

QUEEN
HD
9505
.C3
I5
P11
1988
c.2

I N D U S T R Y P R O F I L E

IC

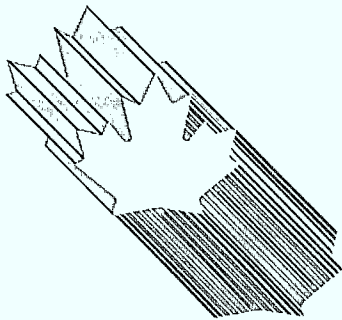


Industry, Science and
Technology Canada

Industrie, Sciences et
Technologie Canada

Poultry and Egg Processing

Canada



INDUSTRY DEPARTMENT OF REGIONAL PROFILE

POULTRY AND EGG PROCESSING

JAN 25 1989

1988

BIBLIOTHEQUE
MINISTERE DE L'EXPANSION
INDUSTRIELLE REGIONALE

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

1. Structure and Performance

Structure

The poultry processing industry consists of firms which produce whole or cut-up, ready-to-cook chickens and turkeys, as well as an increasingly broad range of formed products such as nuggets, fingers and patties. Egg processing involves the conversion of shell eggs into albumen, egg yolk, and frozen and liquid eggs. These two industries act as links between production at the farm level, and the wholesale and retail levels. Firms involved in the further processing of poultry into other high-value products, such as frozen TV dinners, are not part of this profile, though they represent a potentially important manufacturing activity.

The Canadian poultry and egg processing industries operate within the parameters imposed by the national poultry and egg supply-management structure. As a result, these industries have not been involved in international trade except for a small amount of U.S. imports allowed into Canada under licence. Additional imports are required from time to time under supplemental quotas to meet processor demand for specific products (e.g., size and cut).

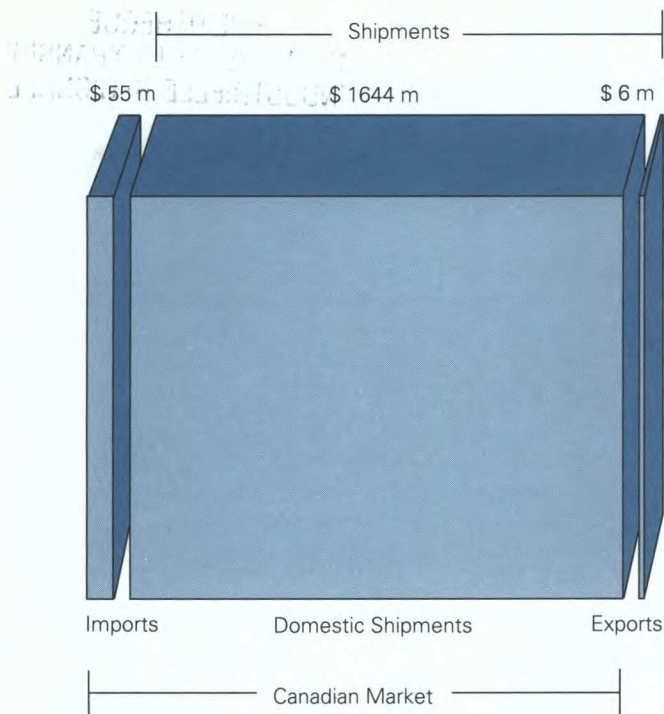
In 1986 there were 96 federally inspected establishments in the poultry processing industry, employing more than 10 000 persons, and 13 egg processing establishments, employing approximately 1300 persons. In the same year, domestic shipments for the poultry industry totalled \$1.6 billion. Separate statistics for the egg segment are not published. They are, therefore, not included in the fact sheet for plant number, employees and shipments. However, all other statistics, including imports and exports, do include the egg sub-sector.

The degree of foreign ownership in the poultry and egg processing industries is estimated to be less than five percent. Concentration ratios for these industries are such that the four largest poultry processing companies account for more than 36 percent of domestic shipments, while four egg processing firms account for more than 40 percent of domestic requirements.

While the number of establishments has remained fairly constant over the past five years, there has been a constant increase in processing capacity as a result of plant expansions and modernization to meet the growing demand, chiefly from the food service industry, for value-added products such as nuggets, chicken kiev, chicken fingers and other similar items.

The poultry and egg processing industries are influenced to a great extent by the supply-management regimes which were introduced in the 1970s. Under this structure, marketing agencies were established and authorized to regulate the price, quantity and any interprovincial movement of products.

National marketing agencies set national, provincial and individual quotas to provide the quantities of eggs, chicken and turkey demanded at administered prices. Each month, prices for the three commodities are revised under a cost-of-production formula which takes into account, among other things, the chick or pullet cost, the feed, labour, overhead and marketing costs, depreciation and a fixed producer return. Feed and chick or pullet expenses, represent by far the largest input costs, accounting for approximately 58 to 72 percent of total production costs.



*Imports, Exports and Domestic Shipments
1986*

Note: Data are for poultry processing industry only.

The provincial marketing boards have control over who may participate in the industries by establishing the maximum size of production units that any one producer may operate, and by setting the rules governing the allocation, retention and transfer of quotas. The system has ensured that each province maintains a portion of the Canadian poultry and egg production industry and that concentration of ownership is limited. However, provincial market shares no longer reflect an exact balance between production allocations and provincial demand because of the shifts in population since national market sharing was established.

Performance

The poultry and egg processing industries have performed well in recent years, owing to a growth in demand, guaranteed shares of the domestic market, efficient processing equipment, a reliable labour force and solid management.

In the poultry processing industry, while employment has increased 19 percent, the number of establishments has remained fairly constant throughout the 1980s. Between 1982 and 1986, shipments increased 37.5 percent, while gross domestic product (in constant 1981 dollars) steadily increased as well by 10 percent over the same period. Export and import volumes are relatively insignificant when compared to total domestic production.

The poultry processing industry competes with beef, pork and fish for the consumer food dollar. Strong consumer demand for poultry — resulting from perceived health concerns (such as cholesterol levels), demographics, greater disposable income, changing lifestyles favouring products with more convenience, and competitive pricing against red meats — has resulted in an increase in annual Canadian per capita consumption of chicken from 12.31 kg to 26 kg between 1960 and 1986. This trend is expected to continue; indeed, chicken is soon expected to displace pork as the second most popular meat consumed in Canada.

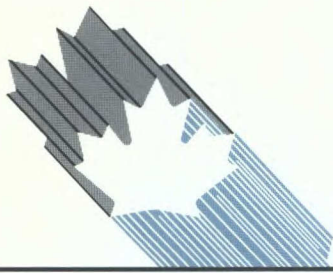
The rapid growth in demand for the higher value-added chicken products, primarily sold through food service companies, has resulted in new investment to service this market, which now accounts for 40 percent of the chicken consumed in Canada. While profitability data on the industry are not publicly available, this shift parallels developments in the United States, where companies are placing greater emphasis on value-added products which offer more stable and profitable returns.

2. Strengths and Weaknesses

Structural Factors

Within the context of a closed domestic market, the industry enjoys certain strengths. The number of processing plants has remained stable, while consumer demand has been steadily growing. This situation has resulted in higher capacity-utilization rates and new investment in state-of-the-art technology and processing equipment. Import restrictions affecting a variety of processed poultry products such as whole and cut-up birds, chicken nuggets, processed eggs and others, have limited the degree of competition from foreign products. (Imports of products partially containing poultry and eggs are not subject to import control.)

Regulation of the Canadian poultry industry has resulted in most companies being of a size appropriate to serving regional markets rather than a national market. These firms generally operate facilities which cannot achieve the economies of scale available to the larger U.S. operators who service large national markets.



Trade-related Factors

Under GATT, Canada has authority for supply-management of certain agricultural products, provided that traditional import levels are maintained for importers of record. For chicken, Canada maintains a global import restriction, or quota, equal to 6.3 percent of the previous year's domestic production. For turkey, the quota is two percent of the current year's domestic production. Shell egg imports are limited to 0.675 percent of the previous year's domestic production. The import limit for egg products, based on the previous year's domestic production of shell eggs, is 0.415 percent for liquid and frozen products combined, and 0.615 percent for egg powder.

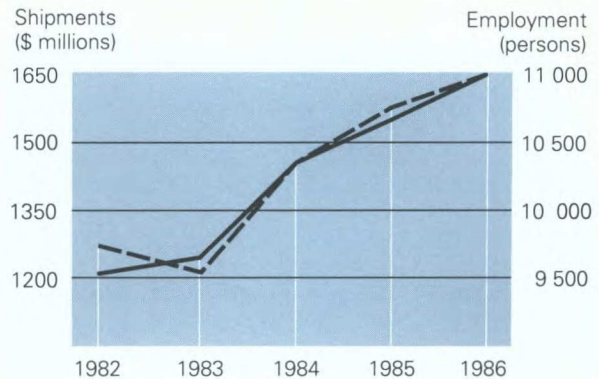
When global imports are not sufficient for the processing sector's needs (for example, when new products such as chicken nuggets suddenly became popular and therefore certain cuts of chicken were in short supply) applications can be made by processors for supplemental import permits.

Existing Canadian tariffs on processed poultry and eggs vary for each product from nil to 20 percent. For whole or cut-up chicken and turkey the rate is 12.5 percent, but not less than 11.2¢/kg and not greater than 22.05¢/kg. The rate for egg yolks, for example, is 20 percent, while the rate for prepared poultry meals is 17.5 percent.

U.S. tariffs range from 11¢/kg on whole and cut-up chicken to 10 percent on prepared poultry meals. The European Community (E.C.) restricts imports through its Common Agricultural Policy (CAP), which allows subsidies for domestic production. Furthermore, E.C. tariffs are high, ranging from 17 percent to 22 percent, plus a variable levy which compensates for cheaper feed costs of foreign competitors and other incentives or subsidies. Japan's tariffs range from nil to 20 percent.

Trade in poultry and egg products is also strongly influenced by non-tariff measures. These include the inspection and certification of plants engaged in the export trade to ensure that they meet foreign import requirements, especially stringent in the case of Japan, as well as labelling requirements.

Growing export markets for poultry products exist in the Middle East and Japan. Canadian products, however, are not cost competitive when compared with those of U.S., E.C. or Brazilian suppliers. This cost disadvantage is further compounded by the export subsidy programs used by these countries.



Shipments —————
Employment - - - - -

Total Shipments and Employment

Note: Data are for poultry processing industry only.

Technological Factors

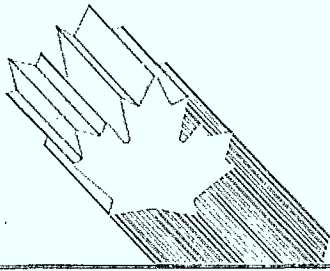
The Canadian processing industry compares favourably with its international counterparts in the use of state-of-the-art technology. However, because of the smaller and fragmented Canadian market, processing plants do not enjoy the same economies of scale found in larger American and European plants. The industry's smaller size also affects spending on research and development, which is relatively much less than amounts spent in the United States, the European Community and Japan.

International research developments are progressing in waste-water treatment, automatic or computerized inspection of birds during slaughter and computerized environmental systems. As these international advances are developed, they quickly become commercially available to the Canadian poultry processing industry.

Productivity within the poultry industry has been increased considerably by the use of technology at all levels of production. Genetic engineering has resulted in improved strains of birds with better feed conversion, viability and disease resistance. Growing units are highly automated and, wherever possible, use labour-saving devices such as self feeding and watering, waste disposal and product harvesting, as well as energy conservation technologies. Processing plants are becoming increasingly automated to permit very high line speeds. Vertically integrated operations, which account for approximately 25 percent of the sector in Canada, derive the greatest benefit from these combined productivity gains.

Other Factors

The poultry processing industry is highly regulated. Inspection is carried out by provincial or federal officials, depending on the jurisdiction in which the processing plant is registered.



Agriculture Canada administers the *Humane Slaughter of Food Animals Act*, the *Meat Inspection Act*, and the *Canada Agricultural Products Standards Act* to ensure that slaughter, inspection, grading and product standards are maintained.

Consumer and Corporate Affairs administers the *Food and Drugs Act* and the *Consumer Packaging and Labelling Act* to ensure proper labelling of food ingredients. Health and Welfare Canada administers sections of the *Food and Drugs Act* dealing with product safety, consumer health and freedom from adulteration. External Affairs enforces the *Export and Import Permits Act* by ensuring that processed products on the Import Control List come into Canada within specified quotas.

3. Evolving Environment

The Canada-U.S. Free Trade Agreement (FTA) allows global quotas to be increased for U.S. exports to Canada. For chicken, this represents an increase from 6.3 percent to 7.5 percent of domestic production, or approximately six million kilograms. The turkey import quota is to increase from two percent to 3.5 percent. The shell egg import quota is to rise from 0.675 to 1.647 percent of domestic shell egg production. The powdered egg import quota is to increase from 0.615 to 0.627 percent of domestic egg production. However, the liquid, frozen and further processed egg import quota is to decrease from 0.415 percent to 0.174 percent of domestic shell egg production.

The elimination of tariffs under the FTA will have some impact on the processing industry in terms of foreign imports of further-processed products. Further-processed poultry and egg products, which are now protected by relatively high tariffs, are expected to become more popular in the future, particularly because of their convenience. Such items are not on the Import Control List and the reduction in tariffs may encourage greater imports. New product development is being encouraged by the trend toward further-processed products and may well result in new marketing opportunities.

The FTA, on the other hand, will provide duty-free access to the U.S. market. It is expected that some Canadian processors will target some of their production to market niches in the United States.

4. Competitiveness Assessment

The competitiveness of the poultry and egg processing industries will continue to be largely determined by the structure of the supply-management regimes.

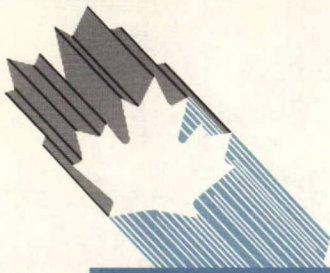
In the past, trade-induced rationalization and modernization have not occurred, given the closed nature of the Canadian poultry market. However, with the changes in tariffs anticipated under the FTA, some form of accommodation may be required within the Canadian poultry industry as between the primary and further processors, if the latter are to hold their share of the domestic market against future imports of further-processed poultry products and be able to compete more effectively in foreign markets, particularly in the United States.

The ongoing GATT Multilateral Trade Negotiations (MTN) may also have an impact on the future competitiveness of the industry. Issues being examined during the current MTN include the operation of import restrictions (supply-management provisions) as defined by Article XI of the GATT, as well as production and export subsidies for agricultural products.

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

Service Industries and Consumer Goods Branch
Industry, Science and Technology Canada
Attention: Poultry and Egg Processing
235 Queen Street
Ottawa, Ontario
K1A 0H5

(613) 954-2941



PRINCIPAL STATISTICS*

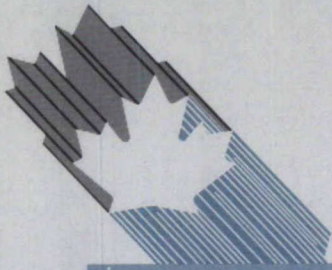
SIC(s) COVERED: 1012 and 1099 (1980 basis)

	1973	1982	1983	1984	1985	1986
Establishments*	100	96	93	95	96	96 ^e
Employment*	9 281	9 781	9 530	10 349	10 771	11 000 ^e
Shipments (\$ millions)*	488	1 204	1 256	1 454	1 552	1 650 ^e
Gross domestic product* (constant 1981 \$ millions)	161.7	240.1	214.6	234.9	254.6	263.3
Investment (\$ millions)*	N/A	7.3	3.2	5.6	9.5	13.5

TRADE STATISTICS

	1973	1982	1983	1984	1985	1986
Exports (\$ millions)						
SIC 1012*	2.5	3.0	3.8	4.1	5.0	6.0
SIC 1099**	7.5	21.0	20.2	24.9	23.0	20.0
Domestic shipments (\$ millions)						
SIC 1012	485.5	1 201.0	1 252.2	1 449.9	1 547.0	1 644.0
Imports (\$ millions)						
SIC 1012*	5.4	29.0	35.0	59.0	50.0	55.0
SIC 1099**	8.6	21.0	18.0	27.0	30.0	35.0
Canadian market (\$ millions)						
SIC 1012*	490.9	1 230.0	1 287.0	1 508.0	1 597.0	1 699.0
Exports as % of shipments (SIC 1012)	0.51	0.25	0.3	0.28	0.32	0.36
Imports as % of domestic market (SIC 1012)*	1.1	2.4	2.7	3.9	3.1	3.2
Canadian share of international market*	1.3	1.5	1.9	3.3	2.8	3.0 ^e
Source of imports (% of total value)			U.S.	E.C.	Asia	Others
		1982	97.4	0.8	1.8	—
		1983	97.8	0.9	1.3	—
		1984	98.0	1.2	0.8	—
		1985	98.5	0.5	1.0	—
		1986	98.4	0.5	1.0	0.1
Destination of exports (% of total value)			U.S.	E.C.	Asia	Others
		1982	29.2	58.3	3.8	8.7
		1983	50.0	33.3	8.3	8.4
		1984	58.6	17.2	17.2	7.0
		1985	67.9	10.7	17.9	3.5
		1986	60.8	7.7	23.0	8.5

(continued)



REGIONAL DISTRIBUTION* — Average over the last 3 years

	Atlantic	Quebec	Ontario	Prairies	B.C.
Establishments — % of total	9.4	30.2	31.3	18.7	10.4
Employment — % of total	3.9	28.7	38.4	20.2	8.8
Shipments — % of total	8.7	27.0	41.7	13.3	9.3

MAJOR FIRMS

Name	Ownership	Location of Major Plants
Canada Packers Inc.	Canadian	Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, Saskatchewan
Bexel 1979 Inc. Div. of Co-op Fédérée	Canadian	Quebec
Agrimont	Canadian	Quebec
Cuddy Food Products Ltd.	Canadian	Ontario
Plains Poultry Ltd.	Canadian	Saskatchewan
Maple Leaf Mills Limited	British	Ontario
Maple Lodge Farms Limited	Canadian	Ontario
Lilydale Co-operative Ltd.	Canadian	Alberta
Export Packers Company Limited	Canadian	Manitoba, Ontario

^e ISTC estimate

* SIC 1012 — Chicken and turkey products.

** SIC 1099 — Eggs and egg products.

Note: Statistics Canada data have been used in preparing this profile.

Regional Offices

Newfoundland

Parsons Building
90 O'Leary Avenue
P.O. Box 8950
ST. JOHN'S, Newfoundland
A1B 3R9
Tel: (709) 772-4053

Prince Edward Island

Confederation Court Mall
Suite 400
134 Kent Street
P.O. Box 1115
CHARLOTTETOWN
Prince Edward Island
C1A 7M8
Tel: (902) 566-7400

Nova Scotia

1496 Lower Water Street
P.O. Box 940, Station M
HALIFAX, Nova Scotia
B3J 2V9
Tel: (902) 426-2018

New Brunswick

770 Main Street
P.O. Box 1210
MONCTON
New Brunswick
E1C 8P9
Tel: (506) 857-6400

Quebec

Tour de la Bourse
P.O. Box 247
800, place Victoria
Suite 3800
MONTRÉAL, Quebec
H4Z 1E8
Tel: (514) 283-8185

Ontario

Dominion Public Building
4th Floor
1 Front Street West
TORONTO, Ontario
M5J 1A4
Tel: (416) 973-5000

Manitoba

330 Portage Avenue
Room 608
P.O. Box 981
WINNIPEG, Manitoba
R3C 2V2
Tel: (204) 983-4090

Saskatchewan

105 - 21st Street East
6th Floor
SASKATOON, Saskatchewan
S7K 0B3
Tel: (306) 975-4400

Alberta

Cornerpoint Building
Suite 505
10179 - 105th Street
EDMONTON, Alberta
T5J 3S3
Tel: (403) 420-2944

British Columbia

Scotia Tower
9th Floor, Suite 900
P.O. Box 11610
650 West Georgia St.
VANCOUVER, British Columbia
V6B 5H8
Tel: (604) 666-0434

Yukon

108 Lambert Street
Suite 301
WHITEHORSE, Yukon
Y1A 1Z2
Tel: (403) 668-4655

Northwest Territories

Precambrian Building
P.O. Bag 6100
YELLOWKNIFE
Northwest Territories
X1A 1C0
Tel: (403) 920-8568

*For additional copies of this
profile contact:*

*Business Centre
Communications Branch
Industry, Science and
Technology Canada
235 Queen Street
Ottawa, Ontario
K1A 0H5*

Tel: (613) 995-5771