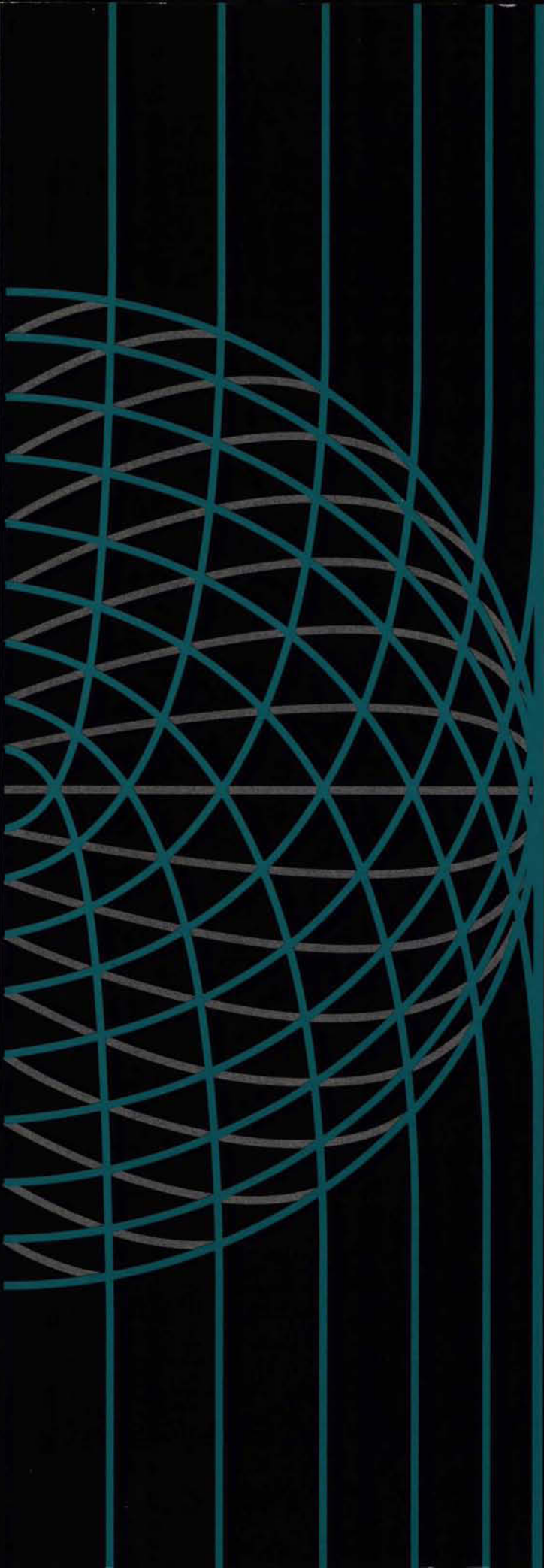


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Edible Oil Products

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INDUSTRIE, SCIENCES ET
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

Structure and Performance**Structure**

The edible oil refining and packaging industry in Canada comprises mills that process crude vegetable oils and animal fats into shortening, margarine and salad oils as well as into further processed products such as whipped toppings and emulsifiers. These products are packaged into small containers for retail sales and into larger containers for institutional use. Sales are also made in tank trucks and tank cars to industrial users for incorporating into food products.

The seeds of many plants contain oil that can be used for industrial purposes, animal feed and food for humans. The edible oils used for human consumption provide a valuable source of nutrition. The Canadian soil and climate have proven

suitable for the commercial growing of some of these oilseed plants. Canola, soybeans, flaxseed and sunflowerseed form the basis of the current commercial edible oilseed crop in Canada. Mustard is also grown but only for use as a condiment. In other parts of the world, the important oilseed plants are palm kernel, palm, groundnuts (peanuts), olives, sesame, coconut, rapeseed and cottonseed in addition to the same oilseed plants that are grown in Canada.

Details on extracting the oil from the seeds are contained in the industry profile on *Oilseed Crushing*. The by-product of the oil extraction process is referred to as "meal," which is largely used as an ingredient in animal feeds, as described in the industry profile on *Livestock and Poultry Feeds*.

Edible oil is also extracted from corn; however, corn is not considered an oilseed, since the oil content of the corn kernel is only 6 percent. Corn oil is a by-product of the



corn wet-milling industry, which is described in the industry profile on *Starch and Related Products*.

Fats and oils from animals and fish also provide nutritional food for humans. Edible oil refining from animals, once closely tied to the meat industry, is now loosely connected with a few of the smaller refineries having in-house rendering operations.

The oil and meal content of the oilseeds grown in Canada vary considerably, depending on weather, soil conditions and the type of seed, as shown in Table 1.

Table 1 — Oil and Meal Content as a Percentage of Output, Five-Year Average

	Oil	Meal
Soybean	20.6	78
Canola	41.5	57
Flaxseed	43.1	59
Sunflowerseed	41.8	33

Source: Canadian Grain Commission.

The oils obtained directly from the crushing process are referred to as "crude oil," which is not normally considered suitable for direct consumption by the North American consumer or for incorporation into food products because of the objectionable colour and odour. Consequently, the crude oil must be refined by a variety of processes.

The refining process is complex and only a brief overview is provided here. Edible oil refining actually prepares the product for a multitude of end uses and therefore various ingredients are added or subtracted at various stages. In some cases, the crushing process may include some of the first part of the refining process, such as degumming to remove small amounts of lecithin.

The stage after the degumming process is referred to as "bleaching." In this stage, the crude oil is heated and mixed with activated clay. The colour pigments in the oil become attached to the clay, which is then filtered from the oil by means of filter presses. The oil produced by this process is light in colour, bright and clear, and is ready for the next processing step.

In the next stage, "formulation," various ingredients may be added as required by the final product.

The next stage is the "deodorization" process. The formulated oil or bleached oil is heated to a temperature of 260°C under very high vacuum. Steam is then bubbled through the oil. The steam removes free fatty acids, which

are a natural component of crude oils. As well, the steam removes many compounds that give the oil a taste or odour. The deodorized oil is very light in colour, odourless and bland in taste. After the deodorizing process, the oil may be used directly for salad or cooking oils, or it can be further processed into other products.

During the refining process, the oil may also be further processed to make it "winterized" in order to prevent solidification or clouding under normal household refrigeration.

The deodorized oil that is destined for shortening or margarine must be further treated by "hydrogenation," a process that involves the addition of hydrogen molecules to the oil. Hydrogenation is a means of converting liquid oils into semi-solids suitable for the manufacture of shortening or margarine. However, it also accomplishes various other desirable purposes, including enhancing the stability and improving the colour of the oil.

The production of margarine involves a further stage in which hydrogenated oil or partially hydrogenated oil is mixed in a tank with other ingredients such as water, vitamins and milk powder to form an emulsion. (Generally, hydrogenated oil makes hard margarine, whereas partially hydrogenated oil and liquid oils form soft margarine.) The emulsion is then passed through a scrape-type heat exchanger, referred to as a "votator," which chills the emulsion and separates out the solidified or thickened margarine. Following removal from the votator, the margarine is ready for final packaging. The votator is also used in the production of hydrogenated shortening.

The primary uses of edible oil are for shortening, salad oil and margarine. Other processes are involved to produce products such as whipped toppings or emulsifiers for use in non-dairy creamers, gravies and other products. Many industries also use the products of the edible oil refining industry in fruit and vegetable processing, sugar and chocolate confectioneries as well as biscuits and snack foods.

Establishments in the industry may produce bulk refined oil, packaged products or both. In addition, some refined oil producers also market crude oil. Of the 31 establishments in the industry in 1992, five are engaged only in refining, 10 only in packaging, while 16 are engaged in both refining and packaging.

The Canadian edible oil industry had a total refining capacity of 907 000 tonnes in 1992 (Table 2). Refining capacity is concentrated; one firm, operating eight plants across the country, accounted for 58 percent of total capacity.

Refining and packaging of edible oil products is centred in Ontario, which accounts for 13 plants and 49 percent of total refining capacity in Canada. The prairie provinces have seven plants and 40 percent of refining capacity. Quebec



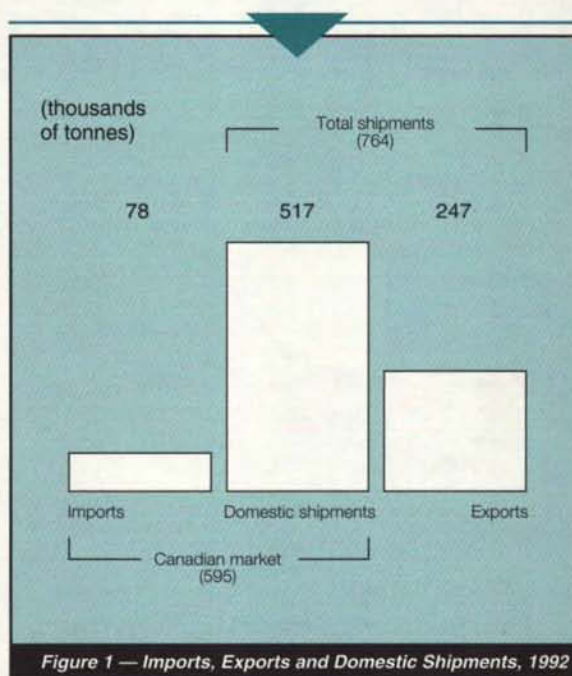
Table 2 — Products and Refining Capacities of Selected Companies, 1992

Company	Product	Annual capacity (thousands of tonnes)
ADM Agri-Industries Ltd.	Margarine oil	159
	Salad oil	
	Shortening oil	
Best Foods Canada (1991) Inc. (subdivision of Canada Starch Company Inc.)	Salad oil	50
CanAmera Foods	Margarine	529
	Margarine oil	
	Salad oil	
	Shortening	
	Shortening oil	
Canbra Foods Ltd.	Margarine	68
	Margarine oil	
	Salad oil	
	Shortening	
	Shortening oil	
Gainers Inc.	Shortening	9
	Shortening oil	
Thomas J. Lipton Inc.	Margarine	82
	Margarine oil	
	Shortening	
	Shortening oil	
J.M. Schneider Inc.	Shortening	5
Other		5
Total		907

Source: Canadian Oilseed Processors Association; and *Oils and Fats*, Statistics Canada Catalogue No. 32-006, monthly.

has eight plants, most of which are engaged in packaging, with 11 percent of refining capacity. Atlantic Canada has three plants that package edible oil products, but has no refining capacity.

Vegetable oil accounted for 93 percent of edible oil refined in Canada in 1992. Refined canola oil represented 60 percent of total refined edible oil production in the same year. Soybean oil (24 percent of production) and to a much lesser degree corn oil and sunflower oil are the other major types of refined vegetable oil in Canada. Linseed oil, which is produced by crushing flaxseed, is currently used in North America for non-edible purposes, although low linolenic flaxseed varieties are being developed specifically for human consumption. Mustard seed is ground primarily for use as a condiment.



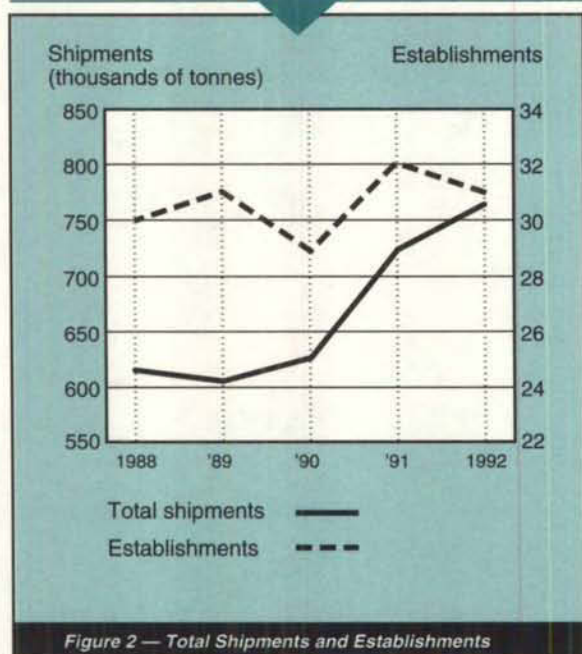
Non-indigenous vegetable oils such as cottonseed oil, palm oil, palm kernel oil and coconut oil are also refined in Canada for specific applications. Animal fats now account for only a small portion of edible oil production (7 percent).

Total production of refined (deodorized) edible oil in 1992 was 764 000 tonnes. Shortening oil accounted for 42 percent of this total followed by salad oil (38 percent) and margarine oil (20 percent). Sales of deodorized oil in bulk amounted to 544 000 tonnes while sales of margarine, shortening and salad oil in packages amounted to 344 000 tonnes.

The edible oil refining and oilseed crushing industries are closely linked. Of the four crushers in Canada, one sells all of its oil in crude form; one uses all of its oil internally and is in fact a net buyer of crude oil; while the other two supply all of their own refining needs and sell their surplus crude oil in the marketplace.

Exports of refined edible oil products in 1992 amounted to 247 000 tonnes (Figure 1) valued at \$158 million. Imports for the same year were 78 000 tonnes with a value of \$91 million. Imports into Canada consist largely of edible oils not produced domestically, such as palm oil or cottonseed oil, as well as animal fats, imitation lard and shortening from the United States.

Measured by dollar value, the United States was the source of 44 percent of imports of refined edible oil products into Canada in 1992, followed by the European Community (EC) at 33 percent. The third major source of imports into



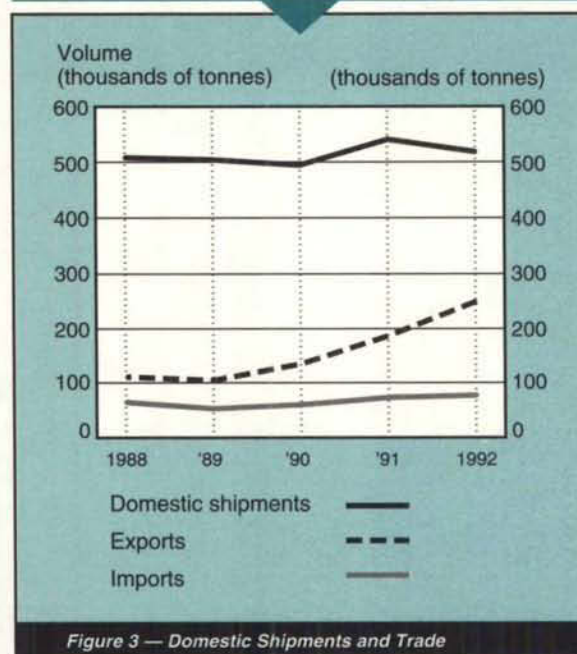
Canada, making up only 9 percent of the total, were Asian countries, primarily Malaysia and Indonesia. The United States was the destination of 93 percent of Canadian exports of these products in 1992.

Performance

Domestic shipments of the Canadian edible oil refining and packaging industry between 1988 and 1992 fluctuated within a narrow range, experiencing a 9 percent growth in volume in 1991, but a 4 percent drop the next year. Total industry shipments, however, rose fairly steadily, increasing in volume by 24 percent over the period as a result of a strong export performance (Figure 2).

The trade orientation of the industry has changed considerably since 1988.¹ Exports of edible oil refining and packaging products rose sharply by 108 percent by value and 127 percent by volume between 1988 and 1992 (Figure 3). Imports also increased over the period, but by a slower rate of 44 percent by value and 18 percent by volume.

Most of the increase in exports was destined for the United States, where health-conscious consumers are showing greater interest in products made from Canadian-grown canola oil because of its low level of saturated fat and other



nutritional qualities. At the same time, export markets in Asia and other markets dropped substantially. The EC was never a major market for Canadian industry products. Meanwhile, the sources of edible oil products for the Canadian market changed little over the period. Only Asian sources have shown much change, dropping from supplying nearly one-quarter in 1988 to less than one-tenth in 1992 of Canadian market needs for edible oil products.

Strengths and Weaknesses

Structural Factors

The major factors influencing the performance of the edible oil refining and packaging industry in Canada are the wide range of products made by each company and the high quality of the raw materials available.

Most Canadian mills offer a wide range of products for a large geographic market. This requires them to run multiple production lines in their plants and also to pay high freight charges to ship the goods long distances. By contrast, individual plants in the U.S. industry specialize in producing a more limited range of products for a specific geographical area.

¹ Prior to the 1988 implementation of the Harmonized Commodity Description and Coding System of tariff classification by Statistics Canada, trade statistics for refined edible oil products were not available separately. Consequently, the period between 1988 and 1992 is the only one currently available for analysis.



As a result, Canadian plants cannot achieve the economies of scale enjoyed by their U.S. counterparts.

Margarine manufacturers compete with butter producers in the table spread market. Margarine does not contain cholesterol, which is an advantage in the health-conscious food market. However, the production of margarine results in an increase in the saturated fat content of the constituent oil.

The colouring of margarine is required in Ontario and Quebec to differentiate it from butter. As a result, manufacturers maintain inventories in three different colours, thus increasing production costs. Provincial restrictions also limit the blending of vegetable oil and dairy products, such as butter/margarine blends, except in Nova Scotia and Saskatchewan. Imports of margarine into Canada are prohibited in support of federal and provincial dairy policies.

The Canadian industry enjoys access to high-quality raw materials, primarily crude canola and soybean oil. Canada is the world leader in the production of canola oil, which is in demand in nutrition-conscious markets such as North America, largely because of its low level of saturated fat.

The Canadian industry has a considerable degree of vertical integration from crude oil production through to packaging. With respect to soybeans and canola, it has a secure raw material source and derives value-added from the packaging of finished products. Approximately three-quarters of the industry (expressed in terms of refining capacity) is fully integrated from raw material to finished product.

While oil prices are based on U.S. soybean oil markets, the price of canola seed can fluctuate because of other factors such as variable yields and the impact of export markets on domestic seed prices. As a result, profit margins on crude canola oil production frequently are low. The low profit margins impact primarily on integrated canola crushers and refiners, who must offset low crushing margins with value-added in refining and packaging.

The EC is a major producer of low erucic acid rapeseed oil (LEAR oil), which is a lower-priced competitor to canola oil (canola was developed in Canada from rapeseed and has enhanced nutritional properties). Given the level of farm subsidies in Europe, exports of EC LEAR oil to the U.S. may reduce the price of canola oil in that market and further squeeze Canadian industry profitability.

Trade-Related Factors

The edible oil refining and packaging industry in Canada is protected by a combination of tariff and non-tariff barriers. With the exception of the U.S., Canadian tariffs provide considerable protection against imports from countries having

Most Favoured Nation (MFN) status. MFN rates for the major edible oil products range from 10.8 percent to 17.5 percent ad valorem.

Under the Canada-U.S. Free Trade Agreement (FTA), all Canadian tariffs are being eliminated in 10 annual, equal steps, beginning with the implementation of the FTA on 1 January 1989. As a result of further negotiations, the removal of tariffs has been accelerated for refined canola, soybean and animal oil. Tariff rates for hydrogenated canola and soybean oil are being eliminated in the same timeframe as the refined oils. The Canadian and U.S. tariff rates for major edible oil products are shown in Table 3.

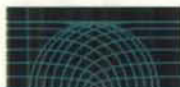
Table 3 — Canadian and U.S. Tariff Rates on Imported Edible Oil Products

		FTA		
	MFN	Jan. 1992	July 1994	Jan. 1995
Canadian tariff rates				
Refined canola oil	17.5%	free	free	free
Refined soybean oil	15%	9%	4.5%	free
Refined corn oil	15%	9%	6% ^a	4.5%
Margarine	17.5%	10.5%	7% ^a	5.25%
Vegetable shortening	17.5%	10.5%	7% ^a	5.25%
Refined animal oil	10.8%	free	free	free
Hydrogenated animal oil	17.5%	10.5%	7% ^a	5.25%
U.S. tariff rates				
Refined canola oil	7.5%	free	free	free
Refined soybean oil	22.5%	13.5%	6.75%	free
Refined corn oil	4%	2.4%	1.6% ^a	1.2%
Margarine	15.4¢ US/kg	9.2¢ US/kg	6.2¢ US/kg ^a	4.6¢ US/kg
Vegetable shortening ^b	11¢ US/kg	6.6¢ US/kg	4.4¢ US/kg ^a	3.3¢ US/kg
Refined animal oil	5%	free	free	free
Hydrogenated animal oil	11¢ US/kg	6.6¢ US/kg	4.4¢ US/kg ^a	3.3¢ US/kg

^a The tariff rates on these products were effective as of 1 January 1991.

^b Containing less than 5 percent soybean oil.

Source: Canada's Customs Tariff According to the Harmonized System Tariff Schedule of the United States, Annotated, FTA Tariff Acceleration Round 2.



Duty-free access for Canadian edible oil products to the U.S. market since 1992 enhances the price competitiveness of Canadian canola oil against competing edible oils including European LEAR oil. Tariff elimination for refined soybean oil under the FTA will take place by 1995, rather than earlier, in order to allow the Canadian industry time to adjust to increased U.S. competition and to seek export markets in the United States. The tariff rates for other edible oil products listed in Table 3 are being eliminated in 10 annual, equal steps ending on 1 January 1998.

EC tariffs on refined canola and soybean oil imports are 15 percent. EC tariffs for hydrogenated oil imports range from 17 to 20 percent. The tariff for margarine is 25 percent. Additional levies may also be added to these tariffs.

Asia is currently Canada's third largest trading partner in refined and packaged edible oils, accounting for 9 percent of Canadian imports in 1992. Japan is the major edible oil market in Asia. Japanese tariffs are 28 yen² per kilogram for refined canola, soybean and corn oil, 15 percent for hydrogenated oil and shortening, and 35 percent for margarine.

There are also a number of non-tariff barriers (NTBs) to trade in refined and packaged edible oil products. Canada maintains a prohibition on imports of margarine from all countries (which is predated by the tariff rates that remain in existence). In the EC, subsidies to oilseed producers impact on the competitiveness of imported products. Some of these NTBs may be phased out gradually if there is agreement under the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT).

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.

Under the proposed NAFTA, Mexican, Canadian and U.S. tariffs on edible oil products will be removed in 10 stages, and Mexican import licences will be converted to tariffs and eliminated over the same 10-year period. Canada will immediately exempt Mexico from the import prohibition on margarine. Ratification of this agreement is proceeding in Canada, the United States and Mexico. Table 4 shows Mexican tariffs for major edible oil products from MFN countries.

Table 4 — Mexican MFN Tariff Rates

	Rate
Refined canola oil	free
Refined soybean oil	free
Refined corn oil	free
Margarine	15%
Vegetable shortening	free
Refined animal oil	5%
Hydrogenated animal oil	5%

Source: *International Customs Journal*.

Canada exports substantial quantities of canola seed to Mexico. Under the NAFTA, tariffs and import licences on edible oil products will be eliminated, thus providing increased opportunities to export processed products.

Technological Factors

Biotechnology is enhancing the ability of plant breeders to introduce new varieties of oilseeds with particular applications for both edible oil and industrial purposes. For example, the mustard variety *Brassica juncea* is being genetically altered to create a canola-type edible oilseed and should be commercially available within four to five years.

² In July 1993, 100 yen equalled C\$1.223.



Other Factors

Nutrition is an increasingly important factor in marketing edible oil products, particularly in Canada and the United States. Consumers are looking for a product with a low level of saturated fat. Edible oil products from Canadian-grown canola and soybeans are well suited to this marketing environment. Canola oil actually has the lowest level of saturated fat of all commercial edible oils, and Canadian and U.S. companies are increasingly marketing this oil through health-related promotions.

The market share of animal oils and fats is quite small in North America. Concerns about cholesterol and saturated fat limit consumer acceptance. Fish oil has a more favourable nutritional profile, but market share is limited (for further information, see the industry profile on *Fish Meal and Fish Oil*).

The demand for animal fat substitutes in food ingredients is providing a market opportunity for certain vegetable oil products. Modified vegetable oils are being used to replace fat usually derived from animal sources.

A potential butterfat surplus could arise because of the increasing consumer demand for milk with 1 percent butterfat content rather than 2 percent. If the trend continues, there may be increased competition between butter and margarine.

Evolving Environment

As a result of the FTA, U.S. and Canadian tariffs on refined and hydrogenated canola oil have been eliminated. The corresponding tariffs for soybean oil will be eliminated by January 1995. Tariffs on other refined and packaged edible oils will be removed by January 1998. The FTA does not exempt the U.S. from Canada's ban on imports of margarine, nor would the NAFTA if it is approved. However, in the multi-lateral trade negotiations under the GATT, NTBs such as the margarine import prohibition may be converted to tariffs, which would then be reduced gradually.

The Canadian edible oil industry has restructured to meet the increased competition and opportunities that are resulting from the elimination of tariffs under the FTA and the NAFTA. A new company, CanAmera Foods, was formed in 1992 from the combination of assets from three companies. CanAmera is an integrated crushing, refining and packaging company with increased scale to compete in the Canadian and U.S. markets. It is also linked through ownership with Central Soya Company Incorporated, a major edible oil processor in the United States. ADM Agri-Industries Ltd. has purchased a canola crushing plant and is now an integrated crusher and refiner in both eastern and western Canada. Its parent company, Archer Daniels Midland Co., is also a major U.S. edible oil

processor. These changes have led to an industry that is further integrated on an east-west basis, in terms of raw material (canola and soybeans), and in terms of the production of a finished product.

Market development in the United States will be important to achieve the scale of operations necessary to compete with major U.S. producers. The linkages of CanAmera and ADM Agri-Industries with their U.S. parents provide opportunities for north-south trade. Multiplant flexibility also improves their capability to serve the North American market.

Competitiveness Assessment

The Canadian edible oil refining and packaging industry will be increasingly competitive in North American markets as tariffs and NTBs are eliminated. In certain offshore markets, high tariffs, NTBs and competitors' subsidy programs will continue to limit access unless greater trade liberalization is achieved through the GATT's multilateral negotiations.

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PRINCIPAL STATISTICS^a

	1988	1989	1990	1991	1992
Establishments	30	31	29	32	31
Shipments (thousands of tonnes)	616	606	627	724	764

^aSee *Oils and Fats*, Statistics Canada Catalogue No. 32-006, monthly.

TRADE STATISTICS

	1988	1989	1990	1991	1992
Exports ^a					
(\$ millions)	76	76	96	117	158
(thousands of tonnes)	109	102	133	184	247
Domestic shipments (thousands of tonnes)	507	504	494	540	517
Imports ^b					
(\$ millions)	63	59	72	77	91
(thousands of tonnes)	66	55	63	71	78
Canadian market (thousands of tonnes)	573	559	557	611	595
Exports (% of shipments, by volume)	18	17	21	25	32
Imports (% of Canadian market, by volume)	12	10	11	12	13

^aSee *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

^bSee *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.



SOURCES OF IMPORTS^a (% of total value)

	1988	1989	1990	1991	1992
United States	37	43	33	44	44
European Community	33	27	31	30	33
Asia	24	20	14	12	9
Other	6	10	22	14	14

^aSee *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

DESTINATIONS OF EXPORTS^a (% of total value)

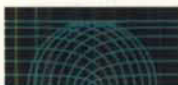
	1988	1989	1990	1991	1992
United States	68	68	86	87	93
European Community	1	—	—	—	—
Asia	11	13	1	3	—
Other	20	19	13	10	7

^aSee *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

REGIONAL DISTRIBUTION^a (1991)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	10	26	42	22	—
Refining capacity (% of total)	—	11	49	40	—

^aSee *Oils and Fats*, Statistics Canada Catalogue No. 32-006, monthly.



SELECTED MAJOR FIRMS

Name	Country of ownership	Location of major plants
ADM Agri-Industries Ltd.	United States	Windsor, Ontario
Best Foods Canada (1991) Inc. (Subdivision of Canada Starch Company Inc.)	United States	Cardinal, Ontario
CanAmera Foods	Canada/Italy	Montreal, Quebec Dundas, Ontario Toronto, Ontario Altona, Manitoba Russell, Manitoba Nipawin, Saskatchewan Edmonton, Alberta Wainwright, Alberta
Canbra Foods Ltd.	Canada	Lethbridge, Alberta
Kraft General Foods Canada Inc.	United States	Mont-Royal, Quebec
Thomas J. Lipton Inc.	United Kingdom/Netherlands	Rexdale, Ontario
Procter & Gamble Inc.	United States	Hamilton, Ontario

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