A REPORT BY THE SECTOR TASK FORCE ON

THE CANADIAN PROCESSED FRUIT AND VEGETABLE INDUSTRY

Chairman G. L. Nix

REPORT OF THE TASK FORCE

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REPORT OF THE TASK FORCE ON THE FRUIT AND VEGETABLE INDUSTRY

A. Objective

The objective of this report is to examine major opportunities and constraints affecting the development of the processed fruit and vegetable industry and to make specific recommendations to ensure that the industry realizes its full potential in the 1980s and beyond.

B. Industry Summary

Attached for reference is a Profile of the Processed Fruit and Vegetable Industry. This profile was originally prepared by the Department of Industry, Trade and Commerce and has been revised and updated by the Task Force. A brief summary overview of the industry follows.

The processed fruit and vegetable industry is engaged in the canning, freezing and dehydration of fruits and vegetables, and the production of a variety of products using fruits and vegetables as major ingredients. Basic fruit and vegetable products (canned and frozen fruits and vegetables, juices) comprise about 40 per cent of industry shipments; formulated and other products (soup, baked beans, frozen specialities, etc.) make up the balance.

In 1975, products valued at approximately $1,000 million were produced by 190 firms in 245 plants located in all regions of the country. The industry is centred in Ontario which accounts for approximately 60 per cent of shipments and employment. However, it is also very important to the economies of other regions, particularly Atlantic Canada. Led by the potato processing sector, the Atlantic Provinces' share of industry employment has been increasing and in 1975 represented 12.5 per cent of total industry employment (vs. 9.5 per cent of population). In addition, the industry is highly significant on a local basis since production facilities are primarily located in the smaller population centres across the country.

The industry provides permanent employment for approximately 15,000 people and also provides an equal number of summer job opportunities for students and housewives. Because of the industry orientation to smaller centres, these jobs can be vital to the economy of the communities in which plants are located. In addition to direct employment, the industry has a large impact on employment in other sectors including packaging, transportation, warehousing, promotion (brokers, ad agencies, etc.) and agriculture. It is the largest industrial user of metal cans, second largest user of sugar and third largest user of jars and bottles. The industry plays a vital role as an outlet for Canada's 50,000 growers of horticultural crops, processing about half of their total production.

The industry is primarily a supplier to the domestic market, with exports accounting for about 5 per cent of output. The principal products exported are processed potatoes, sweet corn and blueberries with export sales making an important contribution to their viability. Other products with good export prospects include processed apples, raspberries and snap beans. Imports, on the other hand, supply approximately 25 per cent of domestic demand. In 1977, 46 per cent of imports were tropical or semi-tropical products not produced in Canada and the balance were temperate products which compete with domestic production. In recent years imports of temperate products have been capturing a greater market share, particularly of those products which tend to be labour intensive (e.g. canned tomatoes, mushrooms and tender fruit).

Of major concern to the industry is the serious decline in profits since 1975. As shown in the table below this is entirely due to the disastrous experience of those firms producing predominantly basic products (canned and frozen fruits and vegetables; juices).

Profit before taxes as per cent of capital employed

	1973	1974	1975	1976	1977
Total industry	16.7	17.7	18.0	15.3	12.9
Firms producing predominantly formulated products	17.9	20.0	20.1	18.5	19.8
Firms producing predominantly basic products	13.6	14.5	15.2	11.4	4.2

Source: Industry Survey, May 1978 (34 firms representing 70 per cent of industry shipments).

This performance supports the recommendations for changes to the Canadian tariff structure for processed fruit and vegetable products made by the Tariff Board in October of last year. The industry concurs with the Board's recommendations, with minor modifications, and has urged their implementation as quickly as possible. It is the view of the Task Force that these changes are vital to the very survival of the industry, and in preparing this report, it has been assumed that the majority of the recommendations will be implemented. However, these changes alone are not sufficient to ensure the long-term viability of the industry. Accordingly, the principal work of this Task Force has been to identify and assess other issues of concern and to make recommendations for their resolution.

C. Issues

Issues selected by the Task Force as having the greatest significance for the future viability of the processed fruit and vegetable industry are listed below. It should be noted that the numbering is for reference purposes only and does not indicate an order of priority.

1. Scope for Rationalization
2. Impact of Environmental Regulations
3. Industrial Development Incentives
4. Levels of Research and Development Activity
5. Land Use Policies
6. Unemployment Insurance Regulations
7. Minimum Wage Legislation
8. Powers and Practices of Marketing Boards for Fruit and Vegetable Crops

Before making this selection the Task Force identified a number of other issues (including taxation, packaging, productivity, investment climate, immigrant labour, unionization, quality of management, energy policy, transportation, governmental procurement policies, governmental regulations, trade policy, foreign ownership) which had impact on the industry. It was decided that these should not be considered in detail for reasons of time limitation and relative priority. Furthermore, in making its final selection the Task Force was aware that an associate Task Force had elected to review

and report on a number of issues relating to the entire food and beverage sector, i.e. input costs, productivity, labour relations and legislation, incentives and taxation, governmental regulations, marketing boards, and competition policy. This Task Force, therefore, directed its attention to those issues or aspects of issues of particular concern to the processed fruit and vegetable industry.

There follows, for each of the selected issues 1) a definition of the issue, 2) background considerations, 3) recommendations for action, and 4) brief assessments of the expected impact of the recommendations.

It will be noted that, while this report is being submitted to the Minister of Industry, Trade and Commerce and to his colleagues in the ten provinces, the recommendations envisage action, as appropriate, by the various levels of government (federal, provincial, regional and municipal) as well as by primary producers, and of course by the processing industry itself.

The recommendations represent a broad general consensus although it should be noted that all members of the Task Force do not necessarily hold the same views or attach the same importance to each issue. In cases in which individual members hold strong dissenting views, they are indicated in an appropriate manner.

1. SCOPE FOR RATIONALIZATION

Issue

The Task Force is convinced that continued rationalization is essential to the efficient and dynamic evolution of the industry. While rationalization is basically up to the industry to implement it is necessary that governments maintain a favourable environment in which it can proceed.

Background Considerations

The Canadian market for processed fruit and vegetable products has long been intensely competitive. Firms have been numerous and heterogeneous, inter-firm rivalry has been high, imports have been readily available, and entry to the industry has been relatively easy insofar as firms have had unimpeded access to inputs, technology, product lines and markets. Furthermore, the fact or threat of backward integration by retail food chains has forced processors to continuously improve their efficiency. In this competitive environment, industry rationalization has been extensive and far-reaching, particularly in the canning sub-sector.

Rationalization has not, however, run its course. Indeed, rationalization is an ongoing process, and further adaption is a necessary condition if the industry is to achieve its full potential in domestic and foreign markets. Moreover, the imperatives of rationalization for the Canadian processed fruit and vegetable industry are the greater by reason of the inherent disadvantages under which it operates vis-à-vis its major competitor, the U.S. These include a) a shorter growing season, b) higher capital to output ratio, c) smaller domestic market, d) higher transportation costs, and e) the costly burden of extensive government regulations.

Future gains in productivity through rationalization are likely to arise from a continuation of the developments experienced in the recent past; perhaps at a somewhat slower pace as the newer segments of the

industry attain maturity. These developments include:

(a) Concentration of on-farm production of raw product in the hands of fewer, larger-scale, lower-cost primary producers using more capital-intensive technologies.

(b) Further overall reductions in the number of firms engaged in the processing industry, with departures being concentrated among small and medium-sized businesses.

(c) Continuation of the process of rationalization of production facilities by some further reduction in the number of processing plants. Closures will be most marked among small plants (those with 50 or fewer employees) and those with few product lines. Thus, it is anticipated that the industry will be composed of fewer firms, operating fewer plants, and fully employing advanced technologies. This will permit the attainment of economies of size in processing as well as in marketing and finance.

(d) Rationalization of product-line is more complex. The remaining single-product plants do not have a promising future and seem likely to yield further ground to multi-product plants. At the same time, however, there will be more specialization within multi-product plants, both of product line and of package size, in an attempt to obtain longer runs and thereby achieve the economies of capacity utilization. Furthermore, the product mix of the industry as a whole is likely to give greater emphasis to products in which Canada has, or can secure, international comparative advantage, e.g. potatoes, sweet corn, snap beans, apples, blueberries and raspberries.

(e) The achievement of Canada's national export/import objectives in processed fruits and vegetables might conceivably be influenced by the extent of foreign ownership in the industry. However, it is the expectation of the members of the Task Force that Canadian-owned companies will continue to be prominent in the export business and, further, that the resources of multi-national enterprises will continue to be committed through their Canadian subsidiaries to the development of Canada's potential for increasing exports of processed fruits and vegetables.

(f) No radical changes are foreseen in the broad regional location of fruit and vegetable processing activities in Canada.

Recommendations

1. It is the view of the Task Force that rationalization is an inevitable and natural process which is best brought about by the adjustment of firms to evolving market forces. Indeed, no industry-specific governmental interventions are required to catalyze or to accelerate rationalization in the processed fruit and vegetable industry.

2. At the same time, the industry does require that governments strive to maintain an environment which is conducive to orderly processes of rationalization and development. In this regard, three areas are of pre-eminent concern:

   a) in trade policy, safeguard measures should be refined in ways which will shield the industry from disorderly external market conditions. Further, an adequate level of protection should be provided for products in which the Canadian industry is not at present competitive but which must be retained if average total processing costs over the full range of products are to be minimized and the viability of the industry is to be assured.

   b) macro and micro-economic policies should be pursued which will permit and encourage firms to make the heavy investments in reorganization, modernization and expansion that industry rationalization will entail in the years ahead.

   c) it is imperative that the adverse impacts of various framework policies and regulatory activities be recognized and minimized.

3. One area which may require some attention is the provision of assistance to particular communities in which processing is important and which would be hard hit by plant closure.

4. Viewed in a national context, one existing form of intervention by governments may inhibit rationalization. Some members of the Task Force hold the view that federal and provincial regional subsidies and development grants may lead to excess capacity and the distortion of inter-regional competition in the national market. Other members view the current system of regional incentive grants as playing a vital role in redressing regional economic imbalances. An elaboration of the Task Force's views on this subject is provided in the section entitled Industrial Development Incentives (Page 7).

Impacts

(a) Rationalization of the Canadian processed fruit and vegetable industry will, over time, lead to the closure and relocation of some plants, the wider use of capital-intensive technologies, and a growing dependence on imports for a few products in which Canada has no comparative advantage. However, to the extent that rationalization leads to a more competitive industry, these developments are quite compatible with a growth in total industry output and employment, and a more favourable contribution to the balance of trade. Indeed, rationalization is a precondition for sustained growth in value-added, employment and exports.

(b) Rationalization will also entail some further concentration of ownership within the industry. However, the view of the Task Force is that this is compatible with the preservation of a vigorously competitive market environment. Any conceivable measure of rationalization will leave a substantial number of

competing firms, will hardly affect 4- and 8-firm market shares, will not significantly affect competition from imports and substitute food products, and will leave the countervailing power of growers and the retail chains unimpaired. Thus, a rationalized fruit and vegetable processing industry should meet without difficulty the sterner tests of competitive structure, conduct and performance embodied in contemporary legislation dealing with competition.

2. IMPACT OF ENVIRONMENTAL REGULATIONS

Issue

The Task Force is concerned about the effect of environmental control costs on the industry's competitive position, the lack of uniformity of regulations between jurisdictions, and the uncertainty resulting from frequent changes in regulations.

Background Considerations

In addressing this issue, the Task Force wishes to emphasize that the industry fully accepts its responsibility for and commitment to the preservation of the environment.

As a result of more stringent government regulations during the past decade, environmental considerations have become an increasingly important factor influencing plant location, industry rationalization, and investment decisions. It is the view of the Task Force that these regulations have not always been designed or implemented in a manner sufficiently attuned to the financial or competitive position of the industry. The result has been an additional cost burden which the industry can ill afford. In addition, the impact is greatest on firms producing basic fruit and vegetable products which, as the financial analysis indicates, is the segment least able to bear it.

There is often no consistency between the position of the various jurisdictions responsible for environmental regulations (federal, provincial, regional and municipal). This gives rise to confusion and uncertainty and may, in some cases, provide a competitive edge to firms in the less strictly regulated areas. Changes in environmental standards would appear to occur more often than necessary and have frequently given rise to unplanned expenditures and resultant higher production costs. Since this industry is in competition with countries which, in many instances, have less stringent environmental standards, expenditures on pollution control must be recognized as an impediment to Canada's ability to compete.

Recommendations

1. A mechanism be established which would encourage close co-operation and consultation between the federal and provincial governments, industry and other affected parties on matters relating to environmental controls.

   The principal objectives would be as follows:

   (a) agreement on realistic standards.

   (b) standardization of regulations throughout federal, provincial, regional and municipal jurisdictions.

(c) justification of any proposed change by cost benefit analysis.

(d) agreement on a reasonable time frame to implement changes.

(e) establishment of a specific period of time during which regulations would not be changed.

2. As a long-term objective, the government should seek to reach international understandings on pollution standards and cost absorption.

3. Until Recommendation 2. is implemented, governments should seek ways to offset the cost of environmental regulations in order to assist the industry to remain competitive.

4. Provision should be made in tax regulations to compensate companies for land utilized for pollution abatement.

5. The level of research on pollution abatement being carried out by governments should be still further augmented.

Impact

Implementation of the foregoing recommendations would a) facilitate establishment of the most effective environmental controls at minimum cost and dislocation to processing plants, b) minimize discriminatory advantages which could occur as a result of variations in regulations and c) continue to advance the level of pollution abatement technology available to the industry.

3. INDUSTRIAL DEVELOPMENT INCENTIVES*

Issue

The Task Force is concerned about the general effectiveness and efficiency of governmental incentive programs for industrial development and their impact on industry structure and competitiveness. There is also some concern about the discriminatory facets of some programs.

Background Considerations

A wide variety of incentive programs is available to industry from federal and provincial governments. These programs provide assistance in such areas as productivity, design, counselling, financing, research and development, export marketing, product innovation and regional development. While recognizing that many of these programs have made significant contributions to the development of the industry, members have noted their growing number and diversity, the jurisdictional overlap between governments, the degree of red-tape and the length of time required to prepare and process applications. It is their view that the overall effectiveness of the programs could be greatly improved if departments of the two levels of government were to launch a determined and concerted effort to harmonize and streamline their activities in this field. Such proven management practices as zero-base budgeting, cost benefit analysis and effective follow-up procedures should be incorporated. The effect of such an initiative would be considerably enhanced if industry were consulted as an integral part of the process.

* Mr. C.M. McLean and Mr. C.R. Morris dissociate themselves from this section.

It has been observed that governments sometimes provide assistance for projects which would have gone ahead without any incentive. While this practice may be in accord with current legislation in respect to some programs, other programs specifically prohibit such aid. As a matter of principle, the Task Force believes that granting assistance under these circumstances is not a suitable charge on the public purse and that a vigorous effort should be made by governments to reduce the incidence of such cases. To this end, and to minimize the cost to the taxpayer, the Task Force considers that it might be well to convert grant programs to loan programs. Such loans could be tailored to the particular circumstances of the case, including provision of concessional interest rates.

The Task Force recognizes that governmental incentives provided for regional development purposes have played, and can continue to play a significant role in fostering useful developments in the processed fruit and vegetable industry. Without these incentives, the industry would tend to become concentrated in those regions which possess natural economic advantages to the detriment of less advantaged regions. By providing financial assistance through the Regional Development Incentives Act, the federal government has assisted in equalizing the opportunity for industrial development between regions. While acknowledging the merits of this program, members of the Task Force hold the view that projects eligible for regional incentives should be more fully evaluated to ensure that they do not lead to conditions of excess efficient capacity or impede desirable rationalization.

A tendency has been noted for some programs to be designed or administered in such a way as to discriminate between different groups on the basis of their legal entity, ownership, size or other limiting factor. An example is the Fruit and Vegetable Storage Construction Assistance Program which funds co-operatives but does not make funds directly available to processors. The Task Force is strongly of the view that governments should not discriminate between the interests of the various stakeholders in the food system and that the specific interests of the processed fruit and vegetable industry should be given proper consideration in the development of policies and programs which impinge on it whether directly or indirectly.

Recommendations

1. Federal and provincial government incentive programs should be harmonized to reduce their number and complexity, to eliminate overlapping, and to increase their effectiveness.

2. The commitment of public funds to projects which would normally proceed without assistance should be eliminated.

3. Before RDIA assistance is given to projects which increase capacity in the industry, the government should ensure full compliance with regulations requiring an evaluation of the potential impact on the existing industry.

4. Governments should consult industry associations and individual firms when designing new programs applicable to that industry.

5. Governments should ensure that incentive programs do not discriminate between applicants on grounds of legal entity or ownership.

Impact

Implementation of these recommendations will result in a more efficient and effective use of public funds and a more equitable impact on the industry.

4. LEVELS OF RESEARCH AND DEVELOPMENT ACTIVITY

Issue

The Task Force believes that a much enlarged research and development effort is needed if the fruit and vegetable processing industry is to remain viable and attain its potential in the years ahead.

Background Considerations

Although there is evidence that the industry has become more interested and involved in research and development activities in recent years, the situation is far from satisfactory. The food processing industry as a whole is known to exhibit a lower research intensity than the Canadian manufacturing sector or the U.S. food processing industry. This is thought to be especially true of the fruit and vegetable processing industry due in part to the low profit margins for basic products. Furthermore, such expenditures on research and development as are made are incurred by a small proportion of the firms in the industry, and much of what passes for research and development may, in practice, be more concerned with monitoring the attainment of quality and environmental standards than with the search for genuine innovations. While new developments have generally been available to the Canadian subsidiaries of foreign-owned corporations from their parent companies, this is not regarded as a satisfactory alternative to an expanded indigenous research and development capability.

The assurance of a higher rate of technological, product and market innovation does not appear to require any new publicly-financed research and development programs. Instead, the industry needs to make a conscious effort on two fronts:

a) Individual firms need to avail themselves of the rich array of existing federal public programs and incentives that are designed to stimulate in-house and co-operative research and development, e.g. the Enterprise Development Program and the Agricultural and Food Products Market Development Assistance Program of Industry, Trade and Commerce, the Program Industry/Laboratory Participation and the Industrial Research Assistance Program of the National Research Council, and the extended tax incentives for research and development introduced in the 1978 budget.

b) The industry needs to become more directly involved in influencing the publicly-funded research which is done by federal and provincial research agencies and in the universities. In particular, it should articulate its research needs and priorities and seek to communicate these to researchers through the various institutional arrangements which exist at federal and provincial levels for research planning, co-ordination and management. In this way, existing research capabilities could be encouraged to focus on specific needs of the industry. Additionally, a more appropriate balance might be struck in the deployment of research resources between the study of the production of horticultural products and their processing, and between pure and more applied research.

Recommendations

1. Provided that satisfactory profit levels can be re-established, individual firms should expand their expenditures on research and development and make fuller use of existing incentives and opportunities for in-house and co-operative research programs.

2. The fruit and vegetable processing industry, through its national and regional trade associations, should explicitly determine its research needs and priorities, and seek to ensure that these are addressed by scientists, technologists and economists in federal and provincial research agencies, and the universities.

3. Particular attention should be paid to research on those commodities and their derivative products which are of pivotal importance to a viable Canadian processing industry but in which competitiveness is now weak (e.g. tomatoes and peaches), and on those products in which Canada has and can retain a clear comparative advantage (e.g. potatoes, blueberries, raspberries, sweet corn, snap beans).

4. A systems approach to commodity and product development is recommended which identifies and embraces the critical issues of varieties, cultural practices, harvesting and handling methods, processing techniques and market practices needed to assure that the industry continuously enhances its competitive efficiency.

5. Processors should work closely with producers' marketing boards in the articulation and implementation of an expanded and more sharply-focussed research and development program, and the two groups should view such a program as a key feature of a joint development strategy for their industry.

Impact

Implementation of these recommendations should enable the industry to become more competitive internationally, resulting in reduced import penetration and, in certain products, increased exports. In addition, the impact of the inherent disadvantages* faced by the industry may be reduced or eliminated.

5. LAND USE POLICIES

Issue

The Task Force is concerned that the lack of adequate controls will result in a loss of prime farm land to other uses and threaten the viability of the processing sector. It is also concerned about a growing resistance to ownership or leasing of land by processing companies.

Background Considerations

Because of demanding climatological requirements, many fruits and vegetables used for processing, particularly tender fruits, can only be successfully grown in a few areas of Canada. These unique areas, of which the most notable examples are the Niagara Peninsula and the Okanagan Valley, are subject to intense pressure for residential and industrial development. Some efforts have been made by provincial governments and regional authorities to control the process of conversion of farm land to non-agricultural uses, but these have been only partially successful, and the erosion of the industry's supporting land base has continued.

* See Scope for Rationalization, Page 3

The very existence of segments of the processed fruit and vegetable industry will be threatened if public policies do not assure the continued availability to horticultural production of prime farm land in areas with favourable climatological characteristics. Experience has shown that effective control of land use can only be assured if (a) jurisdiction over land conversion is firmly in the hands of provincial governments rather than municipalities and regional authorities, and (b) if the nettlesome issue of compensation of private land owners for unrealized capital appreciation is grasped. Furthermore, the gap between agricultural and development values of land is simply too wide to be bridged by measures which would enhance the profitability of farming, e.g. by stabilization payments or changes in tariff policy.

Limitations on land ownership and leasing are also of concern to the processing industry. Many processors find it valuable to grow a proportion of their raw product requirements on land which they own or lease. Such an arrangement helps in the assurance of supply and production scheduling, permits crop production over longer periods, provides useful data on production costs, and facilitates the development of innovations in production and harvesting technologies. While no provincial government has yet moved explicitly to prevent processing firms from engaging in self-supply, processors have observed gathering opposition to the practice. In addition, multi-national firms face the further hazard of restrictions being placed on the ownership of land by foreign controlled corporations.

Erosion of the right of processing firms to own and lease land and to produce thereon a proportion of their required supplies of fruits and vegetables would have adverse effects on the industry's economic viability. In practice, ownership and control of farm land by processors will never be so extensive as to threaten the existing arrangements whereby the great bulk of production is in the hands of family farms.

Recommendations

1. Provincial governments should introduce effective measures:

   a) to control and slow the conversion of prime farm land to other uses.

   b) to provide land owners with compensation in lieu of capital gains in order to protect the land base.

   c) to establish land banks.

2. Land used for farming should continue to be taxed on its agricultural use value.

3. Provided land is retained for agricultural use, governments should not place restrictions on ownership or leasing of land by either Canadian or foreign-owned processing firms. Furthermore, the right of processors to grow their own raw product requirements should not be limited.

Impact

Recommendations 1 and 2 would ensure an adequate land base to support food production and processing, and to maintain employment in both sectors. Recommendation 3 is necessary in order to maintain the efficient use of processing capacity and to provide processors with a measure of control over their supplies.

6. UNEMPLOYMENT INSURANCE REGULATIONS

Issue

A short qualifying period for unemployment insurance causes significant problems for the fruit and vegetable processing industry which has a large seasonal labour requirement.

Background Considerations

Fruit and vegetable harvesting and processing is labour-intensive and it is essential to have a stable and reliable seasonal work force for a period of usually not less than fourteen weeks. While part of this seasonal work force is supplied by immigrant labour, it is preferable that the work be performed by Canadians. However, the industry has experienced difficulty in maintaining a Canadian work force throughout the harvest season.

Until recently the qualifying period for unemployment insurance benefits was eight weeks. This constituted a disincentive to working through the harvest season. Recent amendments to the legislation provide qualifying periods which vary from ten to fourteen weeks, depending on the regional unemployment rate. These changes should prove to be beneficial to the fruit and vegetable processing industry in providing the required seasonal labour resource.

Recommendation

It is recommended that qualifying periods not be reduced from current levels.

Impact

The maintenance of the current longer qualifying periods should assist greatly in ensuring that the industry has an adequate supply of seasonal labour during the peak harvesting and processing season.

7. MINIMUM WAGE LEGISLATION

Issue

Differentials in minimum wage rates between provinces can adversely affect the competitive position of individual firms and distort the regional location of the industry.

Background Considerations

Minimum wage legislation is generally desirable insofar as it prevents the exploitation of workers with limited bargaining power. However, the impact on certain industries within a region must be carefully assessed when minimum wage rates are being established, otherwise the resultant adverse impact on the industries concerned may result in the loss of the jobs in question.

The processed fruit and vegetable industry merits special attention in this context because of the labour intensity of many operations, the competitive nature of the wage structure and the large number of seasonal workers employed, particularly in basic fruit and vegetable production. Because of the national character of the industry in terms of marketing, significant wage differentials between provinces will result in competitive difficulties for regional firms and shifts in production to lower cost areas.

The Task Force wishes to stress that the principal problem in this context is not with the level of minimum wages but rather with the differentials in wage rates between major production regions.

Recommendation

While recognizing that it is not politically or economically practical to adjust minimum wage legislation to accommodate the special needs of the processed fruit and vegetable industry, it is recommended that provincial governments with high minimum wage rates consider appropriate measures to offset this disadvantage.

Impact

The implementation of the above recommendation would ensure that the competitive position of the industry in some provinces is not seriously impaired.

8. POWERS AND PRACTICES OF MARKETING BOARDS FOR FRUIT AND VEGETABLE CROPS

Issue

In addressing this issue, the Task Force recognizes the legitimate rights of growers to bargain collectively in the form of a marketing board or other association and accepts that it is not reasonable nor necessarily desirable to expect a fundamental shift away from this system. The right of the efficient grower to expect a fair return on his investment is also fully appreciated and supported. However, the Task Force is concerned that excessive powers have been granted to some boards and also that some boards use their powers in a manner which impairs the competitive position of the processing sector.

Background Considerations

Fresh fruits and vegetables are a major input cost representing some 20 per cent ($150 million in 1975) of the industry's total cost of production, and up to 60 per cent of production costs for basic fruit and vegetable products. A large portion of the raw product is acquired under prices and conditions of sale either negotiated or, for some products, set by grower marketing boards. All of these boards operate under provincial jurisdiction and the majority of them are located in Ontario and British Columbia. While recognizing that market access and equitable treatment between growers, the Task Force is concerned about the impact that they can have on the cost of this important input, and hence the processing industry's viability.

There are three categories of marketing boards engaged in selling to fruit and vegetable processors: a) negotiating boards (primarily covering annual vegetable crops), b) boards with price setting powers (tender fruits in Ontario), and c) boards with both price setting and supply allocation powers (fruits in B.C. and asparagus in Ontario). At the present time, boards with negotiating powers have the greatest involvement with processors and supply a large percentage of their requirements. The Task Force considers that boards of this type are the most appropriate for this industry. On the other hand, the Task Force is opposed to marketing boards with the power to unilaterally set prices and/or allocate supplies and is convinced that these boards have contributed to the decline in production of certain industry segments (e.g. tender fruit).

* Mr. I. Greenwood dissociates himself from this section.

The concerns of the Task Force are manifested in the differentials which exist between the prices of many horticultural crops in Canada and the United States, our major competitor. The price disparity has been widening in recent years to the competitive disadvantage of the Canadian processor. This situation has developed despite some evidence that prices for certain commodities exceed levels necessary to yield efficient growers satisfactory returns to their resources.

Many marketing boards, particularly those for annual vegetable crops, have tended to capitalize on unusually favourable market conditions by increasing prices but have not shown a corresponding willingness to adjust prices downward when market conditions return to normal. In the United States, on the other hand, where marketing boards are of much less significance, raw product prices for processing crops react more rapidly to market forces. The Task Force is of the view that marketing boards must be more receptive to consideration of all aspects of the competitive environment when negotiating prices for raw product. In this same regard, the situation has sometimes been compounded by the appointment of arbitrators who are unable or unwilling to take an objective view of the economic realities of the situation.

The forenoted pricing practices, coupled with a significant decrease in industry profitability since 1974-75, have resulted in the development of a more adversarial relationship between marketing boards and processors. In view of the basic mutual long-term interests of producers and processors, the Task Force finds this development most regrettable and is concerned that the trend be reversed. Indeed, it notes with satisfaction recent indications that this process has already started.

A second major concern is the thrust of recent federal and most provincial agricultural policies to extend the number, scope and influence of producer marketing boards. Although not opposed to the principle of marketing boards, there is great concern among members of the Task Force about the long-term implications of these policies for the processing industry in respect to industry efficiency, ability to compete and loss of market power. In particular, there is concern that boards with price setting powers would result in an even greater lack of sensitivity to market conditions than is now the case.

Recommendations

1. The Task Force would view with alarm any move to national marketing boards with supply-management powers and strongly recommends against government moves of this nature for any processing crops.

2. While members of the Task Force recognize the rights of growers to bargain collectively, they are opposed to boards having the powers to unilaterally set prices, restrict output and exclude growers from fruit and vegetable production.

3. Marketing boards should not have jurisdiction over the raw products grown by processors.

4. Provinces should review their arbitration procedures with a view to appointing knowledgeable unbiased individuals who respect the legitimate needs of efficient producers and processors as well as their long-term common interests.

5. There is an urgent need for improved systems of surveillance and regulation of producers' marketing boards. In particular, the processing sector should be more adequately represented on regulatory agencies and these bodies should be required to develop strategies which foster the long-term viability of the food industry as a whole as well as of its component parts.

6. The processing industry must make a vigorous and concerted effort to replace the current adversarial approach with a more co-operative relationship between producers and processors.

7. The Task Force strongly recommends that the problem of price and income instability be addressed by means of appropriate agricultural programs rather than by the creation of marketing boards with monopoly powers.

8. The Task Force regrets that producers' marketing boards have been excluded from the provisions of the revised Competition Act and would recommend that this decision be reconsidered. Failing this, it is recommended that the Public Competition Advocate play a vigorous role in all matters pertaining to agricultural marketing regulation by producers' marketing boards.

Impact

Implementation of the above recommendations is essential if the industry is to remain competitive in the long-term against foreign suppliers. With improved co-operation between producers and processors, it should be possible to achieve an increase in exports and a reduction of imports.

D. Conclusion

As noted previously, the issues selected for discussion in this report are those judged to be of greatest significance to the viability of the processed fruit and vegetable industry. For this reason, the Task Force considers the recommendations relating to each issue as vital to the long-term health and prosperity of the industry and governments are urged to address them as a matter of urgency.

The members of the Task Force wish to express their appreciation of the opportunity afforded them to present this report to the Ministers concerned. They wish also to emphasize their desire to work in a spirit of co-operation with others in the processing industry, with the primary sector and other stakeholders in the food system, as well as with governments and their agencies to contribute to the continued health of the Canadian economy.

The following profile of the Canadian Processed Fruit and Vegetable Industry was developed by the Sector Task Force on the Canadian Processed Fruit and Vegetable Industry from a profile prepared by the federal Department of Industry, Trade and Commerce.

SECTOR PROFILE

THE CANADIAN PROCESSED FRUIT AND VEGETABLE INDUSTRY

THE CANADIAN PROCESSED FRUIT AND VEGETABLE INDUSTRY

INDUSTRY DEFINITION

The processed fruit and vegetable industry comprises those establishments which are primarily engaged in the processing of fruits and vegetables. It is grouped under the following S.I.C. category:
103 Fruit and vegetable processing industries and includes two sub-sectors:
1031 Fruit and vegetable canners and preservers
1032 Frozen fruit and vegetable processors.

INDUSTRY STRUCTURE

Description of Industry

In 1975, there were 246 fruit and vegetable processing establishments (approximately 190 firms) with shipments of own manufacture of $982 million. The industry employed 19,500 people (monthly average basis) in 1975 which is approximately nine per cent of total employment for the processed food and beverage sector.

Products produced by the industry can be divided roughly into two broad categories:

1) *Basic fruit and vegetable products* where the fruits and vegetables comprise virtually the entire product (e.g. canned peas).
2) *Formulated and other products* where the fruits and vegetables are primarily ingredients in the product formulation (e.g. vegetable beef soup).

Basic Fruit and Vegetable Products	*1975 Shipments ($ Million)*	*% of Total*
Canned vegetables	119.5	12.2
Frozen french fried potatoes	79.4	8.1
Tomato and apple juice	59.4	6.0
Frozen vegetables	45.1	4.6
Canned fruit	41.6	4.2
Frozen fruit	11.3	1.2
Total	356.3	36.3
Formulated and Other Products		
Canned soup	115.2	11.7
Pickles, relishes, sauces	75.5	7.7
Canned citrus juices, drinks	49.5	5.0
Catsup	41.3	4.2
Baked beans	35.9	3.7
Jams, jellies, and marmalades	28.9	2.9
Pie filling	14.3	1.4
Spaghetti, macaroni products	19.5	2.0
Canned stews and dinners	17.8	1.8
Other frozen products	81.4	8.4
Other canned products and preparations	146.3	14.9
Total	625.6	63.7
Total shipments of own manufacture	$981.9	100.0

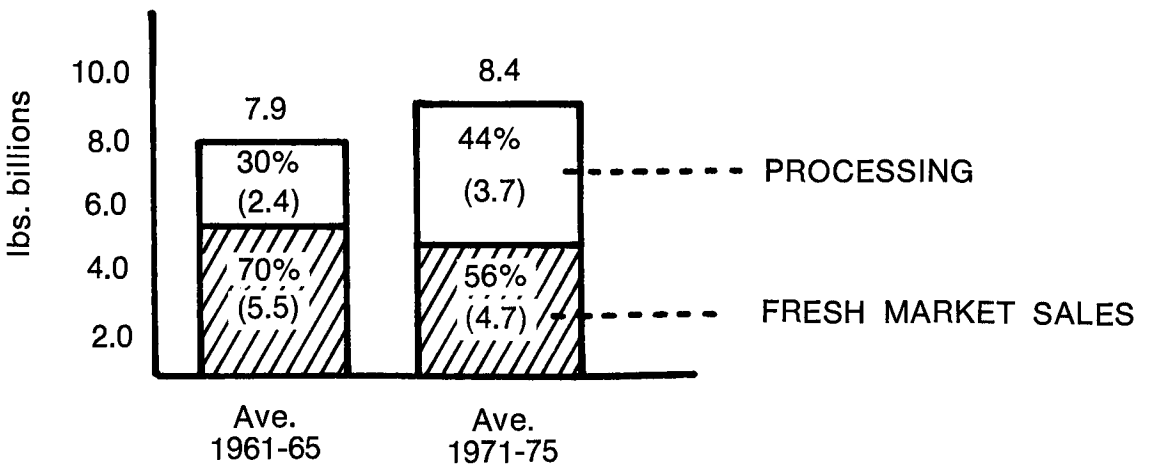
Source: Statistics Canada 32-218 and ITC estimates

Importance to Primary Sector

In the 1971-75 period the average annual production of the horticultural industry was 8,400 million pounds with a farm value of $407 million. Approximately 50,000 growers are involved in the production of horticultural crops. The importance of the processed fruit and vegetable industry as an outlet for horticultural production has increased dramatically from 30 per cent of production in the 1961-65 period to 44 per cent of production in 1971-75 period. In absolute terms, the production of fruits and vegetables for processing increased by 1,300 million pounds (54 per cent) during this time while production for fresh market sales decreased by 800 million pounds (15 per cent).

GRAPH I

HORTICULTURAL PRODUCTION BY END-USE



Note: Does not include 692 million pounds of seed potato production

Source: Tariff Board Report (Reference 152) Vol. 1 Part 1

The increasing importance of the processed product to the horticultural industry can be mainly attributed to a shift in consumer buying habits since 1961. Although total per capita consumption of fruits and vegetables remained almost constant from 1961-65 to 1971-75, consumption of the processed product has increased from 144 to 195 pounds per capita while consumption of fresh products has decreased from 288 to 250 pounds per capita. This shift is largely accounted for by potatoes, where fresh consumption has decreased by 32 pounds per capita and consumption of the processed product has increased by 33 pounds per capita during this period.

Fruits and Vegetables
Per Capita Consumption (lbs) Fresh Weight Basis

	Fresh		*Processed*		*Total*	
	Ave. 1961-65	*Ave. 1971-75*	*Ave. 1961-65*	*Ave. 1971-75*	*Ave. 1961-65*	*Ave. 1971-75*
Potatoes	123	91	30	63	153	154
Other Vegetables	107	102	80	94	187	196
Fruit	58	57	34	38	92	95
Total	288	250	144	195	432	445

Source: Tariff Board Report (Reference 152) Vol. 1 Part 1

The relationship between fruit and vegetable growers and processors is, by necessity, a close one as interaction between the two groups occurs throughout most of the year. Production of horticultural crops for processing, and in particular vegetables, can include the following stages:

(a) Growers and processors negotiate raw product prices for the coming year.
(b) Processors contract their acreage requirements with individual growers at the agreed prices and terms.
(c) Growers plant their acreage contract (in most cases processors supply or specify seed variety and advise when to plant). Care of the crop after planting is, in general, the growers' responsibility.
(d) Harvesting is done by growers for some products (e.g. tomatoes, apples) and by processors for other products (generally those products requiring specialized harvesting equipment which cannot be justified on an individual grower basis, e.g. peas, beans, corn).

Plant Location

The major factors influencing plant location are:

Raw product

A good quality, reasonably priced, reliable supply of raw product is the principal factor influencing plant location as plant facilities are located, with few exceptions, near the raw product source. There are several reasons for this including product perishability, quality considerations (in general the sooner the product is packed the better the quality), better control over contracting, growing and harvesting operations, improved production scheduling, and high transportation costs of unprocessed product relative to the finished product (e.g. 1,000 lbs. of potatoes yields approximately 500 lbs. of frozen french fries).

Length of season

While many fruits and most vegetables can be produced in all 10 provinces, the normal length of harvest season (frost free days) is a critical factor influencing plant location decisions for products which must be processed immediately following harvest (e.g. peas, corn, beans). For example, the harvest season is approximately one-third shorter in Manitoba than in southwestern Ontario, consequently the capital investment required to achieve an equivalent output of seasonally processed products could be up to 50 per cent greater in Manitoba. This, of course, is not the case for non-seasonal production (e.g. processed potatoes, formulated foods, etc.).

Other factors

Other significant factors influencing location include distance to major markets, readily available seasonal labour supply, municipal sewage treatment facilities and governmental incentives.

Regional Distribution

In light of these factors, it is evident why Ontario – which produces a wide variety of fruits and vegetables, enjoys a long harvest season and has ready access to the large Ontario and Québec markets – accounts for approximately 60 per cent of industry employment and shipments. The industry also is important to the Atlantic region which has 12.5 per cent of total industry employees compared to only 9.5 per cent of national population. Potato processing is particularly significant to the economies of New Brunswick and Prince Edward Island. British Columbia, which produces a wide range of fruit and vegetable products, has a slightly lower share of industry employment and shipments than its population share. In the Québec and Prairie regions, employment is well below their respective population shares primarily due to less advantageous climatic conditions.

Regional Industry Shares – 1975

	Population	*Employment*	*Shipments*
Canada	100.0%	100.0%	100.0%
Atlantic	9.5	12.5	10.2
Quebec	27.1	15.8	15.7
Ontario	36.1	58.0	60.4
Prairies	16.3	4.7	5.0
B.C.	10.8	9.0	8.7

Source: Statistics Canada 31-203 and ITC estimates

Employment

In addition to the regional distribution described, other significant factors concerning employment in this industry include the following:

a) Employment primarily is in the small and medium-size population centres rather than large cities. The industry is highly significant on a local basis. Typical plant locations of some of the largest firms include Florenceville, N.B.; Ste. Martine, Québec; Leamington, Ontario; Carberry, Manitoba; and Penticton, B.C.

b) The level of employment has been stable over the period 1961 to 1975 while over the same period industry output has expanded substantially.

	Average 1961-65	*Average 1971-75*
Industry employment (total activity)	18,361	18,809

c) On an annual basis, permanent employees account for approximately 80 per cent (15,000 jobs in 1975) of total industry employment. A large proportion are skilled workers or professionals and the rate of turnover is minimal. Employment of seasonal workers is a significant factor in the industry, varying from a minimal level in the off-season to a high of about 15,000 during the peak harvest months of August and September. Seasonal jobs are filled mainly by housewives and students, while some seasonal workers are brought in from the Caribbean. Most of the imported workers are engaged in harvesting operations in the primary sector. A small proportion, however, work in the processing sector and in 1977 accounted for eight per cent of the processing industry's peak seasonal labour force. The industry, particularly in Ontario where labour requirements are greatest, has experienced some difficulty with high turnover of seasonal labour. This has resulted in part from the eight week qualifying period for unemployment benefits, and the school year beginning about three weeks before the end of the peak harvest season. Recent legislation extending the qualifying periods can help alleviate this problem. The qualifying period in southern Ontario would increase from eight to 13 weeks at current unemployment levels. Improvements could also result from a rescheduling of the school year, if practical.

Processed Fruit and Vegetable Industry
Employment – Seasonal Variation 1975

Averages	*Total Employment*	*Permanent Employees*	*Seasonal Employees*
February, March	15,000	15,000	—
April, May	16,700	15,000	1,700
June, July	20,100	15,000	5,100
August, September	30,000	15,000	15,000
October, November	19,500	15,000	4,500
December, January	15,700	15,000	700

Source: Based on Statistics Canada Special Extract and ITC Estimates.

d) The labour intensity of the processed fruit and vegetable industry, when measured in terms of man-hours of labour required per $1,000 value added, is considerably higher than that for the total food and beverage sector and also higher than that for all manufacturing industries.

	Man-hours of labour per $1,000 value added - 1975
Processed fruit and vegetable industry	81
Total Food and Beverage Sector	61
All Manufacturing	72

Source: Statistics Canada 31-203

e) The level of unionization in the processed fruit and vegetable industry was 31 per cent in 1970, which is substantially below that of the total food and beverage sector (54 per cent). Preliminary data for 1977 indicates that this level has not changed significantly. The lower level of unionization is primarily due to the large number of seasonal employees who, except in the case of British Columbia, are not generally union members. Unionization is highest in British Columbia and lowest in Quebec as shown in the table below.

Level of Unionization – 1977 (Approximations)

Canada	*Atlantic*	*Quebec*	*Ontario*	*Prairies*	*British Columbia*
31%	29%	11%	35%	14%	55%

Source: CALURA 1977, Statistics Canada Cat. 32-218.

Plant Size

Production facilities range from the "home kitchen" type of operation with sales of less than $50,000 per year to large plants like the H.J. Heinz facility in Leamington, Ontario which employs more than 1,000 people and in 1977 had shipments valued at $147 million. The industry is characterized by a large number of small plants due, largely, to the low level of capital investment required to begin business on a small scale. However, the small establishments (fewer than 50 employees), which in 1975 represented 60 per cent of the plants, accounted for only 12 per cent of total industry shipments. In contrast, large establishments (more than 200 employees) comprising nine per cent of the total number of plants accounted for 50 per cent of industry shipments in 1975.

Establishment Size	*Number of Establishments*	*% of Establishments*	*% of Shipments*
Under 50 employees	148	60	12
50-199 employees	76	31	38
over 200 employees	22	9	50

Source: Statistics Canada – Cat. 32-218

The number of processing establishments has decreased substantially from 335 plants in 1961 to 246 plants in 1975, primarily as a result of industry rationalization of production facilities. The 89 plants which discontinued operations during this period were mainly small, with fewer than 50 employees producing basic fruit and vegetable products. Plant closings were most significant in Québec and B.C., but the effect on total employment in these regions was minimal. The process of rationalization is expected to continue although at a much slower rate than in the 1961-75 period.

Ownership

In 1972, in terms of shipments, approximately 60 per cent of the processed fruit and vegetable industry was under foreign control, mainly subsidiaries of U.S: multi-national enterprises (MNE'S). The degree of control varied from 65 per cent for canners and preservers to only 39 per cent for frozen food processors.

Foreign-owned firms tend to dominate the industry and the marketplace, being large and marketing-oriented. The great majority of well-known national brands in this industry are under foreign control – Libby, Del Monte, Aylmer, Heinz, Campbell, Swanson, Green Giant, Hunt, Welch, Gerber, Allen's and Bicks. Nationally distributed brands manufactured by Canadian firms include McCains, York and E.D. Smith. Canadian-owned firms tend to be smaller and regionally or locally oriented.

The processed fruit and vegetable industry was originally established behind a tariff wall which encouraged the establishment of Canadian subsidiaries of MNE's to supply the domestic market. The presence of MNE's has stabilized the marketplace because competition from Canada's potentially toughest competitors, the U.S. parent companies, is not a factor. The industry has also benefited through the transfer of technology, new products and marketing techniques from the foreign parents. While tariff protection has, in general, gradually decreased, MNE's have increased their share of domestic production. However, if the industry's competitive position should change to the extent that certain products could be more profitably supplied from another source by the MNE's, Canadian production is likely to be phased out.

Concentration

The degree of concentration in the processed fruit and vegetable industry is about average for the total food and beverage sector. However, there is a higher level of concentration for frozen fruit and vegetable processors than for canners and preservers as shown in the table below. During the period 1970 to 1974 there was a modest decrease in the degree of concentration for the industry.

Concentration: % Share of Industry Shipments

	Enterprises					
	4 largest			8 largest		
	1970	1972	1974	1970	1972	1974
Fruit and vegetable canners and preservers	42	40	37	58	56	54
Frozen fruit and vegetable processors	N/A	61	N/A	N/A	78	77

Source: Statistics Canada 31-402 and Special Extract

Factors of Production

The major production cost inputs and value added for fruit and vegetable canners and preservers and frozen food processors are shown in the following table:

Production Costs and Value Added as a Per cent of Value of Shipments – 1975

	Canners and Preservers $ Millions	Frozen Food Processors $ Millions
Food Materials	$311.0 (39.3%)	$90.3 (47.3%)
Packaging Materials	174.5 (22.0%)	18.8 (9.8%)
Other Materials	14.6 (1.8%)	3.7 (1.9%)
Fuel and Electricity	9.3 (1.2%)	5.1 (2.7%)
Wages	91.1 (11.5%)	24.4 (12.8%)
Value Added (Wages Excluded)	218.5 (27.6%)	54.6 (28.6%)
Value of Shipments	$791.1	$190.8

Note: Total of inputs exceed 100 per cent due to inventory adjustments.

Source: Statistics Canada Cat. 32-218

Food materials of all types are the major cost input for the industry, comprising about 40 per cent of the value of shipments for canners and preservers and nearly half the value of shipments for frozen food processors. Fresh fruits and vegetables account for about one-third of the food materials cost input for canners and preservers and slightly more than one-half for frozen food processors. Other major food material inputs include meat, sugar, and cooking oils.

Packaging materials are a highly significant cost input for canners and preservers, comprising 22 per cent of the value of shipments compared with less than 10 per cent for frozen food processors. The labour cost of 11-12 per cent of shipments for both canners and preservers and frozen food processors is higher than the average for the food and beverage sector (8.5 per cent) but substantially less than the average for all manufacturing industries (14.3 per cent). Energy costs, which in total compare closely with the average of the food and beverage sector, are a relatively minor cost input but more significant to the frozen food industry than to canners and preservers.

Vertical Integration

Vertical integration has been mainly backward into corporate farming and self-manufacture of metal cans. Corporate farming, although not a factor in fruit production, is estimated to account for a relatively stable 15-20 per cent of total production of vegetables for processing. Self-manufacture of metal cans began in the early sixties. However, economies of scale combined with high capital and technology requirements

had the effect of limiting self-manufacture to the seven or eight largest processors. Other processors continue to buy cans from The American Can Company or Continental Can Company at normal industry prices.

The industry has not integrated forward to any significant extent into wholesaling or retailing. However, several large food retailers including Safeway, A&P, and Loblaws (Weston group) have procured processing facilities in the past to supply private label requirements. This has not had a noticeable impact on the industry and is not expected to increase in importance in the foreseeable future.

Government Involvement

Federal government involvement in the processed fruit and vegetable industry has been more of a regulatory nature as opposed to forms of assistance. Regulations regarding packaging sizes, grading standards, labelling requirements, acquisitions, prices and profits have been implemented and are being enforced by various federal departments and agencies. These include Agriculture Canada, Consumer and Corporate Affairs, Health and Welfare, FIRA and the Anti-Inflation Board. However, DREE grants have been instrumental in encouraging development of the industry and hence employment opportunities in regions other than Ontario (e.g. potato processing in New Brunswick, P.E.I. and Manitoba). In addition, Agriculture Canada has worked in co-operation with fruit and vegetable growers and processors in the development of improved plant varieties for processing. Both Agriculture Canada and Industry, Trade and Commerce have been active in the development of new products, processes and markets.

Provincial government involvement is mainly in the form of loans or loan guarantees to encourage new production facilities, a limited amount of direct ownership (Morden Fine Foods in Manitoba, blueberry freezing in Québec), and marketing board legislation permitting the establishment of grower marketing boards for fruits and vegetables. Marketing boards are most prevalent in Ontario and British Columbia and encompass practically all fruit and vegetable commodities of importance in these provinces. Fruit and vegetable boards which are, in general, concerned primarily with the establishment of raw product prices and other contractual terms bear little resemblance to the more complex supply-management type of marketing boards which exist for certain other commodities. Traditionally, they have facilitated a more equitable balance in the bargaining process between grower and processor. In recent years, however, the industry has become increasingly concerned about the reluctance on the part of many marketing boards to respond adequately to prevailing market conditions. This, coupled with decreasing industry profitability has resulted in the development of a more adversarial relationship between growers and processors.

FINANCIAL RESULTS

As shown by the following table, profitability in the processed fruit and vegetable industry increased significantly in 1973-74 over the preceding five year average but has shown an annual decrease since that time.

Processed Fruit and Vegetable Industry

	Five Year Average 1968-72	*1973*	*1974*	*1975*	*1976**	*1977**
Working Capital Ratio	1.8	1.6	1.6	1.6	1.9	2.0
Profit after tax: Shareholders equity	6.9	12.3	15.3	12.6	10.4	9.1
Profit before tax: Capital employed	10.5	17.8	19.8	17.6	15.3	12.9
Profit before tax: Sales	4.3	6.5	7.1	6.4	6.2	5.0

Source: Statistics Canada 61-207 (for 1968 through 1975)

* *Information from Industry Survey, May 1978 (34 firms representing 70 per cent of industry shipments)*

These statistics alone are potentially misleading unless it is recognized that the industry consists of two distinct segments - those firms which predominantly produce formulated products and those firms which predominantly produce basic fruit and vegetable products. A division of industry data shows that profitability of firms producing formulated products has been relatively consistent throughout the period 1973 to 1977.

Firms Producing Formulated Products

	1973	*1974*	*1975*	*1976*	*1977*
Profit after tax: Shareholders equity	11.2%	13.5%	12.5%	11.9%	13.1%
Profit before tax: Capital employed	17.9%	20.0%	20.1%	18.5%	19.8%
Profit before tax: Sales	8.5%	8.8%	8.3%	8.1%	8.3%

Source: Industry Survey, May 1978

On the other hand, profitability of firms producing basic products has been consistently lower than the above averages. In addition, these firms have accounted for a disproportionate share of the profit decrease reported by the total industry during the past three years. Of particular significance and current concern to the industry is the sharp drop to unsatisfactory profit levels in 1977 for firms in this segment.

Firms Producing Basic Products

	1973	*1974*	*1975*	*1976*	*1977*
Profit after tax: Shareholders equity	8.6%	10.8%	9.3%	8.3%	3.0%
Profit before tax: Capital employed	13.6%	14.5%	15.2%	11.4%	4.2%
Profit before tax: Sales	6.1%	7.1%	6.5%	4.1%	1.6%

Source: Industry Survey, May 1978

An examination of the industry's financial performance in 1974 by size of total assets shows that small firms (68 per cent of total firms representing seven per cent of industry sales) and large firms (six per cent total firms representing 66 per cent of industry sales) are the more profitable. Less profitable is the medium-size group of firms (26 per cent of total firms representing 27 per cent of total sales).

Financial Performance by Asset Size – 1974

	Total Assets less than $1 m	*$1 m - 10 m*	*$10 m or more*
% of total corporations	68%	26%	6%
% of total sales	7%	27%	66%
Working capital ratio	1.14	1.20	1.88
Profit after tax: Shareholders equity	13.4%	7.0%	17.6%
Profit before tax: Capital employed	16.1%	9.1%	24.3%
Profit before tax: Sales	4.3%	2.5%	9.7%

Source: Statistics Canada, Corporation Financial Statistics, Special Tabulation

Small firms, in general, seem to have found a relatively secure niche in the marketplace by not competing directly with large firms. They compete by aiming at a relatively small specialized market segment producing products which lack sufficient volume to warrant interest by large firms, providing some type of specialized or localized service to their customers, or producing products which do not offer efficiencies through mass production.

Large firms, on the other hand, secured their position in the market by controlling a high market share of one or more large product categories. Examples are Heinz ketchup and baby food, Libby's baked beans, Green Giant Niblets corn, McCain's french fries and Campbell's soup.

Medium-size firms in this industry, as with many other industries within the food and beverage sector, tend to be less profitable. In general, medium-size fruit and vegetable processors are competing directly with large firms but without enjoying comparable economies of scale, marketing or technical expertise. This can result in firms either developing into larger and more competitive operations, consolidating their operations to enhance profitability, or being acquired by other corporations.

PRODUCTION TRENDS

Total shipments for the processed fruit and vegetable industry have increased from $320 million in 1961 to $982 million in 1975. Frozen foods have experienced a much higher rate of growth than the industry average, increasing from eight per cent of total shipments in 1961 to 22 per cent in 1975. Frozen foods are expected to increase in importance and may represent as much as 35 per cent of industry shipments by 1985.

Industry Shipments ($Millions)

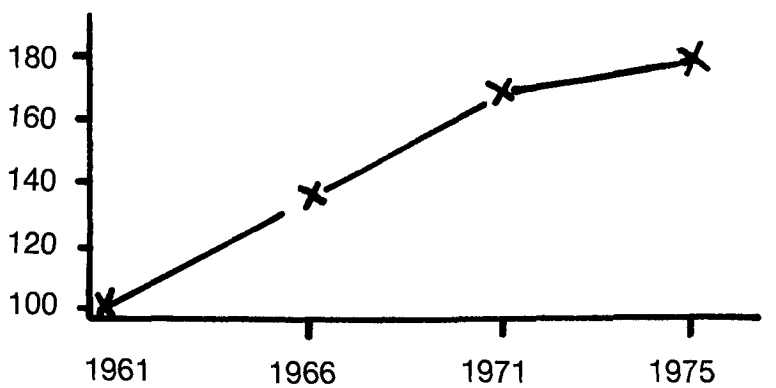
	1961	*1968*	*1975*
Frozen Products	25.0 (8%)	82.2 (16%)	217.2 (22%)
Canned and other products	294.9	427.8	764.7
Total industry	319.9	510.0	981.9

Source: Statistics Canada Cat. 32-218 and ITC estimates.

Industry growth in terms of physical volume output (real domestic product) was most rapid during the sixties and has slowed substantially during the early seventies. This growth pattern reflects the maturing of demand for products of this industry after a long period of sustained increases in per capita consumption. Also contributing to this slower growth picture is the increased level of imported products in recent years.

GRAPH II

PROCESSED FRUIT AND VEGETABLE INDUSTRY INDEX OF REAL DOMESTIC PRODUCT (1961-100)



Source: Statistics Canada Cat. 61-510, 61-005 and unpublished data

DOMESTIC MARKET

The domestic market for processed fruit and vegetable products is calculated at $1,202 million for 1975, about three times larger than in 1961.

Apparent Demand
($Millions)

	1961	*1975*
Shipments	$319.9	$981.9
Exports	7.8	43.1
Imports	89.0	264.1
Apparent Demand	401.1	1,202.9

Source: Statistics Canada Cat. 65-007, 32-218, 65-004

The two major market segments are the retail grocery market, with an estimated 80 per cent of industry volume, and the food service market which accounts for the balance. The food service market is the fastest developing segment as a result of the increasing number of meals eaten away from home. It is currently estimated to account for one of every four consumer dollars now spent on food and some analysts expect this amount to increase to 50 per cent of the food dollar in the next 10-15 years. Of significance on the retail side is the dominance of five major chains, Dominion, Loblaws, Steinbergs, Safeway, and A&P, which collectively account for approximately 50 per cent of all retail food sales in Canada. Processors without strong brand franchises or other marketing strengths can be at a disadvantage when dealing with these large food retailers.

It is anticipated that the domestic market for processed fruit and vegetable products will continue to expand although at a slower rate than in the past. Market development of frozen foods will continue at a healthy rate as will development of the food service market. Canned products, in general, appear to be in a relatively mature state of development and per capita consumption is not expected to change significantly.

INTERNATIONAL TRADE

Balance of trade

The processed fruit and vegetable industry has traditionally experienced a large trade deficit largely due to consumer demand for a wide range of products that cannot be produced in Canada's climate. These include dried fruit, citrus juices, olives, pineapple and other tropical fruits and vegetables.

Trade Statistics
($ Millions)

	1961	*1965*	*1970*	*1974*	*1977*
Exports	7.8	20.3	24.8	41.9	58.9
Imports	89.0	100.7	124.6	251.9	361.3
Trade balance	-81.2	-80.4	-99.8	-210.0	-302.4

Source: Statistics Canada Cat. 65-007, 65-004

Imports

Imports can be classified into two categories: (a) tropical and semi-tropical products which cannot be produced in Canada, and (b) temperate zone products which can be produced in Canada. While total imports as a percentage of apparent demand have remained relatively constant since 1961, imports of temperate zone products have increased from 8.4 per cent of apparent demand to 12.2 per cent in the 1961 to 1975 period.

Import Trends
($ Millions)

	1961	*1975*	*1977*
Total imports	$89.0	$264.1	$361.3
% of apparent demand	22.2%	21.9%	N/A
Temperate product imports	33.5	146.6	194.2
% of apparent demand	8.4%	12.2%	N/A

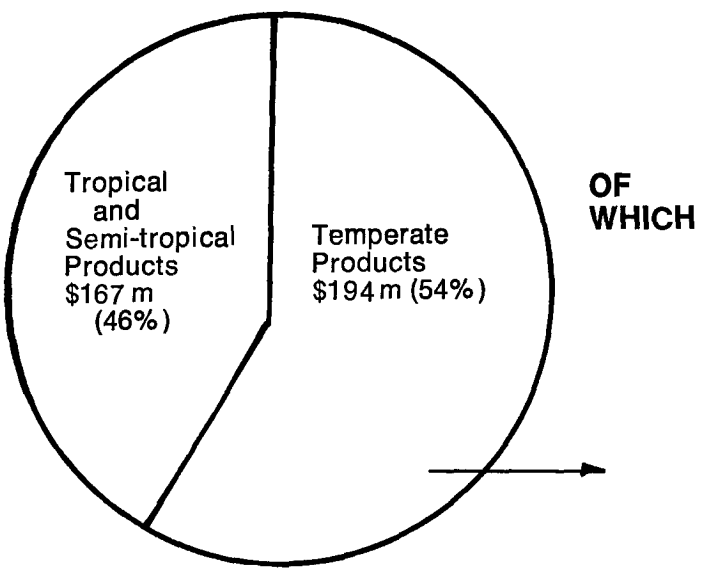
Source: Statistics Canada Cat. 65-007 and ITC estimates.

An analysis of 1977 imports indicates that, of the imports of temperate products valued at $194 million, 82 per cent ($158 million) were basic fruit and vegetable products and the balance ($36 million) were formulated and other products.

GRAPH III

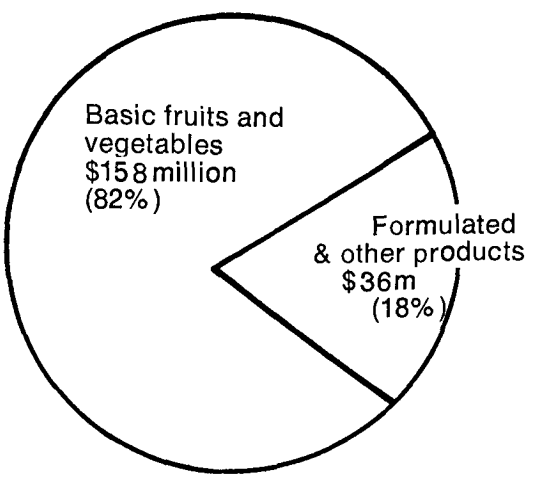
1977 IMPORTS

TOTAL IMPORTS $279 M



OF WHICH

TEMPERATE PRODUCTS $151 M



Source: Statistics Canada Cat. 65-007 and
I.T.&C. estimates

Approximately 75 per cent of 1977 imports of basic fruit and vegetable products were accounted for by tomato paste, frozen strawberries, dried vegetables, canned tender fruit, canned tomatoes, and canned mushrooms. Imports of each of these products supply the bulk of domestic requirements.

Imports of Basic Fruit and Vegetable Products

	1977 Imports $ Millions	*Approximate Market Share*
Tomato paste	$ 18.7	80%
Frozen strawberries	7.9	80%
Dried vegetables (excluding potatoes)	8.8	90%
Canned tender fruit*	36.2	75%
Canned tomatoes	12.0	50%
Canned mushrooms	35.3	75%
All other	38.7	7%
	$157.6	

** Includes peaches, pears, mixed fruit and apricots (imports of plums, and cherries included in all other)*

Source: Statistics Canada Cat. 65-007, 32-023 and ITC estimates.

The industry has for some time accepted that it cannot compete effectively against imports of tomato paste, frozen strawberries and dried vegetables under the existing tariff structure. Since these products are primarily ingredients for further processing, low cost imports have helped to maintain lower production costs for the final product. In its brief to the Tariff Board, the industry recommended complete tariff removal on tomato paste for manufacturing and on dried vegetables and an ad valorem rate of 7.5 per cent on frozen strawberries for manufacturing. However, in the case of canned tender fruit, canned tomatoes and canned mushrooms, where the level of imports has continued to increase to the detriment of Canadian production, the industry's view is that more border protection is necessary to assure the viability of these segments.

Exports

Exports are not a large factor in this industry, comprising less than five per cent of total shipments. In 1977, three basic fruit and vegetable products represented 55 per cent of total Canadian exports – frozen blueberries, canned and frozen corn and processed potatoes. Historically Canada has been internationally competitive with these commodities. In recent years, however, processed corn exports to Europe have declined as the Canadian competitive position vis-a-vis the United States has worsened and the U.K. tariff preference has been eliminated. While Canada's french fry industry is generally considered competitive with any other in the world, foreign tariffs have not allowed long-term export market development on a significant scale. This has led to the formation of subsidiaries in foreign countries in order to process product locally and be more competitive in the marketplace. Exports of processed potatoes in 1976 and early 1977 were unusually strong in response to the European drought but have decreased substantially now that the European market has returned to normal. Frozen lowbush blueberries have experienced an excellent export growth performance and offer one of the best opportunities for export sales in the future as a replacement for the Polish bilberry which is declining in production in Europe. Agriculture Canada and Industry, Trade and Commerce are working closely with growers and processors in an effort to exploit this opportunity as rapidly as possible.

	1977 Exports $ Millions	*Exports as % of Production*
Frozen blueberries	$9.3	60%
Canned and frozen corn	9.9	20%
Processed potatoes	12.5	12%
Other frozen vegetables	8.5	10%
All other products	18.7	–
Total	$58.9	–

Source: Statistics Canada Cat. 65-004 and 32-023 and ITC estimates.

INDUSTRY PROBLEMS/CONSTRAINTS

Competition

Canada's main competitor in the processed fruit and vegetable industry is the United States. Virtually all fruit and vegetable products produced in Canada are produced on a larger scale in the United States. Economies of scale combined with generally lower costs for raw produce, packaging materials and more recently labour, give U.S. processors a competitive advantage. The level of competitive advantage enjoyed by the U.S. industry varies substantially by product. Since higher Canadian costs for labour (currently estimated at seven per cent) and higher packaging costs (estimated at 10-20 per cent) are generally common to all processed fruit and vegetable products, the variation in competitive ability can, in large part, be attributed to raw product input costs. In this respect, the average cost of raw product in Canada during the 1972-77 period has been higher than that in the U.S., ranging from approximately 10 per cent for processing vegetables which comprise the bulk of production, to 30 per cent or more for a limited number of products (e.g. tomatoes, tender fruit)*. These cost differences have traditionally been offset by tariffs and transportation costs which have allowed the development of the Canadian industry.

In addition, the industry is experiencing competition from Taiwan on canned tomatoes and from Taiwan and other low wage countries on canned mushrooms. These countries are highly competitive on products with a high labour content. However, the industry does not appear susceptible to increased competition from low wage countries on other major products as they are highly mechanized with a much lower labour content.

An effective system of temporary safeguards as a means of protecting producers and consumers from short-term market distortions caused by low cost imports has been set out as a trade policy objective in the Green paper, A Food Strategy for Canada. However, these measures are primarily intended to deal with temporary market disruptions as opposed to offsetting a continuing competitive disadvantage. As such, temporary safeguard measures may have limited application with respect to imports of processed fruit and vegetable products that are not competitive on an ongoing basis. A second objective in the food strategy paper, with perhaps more significance to this industry, deals with identifying food commodities which may require more appropriate longer term protection (e.g. some segments of the horticultural industry which have good prospects of being competitive in the longer term). This objective is especially relevant to the following discussions of problem areas and the Canadian tariff structure.

While the major portion of the industry has been able to face competition under the existing tariff structure and continue to grow over the years, certain segments of the industry have been experiencing difficulties. These include canned tender fruit, canned mushrooms and canned tomatoes which, combined, accounted for an estimated five per cent of total industry shipments in 1975, but represented a significant outlet for growers of these crops.

	1975 Shipments *$ Millions*	*% of Total*
Total industry	$981.9	100.0
Canned tender fruit**	21.0	2.1
Canned mushrooms	13.0	1.3
Canned tomatoes	17.0	1.7

** *Includes peaches, pears, mixed fruit, cherries, plums, apricots*

Source: Statistics Canada Cat. 32-218 and ITC estimates.

Canned tender fruit production has been steadily declining since the early sixties and currently imports supply about 75 per cent of the market. The leading suppliers are the United States (75 per cent), Australia (20 per cent) and South Africa (four per cent). The huge U.S. tender fruit industry is centred in California where the economies of scale, mechanization and favourable climate give processors a substantial competitive advantage. As an example of the relative size of the U.S. versus Canadian tender fruit industry, the average U.S. pack of canned peaches is 35 million cases (24 cans) compared to the average Canadian

* No account has been taken of exchange rates in the Canada/U.S. comparisons.

pack of slightly more than 1 million cases. The domestic industry is located in Ontario and B.C. and provides an estimated 400-500 man-years of employment. The largest tender fruit processor is estimated to account for more than 50 per cent of total production.

Canned mushrooms are being produced by an ever-increasing number of developing countries. As the production of fresh mushrooms is highly labour intensive, such countries enjoy significant cost advantages for raw material and Canadian processors have not been able to compete effectively. Imports currently account for about 75 per cent of the canned mushroom market. However, the mushroom industry has continued to increase production and remain profitable by shifting emphasis to the rapidly developing fresh market segment. The structure of the mushroom industry with, in many cases, both the growing and processing operations under common ownership, has facilitated this adjustment.

The canned tomato industry is concentrated in southwestern Ontario and provides an estimated 500-600 man-years of employment. Most of the approximately 30 firms involved are small, Canadian-owned companies which pack only canned tomatoes. Because of the labour intensive nature of the industry, these relatively small, well dispersed facilities traditionally have provided the most efficient means of canned tomato production. On the marketing side, however, the industry structure is a definite disadvantage as these small firms have limited market strength and constantly must sell on a price basis. Selling prices are highly sensitive, not only to import offerings but also to intense competition between processors as firms attempt to dispose of their inventories prior to the following year's pack.

In recent years imports of canned tomatoes have increased significantly and currently account for more than half the domestic market. The principal suppliers are the United States and Taiwan which, combined, account for about two-thirds of total imports. Imports from the U.S. are primarily into the western Canadian market which has been supplied by California production for some time. Canadian processors can effectively compete with the U.S. product in the central Canadian market. Imports from Taiwan, on the other hand, have been underselling the Canadian product to such an extent that on February 10, 1977 a 180-day surtax of three cents per pound was applied to imports from that source. This surtax was later extended to June 30, 1978. In addition, at the request of the industry, an investigation was initiated by Revenue Canada in July, 1977 in respect of alleged dumping of canned whole tomatoes in Canada. In May, 1978 the Anti-dumping Tribunal found that the domestic industry was being injured by imports of canned tomatoes from Taiwan and, as a result, anti-dumping duties are being levied.

Tariff Structure

An issue of increasing concern to the industry is the Canadian tariff structure for processed fruit and vegetable products with its long-term implications for the industry's viability. Many important fruit and vegetable commodities are covered by a specific rate of duty which has been significantly eroded during the past few years as a result of inflation. This erosion is illustrated by the following table which is a comparison of 1966 and 1976 ad valorem equivalents of several products with a specific rate of duty.

	Specific Duty (¢/lb) During Period 1966-1976	*Ad Valorem Equivalents**	
		1966	*1976*
Canned corn	1½¢	**	6.5%
Canned peas	1½¢	**	6.0%
Canned tomatoes	2¢	17.1%	10.8%
Canned peaches	2¼¢	18.8%	9.3%
Canned pears	2¢	11.7%	8.8%
Mixed fruit	2¢	13.1%	8.4%
Baked beans	1¢	9.5%	5.5%
Jams, jellies, marmalades	3¢	9.0%	5.6%

* *Based on average 1966 and 1976 U.S. prices*

** *Import quantities, too small for reliable ad valorem calculation*

Source: Statistics Canada Cat. 65-007, 32-218 and ITC estimates.

In 1975, products with a specific rate of duty comprised approximately 20 per cent of total industry shipments. These products, with the exception of baked beans, jams, jellies and marmalades, are all basic fruit and vegetable commodities. All canned and frozen fruits and approximately 60 per cent of the value of shipments of canned vegetables are covered by specific tariffs.

In October 1977 the Tariff Board recommendations for processed fruits and vegetables were released. Major recommendations include:

– tariff increases for most canned and frozen fruits, semi-processed and processed strawberries and cherries, tomato paste, canned tomatoes, mushrooms, peas, corn and baked beans.

– tariff decreases for major frozen vegetables, vegetable juices, ketchup, pickles, dried vegetables.

– replacement of specific rates of duty with ad valorem rates for all products in order to maintain a consistent level of protection in the long-term.

– termination of the provision of preferential access to producers of canned fruit in Australia, New Zealand and South Africa.

The industry is in general accord with the Board's recommendations and has requested their implementation as quickly as possible.

In his Budget speech on April 10, 1978, the Honorable Jean Chrétien stated "I have received a number of enquiries about implementation of the Tariff Board's proposals for changes in the tariffs on fruits and vegetables. We have notified our trading partners that we intend to renegotiate certain GATT commitments which currently prevent us from increasing existing rates of duty on products covered by the Board's report. The government will try to conclude these negotiations as soon as possible and then introduce legislation to provide for a new schedule of rates for fresh and processed fruits and vegetables."

Multilateral Trade Negotiations (GATT)

It is anticipated that in the food and agricultural sector, negotiations will be conducted on an item by item basis. From a Canadian perspective, in the area of fruits and vegetables, the industry's concern with imports, the development of specific export opportunities on products where we are competitive and the recent Tariff Board recommendations, will be factors to be taken into account, consistent with Canada's overall objectives in the negotiations.

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