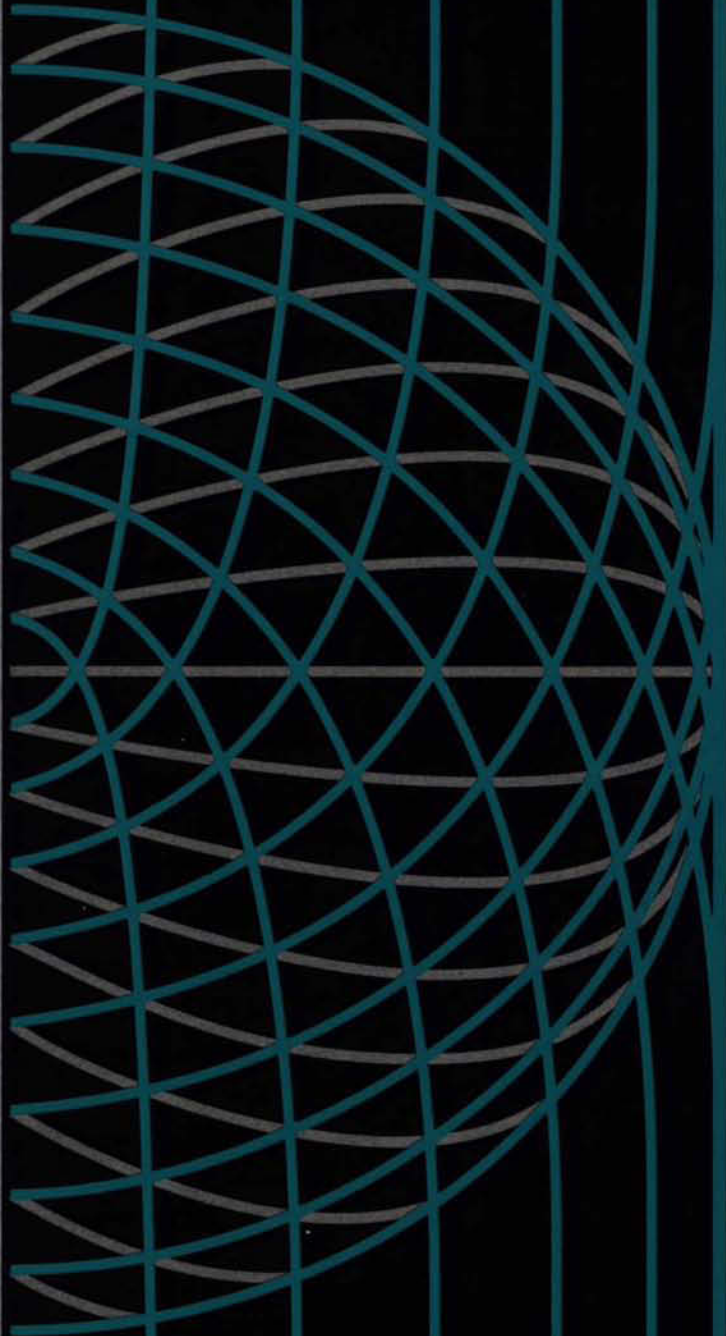


# Cattle Processing

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Canada



1990-1991

**CATTLE PROCESSING**INDUSTRY, SCIENCE AND  
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TECHNOLOGIE CANADA**FOREWORD**

*In a rapidly changing global trade environment, the international competitiveness of Canadian industry is the key to growth and prosperity. Promoting improved performance by Canadian firms in the global marketplace is a central element of the mandates of Industry, Science and Technology Canada and International Trade Canada. This Industry Profile is one of a series of papers in which Industry, Science and Technology Canada assesses, in a summary form, the current competitiveness of Canada's industrial sectors, taking into account technological, human resource and other critical factors. Industry, Science and Technology Canada and International Trade Canada assess the most recent changes in access to markets, including the implications of the Canada-U.S. Free Trade Agreement. Industry participants were consulted in the preparation of the profiles.*

*Ensuring that Canada remains prosperous over the next decade and into the next century is a challenge that affects us all. These profiles are intended to be informative and to serve as a basis for discussion of industrial prospects, strategic directions and the need for new approaches. This 1990-1991 series represents an updating and revision of the series published in 1988-1989. The Government will continue to update the series on a regular basis.*

Michael H. Wilson  
Minister of Industry, Science and Technology  
and Minister for International Trade

**Introduction**

The meat processing sector in Canada consists of red meat products, including beef, veal, pork, lamb and horse-meat. Meat processors produce a wide variety of meat products ranging from fresh and frozen cuts to cured, smoked, canned or cooked products, sausages and delicatessen products of all kinds.

There are three major industries in the meat processing sector — cattle processing, hog processing and further-processing of meats. These industries stand between the farm livestock producers and the wholesale and retail food distributors. Their meat products are sold to distributors such as brokers, other wholesalers, food retailers, and the hotel, restaurant and institutional (HRI) trade.

Meat processing sector shipments account for approximately 25 percent of the total food industry shipments in

Canada; they totalled \$8.72 billion in 1989. Cattle processing is the largest component within the overall red meat industry in Canada, representing about 40 percent of shipments and worth approximately \$3.5 billion in 1989. The remaining shipments are divided almost evenly between the hog processing industry and the further-processed meats industry (Figure 1).

The meat processing sector is also important as the largest employer within the food industry complex. In 1989, there were 524 establishments in Canada employing 33 057 people.

Appended to this profile is a section describing the further-processed meats industry. The companion to this profile is *Hog Processing*. Related industries are discussed in the profiles *Poultry and Egg Processing* and *Livestock and Poultry Feeds*.



## Structure and Performance

### Structure

Canada's beef processing industry consists of cattle slaughtering as well as the conversion of beef carcasses into a wide variety of fresh or frozen beef products, including veal.

Beef products are marketed in both the domestic and international markets in the form of carcasses; primal cuts such as hips, loins or ribs; boxed beef, usually in the form of subprimal cuts such as roasts and steaks; boneless beef; manufacturing beef, primarily used for hamburger products; and edible offals.

An increasing volume of beef sales were made to the HRI trade in the 1980s, particularly for fast-food products such as hamburgers. Beef by-products such as hides, tallow and other rendered products are generally sold to industrial users or to international trade brokers.

Substantial quantities are also sold to further-processors who convert simply processed, commodity-grade beef into value-added cured or cooked products, primarily smoked meats, salami and other delicatessen meats. Industry estimates indicate that about 25 percent of beef produced in Canada ultimately reaches the consumer in a processed form. For information about processed meats, see the Appendix to this profile titled "Further-Processed Meats" on pages 12-17.

In 1989, the last year for which complete industry statistics are available, Canadian beef processors shipped an estimated 1.035 million tonnes of beef and 50 000 tonnes of veal with an estimated value of \$3 500 million (Figure 2). In the same year, imports totalled \$458 million and exports were \$252 million (Figure 3). By volume, approximately 10 percent of the total beef shipments between 1984 and 1989 were exported. In 1990, about 90 000 tonnes of fresh and frozen beef, valued at \$254 million were exported, but by 1991, exports had fallen to \$248 million. Over 90 percent of these exports (measured by volume) went to the United States. Japan remained Canada's second most important export market, receiving approximately 5 percent (measured by volume) of Canadian beef exports. Several other countries imported small quantities of Canadian beef, almost exclusively for the HRI trade.

The Canadian beef market is supplied by both domestic and imported products. By volume, beef imports accounted for about 15 percent, on average, of the total Canadian market in the period between 1984 and 1989. In 1990, beef imports were almost 150 000 tonnes valued at \$554 million. By 1991, these imports rose to \$626 million. The United States supplied 50 percent of total imports (measured by volume), primarily in the form of high-quality, fresh beef, while Australia (22 percent), New Zealand (16 percent) and Nicaragua (11 percent) supplied largely boneless, manufacturing beef in frozen form.

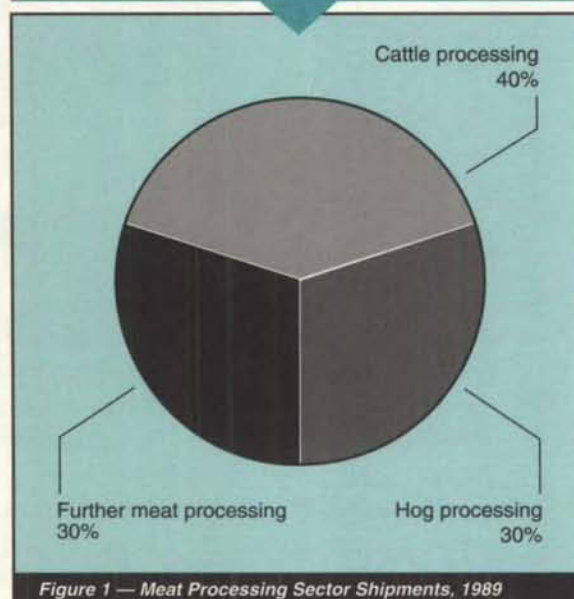


Figure 1 — Meat Processing Sector Shipments, 1989

Canadian cattle processors purchase the majority of their cattle requirements directly from Canadian farmers, ranchers and feedlot operators. Imports of live cattle are insignificant, usually less than 1 percent of the annual Canadian cattle slaughter. Live cattle exports, on the other hand, have sharply increased in recent years due to the differing phases of Canadian and U.S. beef cycles. In 1990, the export of cattle (both feeders and slaughter cattle) to the United States, was equivalent to almost 25 percent of the total cattle slaughter in Canada. The trade deficit in fresh and frozen beef is offset by the export of live cattle. In 1990 and 1991, Canada's trade deficits in simply processed beef of \$300 million and \$378 million were more than offset by trade surpluses in live cattle of \$643 million and \$646 million.

Most of Canada's high-quality beef is produced from steers and heifers that are less than two years of age and finished on high-barley rations in Western Canada or grain corn in Ontario. Cows and bulls, which are generally culled from dairy and beef breeding herds, are the major source of domestically produced manufacturing beef. A large share of manufacturing beef is marketed as hamburger, the remainder being used in further-processed cooked beef products such as wieners, sausages and delicatessen meats.

Many of the major meat industry companies are privately held. Consequently, separate data on gross domestic product, investment, profits after taxes and employment are not available for this industry. Trends regarding employment, size and ownership concentration may be determined from the overall meat processing sector.

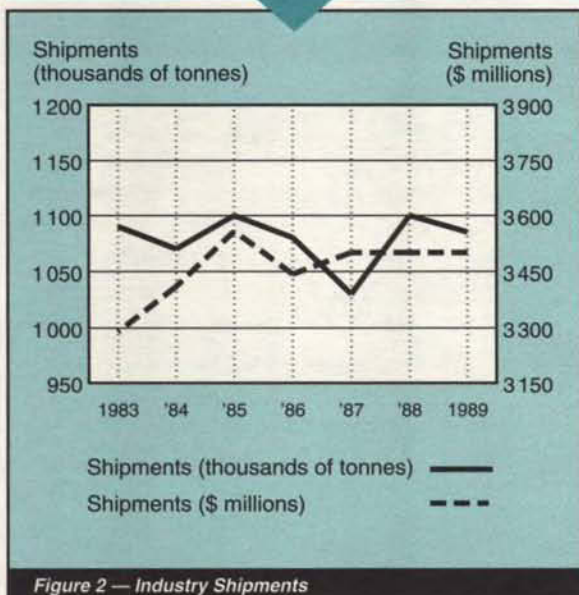


Figure 2 — Industry Shipments

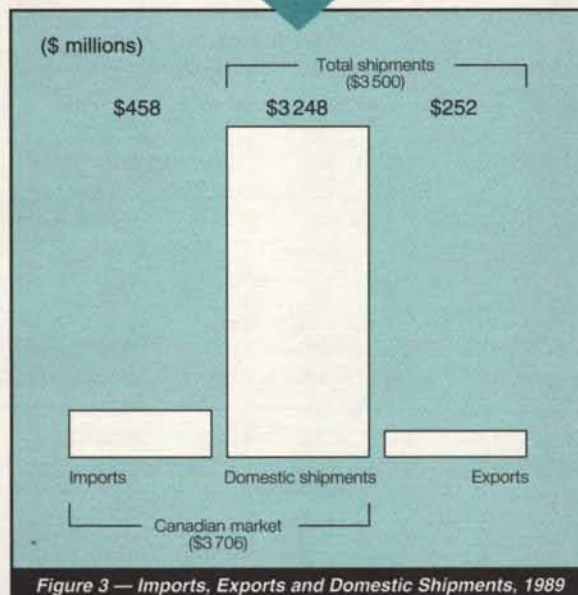


Figure 3 — Imports, Exports and Domestic Shipments, 1989

According to Statistics Canada data, 33 057 people were employed in the meat processing sector in 1989. About 80 percent of Canadian meat plants employ fewer than 50 workers. These small, provincially inspected establishments, which are not permitted to ship product outside their home province, accounted for less than 4 percent of total red meat sales in 1988. The major meat plants, however, may employ up to 1 000 workers. Of 524 establishments in 1989, the six largest accounted for approximately 55 percent of total meat sales. Canadian-owned establishments accounted for 95 percent of the country's production in 1988. The sale in 1990 of Canada Packers, Canada's largest meat processing company, to Hillside Holdings PLC of the United Kingdom and the opening in 1989 of the U.S.-owned Cargill beef plant in High River, Alberta, signalled a significant change in the ownership pattern that had characterized this industry.

In 1989, there were about 70 federally inspected cattle processing and boning plants registered under Canada's *Meat Inspection Act*. The Act and the associated regulations authorize these plants to ship their meat products interprovincially or to foreign markets. Fewer than 10 of these are major cattle processing plants, most of which also perform additional value-added activities such as boning, cutting and trimming. Some integrated plants also convert fresh beef into processed meat products and/or process by-products. A few plants also engage in hog processing operations as well as cattle processing but, in the last few decades, the trend has been toward specialized plants handling a single species.

Although the industry is national in scope, cattle processing has become heavily concentrated regionally. By 1990,

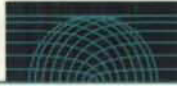
64 percent of cattle were processed in Western Canada, compared with 57 percent in 1980. Five firms now account for about 65 percent of the total cattle processed and only one of these firms is located in Eastern Canada. This shift in the focus of activity reflects in part the effect of transportation factors, which no longer favour the movement of live cattle, particularly feeder cattle, to Ontario.

### Performance

In general, cattle processing plants are located near centres of livestock production, which in turn have developed in areas that have competitive advantages, including low-cost land, ample supplies of forage, feed grains, water and reliable supplies of calves. Over 82 percent of the Canadian beef herd is located in the western provinces, with Alberta alone accounting for 40 percent.

Alberta dominates both the Canadian cattle and beef industries. In 1990, Alberta meat plants accounted for about 50 percent of Canada's total beef production, sourcing cattle from as far as Manitoba. As new plants have been constructed or older ones modernized to take advantage of the latest technologies, the remaining plants, now outdated, find it increasingly more difficult to be competitive. Established companies have viewed new investment as a contributor to the chronic overcapacity problem that has troubled the Canadian meat industry throughout the 1980s as markets flattened out.

Since 1985, due in part to differing cattle cycles in Canada and the United States and changes in demand for various beef products, Canada has gradually shifted from being a net exporter of beef to a net importer. Imports now



consist chiefly of products that cannot be produced in sufficient volume to meet domestic needs or as cheaply as from some major exporting countries. Since the late 1980s, there has been a sharp increase in imports of very competitively priced U.S. fresh, boneless beef cuts. In 1990, Canada imported 40 000 tonnes of such beef cuts, compared with 4 700 tonnes imported in 1980. Most U.S. beef imports are shipped to Ontario, Quebec and British Columbia for sale to the price-sensitive HRI trade as well as to food retailers at prices often significantly lower than are available from suppliers offering Canadian beef.

The major beef companies are mature and are capable of supplying the domestic market. Net profits are usually around 1 percent of sales, with the net return on investment usually between 2 and 3 percent. In recent years, the most modern plants in Canada and the United States have caused some industry overcapacity and financial losses for many firms. The cattle processing industry was estimated to be operating between 75 and 90 percent of full production capacity during the 1980s. Closures and mergers during the 1980s have encouraged rationalization of capacity, and effective capacity is expected to stabilize in the 1990s.

As is the case for other red meats, per capita consumption of beef in Canada has slowly declined over the past decade from 29.3 kilograms in 1980 to 27.5 kilograms in 1989, based on retail weight. The decrease is attributed to the combination of beef's higher price relative to other meats, a major shift away from any food products perceived to have significant fat content, an aging population traditionally less likely to eat large quantities of red meat, the availability of a wide range of international and convenience food products not based on beef (pastas, oriental dishes, etc.) and a growing consumer preference for poultry meat. Per capita consumption of poultry meat has risen from 22.7 kilograms in 1980 to 27.7 kilograms in 1989. Canadian beef consumption per person is not expected to increase in the future.

Despite the overall decline in beef consumption, specific categories, particularly those offering greater ease of preparation, have increased. The largest growth in per capita consumption of any beef product category has been hamburger, attributed primarily to the growth of sales through fast-food chain outlets. In Canada, over 35 percent of all beef is estimated to be served in hamburger form, while U.S. consumption is estimated at over 50 percent. There has been an increasing trend in the North American beef industry to add value to beef products by preparing case-ready products such as individually packaged steaks, roasts and hamburger patties. These products are frequently labelled and priced for individual food retailers and are often sold under a brand name. This trend is less advanced in Canada than in the United States.

## Strengths and Weaknesses

### Structural Factors

There are several key factors affecting the competitiveness of the cattle processing industry, including the availability and price of cattle, investments, plant economies of scale, overall demand in the U.S. and Japanese beef markets, and technology. Other factors include opportunities for marketing higher-value-added products and the increased demand for fresh rather than frozen beef products. Canadian cattle processors are also challenged by rising product, labour and transportation costs.

The Canadian cattle industry has reliable supplies of the high-quality forages and feed grains needed to maintain large cattle herds. These herds are based on highly productive beef cattle breeds, the predominant ones being Herefords, Angus, Charolais and Simmentals, which yield high-quality beef well-suited for the North American market. This basic strength is reinforced by a supporting infrastructure, including strong crop and livestock research and breeding programs and an internationally respected animal health and meat inspection system.

The Canadian and U.S. cattle and beef industries have operated for years in a low-tariff, cross-border market, with prices in both countries closely corresponding to each other unless distorted by local demand and supply situations and the status of various non-tariff issues, such as border inspection practices. Changing market prices for commodity-grade beef products are rapidly reflected back to the livestock producer as corresponding changes in livestock prices.

The effectively open Canada-U.S. border and strong U.S. demand for live cattle led to an increase of over 50 percent in Canadian exports of live cattle from 425 000 head of cattle in 1988 to 675 000 in 1990. This increase has contributed to higher cattle prices in Canada and some idle capacity in Canadian cattle slaughter plants as companies' operating margins were severely squeezed.

While exporting record numbers of slaughter cattle south of the border, Canada in turn imported increasing quantities of beef. U.S. packers have often been able to afford to pay more for livestock in recent years because of their higher profit margins. However, recent investments by several major Canadian companies to integrate their cattle slaughter and beef processing plants will assist domestic plants in becoming technically competitive with their U.S. counterparts. Once other issues such as the Canada-U.S. harmonization of technical regulations and inspection standards and procedures are resolved, the Canadian beef industry will be better positioned to compete in the North American market.



Major acquisitions and investments in the United States and Canada by the four largest U.S. companies in the past five years have also led to markedly greater concentration. These four beef packers accounted for 70 percent of total U.S. cattle slaughter in 1989, compared with the 35 percent slaughtered by the top four packers in 1979. IBP Inc., the largest beef company in the United States with 35 percent of that market, has a total slaughter capacity of 175 000 head of cattle per week at its 11 plants. In comparison, Canada Packers, Canada's largest beef packer prior to its 1991 restructuring, could handle 12 000 head per week in total at its three Western Canadian plants. Economies of scale give large U.S. establishments an advantage over smaller operations in both countries.

Canada has an internationally respected federal government-supervised plant inspection system in place to meet the most demanding animal health and meat hygiene standards. Enough firms exist to ensure that Canada's regional and niche markets are adequately served. Although demand is price-sensitive, Canadian beef, because of its consistent high quality, is also competitive in most major export markets. As a result of the 1992 amendments to grading regulations, Canada's ability to compete in the U.S. and Japanese markets will be improved. The Canadian standards, originally introduced in 1972, excluded the marbling factor and visible intramuscular fat, which are considered important to both U.S. and Japanese customers and which are allowed for in their grading systems. As a result, Canadian A1 and A2 beef, the highest domestic grade available, was sold at a discount in these key export markets.

In general, only a limited amount of advanced technology is used throughout the North American meat industry. Measures are being undertaken by Australia, New Zealand and some European countries to utilize more of the available advanced technologies. The Canadian industry is now assessing recent technological developments, particularly those associated with improved productivity and with packaging that contributes to extended shelf life, for their possible integration into Canadian plants.

Considerations such as the limited size of the Canadian consumer market, weather conditions and the distance to off-shore markets can be viewed as constraints. However, many opportunities exist for Canadian firms. Those firms that meet the challenge and take advantage of factors, such as the availability of strong technical skills, reliable research programs and a willingness to innovate and adjust, will be positioned to compete internationally. The relatively small size of the Canadian plants, while a limiting factor in some ways, allows the industry to be more flexible and to address niche markets very competitively.

### **Trade-Related Factors**

Worldwide, the meat sector is essentially domestically oriented, with very few nations exporting more than 10 to 15 percent of their production. A large domestic market is essential for a strong slaughtering/processing sector that is capable of exporting on a competitive basis, although Australia and New Zealand have built up substantial industries relying primarily on export sales. While currently a major competitor in less expensive beef products, Australia will be increasing its grain-fed herds as a means of entering the higher end of global markets.

Beef and veal production in the major producing countries reached 44 million tonnes in 1989. World exports for the same year were estimated at 4 million tonnes. Trade in beef and veal was essentially driven by demand from three importers — the United States, Japan and the European Community (EC). Canadian beef exporters attempting to sell to these markets can face trade barriers such as import quotas, variable levies, health regulations and differing product specifications. Canada's share of the total world trade in beef is less than 3 percent. However, international trade is increasingly important in determining profits and the pattern of investment within the industry. Canada's major competitors in the beef trade include Australia, the EC, the United States and New Zealand.

An issue affecting meat trade with the United States has been technical regulations and inspection standards for meat and poultry. On 1 January 1989, the U.S. Department of Agriculture (USDA) implemented border inspections for Canadian meat products entering the United States to replace the U.S. reinspection that previously occurred at destination. These border inspections increased costs and created an unlevel playing field for Canadian exports. However, commencing 10 August 1992, Canadian shipments of meat and poultry selected for reinspection can be reinspected at one of 200 currently approved destination points in the United States instead of at the border. Additional facilities may be designated in the next phase of the Canada-U.S. Free Trade Agreement (FTA) if certified by the USDA and if they receive sufficient volumes of imports. Canada is implementing the same practices for U.S. shippers. As a result, many exporters will be able to avoid costly delays for unloading and reloading at the border.

Operating in an almost tariff-free environment, bilateral trade between Canada and the United States in both cattle and beef is significant for the Canadian beef industry. While imports from Canada account for less than 1 percent of the total U.S. beef production, imports from the United States represent about 5 percent of Canadian beef production. Canada exports mainly cow beef to the United States and generally



buys more expensive U.S. cuts for the HRI trade in return. On a unit basis, Canadian beef cuts exported are worth only half the value of the beef cuts imported from the United States. This trade pattern reflects the concentration of dairy herds in Quebec and Ontario, the high-quality beef herds in the West and the demand product mix in Canada and the United States.

In addition to establishing virtually free trade, the FTA, which was implemented on 1 January 1989, exempts Canada and the United States from each others' meat import laws. Thus, even when the United States negotiates with other suppliers to accept voluntary restraint agreements or quotas, Canadian beef maintains access to the U.S. market.

Japan has implemented new trading rules that opened up its market by eliminating quotas for beef products as of 31 March 1991. As a result, Japan's total beef imports, particularly for fresh beef, are expected to increase from 375 000 tonnes in 1988, when liberalization was announced, to over 500 000 tonnes by the year 2000. The Canadian beef industry, under the auspices of the Canada Beef Export Federation, has a major export program under way in Japan, particularly in the HRI trade, aggressively promoting the quality and versatility of Canadian beef. The demand from this market for high-value cuts may play a significant role in determining quality standards throughout the industry.

The Republic of Korea has become a more significant market for beef exports in the last few years and is expected to increase in importance in the 1990s.

The EC, formerly an important export market for Canadian beef, has taken measures in recent years under the Common Agricultural Policy (CAP) to establish internal farm revenues higher than world market prices would allow. The CAP has also enabled the EC to become essentially self-sufficient in beef. This has been accomplished through quotas, extremely high import tariffs and levies on beef imports as well as production subsidies for EC grain and livestock producers. These incentives have resulted in recurring accumulations of substantial inventories of surplus frozen beef stored by the EC where "intervention" stocks reached 800 000 tonnes in 1991. Dumping of these stocks on world markets at low prices disrupts the world beef industry.

Would-be exporters' plants must comply with the stringent standards set in the EC third-country meat inspection directive, a costly process of modernization undertaken by only a few Canadian and U.S. plants. However, on 1 January 1989, the EC banned all imports of beef produced from cattle that have been administered growth-promoting hormones, a standard practice in the North American industry. This ban effectively shut out beef produced in North America. The Uruguay Round of multilateral trade negotiations (MTNs) under the General Agreement on Tariffs and Trade (GATT) could hasten to reform the CAP's trade-distorting features and

reopen this formerly important market. Until such changes to the CAP are made, the United States, Japan and the Republic of Korea are the only significant commercial export markets for Canadian beef.

Another important trade-related issue is the countervailing duty first imposed by the Canadian International Trade Tribunal (CITT) in 1986 on imports of subsidized EC beef. A GATT dispute panel subsequently called by the EC ruled that the Canadian duty did not conform to GATT rules. The original countervailing action expired in July 1991, but has been extended by the CITT for another five years pending resolution of the issue.

### **Technological Factors**

The Canadian cattle processing industry is gradually adopting a number of new technologies. These include instrumentation to support more flexible product specifications and a revamped beef grading scheme to meet the demands of particular markets (HRI, export markets and domestic consumers). Improved production technologies, including automated slaughter operations, sensing/scanning devices, electronic carcass identification and more efficient and ergonomically designed work stations for production staff, are reducing costs and enhancing productivity and uniformity. Process control technologies, including computer-controlled operations and data capture, will need to be more widely adopted to support shelf-life extension technologies for chilled beef products.

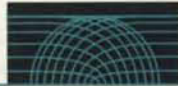
Canadian firms have been reluctant to undertake comprehensive modernization initiatives on their own because of the expense of developing technologies. Recognizing the need to work together on major projects, the industry is collectively addressing the development and incorporation of the best technology available to suit Canadian plants.

### **Other Factors**

Another issue being addressed by the Canadian cattle processing industry is the handling of the materials used to ship and package the product. Packaging for the meat industry is closely monitored and regulated by Agriculture Canada, which requires that only "new" material be used. Most meat products are shipped in waxed cardboard. The cost of disposing of such a bulky material can be passed back to packers in some instances. Environmental pressure to restrict the use of materials such as plastic film, which extend the shelf life of the product, may present a challenge to the industry in their attempt to expand sales of case-ready meats to the retail level.

In order to address product-related environmental issues, the cattle processing industry ensures that there is





virtually no product waste, using all raw material to create meat or meat by-products. Meat plants are subject to government waterway and air anti-pollution regulations. Processing operations are generally regarded as insignificant direct contributors to environmental pollution; some older cattle processing firms located in or near urban communities have relocated because of concerns about water and air pollution. However, rural environments, particularly water quality, can be negatively affected in areas where livestock is raised intensively in beef feed lots.

## Evolving Environment

The cattle processing industry faces further rationalization and consolidation. It has been characterized by low profit margins, high turnover of product inventories and intense competition for market share. Given the anticipated stable to declining demand for beef, these pressures will probably continue. Although several major firms closed during the 1980s, the rationalization of the industry has not lessened the intensity of competition of the remaining firms. The 1991 closure by Maple Leaf Foods (formerly Canada Packers) of two of its major western beef plants and the sale of a third marked a turning point in the industry's rationalization and heralded a phase of rebuilding by the remaining core companies.

On 12 August 1992, Canada, Mexico and the United States completed the negotiation of a North American Free Trade Agreement (NAFTA). The Agreement, when ratified by each country, will come into force on 1 January 1994. The NAFTA will phase out tariffs on virtually all Canadian exports to Mexico over 10 years, with a small number being eliminated over 15 years. The NAFTA will also eliminate most Mexican import licensing requirements and open up major government procurement opportunities in Mexico. It will also streamline customs procedures, and make them more certain and less subject to unilateral interpretation. Further, it will liberalize Mexico's investment policies, thus providing opportunities for Canadian investors.

Additional clauses in the NAFTA will liberalize trade in a number of areas including land transportation and other service sectors. The NAFTA is the first trade agreement to contain provisions for the protection of intellectual property rights. The NAFTA also clarifies North American content rules and obliges U.S. and Canadian energy regulators to avoid disruption of contractual arrangements. It improves the dispute settlement mechanisms contained in the FTA and reduces the scope for using standards as barriers to trade. The NAFTA extends Canada's duty drawback provisions for two years, beyond the elimination provided for in the FTA, to 1996

and then replaces duty drawback with a permanent duty refund system.

Canadian exports of beef and cattle already enter Mexico duty-free. Under the NAFTA, the Canadian tariff on boneless, frozen beef will be phased out over a five-year period, while other beef tariffs will end immediately upon implementation of the NAFTA. Under the terms of the NAFTA, Canada will exempt Mexico from its *Meat Import Act*, while the United States, as well, will also exempt Mexico from its *Meat Import Law*. As noted, Canada and the United States exempted each other from the provisions of their meat import laws in the FTA.

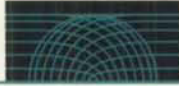
As a result of the FTA, continental beef and cattle trading patterns have changed. The mix of exports and imports is changing. Canada has exported record numbers of cattle to the United States while U.S. companies, in turn, have penetrated the Canadian market with beef, particularly in Ontario and Quebec. Changes to the beef grading system in Canada, with greater equivalency to major export markets, will further assist Canadian exporters. Expanding Canada's market shares in the United States, Japan, the Republic of Korea, Taiwan and other smaller, importing countries will be important for the growth of the industry.

## Competitiveness Assessment

The Canadian beef processing industry produces high-quality, lean beef products demanded by Canadian consumers and continues to dominate the domestic market. However, there has been increased importation of competitively priced fresh U.S. beef. A major challenge for the Canadian beef industry is to meet changing consumer tastes and to reduce the trade outflow of Canadian live cattle exports in favour of higher-value-added beef products.

On a broader scale, competitiveness with other commercial exporting countries can be achieved only by continually improving efficiencies, lowering all costs of production, winning niche markets (particularly for higher-value fresh beef cuts) and adapting beef products to meet the needs and specifications of foreign customers. With a concerted effort to remedy existing problems and successfully respond to market opportunities, given the rationalization already taking place, the industry could improve its competitiveness.

The beef industry, in co-operation with cattle producers, has been developing public relations initiatives to promote its products more effectively, recognizing Canadian consumer preference for lean meats, fast-food products, and easily prepared, prepackaged meals. Some meat processors are increasing the use of brand names to differentiate their products.

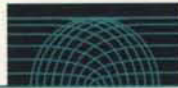


Recent studies indicate that today's beef cuts contain considerably less fat and cholesterol than is widely believed. Improved grading, greater trimming of surface fat and leaner carcasses, a result of better feeding and management practices, have substantially reduced fat content over the past decade. These measures, coupled with an effective public communications strategy, may reverse, or at least stabilize, the declining demand for beef in North America.

Important factors in maintaining a competitive position include the construction of new plants and upgrading of existing processing lines; the implementation of new production, process and packaging technologies; the maintenance of existing markets; and the expansion of niche markets. Further-processing to add value to beef cuts can improve and increase profitability for Canadian firms. The introduction of revised Canadian beef carcass grading standards that assist exporters will better position the industry to pursue export opportunities for quality fresh beef products.

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

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Industry, Science and Technology Canada  
Attention: Cattle Processing  
235 Queen Street  
OTTAWA, Ontario  
K1A 0H5  
Tel.: (613) 954-2922  
Fax: (613) 941-3776



## PRINCIPAL STATISTICS<sup>a</sup>

	1983	1984	1985	1986	1987	1988	1989	1990	1991
Shipments (\$ millions)	3 290	3 411	3 557	3 443	3 500	3 500	3 500	N/A	N/A
(thousands of tonnes) <sup>b</sup>	1 090	1 070	1 100	1 080	1 030	1 100	1 085	N/A	N/A

<sup>a</sup>ISTC estimates for cattle processing. See *Food Industries*, Statistics Canada Catalogue No. 32-250, annual (SIC 1011, meat and meat products industry, except poultry).

<sup>b</sup>See *Apparent Per Capita Food Consumption in Canada, Part 1*, Statistics Canada Catalogue No. 32-229, annual.

N/A: not available

## TRADE STATISTICS

	1983	1984	1985	1986	1987	1988 <sup>d</sup>	1989 <sup>d</sup>	1990 <sup>d</sup>	1991 <sup>d</sup>
Exports <sup>a</sup> (\$ millions)	167	209	239	219	217	198	252	254	248
Domestic shipments <sup>b</sup> (\$ millions)	3 123	3 202	3 318	3 224	3 283	3 302	3 248	N/A	N/A
Imports <sup>c</sup> (\$ millions)	189	277	256	260	329	413	458	554	626
Canadian market <sup>b</sup> (\$ millions)	3 312	3 479	3 574	3 484	3 612	3 715	3 706	N/A	N/A
Exports (% of shipments)	5.1	6.1	6.7	6.4	6.2	5.7	7.2	N/A	N/A
Imports (% of Canadian market)	5.7	8.0	7.2	7.5	9.1	11.1	12.4	N/A	N/A

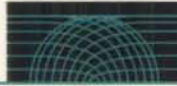
<sup>a</sup>See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

<sup>b</sup>ISTC estimates.

<sup>c</sup>See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

<sup>d</sup>It is important to note that data for 1988 and after are based on the Harmonized Commodity Description and Coding System (HS). Prior to 1988, the shipments, exports and imports data were classified using the Industrial Commodity Classification (ICC), the Export Commodity Classification (XCC) and the Canadian International Trade Classification (CITC), respectively. Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in shipment, export and import trends, but also changes in the classification systems. It is impossible to assess with any degree of precision the respective contribution of each of these two factors to the total reported changes in these levels.

N/A: not available



## SOURCES OF IMPORTS<sup>a</sup> (% of total value)

	1983	1984	1985	1986	1987	1988 <sup>b</sup>	1989 <sup>b</sup>	1990 <sup>b</sup>	1991 <sup>b</sup>
United States	30	39	42	41	45	47	57	60	65
Australia	23	15	20	34	28	26	15	17	17
New Zealand	38	19	26	22	24	21	17	14	13
Nicaragua	1	7	2	1	2	6	10	8	5
Other	8	20	10	2	1	—	1	1	—

<sup>a</sup>See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

<sup>b</sup>Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in import trends, but also changes in the classification systems.

## DESTINATIONS OF EXPORTS<sup>a</sup> (% of total value)

	1983	1984	1985	1986	1987	1988 <sup>b</sup>	1989 <sup>b</sup>	1990 <sup>b</sup>	1991 <sup>b</sup>
United States	84	88	86	84	87	77	78	90	91
European Community	2	5	4	6	4	—	—	—	—
Japan	5	5	7	8	6	13	12	8	7
Other	9	2	3	2	3	10	10 <sup>c</sup>	2	2

<sup>a</sup>See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

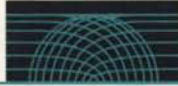
<sup>b</sup>Although the data are shown as a continuous historical series, users are reminded that HS and previous classifications are not fully compatible. Therefore, changes in the levels for 1988 and after reflect not only changes in export trends, but also changes in the classification systems.

<sup>c</sup>In 1989, 6 percent of exports went to the Republic of Korea.

## REGIONAL DISTRIBUTION<sup>a</sup> (1988)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	8	32	27	24	9
Shipments (% of total)	3	9	25	60	3

<sup>a</sup>ISTC estimates. Only federally inspected cattle processing establishments registered under the *Meat Inspection Act* and Regulations are included.



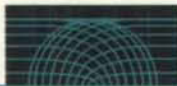
## MAJOR FIRMS

Name	Country of ownership	Location of major beef plants
Better Beef Limited	Canada	Guelph, Ontario
Cargill Limited	United States	High River, Alberta
Intercontinental Packers Limited	Canada	Saskatoon, Saskatchewan
Lakeside Packers, a Unit of Farm Industries Limited	Canada	Brooks, Alberta
XL Foods Ltd.	Canada	Foothills, Alberta Bonnybrook, Alberta

## INDUSTRY ASSOCIATIONS

Canada Beef Export Federation  
Suite 215, 6715 - 8th Street N.E.  
CALGARY, Alberta  
T2E 7H7  
Tel.: (403) 274-0005  
Fax: (403) 274-5686

Canadian Meat Council  
Suite 304, 5233 Dundas Street West  
ISLINGTON, Ontario  
M9B 1A6  
Tel.: (416) 239-8411  
Fax: (416) 239-2416



1990-1991

## APPENDIX — FURTHER-PROCESSED MEATS

### Structure and Performance

#### Structure

The industry profiles on cattle and hog processing deal with two of the three major components of Canada's \$8.72 billion red meat industry. The third component, processed meats, is a large and complex grouping of firms that process fresh meats into a vast range of cured or cooked products, including bacon, ham, sausages, delicatessen specialties and pâtés. Processed meats provide the industry with the scope to add significant value and variety to otherwise undifferentiated commodities, to fully utilize the edible raw material and, most important, to be innovative in product development and marketing.

Processed meats account for up to 70 percent of Canada's pork output and 25 percent of its beef output. Processing generally results in products with a significantly longer shelf life than fresh meats and permits a better balance in the industry's production and distribution patterns. Much of the technological basis of the meat industry rests on the innovations introduced to produce and package processed meats.

The processed meats component of the industry has two main streams based on use of either pork or beef. This separation of key product streams is maintained by the use of traditional formulations and methods as well as by labelling and ingredient regulations.

Meat processing provides approximately 40 percent of the employment in the meat industry as a whole and accounts for one of every two jobs in pork processing.

International trade in processed meat products is dwarfed by the trade in commodity meats. Canada exported \$72 million worth of processed pork and beef in 1989, compared with exports of just over \$1.3 billion in meat and meat by-products. Imports of processed meats accounted for less than \$60 million in 1989, out of \$900 million in total meat imports. Much of the imported meat consisted of canned ham, primarily from Denmark, and corned beef from Argentina. Canada's exports of processed meats, 80 percent of which were to the United States, were largely cured hams, bacon and specialty sausages.

The industry is represented by the Canadian Meat Council (CMC) and enjoys the support of producer groups, including Canada Pork Inc., the Beef Information Centre, and

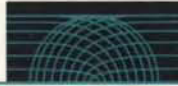
producer/processor groups, such as the Canada Beef Export Federation and Canada Pork International. The Canadian Pork Council, the Canadian Cattlemen's Association and other producer associations are also interested in the role of processing to create product diversity and market breadth.

The processed meat industry has three major elements — the integrated companies, which produce their own raw material and also process it; the specialty companies, which purchase their meat from packers or traders and process it; and an array of small establishments, which process at least some of the products they retail on their own premises. The first group consists of the nationally known companies, such as Maple Leaf Foods, J.M. Schneider, and Burns Foods; the second of nationally or regionally known firms, such as Piller, Kretschmar, Coorsh, Kwinter, and Primo; and the last category of the traditional delicatessens serving local markets in the larger cities.

The integrated producers dominate the market for commodity processed products, such as sandwich meats and wieners, selling basically on price, while the specialty companies thrive on serving the premium market. Integrated processors produce a wide range of products made from the large quantities of high-quality trimmings generated by their fresh meat operations. The specialty companies, not being tied to their own meat supplies, source premium meat for their brand-name products and are often more capable of responding rapidly to new market opportunities. The integrated processors are well positioned to undertake mass merchandising of their products and distributing them on a national basis, particularly when a new packaging or promotional concept is developed.

Much of this industry is Canadian-owned, but foreign interests, notably from Europe, are becoming active in the field. European firms are particularly prominent in the rapidly evolving area of "lite" products, which are reformulated to reduce fat and salt content. The growing market acceptance of such products may change the assumptions under which this industry has operated for decades and could revitalize the entire meat industry.

Marketing is the heart of this industry. The range of approaches reflects the multitude of markets and market niches that it can serve with success. The most important overall markets for the national-scale processors are the supermarket meat departments, which handle most of the



cryovac-packed meat products sold in pegboard or self-serve packs. This market segment is complemented by in-store deli operations where meat is sold to customers in whatever quantities they choose. Such operations offer a greater range of higher-quality products than the self-serve counters do. The foodservice industry, increasingly important as a market, has stimulated strong demand for sausages for pizza toppings, Italian-style hams, smoked meats for ready-made sandwiches and sausage products for summertime street vendors. Finally, a new market is emerging for processed meats as ingredients in convenience foods, particularly for school lunches.

Processed meats compete for market share against such traditional products as fresh beef and pork, poultry and cheese, as well as against a continuously growing range of international and convenience products. International foods include Italian pastas, oriental-style stir fries, Latin American corn-based products and Middle Eastern vegetarian dishes based on bulgur wheat or couscous. The convenience products include frozen or shelf-stable, single-portion meals. These culinary developments, however, have created new markets for certain processed meat products, particularly those that complement ethnic staple foods or those used as ingredients.

The processed meat industry's main competition is from poultry products, which have enjoyed a steady growth in demand for the past 20 years in all markets and product categories. Poultry meat is increasingly used for products formerly only made from red meats, such as sausages and frankfurters. Turkey rolls have become a frequent substitute for ham.

### **Performance**

Overall sales of processed meats have been flat for many years, paralleling the situation in the red meat industry in general. However, there have been significant shifts in demand that favour the growth of European-style delicatessen meats and Italian dry sausages, often at the expense of the more traditional cured products, such as hams and bacon. Processed beef products also experienced a growing demand linked to the expansion of foodservice chains featuring submarine sandwiches or smoked meat sandwiches, a feature of large urban markets.

The further-processed meat industry has proven itself to be very capable of adapting to new market conditions in Canada. Plants are being upgraded to accommodate better equipment, particularly equipment to package processed products. Consequently, much of the new investment in the meat industry for plant modernization in recent years has been used for that equipment. Significant investment has also occurred in fully automatic curing/smoking facilities.

The further-processed meat industry accounts for approximately 30 percent of the red meat sector's shipments and a growing proportion of its employment and value-added. The growth in its contribution to employment and value-added results from a structural shift in the industry away from integrated operations and toward specialized operations. Such a shift occurred when Canada Packers was acquired in 1990 by Hilldown Holdings PLC. After restructuring, Canada Packers' formerly extensive fresh meat operations were reduced to one major hog plant, but the successor company, Maple Leaf Foods, maintains its national market presence in processed meats. This loosening of the ties between the fresh meat and the processing operations parallels the model in the United States, where major brand-name companies such as George Hormel, Oscar Mayer and Sara Lee no longer have any involvement with the production of fresh meats.

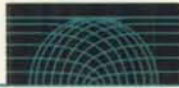
This trend toward specialization also reflects a greater freedom in the further-processed meats industry to adopt technology. Processing operations have always been more capital-intensive than the fresh meat operations, when measured on a unit-of-production basis. Capital invested in processing technology generally has an immediate impact on productivity, quality and, increasingly, on the range of products that can be turned out. Steady improvements in processing and packaging technologies have greatly increased productivity and profits, particularly for the medium-sized firms.

One area where progress has not been steady is new product development. Regulations governing such product contents as binders, extenders and curing agents tend to challenge innovations in product formulations. A major shift in the pattern of demand toward low-fat, low-salt products is expected to have profound consequences for the industry, because entire product definitions may change to permit the incorporation of fat substitutes in product formulations.

## **Strengths and Weaknesses**

### **Structural Factors**

The Canadian processed meat industry has concentrated on supplying the domestic market for most of its recent history. The industry's role has been to provide a channel for the trimmings and less popular cuts produced in the fresh meat operations. These materials are ground and reconstituted to provide the basis for sausage stuffings, reformed hams and meat loaves. National regulations governing the production of such products differ significantly from country to country, and relatively high rates of tariffs discourage much international trade; consequently, exports and imports play a



relatively unimportant role in shaping the industry. Processed products made from entire cuts of meat, such as whole leg hams and sides of bacon, are limited by the supply of these cuts, and international trade is often constrained by supply shortages.

Economies of scale are important for commodity-type processed meats, such as smoked sausages and reformed hams, but are less important for premium products, such as traditional hams and smoked beef products (see table below).

**Leading Meat Processing Companies, 1990**

Country	Annual sales (C\$ millions)	Number of employees	Plants
Canada	500	3 300	7
United States	3 000	15 000	25

Canned meats, formerly significant, have declined in importance except in regional markets where food distribution costs are especially high. Canned hams, luncheon meats and corned beef remain the core of this trade; only a limited range of canned dinners is still available. This latter market segment has been overtaken by frozen or shelf-stable single-portion dinners.

International trade in processed meats is restricted to canned products and cured products. The major competitors in this waning market segment are Denmark, the Netherlands and Poland for canned hams, and Argentina and Uruguay for corned beef. What market growth there has been in this field has been limited to flaked ham products and luncheon meats, both of which are still produced in Canada.

Process technology developments have not been a dominant factor in this industry's recent development. Packaging technology has been much more important in shaping the nature of the industry, although the recent introduction of European co-extrusion technology is noteworthy, as are techniques to reduce product fat content.

Labour is less important in this segment of the industry than in the upstream segments because processing is, by its nature, more amenable to automation. While most processing is still done in batches, many of the curing and packaging functions are readily automated and continuous in nature. The traditional processing functions were based on relatively unskilled labour, but quality assurance and automation are increasingly requiring higher levels of employee skill.

Energy use is significant, because many products require cooking or high-temperature curing. A much more important

cost component, however, is the cost of transporting and distributing processed meat products. These perishable products are distributed across Canada in refrigerated trucks. While some product lines have relatively long shelf lives, many others, particularly those carried by the delicatessen trade, need careful management and are therefore distributed for sale in relatively small amounts on a frequent basis.

Management practices in the processed meats industry are shaped by the need to integrate high-quality production runs with increasingly sophisticated, just-in-time distribution systems. Production and sales managers operate within a highly regulated environment, with government inspectors monitoring production, distribution and sales functions.

When the Canadian meat processing industry is compared with relevant competitors, several differences emerge. Compared with the U.S. firms, Canadian companies are relatively small operations, often with close ties to integrated fresh meat operations. As noted earlier, the leading U.S. companies — George Hormel, Oscar Mayer and Sara Lee — have no direct fresh meat operations. Instead, they concentrate their efforts on production and national marketing. These companies are also noteworthy for their investments in new, large plants using the best available technology for production and product development. Their scale of operations and ability to use poultry meat in many of their product formulations are major competitive advantages in their own markets.

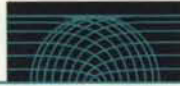
European meat processing operations are likely to be smaller than the U.S. firms but often benefit from very advanced technology backed by high quality standards and a longer tradition of processing meat. Many generic types of products originated in Europe and, as a consequence, European products enjoy considerable prestige in markets around the world. The cost of European processed meats is often high because of high raw material and labour costs.

At present, the Canadian industry is adapting to new trading realities, and the leading firms are very aware of the need to improve productivity and develop new products. A growing trend to foreign ownership or close links with European firms may assist the industry to achieve these goals.

### **Trade-Related Factors**

As a result of tariffs and product-standard requirements, trade in processed meats is relatively modest. Most Favoured Nation (MFN) tariffs on processed meat products remain relatively high, generally averaging 17.5 percent. The Canada-U.S. Free Trade Agreement (FTA) began the process of reducing the tariffs on 1 January 1989, phasing most of them out in 10 annual, equal steps for Canada-U.S. trade. The European





market is closed to foreign processed meats by high tariffs, variable levies and non-tariff barriers. Japan's tariff system has ensured that meat imports are essentially restricted to fresh and frozen meat products and very little processed product is imported. Some Canadian processed meats, particularly cured pork, are exported to Caribbean nations, but the volumes involved are small.

While tariffs have restricted the growth of trade in many processed products, non-tariff considerations, particularly animal health and food safety requirements, have been even more influential in determining trade flows. Whole classes of products are not permitted into several countries because of concern over the danger of introducing hoof-and-mouth disease. Similar restrictions limit other imports to cooked and canned products. The need to meet ever more stringent food safety regulations regarding preservatives and bacterial contamination has also limited international trade.

### **Technological Factors**

The industry as a whole has not been very active in process or product development, preferring to adapt European and American ideas and products to Canadian conditions. Very little research and development (R&D) is currently being carried out in Canada, particularly following the closure of the Canada Packers research complex in 1990. At present, the industry relies primarily on contract research undertaken at various federal or provincial food research centres, notably Saint-Hyacinthe, Portage la Prairie and Leduc with support from university labs and food ingredient formulators. The Canadian industry has been able to introduce most relevant new technologies once they are generally available and has made its own contributions, particularly in process control systems, key components such as smoke tunnels and in innovative ingredients, such as deheated mustard flour, used as extenders.

### **Other Factors**

Exchange rates are an element in determining the cost of such inputs as processing machinery and packaging materials. The price of livestock in Canada is competitive with U.S. costs because prices are established in an open North American market.

Environmental regulations affect the type and quantity of packaging material used by Canadian firms. Other regulatory issues include compliance with regulations reflecting nutritional aspects of these products, particularly their fat content and levels of preservatives. The industry has already made major strides toward introducing lower-fat ("lite") and low-salt-content products. The question of nutritional labelling is an emerging issue following the U.S. decision to require such labelling on most food products by 1994.

## **Evolving Environment**

The most important opportunity open to the processed meat industry over the next decade appears to be the growing acceptance of "designer" foods. Converging market and technology trends favour the reformulation of foods to meet nutritional and convenience specifications.

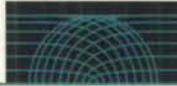
Increasingly, processed meats can be reformulated to any market requirement with the aid of the growing number of fat substitutes now available. The introduction of reduced-fat ground beef, first for the foodservice industry but most recently for the retail market, marks a possible extension of processed meat back into the commodity meat market. A similar effort in the early 1970s using textured vegetable protein (soya bean) extenders failed in the marketplace. These most recent efforts appear to be driven by a consumer requirement for a "universal" meat product with tightly specified nutritional characteristics.

Market growth for processed meats will remain linked to domestic market growth and the harmonization of product standards and regulations in North America. Export sales will depend on niche markets, particularly for meat-based snack foods (such as beef jerky) that are likely to enjoy continued growth in Asia.

The industry's share of the Canadian market may well increase significantly as reformulated ground meats gain acceptance. They would be sold as branded products with sufficient value-added to move them clearly into the category of processed meats. The success of such products will depend on the support of a sophisticated food ingredients industry and on the widespread market acceptance of some form of nutritional labelling emphasizing information such as amino acid balance and the level and nature of fat content. The developed world's desire for convenience foods will also determine the nature of such products.

## **Competitiveness Assessment**

Relatively high tariffs continue to characterize the processed meat industry throughout the world. The FTA is reducing tariffs on trade between the United States and Canada and, once implemented, the NAFTA will reduce or eliminate tariffs on trade with Mexico. A small domestic market for such products compared with that of the United States, smaller plants, generally higher costs for secondary inputs and packaging, and the limited number of companies that can afford the high cost of national marketing promotions indicate areas of competitive disadvantage for Canada.



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Under the FTA, Canadian firms will be challenged by competition. The FTA and the NAFTA will open opportunities for Canadian processors, particularly for products capable of filling niche markets in the United States, notably for pork-based delicatessen items such as ham "logs" for sliced meats or for high-quality ethnic products.

If world markets are liberalized in the wake of the latest Uruguay round of the Multilateral Trade Negotiations under the GATT, there are prospects for increased trade in a wide range of processed meat products. In that case, there is ample reason to consider the Canadian meat processing industry to be capable of achieving a significant level of international competitiveness.



## MAJOR FIRMS

Name	Country of ownership	Location of major plants
Burns Meats, a Division of Burns Foods (1985) Limited	Canada	Winnipeg, Manitoba Calgary, Alberta
Gainers Inc.	Canada	Edmonton, Alberta
Intercontinental Packers Limited	Canada	Saskatoon, Saskatchewan
Maple Leaf Foods Inc.	United Kingdom	Kitchener, Ontario Burlington, Ontario Vancouver, British Columbia
Piller Sausage & Delicatessen Limited	Canada	Waterloo, Ontario
J.M. Schneider Inc.	Canada	Kitchener, Ontario

Printed on paper containing recycled fibres.

