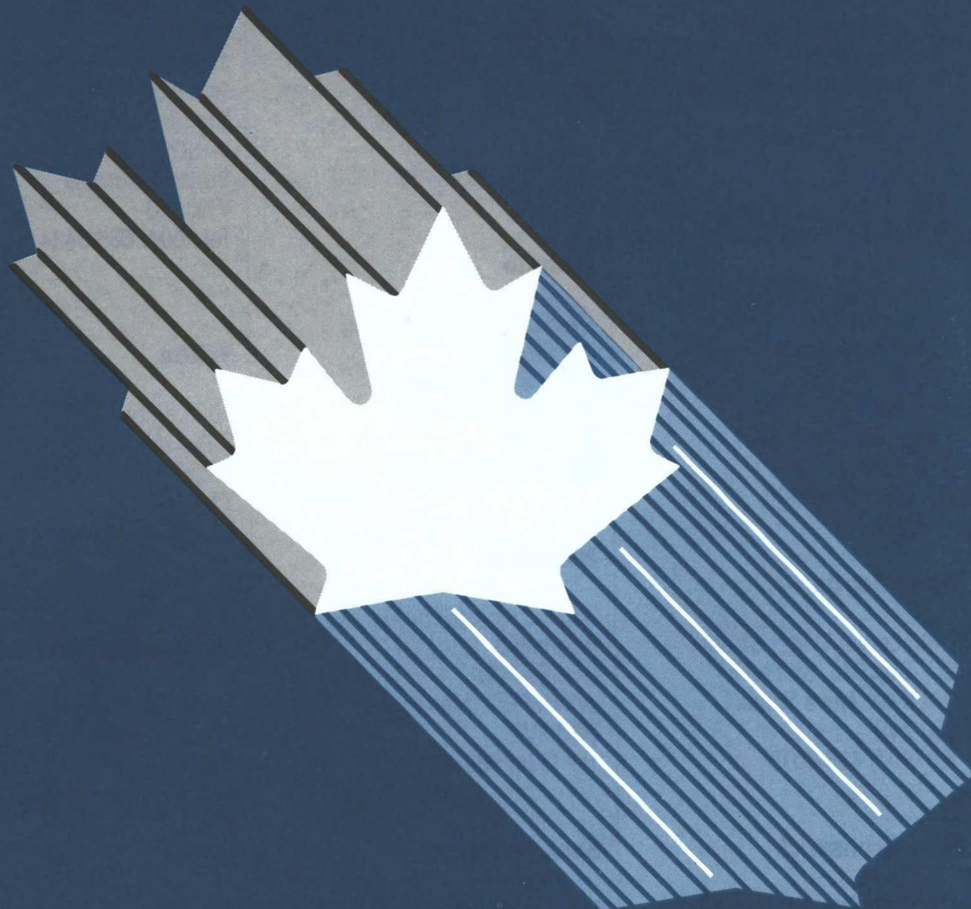
INDUSTRY PROFILE



Regional Industrial Expansion
Expansion industrielle régionale

Ministry of State Science and Technology Canada
Ministère d'État Sciences et Technologie Canada

Meat and Meat Products

Canada

INDUSTRY PROFILE

MEAT AND MEAT PRODUCTS

1988

FOREWORD

In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to survival and growth. This Industry Profile is one of a series of papers which assess, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological and other key factors, and changes anticipated under the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the papers.

The series is being published as steps are being taken to create the new Department of Industry, Science and Technology from the consolidation of the Department of Regional Industrial Expansion and the Ministry of State for Science and Technology. It is my intention that the series will be updated on a regular basis and continue to be a product of the new department. I sincerely hope that these profiles will be informative to those interested in Canadian industrial development and serve as a basis for discussion of industrial trends, prospects and strategic directions.

Minister

Canada

1. Structure and Performance

Structure

The meat and meat products industry sector (beef, veal, pork, lamb and horsemeat) acts as a direct link between farm livestock production and the wholesale/retail food distribution sector, by slaughtering and processing food animals. It produces a wide variety of meat products ranging from fresh and frozen to cured, smoked, canned or cooked products, sausages and delicatessen products of all kinds, as well as various by-products such as hides and tallow.

Marketing of meat is targeted to the retail level, though an increasing volume of sales are made to the hotel, restaurant and institutional (HRI) trade. By-products generally are sold to other industrial users or international trade brokers.

The meat industry in Canada had $8.76 billion total sales in 1986. An estimate of the breakdown of these sales amongst the major subsectors is: beef, $3.6 billion; pork, $2.5 billion; and processed meats, $2.5 billion. Meat industry shipments account for approximately 25 percent of total food industry shipments in Canada.

The industry also is the largest employer amongst the food industry complex. In 1986, there were an estimated 530 federally inspected establishments employing approximately 31 000 persons. The large number of both provincially inspected and non-inspected establishments, neither of which can deliver product outside the province of location, accounts for less than four percent of total meat production.

Production facilities in the sector range from those employing one or two persons to those in excess of one thousand. In 1985, 12 percent of the plants (i.e., those with 100 or more employees) accounted for 75 percent of the total sales volume. Corporate concentration levels in the industry are significant. In 1986, the four largest firms accounted for approximately 55 percent of shipments. The industry is dominated by Canada Packers Inc., which accounts for an estimated 29 percent of production. The next six, somewhat smaller, companies account for an additional 38 percent of the sector's output.

After years of steady decline, foreign ownership in this industry bottomed out at about five percent of production, but a recent investment by a major internationally oriented, vertically integrated U.S. firm in Alberta may signal a reversal of this trend. The entry into the Canadian industry of such firms is a powerful stimulus to structural change. Some Canadian firms recently have purchased plants in the United States to improve export distribution of their products by utilizing the existing distribution networks of these U.S. operations.

The meat industry in Canada originally developed as a series of full-line plants which usually slaughtered more than one species of livestock and further-processed at least some carcass portions. Such companies became wholesalers of fresh meats and all types of sausage and delicatessen products. The major companies generally have retained this structure in their marketing activities, but less than 20 percent of the industry now has full-line production facilities. Of these full-line plants, 70 percent are multi-species operations. During the past 20 years, specialization has developed and some plants only slaughter, some only cut, and some only produce processed products.

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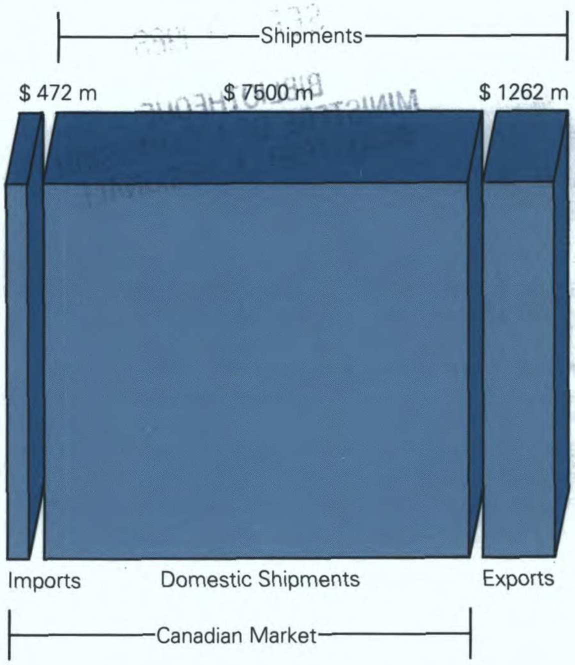


Imports, Exports and Domestic Shipments
1986

Because the industry operates in a North American market for both livestock and meat, supplies of basic product for processing are readily available at competitive price levels, a factor which encourages a growing separation between slaughtering and processing.

This nation-wide industry has a major presence in all regions, but is more heavily concentrated in Quebec, Ontario and Alberta. In general, slaughter plants are located near centres of livestock production, and processing plants are concentrated in, or close to, major population centres. Livestock production has developed in areas that have competitive advantages, primarily due to availability of low-cost land, feed and water. Provincial programs aimed at developing regional self-sufficiency have contributed to major shifts in the centres of livestock production and the location of slaughter and cutting operations. Notable examples are hog production in Manitoba and Quebec and beef slaughtering and cutting in Alberta.

The meat and meat products industry exported more than $1.26 billion worth of products in 1986, which represents 14 percent of the total Canadian shipments. The approximate breakdown of this total is as follows: red meats, $867 million; offals, $63 million; processed meats, $40 million; and by-products, $286 million. Of total exports, pork accounts for $627 million and beef for $198 million. The major export markets are the United States and Japan for beef and pork, France and Japan for horsemeat, and the United States and Europe for fancy meats (e.g., tripe and sweetbread). Exports of processed meats are relatively minor. Pork exports grew at about nine percent annually on a volume basis during the mid-1980s, while beef exports peaked in 1985 in response to cyclical factors.

Imports in most years average less than seven percent of total production and consist chiefly of the types of product that cannot be produced in sufficient volume to meet domestic needs. The major import is boneless "manufacturing beef" used in ground beef for the retail and fast food trade, and in the production of sausage and delicatessen products. These imports originate primarily from Australia and New Zealand. The bulk of meat imports from the United States consists of high-quality beef for the HRI trade. Levels of meat imports and exports between Canada and the United States have varied considerably over time due to cyclical fluctuations in livestock production in both countries.

The meat industry already operates in an almost tariff-free North American market, with prices in the United States and Canada closely following each other. Market prices are widely reported, and Canadian prices also react quickly to fluctuations in exchange rates. Changing market prices for finished products are rapidly passed back to the livestock producer by increases or reductions in livestock prices.

Performance

The major meat industry companies are mature and financially strong. In response to the relatively low rate of return on their investments, many companies are endeavouring to diversify, both within and outside the sector. Most of the firms are privately held and very little financial data is available. However, it appears that major meat-slaughtering and processing companies have had net profits around one percent of sales for the past few years, a performance which closely matches that of their U.S. competitors. Smaller companies engaged solely in processing appear to perform better.

Red meat consumption in Canada has declined from 74 kg in 1973 to 71.6 kg per capita in 1985 due to a combination of perceived health concerns, an aging population and a steady rise in poultry meat consumption. The latter rose from 12.3 kg to 20 kg per capita in the same period.

Employment in the industry rose from 31 000 in 1973 to almost 35 500 in 1981; since then it has been declining and stabilizing at about 31 000 since 1984.

All livestock slaughtering plants have operated at rates of capacity ranging from 55 percent to 90 percent over the past ten years, during which time numerous plant closures have occurred. These closures have greatly reduced the number of full-line, multi-species plants where capacity underutilization was a particular problem. Current capacity utilization rates range from 75 percent to 90 percent.

2. Strengths and Weaknesses

Structural Factors

The Canadian meat industry has strengths which have ensured its success to date. These include reliable supplies of high-quality livestock available at competitive prices, an internationally respected quality control and inspection system and enough firms to ensure regional and niche markets are adequately served.

The industry generally is well supplied with cattle and hogs on a national basis, although regional differences in livestock availabilities determine the nature of the industry in a given area. Livestock costs represent about 78 percent to 80 percent of the industry's cost of sales in both Canada and the United States.

All meat plants shipping products interprovincially must be federally inspected, a requirement which ensures that the highest standards of hygiene are maintained. High inspection standards have made Canadian meat acceptable in virtually every major commercial market.

The industry is well placed to serve the major urban markets in Canada and certain regional markets in the United States, the world's largest meat importer. Major plants are located close to the main rail and truck transportation routes. Transportation costs have little effect on the competitiveness of the industry, as they are usually absorbed by the producers in the market prices for livestock.

Recently, a number of companies specializing in ethnic types of sausage and delicatessen products have been formed. These "market niche" companies tend to be more profitable than those producing commodity-type products such as wieners, bologna and sliced bacon. While some processed products are exported into the nearby regions of the United States, total volume of processed meat exports is not large.

The Canadian meat industry also suffers from a number of weaknesses. When compared to the American industry, which is closest to it in structure and basic economics, all segments of Canada's industry are affected by a number of potentially negative factors. These factors include a degree of overcapacity, a lack of economies of scale, an underdeveloped international marketing network, a wage and productivity gap and, finally, a capital replenishment problem.

Overcapacity has plagued the industry mainly because of cyclical fluctuations and regional shifts in livestock supplies, and the continued operation of obsolete facilities including most multi-species plants. Planned new investment in western Canada and Ontario could accelerate the rationalization of the industry.

In spite of the trend towards specialization, Canadian plants are considerably smaller than the mainline U.S. plants, many of which have been built in the past decade. U.S. meat companies generally are more integrated due to major acquisitions by the top companies. In general, modern equipment and technology are in use throughout the industry, although the size of the Canadian market does not warrant the incorporation of the high-speed production lines typical of the large American or European Community (E.C.) plants. Because the Canadian industry operates on very low rates of return due to intense domestic market competition, it has difficulty in accumulating sufficient capital to carry out major modernization programs rapidly.

In addition, in order to ship interprovincially or internationally, plants must meet Canadian Federal Meat Hygiene and Inspection Regulations which have a major influence on plant layout, equipment and costs of construction.

While a number of the more progressive Canadian firms maintain sales and distribution networks outside of Canada, the high cost of such marketing operations has limited their use. Many Canadian firms rely on export brokers or trading houses to handle their limited export sales, which are usually secondary to their serving of the domestic market.

Labour costs account for about 10 percent of the cost of sales in both Canada and the United States. The wage and fringe-benefits levels of some Canadian plants are above those in the United States. In recent years, the U.S meat packing industry has challenged the traditional wage-setting mechanism. Consequently, wage rates have been reduced and the number of non-unionized plants is growing. In consequence, many U.S. plants, particularly those engaged in slaughtering, have a labour-cost advantage currently in the order of 10 percent.

Trade-related Factors

The world trade in meat is relatively limited and is essentially dominated by the United States, E.C., Australia, New Zealand, Argentina and Canada. Worldwide, the meat industry is essentially domestically oriented and very few producers export more than 10 to 15 percent of their production. Large domestic markets are essential for a strong slaughtering/processing industry capable of exporting on a competitive basis. Commercial trade has been increasingly influenced by surplus disposal programs in the E.C. and the United States as well as by restrictive import systems in developing markets such as Japan and Korea.

The Canadian meat industry remains domestically oriented, but trade flows are increasingly important in determining profits and the pattern of investment within the industry. Most two-way trade occurs with the United States, but beef imports from Australia and New Zealand and pork exports to Japan are important factors. World trade in meat is increasingly influenced by production and export subsidies undertaken by the E.C.

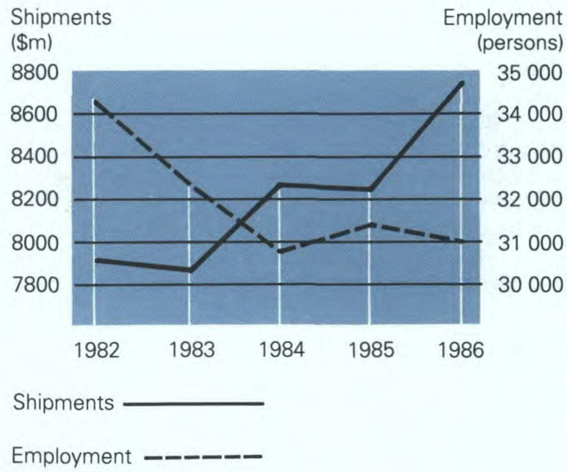
Canadian exporters face trade barriers, such as import quotas and health regulations, which severely limit exports to formerly important markets in the E.C. This results in greater dependence on the United States and Japan as export markets, where Canadian producers face intense competition and occasional trade disruptions.

U.S. tariffs on beef range from 2¢/lb. to four percent ad valorem and are, with the exception of consumer-ready beef products, low enough to permit major product flows.

Canadian tariffs on beef are also low at 2¢/lb. for fresh or frozen cuts. In contrast, the E.C. rates are 20 percent plus a variable levy while Japan's tariff is 25 percent.

Beef has been imported from the United States, Australia, New Zealand, Denmark, Ireland and Nicaragua. E.C. exports of subsidized beef to Canada were subjected to a countervailing duty in 1985. The E.C. has appealed this action to a GATT panel and this issue remains unresolved. Fresh and frozen pork can enter Canada duty-free, subject only to health regulations. In recent years pork has entered Canada only from the United States, Denmark and Ireland.

Both Canada and the United States have meat import legislation which, when invoked, can provide for quantitative restrictions on the imports of beef and veal. Imports of sheep and goat meat into the United States are also covered. Application of this legislation has caused periodic disruption of the North American beef trade. The application of restrictions by one country usually necessitates comparable action by the other to avoid trade diversion.



Total Shipments and Employment

Canada exports mainly cow beef to the United States, and, in return, buys more expensive cuts for the HRI trade. Differences in the Canadian and U.S. beef grading systems have a direct influence on two-way trade. The U.S. grading system provides a premium for the fatter grades of cattle, whereas the Canadian system does the reverse. Lean cattle are priced at a premium in Canada. In consequence, the leaner grades which Canadian companies have in greater abundance and wish to ship to U.S. markets, often cannot compete with comparable U.S. product.

Canadian processors generally have been unsuccessful in exporting beef to Japan. The Japanese have strict import limits on beef and the marbled beef cuts required by this market are more readily available from the United States.

Canada is one of the largest pork exporters in the world, the major competitors being Denmark and the United States, in that order. The United States is Canada's most important export market for pork (77 percent of export sales) followed by Japan (21 percent). This lack of diversity in our export markets exposes the pork industry to any declines in demand in these two markets. The E.C., a formerly important export market, has set extremely high tariffs (20 percent) as well as variable levies on pork, making access to that market extremely difficult.

In 1984, the U.S. National Pork Producers' Council complained that American hog producers were being injured by an influx of low-priced Canadian hogs and pork. As a result, a countervailing duty was applied to all imports of Canadian live hogs effective July 25, 1985, but not on dressed pork. This measure has reduced the movement of live hogs to the United States.

Several elements of the Canada-U.S. Free Trade Agreement will have direct implications for the meat and meat products sector. These include: mutual exemption from restrictions under the meat import laws, the elimination of tariffs, efforts to harmonize technical regulations, efforts to make meat inspection systems equivalent, prohibition of export subsidies on bilateral trade in agricultural products and the establishment of new arrangements for a trade-dispute settlement mechanism. Indirect effects may stem from the elimination of import licences for feed grains under the control of the Canadian Wheat Board once each country's grain support levels are equivalent, and from the removal of tariffs on equipment and packaging material used in the industry.

Technological Factors

The technology in use in the Canadian industry is generally at the same level as that in other developed countries. However, there are several plants in both the United States and the E.C. which have incorporated high-speed, high-volume technology. To date, this technology is not yet in use in Canada, due to the smaller size of Canadian markets and the uncertainty of export markets. However, a world-scale beef plant now being built in Alberta with export markets as a target will introduce high-volume technology and plant practise to Canada.

The major technological changes expected by the industry include increased plant automation, electronic grading and new packaging concepts which, by extending product shelf life, could have major implications on how meat is distributed.

Other Factors

While the government has a major involvement in one element of the animal protein industry through supply-management programs governing poultry production, this is not so in the case of the beef and pork sectors. There are, however, extensive federal health and inspection regulations. Changes have been made in beef cutting standards to make them more compatible with international practices.

Income stabilization programs at the producer level tend to smooth out production cycles. Many provinces have "top-loaded" the federal income stabilization programs with programs designed to encourage local self-sufficiency in livestock production. A tripartite (federal, provincial, producer) income stabilization program for cattle and hogs, providing for equal participation, became law in 1985.

The province of Alberta has a major program designed to lower the cost of feed grains (Crow Rate Offset). Now in its second year, this program is encouraging livestock feeding and is expected to increase livestock supplies to local beef and pork processors.

3. Evolving Environment

Domestic per capita demand for all red meats will probably continue to decline modestly in the future due to the aging of the population, changing lifestyles and real or perceived health-related factors. Substitution of white for red meats will continue to occur, limited to some extent by the poultry supply-management programs.

Development of new methods of product handling and distribution will continue as technological changes occur. As an example, increased boxing of block-ready or retail-ready beef-cuts in, or close to, the slaughter plant, and the consequent elimination of shipments of whole sides of beef to the major markets would increase efficiency, but would also require a restructuring of the distribution system (for example, the elimination of meat cutting at the retail level).

Boxing, particularly if used as part of a branded product marketing effort, is seen as the direction of future development within the beef industry. There also is potential to improve pork distribution and extend product shelf-life by introducing a similar system for pork. These developments already are well advanced in Europe and the United States and may eventually result in the elimination of cutting and packaging at the supermarket, and its replacement by central cutting and packing operations.

The meat industry, by its very nature, is a low-margin, high-throughput industry and intense competition for market share could lead to futher rationalization over the next decade. Replacement of obsolete facilities and new entries could restructure the industry in some regions. This will be particularly true in western Canada where several large firms, including a foreign multinational, are in the process of investing in the industry. This additional capacity will have a significant impact on the structure and profitability of the remaining firms in the industry and may shift slaughtering and processing closer to centres of livestock concentrations.

The Canada-U.S. Free Trade Agreement (FTA) is seen by the industry as a major improvement in the security of access to the increasingly important American market. The exemption from the Meat Import Law, in particular, will remove the recurring threat of total border closures to beef exports. In addition, the eventual elimination of tariffs, the gradual harmonization of technical standards and the prospect of better trade-dispute settlement mechanisms should encourage Canadian companies to invest in new larger-scale facilities capable of supplying regional markets on a continental rather than a national basis. U.S. companies also can be expected to increase their efforts to penetrate the Canadian market, particularly in Ontario and Quebec. In the long run, increased two-way trade is expected to result.

4. Competitiveness Assessment

The Canadian industry as a whole is capable of producing most meat products at prices sufficiently competitive to ensure a predominant role in supplying the domestic market as well as the ability to export, to a limited extent, to the United States and Japan on a commercial basis. While Canadian firms in general still remain well behind their American counterparts in their scale of export operations, their international marketing networks and the range of value-added product lines they can offer at internationally competitive prices, some firms, particularly in Alberta, are now committing increased resources to developing export sales. Companies which already have access to international distribution networks have a growing competitive advantage.

The slaughtering industry is competitive with the industries of other commercial exporting countries, and can remain so by continuously improving efficiency and lowering its cost of production. Plant upgrading, the implementation of some robotics and the maintenance of adequate capacity levels will be important factors in maintaining and improving competitiveness. The processed products component of the industry will continue to be capable of meeting brand-name competition which is intensifying.

Implementation of the Free Trade Agreement will have a positive effect by encouraging larger scale operations as companies respond to greater certainty of access to the world's largest market for meat. Improved access will encourage regional shifts in production to reflect continental, rather than national, marketing opportunities. In the long run, increased two-way trade is expected to result. The meat industry has a solid base upon which to build internationally oriented firms.

For further information concerning the subject matter contained in this profile, contact:

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PRINCIPAL STATISTICS

SIC(s) COVERED: 1011 (1980)

	1973	1982	1983	1984	1985	1986
Establishments	473	482	499	536	535	530
Employment	30 937	34 319	32 273	30 836	31 370	31 000
Shipments ($ millions)	3 288	7 920	7 854	8 277	8 248	8 762
Gross domestic product (constant 1981 $ millions)	854.6	1 067.5	939.1	956.4	1 069.1	1 063.1
Investment ($ millions)	119.0	153.3	167.8	179.8	190.0	N.A.
Profits after tax ($ millions)	N.A.	71.6	93.8	94.0	95.0	N.A.
(% of income)	N.A.	0.8	1.0	1.0	1.0	N.A.

TRADE STATISTICS

	1973	1982	1983	1984	1985	1986
Exports ($ millions)	294	1 022	1 079	1 118	1 048	1 262
Domestic shipments ($ millions)	2 994	6 898	6 775	7 159	7 200	7 500
Imports ($ millions)	264	426	480	521	574	472
Canadian market ($ millions)	3 258	7 324	7 255	7 680	7 774	7 972
Exports as % of shipments	9	13	14	14	14	14
Imports as % of domestic market	9	6	7	7	7	6
Canadian share of international market	1.78	3.23	3.04	3.30	3.27	3.10

Source of imports		U.S.	E.C.	AUSTRALIA & N.Z.	OTHERS
(% of total value)	1982	47	4	39	10
	1983	47	6	33	14
	1984	50	12	22	16
	1985	45	14	26	15
	1986	48	6	43	3

Destination of exports		U.S.	E.C.	ASIA	OTHERS
(% of total value)	1982	48	11	26	15
	1983	42	9	23	26
	1984	57	12	21	10
	1985	59	4	12	25
	1986	63	9	16	12

(continued)

REGIONAL DISTRIBUTION — Average over the last 3 years

	Atlantic	Quebec	Ontario	Prairies	B.C.
Establishments – % of total	4.3	24.9	35.9	27.1	7.8
Employment – % of total	1.0	24.2	39.0	27.7	8.1
Shipments – % of total	0.5	25.8	32.4	35.3	5.8

MAJOR FIRMS

Name	Ownership	Location of Major Plants
1. Canada Packers Inc.	Canadian	Ontario, Quebec, Alberta, Saskatchewan
2. Burns Meats Ltd.	Canadian	Alberta, Manitoba, Ontario
3. J. M. Schneider Ltd.	Canadian	Ontario, Manitoba, Alberta
4. Cooperative Fédérée	Canadian	Quebec
5. Gainers Inc.	Canadian	Alberta, Ontario

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