operations and become competitive soon.

Smoking policy

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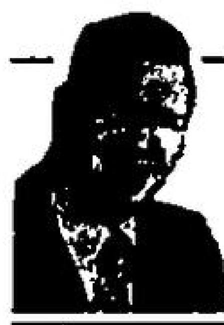
to the Ministry of Labour. Bill 194, to be implemented next year, will re-affirm the province's concern for health, the Ministry says.

But smoking policy making for businesses should be "in-house" Mr. Ustrzycki said.

"The better way to do it is individual policies for private corporations." This could become term of employment, he said.

Businesses working out of the home and public areas of businesses will not fall under the Smoking Act, a government paper says. But the law will apply to enclosed areas where there is at least one worker and one employee.

Invest $1,000 - make $1 million



IT'S YOUR MONEY
Paul J. Rockel

(NC) — Did you know that if you could double your money 10 times in a row, an initial investment of $1,000 would grow to over $1 million?

Do you know the rule of 72? It is infallible, and simply states: Divide the rate of return into 72, and it will tell you how long it takes for money to double in value, if you let it compound.

In other words, if you earn 9%, nine goes into 72 eight times, which means money earning 9% will double in eight years. Or, if you earn 12%, money will double in 6 years, or 6%, money will double in 12 years.

If you average 15% per year, money doubles in a little less than five years, because 72 divided by 15 = 4.8 years.

Simple, isn't it, and this rule is always right.

Let's play with it.

If you were 20 years old, and had $1,000, and it doubled every five years for the next 50 years, (15% return doubles every 5 years) until you were age 70, it would be worth over $1 million. If someone gave you $1,000 at birth, and it doubled every five years (at 15%) it would be worth over $8 million at age 65. Fantastic isn't it? (Where was my Guardian who didn't put $1,000 to work for me when I was born).

What if you only earned 9%. That $1,000 "at birth gift" would double every eight years, making it worth $2.7 million. You would have $5.3 million less than the 15% rate of return.

This fantastic growth of money is made possible by what we call compounding. Too many of us never want our earnings to grow, but rather we want to spend those dollars, or the earnings on those invested dollars, every year.

If the infant who received the $1000 had put the monies in a mutual fund and averaged 15% per year (most good equity mutual funds have done even better over the past 10 years) $150 would have been earned from that investment each year. If the parents had spent that $150 each year on something for the child, and as the child matured into an adult, he/she also spent the $150 per year, they would have spent $9,750 in total by age 65.

The person who allowed the $1,000 to compound until age 65, would actually have $8,817,787 (to be exact — if my calculator is working right — why don't you work it out?). That person could now go out and spend that $9,750 the "spend each year" person spent, and still have over $8,800,000 left.

If you had $8 million at age 65, and you converted that to a mutual fund withdrawal program of 1% per month (12% per year) you would be receiving $80,000 per month.

Could you live on $80,000 per month?

Mind you, if inflation averages just 5% per year over the next 65 years, that "baby" will need $71,000 per month to match what $2,500 per month will buy today.

They'd just squeak by with $80,000 per month.

Scary, isn't it?

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For free information on mutual funds, ask for "Why Doesn't Everyone" and contact Peter C. Masson, 10 Fagan Drive, Georgetown, Ont. or phone 877-7216.

Labor defensive on productivity

by Shirley Carr, President, Canadian Labour Congress

The prevailing wisdom in some quarters is that labour unions are inherently hostile to the concept of productivity.

For example, in a gallup poll carried out in Canada a few years ago, three-quarters of the respondents believed that Canada had a "productivity" problem. While management and labour unions were ranked about equal in their "ability to improve productivity", labour was ranked much lower than business for "willingness to improve productivity".

This perception is not difficult to understand, given that labour is often put on the defensive on the matter of productivity. Let me give you some examples.

Labour is put on the defensive in terms of the very way productivity is usually measured: for instance as a ratio between output and labour input. This approach can be very misleading, however, the measure is strictly a numerical one — it says nothing about cause and effect. The performance of this measure can be affected by many factors other than labour, including the quality of management. Unfortunately, much of the consciousness of people about a "national productivity problem" is created by the media — which usually does not have the space, time, or inclination to sort out all the factors at play.

A second issue that puts labour on the defensive on the productivity issue is the manner in which productivity improvement efforts are introduced. For the most part — whether the issue is, for example, the introduction of new technology at a particular plant, or the closing of a plant as part of a corporate rationalization to improve over-all operations — initial decisions are taken "behind closed doors" and "behind closed books". Worker and union involvement from step one is very much the exception.

Thirdly, labour is often on the defensive on the productivity issue when the view is advanced that labour unions are intrinsically the enemy of productivity. In this stereotype, unions seeking ever higher wages and even more rigid work rules prevent the kind of flexibility necessary to compete in this increasingly competitive world.

This view is just a bit galling to me as a labour leader in a country where workers have experienced a decade of real wage cuts. It also flies in the face of a great deal of hard evidence to the contrary.