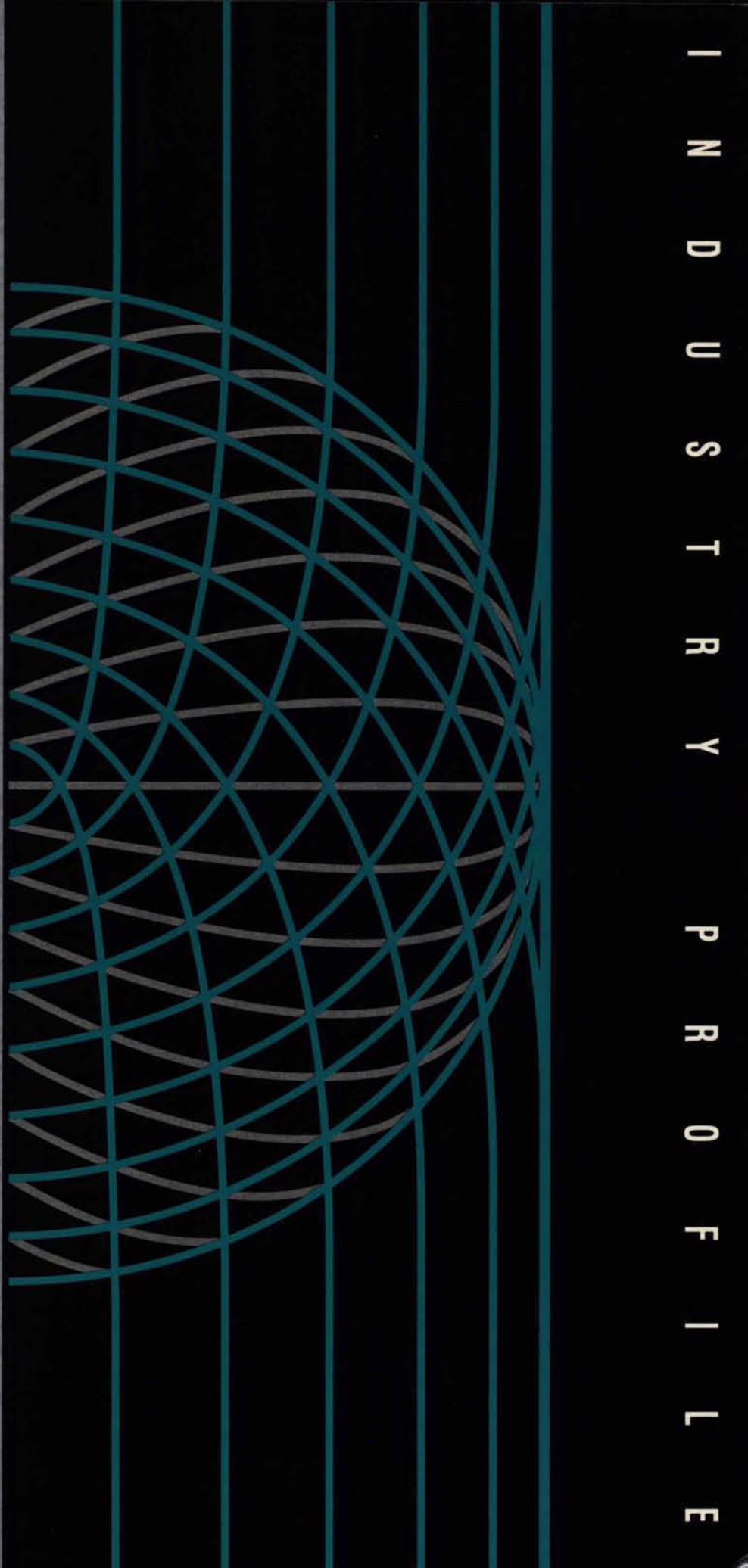


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 Industry, Science and Technology Canada Industrie, Sciences et Technologie Canada

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Industry, Science and Technology Canada (ISTC) and International Trade Canada (ITC) have established information centres in regional offices across the country to provide clients with a gateway into the complete range of ISTC and ITC services, information products, programs and expertise in industry and trade matters. For additional information contact any of the offices listed below.

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Prince Edward Island
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Tel.: (902) 566-7400
Fax: (902) 566-7450

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Publication Inquiries

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Canada

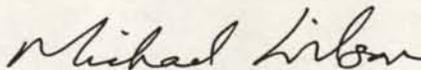
1990-1991

PET FOODS**FOREWORD**

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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 Canadian pet food industry manufactures foods for all types of household pets, with dog and cat rations accounting for about 98 percent of industry shipments. The product range includes moist (canned), semi-moist, dry and frozen pet food. Dog food possesses the single largest share of the pet food market; however, the market share of cat food has been growing.

Shipments of pet food products in 1989 in Canada are estimated to have been worth \$484 million (Figure 1). There are approximately 110 manufacturers of pet food in Canada, employing about 1 850 people. In 1989, Canada exported \$39 million in pet food products and imported almost \$95 million, for a trade deficit slightly under \$56 million. Approximately 90 percent of Canada's trade in pet food is with the United States.

The principal raw materials used by the pet food industry are by-products from the meat, grain and fish processing industries. The pet food industry provides an important market for these by-products. Some pet food manufacturers are integrated with feed milling or with meat or fish processing operations. In addition, the industry purchases and utilizes a large quantity of bags, paperboard boxes and metal containers.

Pet foods are generally sold by manufacturers to wholesalers, who in turn sell to retailers — either grocery stores or pet food stores. Some dry product may be sold through the retail outlets of animal feed companies. The large pet food producers in Canada manufacture a wide range of grocery products.

The Canadian industry is dominated by five multinational manufacturers of nationally known brands (Effem Foods, Nabisco, Nestlé, Quaker Oats and Ralston Purina), all with plants in Ontario. These companies account for approximately 80 percent of Canadian industry shipments.



The multinationals supply the North American market from plants located in Canada and the United States. In some cases, a Canadian plant may have a mandate to ship to its parent to supply U.S. demand, while in other cases the flow is reversed. The direction of intra-company trade is determined by plant location and efficiency.

There are also a number of regional pet food manufacturers, often associated with a feed mill or meat-packing operation. In contrast to the national brands marketed by the multinationals, regional producers tend to serve local markets. These small producers are found in all Canadian regions. They may produce for the private labels of other manufacturers, in addition to selling products carrying their own names.

Performance

The Canadian pet food industry has experienced strong growth in recent years, with the value of shipments almost doubling in the period between 1982 and 1989. During this period, the structure of demand within the industry has also changed in response to changes in demographics.

Since its origin, the pet food industry has depended upon the dog population as its major ultimate consumer. While dogs still account for the greatest volume of products consumed, the cat food subsector has been growing in importance as the profit centre of the industry. Growing numbers of families, especially those with two wage earners, have chosen to keep a cat rather than a dog, because cats require less care and attention. Increasing urbanization contributes to this trend, because urban conditions favour small animals over large animals.

Another factor that has affected the pet food market is the increasing concern of pet owners for the nutritional qualities of pet food. This has led to the emergence of a premium and special diet subsector of the pet food market, which is largely served through specialty pet food retail stores rather than grocery stores. The Canadian pet food industry is in the process of adopting uniform nutritional standards for its products, and the Canadian Veterinary Medical Association (CVMA) certifies pet food brands that meet its standards. Currently, nine pet food manufacturers are able to display the CVMA's logo on their products, indicating that those products are considered nutritionally complete.

Increases in the value of pet food sales in North America have recently been greater than increases in tonnage, indicating a consumer preference for higher-value pet food and reflecting the shift to small animals that consume less. Leading growth categories in Canada include cat, luxury and specialty

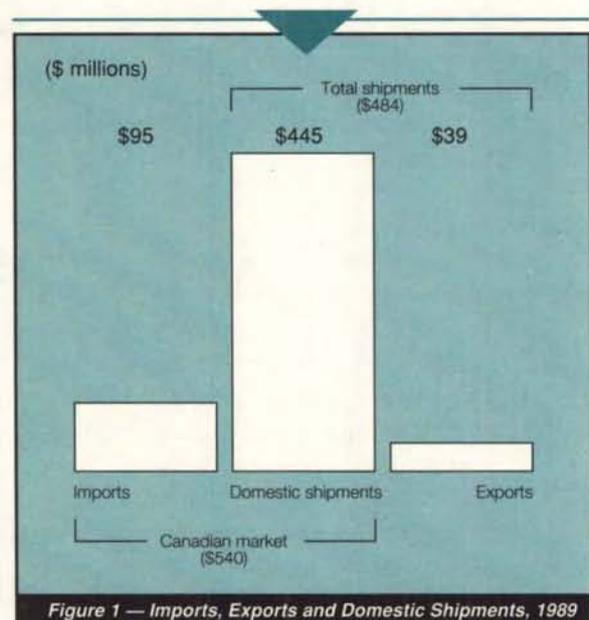


Figure 1 — Imports, Exports and Domestic Shipments, 1989

foods. Categories where demand has been flat or declining include maintenance, canned and semi-moist dog and cat food, which are primarily lower-value products.

The Canadian pet food industry is becoming more involved in international trade. The proportion of imports in the Canadian market and the proportion of exports as a share of total industry shipments are both increasing. In 1985, exports accounted for 2 percent of shipments, but by 1989 exports had risen to 8 percent. Similarly, in 1985, imports held a 12 percent share of the Canadian market, which had risen to 18 percent in 1989. The industry continues to experience a trade deficit.

The United States is our major trading partner, accounting for 88 percent of exports from Canada and 93 percent of imports into Canada. The very large percentage of trade with the United States can be ascribed partly to intra-company transfers within the multinational firms, as well as the proximity of the Canadian and U.S. industries and markets.

Recently, the Japanese pet food market has been expanding at a very rapid rate, and several Canadian companies have entered this market. Exports to Japan in 1989 (\$2 million) were modest in comparison with exports to the United States but still constituted the second largest export market for Canadian pet food. The rapid market growth in Japan, which has outstripped domestic production, is due to the increasing tendency of Japanese pet owners to feed their animals prepared pet food.

At the time of writing, the Canadian and U.S. economies were showing signs of recovering from a recessionary period.



During the recession, companies in the industry generally experienced reduced demand for their outputs, in addition to longer-term underlying pressures to adjust. In some cases, the cyclical pressures may have accelerated adjustments and restructuring. With the signs of recovery, though still uneven, the medium-term outlook will correspondingly improve. For the pet food industry, the effects of the recession may have been reflected in greater demand for lower-value, maintenance products and correspondingly less demand for higher-value, luxury products, a reversal of present trends.

Strengths and Weaknesses

Structural Factors

Important structural factors affecting the competitiveness of the pet food industry include the availability and price of raw material, packaging costs, economies of scale, advertising, transportation and technology.

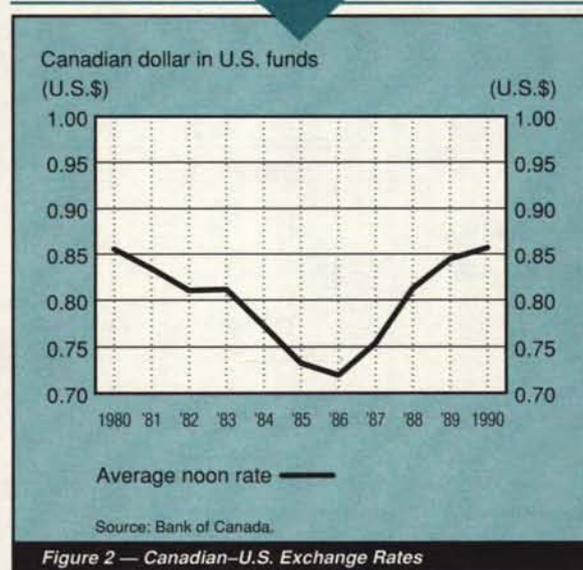
The large meat, dairy, fish and grain processing industries located in Canada provide an abundance of by-products available as raw materials for pet food production across the country. Seasonal or periodical shortages may occur in meat by-products, but demand can normally be supplied through imports.

The prices of dairy and poultry products are influenced by supply management practices. Although a government review of supply management in the dairy and poultry industries is under way, the prices of these industries' products remain generally higher in Canada than in the United States.

Packaging is a major cost component, and items such as bags, cans and labels are primarily obtained domestically. Pet food manufacturers in Canada favour free trade in packaging materials.

Canadian pet food manufacturers in general do not enjoy economies of scale equal to their U.S. counterparts. This disadvantage is experienced more by regional producers than the multinationals who may take advantage of production sharing or have product mandates from their parent companies.

The development, launching and continuing promotion of pet food brands is a major cost element of the pet food industry. Pet foods are a consumer product sold through grocery stores and specialty retail outlets, with the support of media advertising. Competition for shelf space and between retail outlets requires a high degree of promotional support. Multinational producers, with their greater sales volume and consequently larger advertising budgets, have an advantage over regional producers.



Transportation cost is a factor that contributes to the viability of regional pet food manufacturers. Finished products, such as canned or dry pet food in bags, are not generally shipped long distances because their weight and relatively low value make shipping too expensive. Regions that are distant from the Central Canadian market tend to be served by local producers, particularly for products at the low end of the price scale, although these markets are vulnerable to imports of major brands that are produced in adjacent areas of the United States.

Technological developments in the pet food industry include new products, improved packaging and the automation of production. New products are arising from the demands for increased nutrition, while greater convenience is provided through introduction of new packaging, such as trays and chubs (similar to sausage casings), to meet consumer demand. Computer-aided manufacturing is becoming more common in the United States; consequently Canadian producers will need to increase their own levels of automation to stay competitive.

Trade-Related Factors

As a result of negotiations on accelerated tariff removal under the Canada-U.S. Free Trade Agreement (FTA), which was implemented on 1 January 1989, dog and cat food from the United States enter Canada duty-free as of April 1990. As exports to the United States from Canada were already duty-free, free trade in pet food now exists between the two countries.

The Canadian tariff on dog and cat food from countries having Most Favoured Nation (MFN) status is 6 percent,



while the General Preferential Tariff applied to imports from developing countries is 4 percent. Japan generally does not have tariffs on dog and cat food, which are bound under the General Agreement on Tariffs and Trade, but one item is bound at 15 percent. The European Community imposes a variable levy on imports of dog and cat food.

Other Factors

The industry has expressed concern about the relatively higher value of the Canadian dollar in recent periods vis-à-vis the American dollar (Figure 2). On the other hand, under certain economic conditions, it is widely recognized that a significantly lower value is likely to be inflationary. The resulting higher domestic costs and prices can erode, over time, the short-term competitive gains of such a lower-valued dollar.

Environmentally, the pet food industry has a positive impact, since it uses by-products that would otherwise pose a problem for waste disposal. However, the industry is also a large user of packaging materials, such as single-serving cans, which contribute to municipal waste disposal problems.

Evolving Environment

The pet food industry in Canada is likely to be strongly influenced in the future by two trends. The first is the increasing proportion of cats in the pet population. The second is the increasing demand by pet owners for additional nutrition in pet food products. This demand is supported through the specialty pet food stores that offer, sometimes exclusively, high nutrition and special diet products. These trends indicate that a lower volume of products will be produced, but those products will be of higher value to meet an increasingly sophisticated market. Packaging innovations will become more important to meet the demand for convenience, to accommodate smaller portions and to reduce waste disposal problems. The long-term market direction of the industry appears to be toward enhancing the value of its products.

Rationalization under the FTA will allow producers to reduce transportation and input costs as well as to specialize in order to improve Canada's competitiveness in markets to which U.S. producers will have access. However, Canadian branch plants that had been established because of tariff protection will need to improve their competitiveness.

Regional Canadian pet food manufacturers, particularly integrated operations, will continue to enjoy ready access to raw materials to supply local markets and to make products for the private labels of larger firms.

The Japanese market should continue to provide an opportunity for Canadian pet food manufacturers. Other Asian

countries that parallel Japan's market growth and supply problems may also provide future market opportunities for Canadian manufacturers.

Competitiveness Assessment

The Canadian pet food industry has shown itself to be generally competitive in the North American and, more recently, the Japanese markets. The industry enjoys good access to raw materials, in some cases through integrated operations. Pet food manufacturers are well positioned to serve major and regional markets in Canada, as well as some markets in the United States. Currently, the industry is embarked on a rationalization process, which has resulted in the closure of uncompetitive plants.

Exports to the United States have shown strong growth from a small base. Exports, although still smaller than imports, have been growing faster than imports since 1982.

For further information concerning the subject matter contained in this profile or in the ISTC publication listed on page 7, contact

Food Products Branch
Industry, Science and Technology Canada
Attention: Pet Foods
235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-2924
Fax: (613) 954-3107



PRINCIPAL STATISTICS^a

	1982	1983	1984	1985	1986	1987	1988	1989
Establishments ^b	N/A	N/A	76	88 ^d	98	105	105	110
Employment	N/A	N/A	1 700	1 750	1 800	1 825	1 825	1 850
Shipments ^c (\$ millions)	238	275	291	323	335	N/A	450	484 ^d
(thousands of tonnes)	290	317	340	386	N/A	N/A	N/A	N/A

^aISTC estimates. This profile as well as those dealing with *Livestock and Poultry Feeds* and *Processed Forage* relate to the feed industry, SIC 1053 (see *Standard Industrial Classification, 1980*, Statistics Canada Catalogue No. 12-501). Establishments, employment and shipments data for SIC 1053 are shown in the profile on *Livestock and Poultry Feeds*. Like data in the other profiles relate to specific products and activities forming part of SIC 1053; such data are therefore not additive.

^bData include some establishments that primarily produce other products in addition to pet foods.

^cData include shipments from some establishments that primarily produce other products in addition to pet foods.

^dValue provided by Pet Food Association of Canada.

N/A: not available

TRADE STATISTICS

	1982	1983	1984	1985	1986	1987	1988 ^a	1989 ^a
Exports ^b (\$ millions)	8	7	6	7	11	16	20	39
Domestic shipments (\$ millions)	230	268	285	316	324	N/A	430	445
Imports ^c (\$ millions)	32	24	38	44	49	60	70	95
Canadian market (\$ millions)	262	292	323	360	373	N/A	500	540
Exports (% of shipments)	3	3	2	2	3	N/A	4	8
Imports (% of Canadian market)	12	8	12	12	13	N/A	14	18

^aIt 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.

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

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

N/A: not available

SOURCES OF IMPORTS^a (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	97	91	81	74	73	77	91	93
European Community	—	1	3	3	4	3	2	1
Asia	—	1	2	4	2	1	5	5
Other	3	7	14	19	21	19	2	1

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



DESTINATIONS OF EXPORTS^a (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989
United States	42	49	63	65	73	81	79	88
European Community	19	9	3	10	10	2	4	1
Asia	3	1	1	1	5	—	6	6
Other	36	41	33	24	12	17	12	5

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

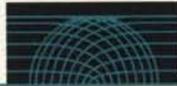
REGIONAL DISTRIBUTION^a (average over the period 1987 to 1989)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	4	9	34	30	23

^aISTC estimates.

MAJOR FIRMS

Name	Country of ownership	Location of major plants
Shur-Gain Pet Products (member of Maple Leaf Foods Inc.)	United Kingdom	St. Marys, Ontario
Effem Foods Ltd.	United States	Bolton, Ontario
Nabisco Brands Ltd.	United States	Mississauga, Ontario
Nestlé Enterprises Limited (Friskies Pet Care Division)	Switzerland	Don Mills, Ontario
Quaker Oats Company of Canada Ltd.	United States	Peterborough, Ontario
Ralston Purina Canada Inc. (Grocery Products Division)	United States	Mississauga, Ontario



SELECTED REGIONAL FIRMS

Name	Country of ownership	Location of major plants
Champion Petfoods Ltd.	Canada	Barrhead, Alberta
Co-op Atlantic	Canada	Moncton, New Brunswick Truro, Nova Scotia
L.B. Products Limited	Canada	Boucherville, Quebec
Martin Pet Foods Inc.	Canada	Elmira, Ontario
Park City Products Limited	Canada	Winnipeg, Manitoba
TRI-V Pet Foods Ltd.	Canada	Chilliwack, British Columbia

INDUSTRY ASSOCIATION

Pet Food Association of Canada
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Tel.: (416) 891-2921

SECTORAL STUDIES AND INITIATIVES

The following publication is available from the nearest Business Service Centre (see inside front cover) or from ISTC headquarters (see address on page 4).

Directory of Canadian Pet Food Manufacturers

Assembled for Industry, Science and Technology Canada in September 1990 by W.M. Price, this directory provides company names, addresses, telephone and fax numbers, contact names, products, brands, and ownership information for 66 Canadian companies.

Printed on paper containing recycled fibres.



