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DISCUSSION PAPER

A STRATEGY FOR FOOD PROCESSING, DISTRIBUTION AND RETAILING SECTORS

Consumer and Corporate Affairs Canada

Consommation et Corporations Canada

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CONSUMER AND CORPORATE AFFAIRS

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1.0 OBJECT

The object of this paper is to set out a number of proposals to follow up on the government's commitment, given in June 1977 in A Food Strategy For Canada, that it "will use and develop its food policies to encourage the food system to provide, on a continuous basis, food and food services in the simplest, most economical and most direct manner and in the most nutretious and useful form to meet the needs and demands of consumers". The proposals provide a balance to concurrent initiatives for agricultural and fisheries development and consumer initiatives and complete a comprehensive package of initiatives and options which can be considered by delegates to the National Food Strategy Conference to be held in Ottawa on February 22-23, 1978.

2.0 BACKGROUND

2.1 Consumer reaction to rapid rates of increase in food prices led to the establishment, in January 1973, of the House of Commons' Special Committee on Trends in Food Prices. One of the first recommendations of this Committee was the establishment of the Food Prices Review Board. Although much of the increase in Canadian food prices was due to factors outside the domestic food system, studies by the Board indicated a number of areas in which the performance of the Canadian food sector might be deficient. The Board and other groups called for the development of an explicit national food policy.

2.2 Livestock producers were seriously affected by the rapidly changing agricultural commodity price situation. The impact of large increases in feedgrain prices and disruptions in livestock and meat trade intensified farmers' concerns about the performance of the beef marketing, processing, distribution and retailing system. In response, the government established the Commission of Inquiry into the Marketing of Beef and Veal in January 1975. This Commission identified several deficiencies in the performance of this sector.

2.3 In June 1977, the government published A Food Strategy For Canada. This document indicated the government's interest and commitment to assuring that the food PDR sectors would be efficient, progressive and fair. It also enunciated goals for assuring consumers of ample supplies of wholesome food and to be better informed about food prices and nutritional needs. At the same time, a number of steps to be taken by the various Departments to further the development of food policy were outlined by Cabinet.

As regards the food PDR sectors, the document states:

> "... The Government undertakes to concentrate on the competitiveness of food processing, distribution and retailing by:
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> (i) applying to this sector, as a matter of priority, its programs to rationalize structure;
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> (ii) strengthening its ability to monitor the performance of this sector, including the effective utilization of modern technology and avoidance of unnecessary costs of product differentiation;
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> (iii) enhancing the productivity and efficiency of this sector, and
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> (iv) directing the Bureau of Competition Policy in an appropriate manner, to study this sector."

2.4 Cabinet has recently approved "An Agricultural Development Strategy for Canada". This strategy extends and implements the Government's food strategy by providing a market-oriented framework for dealing with the priorities of agricultural income stabilization and support, trade policy and safeguards, research information and education, and marketing and food aid.

2.5 A study of the available information about the food PDR sectors drawa a conclusion that "there is a dearth of meaningful statistical information for use in policy analysis for the processing, distribution and retailing sectors of the Canadian food system".[1] The authors further conclude that there has been a noticeable lack of interest in conducting economic research in this very important field.

2.6 Thus, while major concerns have been expressed about the food industry, and while the Government has made a public commitment to take certain actions in the food PDR sectors, there is a lack of immediate clarity as to why specific action is necessary, what is known about the sector, and what kind of action is needed. This paper explores all three issues.

3.0 FACTORS

3.1 Why a Food PDR Strategy?

The agricultural and food system is a complex, closely inter-related system which links the production

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[1] Hughes, D. and Morris, J. "A Critical Review of Available Research and Statistical Documentation on the Processing and Retail Food Sectors of the Canadian Food Industry", Consumer and Corporate Affairs Canada, March 1977.

decisions of a large number of individual producers (farmers and fishermen) to the consumption requirements of all consumers through the activities of a compact and generally concentrated processing, distribution and retialing sector. While the demand for food, an essential daily or weekly purchase of all consumers, is relatively stable and predictable year round, production of the basic food commodities is uncertain (due to weather, disease, etc.), lumby (many commodities are produced only once a year), and require long lead-times in production and investment decisions. Most commodities are perishable and must be harvested and marketed at a specific maturity. Thus, we have a fairly well defined production, processing and marketing system with which consumers are in contact virtually daily.

Deeper understanding of the food PDR sectors is essential if the Government is to take appropriate initiatives with respect to the agricultural component of the system. The situation is analogous to attempting to formulate mineral extraction policies in the absence of an understanding of the mineral processing and manufacturing industries. Indeed it may prove necessary to take initiatives in the food PDR sectors that will complement initiatives in the production sector.

3.2 Structure and Trends in the Food Processing, Distribution and Retailing Sectors[2]

3.2.1 Food Expenditure and the Food PDR Sectors

a) Roughly 60 percent of the retail value of domestically produced food goes to pay for processing and marketing services - the services of the food PDR sectors. This figure has increased over time as the extent of these services has increased. The level of marketing services varies widely among commodities: - available data on farm-retail price spreads indicate the spread ranges from over 80 percent for items like canned vegetables to less than 40 percent for cuts of beef.

b) The domestic food supply consists of imported as well as domestically produced foods. The food PDR sectors play an important role in the marketing of these imported products. The broad inter-relationships among consumer food expenditures, the marketing bill, producer cash receipts and imported foods are quite complex. (For details see Appendix A.) Also the level of agricultural and other food exports is highly dependent on the performance of Canadian distributors and to some extent processors, as well as producers.

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[2] Numerous points are raised in this and following sections concerning the structure and performance of the food PDR sectors and it must be made clear that many of the attributes of the food PDR sectors are shared by other sectors of the economy.

c) At the present time approximately 18 percent of consumer disposable income is spent on food. This percentage has shown a long secular decline (reversed only slightly in the last few years), showing the long-term effects of increasing agricultural and food industry productivity and higher real consumer incomes. The importance of food consumption is demonstrated by the fact that households in the lower income ranges spend as much as 30 percent of their income on food. Food expenditures for home consumption alone, average 13.7 percent rising as high as 25.6 percent for lower income groups.

d) Since the weight given to food in the Consumer Price Index is approximately 25 percent, movements in food prices have a significant impact on this index and thus affect other variables such as wages and pensions that may be linked to movements in this index. From 1961 through 1976, the food component increased at an average annual rate of 5.1 percent and accounted for 30 percent of the growth in the CPI. Housing, because of its greater weight in the index, accounted for 33 percent of CPI growth. In the most recent five-year period food price increases accounted for 34 percent of the change in the CPI compared to 32 percent for housing. The much dramatized energy price increases have had only a moderate impact on the CPI because of their low implicit weight - approximately 0.4 percent.

AVERAGE ANNUAL RATE OF GROWTH IN THE CONSUMER PRICE INDEX AND ITS COMPONENTS

	- P E R I O D -			
COMPONENT	61-66	66-71	71-76	61-76
All Items	2.2	3.7	8.3	4.7
Food	3.1	2.4	10.7	5.4
(food at home)	(3.0)	(1.9)	(10.4)	(5.1)
Housing	1.7	4.7	8.2	4.8
(fuel & utilities)	(-.7)	(4.1)	(11.6)	(5.0)
Clothing	2.3	2.8	5.7	3.6
Transportation	1.4	3.9	7.5	4.3
(gasoline)	(1.7)	(2.8)	(9.7)	(4.7)
Health & Personal Care	3.1	4.1	6.4	4.5
Tobacco & Alcohol	1.5	3.6	6.1	3.7

Source: Statistics Canada.

e) One of the most significant trends in food consumption is the increase in meals eaten away from home. In Canada an estimated 1 out of 3 meals is eaten out; the figure for the U.S. is 1 in 2. Expenditures on food eaten away from home now represent over 21 percent of total food expenditures. The greatest increases have been in the "fast-food" industry. Kentucky Fried Chicken Ltd alone accounts for about 20 percent of broilers consumed in Canada.

3.2.2 Processing

a) Food and beverage processing is the largest single component of Canadian manufacturing industries. In 1974, it produced shipments valued at $16.6 billion with a value added of $4.8 billion. The sector employed 221,000 workers with a payroll of $2 billion. Since 1961, value added has grown by 32 percent while the number of establishments fell by 35 percent and the number of employees rose by 15 percent. Over the period from 1961, the ratio of value added to value of shipments has been 34 percent except for 1973 and 1974 when it fell to 32 percent.

b) While the average level of concentration in the industry is the same as for "all manufacturing", several of the sub-sectors exhibit very high levels of concentration. This is particularly true at the provincial or regional level. For example, the four largest slaughtering and meat processing firms account for 58 percent of all national shipments. Regionally this figure rises as high as 85 percent. However, we do not know whether these concentration levels produce efficient, low-cost processing, or inefficiencies stemming from the exercise of monopoly power.

c) According to a study published by the Economic Council of Canada[3], only five sub-sectors of the food and beverage processing industry had rates of effective tariff protection lower than the average for "all manufacturing". This indicates that about 60 percent of the value of production of the food and beverage industry receives tariff protection higher than the average for all manufacturing. Whether this protection is claimed on the basis of inherently higher production costs or is a discentive to increased efficiency is not yet clear.

3.2.3 Distribution

a) The system of food distribution in Canada presents a complicated picture. On the one hand, we have independent brokers who play an important role, while at the same time, retailers such as Loblaws, Steinberg and Safeway have integrated backward and perform much of their own assembly and service functions either directly or through subsidiaries. Meat packers, poultry processors and dairy processors have integrated forward to perform these distributive functions.

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[3] Wilkinson, B. and Norrie, K., Effective Protection and the Return to Capital. Economic Council of Canada, Ottawa, 1975.

b) As a result, we have a distribution system wherein there may be a degree of duplication of facilities. It may well be that some modifications could be introduced that would enhance the efficiency of distribution. However, no clear picture is currently available of either the social costs or benefits of the system as it now exists, or what they might be under different arrangements.

3.2.4 Retailers

In 1976, there were 22,633 food stores in Canada with sales of $13.3 billion. Of these 1,549 were owned by chains (four or more stores) and accounted for 58.6 percent of sales. The remaining 19,226 stores were independently owned, although many were members of volunteer chains such as IGA, as well as 1,858 "convenience" stores organized in chains.[4] Concentration in retailing as rather high as can be seen in the following table.

FOUR FIRM MARKET SHARES (percentage)[a]

	1964	1968	1973	% change 1964-1973
Canada	61	65	71	16.4
Atlantic	64	72	87	35.9
Quebec	45	44	71	57.8
Ontario	70	71	66	-5.7
Prairies	65	83	90	38.5
British Columbia	62	72	72	16.1

[a] Chains or voluntary organizations.

Concentration is highest on the Prairies at 90 percent, while the nature of the retailing system has changed most dramatically in Quebec as shown by the 57.8 percent increase in the degree of concentration. Ontario has gond against the trend, showing a decline in the degree of concentration. It is not all clear what this degree of concentration implies. In a 1976 study undertaken for the Food Prices Review Board,[5] Bruce Mallen found that food prices were positively correlated with the degree of concentration. A similar study done by Consumer and Corporate Affairs Canada in the same year corroborated these findings.[6]

[4] Canadian Grocer Survey, February, 1977.

[5] Mallen, B. "A Study of Supermarket Market Power" Reference Paper No. 6. Food Prices Review Board, February, 1976.

[6] Stahl, J.S. "Intercity Comparisons of Selected Canadian Food Prices". Prices Group, Consumer and Corporate Affairs Canada, Septamber, 1976.

While Mallen was able to identify a number of the causes of concentration, neither he nor the CCAC study was able to establish a causal link between concentration and price levels.

3.3 Major Issues Concerning Conduct and Performance of the Processing, Distribution and Retailing Sectors

3.3.1 Issues of General Concern

a) Profitability

i) Profits in food processing

A recent econometric study (Hazeldine, Agriculture Canada) has found a positive link between market concentration and profits in the processing sector. Further analyses (and data) are needed to ascertain whether higher profits are achieved at the expense of consumers, or farmers and fishermen, or all three, or whether they reflect greater efficiency in more highly concentrated industries. This study also has found that levels of effective protection from imports (which, on average, are high in food processing compared to all manufacturing) are negatively associated with profitability, which is consistent with tariff protection permitting high cost industries to survive. Tariffs may, however, act as a disincentive to the most effective organization and use of factors of production.

Spokesmen for the food processing industry have claimed that continuing or even increased tariff protection is required by the industry. The Tariff Board has made recommendations on processed fruits and vegetables and the horticultural processing industry that propose increased tariffs for certain items.

At the recent Agricultural Institute of Canadian Conference at Guelph, the figure of 2.5 cents after tax profits per dollar of sales in food processing was being compared to an average of 3 cents for manufacturing as a whole. The proper profitability measure, however, is the ratio of profits to the resources committed to an industry by the firms in it - the return on capital - and the FPRB's studies showed little difference between food processing and total manufacturing rates of return, with food processing actually showing slightly higher rates in the first few years.

A special issue is the apparent large increases in processor margins concurrent with the introduction of strictly controlled supply management programs for some agricultural products.

The point at stake is that we do not, at this time, know to that extent tariffs protect inherently higher cost industries or are merely a shield behind which inefficiency can flourish. Neither do we know whether higher margins associated with supply managed commodities are warranted by exogenous cost increases.

b) Cost Efficiency

Costs depend on the quality and prices of inputs including labour and management, Government tax policies, environmental regulations and many other factors. Of particular interest are the effects on cost efficiencies of economies of size, capacity utilization, and market power, and the roles of tariff protection and distribution costs.

i) Economies of Size

If larger size plants (or firms) have significantly lower costs per unit of output than smaller firms, a trade-off may be required between inefficiences arising from this factor and excessive market power. A study for the Federal Trade Commission[7] in the United States found that the only significant size economies in food processing were associated with advertising and promotion. Studies of processing costs for dairy products and broilers, however, have attributed part of the higher costs in Canada, relative to the U.S., to differences in plant size. An Ontario study estimated that the minimum efficient size of plant for hog slaughter in 1965 was about 150,000 head per year. In 1975, 24 plants in Canada slaughtered approximately this number or more; they accounted for about 70 percent of total hog slaughter. Relatively small plants may be more common in Canada because of slowness to adapt to changing conditions or because of the costs of assembling product from relatively low density production areas, or both.

ii) Excess Capacity/Low Utilization Rates

At any time, an indistry might have excess capacity for several reasons. These include raw material and product market fluctuations, the process of modernization and errors in forecasting the demand for its services. Excess hog slaughter capacity in Western Canada, for example, may be attributed in some degree to these factors.

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[7] U.S. Federal Trade Commission, "The Structure of Food Manufacturing". Technical Study No. 8, National Commission on Food Marketing, June 1966.

In concentrated market situation, however, excess capacity and resulting high costs can result because of the pricing policies of firms and the effort of each firm to protect or increase their market shares. This process likely contributed to the excess capacity of Western hog slaughter, as firms vied for position to serve the anticipated growth in hog production.

Some evidence of the effect of low utilization rates on food processing costs is provided by an econometric study by Agriculture Canada.[8] A U.S. study found that unit processing costs for beef in the U.S. increased directly with increases in excess capacity.[9] The dairy and broiler studies referred to above also cite low utilization rates as an important cost factor.

iii) Packaging, Advertising and Promotion Costs

Packaging, advertising and promotion costs add significantly to food costs and have been increasing over time. Food and beverage processors purchase more than half of the packaging materials used in manufacturing in Canada (FPRB, 7/7/75). The cost of 'containers' has risen from 7.6 percent of the total costs of materials in 1950 to 10 percent in the 1970's. Advertising and promotion costs of food processors account for 3.5 percent of the sales' value of the advertised products (FPRB, 2/76). Expenditures on advertising and promotion represent 1.7 percent of total sales of all or about three-quarters of the companies' after tax profits.

An issue of special relevance for Canada is the degree to which Canadian firms are at a disadvantage in their efforts to compete with U.S. controlled firms. For example, 72 percent of the sales of 'miscellaneous food product' firms are foreign controlled. As a whole, this industry sepnt 3.4 percent of gross sales on advertising compared to 8.3 percent for the corresponding U.S. industry. One explanation for this could be that subsidiaries operating in Canada benefit from advertising "spill-over", i.e., advertising aimed primarily at the U.S. market that nonetheless finds its way into the Canadian market through various media.

iv) Costs and Effective Rates of Tariff Protection

As indicated previously, effective levels of tariff protection are significant for most food processing industries. The issue

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[8] Unpublished research.

[9] U.S. Federal Trade Commission, op cit.

is whether this protection is necessary to offset real disadvantages due to the effects of such factors as climate and small dispersed markets on costs, or whether it has itself led to higher costs. The latter result is possible where protection could reduce efforts to be efficient and lead to the incorporation of the benefits of protection into the cost structure of the industry.

v) Distribution Costs

The wide geographic dispersion of Canadian markets places a premium on an efficient transportation and handling system for both raw and processed products. Efforts have been, and are being, made to rationalize this system in both Western and Eastern Canada. A study of how to exploit the complementarities among transportation and storage facilities needed for perishable products has been initiated as a joint effort of several departments.

Our concern is that the benefits of improved distribution systems be widely distributed. For example, the Beef and Veal Marketing Inquiry Commission found in Montreal that the rebate system of allocating the benefits of larger freight cars distorts market prices.

c) Progressiveness

i) Productivity and Innovation

A key performance variable is the degree to which an industry is innovative in reducing costs and improving services. Food Prices Review Board data on one measure, labour productivity, indicates slow to negative increases in the 1972-74 period for several food processing industries. These indicators mirror the findings for many other sectors of the economy during the same period. In terms of the ratio of value added to man-hours worked, productivity in Canadian food and beverage processing grew by 85 percent over the 1961-72 period. The more or less comparable figure for the U.S. ratio averaged 40 percent above the Canadian value.

Labour productivity, of course, is only one measure of productivity and is affected by many factors. Meat packing, for example, has negative year-to-year changes in labour productivity for 1972, 1973 and 1974 after a large increase in 1971, compared to its average of 2.3 percent over the 1964-70 period. These figures would be heavily influenced by hog and beef production cycles.

At the same time, the Beef and Veal Marketing Inquiry Commission believed the meat packing industry was quite slow in adopting new

methods and technologies of processing and distribution. It found that many facilities were antiquated and poorly located. A major concern was that processors appeared to be slow in establishing a system of shipping beef in primal or sub-primal form. The Commission pointed out that this degree of processing would have significantly greater benefits if done by packers rather than retailers.

In general, the Canadian food processing industry appears to spend a relatively small amount on research and development. In 1974, food processors spend 0.1 percent of the value of their shipments on research and development compared to 0.4 percent for U.S. food processors. The expenditure for all Canadian manufacturing was 0.7 percent. We do not know the extent to which these expenditures are directed toward true product or process innovation, or are merely attempts to duplicate competitive products.

ii) Export Market Development

The aggressive development of export markets is important for the growth of the domestic processing industry, of Canadian agriculture and fisheries and more generally, as a contribution to national economic growth. Between 1965 and 1974, however, Canada's external trade balance in processed food products declined from a surplus of $234 million to a deficit of $79 million. The reasons for this decline in ability to compete on world markets could reflect many factors external to the Canadian food processing industry per se (e.g., agricultural productivity, special government programs in other countries). A concern expressed by some is that the foreign owned firms have little interest or scope for competing with their parent companies on world markets. Little information is available on this issue.

iii) The Special Problems of Small Firms

Although a few large firms dominate most food processing industries, these industries also include many smaller firms. These small businesses make a significant contribution in terms of providing local markets for agricultural and fisheries products, producing specialty products and supplying retailers with house brands.

d) Pricing Efficiency

An efficient agricultural and fisheries food system requires that production be in the amount and of the type which will maximize the welfare of consumers. The relative value of products and the costs of supplying them will correspond only if changes in demand and

supply are promptly and accurately transmitted through the system. In a market economy, prices serve this important function.

How closely the price signals received by producers and consumers correspond to the changing underlying supply and demand situation depends on the structure of the relevant markets. As indicated earlier, many agricultural and fisheries food markets are served by a few firms, a situation in which a lack of effective price competition - and hence a distortion of price signals - might be found.

Examples of changes, or lack of changes, in price margins and inter-regional price differentials which appear to be distortions of basic market conditions are found in the report of the Beef and Veal Marketing Inquiry Commission. A recent report by Agriculture (in, Market Commentary, Animals and Animal Products, October 1977) includes additional examples. Downward adjustments in carcass prices appeared to be relatively less frequent than downward changes in live prices the higher the four firm market concentration ratio. In addition, average wholesale-to-retail margins were found to be higher in Western Canada.

It is not clear whether these situations arise because of the structure of the industry, or are a result of external factors.

Pricing practices at the retail level often appear confusing to consumers, as retailers adjust relative prices in order to gain or maintain local market shares. While this is hardly a recent phenomenon, the increase in the number of products and package sizes on the market has certainly made the consumer's task more difficult. While we know that consumers are concerned about this issue (as witnessed by ministerial correspondence) we do not know whether or not this is a substantive matter.

The market power of retailers in dealing with processors is alleged to result in various forms of rebates and payments which have little to do with product demand/supply relationships (e.g., Canadian Consumer, June 1977). At the producer-processor level this problem of market power possessed by the few buyers in most local production areas has long been a concern of farmers and fishermen, but it is not clear whether there is a distortion of price signals. On the other hand, the conduct of some marketing boards has also been questioned in that they may introduce basic distortions in relative prices.

e) Equity

Broadly speaking, equity concerns the ability of consumers to have access to a reasonably varied diet at an affordable cost, and the ability of producers to compete on equitable terms. The free operation of the market can

result in price levels that place an unacceptable burden on groups of consumers.

Should this situation be viewed as a food problem, or as a broader problem of income distribution? It is clear that similar situations obtain for other commodities, e.g., energy. Ideally, a solution would be found in a comprehensive income distribution scheme, leaving consumption decisions in the hands of consumers. However, some short-term initiatives may be desirable until such time as a comprehensive program is in place. On the producer side, including processors, we have the trade-off between adjustments that are a natural consequence of the market system and the social dislocations that accompany such adjustments. Evaluating such trade-offs is a complex problem, but underlies much of the debate concerning appropriate policy stances for the food and other sectors.

f) Inter-relationships with Agricultural, Rural and Regional Development

Recent Cabinet papers on this topic underline the major Federal Government concerns in agricultural development as being with the number and size distribution of farms, the value added in farm production, the farm commodity output mix, the level and distribution of incomes, the size of the rural population, farm productivity/efficiency, the level and quality of resources employed in agriculture, and trade balance trends by commodity.

The structure, conduct and performance of the food PDR sectors have a direct bearing on several of these indicators. Monopsonostic situations, where they exist in PDR sectors, may correspondingly have an adverse effect on both farm and consumer incomes. The mechanisms used to link the farm sector and the food PDR sectors can have major consequences for structural adjustment in agriculture, of relevance to the number of farms, production efficiency and income stability. Recently, for example, hog production in Quebec increased appreciably while production in most regions was falling. The relatively extensive use of vertical integration and contracting between farmers, feed companies and meat processors, is one factor explaining the increased production levels in Quebec.

The geographic distribution of processing plants is a matter of concern to various parties including farmers and provincial governments. Plant location can have a significant influence on patterns of farm production and employment. Such is particularly the case in some less developed regions. No doubt there exist trade-offs between pure efficiency criteria and other factors such as those mentioned. A strategy that ignores these trade-offs will most certainly be remiss.

The above examples illustrate that it is the processing part of the food PDR sectors which is most closely linked to agricultural and rural development. The other side of the coin is the impact of agricultural development on the food PDR sectors. As an example, a problem that affects food processing more than other manufacturing industries (and in Canada more than in the less extreme U.S. climate) stems from the seasonality of supplies of primary inputs, which makes it difficult for operators to maintain high utilization rates through the year, and thus increases the propensity to import raw materials. Year-to-year fluctuations in farm production also increase capacity requirements. These capacity needs are legitimate but could be reduced by efforts to introduce a degree of stability into agricultural production without seriously reducing flexibility.

Similarly, quality and evenness of farm product supply (stemming from export management), progress towards bulk handling systems, and the breeding and adoption of crop varieties suitable for mechanical harvesting, are all different aspects of agricultural development which can be important in determining the viability of a processing facility.

The research program of Agriculture Canada results in improvements in the productivity of agriculture, and the development of new food products. These activities benefit producers, processors and consumers. An increased emphasis on meeting particular needs of consumers and processors as identified in the development of the strategy outlined in this paper would be an obvious consideration in establishing the priorities of the food research programs.

g) Inadequacy of the Research Base for Policy Development

The basic premise of this paper is that while a great deal of information is available on the structure, conduce and performance of the food PDR sectors there is insufficient detail for the Government to adequately determine what steps might be taken to improve the efficiency and performance of the food PDR sectors, or indeed whether any such steps need be taken at all. Thus a specific proposal is made to establish an expanded research program to meet the policy needs for the future.

3.3.2 Issues of Special Concern to Consumers

Because the purpose of the food system is the consumption of food by consumers, the interests of consumers in food strategy are directly related to the performance of the food PDR sectors. Thus all aspects of performance affect consumers. This is especially true since the events of the past

few years have led to a growing skepticism concerning the performance of the system. Recovery of consumer confidence in processors and retailers is vital for the future well-being of the system. This skepticism stems from consumer perceptions about certain specific matters.

a) Availability of a Meaningful Range of Products, Qualities and Services

As a group, consumers have readily accepted food products that are convenient to prepare easy to handle and store and attractive in appearance. The result has been increasing levels of processing, packaging and in-store services. A major issue is the degree to which the level of food processing and service being provided meets real consumer needs or is more the result of oligopolistic non-price rivalry which leaves consumers with little or no choice but to purchase these expensive 'services'. The lack of clear quality standards is also a concern in some cases. The Beef and Veal Marketing Inquiry Commission, for example, noted the multiplicity of names used to describe the same beef cut and the lack of quality grades at the retail level.

b) Packaging

Packaging accounts for a larger percentage of total cost in the food and beverage industry than it does in many other consumer goods industries. The fact that food products are perishable, seasonally produced and often transported long distances and are sold in relatively small units implies a need for appreciable packaging. Many consumers appear to believe however, that the levels of packaging are excessive. Excess packaging could be expected as a result of oligopolistic rivalry.

c) Advertising and Promotion

One question is whether the large sums of money spent on advertising and promotion represent wasteful competition to persuade consumers of the merits of alternative brands rather than providing useful information. Some people believe that the absence of nutritional information in food advertising and the heavy emphasis on children as the primary target are examples of the negative effects of these expenditures.

The widespread use of stamps, discount coupons, games, etc. also raises questions concerning the ability of consumers to find meaningful choices at clearly defined costs.

d) Prices

In addition to product characteristics, consumer choices are influenced by relative prices. Rising food prices are the major concern of consumers. The issues are both the price increases and the reasons for them. A frequent suspicion of consumers is that they are being 'ripped-off' by the retailers, distributors, processors or farmers and possibly all four. This belief is reinforced when retail prices increase rapidly and significantly at the first indication of smaller supplies, but appear to fall slowly - if at all - when supplies increase. While this is no doubt the case in other markets, the high frequency of contact the consumer has with the food market brings about a more vocal reaction. The differences in prices among stores found by the FPRB experiment in price monitoring also raised questions about retail pricing policies.

3.3.3 Issues of Special Concern to Farmers

a) Fair Pricing

In general terms, farmers want to be paid the same price as their neighbours, or other farmers in a neighbouring province, for the same quality product, and they want price differentials between different grades of product to truly reflect consumer preferences. This general concern appears in at least three practical issues.

i) Objective Quality Price Differentials

A standardized and impartial quality grading system is an essential requisite for establishing quality price differentials. Criteria for assigning quality differences (e.g., fat content) must reflect the needs of domestic and export buyers. Grade standards and pricing mechanisms must be regularly updated to reflect changing consumer preferences and new technology developments in food processing. The grading services of Agriculture Canada play a key role in this area. The carcass-selling-of-beef experiment represents an attempt to develop a more objective basis for pricing.

ii) Price Information

Farmers must be as aware as the buyer of their product of true current market conditions. Better information allows them to withhold sale if, on a given day, the offer price is unusually low. This results in more stable price movements over time. Similarly, such information should result in price differentials for a given product quality at the farmgate being reduced to differences in the transportation costs of moving the product to final outlet. A market information system presupposes the existence of an objective grading

basis. Agriculture Canada is active in this field.

iii) Fair Profit Levels in the Food PDR Sector

Many relatively small firms in the farm sector selling to a highly concentrated processing or distribution sector can and often do approach the classical situation of monopsony, especially at the local level. This provides the potential for buyers to increase their profits by reducing the price offered to farmers, particularly when the latter have little option in the short-run but to sell at any price (inelastic supply of perishable commodities), which is often the case with farm products. Where plant scale efficiencies justify a highly concentrated food PDR sector, farmers are concerned that pricing practices should be closely monitored and, where necessary, controlled to guard against any abuse.

b) Retail Market Satisfaction and Expansion

Farmers recognize that, to a large extent, the maintenance and expansion of the retail markets on which they ultimately depend lies in the hands of the food PDR sectors. This situation raises a number of considerations:

i) Progressiveness and Competitiveness

Canadian farmers stand to lose if the Canadian food PDR sectors are less aggressive and imaginative in developing markets, and product opportunities than their world market competitors. Similarly, Canadian farmers stand to gain to the extent that cost efficiencies in the Canadian food PDR sectors allow competitive pricing at the retail level and thus move a higher volume of Canadian product.

ii) Storage and Distribution Capacity

Farmers become frustrated when the capacity of the storage or market distribution system is insufficient to absorb the results of a harvest of more or less highly easonal products, for which farm storage is often not feasible or at least a more costly alternative. Market loss through product deterioration, or the forced dumping of large quantities at one time, is usually the result. Recognizing that the problem sometimes lies with widely fluctuating volume of farm supply, farmers often do what they can to overcome this by cooperating, through marketing boards to control supply. They expect the food PDR sectors and Government to act similarly to remove any causes of unnecessary inefficiency and loss in the food PDR system.

iii) Damage in Transit

Having delivered a top quality product, the farmer becomes justifiably annoyed if he sees this quality deteriorate at some stage before reaching market with a consequent loss of market returns. This is particularly so if consumer prejudice against the product is generated at the same time. He is concerned if he thinks a situation exists where the marketing chain has an assured margin per unit volume, and can pass on to the farmer any such loss in retail income resulting from its own poor performance, thus having little incentive to improve this performance.

c) Vertical Integration in Farming

Farmers see integration back into farming by processors and even retailers as a distinct threat. This threat takes two forms. First there is a perceived loss in bargaining power as processors and retailers gain complete control over a portion of their supply. Second, the much greater access to financial resources possessed by processors and retailers can lead to an inflation of agricultural land prices. Higher land prices will act as a barrier to farmers attempting to rationalize their operation.[10]

d) Access to Processing Facilities

Farmers are concerned with the loss of markets or increased transportation costs that comes about as result of the closure of smaller processing facilities. This concern is particularly acute where closure and consolidation are not evidently due to any economies of scale. In many cases, closures mean the loss of markets and changes in traditional production patterns in a regiona. Capital losses in the form of reduced land values may be an additional consequence.

3.3.4 Issues of Special Concern to Fishermen

a) Prices for Primary Products

Given the degree of industry concentration fishermen are concerned that prices paid for their products are not fair because of the lack of bargaining power. The acute seasonality and perishability of their products lead to shortages and gluts which cause great fluctuations in prices. More stability in prices and equity in pricing practices are seen as essential.

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[10] Because such land purchases may be part of a broader strategy, the price paid may well exceed the value that would be justified by its use by an individual farm operator.

b) Quality Problems

In general there is no price differential to fishermen based on quality and therefore no incentive to fishermen to protect their catch and upgrade its quality. Fishermen have indicated that quality grades should be established by government in consultation with fishermen and fish buyers/processors as the foundation for a pricing system based on quality

c) Ownership of Vessels

Because of low rates of return on capital, fishermen have difficulty in financing their vessels. They are often forced to seek financing from fishing companies, reducing their ability to seek independent markets or to effectively bargain for higher prices.

d) Fresh versus Frozen Market

Traditional markets for frozen groundfish exist in the United States. There is little or no incentive for the larger processing firms to market fresh fish with its attendant problems of quality, transportation costs, and seasonality.

e) Domestic per Capita Consumption of Fish

Because of the seasonality, industry concentration and market strategy there is no emphasis placed upon the domestic fresh and frozen market. Thus, Canadian per capita consumption of fish is relatively very low. Greater support for market development and the strengthening of the export marketing function are desirable.

3.3.5 Issues of Special Concern to Food Processors, Distributors and Retailers

Some issues that are of special concern to the food PDR sectors are common to all segments, while others are more specific to processors, distributors or retailers.

a) Government Regulatory Activity

The food PDR sectors are subject to a large number of regulations designed to ensure the wholesomeness of all food products. These include standards for plant sanitation, food contamination, quality grades, levels of additives, and acceptable procedures for processing and storage. Other regulations ensure that product labels agree with the characteristics of the product. Federal, provincial, local and in the case of exports, foreign governments are involved in labelling legislation. The concern of business is that

they sometimes see conflicts among regulations. The belief is that better consultation, administration, and integration of these activities could reduce costs. The cost of meeting some standards relative to the benefits to society is also questioned by the industry.

The above comments are based on a study by the Ontario Ministry of Industry and Tourism (1975). The Beef and Veal Marketing Inquiry Commission also found a lack of clear policy and a lack of integration for inspection services among or within provinces. Furthermore, a recent study commissioned by the Department of Consumer and Corporate Affairs stressed the need for a review of Government regulatory activities.

b) Instability in International Trade

Wide price fluctuations caused by short-term increases in the volume of low priced imports are often cited as an important problem facing the food industry. Improved procedures in the application of anti-dumping measures and development of effective safeguards might be helpful. As indicated above, levels of effective protection for food processing are relatively high. However, the same parts of industry have claimed that these levels are needed if production is to be maintaned.

c) Raw Product Supply

Fluctuations in domestic production and prices lead to added costs of food processing. These fluctuations also pose serious problems in efforts to develop export markets. The conduct of marketing boards is seen as having adverse effects on some or all firms in an industry if the boards do not properly judge the basic demand and supply situation.

d) Measures to Improve Productivity

Industry suggestions for improving productivity include improved information and assistance in using currently available incentive programs, improved mechanisms for co-ordinating and doing research (e.t., a joint industry/ government productivity centre), and improved access by firms to current government and university research. This concern for improved productivity is particularly important to small and medium sized firms in terms of the technology required to compete in the growing areas of fabricated foods and specialty and convenience foods.

e) Fair Dealing

Exclusionary dealing, tie-in scales, discriminatory pricing and volumes and advertising pricing and volumes and advertising discounts can arise in non-competitive market situations. In addition to adverse effects on the general welfare, these practices are of particular concern to those "victimized" by them. The existence of such problems in the food sector are sometimes alleged.

f) Other Concerns

Many other concerns as seen by the food PDR sectors could be cited such as the implications of the energy situation, the costs of inflexible work rules and high wage demands of labour unions, the costs of meeting environmental regulations and the metric conversion program. Also, some of the issues discussed in section 3.2.1 are of special concern to the food PDR sectors, e.g., the question of whether foreign controlled firms have an unfair advantage in promotion and technical research and development. Of particular interest was the desire cited in the Ontario study for an explicit food policy to assist in planning for the future.

3.4 A Proposed Strategy For the Food Processing, Distribution and Retailing Sectors

3.4.1 Need for a Strategy

Farmers, fishermen, and consumers have all expressed reservations about the performance of the food PDR sectors. Additionally, participants within the sectors have expressed concern over various aspects of their performance, e.g., processors are critical of the perceived monopsony powers exercised by the major retailers. The FPRB has suggested that as much as 12 percent savings in food expenditures could be realised through changes in production and food PDR sectors. In light of these observations, a food strategy that failed to specifically address the food PDR sectors would fail to be a comprehensive package, and would be interpreted as a strategy for agriculture only.

If this link between producer and the consumer is to operate in a manner beneficial to all concerned and with a minimum of interference or regulation in the spirit of the "The Way Ahead" it is essential that all parties have a better understanding of the systems' operation. Barriers to improved efficiency, whatever their origin, need to be identified and eliminated or reduced in a manner consistent with the broad objectives of public policy. In response to these needs the following strategy is proposed.

3.4.2 Objective

The objective of the strategy is to indicate that the Government is firmly committed to work with food processors, distributors and retailers to encourage the food system to provide, on a continuous basis, food and food services in the simplest, most economical and most direct manner and in the most useful form to meed the needs and demands of consumers.

More specifically the strategy is designed to:

a) Provide procedures or mechanisms that would help clear up any misconceptions that are held by variuos groups with regard to the operation of the food PDR sectors. The food PDR sectors are perceived to be doing or not doing a variety of things depending on the point of view of the observer. These perceptions may be based on faulty assumptions and/or incomplete data; clarification is needed.

b) Identify areas wherein improved performance may be realized, and identify initiatives that could be taken by the various participants. This would include identification of existing government programs or regulations that stand in the way of improved performance.

c) Strengthen the market system and enhance the competitive environment wherever possible in recognition of the thrust of the "The Way Ahead". At the same time recognition will be given to the trade-offs between pure efficiency criteria and other public goals.

d) Ensure consistency of the overall food strategy by providing a linkage between the agricultural development strategy and any initiatives that may be forthcoming with direct respect to consumer interests. The strategy would highlight the relationship between the food strategy and other initiatives dealing with such things as regional expansion.

3.4.3 Features of the Proposed Strategy

The strategy set forth in this paper consists of five elements. The first of these elements comprises a set of present or possible initiatives for action open to the Government with respect to the food PDR sectors. Secondly, an expanded research and study program is proposed. In the spirit of A Food Strategy For Canada, different approaches to instituting a consultative process are presented as the third element. Vigorous pursuit of competition policy and other related programs comprise the fourth element. And finally, steps are discussed that would ensure internal consistency among government programs.

a) Package of Some Present or Possible Initiatives for Action

Within the context of the food PDR sectors, there are already some government initiatives which, when implemented, will conform with and further develop this strategy. There are others in the wings which, taken all together, represent the first positive steps to achieving the objectives of the strategy. The following are the leading examples of these initiatives:

i) Meat Packing

The Commission of Inquiry into the Marketing of Beef and Veal has recommended that packaging houses should process their output to at least sub-primal level at the point of slaughter. The Commission determined that this would improve the competitive nature of the beef system by reversing the trend to central processing by retailers. The Government is considering steps to encourage meat packers to follow this recommendation. (See Appendix C for details).

ii) Meat Marketing

A further recommendation by the Commission was that "All freight rebates paid by packers to wholesalers in Montreal should cease". This step was deemed essential to ensure that price quotations in the important price-setting Montreal market are a more accurate reflection of treu transaction prices. The Bureau of Competition Policy is reviewing this situation insofar as the practice constitutes a violation under the Competition Act.

iii) Processed Fruits and Vegetables

Now that the Tariff Board has completed its work on fruits and vegetables, the Government will be considering the Board's proposals, and specific reactions will be forthcoming.

iv) Package Size

During October 1977, amendments to the Consumer Packaging and Labelling Regulations were announced reducing the number of allowable package sizes for a variety of pre-packaged consumer items. For example, the number of package sizes for biscuits and cookies will be reduced from 64 to 14, and wine bottle sizes from 56 to 10. These reductions in the many sizes previously available should make the consumer buying decisions a little easier as well as reducing food packaging costs.

v) Fish Processing and Marketing

The Department of Fisheries and the Environment has a comprehensive management plan for the Canadian fisheries. At the primary level the policy being evolved may include, for example, the improvement of fish quality, the encouragement of alternative employment opportunities in the off-season; the shift of vessel ownership from the processing industry to independent fishermen, the enhancement of port prices; and incentives to technological innovation. At the processing level the avoidance of localized under or excess capacity will involve such policies as the encouragement of alternative and profitable forms of processing, the consolidation of plants, and restrictions on new capability. Other policies pertain to the exploitation of under-utilized species; technology; improved access to foreign markets; greater support for market development; and the consolidation of export marketing.

vi) Regulatory Review System

On December 14, 1977, the President of the Treasury Board and the Minister of Consumer and Corporate Affairs announced a new regulatory review process for major regulations having a substantial impact in the areas of health, safety and fairness. Under the new program, effective January 1, 1978, sponsoring departments are to carry out a socio-economic analysis of their proposed regulatory changes. This analysis will deal not only with the direct costs and benefits of regulatory changes, but also with such considerations as effects on costs and prices, distribution of income, international competitiveness and regional considerations. The terms and purpose of the major new social regulations will be pre-published in the Canada Gazette, along with the legal authority for the regulation and a summary of the analysis outlined above. Between the date of notification and the date of implementation of a change, interested private sector parties will be able to make representations, whose content would be public, to the sponsoring federal government department(s).

b) An expanded and Coordinated Research and Study Program

While general information is available giving rise to concern about the food PDR sectors, there are few hard data on which to base future action and, particularly, there is a lack of regularly published performance measures that can be used by farmers, fishermen, consumers and governments to evaluate the sectors. So far, little comprehensive anlaysis of these sectors

has been carried out in Canada. It is vital that immediate steps be taken to establish an expanded and unbiased research program. The major thrusts of such a program must be to improve the data base, to analyse the sector thoroughly and to develop expertise.

A priority program of research has been prepared for the Department of Consumer and Corporate Affairs. This research program could be undertaken by the Economic Council of Canada (ECC) commencing early in 1978, using readily available expertise in Canada. With its semi-independent status, the ECC would command the respect of all parts of the food system. An outline of the research priorities and the general arrangements with the Economic Council of Canada, including financial costs are set out in Appendix D. The specific terms of reference of the study could be formulated cooperatively among the ECC, various government departments, and with reference to the consultative body suggested below.

A secondary thrust would be to set up a few ongoing study programs, supportive of the issues in the package of initiatives above or as raised during the consultative process. These studies would be undertaken with the relevant departments, on a coordinated basis and would employ existing resources re-directed from other activities.

An alternative approach to the research and study needs would be to have the work carried out directly by government departments using existing and additional personnel and money to cover contracting to university and private consultants wherever necessary. A work program of this nature could be directed and monitored by an inter-departmental committee comprised of representatives from interested departments.

c) The Consultative Process

The Food Strategy document commits the government to meaningful consultation with all parts of the food system on both the strategy itself and various programs as they are developed. While the Food Conference will permit a discussion of the food PDR sectors, there is a need for an ongoing and regular consultation process beyond the Conference. It is important that there be a regular opportunity for all parts of the food system to consult with each other as well as with the Government. There are two ideas that could be considered:

i) Establish a National Food Policy Consultative Committee comprising representatives from the interest groups involved in food. The Committee would have an independent chairman reporting to Government as a whole. The role of the Committee would be to clarify problems and issues within the food system and to provide a continuing mechanism to consider solutions to these issues, including

consideration of the government's policy proposals. The Committee would bring together representatives of consumers, farmers, fishermen, processors, distributors and retailers and the food service sector in order to identify problems and opportunities as they arise, as seen from the various perspectives and to make proposals as to how the problems might be tackled by Government and/or the private sectors. The Committee's secretariat would be provided by government departments closely associated with food policy.

Benefits

It would provide a form where all parties concerned with the food system would be represented and would represent a positive response by the government to requests by the Retail Council of Canada and the Consumers' Association of Canada for a National Advisory Council on Food Policy;

It would provide the various interest groups with the opportunity to interact with each other and to exchange views on a variety of food-related issues.

It would ensure the continuing involvement of the public in the development of food policy.

It would avoid, at least in part, the need for separate consultations with food system stakeholders.

Weaknesses

It would be a large and possibly unwieldy group, with perhaps more scope for disagreement than consensus.

Past experience suggests that this type of consultation process tends to serve as a forum for special interest groups, particularly if the process is highly visible to the public. Each segment of the food system could seize on the opportunity provided by the process to profess their virtues, while blaming other segments for their deficiencies, with the result that consumer confidence in the ability of the food system to provide safe, nutritious and reasonably priced food could diminish further.

ii) Another possibility would be to have the government take a leadership role in consultations. This role would include preparation of a tentative agenda of meetings, issuing invitations, chairmanship of meetings, secretarial services, etc.

More importantly government would be expected to provide research and discussion papers on initiatives proposed by the participants as well as proposals of its own for discussion. While this format would be most effective in dealing with the food PDR sectors, it could also accommodate other issues of concern.

Agreement could be sought at the February Food Strategy Conference on the terms of reference and procedures for a series of meetings on specific issues. A planning committee would be formed including representatives of government departments and the various private interests. Each meeting would focus on a specific issue, and participating groups would present papers highlighting problems and proposing solutions. Follow-up meetings might be required in the case of particularly contentious issues. These meetings would assist interested parties in coming up with solutions on their own initiative and thereby minimize the need for government interference.

Minutes or proceedings of the meetings would be published in order to maximize the educational value of the process.

Benefits

As in (i) above.

Weaknesses

As in (i) above, plus

Devoting meetings to specific topics according to a pre-determined agenda would introduce an element of inflexibility into the process, and it would be more cumbersome to respond to emerging issues.

One way of getting the consultation process under way would be to establish, at the February Food Conference, a steering committee comprised of various participants in the food system. The steering committee could be charged with the task of developing detailed proposals for the consultative process.

d) Vigorous Pursuit of Competition Policy and the Related Government Programs

Consistent with the stated government policy to reduce intervention in the economy as set out in The Way Ahead, the government will continue to pursue vigorously competition policy objectives as a means of assessing the maintenance of competition and efficiency in the food PDR sectors. The aim of the Competition Act is to allow the competitive market to work well, where it can be expected

to do so, and to ensure than any intervention in the market is conducted in a responsible manner. Fundamental to the objectives of competition policy is that market forces be free to dictate the path of firm and industry organization, provided that this route does not result in impediments to competition to the detriment of market performance. The Bureau of Competition Policy will continue to pursue these competition policy objectives in the food PDR sectors as part of its ongoing work in all sectors of the Canadian economy.

e) Assurance of Internal Government Consistency

The strategy for these sectors must be consistent with the overall food strategy and must provide linkages both with other major components of this strategy and with other developmental policies. The following points illustrate the types of concerns.

There is also a set of programs in existence in a number of departments that provide incentives and assistance to the food PDR sector - Regional Economic Expansion and Industry, Trade and Commerce in particular, but also Agriculture and Fisheries and Environment. Regional Development Programs have the objective to establish new processing facilities and expand or modernize existing facilities. The Grains and Oilseeds Marketing Incentives Program is designed to achieve a sustained expansion of the total effective market for Canadian grains and oilseeds, while the Agricultural and Food Products Market Development Assistance Program has the same objective for agricultural food products (see Appendix B for a description of these programs). The Enterprise Development Program administered by Industry, Trade and Commerce has among its objectives the enhancement of industrial and processing growth and improvement of the internationally competitive position of Canadian industry. Loans and grants are made available, in a flexible manner, for small to medium size firms to undertake relatively high risk ventures that would otherwise not find funding from traditional sources. These three programs can be used to ensure that assistance is provided to the food PDR sectors as means to achieve the objectives of this strategy.

i) Agricultural Development Strategy

This recently announced strategy proposes a series of stages designed to enhance productivity and efficiency in the farm sector. Developments in the food PDR sectors must be coordinated with those in agriculture, any efficiency trade-offs clearly identified and evaluated, and all closely related to the future needs and demands of Canadian consumers and export markets.

ii) The Fisheries Management Plan and the proposed policy thrusts are expected to contribute effectively to increased efficiency in fish processing, distribution and retailing. The strategies for fisheries development are compatible with the proposed strategy for the food PDR sectors and should result in an improvement in the quality of fisheries products reaching the consumer.

iii) Regional Expansion

Regional objectives can be achieved through the food PDR sectors but efficiency and productivity objectives must be considered at the time.

iv) Industry Policy

In many respects, the food processing, distribution and retailing sectors and policies for them are a part of the broader Canadian industrial policy.

v) Trade Policy

The Government's participation in the current Multilateral Trade Negotiations is another facet of industrial and economic policy of which the food PDR sectors and the farm sector are parts.

vi) Consumer Interests and Concerns, Especially Nutrition

It is very important that the linkages between the primary producers and the industrial parts of the food system and other developmental policies ensure that steps taken are in the best interests of consumers, and meet their food concerns. A particular example is nutrition which currently has a low profile; simple information is scarce and sometimes misleading and action in the farm and industrial sectors is scarce and even counter-productive. Initiatives currently being developed, especially in the Department of National Health and Welfare but involving other departments, the provinces and industry, are very important here.

All these issues must be linked in a clear and regular fashion. This implies very close coordination between the various federal departments on a continuing basis and may need some more permanent type of coordinating mechanism.

4.0 ALTERNATIVES

A Food Strategy For Canada commits the Government to take action in the food processing, distribution and sectors. This paper has outlined a comprehensive strategy for the food PDR sectors. Alternative procedures to be considered are:

4.1 Use the statement published in the paper A Food Strategy for Canada as the Government's position on policy for the food PDR sector and pursue the implied work program.

Benefits

No new initiatives would be involved.

Weaknesses

The public impact of this approach would be minimal and would do nothing to alleviate public skepticism about the Food Strategy document.

No specific proposals would be forthcoming on other programs and thus it would not meet expectations in these important sectors of the food system.

The adversary nature of a study by the Competition Bureau would limit industry's cooperation to that required by law. Because of the confidential nature of the data used, publication of findings would be severely limited.

Cabinet would receive no guidance until the study was completed; perhaps as long as two years.

4.2 Adopt a strategy for these sectors based on the ideas as elaborated in this paper.

Benefits

It would provide a tangible demonstration of the Government's concern for the interests of all participants in the food system and of the need for the food PDR sectors to make the fullest possible contribution to the economy of Canada.

It would provide a solid basis for government action as the issues are clarified. Earlier Government Commissions and Boards of Inquiry and the work already conducted within government provides a starting point for some actions to be taken now on certain issues.

It would be consistent with existing policies on strengthening competition and reducing government intervention while maximizing use of existing government programs.

Weaknesses

It may be difficult to announce immediate initiatives.

5.0 FINANCIAL CONSIDERATIONS

Alternative 1 implies very little new financial expenditures as ongoing programs within departments would achieve the announced proposals in the published Food Strategy document. Alternative 2 would involve some additional cost, especially in the areas of research, information and consultation. However, no new immediate expenditures would be required until specific proposals, are brought forward. An example of such new costs might be those associated with a major research program undertaken by the Economic Council of Canada for an initial annual expenditure of $100,000 which in the second year could be absorbed within the Council budget. (See Appendix D); the man-years for the on-going study groups and research could come largely from within the research budgets (man-years and service contracts) of departments involved (Agriculture, Industry, Trade and Commerce and Consumer and Corporate Affairs). The alternative of conducting the research program within government (or under direct contact) would require at least a similar annual new expenditure ($100,000).

6.0 FEDERAL-PROVINCIAL RELATIONS

Specific elements of the strategy particularly those dealing with information, extension, and educational activities would require provincial collaboration and cooration. The proposed strategy should therefore be fully discussed with provincial governments. There is scope in all this work for the development of overall federal programs which could link well with local and provincial initiatives.

7.0 INTERDEPARTMENTAL CONSULTATIONS

This paper arises out of several meetings of the Interdepartmental Departmental Committee on Food Processing, Distribution and Retailing composed of representatives from Agriculture Canada, Regional Economic Expansion, Industry, Trade and Commerce, Fisheries and the Environment, Finance, the Privy Council Office and Consumer and Corporate Affairs. Contributions to this paper have been made by several departments with the major work shared between Agriculture Canada and Consumer and Corporate Affairs.

8.0 PUBLIC INFORMATION CONSIDERATIONS

In connection with the overall food strategy, it is important that the public sees the government acting to do something to improve the performance of the food PDR sectors as they relate to food prices, food quality and nutrition and especially as far as restoring confidence in this part of the food system is concerned. As the objective at this stage is to develop ideas for discussion at the Food Conference, no major public information program is needed before then. After the Conference when the most desirable and acceptable alternatives are much clearer, a comprehensive program will be needed.

9.0 CONCLUSIONS

9.1 It is important that the food PDR sectors, and the food system as a whole, function in a manner which:

i) assures consumers that the system is operating fairly and enables them to choose wisely from ample supplies of nutritious foods at reasonble prices;

ii) enables processors, distributors and retailers to plan and invest effectively and appropriately to meet future requirements; and

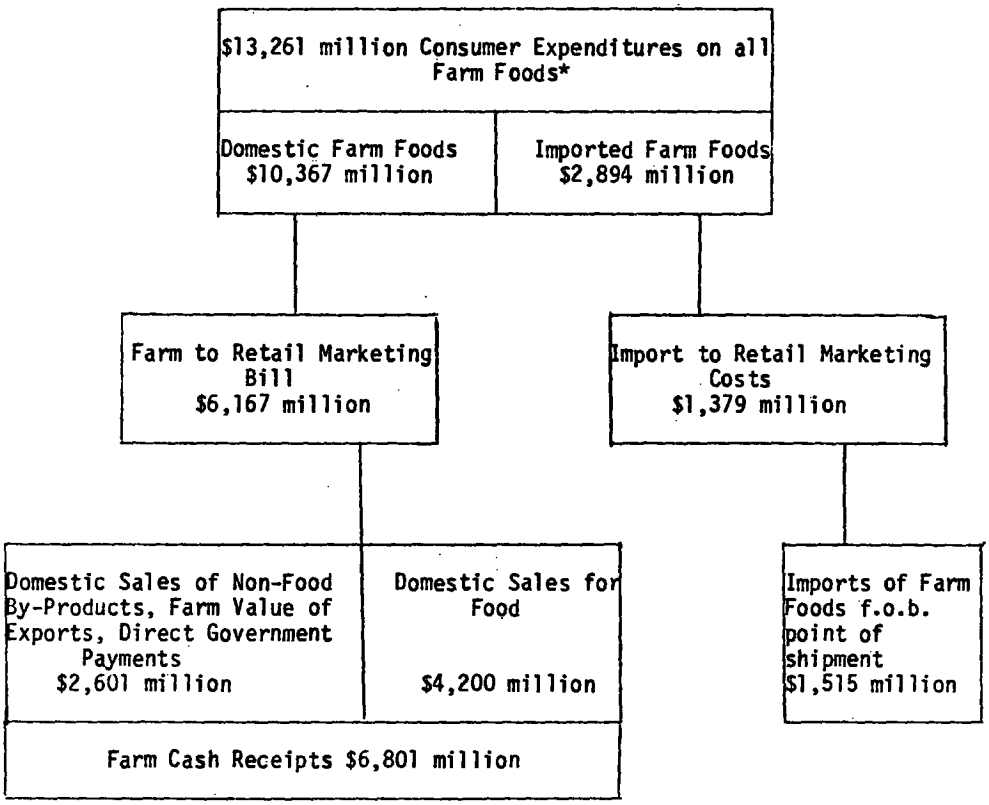
iii) provides producers with markets which accurately and effectively reflect levels and changes in the needs and demands of consumers both domestically and in export markets.

9.2 Given the public commitment made by the government in the Food Strategy paper, the absence of good data on the food PDR sectors, and the lack of confidence of consumers and producers in the performance of these sectors of the food system, the government may wish to adopt a strategy for the food PDR sectors. which incorporates a balanced package of the ideas and proposals presented in this paper.

APPENDIX A

Statistics on the Structure of the Food Processing, Distribution and Retailing Sector

DIAGRAM 1. INTERRELATIONSHIPS BETWEEN CONSUMER FOOD EXPENDITURES AND FARM CASH RECEIPTS, PRELIMINARY ESTIMATES, CANADA, 1973



*Excludes direct farm consumption of farm foods, and fish expenditures

TABLE 1. CONTRIBUTION OF THE FOOD AND BEVERAGE INDUSTRY TO ALL INDUSTRIES TOTAL

		Manufacturing	Total Activity
		- percent -	
Value added	1961	16.4	16.3
	1975	12.7	12.6
Employment	1961	13.8	15.6
	1974	11.5	12.4
Wages and Salaries	1961	12.0	13.8
	1974	10.4	11.4

Source: Statistics Canada, Catalogue Number 31-203, Volumes I and II.

TABLE 2. PROVINCIAL PERCENTAGE DISTRIBUTIONS OF SELECTED PRINCIPAL STATISTICS OF THE FOOD AND BEVERAGE INDUSTRIES, 1974[1]

Povince	Establish-ment	Production Workers	Cost of Materials & Supplies	Value of Shipments	Value Added Manu-facturing	Value Added as Percentage of V.A. all Industries
			- percent -			
Newfoundland	2.01	3.79	0.76	1.01	1.53	25.10
Prince Edward Island	1.38	0.86	0.53	0.50	0.46	68.99
Nova Scotia	4.29	4.76	2.33	2.46	2.65	19.68
New Brunswick	3.33	4.43	3.2	3.02	2.74	20.23
Quebec	28.04	25.43	27.05	25.67	25.02	11.57
Ontario	32.34	38.16	38.17	40.01	44.59	10.96
Manitoba	5.64	5.08	5.98	5.52	4.41	21.67
Saskatchewan	3.87	2.57	3.23	3.03	2.51	29.98
Alberta	8.81	6.61	11.20	9.95	7.04	23.80
British Columbia	10.19	8.28	7.54	7.92	9.04	12.14
Yukon & N.W.T.	0.10	0.03	0.01	0.01	0.01	14.10
Canada	100.00	100.00*	100.00	100.00	100.00	12.66

[1]Based on data in Statistics Canada Annual Census of Manufacturers, 1974, Catalogue Number 31-2038. (Preliminary).
*Based on sum of provincial estimates (145,011) rather than reported national total of 149,011.

TABLE 3. SELECTED PRINCIPAL STATISTICS AND PRODUCTIVITY MEASURES FOR THE FOOD AND BEVERAGE GROUP[1]

Year	Establishment	Employees Manufacturing	Value of shipment of Own Manufacturer	Manufacturing Value Added	Value of Shipments	Value Added	Value added Per establishment	Value added Per employee	Value added as A percent of shipments
	number	number	million dollars		constant million dollars		constant[a] dollars		percent
1961	7,734	129,977	5,040	1,713	5,040	1,713	221,500	13,180	34.0
1962	7,678	129,052	5,382	1,817	5,271	1,780	231,800	13,790	33.8
1963	7,528	128,082	5,714	1,899	5,406	1,797	238,700	14,030	33.2
1964	7,407	131,120	6,127	2,057	5,769	1,937	261,500	14,770	33.6
1965	7,150	135,110	6,429	2,189	5,992	2,040	285,300	15,100	34.0
1966	6,945	140,721	7,062	2,386	6,250	2,112	304,100	15,101	33.8
1967	6,737	142,172	7,429	2,517	6,522	2,210	328,000	15,550	33.9
1968	6,361	141.731	7,674	2,637	6,644	2,283	358,900	16.110	34.4
1969	6,082	140,553	8,224	2,833	6,780	2,336	384,100	16,620	34.4
1970	5,778	143,501	8,639	2,945	6,950	2,369	410,000	16,510	34.1
1971	5,599	142.427	9,111	3,160	7,168	2,486	444,000	17,460	34.7
1972	5,377	145,009	10,251	3,477	7,472	2,534	471,300	17,480	33.9
1973[b]	5,129	146,676	12,375	3,970	7,532	2,416	471,000	16,470	32.1
1974[b]	5,015	149,011	14,732	4,456	7,467	2,258	450,200	15,150	30.2

[1] Based on the 1961 or equivalently, the 1970 Standard Industrial Classification.

[a] Deflated using the Industry Selling Price Index, Food and Beverage Industries, 1961 = 100 (Statistics Canada, Catalogue No. 62-002, monthly)

[b] Preliminary

SOURCE: Statistics Canada, General Review of the Manufacturing Industries of Canada, Catalogue 31-203, annual, various issues.

TABLE 4. TRENDS IN VALUE OF SHIPMENTS AND VALUE ADDED IN SELECTED FOOD PROCESSING INDUSTRIES

Year	Poultry		Bakeries		Dairy Products Industries		Fruit & Vegetable Processing Industries		Slaughtering & Meat Processors	
	Value of Shipments of Goods of own Manufacture	Value Added	Value of Shipments of Goods of own Manufacture	Value Added	Value of Shipments of Goods of own Manufacture	Value Added	Value of Shipments of Goods of own Manufacture	Value Added	Value of Shipments of Goods of own Manufacture	Value Added
	- $'000 -									
1961	137,201	22,128	365,172	189,091			319,940	123,483	1,124,785	202,490
1962	153,212	23,522	380,400	194,932			347,299	136,732	1,190,906	214,903
1963	161,617	24,203	394,486	196,053			379,036	145,446	1,210,638	224,935
1964	173,675	26,868	427,664	212,331			414,755	165,817	1,274,918	248,230
1965	192,581	31,891	444,048	225,904			435,753	176,100	1,438,738	267,259
1966	227,776	38,793	463,422	237,726			470,298	193,796	1,632,830	292,602
1967	234,374	40,141	476,996	247,404			499,261	203,039	1,733,647	319,615
1968	252,419	48,822	484,135	257,068			509,986	208,009	1,772,506	310,008
1969	285,304	57,146	485,867	256,524	1,356,453	343,233	536,623	219,099	1,942,371	340,459
1970	283,732	57,575	502,891	262,536	1,369,206	346,014	544,338	210,534	2,061,419	362,609
1971	299,578	61,556	510,123	270,772	1,463,218	375,700	567,686	224,632	2,121,358	403,711
1972	358,534	76,547	540,371	287,709	1,573,723	392,058	631,320	250,766	2,551,415	428,649
1973	487,717	101,388	598,381	327,302	1,715,904	417,053	716,325	282,605	3,288,521	530,028
1974	511,228	100,739	726,591	376,319	2,083,009	482,434	865,259	346,542	3,578,952	634,506
1975	562,693	133,275	828,945	437,184	2,612,789	576,693	981,885	388,601	3,828,825	711,711

Source: Statistics Canada, Annual Census of Manufacturers.

TABLE 6 CONCENTRATION RATIOS FOR THE FOOD & BEVERAGE MANUFACTURING INDUSTRIES, 1968

SIC Code	Industry Name	Establishments	Enterprises*	Proportion of Industry Shipments by Top 4 Enterprises	8	12	16	20
		Number	Number			percent		
101	Slaughtering and Meat Processors	432	393	55.0	63.8	68.5	72.3	75.1
103	Poultry Processors	115	98	32.5	47.5	58.3	67.0	72.9
105	Dairy Factories	1,037	805	22.6	33.2	39.3	44.4	48.2
107	Process Cheese Manufacturers	9	9					
111	Fish Products Industry	367	289	34.9	48.0	55.8	61.4	66.0
112	Fruit and Vegetable Canners and Preservers	295	240	38.4	52.1	60.2	66.3	71.5
123	Feed Manufacturers	872	730	29.3	38.7	45.7	50.5	53.8
124	Flour Mills	42	28	76.9	88.2	95.1	98.6	99.5
125	Breakfast Cereal Manufacturers	18	16	95.3	99.2	99.8	100.0	
128	Biscuit Manufacturers	47	39	66.8	81.5	88.2	93.0	96.1
129	Bakeries	2,135	2,066	30.7	43.8	49.4	53.4	55.7
131	Confectionery Manufacturers	155	149	46.1	67.4	77.5	83.4	87.4
133	Sugar Refineries	13	8	92.4	100.0			
135	Vegetable Oil Mills	11	10	81.8				
139	Miscellaneous Food Industries	275	240	33.0	47.6	57.5	64.5	69.5
141	Soft Drink Manufacturers	441	384	43.4	51.8	56.6	60.4	63.0
143	Distilleries	25	14	86.4	97.0			
145	Breweries	47	10	94.8				
147	Wineries	24	18	63.8	88.2	97.6		

* including commonly owned or controlled companies

Blank spaces are either confidential or inapplicable

SOURCE: Statistics Canada, Cat. 31-514, Occasional, 1968.

TABLE 5. NUMBER OF ESTABLISHMENTS IN THE FOOD AND BEVERAGE AND TOBACCO PRODUCTS INDUSTRIES, BY EMPLOYMENT SIZE RANGE, 1973

Code	Industries	Employment size group									
		1-4	5-9	9-19	20-49	50-99	100-199	200-499	599-999	1,000 +	TOTAL
1011	Slaughtering and Meat Processors	125	89	74	78	43	31	21	8	4	473
1012	Poultry Processors	9	4	9	25	22	16	14	1	-	100
102	Fish Products Industry	70	43	55	67	31	34	27	2	1	330
1031	Fruit & Veg. Canners & Preservers	31	21	45	38	31	25	12	1	1	205
1032	Frozen Fruit & Vegetable Processors	5	2	4	7	10	5	1	1	1	36
104	Dairy Products Industry	113	112	137	149	65	50	18	1	1	646
105	Flour & Breakfast Cereal Prods. Ind.	4	8	5	12	8	7	4	1	-	49
106	Feed Industry	219	230	158	87	17	7	1	-	-	719
1071	Biscuits Manufacturers	3	2	2	5	10	7	6	5	-	40
1072	Bakeries	809	389	272	119	47	32	18	4	-	1,690
1081	Confectionery Manufacturers	37	15	13	19	4	7	11	5	1	112
1082	Cane and Beef Sugar Processors	1	2	-	2	1	3	5	-	-	14
1083	Vegetable Oil Mills	-	1	1	1	4	2	1	-	-	10
1089	Miscellaneous Food Processors Nes	45	40	38	56	43	20	17	3	-	262
1091	Soft Drink Manufacturers	30	45	82	125	29	19	6	1	-	337
1092	Distilleries	1	-	3	8	4	6	7	1	1	31
1093	Breweries	-	-	1	8	12	10	7	4	2	42
1094	Wineries	3	6	6	10	6	2	-	-	-	33
151	Leaf Tobacco Processors	1	-	-	-	2	2	3	-	-	8
153	Tobacco Products Manufacturers	1	1	-	3	1	1	5	3	2	17

Source: Manufacturing Industries of Canada: National and Provincial Areas. Statistics Canada, Catalogue Number 31-203 Annual, 1973, page 1B.

TABLE 7. FOUR - FIRM CONCENTRATION RATIOS FOR FOOD MANUFACTURING INDUSTRIES BY REGION, 1965[1]

Industry	Canada	Nfld.	N. S.	P. E. I.	N. B.	Atlantic[a] Region	Que.	Ont.	Man.	Sask.	Alta.	Prairie[b] Retion	B. C.
						Percent							
Slaughtering & Meat Processors	58					80	54	53	89	96	85		75
Poultry Processors	24					80	46	34				51	87
Dairy Factories & Process Cheese Mfrs.	25	75	47		51		X	X	68	88	X		75
Fish Products Ind.	37					36[c]						66[d]	77
Fruits & Vegetables Canners & Preservers	39					76	45	53				39[e]	
Flour Mills	80					X	X	X				83[e]	
Bakeries	32	74	67	X	76		24	39	55	57	50		X
Confectionery Manufacturers	47					X	68	63				X	X
Misc. Food Manufacturers	33					X	56	38				X	62

[a] Includes: Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island.

[b] Includes: Manitoba, Saskatchewan, Alberta.

[c] Includes: Atlantic Regions & Quebec.

[d] Includes: Ontario & Prairie Regions.

[e] Includes: Prairie Regions & British Columbia.

[1] Percent of value of factory shipments accounted for by the four largest enterprises in each industry. An X indicates figure withheld to avoid disclosing data for individual enterprises; a blank indicates estimate not made.

SOURCE: Dept. of Consumer and Corporate Affairs, Concentration in the Manufacturing Industries of Canada, 1971

TABLE 8. TEN-YEAR FOOD STORE SALES TREND

Year	Total Sales		Independents*		Chains	
	$000's	% Change	$000's	% of Total	$000's	% of Total
1966	$5,351,616	10.9	$2,950,872	55.1	$2,400,744	44.9
1967	5,685,513	6.2	3,074,787	54.1	2,610,726	45.9
1968	5,985,589	5.3	3,179,973	53.1	2,805,616	46.9
1979	6,400,942	6.9	3,299,730	51.6	3,101,212	48.4
1970	6,849,224	7.0	3,326,936	48.6	3,522,288	51.4
1971	7,260,204	6.0	3,392,059	46.7	3,868,145	53.3
1972	7,721,282	6.4	3,311,284	42.9	4,409,998	57.1
1973	8,594,929	11.3	3,597,609	41.9	4,997,320	58.1
1974	10,262,851	19.4	4,127,233	40.2	6,135,618	59.8
1975	11,983,868	16.7	4,874,217	40.7	7,109,651	59.3
1976**	13,271,712	10.7	5,490,420	41.4	7,781,292	58.6
1977 (forecast)	14,665,200	10.5	6,012,732	41.0	8,652,468	59.0

* Includes voluntary groups and unaffiliated independents.
** Maclean-Hunter Research Bureau estimates based on first ten-month data.
Source: Canadian Grocer.

TABLE 9. CANADIAN FOOD STORE SALES, 1976 OF BOTH CHAINS AND INDEPENDENTS BY REGION

	No. of Stores	Dollar Sales	% of Total
ATLANTIC PROVINCES			
Chains	145	544,212	49.9
Independents	2,898	546,091	50.1
QUEBEC			
Chains	635	1,641,405	42.5
Independents	6,566	2,219,816	57.5
ONTARIO			
Chains	1,819	3,621,946	70.1
Independents	4,566	1,547,295	29.9
MANITOBA			
Chains	188	388,140	64.9
Independents	989	183,239	35.1
SASKATCHEWAN			
Chains	67	216,883	55.3
Independents	974	175,523	44.7
ALBERTA			
Chains	229	562,247	68.2
Independents	1,261	261,679	31.8
BRITISH COLUMBIA			
Chains	324	856,459	60.6
Independents	1,972	556,777	39.4
CANADA			
Chains	3,407	7,781,292	58.6
Independents	19,226	5,490,420	41.4

Source: Canadian Grocer.

APPENDIX B

INCENTIVE AND ASSISTANCE PROGRAMS ADMINISTERED BY DREE AND IT&C

REGIONAL DEVELOPMENT INCENTIVE PROGRAM

A. Description

The Regional Development Incentive Program (RDIP) is one of the programs for which the Minister of Regional Economic Expansion (DREE) is responsible. Its broad objective is to contribute to the economic and social development of the nation,by expanding productive employment opportunities in regions of disparity. Its more specific objective is to establish new manufacturing and processing facilities, and to expand or modernize such existing facilities, in designated regions or special areas.

The RDIP is authorized under the Regional Development Incentives Act and the Department of Regional Economic Expansion Act. Under the former Act, the following have been designated as regions eligible for incentives support: all of the Atlantic Provinces, Manitoba, Saskatchewan, and the Northwest Territories; the northern parts of Ontario, Alberta and British Columbia; and Quebec except for the Montreal-Hull corridor. Under the Department of Regional Economic Expansion Act, the Montreal administrative area has been designated for incentive support for projects of $100,000 or more in selected manufacturing and processing industries.

B. Application Processing

The Regional Development Incentive Program is a responsive program in the sense that private entrepreneurs must apply for a financial incentive and the Department then determines (a) whether an incentive is needed to induce the establishment, expansion or modernization of the facility in the designated region or area at the present time, and (b) whether the project will make a significant contribution to economic expansion and social adjustment within the designated region or area.

The evaluation of all applications takes place in DREE's provincial offices and takes into consideration normal commercial considerations such as availability of resources, market demand, management and financing. Incentive approvals are based on project size. Most approvals are given by Regional Assistant Deputy Ministers, and fewer than ten are given by the Minister upon the advice of an interdepartmental Advisory Board.

C. Consultation with Other Government Departments (OGD)

DREE incentives officers often seek advice from other Departments during the course of their evaluation in order to improve their understanding of the proposed project or its possible implications for other federal policies or programs. Advice is nost often sought and willingly provided from such governmental agencies as FIRA and IT&C.

All projects requiring the Minister's approval are referred for advice to those Departments represented on the Advisory Board. These Departments are Environment, Finance, FIRA, Manpower and Immigration, and IT&C. When a major project is of known interest to some other Department, advice is sought from that Department at an early stage of evaluation and it may be invited to attend the Advisory Board meeting during which the recommendation to the Minister on that project is under consideration.

Through periodic consultation a list of sensitive industries is established with each major OGD. Each list reflects the need for prompt decision making by DREE and at the same time takes adequately into consideration the relevant policies and concerns of the OGD.

Finally, monthly reports are provided to the major OGDs, as applicable, so that they may be aware of offers accepted during the month or projects which commenced commercial production during the month.

From time to time, and largely at the request of OGDs, these consultation procedures are reviewed. In particular, lists of sensitive industries are updated in the light of changing federal policies or economic circumstances.

Grains and Oilseeds Marketing Incentives Program (GOMI)

Objectives

To achieve a sustained expansion of the total effective market for Canadian grains and oilseeds.

Qualifying Activities

Selected projects to expand existing markets to identify and penetrate new markets, to develop new or improved commercial products or processes and to establish a capability in Canada currently lacking but necessary to conduct development projects.

Criteria

Projects must be specific, commercially viable and have a direct bearing on the development of markets for Canadian grains and oilseeds.

Who is Eligible

Canadian companies, agencies, industry associations, universities, institutes and similar entities established in Canada and demonstrating the potential to undertake market development projects.

Interdepartmental Consultation

Representatives of CDA, IT&C, Finance and Treasury Board are on the Board.

Agricultural and Food Products Market Development Assistance Program (AGMAP)

Objectives

To encourage sustained growth for the sale of Canadian agricultural and food products in export and domestic markets.

Qualifying Activities

Three general types of projects can qualify under the program: feasibility projects, including market definition and commercial feasibility for new or existing products and processes; development projects, including market and product process development; Canadian capability projects, designed to establish in Canada capabilities which are currently lacking.

Criteria

The potential market growth for the product or process, its ability to contribute to an improved net income for producers of agricultural products and the value added aspect.

Who is Eligible

Canadian companies, associations universities and similar entities.

Interdepartmental Consultation

The program is administered jointly with CDA. Representatives of CDA, IT&C, Finance and Treasury Board are on the Board.

The Enterprise Development Program (EDP)

Effective April 1, 1977 the Enterprise Development Program (EDP) replaced the earlier Industry, Trade & Commerce innovative and adjustment assistance programs.

The EDP is administered by the Enterprise Development Board and the Regional Enterprise Development Boards all of which report to Cabinet through the Minister of IT&C.

The overall objective of the EDP is to enhance the growth in the manufacturing and processing sectors of the Canadian economy by providing assistance to selected firms to make them more viable and internationally competitive.

Standard operating policy for the EDP is to adopt the corporate approach to analysis, that is, to undertake a rigorous analysis of applicant firms and their proposed projects to identify viable businesses with attractive future prospects.

The deicsion-making structure for the program is addressed in two ways:

a) The deicison-making structure for the program is mixed private sector-public sector boards. This is designed to provide pragmatic, market-oriented decisions by using the experience of prominent businessmen in the decision-making process.

b) Secondly, the decision-making is decentralized to a greater extent with the creation of regional boards with delegated approval limits. This is designed to provide faster decision-making and an awareness of regional business conditions in the decision-making process.

The following components of the EDP indicate the various forms of assistance available:

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i) grants to develop proposals for eligible projects,

ii) grants to study market feasibility,

iii) grants to study productivity improvement projects,

iv) grants for innovation projects,

v) grants for industrial design projects,

vi) loans and loan insurance for restructuring (plant expansion, equipment modernization, working capital, etc.),

vii) special purpose forms of assistance - surety bond guarantees, footwear or tanning industries assistance, DHC-7 sales financing assistance.

As a general statement, the orientation of the Enterprise Development Program is to provide assistance to smaller and medium-sized firms engaged in manufacturing or processing activities. Firms in the service sector are, under limited circumstances, also eligible provided the provision of services provides direct, tangible and significant benefit to firms engaged in manufacturing or processing, or the project (such as an innovation project) is to be exploited by a firm engaged in manufacturing or processing activities.

Applicants for innovation and industrial design assistance must be incorporated.

Interdepartmental Consultants

IT&C, Finance, DREE, Manpower, MOSST, and FBDB are all represented on the main Board.

Regional Boards include representatives of IT&C, DREE and FBDB.

APPENDIX C

Initiative: Central Processing (Cutting) of Beef

A Strategy for Processing,
Distribution and Retailing
Food Sectors - Appendix C

Central Processing (Cutting) of Beef

1. Objectives

   i) To increase the efficiency of processing and distribution of beef.

   ii) To improve the sanitation of beef sold in retail outlets.

   iii) To improve net returns from the sale of beef.

   iv) To stimulate the development of the Canadian production of specialized cuts for the hotel, restaurant and institutional market.

   v) To increase the level of manufacturing in regions of production.

2. Background

   i) Beef has traditionally moved in carcass form from slaughter houses to retail stores where the carcasses are broken into primal and retail cuts. This is in contrast to pork, which is broken into primal cuts and further processed at slaughtering or processing plants.

   ii) Centrally processed (or boxed) beef utilizes an assembly line technique where carcasses are broken into sub-primal cuts at a central location and vacuum-sealed in oxygen impermeable film. At retail level, these sub-primal cuts are then reduced to retail cuts and packaged for consumers.

   iii) Central processing is done either by packers in conjunction with slaughtering facilities or by retailers, usually near major consumption centres.

   Central processing in a substantial way was initiated in the late 1960's by large retailers, building their own central processing plants (eg: Safeway, Steinbergs, Kelly Douglas, The Oshawa Group). Some of these plants are of a size to serve several cities or regions.

   To illustrate the dominance of retailers in this development, a survey by the Beef and Veal Marketing Inquiry snowed that only 2.8 percent of beef was shipped from plants, whereas 30.2 percent was received at individual retail establishments in boxed form during the first quarter of 1975.

   iv) The Beef and Veal Marketing Inquiry Committee studied this question and recommended that "early action be taken by government to head off the growth in central processing by retailers and to assure that the output of all packinghouses in Canada is centrally processed at least to the sub-primal stage and boxed at the point of slaughter".

   v) The House Standing Committee in Agriculture has been reviewing the report of the Beef and Veal Marketing Inquiry Committee. In its third report (July 13, 1977) the House Committee said that it "recommends and would welcome a statement by the government that it endorses the trend towards further processing at the point of slaughter, but your Committee would not recommend legislative action in this regard at this time".

3. Factors

   i) Transportation and distribution savings from boxed beef arise from reduced product weight (16 percent) and lower freight rates, since heavier railcar loads can be made with boxed beef instead of carcasses. There is also considerably less shrink in transit. Therefore, when the product is shipped long distances, the savings are greatest.

ii) Production efficiency is increased with the use of boxed beef because labour and equipment are more effectively utilized in central processing plants, including the use of less skilled labourers. The extended shelf life from boxed beef reduces spoilage and markdowns and increases the flexibility of selling cuts in other than fixed carcass proportions. Less trimming is required since there is less surface exposed in storage. It also provides supermarkets with the opportunity of doing what they do best, merchandising products.

iii) Standards for maximum bacteria levels in retail stores are being considered. Boxed beef substantially lowers bacteria counts since it is not exposed to contamination from the atmosphere. This reduction is greatest when beef is boxed at the packing house. It has been suggested that it could be the single most influential factor causing beef to be boxed at slaughter houses instead of retail central breaking plants.

iv) If trimmings and fat from cutting carcasses into primal cuts are removed at inspected plants, then they may be used for edible purposes. Even fat could be rendered for edible tallow. In retail stores or uninspected plants, these may be lost to human consumption.

v) The hotel, restaurant and institutional market for portion control cuts is growing in importance. This market uses the 'centre' cuts. When retailers purchase a carcass, these cuts tend to be lost to the HRI trade. However, if the packer does the central processing, then any firm can bid for the centre cuts. Improving the access to these primal cuts could reduce Canadian imports of high valued HRI products. Since packers serve many different types of markets, they can allocate primal cuts to those markets where demand is greatest, thereby maximizing the returns from a carcass.

vi) Central processing extends the shelf life of fresh beef. The necessity of quickly moving beef through the marketing chain is reduced, enabling the marketing system to cope with bunchings of cattle marketings or a short run drop in demand without excessive price discounts.

vii) The Montreal beef market because of its unique characteristics is a dominant factor in the short-run establishment of the carcass price for beef. It has been criticized as being archaic, inefficient, and distorting market price signals. The introduction of boxed beef will hasten the structural adjustments in the Montreal market, if packers (not retailers) do the central processing.

viii) Several large Eastern Canadian supermarkets have not yet adopted boxed beef (eg: Loblaws, Dominion, Metro-Richelieu). These firms could make a decision shortly to produce their own or to buy boxed beef. Because of their size, their decisions will greatly affect the ownership of boxed beef processing facilities for the industry.

ix) Beef producers in deficit production regions (eg: Quebec, British Columbia and the Maritimes) may find boxed beef from the Prairies supplying their market while they are left to supply a small residual of that market for firms not using boxed beef. If sufficient local production exists, however, to supply a slaughtering and boxing facility, this problem could be eliminated.

x) Beef buyers for retailers hold many traditional values that have little scientific basis. For example, the belief that certain types of carcasses have different yields or quality has created excessive discounts for heifers and carcasses with poor confirmation. Central processing would eliminate the ability of buyers to continue much of this unwarranted discrimination, which is more predominate in heavy marketings and low price periods.

xi) Retailers recognizing the advantages of central processing have been able to build their own facilities because they own the retail outlets. Conversely, for packers the risks have been higher for any rapid conversion to supplying boxed beef because it would require both packers and retailers to make substantial adjustments, simultaneously. As well, retailers traditionally have avoided being tied to a single supplier and hence a number of packers would need to be prepared to supply boxed beef, at the same time. Thus, the structure of the industry, a few large sellers and buyers, prevents the optimal ownership and location of the central processing facilities.

Alternatives

1. Take No Action

The industry especially retailers, has quickly adopted boxed beef for a high percent of its sales and without any government intervention, this percentage may continue to increase. Recent industry estimates indicate that approximately 60 percent of the beef received by retailers is in boxed form.

A. Advantages

i) The marketplace will determine the speed of adjustment, resource allocation, form of change, and location and ownership of facilities.

B. Disadvantages

i) Adoption rate beyond current levels may be slow, unless the three or four major retailers change their current preference for individual store processing.

ii) While there are advantages to central processing even at retail, the major advantages to producers and consumers would accrue if it is done at the packing house level. Otherwise, benefits of improved sanitation, extended shelf life, development of Canadian HRI supplies, use of by-products for edible purposes, lower transportation costs and shrinkage, increased efficiency in labour and equipment use are substantially reduced. Without explicit government action, those retailers now owning central processing facilities will continue. Equally important, several large retailers may construct new or expand existing facilities in the near future.

2. Accelerate the Extent of Central Processing

Since central processing improves the performance of the marketing system, the government could take action to assist in its adoption. Methods to accelerate its adoption include rail rates reflecting cost differences for boxed beef, and the use of incentive grants or tax adjustments. Part of the anticipated benefits could be retained by the processor as an encouragement to make the appropriate investments. An early decision about new health standards at the retail level would also encourage the adoption of boxed beef.

A. Advantages

i) The industry would adopt boxed beef more quickly than under Alternative 1, with producers and consumers receiving benefits of central processing described above.

B. Disadvantages

i) Retailers as well as packers may be encouraged to adopt central processing facilities, limiting many of the advantages of central processing as described above.

ii) The incentives described above may not be sufficient to induce much expansion in central processing. In this event, the advisability of further action could be considered. A detailed cost effectiveness study would be required to estimate the magnitudes of the incentives needed compared to the expected benefits.

3. Increase Central Processing at the Packing House Level

Since the greatest benefits in terms of improved performance of the PDR sector for beef would arise when central processing is undertaken at the packing house levels, the government could introduce programs to encourage meat packers and discourage retailers from doing central processing. Grants or tax incentives could be used.

A. Advantages

i) This would enable the greatest benefits of central processing to be realized, since these accrue when processing is done at the slaughtering level.

ii) This policy would increase processing in rural areas of Canada (eg: the Prairies), consistent with Canada's regional development strategy.

iii) Timely action would allow the large supermarkets now considering the construction or expansion of their own facilities to change plans before investment commitments are made.

B. Disadvantages

i) The level of incentives to packers may not be sufficient to prevent retailers from building central processing facilities. Moreover, since many already have facilities, it could be costly for them to make such changes unless the grace period was extensive. Again, a detailed cost effectiveness study would be required to estimate the magnitudes of the incentives needed compared to the expected benefits.

ii) Demand for carcass beef will continue and the objective would not completely eliminate trade in this form. Also, central processing by smaller packing houses might not be feasible.

APPENDIX D

A Proposal for an Expanded and Co-ordinated Economic Research Program for the PDR Sector and a Proposed Priority Research Program

A PROPOSAL FOR AN EXPANDED AND CO-ORDINATED ECONOMIC RESEARCH PROGRAM FOR THE PDR SECTOR AND A PROPOSED PRIORITY RESEARCH PROGRAM

1. OBJECTIVES

The major objective of an expanded research program is to analyze the processing, distribution and retailing sector in terms of its performance and in the process to improve the data base of the sector. This research must be clearly understood by all those involved in and with the sector, i.e. the industry itself, consumers and producers and governments. Thus a secondary objective is some system of involvement and of publication of all studies.

A third objective is to provide back-up information for any initiative and proposals arising out of the consultation process.

2. PROCEDURES

The proposal is for a two-part research program:

i) A request to the Economic Council of Canada to undertake a major study immediately into the PDR food sectors;

ii) the deployment of 10-15 man-years of economic research expertise into the studies in these sectors by the various departments concerned.

These two parts are dealt with separately but cannot be considered as alternatives. Both parts are necessary features of the Strategy as set out in the discussion paper.

3. ECONOMIC COUNCIL OF CANADA STUDY

The Government would be asked to undertake a comprehensive study of the food processing, distribution and retailing sectors starting immediately and targeting a two-year time frame. A study undertaken for Consumer and Corporate Affairs Canada reviewed fully the various alternatives for undertaking such a research program.1/ Within Canada, there is a long list of research organizations that, potentially, can carry out research on the food PDR sectors. However, in practice,economic and market researchers with specific expertise in the PDR sectors are very few and far between. The report reviews the strengths and weaknesses of federal government departments, provincial institutions, trade a-sociations, independent consultants, institutions, trade associations, independent consultants, government funded research organizations, privately funded research organizations and "new" independent research organizations.

This report makes the following comment on government funded research organizations:-

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1 "Development of an Integrated Strategy for Research on the Processing, Distribution and Retailing Sectors of the American Food System", Broadwith, Hughes and Associates Ltd., October 1977, Consumer & Corporate Affairs Canada.

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Strengths

- relatively independent
- research man-years available
- good research support services
- breadth of economic research expertise
- relatively low apparent direct costs of undertaking a research project
- ability to concentrate considerable resources on one project
- experience in longer-term planned research
- low competing calls on time.

Weaknesses

- limited research expertise on the PDR sectors
- "bureaucratic lag" in publishing research results
- limited industry contacts (although researchers may have an indirect contact via government appointed industry directions).

The Economic Council is in a position to commence a major PDR study with the next fiscal year, beginning April 1978. It would require a minimum of $200,000 to undertake this work in the first year with some ability to absorb the cost into its own budget thereafter.

The advantages of such a proposal are that a major program can be launched quickly, largely through contracting out, for which the Council has good managerial experience. It is particularly important to stress that the Council has an excellent reputation for good economic research and for impartiality. To successfully provide producers and consumers with the facts on the performance of the sector, it is essential that the research organization have a high level of integrity, credibility and impartiality. The Council meets all these criteria and the industry would also be prepared to co-operate with it.

As set out in detail in the CCAC Report the research priorities are as follows:-

1) Industry performance
2) Industry information
3) Regulation of the PDR sectors
4) Economic interrelationships
5) Production and distribution capactity
6) Food quality

In more detail these are:-

1) Industry Performance:

At this time, little is known about the real performance levels of the PDR sectors as a whole, the separate PDR components, or of the individual industry firms. However, any assessment of the performance of the industry which would be usable for the development of public policies related to the PDR sectors must be preceded by the formulation of a integrated set of performance criteria which would form the framework for the analysis. Development of these criteria and the establishment of performance standards for each criterion is a clear research priority.

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2) Industry Information

The lack of basic information on the PDR sectors provides a major impediment to any comment on future research advances. Since it is agreed that economic analysis of the performance of the food PDR sectors is the desired research orientation, it is essential that the criteria on which industry performance is to be measured are delineated. The criteria chosen will then determine the specific information to be collected. A research oriented data collection and refining procedure would then have the following steps:

i) delineation of reasons for data base;
ii) specification of measurement criteria;
iii) review of available information sources in light of specified information requirements;
iv) where required information is available, check the validity and consistency;
v) where the required information is not available, establish the appropriate collection procedure;
vi) check the validity and consistency of the new series.

In recent years, the rapid growth in conglomerate firms participating in the food industry has negated the analytical usefulness of information provided by firms (such as company annual reports) if they report on a consolidated basis. If government is to provide an effective policy framework for a national food policy and for the food industry specifically, it is essential that the operations of the sectors are thoroughly understood and, therefore, it may well be necessary for governmet to legislate companies to provide financial information on a 'line of business' basis.

3) Regulation of the food PDR sectors:

A comprehensive evaluation of the present regulations affecting the PDR sectors is required. Three broad categories of regulation must be considered:

- the effects or regulations directly related to the food PDR sectors on those witnin the sectors;

- the effects of regulations directly related to the food PDR sectors on those outside the sectors; for example, consumers and agricultural producers;

- the effects of regulations related to other parts of the food system on the food PDR sectors.

Within each of these categories the following questions should be addressed:

- what is being regulated and what are the specific and overall objectives?
- what is the regulation appropriate to current conditions?
- what are the procedures for implementing new regulations and deleting those which are obsolete?
- what are the costs and benefits of regulations and to whom do the benefits accrue?

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4) Economic Inter-relationships

The PDR sectors comprise a complex set of operating entities and functions and involve a multiplicity of commodities and products. Improved knowledge as to the impact of changes in policy, costs, volume of supplies, etc. will assist in the formulation of more effective and efficient policies affecting the PDR sectors.

5) Production and Distribution Capacity

At present, little documented evidence is available on the production and distribution, nor of the present degree of capacity utilization of the PDR sectors. Research in this area would aid in policy formulation exercises by public agencies and legislative bodies, as well as serving as planning guides for individual firms and industry groups.

6) Food Quality

Three topics related to food quality have been identified as deserving of research attention. The first of these is evaluating the influence of the PDR sectors on the nutritional levels of diets. Related to this is the second proposed research area which is a review of food quality standards adopted by firms in their production processes and product specifications. Thirdly, research is suggested on an assessment of the costs and benefits of present grading standards for raw agricultural and processed food products and their appropriateness to present demands of the market and institutional needs.

4. STUDY OR RESEARCH IN DEPARTMENTS

As the consultation process proceeds and the possible initiatives for action are further developed, there will be a need for a continuing study of these and probably other proposals for action. This work can best be undertaken with particular departments according to the type of initiative. A number of departments are involved including Agriculture Canada, Consumer and Corporate Affairs Canada, Industry, Trade & Commerce, Fisheries & the Environment, and Regional Economic Expansion. Within these departments, several different parts may be involved - for example, in IT&C, the Grains Marketing Office, Agricultural, Fish and Food Products and Distributive Services will all be concerned with a part of the food PDR sectors.

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It is expected that some 10-15 research man-years will be required but these can be deployed from existing resources, from contractual arrangements, or where a department desires, from new funding.

5. CO-ORDINATION

A major concern is that all this work be regularly co-ordinated. It would seem vital that a special inter-departmental committee be established to act as a central co-ordinating group on all food PDR research studies and investigations to avoid overlap and duplication, to ensure best use of resources and assure all needed work is undertaken. Such a groups would need to include such organizations as the ECC, AIB, StatCan, as well as the departments listed above.

To keep track of this work, an inventory is also needed. For a number of years Agriculture Canada has maintained an inventory of agricultural and food economic research projects (AERIS) conducted by the federal government, provincial governments, universities and private consultants. Agriculture Canada is presently working with the Canadian Agricultureal Research Council to develop a computerized retrieval system for the extra agriculture and food sector. The recent reports prepared for Consumer and Corporate Affairs Canada consecutively compiled an inventory of PDR research completed[1] and then research currently under way. [2] These inventories would need to be built into AERIS.

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1 Hughes, D. and J. Morris, "A Critical Review of Available Research and Statistical Documentation on the Processing and Retail Food Sectors of the Canadian Food Industry", Consumer & Corporate Affairs Canada, March 1977.

2 Broadwith, Hughes and Associates Ltd., "Development of an Integrated Strategy for Research on the Processing, Distribution and Retailing Sectors of the American Food System", Consumer & Corporate Affairs Canada, October, 1977.