

## NEWS STORY

## Labatt supplies not running dry yet, but heat, jazz fest turn on pressure

Strike puts pressure on distribution. Molson could gain ground if conflict persists, store clients could soon be crying the blues

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Ice-cold Labatt Blue was the escape of choice from the sticky, 33-degree weather yesterday afternoon at the Montreal International Jazz Festival.

Ubiquitous beer posters enticed sweating music fans, as did frigid brew tantalizingly stocked behind windows of refrigerators lining Ste. Catherine St. W.

Though the beer flowed freely at the Labatt Blue-sponsored event, the 950 striking workers who usually make and distribute the stuff in Montreal say supply is drying up at bars and restaurants, and the drought will soon empty store shelves.

The strike, coming during a crucial season marked by heat waves and festivals, is a golden opportunity for Labatt's chief rival, Montreal's Molson Inc.

Molson, still Quebec's top beer supplier, could grab market share back from Labatt, which had been nipping at its heels.

"You'd think Molson would be able to take advantage," said

Keith Howlett, a beer-industry analyst at Desjardins Securities.

"They are the natural beneficiary if there's some difficulty meeting demand because they're the other high-volume brand."

Officials at Labatt Breweries of Canada did not return calls yesterday, but have said that despite a three-month supply of beer and managers doing deliveries, the company can't keep all Montreal stores stocked. Other parts of Quebec are not affected.

On Wednesday, 97 per cent of the workers at Labatt's LaSalle plant rejected what Labatt called its final offer. Job security and contracting out are the big issues. The two sides are to meet with a conciliator today.

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"They have the beer in the warehouse but we have paralyzed them," said Labatt production-line worker Normand Faubert, a representative of the union, affiliated with the Confédération des syndicats nationaux.

"They say they're using managers to deliver to Montreal's 3,000 points of sale, but they are inexperienced and they don't have the right drivers' licences to drive the big trucks so they're doing it with smaller ones."

Though most beer in Quebec is sold in grocery stores, the province's many dépanneurs remain key beer vendors. Keeping them all supplied will be difficult, industry watchers say.

Across Canada, Labatt and Molson are in a dead heat, with each holding about 45 per cent of the market, analysts say. Provincial market-share figures are not available but Molson says it is tops in Quebec. In the combined Quebec-Atlantic Canada market, Molson says it has 42.8 per cent of beer sales.

Molson once had a big lead in Quebec. The province, with Canada's highest per capita beer consumption, is still Molson's strongest market, Howlett said.

"Quebec is Molson's best region both in terms of brand marketing and organization," he said. But Molson's Quebec advantage has dissipated recently and today it likely retains only a "modest lead," he added.

"Quebec has been one of the better markets" for Labatt, owned by Belgium's Interbrew SA, Howlett said. "First, Labatt Blue was hot, then in more recent years Budweiser has been quite strong, then Blue Dry."

Last week, Molson chief executive Daniel O'Neill said he does not intend to take advantage of his rival's labour trouble. Molson could find itself in the same situation and "we like to play on a higher level," O'Neill said.

But Howlett said Molson products will fill any breaches.

For retailers, beer is "a front-of-the-store, high-profile, traffic-drawer so they'll make sure they're offering something," he said.

"It's a big percentage of sales so they'll definitely make sure there will be stock there."

The workers walked out June 16. So far, competitors said, Labatt isn't running dry in stores.

"At this stage, we're not seeing anything major happening out there," said Peter McAuslan, president of McAuslan Brewing, the Montreal microbrewery behind St. Ambroise Pale Ale.

"My understanding is they loaded in a fair amount of stock into the stores before" the strike, he said.

If there is a lack of supply, Labatt drinkers might be more likely to move to Molson rather than microbrewery fare, he added.

Canada's microbreweries are much smaller than the country's two dominant players. Collectively, they sell about 3 per cent of the beer

consumed in Quebec.

Even if consumers start picking up six packs of St. Ambroise because there's no Labatt Blue, McAuslan, with 80 employees and about \$10 million in annual sales, would not have the capacity to pick up the slack.

"We're not in a position to take advantage. We've been producing pretty much everything we can since February."

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