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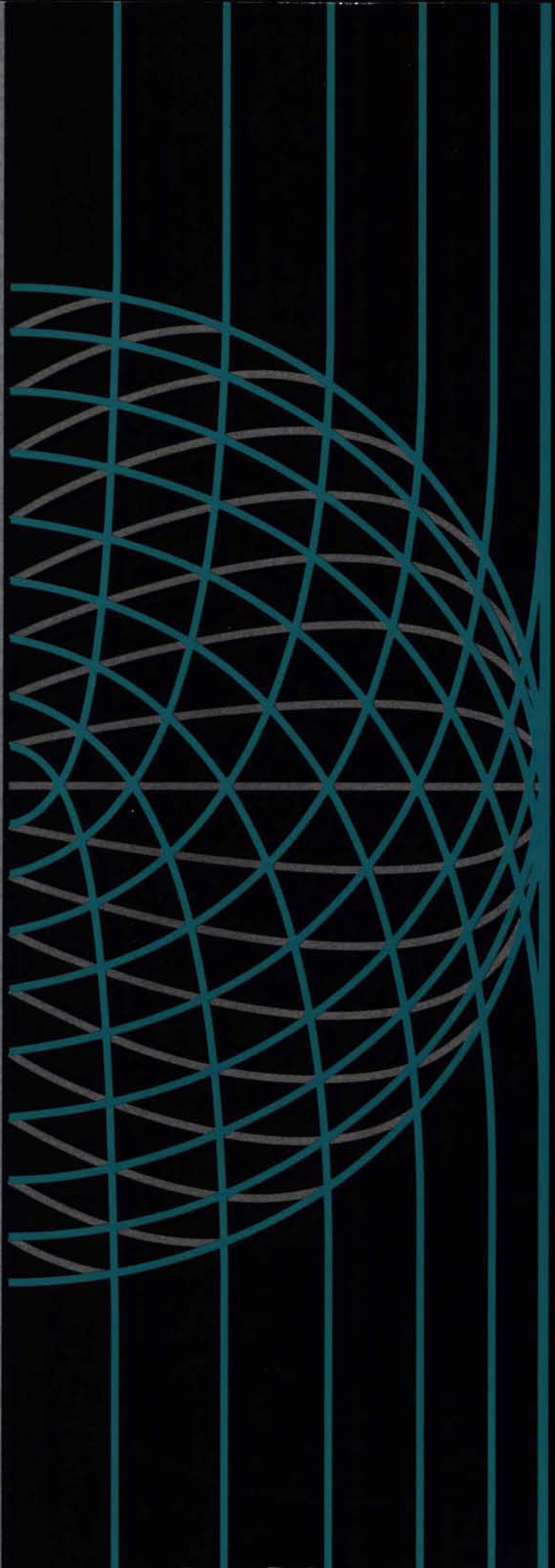

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Fax: (403) 292-4578

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V6B 5H8
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Fax: (604) 666-0277

Yukon

Suite 301, 108 Lambert Street
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Y1A 1Z2
Tel.: (403) 668-4655
Fax: (403) 668-5003

Northwest Territories

Precambrian Building
10th Floor
P.O. Bag 6100
YELLOWKNIFE
Northwest Territories
X1A 2R3
Tel.: (403) 920-8568
Fax: (403) 873-6228

ISTC Headquarters

C.D. Howe Building
1st Floor East, 235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 952-ISTC
Fax: (613) 957-7942

ITC Headquarters

InfoExport
Lester B. Pearson Building
125 Sussex Drive
OTTAWA, Ontario
K1A 0G2
Tel.: (613) 993-6435
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I N D U S T R Y P R O F I L E

1990–1991

OILSEED CRUSHING

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 oilseed crushing industry consists of firms that process oilseeds into vegetable oil and protein meal. The oilseed is crushed and the crude oil is largely extracted from the resulting meal. The oil is subsequently refined and further processed to produce salad oils, margarines and a wide range of other food products. Oil from oilseeds is also used to produce alkyds for various industrial uses, and protein meal is incorporated into animal feed, pet foods and various products for human consumption.

Some oilseed crushers also fully refine part of their crude oil output. As a result, data compiled by Statistics Canada include some refined oil within the total output of oilseed crushers.

The two major oilseeds processed in Canada are canola (improved varieties of rapeseed) and soybeans. Canola is crushed mainly for its oil because its seed yields about 40 percent oil and 60 percent meal, the oil being the more valuable of the two products. Soybeans are crushed primarily for the meal, yielding about 80 percent meal and 20 percent oil. Relatively small quantities of flaxseed and sunflowerseed are also processed domestically. Canola crushers currently use 40 percent of Canadian canola production, while soybean processors use 85 to 90 percent of Canadian soybean production and also import some soybeans. The remainder of oilseed production is exported for processing into vegetable oil and meal as well as food-grade soy products.

In 1989, the industry employed 1 112 people and shipments were valued at $854 million (Figure 1). Crude canola and soybean oil accounted for the largest percentage of shipments, followed by protein meal and other products,

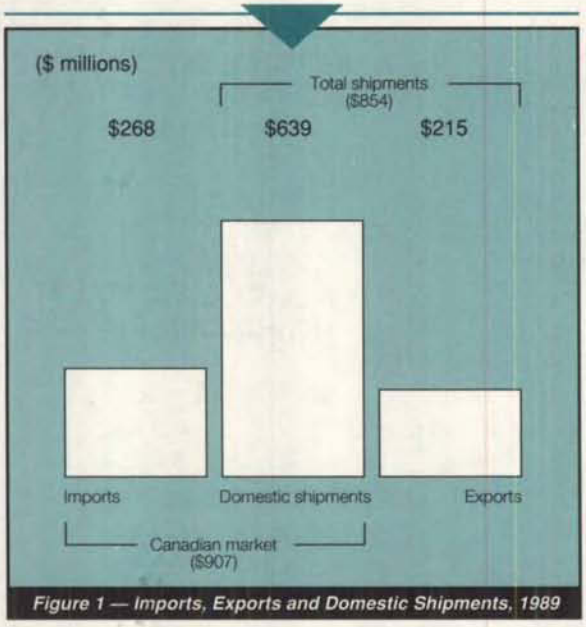

Figure 1 — Imports, Exports and Domestic Shipments, 1989

including lecithin, seed hulls and screenings. The relative proportion of canola and soybean crushings varies by a small degree from year to year, with canola crushing being driven by oil demand and soybean crushing by meal demand.

Exports of oilseed products consist mainly of crude and refined canola oil and meal. The major Canadian canola oil markets in 1990 were the United States, India and Indonesia, while the major markets for canola meal were the United States, Japan, Norway and the Republic of Korea. Total canola exports in 1990 were valued at $175 million, of which oil accounted for $108 million and meal $67 million.

Canada is a net exporter of vegetable oil but a net importer of protein meal. Soybean meal is the major import item, accounting for $144 million of the total imports of all oilseed products, which amounted to $238 million in 1990. About two-thirds of the soybean meal imports go to Eastern Canada and one-third to Western Canada. Other imported products include small amounts of palm oil, olive oil, peanut oil, cottonseed oil and various other edible oils, which can be substituted for domestically produced oils or which serve a certain market niche. Major international competitors in oilseed products include the United States, the European Community (EC), Brazil, Argentina and Malaysia.

The production of oilseeds in Canada is highly regionalized, a circumstance that has influenced the pattern of oilseed crushing. Flaxseed and sunflowerseed are grown and processed mainly in the Prairie provinces, whereas soybeans are mostly grown and processed in southwestern Ontario. Most canola is grown in Western Canada, while canola crushing capacity is divided 70 percent in the West and 30 percent in Ontario. Of the five companies in the industry, three operate solely in the Prairie provinces while two operate in both Western Canada and Ontario. The Prairie provinces account for 58 percent of the total crushing capacity while Ontario has 42 percent.

The major company in the crushing industry, Can Amara Foods, owns 5 of the 11 crushing plants currently operating in the industry and accounts for 52 percent of crushing capacity. The second largest company, ADM Agri-Industries, owns two plants, which represent 29 percent of crushing capacity, and controls a third. Can Amara Foods is jointly owned by CSP Foods, a Canadian company, and Central Soya of Canada, which is Italian-owned. ADM Agri-Industries is U.S.-owned. The remaining three companies are Canadian-owned.

Canola crushers produce oilseed products for the national Canadian market and for export markets. Exports of canola products from the Prairie provinces are shipped through Vancouver or directly to the United States. Soybean crushers focus mainly on the Eastern Canadian market.

Canola is freely traded in Canada, with futures trading available through the Winnipeg Commodity Exchange. Canola crushers may hedge oilseed purchases through the Commodity Exchange, or they may purchase directly from producers. Soybean crushers, on the other hand, negotiate prices and purchases directly with dealers, brokers and growers, on the basis of ground rules agreed to with the Ontario Soybean Growers Marketing Board. Both soybean and canola crushers use the Chicago Board of Trade futures exchange to hedge oil and meal sales.

Performance

A major advance in the Canadian oilseed industry was the development during the mid-1970s of nutritionally improved rapeseed varieties referred to as canola, making that crop more attractive as a source of edible oil and protein meal.

Since 1982, total industry shipments, exports and imports have fluctuated, while showing overall increases, and employment has declined (Figure 2). Plant shutdowns have become more frequent recently in response to poor crushing margins, loss of export potential as a result of subsidized competition abroad, and raw material shortages.

Over the past 15 years, the domestic market share for canola oil and meal has increased, with oil making substantial gains. In 1975, canola oil accounted for about 33 percent of the Canadian vegetable oil market, while soybean oil accounted for 36 percent of the market. However, by 1989, the canola market share had risen to about 63 percent, compared with 22 percent for soybean oil. In both years, other vegetable oils (such as corn, sunflowerseed and peanut oil) made up the

remainder. In 1975, canola meal represented 16 percent of the Canadian vegetable protein meal market, while soybean meal held fully 77 percent. In 1989, their respective shares were 18 percent and 68 percent, indicating a slow transfer of market share to canola meal.

The international market potential for Canadian vegetable oils has decreased substantially because of export subsidies used by competitors such as the EC and the United States, and because of the increasing production of other competing oils such as palm oil, coconut oil and South American soybean oil. As a result, canola oil exports are largely to the U.S. market or to other countries in the form of food aid through the Canadian International Development Agency (CIDA). Protein meal export sales are made on a commercial basis.

Figure 2 — Total Shipments and Employment

Strengths and Weaknesses

Structural Factors

The international market for edible oil and protein meal is extremely price-competitive. In the edible oil market, canola and soybean oil are often undercut by oils having lower production costs. The lower price for palm oil, for example, is a key factor in its growth, allowing it to penetrate developing-country markets. However, the nutritional quality of canola and soybean oil is an asset in developed, health-conscious markets such as the United States and Canada, where nutritional considerations outweigh the higher price. Another advantage of the Canadian domestic market is that oilseed crushers do not have to compete with export subsidies to the same extent as in offshore markets.

Canadian expertise in canola crushing and refining has been instrumental in developing new markets. Technical missions inform buyers and potential buyers about how to process and use canola and its products. Although competitors such as the EC are now growing improved varieties of rapeseed, Canada grows the most advanced varieties of canola, which are adapted to Canadian growing conditions. This technological edge is essential to maintaining market share in Canada and in certain export markets, such as the United States. However, one disadvantage of Canadian canola is its low producer return per unit of area planted relative to other oilseeds such as soybeans or European rapeseed, the latter being a winter variety that has higher yields than the spring varieties that are suitable for the Western Canadian climate.

Canola oil has gained international recognition as a high-quality liquid oil with significant nutritional benefits and particular suitability for products such as salad and cooking oils. This increasing recognition, and its acceptance by Procter & Gamble in the United States as the company's major vegetable oil brand, Puritan Oil, has opened up a new and potentially lucrative market in the United States for canola oil. The American Health Foundation named Puritan Oil "Food Product of the Year" for 1988. In 1989, canola oil received the Product Acceptance Award of the American College of Nutrition.

A problem that has plagued the Canadian canola crushing industry is the high price for raw seeds. Domestic crushers are at a disadvantage in developing and maintaining export markets in competition with foreign crushers willing to bid up prices in order to ensure seed supplies. For example, Japanese crushers import approximately half of the Canadian canola seed production duty-free. They are able to pay high prices for it because their domestic edible oil price levels are protected by a high tariff imposed on imported vegetable oil. This tariff also allows Japanese oilseed processors the latitude to outbid Canadian crushers whenever seed supplies become tight.

Another factor contributing to the upward pressure on seed prices is the influence of the federal government's rail subsidies under the *Western Grain Transportation Act* (WGTA). The subsidy covers approximately 70 percent of the cost of moving eligible agricultural commodities to export position, which assists Prairie canola seed growers. However, it creates disadvantages for Western crushers, who pay the Canadian export position price for seed minus only about 30 percent (rather than 100 percent) of the shipping costs to export position, resulting in prices higher than the comparable price paid by their cross-border competitors.

On the other hand, Western canola crushers receive the benefits of WGTA rates on canola products moved to Vancouver and to Thunder Bay-Armstrong in Ontario. Western crushers also enjoy regulated freight rates, called Minimum Compensatory Rates (MCRs), on their products moving from Thunder Bay to Eastern Canada. The WGTA applies as far as Thunder Bay on Western canola seed moving eastward for crushing in Ontario. The WGTA does not apply on seed, oil and meal carried beyond Thunder Bay or through Vancouver for export to the United States.

While seed prices are affected by the Japanese market and transportation subsidies, the price of canola oil and meal is set with reference to U.S. levels. This frequently results in low or negative margins for canola crushers leading to plant closures. Loss of export market potential also intensifies domestic competition and puts downward pressure on margins.

Although both soybean meal and canola meal are used as protein supplements in animal feed, nutritional considerations and user preferences for soybean meal limit the amount of canola meal used in animal rations in Canada and in export markets. Canola meal is lower in protein and lysine and higher in fibre and has less digestible energy than soybean meal. Soybean meal, with a minimum protein content of 48 percent and a maximum fibre content of 3.5 percent, is the protein supplement of choice in much of Canada. Soybean meal is also preferred to canola meal in intensive livestock production such as poultry, hog and dairy cattle operations. The Western Canadian soybean meal market (200 000 tonnes) is supplied from border plants in the United States.

Eastern soybean crushers face pressures on profits because they are often forced to operate below capacity. Although soybean oil has advantages for purposes of hydrogenation (margarine production), growth in the domestic market share of canola oil at the expense of soybean oil has led to a decrease in soybean crushing and to growth in imports of soybean meal. The access of eastern crushers to the U.S. soybean oil market has been hindered by U.S. tariffs in the past. Under the Canada-U.S. Free Trade Agreement (FTA) implemented on 1 January 1989, however, provision has been made for an accelerated tariff elimination. Crude soybean oil became tariff-free in January 1992, and the tariff on refined soybean oil, 13.5 percent in 1992, will be phased out by 1995.

For both soybean and canola crushers, the competitiveness and viability of the refining and further processing industries are important factors. Approximately 65 to 75 percent of the crude oil produced is refined domestically. At present, Canadian refineries are generally smaller and less specialized than those in the United States.

Trade-Related Factors

Crude and refined vegetable oils are subject to worldwide import regulations and high tariffs to protect local crushers and refiners and, in some cases, growers as well. Examples of Canadian and U.S. tariffs on vegetable oil and related products from countries having Most Favoured Nation (MFN) status and under the FTA are shown in the table below.

Duty-free entry to Canada under the General Preferential Tariff (GPT) rate is accorded to imports of crude oils (e.g., palm and coconut) and some refined oil fractions from developing countries. In 1992, the FTA rules of origin were amended so that only those vegetable oils converted from oilseeds in either Canada or the United States would benefit from FTA tariff rates. Prior to this change, processing of offshore

Tariffs on Vegetable Oil and Related Products

	MFN	FTA	
		July 1991	Jan. 1992
Canadian tariff rates			
Canola oil			
•crude	10%	3.5%	free
•refined	17.5%	6.1%	free
Corn oil			
•crude	7.5%	3%[a]	1.5%
•refined	15%	10.5%[a]	9%
Soybean oil			
•crude	7.5%	2.6%	free
•refined	15%	10.5%	9%
Raw oilseed and meal	free	free	free
U.S. tariff rates			
Canola oil			
•crude and refined	7.5%	2.6%	free
Canola meal	0.26¢ U.S./kg	free	free
Canola seed	0.9¢ U.S./kg	0.3¢ U.S./kg	free
Corn oil			
•crude	4%	1.6%[a]	0.8%
•refined	4%	2.8%[a]	2.4%
Soybean oil			
•crude	22.5%	7.8%	free
•refined	22.5%	15.7%[a]	13.5%
Soybean meal	0.7¢ U.S./kg	0.1¢ U.S./kg	free
Soybean seed	free	free	free

[a]The tariff rates on these products were effective as of January 1991.

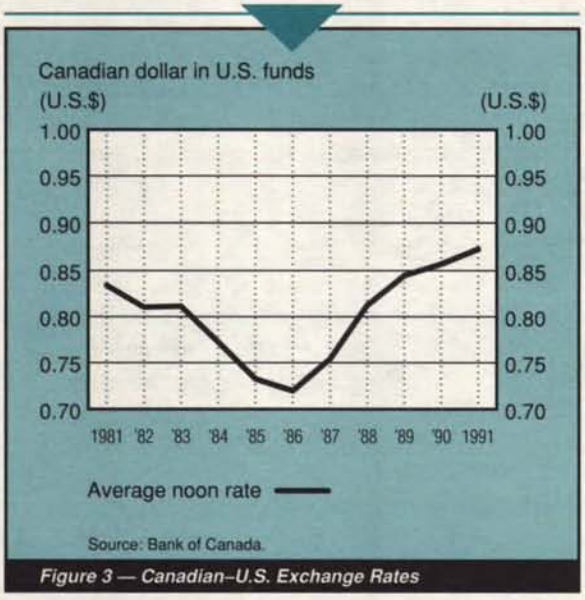

Figure 3 — Canadian–U.S. Exchange Rates

crude vegetable oils into refined oils was sufficient to confer the benefit of FTA tariff rates to these refined oils.

Japanese tariffs on canola and soybean oil range from 17 to 20.7 yen[1] per kilogram. Oilseeds enter Japan duty-free. The Japanese import tariff in 1992 is $191 per tonne on canola oil at the maximum rate. This specific tariff has increased from $60 per tonne in less than seven years with the appreciation of the yen and now represents a formidable barrier. Tariffs for canola and soybean meal are 7 percent ad valorem.

EC tariffs on canola and soybean oils are 10 percent (crude) and 15 percent (refined). Canola and soybean meal enter duty-free.

Oilseed crushing industry exports face a number of non-tariff barriers (NTBs), especially in offshore markets. Some countries such as Norway employ restrictive import controls or licences while Algeria uses a state trading agency to control imports. Traditional importers of oilseed products, such as India, are striving for self-sufficiency and have therefore erected tight controls on imports. Where self-sufficiency in oilseed production is not possible, high tariffs and NTBs favour the importation of oilseed for crushing rather than the importation of oil and meal. In the EC, the crushing subsidy provided to oilseed processors effectively makes imports uncompetitive with domestic production. In a General Agreement on Tariffs and Trade (GATT) panel, the United States successfully challenged the EC crushing subsidy program. As a result, the EC announced its intention to change the method of payment from a subsidy for processors to a subsidy for producers, effective next crop year, to resolve the GATT inconsistency. However, the United States is of the opinion that this new regime does not redress the loss of access and has successfully challenged the EC through a second GATT panel. Canada has reserved the right to initiate its own case.

A prohibition on imports of margarine into Canada will continue to benefit domestic oil refiners and, indirectly, the crushing industry by protecting an outlet for refined oil.

The FTA has affected the oilseed crushing industry by eliminating tariffs on oil and meal by 1992 (with the exception of corn oil and refined soybean oil) and by eliminating rail transport subsidies provided through the WGTA for canola products exported through Vancouver for consumption in U.S. customs territories.

The industry has expressed concern about the relatively higher value of the Canadian dollar in recent periods vis-à-vis the American dollar (Figure 3). 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.

Evolving Environment

World demand for vegetable oil and meal has expanded at an annual rate of 6 to 7 percent over the past 25 years. However, any upward price response to this situation continues to be limited by the price-depressing effects of the extensive use of export subsidies by the EC and the United States. Future prospects for growth depend largely on economic conditions in developing countries.

Export prospects for canola products outside the United States will depend largely on the extent to which domestic and export subsidies on agricultural products are reduced under the current round of Multilateral Trade Negotiations (MTNs).

The impact of the FTA on the Canadian oilseed crushing industry is expected to be positive in the long term. The conclusion of an agreement with the United States for accelerated removal of oilseed product tariffs will provide duty-free access to the U.S. market for canola oil and meal in 1992. This accelerated removal of tariffs will help to counter the

[1]As of January 1992, one yen equalled C$0.009225.

effects of the loss of freight subsidies on shipments to the U.S. market through Vancouver, the strength of the Canadian dollar, competition from U.S. crushers and subsidized European exports.

The United States is not at present a major canola producer. The elimination of Canadian tariffs on canola oil is therefore unlikely to affect the industry significantly, although some U.S. border plants may be able to crush Canadian canola seed at a lower cost than Canadian plants and export the products north of the border.

The competitiveness of the canola crushing industry continues to be a major issue. Improved crushing margins are essential for the health of the industry. Higher product prices, increased capacity utilization and lower seed prices are key factors in improving crushing margins. The success of the MTNs would have an important bearing on the ability of the canola crushing industry to recapture commercial export markets and improve capacity utilization.

The cost of seed used by canola crushers will be influenced by the outcome of the current debate on the "Method of Payment" of transportation benefits under the WGTA. A change from the current method of paying the railway to paying the producer may result in lower seed prices for canola crushers, and consequently for producers, since export prices to producers, which also determine domestic prices, would be reduced by the amount of the transportation subsidy. The "Method of Payment" has been studied under Agriculture Canada's Policy Review, as well as in other forums, such as the Canola Marketing Task Force, and has been the subject of public consultations. The MTNs may also lead to changes in the WGTA if an agreement is reached to reduce government subsidies to agriculture. Reduction in the Japanese canola oil tariff would improve market access for Canadian canola oil and competing oils and limit the protective barrier behind which it appears the Japanese oilseed crushing industry has bid up the price of canola seed. Japanese tariff reduction may also lead to reduced prices and supplies of Canadian canola seed.

The soybean crushing industry currently is domestically oriented, with expansion restrained by competition with canola oil and high U.S. tariffs. The issue of MCRs is one of the subjects being studied under Agriculture Canada's Policy Review and public consultations.

Looking ahead, ownership of the soybean crushing industry by U.S.-based multinationals may assist the industry in taking advantage of the improved access to the U.S. market that will be provided through the FTA. The recent closure of one soybean crushing plant and the elimination of the U.S. tariff on crude soybean oil in 1992 will enhance capacity utilization of the two remaining plants.

Recent ownership changes have led to a greater overall integration of operations in the oilseed crushing industry in Canada, both from a regional and a production point of view. The two major companies are now firmly established in both the Prairie provinces and Central Canada. Greater scale of operations for the major companies should lead to increased competitiveness.

The merger between Central Soya of Canada and CSP Foods to purchase the Edible Oils Division of Maple Leaf Foods will enhance marketing linkages in the United States and provide greater integration between crushing, refining and packaging operations for the new company, Can Amara Foods.

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. The overall impact on the industry will depend on the pace of the recovery.

Competitiveness Assessment

The competitiveness of the Canadian oilseed crushing industry must be viewed in the context of worldwide policies of assistance to local growers, crushers, refiners and importers/exporters. While the Canadian crushing industry is generally cost-competitive in producing crude oil and vegetable meal for the domestic and U.S. markets, it is limited in offshore export markets by foreign subsidy programs and NTBs. International competitiveness will depend upon significant reductions in agricultural export subsidies and internal barriers to trade.

Under the FTA, canola crushing will enjoy enhanced access to the U.S. market while continuing to meet the competition in the domestic market. Exploitation of access to the U.S. market will depend upon the capability of the industry to meet increasing price competition caused by export subsidies, increased U.S. production, prevailing prices in U.S. markets and alternative oil sources. Soybean crushing is also expected to benefit from the FTA through increased exports to the United States and replacement of imported U.S. soybean meal. As a result of increased capacity utilization, the industry will be competitive in Canadian and U.S. markets.

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

Food Products Branch
Industry, Science and Technology Canada
Attention: Oilseed Crushing
235 Queen Street
OTTAWA, Ontario
K1A 0H5
Tel.: (613) 954-2924
Fax: (613) 941-3776

PRINCIPAL STATISTICS[a]

	1982	1983	1984	1985	1986	1987	1988	1989	1990
Establishments	12	10	10	11	11	12	12	11	N/A
Employment	1 504	1 342	1 289	1 209	1 052	1 080	1 118	1 112	N/A
Shipments ($ millions)	722	834	964	987	732	772	968	854	840[b]
(thousands of tonnes)	1 855	1 900	2 047	2 174	2 041	2 414	2 445	N/A	N/A
Investment[c] ($ millions)	46.3	13.8	6.7	15.4	18.9	11.5	16.1	15.3	21.0

[a]For establishments, employment and shipments, see *Cereals and Oilseeds Review*, Statistics Canada Catalogue No. 22-007, monthly (SIC 1061, vegetable oil mills, except corn oil).

[b]Estimate based on *Monthly Survey of Manufacturing*, Statistics Canada Catalogue No. 31-001, monthly.

[c]See *Capital and Repair Expenditures, Manufacturing Subindustries, Intentions*, Statistics Canada Catalogue No. 61-214, annual.

N/A: not available

TRADE STATISTICS

	1982	1983	1984	1985	1986	1987	1988[a]	1989[a]	1990[a]
Exports[b] ($ millions)	152	121	256	274	200	214	324	215	191
Domestic shipments ($ millions)	570	713	708	713	532	558	644	639	649
Imports[c] ($ millions)	173	205	266	248	236	250	318	268	238
Canadian market ($ millions)	743	918	974	961	768	808	962	907	887
Exports (% of shipments)	21.1	14.5	26.6	27.8	27.3	27.7	33.5	25.2	22.7
Imports (% of Canadian market)	23.3	22.3	27.3	25.8	30.7	30.9	33.1	29.5	26.8

[a]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.

[b]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

[c]See *Imports by Commodity*, Statistics Canada Catalogue No. 65-007, monthly.

SOURCES OF IMPORTS[a] (% of total value)

	1982	1983	1984	1985	1986	1987	1988	1989	1990
United States	81	80	80	73	83	79	80	82	77
European Community	6	6	5	5	6	8	8	9	14
Asia	12	13	14	20	9	4	11	9	8
Other	1	1	1	2	2	9	1	–	1

[a]See *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	1990
United States	10	21	14	14	26	37	43	66	70
European Community	23	14	11	4	4	2	1	3	–
Asia	20	37	55	61	55	49	47	21	18
Other	47	28	20	21	15	12	9	10	12

[a]See *Exports by Commodity*, Statistics Canada Catalogue No. 65-004, monthly.

REGIONAL DISTRIBUTION[a] (average over the period 1986 to 1988)

	Atlantic	Quebec	Ontario	Prairies	British Columbia
Establishments (% of total)	–	–	33	67	–
Employment (% of total)	–	–	30	70	–
Shipments (% of total)	–	–	47	53	–

[a]See *Cereals and Oilseeds Review*, Statistics Canada Catalogue No. 22-007, monthly.

FIRMS

Name	Country of ownership	Location of major plants
ADM Agri-Industries Ltd.	United States	Windsor, Ontario Lloydminster, Alberta Medicine Hat, Alberta[a]
Can Amara Foods	Canada/Italy	Altona, Manitoba Harrowby, Manitoba Fort Saskatchewan, Alberta Hamilton, Ontario Nipawin, Saskatchewan
Canbra Foods Ltd.	Canada	Lethbridge, Alberta
Northern Lite Canola Inc.	Canada	Sexsmith, Alberta
Red Deer Grain Incorporated	Canada	Red Deer, Alberta

[a]Operated but not owned by ADM.

INDUSTRY ASSOCIATIONS

Canola Crushers of Western Canada
Suite 1030, 360 Main Street
WINNIPEG, Manitoba
R3C 3Z3
Tel.: (204) 942-3408
Fax: (204) 956-4498

Ontario Oilseed Industry Association
Suite 301, 885 Don Mills Road
DON MILLS, Ontario
M3C 1V9
Tel.: (416) 510-8024, extention: 236
Fax: (416) 510-8043