# A REPORT BY THE SECTOR TASK FORCE ON

# THE CANADIAN FOOD AND BEVERAGE INDUSTRY

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# REPORT OF THE TASK FORCE ON THE FOOD AND BEVERAGE INDUSTRY

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## A. Objective

To report on major opportunities and constraints affecting the development of the food and beverage industry and to make specific recommendations that will enhance the industry's ability to realize its full potential in the 1980's.

## B. Industry Summary

The food and beverage processing industry is the largest of the manufacturing industries in Canada, accounting in 1976 for 13 per cent (220,193 employees) of total manufacturing employment and 18 per cent ($17.3 billion) of total shipments of own manufacture. It is also one of the most diverse of industries, producing within its individual sub-sectors and more than 5,000 plants, a wide range of products differing as to the combination of inputs used, the nature and extent of processing, the technology required and the intended market.

The industry represents an essential link in the food chain between producer and consumer. As such, it provides the major market for primary agricultural and fisheries products. It is also a substantial user of packaging materials, energy, capital goods (both machinery and plant), and transportation equipment and services.

Unlike manufacturing in general, employment in the industry is relatively evenly distributed across Canada in proportion to population, and accounts for a very high proportion of total manufacturing employment in both the Atlantic and Prairie regions. Total industry employment has been generally stable in recent years although there have been some significant changes within individual sub-sectors, resulting from such factors as consumer demand, trade flows, technical advances and rationalization.

Output of the industry has been expanding steadily although at a somewhat slower rate than the total manufacturing sector. Growth has been dependent on population increases, increased demand for more highly processed products, and increased consumption or trade of certain items.

Some 90 per cent of domestic demand for processed foods and beverages is supplied by the industry. In most instances, imports consist of products not produced domestically, including processed tropical and semi-tropical items and items with special brand, quality or geographic identification. Imports of directly competitive items are however significant in some product areas, e.g. fruit and vegetable and confectionery products.

Industry exports have generally accounted for between 9 and 11 per cent of overall output but have been heavily concentrated in a few product areas, e.g. fish, meat, and distillery products. Nevertheless, exports in 1977 exceeded $2.0 billion providing an important contribution to total exports of the manufacturing sector. Fish products, due to the extension of national jurisdiction in coastal waters and enhancement of the resource base, represent a special area of growth for industry exports.

A more detailed overview of the industry is given in the "Outline of the Food and Beverage Industry in Canada", which is attached as Appendix "D".

The Task Force wishes to emphasize that, in its discussions and in the preparation of this report and its various appendices, it has attempted to focus on the areas of prime concern to the industry. The Task Force recognizes that there are numerous issues, background documents and views which it has not been able to consider and consequently lack of comment should not be taken as implying agreement with position papers put forward by governments or other bodies.

A list of the Task Force is attached as Appendix "A".

C. Investment Climate and Industry Prospects

The central problem facing the food and beverage industry was agreed to be the question of growth. The industry, which has to date been able to rely upon domestic market growth for expansion and for a relatively stable employment, is likely to face a slower rate of growth for the future in most sectors, due to population changes, the prospect of increased import competition and the impact on export potential of relatively high input costs.

As food and beverage processing is the largest of the Canadian manufacturing industries, this reduction in growth prospects has significant implications for manufacturing generally and, because food manufacturing development is considered to be a priority by most provincial governments, on the prospects for regional expansion.

The major opportunities for improved economic performance were agreed to lie in two areas: improved productivity performance via a more efficient utilization of all resources; and improved export performance resulting from increased competitiveness. While the responsibility for capitalizing on these opportunities rests with industry, their achievement will be influenced by a wide range of factors directly affected by governmental action.

The area of broadest concern to the Task Force is that of the general economic and investment climate within which the industry must operate and plan future development. An improvement in this climate is of crucial importance.

The Task Force is very conscious of the profound influence the "mood of the country" can have on the investment climate and hence on the growth outlook of the economy generally. The current mood, which has clearly had an inhibiting effect upon investment and growth, results from a combination of social and economic factors. These include: high levels of inflation and unemployment, rising expectations and difficulties in setting priorities for dealing with these expectations, pessimistic views of economic prospects, divergent regional and federal-provincial interests, increasing politicization of Canadian society, and the resultant emphasis on confrontation between interest groups on more and more issues. As a result, individuals tend to feel overwhelmed and helpless to deal with events. As the problems persist there can be distrust of those who profess to advance solutions.

The Task Force considers it essential that the current mood be replaced by a genuinely co-operative approach. Business, labour and governments must work with each other and with other sectors of the economy in an effort to solve mutual problems and so progress towards long-term goals.

As has been mentioned, improved productivity is essential to the continued health of the industry. Here the investment climate will be critical. The Canadian food and beverage industry is operating, according to a study by the Conference Board in Canada, at around 70 per cent of the productivity of the equivalent U.S. industry. Whereas Canadian productivity levels have generally improved over the last 10 years relative to the U.S., the food and beverage industry is one of the few sectors to show no relative improvement. There would thus appear to be considerable scope for improvement in Canadian performance affecting the industry's ability to compete in both domestic and export markets.

The food and beverage industry has, in general, access to the necessary capital, labour and material inputs, and can develop or obtain the competitive technology required to sustain growth; but again the investment climate will determine the extent to which these advantages are capitalized upon.

The Task Force has noted that the two major aims of the Federal Government's Food Strategy are the provision of fair returns to primary producers and reasonable prices to consumers. The Task Force is concerned at the implication

that the intervening Processing, Distributing and Retailing sectors have been cast as the scapegoat. This impression must be counteracted and the industry must be prepared to tell its story objectively to the public. The Task Force wishes to register most strongly the absolutely vital role of the food processing industry in the food chain and the importance of its continued healthy development if the aims of the Food Strategy are to be realized. The members of the Task Force look forward to working with the other stakeholders in the food system as the policy is developed.

D. Issues

Against the general background noted above, the Task Force identified the following specific issues as being of prime importance in considering the future development of the industry. It should be noted that the numbering is for reference purposes only and does not indicate an order of priority.

1. Input Costs
2. Productivity
3. Labour Relations and Legislation
4. Incentives and Taxation
5. Government Regulations
6. Marketing Boards
7. Competition Policy

Individual papers have been prepared on each of the above issues and are attached as Appendix "C".

A brief summary review of the issues and major recommendations follows. The full list of recommendations is attached as Appendix "B".

1. Input Costs

Input cost competitiveness was identified by the Task Force as being the key to the ability of the industry to continue operating in a competitive market system.

The smaller size of the Canadian domestic market and its dispersion already place the Canadian industry, in many instances, at a disadvantage relative to its major competitor, the U.S. industry, in terms of scale, specialization and productivity. While these adverse factors were often offset to some extent in the past by lower input costs in a number of areas, this advantage has been greatly reduced in recent years. In many cases, the Canadian industry is now at a significant disadvantage in the areas of primary and manufactured ingredients, labour costs, packaging and overhead.

Unless reversed or compensated for, these input cost disadvantages can only serve to erode the long-term competitive position of the industry in the domestic market, and reduce its ability to expand exports. The situation is likely to be exacerbated by the anticipated move to a more liberal trading regime as a result of the multilateral trade negotiations now underway.

Expectations within the industry with regard to trade liberalization differ according to circumstances. Import penetration of the Canadian market has been increasing steadily with imports in 1977 supplying more than 10 per cent of domestic demand as against some 6 per cent in the mid 1960's. Import pressures have been greater in some individual sectors than in others and the extent of import penetration in a number of these sectors has become very substantial (e.g. imports of processed fruit and vegetable products increased their share of market between 1965 and 1977 from 19 per cent to 25 per cent, while confectionery imports increased from 12 per cent to 21 per cent). Exports on the ot hand have remained relatively static, accounting for between 9 and 11 per cent of shipments, and continue to be concentrated primarily in meat, fish and distillery products.

The Task Force considers it essential that the international market remains a priority for industry and government attention and action. Every effort must be made to ensure the continued competitiveness of the industry in those areas where it has traditionally enjoyed an advantage as well as to exploit those areas where a competitive advantage can be developed.

To a certain extent, input cost disadvantages can be offset by action to increase productivity, scale or rationalization. Such action will require substantial investment commitments on the part of the industry. It will also require a review, on the part of the government, of the need for some form of adjustment assistance to facilitate restructuring operations to meet changing competitive conditions.

The problems of input costs and the industry's competitive position are all-pervasive and enter into the consideration of a number of the following issues.

2. Productivity

The scope for productivity improvement presents the industry with its major opportunity for improved performance. Continued viability and growth will to a large extent depend upon the achievement of such improvements.

The Task Force consequently recommends that productivity be treated as an area for priority consideration and effort by industry, labour, and government. This priority consideration should be reflected in the allocation by governments of financial resources among incentive programs.

The Task Force identified a number of areas where industry and government action could result in productivity improvements. These included the concentration of attention and efforts on the areas of training to manage contemporary technology; improvement of yield and quality variance control; and process simplification through redesign. A number of recommendations have also been made which should be of particular value to smaller firms in improving their efficiency and competitiveness.

3. Labour Relations and Legislation

While management and labour can be characterized as having an adversary relationship, there are nevertheless broad areas of agreement. It was noted that the system of labour relations in Canada has benefited both parties over the long term. The value of the profit motive and the importance of the financial success of private industry to economic growth, prosperity and the interests of employees was also emphasized.

The Task Force has made a number of recommendations which it considers would improve the climate and effectiveness of labour/management relations. These include the development of management training programs for union stewards and first line supervisors, efforts to improve the quality of working life, the supervised use of a secret ballot in strike votes and the standardization of labour legislation.

A number of other specific recommendations are contained in Appendix "B".

4. Incentives and Taxation

The twin issues of incentives and taxation are major determinants of industry investment and growth decisions.

While the Canadian industry is in a slightly more favourable position than the U.S. industry as regards the level of corporate taxation, the Task Force identified a number of disincentives to investment and productivity growth within the Income Tax Act and recommends changes in the treatment of consolidation

of business assets, research and development expenditures, and of losses of separate corporations within a common interest group. A study of the impact of high personal income taxes on labour costs is recommended.

As regards incentives, the need to harmonize federal and provincial programs and to increase their effectiveness is considered to be of prime importance. The Task Force is of the view that loans (with concessional features where appropriate) would be a more suitable form of incentive than grants, in that they would tend to limit applications for assistance to those projects which would not otherwise be realized. Further, in the case of regional development incentives, a full review of the effect of addtional capacity on existing investment should be mandatory.

The industry is already relatively well represented on a regional basis, and the twin constraints of existing capacity and location of markets would appear to limit further regional development possibilities. Consequently, the Task Force recommends, for this industry, a switch in emphasis within the total dollar value of incentives provided by government, with a greater emphasis on productivity, research and export market development, and a reduced emphasis on regional development. This change in emphasis should, it is considered, best enhance the growth opportunities of the industry.

It is important that the private sector be consulted in the design or redirection of specific incentive programs. In this way industry experience can be drawn upon, thereby improving the program's productiveness and effectiveness.

5. Government Regulations

A major constraint on profitable growth is the expanding framework of regulations within which the industry must operate.

While the Task Force recognizes the necessity and value of governments legislating in clear terms those types of activities or standards which are or are not permissible, it is concerned at the unnecessary proliferation of regulations, often compounded by overlapping jurisdictions. Bureaucratic assessments based on broad policy goals are frequently in conflict with business assessments based on sound economic considerations. The results are manifested in growing uncertainty, increased demands on executive time, paperburden and high costs.

This development has contributed largely to the erosion of business confidence, a prerequisite to making decisions for new capital investment. This erosion can only accelerate unless there is a demonstrated change by governments in their use of the regulatory process.

The Task Force recommends that current regulations be streamlined, that all new regulations be subjected to a consultative process at the problem definition stage and undergo cost-benefit analysis, and that a moratorium be placed on new regulations until the preceding recommendations are implemented.

6. Marketing Boards

In the area of primary agricultural production, the Task Force was seriously concerned that the policies and practices of some agricultural marketing boards had eroded the competitive position of certain Canadian products, both primary and processed.

The increasing prevalence of supply management type marketing arrangements can result in inefficient allocation of resources, market distortions, and reduced incentives for improving productivity. The resulting impact on the competitiveness of the processing sector, for which primary agricultural products represent the single most important input, can only lead to reduced market opportunities. In turn, this could lead to reduced demand for agricultural inputs or to a closed domestic market and the relinquishing of future export growth opportunities.

The Task Force recommends that the role of marketing boards be confined to a selling function; that marketing boards, at the least, not be allowed to control both quantity of production and price; that to improve the international competitiveness of processed Canadian food products, marketing boards should consider two-price systems where appropriate; and that the income stability problem of producers be treated by specific measures outside the marketing board framework.

7. Competition Policy

The Task Force considers that the succession of Competition Bills which have been introduced and the proposals for excessive and unnecessary bureaucratic intervention which they would require, have adversely affected business confidence and investment.

The Task Force recommends that the proposed Competition Bill C-13 be dropped and endorses the view of the Royal Commission on Corporate Concentration that: "...competition law should act in the traditional prohibitory fashion: if facts are established showing that a firm is guilty of proscribed conduct, the court or responsible tribunal makes an order designed to stop the practice and possibly to compensate those who had been injured by it".

E. Conclusions

Until now, the food and beverage industry has been able to rely upon domestic market growth for expansion and a relatively stable employment. Under present conditions, however, the outlook is for slower growth and declining employment.

The Task Force believes that the outlook can be changed if appropriate action is taken on the recommendations contained in this report. Such action, together with an improvement in the investment climate, should result in an improved economic performance manifesting itself in increased productivity and the vigorous pursuit of domestic and export market opportunities. The consequence would be increased output, maintenance of domestic market share (and indeed some import substitution), export growth and employment increases. By the nature of the industry's regional balance and close links to the primary, distributing and retailing sectors, this could be expected to be reflected in a positive manner in all areas of Canada.

The members of the Task Force are very conscious of the usefulness of the dialogue between industry, labour and government initiated in this Task Force and look forward to its continuation in an appropriate forum, and with the participation of representatives of other sectors of the food chain. Such a dialogue should not only deal with the problems of the industry and the food system but also contribute to an improvement in the "mood of the country" with beneficial effects on the future of all Canadians.

APPENDIX A

# TASK FORCE ON THE FOOD AND BEVERAGE INDUSTRY

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# RECOMMENDATIONS OF THE TASK FORCE ON THE FOOD AND BEVERAGE INDUSTRY

## 1. Input Costs

A) In the light of the industry's limited growth prospects, industry and governments should jointly review existing and forthcoming government policies and regulations affecting the industry's operating environment to ensure that they will have a positive rather than adverse effect upon the future efficiency and competitiveness of the industry.

B) Industry should take all possible steps to increase productivity, scale and rationalization which, in part, may compensate for higher input costs and assist in improving its competitive position. Governments need to facilitate an environment which encourages industry to make the substantial and long-term investment commitments necessary to attain these objectives.

C) Governments should review industry requirements for some form of adjustment assistance to assist in restructuring operations to meet changing competitive conditions, including those that may arise from the Multilateral Trade Negotiations in the GATT.

D) Other Canadian manufacturing industries from which the industry purchases inputs should be stimulated to make a similar adjustment to increase efficiency and competitiveness either by an improved investment environment or specific adjustment assistance measures.

E) A review of the effect of supply management policies on the availability and cost of primary agricultural inputs as they impact on the input costs of the industry should be undertaken by government.

## 2. Productivity

A) It is considered that the achievement of substantial increases in the productivity of all resources by the industry will be crucial to its future viability and growth. Productivity should consequently be treated as an area for priority consideration and effort by industry, labour and government.

B) Productivity incentives should be given greater emphasis in the allocation of financial resources among incentive programs.

C) More specifically, it is recommended that:

i) An industry supported program, including the possible relocation and employment of professionals from the public education sector, should be established to encourage the development of training skills to manage contemporary technology in the industrial sector. The upgrading of industry production, marketing and management techniques also should be encouraged in a similar manner.

ii) Industry and governments should co-operate to provide incentives for the design and installation of automated systems using improved process control, with the aim of increasing yield and reducing quality variance. Specialist expertise could be made available on a cost sharing basis or direct

subsidy basis.

iii) Industry and governments should develop a program to encourage or support process simplification through redesign.

iv) Trade associations and other private sector groups should investigate a) the opportunities for co-operation including sub-contracting arrangements, between large and small companies and b) the potential for co-operation between small firms including combining certain processes to achieve larger production runs.

v) There should be further investigation by industry groups of the feasibility of centralized distribution and/or warehousing depots for the use of smaller manufacturing firms.

vi) Government training program assistance should be extended to cover specific training requirements outside Canada when not available domestically.

vii) Liberal licensing arrangements, trademarks and patent regulations should be maintained to allow the transfer of intellectual property to smaller firms.

3. Labour Relations and Legislation

A) Financial success of private industry is essential to economic growth, prosperity, and in the interests of employees. It is crucial that governments keep in mind the value of the profit motive and maintain a positive rather than negative attitude to earnings by capital.

B) Emotionalism in the work place can give rise to problems which in many instances far outweigh the original causes of dispute. Unions, management and governments should explore, as one solution, training and development programs on the techniques of managing and communicating for union stewards and first-line supervisors.

C) Strikes should occur only after approval by a majority vote of all those concerned taken by secret ballot conducted under the supervision of an outside third party.

D) Federal and provincial governments should make every effort to standardize labour legislation and resolve related jurisdictional problems.

E) Industry, labour and government should continue to explore the potential that exists for the improvement in the quality of working life.

A number of further recommendations were arrived at with which the Task Force labour representatives were unable to concur. These are as follows:

i) Bargaining rights should only be granted if a union obtains majority support of the employees through a government-supervised secret ballot.

ii) A party should be able to launch a prosecution when it believes the labour law has been violated, without having to seek leave to prosecute from the Canada Labour Relations Board.

iii) The law should provide automatic penalties for unlawful strikes, such as loss of pay for individuals and loss of dues for the union. Automatic penalties, also related to the pay of employees affected, should be imposed on the employer where an illegal lockout occurs.

iv) Picketing rules should be codified so that the parties to the dispute, other employees, the public, the media and the law enforcement agencies are informed of the rights and obligations of all persons involved in or affected by a strike or lockout.

4. Incentives and Taxation

A) With respect to taxation it is recommended that:

i) The use of income tax legislation to provide incentives for research and development should be extended and revised so that significant expenditures will result. Under present legislation, qualifying expenditures are overly restrictive while residual benefits are, to a large extent, taxed away through other sections of the Income Tax Act.

ii) Provisions of the Income Tax Act which relate to "undistributed income" and "the valuation of business assets" in connection with the sale or transfer from one owner to another, should be simplified further to remove those regulations which frustrate appropriate consolidations.

iii) Within a corporate group which can demonstrate a major degree of common (equity) interest, provisions in the Income Tax Act should be changed to allow losses in one (or more) of its companies to be offset against other profitable operations.

iv) The effects of high effective personal tax rates on Canadian employment costs should be ascertained, and consideration given to reducing excessive impact using measures which will encourage economic development in other fields.

B) With respect to incentive programs it is recommended that:

i) To increase their effectiveness, Federal and Provincial Government Incentive Programs should be harmonized to reduce their numbers, complexity and overlap. Accountability practices such as project follow-up and annual cost benefit analysis should be made to function in each program area. Communication regarding program availability and results should be improved.

ii) Grant programs, such as the Regional Development Incentives Act administered by DREE, should be altered so that assistance is given on the terms of a negotiated loan (at reduced rates or free of interest), repayment being extendable only under certain conditions. This would tend to constrain requests for projects which would proceed without support, and more properly discipline those which require it.

iii) Before any assistance is given to projects which increase capacity in this industry, the impact on existing investment should be taken into consideration to a greater extent than is now being done.

iv) Governments should consult with industry associations and firms in the design of exciting, specific programs to enhance productivity (see recommendations under "Productivity") and, where practical, to encourage development of export products and markets. The possibility of tax incentives should be considered in the design of these programs.

v) "Higher value-added" products should receive at least as much, or even proportionally more support than is given to their commodity components which are exported from Canada.

5. Government Regulations

It is considered that the current regulations under which the industry operates should be streamlined and that all new regulations should be subjected to a consultative process at the problem definition phase and undergo cost-benefit analysis before they are put in place. To allow time to streamline the framework of regulations and to establish the consultative process and cost-benefit analysis procedures, a temporary moratorium should be placed on new regulations. Specifically, it is recommended that:

A) Regarding changes in regulations, or new regulations:

i) A consultative forum should be established which would require the federal and provincial civil service to consult those industries and other sectors of society affected as soon as a perceived problem has been identified and prior to the time when regulations have been prepared.

ii) The Federal Government's cost-benefit regulatory review system announced December 14, 1977 should be broadened to encompass all new regulations of any consequence. It should be a clear requirement of the review process that the cost of new regulations be clearly identified and reasonably quantified in economic terms. Cost-benefit analysis should also be undertaken prior to introduction of provincial regulations.

iii) In accordance with the Second Report of the Standing Joint Committee of the Senate and the House of Commons on Regulations and other Statutory Instruments it is recommended that "no subordinate legislation (regulation) should come into effect before it is published" and that "all subordinate legislation (regulation) should be registered (and) published."

iv) The delegation of regulation making authority by legislators should be halted. Furthermore, no new regulatory body should be created whose decisions cannot be appealed in a court of law.

B) Regarding streamlining of the existing regulatory framework:

The existing regulatory framework of the food and beverage sector should be reviewed with the objectives of eliminating trivial, redundant and irrelevant regulations, and simplifying and making less costly the procedures involved in implementing them. It is suggested that this review, which should take no longer than 18 months, be co-ordinated by the various regulation making authorities who should consult the various food and beverage industry associations and companies. Every effort should be made to:

i) Standardize regulations between provinces.

ii) In each region of the country, reduce to as small a number as possible the points of contact between business and all governments. It is also important that industry associations represent the interests of their membership more effectively by ensuring greater consensus among their members. This is particularly relevant for small business which has limited resources for dealing with governments.

iii) Continue efforts to co-ordinate and simplify the amount of paperwork associated with regulations.

C) Process for new regulations and temporary moratorium:

A basic principle should be adopted which would require that

no new regulation be enacted (other than to deal with emergency situations) unless the above consultative and cost-benefit processes have been followed and it has been clearly demonstrated as a result that there is a need which requires the regulation. Further, it is recommended that for the next 18 months a moratorium (except in emergency situations) be placed on all new regulations to allow time for development of the consultative and review processes and for streamlining the existing regulatory framework.

6. Marketing Boards

A) Legislation should be re-examined with a view to confining the role of marketing boards to a selling function.

B) Marketing boards should not be permitted to control the quantity of production and to fix the selling price. Control of either the quantity or price still allows ordinary forces of supply and demand to determine the uncontrolled variable, but control of both neutralizes ordinary market forces and substitutes for them decisions of the board.

C) To improve the international competitiveness of processed Canadian food products, marketing boards should consider negotiating a two-price system where appropriate.

D) The income instability problem of producers should be addressed separately and appropriate programs designed to deal with it outside the marketing board framework.

7. Competition Policy

A) It is considered that the existing Combines Investigation Act and the case law which has grown up as interpreting the Act represents satisfactory legislation and that Bill C-13 should consequently be dropped.

B) If, however, the government is determined to proceed with the Bill, the following specific changes should be made to it:

i) The Competition Board should have its review powers severely restricted by creating a minimum threshold below which no review can take place. The criteria for review should be to deal only with matters which are of clear importance as a result of having a significant impact in limiting competition in Canadian markets.

ii) Any Bill should provide for a full appeal on matters of fact and law to the courts as of right.

iii) The provision entitling the Competition Board to intervene in cases of joint-monopolization and monopolization should be deleted.

iv) The powers of the Competition Board to intervene in an effort to "fine-tune" pricing decisions should be deleted.

v) The powers of the Competition-Advocate should be strictly prescribed to the end that his powers are controlled by the courts and the responsible Minister is clearly accountable for the actions of the Competition-Advocate.

vi) In view of the considerable doubt as to the constitutionality of the provisions providing for civil damage actions resulting from breaches of the Combines Act it seems premature to provide for class actions. The many abuses which have become evident

particularly in the United States associated with class actions, such as the over-loading of the courts and the difficulty in managing class actions, should cause considerable concern. As a minimum, class actions should only be permitted if:

a) contingency fees to lawyers are prohibited;

b) the actions are only allowed to proceed on the basis of an opt-in procedure requiring at least 51 per cent in number and value before a group of plaintiffs are entitled to claim they represent a specific group;

c) it is required that proof of individual damage be made before any obligation to pay on the part of the defendant arises.

Future Consultation

The Task Force is very conscious of the usefulness of the dialogue between industry, labour and government initiated in this task force.

The continuation of this dialogue in an appropriate forum, and with the participation of representatives of other sectors of the Food System, would contribute to a spirit of co-operation and a general awareness of the individual and group problems and opportunities which will shape the industry's future development.

# INPUT COSTS

## Introduction

The purpose of this paper is to determine whether the Canadian food and beverage processing industry faces significantly different costs for such inputs as ingredients, packaging, labour, capital costs, etc. as compared to the United States, our major trading partner. The extent to which these costs differ or have shifted over time can have major implications for the competitive position of the Canadian industry both in the domestic and export markets. The smaller size of the Canadian domestic market and its dispersion already places the Canadian industry, in many instances, at a disadvantage with regard to scale or productivity. This situation has until recently, however, been offset to some extent by lower input costs in a number of areas.

Input costs are compared between Canada and the United States, on the basis that the United States is both the largest exporter of food and beverage products to Canada and also our largest export market. Cost comparisons, unless noted, are on the basis of a par dollar. Recent exchange differences have had a significant effect on relative input costs, whether domestic or imported and these differences are likely to remain over the medium term. However, on a long-term basis it is considered that the industry can most realistically evaluate its competitive position at par.

It should be noted that the paper attempts to cover a range of inputs affecting the whole industry. Some inputs will be more significant than others to certain industries and any assessment of the impact of input cost changes must bear this in mind.

## Comparison of Canada/U.S. Input Costs 1/

### a) Primary Ingredients

Primary ingredients, utilized as inputs by the industry, tend in many cases to be purchased either at prices influenced by continental or world market prices (plus freight and tariff) or at regulated (marketing board/supply management) domestic prices. The increasing prevalence of regulated prices, whether at the provincial or federal level, would appear to have had an adverse effect on the input costs of the industry. But the subject of marketing boards has been established as a seperate issue and it will therefore only be noted here. As a general conclusion however, it would be difficult to identify any primary input whose price to the processor would be significantly lower in Canada than the price an equivalent U.S. processor would be paying. At the same time, the natural advantages that Canada may or could have in a number of areas, tend not to be evident at the processing level.

### b) Manufactured Ingredients

The cost of purchasing manufactured or intermediate ingredients, produced in most cases within the industry, has risen substantially in a number of cases in comparison to the cost of manufactured ingredients to a U.S. processor.

The following are some key manufactured ingredients, together with current costs to a Canadian and to a U.S. processor. In those cases where freight is involved, Toronto has been assumed as the f.o.b. point for Canada. Costs would consequently be substantially higher for producers in Quebec, the Atlantic Provinces or the West.

1/ See also Annex 'II'.

| INGREDIENT | CANADA ($ Cdn.) | U.S. ($ U.S.) | CANADA/U.S. % DIFFERENCE |
|---|---|---|---|
| Corn Syrup (unmixed) | 10.20 (April 1978) (f.o.b. Toronto) | 6.65 (April 1978) (f.o.b. Chicago) | +53% |
| Starch | 12.90 (April 1978) (f.o.b. Toronto) | 7.83 (April 1978) (f.o.b. Chicago) | +65% |
| Flour | 9.50 (April 1978) (f.o.b. Toronto) | 10.05 (April 1978) (f.o.b. N. Y.) | - 5% |
| Skim Milk Powder | .76 (April 1978) | .71 (April 1978) | + 7% |
| Sugar | 16.01 (May 1978) | 19.65 (May 1978) (f.o.b. N. Y.) 16.43 (net of sugar levy) 1/ | - 3% |
| Cocoa | no difference (April 1978) | -- | -- |
| Dried Eggs (Whole) | 1.70 (Sept. 1977) | 1.52 (Sept. 1977) | +12% |
| Frozen Eggs (Whole) | 0.43 (Sept. 1977) | 0.37 (Sept. 1977) | +16% |

Source: Various industry sources and Agriculture Canada

c) Packaging

A general comparison of the cost of packaging materials in Canada compared to the U.S. indicates that the U.S. processor could have a price advantage of some 5-10 per cent plus for corrugated medium/boxboard 2/; an advantage of close to 25 per cent on fine papers; an advantage of about 15-17 per cent on glass containers; and an advantage of about 15-20 per cent on cellophane and laminated cellophane/polyethylene 3/. Rather limited information on costs of cans indicates no major differences in terms of list prices, although delivered costs may vary.

d) Labour

The cost of labour has two critical elements:

1. The cost per hour
2. Productivity

A comparison of U.S. and Canadian food and beverage industry wages indicates that Canadian average hourly earnings increased some 390 per cent between 1961 and 1977 as compared to an increase of 245 per cent in the equivalent U.S. industry. As a result, average hourly earnings for the Canadian industry, which had been significantly lower, now exceed on average the equivalent

1/ Price paid by processor for production of product for export.

2/ Current prices for 42 lb. linerboard are $265.00 per ton in Canada versus $205.00 in the U.S. Corrugated medium (26 lb.) is $233.00 per ton in Canada and $200.00 in the U.S.

3/ The cost of 200 KST Cellophane f.o.b. NYC is $1.52 per pound while the Canadian cost is $1.75 per pound f.o.b. Toronto.

U.S. industry wage 1/. This situation is not confined to the food and beverage industry but is also reflected for the total manufacturing sector. In fact, the narrowing of the wage gap between the U.S. and Canada is not a recent phenomenon but has occurred steadily over the last 25 years. 2/ The relatively faster growth of Canadian wages has major implications for the competitive position of the Canadian industry.

It should be noted that when total labour costs are considered (i.e. hourly earnings plus employer's contributions to fringe costs), on the basis of preliminary data, the difference between U.S. and Canadian average total labour costs is reduced to something less than half the difference indicated by consideration of hourly wages alone. This results from the greater weight of fringe costs in U.S. total labour costs.

Productivity is being treated as a separate issue and consequently will only be noted here. Productivity increases depend upon a wide range of factors including the relative shares or the degree of utilization of capital and labour inputs, scale of operation, length of run, management and labour skills, and new technology (including improvements in yields). Productivity levels in the total Canadian food and beverage processing industry measure about 70 per cent of the level of the U.S. industry. The productivity gap between the two industries appears to have been relatively stable. 3/ Measurements of productivity are necessarily imprecise however and should only be considered as providing orders of magnitude.

e) Other Inputs (Overhead Items)

Construction costs generally account for 20-25 per cent of capital investment expenditures in the manufacturing sector. Available data indicates that construction costs are probably close to equivalent between the Toronto area and the Northern U.S., but costs in either Eastern or Western Canada could probably be significantly higher. Government approval procedures may also be more complex and costly in Canada.

Data is not available on machinery costs but importation of machinery not produced in Canada is duty free.

The cost of capital represents another input cost. While there are a large number of factors which can influence the cost of obtaining financing at the individual firm level, and there can be significant variations from published rates of interest, indications are that interest costs have been higher in Canada than the U.S. through the 1970's. The yield on government bonds, which is representative of the trend in general interest rates, shows Canadian rates to have been both higher than U.S. rates and to have risen

1/ While industry-wide averages are used here, relative wages will vary substantially from industry to industry within the total food and beverage sector depending upon such factors as the industry aggregations used, the regional location or concentration of the industry, the mix of industry operations and the mix of training and skills required.

2/ See "Executive Summary" of the Conference Board in Canada report "Assessing Trends in Canada's Competitive Position" - attached as Annex 'I'.

3/ Assessing Trends in Canada's Competitive Position (Conference Board in Canada) - The report measures productivity levels for the total food and beverage sector and for some sub-sector industries for 1967 and for 1974.

further. 1/ It should also be noted that debt to equity ratios tend to be higher in the Canadian manufacturing sector than in the U.S.

A comparison of energy costs between the North-Eastern United States and Canada, indicates a marginal Canadian advantage. Again, however, regional variations in Canadian costs can be significant.

Administrative, marketing and advertising costs account for a significant portion of overhead costs. A study carried out by the Tariff Board on the processed fruit and vegetable industry, while unable to document the differences in such costs between the U.S. and Canada, came to the general conclusion that Canadian processors were at a 20-25 per cent disadvantage. It attributed the disadvantage to the generally larger scale of equivalent U.S. processing operations (resulting in a lower unit cost), the smaller size of the Canadian market and its geographic dispersion. While the study has specific reference to the fruit and vegetable processing sector, the same basic considerations are believed to be true for a large part of the total Canadian food and beverage sector. This is an area that might warrant further study.

f) Transportation

Transportation costs can play a significant part in a processor's ability to be competitive. The population base of Canada is spread along a long narrow strip just above the U.S. border. The population of 23,000,000 is a relatively small market as compared to many regions of the U.S. For Canadian firms to generate any economies of scale, a national market must in many cases be developed. Consequently product can often be shipped 2,500 miles before reaching the ultimate consumer. An equivalent sized or larger plant in the U.S. might service a geographic area of only a few hundred miles. If this U.S. plant happens to be just south of the Canadian border it may well have a much lower average transportation cost for its shipments as well as its inbound freight.

Impact of Input Costs

a) Ingredients/Supplies

These represent the major industry input, accounting for some 69 per cent of the value of shipments. The importance of individual input items will vary by industry depending, for example, on the dependence on primary ingredients, or the extent of packaging required. A review of costs indicates however, that the industry faces some substantial input cost disadvantages and that there has been an erosion in or loss of some other former input cost advantages.

b) Overhead

Overhead, both factory and non-factory, accounts for some 20 per cent of the value of shipments. The incidence of overhead costs is in large part a function of plant throughput with the U.S. industry able to benefit in many instances from scale and geographic advantages.

1/ Yield on Long-Term Government Bonds

| | 1969 | 1972 | 1975 | 1977 |
|---|---|---|---|---|
| Canada | 7.58 | 7.23 | 9.04 | 8.70 |
| U.S. | 6.12 | 5.63 | 6.98 | 7.67 |

Source: United Nations Statistical Yearbook and I.M.F., International Financial Statistics, April 1978.

c) Labour

Wages account for only eight to nine per cent of value of shipments, but more than 25 per cent on average of industry value added. It should be noted that there can be a substantial variation in their impact, with wages in a number of sectors accounting for close to 40 per cent or more of value added. Whereas wage rates used to represent a competitive advantage for the Canadian industry, this advantage has in many cases disappeared.

d) Packaging

As an input cost, packaging costs are probably in many instances as significant as labour costs. The Canadian industry faces a substantial cost disadvantage.

Summary

The processed food and beverage industry, which to date has been able to rely upon domestic market growth for expansion, is likely to face a slower rate of growth for the future due to changes in population, the possibility of increased import competition and relatively limited new export opportunities, other than for fisheries products.

At the same time, the environment which the industry currently operates under does not encourage investment. The industry is caught between rising input costs and pressure to reduce costs to consumers. The Canadian Food Strategy, centres around these apparently conflicting concerns of primary producers and consumers.

The government must recognize that the food and beverage industry, the largest of Canada's manufacturing sectors, plays a major role in the food chain and that its future efficiency and competitiveness depend upon the availability and encouragement of further investment.

As this paper has noted, the available data would appear to indicate that, in general, the Canadian food and beverage processing industry faces some significant input cost disadvantages relative to its closest competitor, the United States industry.

While a number of these cost disadvantages have been long standing, there has also been some significant erosion over time in the margin of advantage that the Canadian industry had on some other inputs and in some cases the advantage has been eliminated. Unless reversed or compensated for in some manner, these input cost disadvantages can only serve to weaken the competitive position of the Canadian industry, adding to the pressures created by the adverse operating conditions already noted.

It should be pointed out that because of the wide range of products and processes encompassed by the food and beverage industry, and differences in the relative importance of various input costs, the impact of any cost changes on the competitive position of the various industry sectors will vary as will the need for offsetting action.

Recommendations

A) In the light of the industry's limited growth prospects, industry and governments should jointly review existing and forthcoming government policies and regulations affecting the industry's operating environment to ensure that they will have a positive rather than adverse effect upon the future efficiency and competitiveness of the industry.

B) Industry should take all possible steps to increase productivity, scale and rationalization which, in part, may compensate for higher input costs and assist in improving its competitive position. Governments need to facilitate an environment which encourages industry to make the substantial and long-term investment commitments necessary to

attain these objectives.

C) Governments should review industry requirements for some form of adjustment assistance to assist in restructuring operations to meet changing competitive conditions, including those that may arise from the Multilateral Trade Negotiations in the GATT.

D) Other Canadian manufacturing industries from which the industry purchases inputs should be stimulated to make a similar adjustment to increase efficiency and competitiveness either by an improved investment environment or specific adjustment assistance measures.

E) A review of the effect of supply management policies on the availability and cost of primary agricultural industry should be undertaken by government.

ANNEX I

"ASSESSING TRENDS IN CANADA'S COMPETITIVE POSITION - THE CASE OF CANADA AND THE UNITED STATES" - EXECUTIVE SUMMARY 1/

The purpose of this study is to examine recent trends in the competitiveness of the Canadian economy vis-à-vis that of the United States. The analysis focuses on two determinants of competitiveness: trends in relative labour costs for 83 industries over the ten-year period - 1966 to 1975 - and trends in relative productivity for a selection of 33 manufacturing industries over an eight-year period - 1967 to 1974.

Main Findings - An Overview

- There has been a pervasive and consistent narrowing of the earnings differential in all 83 industries over the ten-year period.
- This narrowing is not a phenomenon that has occurred only over the last ten years, but has taken place over the last 25 years.
- The majority of industries studied is very close to or has exceeded earnings parity on an exchange rate adjusted cost basis.
- Canadian real earnings or purchasing power levels have approached those in the United States but are still much lower.
- Relative labour productivity levels have risen about 15 percentage points to about 80 per cent of the U.S. level over the period 1967 to 1974 for the selection of 33 manufacturing industries.
- Labour productivity in durable goods industries is approximately 95 per cent of the level in the United States.
- Labour productivity in non-durable goods industries is approximately 70 per cent of the level in the United States.
- Canada has more capital per worker than the United States so that the relative labour productivity levels overstate the levels of total factor productivity.
- Labour costs as a share of value added declined in both countries from 1967 to 1974 but to a greater extent in the United States than Canada.

Implications

- With some exceptions such as steel, automobiles and wood products, Canadian industries will likely experience increasing difficulty competing with American products and remaining viable enterprises.
- There are likely to be increasing pressures for tariff and non-tariff barriers to protect less competitive industries.
- The deficit in volume terms in end product trade with the United States will likely continue to increase.

1/ extracted from "Assessing Trends in Canada's Competitive Position - The Case of Canada and the United States" - The Conference Board in Canada - November 1977.

- Canada is no longer a relatively low wage country, and industrial employment growth will tend to occur only in the more competitive sectors.

Background

The Canadian economy has recently experienced the worst levels of inflation and unemployment since the early 1960's. The excessive rates of inflation and unemployment in the mid-1970's occurred simultaneously with a worldwide recession, inflation and an energy crisis.

In terms of international trade balances, Canada's merchandise account recorded a deficit for the first three-quarters of 1975 and the first quarter of 1976. These were the first deficits recorded in this account since 1966 and were generally perceived as evidence of worsening Canadian competitiveness in the international trading market. More particularly, a deficit in this account with the United States was seen as an indication that Canada's manufactured goods had become overpriced relative to competing goods from the United States.

The concern about an alleged deterioration in the competitiveness of Canada's economy was partly, therefore, a reaction to the relatively large merchandise trade deficit in 1975 and partly to the rapid inflation and high unemployment levels which occurred in Canada during the mid-1970's.

Findings - The Canada-U.S. Earnings Gap

The findings of this study indicate that relative earnings differentials in all 64 goods producing industries narrowed significantly over the period January 1966 to September 1975 when hourly earnings of Canadian production workers were compared with hourly earnings of production workers in similar United States' industries. The same narrowing of the earnings differential was observed in the 19 service sector industries for which earnings were measured on an average weekly basis. It is clear that there has been a pervasive and consistent narrowing of the earnings differential between Canadian and American industries. This narrowing has been observed as steadily occurring over the last 25 years and is, therefore, not attributable to short-run institutional or economic impacts but rather to significant long-term underlying economic factors.

A wide variation was found among the 83 industries in the rate at which the earnings differential has narrowed over time. As of June 1975, 19 industries were found to have relative earnings between 95 and 99 per cent of those in the United States, and 53 had earnings exceeding those in the United States. On an aggregate basis in June of 1966 the average relative earnings ratio in the 64 goods producing industries was .75. This had increased to 1.02 by June of 1975. In the case of the 19 service sector industries, the relative earnings ratio was .82 in June of 1966 and 1.12 in June of 1975.

It is clear, therefore, that long-term economic pressures have resulted in the steady narrowing of the relative earnings gap to the point where, in June of 1975, 72 of 83 matched industry pairs had reached levels of earnings 95 per cent or more of the levels prevailing in the United States. This finding is not specific to Canadian manufacturing but seems to pervade all sectors of the economy.

While relative labour earnings and the implicit relative wage rates clearly indicate attainment of parity or better on a labour cost basis, this result does not apply when earnings are viewed as real income for workers. Given the significant narrowing of current dollar earnings differentials over the 1966 to 1975 period, and the fact that inflation rates in Canada and the United States were essentially equal over this time period, it was possible to conclude that the relative real income differential had narrowed between Canadian and American workers. Nevertheless, because price levels for durable goods and housing are considerably lower in the United States while the price of food is approximately the same, it appears that

Canadian real income levels are still somewhat below real income levels in the United States.

In terms of relative income tax rates for income levels corresponding to those of employees falling under the scope of this study, it was found mainly because of the tax deductibility of mortgage interest and property tax payments, that average tax rates in New York and Ohio were about 7 and 6 per cent respectively in 1975, compared with 13 and 10 per cent respectively in Quebec and Ontario. There was no evidence of increasing relative tax rates between these Canadian provinces and American states over the 1966 to 1975 period.

Findings - The Canada-U.S. Productivity Gap

For the selection of 33 industries, there has been an increase of about 15 percentage points in relative labour productivity from 62 per cent in 1967 to 77 per cent of American levels by 1974. To the extent that this selection of 33 industries is representative of Canadian manufacturing, it is possible to conclude that labour productivity of Canadian industries was approximately 80 per cent of that in American industries in 1974. Furthermore, there is evidence of a long-term trend toward increasing relative labour productivity particularly in durable goods industries between Canada and the United States.

By 1974, the durable goods industries were found to be 94 per cent as productive as their American counterparts compared with 73 per cent in 1967. Canadian durable goods industries have experienced significant improvements in relative labour productivity levels during the eight-year period. Furthermore, this superior performance occurred largely in the metal products, motor vehicles and parts, and wood products industries.

With the exceptions of the miscellaneous durable goods industries (heating and air conditioning equipment, and major appliances) it seems reasonable to conclude that Canadian durable goods industries compare quite favourably in terms of labour productivity with American industries. It is interesting to note that among the industries with the higher relative productivity levels are the wood products and metal products industries, both of which are major Canadian industries based on the processing of natural resources.

Alternatively, the non-durable goods sector clearly emerges as having generally lower relative productivity levels. From 1967 to 1974 relative productivity increased from 53 to 68 per cent. Two industries in this sector where productivity growth was very slow were the food processing and paper products industries which experienced no significant change in relative productivity. Among the non-durable goods industries there appears to be a number of cases with quite low relative productivity levels. Probably among the more interesting results was the relative productivity level in the petroleum refining industry at 70 per cent of the American level in 1974.

The question arises as to what extent to which the estimates of relative labour productivity are over or underestimates of total (capital and labour) productivity. To help determine this, relative capital intensities of Canadian and American manufacturing industries were calculated.

It appears that Canadian industries are generally more capital intensive than American industries, that capital intensity varies considerably among industry groups, and that relative capital intensity has increased over the 1967 to 1974 period. The implications of these findings are twofold: part of the increase in relative labour productivity was no doubt the result of the relative increases in machinery and equipment per Canadian worker; and the relative levels of productivity estimated in each year are overestimates of the relative levels of total factor productivity which would be observed if both labour and capital inputs could be measured together. Finally, because of increasing capital intensity the growth rates for relative

total factor productivity would be lower than those estimated for labour productivity alone.

Prospects for the Canadian Condition

Production worker earnings per hour as a proportion of value added per hour, or unit labour cost, decreased in both countries from 1967 to 1974 in most industries, but the decrease was greater in the United States than in Canada. Because of this, relative unit labour cost increased in most industries. This indicates, from a competitive perspective, that relative labour earnings had increased more rapidly than relative labour productivity thereby causing increases in relative labour shares in Canada and, therefore, decreases in relative capital shares.

The implication of these changes in relative shares is that Canada's manufacturing industries had by 1974 relatively less profit (as indicated by capital's share) to re-invest than was the case of the United States although the absolute level of capital's share of value-added increased between 1967 and 1974 in both countries.

When the merchandise trade balance is analyzed in real or volume terms and in terms of its major components, it is found that two components - Crude Materials Inedible and Fabricated Materials Inedible - were in strong surplus positions since 1968. However, the deficit in end products was about twice as large in the period 1974-76 as from 1968-70.

The overall conclusion is that Canadian manufacturing industries with some exceptions such as steel, autos and primary wood products will likely experience increasing difficulties competing with American products. This suggests increasing deficits on the merchandise account with the United States and, as weaker industries find they can no longer compete, decreasing employment in manufacturing. As a result, it is to be expected that pressures from unions and employers will be brought to bear favouring increases in tariff and non-tariff protection.

Given the estimated decline in capital's share of value-added relative to the United States, it is expected there will be relatively less investment especially in industries in which it is most required in order to increase productivity. These factors, considered together, imply an environment in which Canadian manufacturing will face major adjustments and perhaps rationalization.

On a broader front it seems there could be several fundamental conflicts of interest among major sectors of the Canadian economy. On the one hand, there is the preference of manufacturers facing competition from foreigners for a depreciation of the Canadian currency from levels existing in 1975 in order to offset the increased cost position that has developed over the last few years. Alternatively, because of the large amount of foreign debt which must be repaid in foreign currency, a decline in the value of the Canadian dollar will increase the burden of servicing this debt. Such a decline will also raise the prices of imported goods and, therefore, the cost of living of Canadian consumers, as well as the cost of imported inputs in Canadian manufacturing.

Finally, because of the magnitude of major energy related investments underway or planned for Canada, large amounts of foreign capital will be required for financing purposes. The impact of these capital inflows on the Canadian dollar and thereby Canadian competitiveness is uncertain because the recent large deficits on the current account are expected to persist into the near future.

## INPUT COSTS

### Comparison of Flour Prices - Canada/United States 1/

| | Toronto | New York | Toronto | New York |
|---|---|---|---|---|
| | April | | September | |
| | $ per 100 lbs. | | $ per 100 lbs. | |
| 1973 | 5.70 | 8.25 | 8.50 | 12.55 |
| 1974 | 8.65 | 11.45 | 8.65 | 10.82 |
| 1975 | 8.55 | 11.07 | 8.95 | 12.18 |
| 1976 | 8.75 | 10.99 | 8.95 | 9.84 |
| 1977 | 9.20 | 8.24 | 9.20 | 8.09 |
| 1978 | 9.50 | 10.05 | -- | -- |

Source: Data obtained from industry source.

### Comparison of Wheat Costs

Canada: Average price paid for wheat for domestic food use by processors (i.e. millers) - (No. 1 C.W.R.F. wheat)

| | |
|---|---|
| Crop years 1968/9 to 1972/3 | $1.95½/bushel |
| Crop years 1973/4 to 1977/8 | 3.25/bushel |

United States: Average annual wholesale prices for wheat, Kansas City, No. 1 Wheat.

| | |
|---|---|
| 1972/3 | $2.33/bushel |
| 1973/4 | 4.51 |
| 1974/5 | 4.20 |
| 1975/6 | 3.74 |
| 1976/7 | 2.88 |

Source: Data obtained from Agriculture Canada.

1/ Basis is dollars (national currencies) per 100 lbs. on large bulk accounts. Specific grade or type not specified but is comparable.

ENERGY USAGE IN THE CANADIAN FOOD AND BEVERAGE PROCESSING INDUSTRY - BY INDUSTRY SECTOR

Cost of Fuel and Electricity as a % of Manufacturing Value-Added

| | | 1972 | % | 1975 |
|---|---|---|---|---|
| Total Canadian Food and Beverage Processing Industry | | 3.2 | | 3.8 |
| Sic | | | | |
| 101 | Meat and Poultry Processing | 3.3 | | 3.5 |
| 102 | Fish Processing | 3.9 | | 5.8 |
| 103 | Fruit and Vegetable Processing | 3.1 | | 3.4 |
| 104 | Dairy Products | 5.9 | | 6.2 |
| 105 | Flour and Breakfast Cereals | 3.2 | | 2.5 |
| 106 | Feed Manufacturing | 5.7 | | 5.4 |
| 107 | Bakery Products | 3.4 | | 2.2 |
| 108 | Misc. Food Products | 3.0 | | 3.7 |
| 109 | Beverages | 2.1 | | 2.8 |

Source: Based on Statistics Canada data.

ENERGY USAGE IN THE U.S. FOOD AND BEVERAGE PROCESSING INDUSTRY - BY INDUSTRY SECTOR

Cost of Fuel and Electricity as a % of Manufacturing Value Added

New York

| Code | | 1974 % |
|---|---|---|
| 20 | Total Food and Kindred Products | 3.7 |
| 201 | Meat Products | 2.8 |
| 202 | Dairy Products | 6.0 |
| 203 | Preserved Fruits and Vegetables | 4.3 |
| 204 | Grain Mill Products | 2.4 |
| 206 | Sugar, Confectionery Products | 4.0 |
| 208 | Beverages | 3.2 |
| 209 | Misc. Foods | 4.8 |

California

| | | |
|---|---|---|
| 20 | Total Food and Kindred Products | 2.1 |
| 201 | Meat Products | 2.3 |
| 202 | Dairy Products | 3.0 |
| 203 | Preserved Fruits and Vegetables | 2.7 |
| 204 | Grain Mill Products | 2.0 |
| 205 | Bakery Products | 1.3 |
| 206 | Sugar, Confectionery Products | 3.5 |
| 207 | Fats and Oils | 3.3 |
| 208 | Beverages | 1.1 |
| 209 | Misc. Foods | 1.5 |

Source: U.S. Department of Commerce Annual Survey of Manufacturers: Fuels and Electric Energy Consumed and Statistics for States.

SKIM MILK PRICES (U.S./CANADIAN COMPARISON) 1/

(price per pound/in national currency)

| Support Price | 1970/1 | 1971/2 | 1972/3 | 1973/4 | 1974/5 | 1975/6 | 1976/7 | 1977/8 | 1978/9 |
|---|---|---|---|---|---|---|---|---|---|
| Canadian Support price (dairy yr. basis) | 20 | 24/26 | 29 | 35/38 | 50/54 | 59/64 | 68 | 70/72 | 74 |
| U.S. Export price (dairy yr. basis) | 27.2 | 31.7 | 31.7 | 37.5/ 41.5 | 56.6 | 60.6/ 62.4 | 62.4 | 68.0 | 71.0 |

| Wholesale Price | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 |
|---|---|---|---|---|---|---|---|---|---|
| Canada (calendar yr. basis) | 20 | 25.4 | 29.5 | 35.5 | 50.9 | 61.1 | 66.8 | 70.3 | -- |
| U.S. (calendar yr. basis) | 26.3 | 30.7 | 33.1 | 46.4 | 65.9 | 63.3 | 63.5 | 66.5 | -- |

Note: U.S./Canada industrial milk prices not available. Differences in State/Province prices or policies and butterfat content do not allow direct comparisons to be made.

1/ Source: Research Division, Policy and Economics Branch, Agriculture Canada.

## AVERAGE HOURLY EARNINGS

| Year | CANADA 1/ | | U.S. 2/ | |
|---|---|---|---|---|
| | Food and Beverage | All Mfg. | Food and Beverage | All Mfg. |
| | (Cdn. $/hr.) | | (U.S. $/hr.) | |
| 1961 | 1.61 | 1.83 | 2.17 | 2.32 |
| 1967 | 2.12 | 2.40 | 2.64 | 2.83 |
| 1973 | 3.50 | 3.85 | 3.83 | 4.07 |
| 1974 | 4.03 | 4.37 | 4.15 | 4.40 |
| 1975 | 4.78 | 5.06 | 4.57 | 4.81 |
| 1976 | 5.18 | 5.46 | 4.80 | 5.19 |
| 1977 | 5.94 | 6.38 | 5.34 | 5.63 |
| January 1978 | 6.26p | 6.64p | 5.60p | 5.92p |
| | % Increase | | % Increase | |
| 1977/1961 | 389% | 363% | 246% | 243% |

p = preliminary

Source: STATSCAN 72-002 and U.S. Department of Labour: Employment and Earnings. See also Appendix D.

1/ Gross wages but excluding employer's contributions to supplementary labour costs (i.e. medical, UIC, etc.). Based on establishments generally employing 20 employees or more.

2/ Gross wages but excluding employer's contributions to supplementary labour costs. Based on total establishments.

## AVERAGE HOURLY EARNINGS

### January 1978

| | CANADA 1/ (Cdn. $/hr.) | U.S. 2/ (U.S. $/hr.) |
|---|---|---|
| Food and Beverage Industries | 6.26 | 5.60 |
| Total Manufacturing Industries | 6.64 | 5.92 |
| Biscuits | 5.68 | 5.78 |
| Bakery | 6.04 | 5.69 |
| Confectionery | 4.77 | 4.76 |
| Slaughtering, Meat Processing, includes poultry | 6.84 | 5.65 |
| Breweries | 8.28 | 8.62 |
| Fruit and Vegetable Canners and Preservers, includes frozen | 5.48 | 5.11/5.45 * |
| Grain Mill Products (Flour, Breakfast cereals and feeds) | 6.21 | 6.03 |
| Misc. Foods, n.e.s. | 6.02 | 5.34 |
| Fish Products | 5.37 | 4.44 |
| Dairy Products | 6.63 | 5.52 |
| Soft Drinks | 6.48 | 4.98 |
| Distilleries | 7.58 | N/A |

Note: Figures not available for: sugar, vegetable oil, and wineries industries.

Data is preliminary.

* represents sub-industry figures, composite figures not available.

Source: STATSCAN 72-002 and U.S. Department of Labour: Employment and Earnings. See Also Appendix D.

1/ Gross wages but excluding employer's contributions to supplementary labour costs (i.e. medical, UIC, etc.). Based on establishments generally employing 20 employees or more.

2/ Gross wages but excluding employer's contributions to supplementary labour costs. Based on total establishments.

## PRODUCTIVITY

### Value-Added Per Man-Hour 1/

| Year | CANADA | | U.S. |
|---|---|---|---|
| | Food and Beverage Processing | Total Mfg. Industries | Food and Beverage Processing |
| 1961 | $ 6.21 | $ 5.43 | $ 8.68 |
| 1972 | 11.51 | 9.51 | 16.52 |
| 1975 | 16.52 | 13.83 | N/A |
| % Increase 1975/1961 | 266% | 255% | N/A |

### Value-Added Per Labour Dollar 1/

| | | | |
|---|---|---|---|
| 1961 | $ 4.03 | $ 3.03 | $ 4.09 |
| 1972 | 3.73 | 2.77 | 4.45 |
| 1975 | 3.60 | 2.85 | N/A |
| % Increase 1975/1961 | -10.7% | -5.9% | N/A |

Source: STATSCAN 32-203 and U.S. Department of Commerce, Census of Manufactures. See also Appendix D.

1/ Manufacturing Activity. Labour dollar is wages paid.

## FACTORS OF PRODUCTION

Major Manufacturing Inputs 1/
1975

($ Million)

| Inputs | Food and Beverage Processing Industries | Total Manufacturing Industries |
|---|---|---|
| Production Wages | 1,396 | 12,672 |
| % of Shipments | 8.5% | 14.3% |
| Fuel and Electricity | 194 | 1,806 |
| % of Shipments | 1.2% | 2.0% |
| Materials and Supplies | 11,326 | 51,177 |
| % of Shipments | 68.7% | 57.9% |
| Value Added | 5,030 | 36,139 |
| | 30.5% | 40.9% |
| Shipments (of own Manufacture) | 16,492 | 88,460 |

Source: STATSCAN 31-203. See also Appendix D.

1/ Manufacturing activity only - excludes distribution and marketing activity.

# PRODUCTIVITY

## Introduction

The achievement of substantial increases in the productivity of all resources by the industry will be crucial to the industry's future viability and growth. This paper proposes that productivity should be treated as an area for priority consideration and effort by government, industry and labour.

A number of areas where productivity can effectively be enhanced are identified, including support of training, automation and mechanization, and product and process re-design. While these activities are considered to have general applicability to the food and beverage processing sector, the paper also recognizes the special problems and opportunities facing smaller size businesses within the sector, and consequently it also includes a number of recommendations more specifically orientated towards improving their productivity.

## Nature of Productivity

While the measurement of productivity is still considered to be an activity lacking in precision, there is general agreement that productivity consists of the conversion of resources - services, labour, capital, raw materials, energy - to a marketable product. Productivity further lends itself to measurement as a ratio of valuable and desirable outputs to scarce and costly inputs. It is also important to eliminate from the calculation the effects of changes in raw material costs by using standardized base values, or using the value-added components of the conversion.

The efficiency with which the key productive resources are used in a particular set of external factors is a good measure of the quality of management. The external factors affecting productivity - tariffs and trade agreements, taxes and incentives, regulations, unemployment insurance, etc. - while under government control - may act in global, non-specific and unpredictable ways, and the effects may be slow in becoming visible.

The internal factors affecting productivity - design, organization, control, etc. - can have focussed, specific and predictable effects which frequently are immediately visible.

## Opportunities and Productivity Improvement

Firms with significant training efforts tend to have good records of productivity improvement. Whereas education traditionally has been considered the responsibility of the community, training for specific tasks has been the responsibility of the firm. Many firms may lack the skills or resources to train their employees to manage contemporary technology effectively. A program to support and encourage the development of training skills in industry would have beneficial results. It could include the relocation of teaching professionals from the public education sector into an industrial training sector.

The gross labour savings traditionally associated with automation or mechanization have largely been captured decades ago. New opportunities become attractive when the cost of labour increases at a faster rate than the cost of labour-saving capital assets, but these do not now represent the important benefits of automation or mechanization. The significant payout comes from improved control resulting in increased yield and reduced quality variance. The frequent need for more staff of a higher calibre to operate

the new equipment is usually well balanced by improved profits. A new program, or a redirection of existing programs to provide incentives for the design and installation of automated systems using improved process control could pay dividends in productivity. Specialists with these skills tend to be employed in University engineering departments or with large consulting firms, and they could be made available to industry through a cost-sharing or direct subsidy program.

The largest productivity improvements tend to arise from process simplification through redesign, with a significant portion of the benefit resulting from improved reliability. Not necessarily requiring large capital expenditures, this activity succeeds by learning, through process capability studies and new configurations of equipment and operators, that different procedures can be more productive than traditional ones. As with automation, the skills needed for this activity are specialized and are not resident in many firms. A program to encourage or support redesign projects to improve productivity would be valuable.

Position of Smaller-Sized Manufacturing Firms

A small business may be defined as one having fewer than 100 employees. Total employment by small firms in 1974 amounted to 1,850,000 Canadians.

In the manufacturing sector, 88 per cent of all manufacturing establishments had less than 100 employees with 80 per cent having less than 50 employees. The importance of these firms to the Canadian economy as a whole, is obvious from the statistics presented. Even more important is their presence in outlying regions and in rural communities where there are often no alternative sources of employment.

Although having a high degree of flexibility and independence, small firms often do not employ the most modern financial, production, management and marketing techniques. Recent studies have indicated that a high proportion of plants in individual Canadian industries are less than the optimum size. Further studies, however, have shown that unit costs are only five per cent to six per cent higher, even where a plant was only one-third the minimum optimum size. This would indicate that differences in plant size can only explain a small part of the differences in cost per unit. There is, however, room for productivity improvement in Canada within smaller establishments which can be achieved without going to a larger scale. Special programs are needed to upgrade management, production and marketing techniques in all of these firms. Since Canadian industry is a relatively inefficient user of both labour and capital, this might indicate that the root of the problem lies in the effectiveness with which the factors are combined, which is clearly a management function.

Because of the small size of plants and the diversification of products, domestic firms have relied extensively on new developments originating and tried in the U.S., rather than developing new productive techniques in Canada. Smaller firms do not have the financial depth or the willingness to assume the risks often necessary to gain increases in productivity.

Larger companies, often performing their own research and development, have access to technological advantage which small firms usually lack. In particular, small firms in the manufacturing sector could benefit from technological improvements to their processes or a better application of basic concepts such as good work flow and plant layout. Small firms, because they do not do their own research and development, must seek technological assistance outside the firm and sometimes outside the country. Although there are programs available on both the federal and provincial levels to make the results of technological research available to them, small business operators are usually very deeply involved in the day to day management of their firms, and in many cases, are unaware of the programs that exist. In addition, the contact point between large and small enterprise to establish the technological connection is very weak.

Government Assistance

This discussion paper suggests further government involvement or consultation in programs such as those for the development of training skills and support for redesign projects, while the Task Force's discussion paper on Taxation and Incentives tends to be generally critical of the design, implementation and benefits of existing government incentives. These views are not in conflict with each other. What this Task Force seeks is a substantially improved balance in the total dollar value of incentives provided by government, with a greater emphasis on productivity and exports and a less marked interest in regional economic development. Further, the Task Force would expect to see a much greater contribution on the part of the private sector, accustomed as it is to the harsh brutalities of industrial life, in the design and implementation of industrial incentive programs so as to ensure that these will be realistic, productive, effective, and of lasting value, and not simply of a one shot charitable nature as so many appear to be at the present time.

Recommendations

In summary, the Task Force recommends the following action by government and industry:

A) It is considered that the achievement of substantial increases in the productivity of all resources by the industry will be crucial to its future viability and growth. Productivity should consequently be treated as an area for priority consideration and effort by industry, labour and government.

B) Productivity incentives should be given greater emphasis in the allocation of financial resources among incentive programs.

C) More specifically, it is recommended that:

i) An industry supported program, including the possible relocation and employment of professionals from the public education sector, should be established to encourage the development of training skills to manage contemporary technology in the industrial sector. The upgrading of industry production, marketing and management techniques also should be encouraged in a similar manner.

ii) Industry and governments should co-operate to provide incentives for the design and installation of automated systems using improved process control, with the aim of increasing yield and reducing quality variance. Specialist expertise could be made available on a cost sharing basis or direct subsidy basis.

iii) Industry and governments should develop a program to encourage or support process simplification through redesign.

iv) Trade associations and other private sector groups should investigate a) the opportunities for co-operation, including sub-contracting arrangements, between large and small companies and b) the potential for co-operation between small firms including combining certain processes to achieve larger production runs.

v) There should be further investigation by industry groups of the feasibility of centralized distribution and/or warehousing depots for the use of smaller manufacturing firms.

vi) Government training program assistance should be extended to cover specific training requirements outside Canada when not available domestically.

vii) Liberal licensing arrangements, trade marks and patent regulations

should be maintained to allow the transfer of intellectual property to smaller firms.

(An important assist to small businesses (at no public cost) exists in the willingness of trade mark owners to license the small business as a registered user. The recent Johnson's Wax judgement could discourage this unless the Federal Government acts to protect the arrangement.)

## LABOUR RELATIONS AND LEGISLATION

While management and labour between them in Canada can be characterized as having an adversary relationship, there are nevertheless broad areas of agreement between them.

There is a consensus that the system as practised in Canada has, over the longer term, benefited both parties. It has resulted in improved standards of living for workers and an expanded marketplace for industry. Radical change or the implementation of systems in vogue in other countries must be viewed with cautious suspicion.

Both management and labour believe that the financial success of private industry is essential if our economy is to grow and prosper and the well-being of employees is to be ensured. There is a broad measure of agreement that profit is essential, although we are unable to evolve a yardstick by which to measure a fair rate of return. It is crucial that all levels of government recognize the impact of the profit motive on society and adopt a position rather than negative attitude to earnings by capital.

When management and labour understand the other party's role and goals, it facilitates finding mutually satisfactory solutions to problems. The basic labour legislation sets the necessary framework within which the parties work. This includes the legal authority of the union, the obligation to bargain, rights to arbitration and to strikes/lockouts, etc.

Legislators also use the labour laws as one way to balance the relative bargaining strengths of the parties. This results in a self-perpetuating need for more laws to constantly correct towards a balance. As a result, in many jurisdictions, labour relations is over-legislated.

As laws and jurisprudence accumulate, grievances and negotiations are turned over to lawyers and the real issues of the plant floor are not addressed.

Both management and labour agree that emotionalism in the workplace gives rise to problems which in many instances far outweigh the original causes of dispute. The Task Force considers that one solution that should be explored by unions, management and government is a training and development program for union stewards and first-line supervisors on the techniques of managing and communicating.

At the level of the union, local presidents and committee members often find themselves thrust into roles of managing a local with little or no training on how to be a manager, or limited experience in leadership roles. Stewards and first-line supervisors need specific training on the art of managing, and also training on the terms and intent of the collective agreement. Support must come from the top down, and must be reinforced by extending authority and responsibility to those involved.

Work stoppages have a serious impact on both management and labour, and strikes, the ultimate weapon, should not be lightly, frivolously, or emotionally entered into. We would support the premise that strikes should only occur after approval by a majority vote of all those concerned taken by secret ballot conducted under the supervision of an outside third party.

Both management and labour agree that all the players should know the rules and to the extent practical, the rules should be the same. Every effort should be made by the federal and provincial governments to

standardize labour legislation across the country. We also recognize the problems inherent in unproductive jurisdictional disputes and efforts must be made to solve problems associated with jurisdictional matters.

Both management and labour agree on the importance of matters related to safety in the work place. No company desires to make profit by endangering the health and safety of its workforce. There has been, in the past, co-operation in this field. More remains to be done in the area of improvement in the quality of working life.

Recommendations

In summary the Task Force agreed on the following specific recommendations:

A) Financial success of private industry is essential to economic growth, prosperity, and, in the interests of the employees. It is crucial that governments keep in mind the value of the profit motive and maintain a positive rather than negative attitude to earnings by capital.

B) Emotionalism in the work place can give rise to problems which in many instances far outweigh the original causes of dispute. Unions, management and governments should explore, as one solution, training and development programs on the techniques of managing and communicating for union stewards and first-line supervisors.

C) Strikes should occur only after approval by a majority vote of all those concerned taken by secret ballot conducted under the supervision of an outside third party.

D) Federal and provincial governments should make every effort to standardize labour legislation and resolve related jurisdictional problems.

E) Industry, labour and government should continue to explore the potential that exists for the improvement in the quality of working life.

The Task Force is of the view that "respect for the law" is a fundamental principle of the Canadian labour relations system and in this regard proposes the following changes to the Canada Labour Code. The Labour representatives on the Task Force are unable to concur with the following recommendations and so disassociate themselves from them:

i) Bargaining rights should only be granted if a union obtains majority support of the employees through a government-supervised secret ballot.

ii) A party should be able to launch a prosecution when it believes the labour law has been violated, without having to seek leave to prosecute from the Canada Labour Relations Board.

iii) The law should provide automatic penalties for unlawful strikes, such as loss of pay for individuals and loss of dues for the union. Automatic penalties, also related to the pay of employees affected, should be imposed on the employer where an illegal lockout occurs.

iv) Picketing rules should be codified so that the parties to the dispute, other employees, the public, the media and the law enforcement agencies are informed of the rights and obligations of all persons involved in or affected by a strike or lockout.

# INCENTIVES AND TAXATION

The following two incentive categories are addressed in this brief, and in general terms.

A. Incentives Under the Income Tax Act

B. Direct Business Development Programs

## A. Incentives Under the Income Tax Act

Incentives take the form of special capital or operating cost allowances, special taxation rates, and investment and distribution tax credits. Such incentives are broadly directed to motivate all industry in a sector (e.g. manufacturing) and are both effective and important to profitable business enterprises.

In the Canadian food and beverage processing sector the impact of direct taxes on income is, in most cases, equal to or slightly lower than that faced by foreign competitors. In addition, primary producers in Canada (farmers - fishermen) receive many advantages in the area of taxation. These advantages should presumably be manifested in a lowering of cost of domestically supplied raw material - even though these raw materials are, in most cases and for other reasons, priced above import commodities.

Productivity has been identified as an important area of required improvement for the food and beverage processing sector. In certain cases this goal could be approached through business or operational consolidation; however, under present tax regulations business combinations are frustrated by extremely complex rules relating to undistributed income and asset valuation. Further, separate corporations in a common interest group cannot offset losses in one operation against income in another, as can be done in the United States.

Under the present taxation scheme in Canada, effective personal income tax rates impact more heavily than in the United States - our principal competitor on a supply basis and our closest potential export customer. These higher rates of tax must exert an upward pressure on employment cost, and account at least in part for the higher wage scales faced by Canadian processors and producers.

### Recommendations

(to alleviate some disincentives)

i) The use of income tax legislation to provide incentives for research and development should be extended and revised so that significant expenditures will result. Under present legislation, qualifying expenditures are overly restrictive while residual benefits are, to a large extent, taxed away through other sections of the Income Tax Act.

ii) Provisions of the Income Tax Act which relate to "undistributed income" and "the valuation of business assets" in connection with the sale or transfer from one owner to another, should be simplified further to remove those regulations which frustrate appropriate consolidations.

iii) Within a corporate group which can demonstrate a major degree of common (equity) interest, provisions in the Income Tax Act should be changed to allow losses in one (or more) of its companies to be offset against other profitable operations.

iv) The effects of high effective personal tax rates on Canadian employment costs should be ascertained, and consideration given to reducing exessive impact using measures which will encourage economic development in other fields.

Incentives under the Income Tax Act, while encouraging to a (new or established) profitable business enterprise, fail to provide assistance to marginal or loss operations. In areas where it is deemed "desirable" to maintain or enhance such operations, programs outside the medium of "tax incentives" are available to compensate for this fact, and are necessary if a system which reflects social as well as market economics is to be achieved.

B. Direct Business Development Incentive Programs

Summaries of current incentive programs are attached as follows:

| | |
|---|---|
| General incentives - federal | Annex I |
| Specific incentives - federal | Annex II |
| Provincial incentive programs | Annex III |

These programs are directed in nature

- to specific regions e.g. depressed
- to specific industry e.g. developing
- to specific purpose e.g. research
- to business size e.g. small

In addition, there are many primary sector support schemes, and it is virtually impossible to estimate from outside sources their magnitude and impact. But the level of total support must be significant, and therefore important to raw material cost inputs of their customers, the food and beverage processors.

Underneath the "visible" layers of incentive programs, exist others which operate mainly in the area of social or political economics. These surface on occasion in the form of facilities or activities with commercial involvement, and sometimes at conflict with existing enterprises.

The number and diversity of programs, the evident jurisdictional overlap, and the apparent absence of accountability suggest many problems in the nature of waste or poor utilization of dollar resources. There are undoubtedly many cases where assistance has been given when none was required. On the other hand, many businesses, both large and small, do not avail themselves of program assistance—due to the sheer complexity, the red tape, and to some, a philosophical rejection on the basis of "corporate welfare".

The programs do some useful work, and for that their managers are to be complimented. But the cost of uncoordinated direction and administration must be high. The major factors which frustrate improvement in management of these programs, and others, continue to be:

(a) Program conception from perceived rather than real needs;

(b) Regional social aspirations vs. economic realities;

(c) Jurisdictional redundancy, overlap, conflict and competition.

In most every food or beverage product category, Canada is not only self-sufficient in terms of production capacity— it is in a position of over-sufficiency. But there are several pertinent and recent cases where privately financed operations have materially suffered or failed after public funds have been used to assist construction of excessive capacity.

There are also cases where support is denied to "higher value-added" production, whose constituent raw materials receive assistance while travelling to the same export market. Such anomalies work to the detriment of rational development and the credibility of assistance programs.

For the food and beverage processing sector, two specific areas have been identified for improvement:

(i) Productivity
(ii) Export development

Assistance programs should consequently be responsive to opportunities in those areas.

Recommendations

i) To increase their effectiveness, Federal and Provincial Government Incentive Programs should be harmonized to reduce their numbers, complexity and overlap. Accountability practices such as project follow-up and annual cost benefit analysis should be made to function in each program area. Communication regarding program availability and results should be improved.

ii) Grant programs, such as the Regional Development Incentives Act administered by DREE, should be altered so that assistance is given on the terms of a negotiated loan (at reduced rates or free of interest), repayment being extendable only under certain conditions. This would tend to constrain requests for projects which would proceed without support, and more properly discipline those which require it.

iii) Before any assistance is given to projects which increase capacity in this industry, the impact on existing investment should be taken into consideration, to a greater extent than is now being done.

iv) Governments should consult with industry associations and firms in the design of exciting, specific programs to enhance productivity (see recommendations under "Productivity") and, where practical, to encourage development of export products and markets. The possibility of tax incentives should be considered in the design of these programs.

v) "Higher value-added" products should receive at least as much, or even proportionally more support than is given to their commodity components which are exported from Canada.

In very broad terms, this brief has also referred to difficulties which business experiences in understanding existing incentive programs. Lacking details of their overall management and utilization, leaves one in a position of quoting isolated cases, then speculating and generalizing. Those on the outside, most of whom experience the cumbersome procedure of government, observe abuses, and in cases are hurt by excesses, tend to adopt a cynical viewpoint over the apparent waste inherent in these programs. Such a viewpoint prevails throughout most of the productive sector of Canadian business today.

Those in government who are designated to develop and manage these programs must accept the responsibility for their effective operation. Proven practices such as zero-base budgeting, cost-benefit analysis and good follow-up should be adopted and made to function. Political influence should be strongly resisted when at conflict with rational goals.

ANNEX I

# GENERAL INCENTIVE PROGRAMS - HIGHLIGHTS

| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| CANADA DEVELOPMENT CORPORATION (CDC) (¶ 81,100) | To provide Canadian equity for the development of Canadian resources | Publicly owned | N/A | N/A | Not an incentive program |
| CANADA MANPOWER INDUSTRIAL TRAINING PROGRAM (¶ 80,785) | To increase productivity and reduce unemployment | Department of Manpower & Immigration | Employers and employee associations | Direct training costs are normally reimbursed for off-the-job training. A negotiable percentage of trainees' wages are reimbursed | |
| FEDERAL BUSINESS DEVELOPMENT BANK (¶ 81,000) | To provide medium and long-term financing to companies unable to borrow reasonably elsewhere | Department of Industry, Trade and Commerce | Almost every type of business | No limit on term loans. FBDB can also take equity positions | Replaces the Industrial Development Bank |
| | To enable small companies to improve productivity and profitability | Federal Business Development Bank | Small businesses all over Canada | Counsellor's daily fee is $20 | |
| EXPORT DEVELOPMENT CORPORATION (EDC) (¶ 80,820) | To insure foreign trade receivables and foreign investment | Export Development Corporation | All corporations carrying on business in Canada | (1) Insurance for export receivables<br>(2) Long-term export financing by purchase of long-term receivable from exporter<br>(3) Insurance for Canadian investment abroad<br>(4) Surety and performance guarantees | |
| PROGRAM FOR EXPORT MARKET DEVELOPMENT (PEMD) (¶ 80,380) | To enhance the export of Canadian products | Department of Industry, Trade and Commerce | Canadian corporations with potential for competitive performance in foreign markets | 50-50 sharing of costs of soliciting export orders. Repayable only if exports are arranged as a result | No repayment if project is unsuccessful—Export Consortia eligible for special assistance |
| PROMOTIONAL PROJECTS PROGRAM (¶ 80,470) | To promote the export of Canadian products and services | Office of Export Programs & Services, Department of Industry, Trade and Commerce | Canadian companies with export capabilities | Variety of sponsored promotions and cost-sharing assistance for trade fair participants | |

| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| CONTRACTING OUT POLICY (¶ 80,100) | To promote industrial capability for Research and Development in Canada | Dept. of Supplies and Services and Ministry of State for Science and Technology | Canadian companies with sophisticated R & D capabilities | Purchase of service | |
| ENTERPRISE DEVELOPMENT PROGRAM (¶ 80,140) | To promote innovation of products and processes, and provide assistance for adjustment of business. | Program Office Department of Industry, Trade and Commerce | Canadian companies demonstrating need for assistance and resources to pursue successful projects | Variety of cost sharing assistance, loans and loan guarantees, grants, insurance on surety bonds | Replaces Automotive Adjustment Assistance, PAIT, GAAP, IDAP, PIDA, PEP, FTIAP |
| INDUSTRIAL RESEARCH ASSOCIATION PROGRAM (¶ 80,080) | To promote industry collaboration in maintenance of R & D facilities | Department of Industry, Trade and Commerce | Technological industry groups or institutes | Grants during facility start-up and early operations | Assistance is not ongoing —limited to maximum of seven years |
| INDUSTRIAL RESEARCH INSTITUTE PROGRAM (IRIP) (¶ 80,290) | To assist Canadian universities to undertake contract research for industrial clients | Department of Industry, Trade and Commerce | Canadian universities | Grants to cover the first three years administrative costs of providing this type of service | Support will be provided for the formation of industry research associations |
| CENTRES FOR ADVANCED TECHNOLOGY PROGRAM (¶ 80,735) | To assist programs of research relevant to industrial needs | Department of Industry, Trade and Commerce | Canadian universities and other organizations with research capabilities | Grants to cover the costs of establishing and operating a Centre | Ten centres are operating at the present time |
| REGIONAL DEVELOPMENT INCENTIVES ACT (RDIA) (¶ 80,500) | To establish, expand or modernize manufacturing or processing in slow growth areas | Department of Regional Economic Expansion | Anyone establishing or expanding a manufacturing or processing facility in a designated area | Grant for a percentage of approved capital costs and jobs directly created. Loan guarantees are also available | Grants are not taxable but to the extent they relate to capital costs—the capital cost is reduced for Income Tax purposes. Prior approval of all expenditures is absolutely mandatory |
| CANADIAN INTERNATIONAL DEVELOPMENT AGENCY (CIDA) (PRE-INVESTMENT INCENTIVE PROGRAM) (¶ 80,900) | To encourage Canadian business to establish or expand operations in developing countries of the world | Canadian International Development Agency | All Canadian businesses | Reimbursement of costs investigatory studies. Cost-sharing on feasibility studies | Particular encouragement is given to joint venture proposals |

SOURCE: Industrial Assistance Programs in Canada (1977)- CCH Canadian Ltd.

ANNEX II

# SPECIFIC INCENTIVE PROGRAMS - HIGHLIGHTS

| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| INCENTIVE PROGRAMS NORTH OF 60 (¶ 85,500) | To aid both companies and individuals in exploration and development activities in the Yukon and North-west Territories | Department of Indian Affairs and Northern Development | Individuals and companies contributing to the development of the North | (1) Road and resource airport cost-sharing assistance<br>(2) Prospectors' grants<br>(3) Small business loans<br>(4) Northern Exploration Facilities program | Feasibility studies are eligible for financing in some cases |
| NORTHERN MINERAL EXPLORATION ASSISTANCE PROGRAM (¶ 85,285) | To stimulate interest in northern mineral exploration | Department of Indian Affairs and Northern Development | Canadian companies undertaking explorations in the Yukon or N.W.T. | Up to 40% of approved exploration program expenditures | Unfunded during 1976-77 |
| SMALL BUSINESS LOANS (¶ 85,360) | To help small business enterprises obtain term credit | Department of Finance -- Guaranteed Loans Administration | Canadian companies with gross revenues under $1,500,000 | Government guarantee of loans to a maximum of $75,000 by an approved lender | All loans must be secured |
| SHIPBUILDING INDUSTRY ASSISTANCE PROGRAM (¶ 85,090) | To provide incentive for improved performance to increase productivity and efficiency | Department of Industry, Trade and Commerce | Shipbuilder must be a Canadian Citizen or a Company incorporated in Canada | Subsidy of 14% of approved costs of vessel. Subsidy to be reduced by 1% per year to 8%, and 20% to Oct., 1977 | This program replaces the Ship Construction Subsidy Regulations and the Ship-Building Temporary Assistance Program |
| CANADIAN FILM DEVELOPMENT CORPORATION (CFDC) (¶ 85,525) | To foster and promote the development of a feature film industry in Canada | Department of the Secretary of State | Canadian feature films and Canadian feature film productions | Loans, grants and awards for production. Cost sharing available for publicity programs | A separate section of the program is designed to assist low-budget productions |
| DEFENCE INDUSTRY PRODUCTIVITY PROGRAM (DIP) (¶ 85,160) | To sustain technological capability of Canadian defence industry | Department of Industry, Trade and Commerce | Companies incorporated in Canada | Cost-sharing of up to 50% of current and capital R & D expenditures for defence-oriented R & D | Income tax treatment is not clearly defined |
| **PROGRAM** | **PURPOSE** | **ADMINISTERED BY** | **ELIGIBILITY** | **EXTENT OF ASSISTANCE** | **OTHER COMMENTS** |
| FASHION DESIGN ASSISTANCE PROGRAM (FDAP) (¶ 85,390) | To increase the international competitiveness of Canadian apparel, textile, leather and footwear industries | Department of Industry, Trade and Commerce | Canadian fashion industries and Canadian fashion designers | Bursaries Fashion/Canada awards, training in industry | Also sponsors consumer-oriented awareness programs |
| MACHINERY PROGRAM (MACH) (¶ 85,250) | To simplify tariff treatment of imported machinery | Department of Industry, Trade and Commerce | Canadian importers and manufacturers of machinery | (1) Tariff protection a Canadian machinery manufacturers<br>(2) Remission of tariff if like machinery is not manufactured in Canada | Canadian manufacturers should advise the Department of their manufactures |
| PROGRAM TO STIMULATE THE DEVELOPMENT AND DEMONSTRATION OF POLLUTION ABATEMENT TECHNOLOGY (DPAT) (¶ 85,025) | To stimulate the development of pollution abatement technology which will have wide application in Canada | Environment Canada | Canadian companies developing and demonstrating abatement or technology | Negotiable level of cost-sharing | DPAT contracts require that any technology development be made freely available to other Canadian businesses |

SOURCE: Industrial Assistance Programs in Canada (1977) - CCH Canadian Ltd.

ANNEX III

# PROVINCIAL INCENTIVE PROGRAMS - HIGHLIGHTS

| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| ALBERTA OPPORTUNITY COMPANY (¶ 90,600) | To promote the development of resources and diversification of the Alberta economy | Alberta Department of Industry and Tourism | Manufacturers and processors | Loans and loan guarantees, business management consulting | There are no forgivable loans under this program |
| BRITISH COLUMBIA MINISTRY OF ECONOMIC DEVELOPMENT (¶ 90,750) | To encourage industry to expand foreign trade and to investigate matters of economic importance | British Columbia Department of Economic Development | Companies resident in British Columbia | Cost sharing of trade shows, trade missions, market investigations, incoming buyers, feasibility studies. Advice and information is provided to small businesses | Assistance will only be granted once a year under any given program |
| BRITISH COLUMBIA DEVELOPMENT CORPORATION (BCDC) (¶ 90,850) | To encourage and assist the establishment, expansion and continued operation of industry in the Province | British Columbia Department of Economic Development | All types of business enterprise including agriculture and tourism | Loans and loan guarantees, equity participation, leasebacks | |
| PROVINCE OF MANITOBA INCENTIVES PROGRAMS FOR INDUSTRY (¶ 91,130) | To assist in the growth of Manitoba industry | Manitoba Department of Industry and Commerce | Manitoba firms engaged in production, processing, distribution or specialized construction | ¼ of the cost of a project $20,000 max. to any one program; $30,000 max. for any combined programs | The initial special incentive is ¼ of first $2,000 of total cost, ⅛ of next $3,000 to total cost |
| COMMUNITIES ECONOMIC DEVELOPMENT FUND (¶ 91,230) | To provide funds for business development in rural Manitoba | Manitoba Department of Industry & Commerce | Small, locally owned businesses engaged in manufacturing, tourism, or services | Loans and loan guarantees in respect of land and buildings | For businesses in remote parts of the province |
| NEW BRUNSWICK DEPARTMENT OF COMMERCE AND DEVELOPMENT (¶ 91,350) | To assist in the growth of New Brunswick Industry | New Brunswick Department of Commerce and Development | All companies wishing to establish in the Province or existing companies | Loans or loan guarantees | The Corporation also administers three industrial parks. See also Provincial Holdings and Multiplex Corporation |
| NEW BRUNSWICK RESEARCH AND PRODUCTIVITY COUNCIL (¶ 91,500) | To aid local companies and individuals in the manufacturing sector | New Brunswick Department of Commerce and Development | All companies | Free technical information | Limited industrial engineering services also available |
| NEWFOUNDLAND DEPARTMENT OF RURAL DEVELOPMENT (¶ 91,750) | To provide incentives to small business not eligible under other government assistance programs | Department of Rural Development | Small business engaged in manufacturing, processing or resource development | (1) Grants of 50% of capital costs up to $30,000 in some cases<br>(2) Interest-free loans<br>(3) Management training programs | Assistance aimed mainly at rural-based industries |
| NEWFOUNDLAND AND LABRADOR DEVELOPMENT CORPORATION LIMITED (¶ 91,800) | To assist the growth and development of Newfoundland industry | Newfoundland and Labrador Development Corporation | Newfoundland enterprises generating employment | Term loans for machinery and buildings. Equity participation in some cases | The Corporation does not provide loan guarantees |
| NOVA SCOTIA RESOURCES DEVELOPMENT BOARD (¶ 91,950) | To ensure that the expansion of the resource-based industries is not hampered by the lack of term financing | Resources Development Board | Resource-based enterprises in Nova Scotia | Term financing in the following areas:<br>—Industrial Loans<br>—Tourist Loans<br>—Farm and Timber Loans<br>—Fisheries Loans | Loan financing is available up to a maximum of 75% of the value of a project. Funds available for the purchase of land |
| NOVA SCOTIA INDUSTRIAL ESTATES LIMITED (¶ 92,050) | To assist in growth of Nova Scotian Industry | (Nova Scotia) Industrial Estates Ltd. | Any secondary industry wishing to establish in Nova Scotia and existing industry | 100% financing of land and buildings and 60% of equipment | Emphasis on assisting existing small Nova Scotian Industries |
| ONTARIO MINISTRY OF INDUSTRY & TOURISM (¶ 92,150) | Financial & non-financial services and incentives to Ontario Business | MINISTRY OF INDUSTRY AND TOURISM | Services and Incentives to Ontario businesses | Financial Programs are limited to small manufacturers | Most of Ontario financial Programs are handled through the Ontario Development Corporations. |

SOURCE: Industrial Assistance Programs in Canada (1977) - CCH Canadian Ltd.

| PROGRAM | PURPOSE | ADMINISTERED BY | ELIGIBILITY | EXTENT OF ASSISTANCE | OTHER COMMENTS |
|---|---|---|---|---|---|
| ONTARIO DEVELOPMENT CORPORATION (ODC)<br>NORTHERN ONTARIO DEVELOPMENT CORPORATION (NODC)<br>EASTERN ONTARIO DEVELOPMENT CORPORATION (EODC) | | SEE ALL ODC PROGRAMS BELOW | | | Special interest rate reduction for small companies |
| ONTARIO BUSINESS INCENTIVES PROGRAM (OBIP) (¶ 92,210) | To provide incentive loans | ODC | Secondary manufacturing industries, service industries in support of manufacturing and tourist operations | Incentive loans with deferred repayment and interest-free or interest-reduced terms | Extent and level of assistance varies with region of Province. In Central and Southwestern Ontario only new operations qualify |
| VENTURE CAPITAL FOR CANADIANS (¶ 92,245) | To assist small businesses to diversify in Ontario | ODC | Ontario-based Canadian-owned small businesses engaged in high technology industries | Term loan to a maximum of $500,000 | Designed to assist ready-to-market technology |
| TOURIST INDUSTRY LOANS (¶ 92,255) | To improve the Ontario tourist industry | ODC | Resort operator located in a tourist area | Term loans up to $500,000 with repayment and amount geared to needs of the individual | Tourism must be of prime importance to locality |
| INDUSTRIAL MORTGAGES AND LEASEBACKS (¶ 92,260) | To provide term financing through mortgages | ODC | Any company in a small centre of population in Ontario | Term loans to a maximum of $500,000 with repayment over 20 years | |
| EXPORT SUPPORT PROGRAM (¶ 92,275) | To supplement the services of the Export Development Corporation | ODC | Ontario based companies exporting goods of significant Canadian content and unable to obtain other means of export financing | Term loans for financing of export sales, inventories held for export of production for export | Repayment is normally made by the purchaser of the goods directly to the ODC |
| PRINCE EDWARD ISLAND INDUSTRIAL ENTERPRISES INCORPORATED (¶ 92,500) | To assist in the development of P.E.I. industries | (P.E.I.) Industrial Enterprises Incorporated | Any resident manufacturing or processing industry or tourist attraction | (1) First mortgages<br>(2) Source of information<br>(3) Research and Management services | Corporation may consider taking an equity position |
| PRINCE EDWARD ISLAND LENDING AUTHORITY ACT (¶ 92,550) | To provide working capital for small P.E.I. businesses | Lending Authority Board, Department of Industry and Commerce | Any person, corporation or co-operative engaged in manufacturing, processing, farming, fishing or tourism | Loan guarantees and direct term loans | This Act replaces the Fishermen's Loans Act, P.E.I. Industrial Corporation, Industrial Establishments Promotion, Tourist Accommodation, and Young Farmers loan programs |
| QUEBEC INDUSTRIAL DEVELOPMENT CORPORATION (IDC) (¶ 92,650) | To encourage development in Quebec | Quebec Department of Industry and Commerce | Secure, competent companies in manufacturing or processing | (1) Low interest rate loans<br>(2) Guarantee of loans<br>(3) Forgivable loans<br>(4) Construction of plants for sale or rent<br>(5) Equity investment<br>(6) Leasebacks | Replaces the Quebec Industrial Credit Bureau and extends its services |
| QUEBEC TAX REDUCTION FOR MANUFACTURING INDUSTRIES (¶ 92,700) | To promote industrial development through fiscal advantage | Quebec Department of Industry and Commerce | Companies making investments in the Province of Quebec in excess of $150,000 | Cumulative deduction from taxable net income of up to $10 million | Lapsed March 31, 1977 |
| QUEBEC ACT RESPECTING FISCAL INCENTIVES TO INDUSTRIAL DEVELOPMENT (¶ 92,750) | To stimulate investment and promote regional development | Minister of Finance | Corporations engaged in manufacturing | Either an allocation of tax otherwise payable or else a prospective deduction eligible investment costs not to exceed $10,000,000 | Replaces section 16(a) tax credit Certification required by Quebec Department of Industry & Commerce |
| SASKATCHEWAN ECONOMIC DEVELOPMENT CORPORATION (¶ 92,800) | To supply financial assistance for establishment or expansion of industrial enterprises in Saskatchewan | Saskatchewan Economic Development Corporation | Primarily for industrial enterprises or specialized agricultural operations | Mortgage loans and working capital loans Industrial sites and buildings research grants | Retail and service enterprises eligible |
| SASKATCHEWAN INDUSTRY AND COMMERCE DEVELOPMENT ACT (¶ 92,900) | To create new business opportunities and revitalize existing enterprises, including tourism | Ministry of Industry and Commerce | All enterprises excluding farming | Loans or grants; consulting service; promoting marketing of goods and services | Loans administered by SEDCO |

SOURCE: Industrial Assistance Programs in Canada (1977)_ CCH Canadian Ltd.

# GOVERNMENT REGULATIONS

## Issues

One of the problems constraining profitable growth of the food and beverage industry is the framework of regulations the industry operates within. Recently there has been rapid change and expansion in the framework of regulations. Regulations of different federal and provincial agencies overlap and there are often differences in regulations between different jurisdictions.

This proliferation of regulations has been characterized by a tendency toward greater delegation of regulation making authority to Ministers, officers and boards. There has also been a tendency to statement of very broad general guidelines which administrative tribunals such as the Foreign Investment Review Agency apply to individual cases.

The current situation regarding the framework of regulations creates: (a) uncertainty, (b) great demands on executives' time, (c) paperburden, and (d) direct and opportunity costs. Because of these effects of the current framework of regulations it is more difficult for Canadian food and beverage firms to meet the challenge of efficient growth.

## Framework of Regulations

Regulations are defined here as they were by the 1969 Special Committee of Parliament on Statutory Instruments as:

> "a rule of conduct, enacted by a regulation making authority pursuant to an Act of Parliament, which has the force of law for an undetermined number of persons; it does not matter if this rule of conduct is called an order, a decree, an ordinance, a rule, or a regulation."

Regulations may be formulated for a variety of reasons. Generally speaking, regulations are the result of pressures exerted from outside the governmental infrastructures. Examples are regulations relating to the environment, safety and health, labour and consumer issues. There can also be impetus from within the public service to formulate new regulations.

Regulations can be made by a Parliament, or the powers to make the regulations can be delegated to a Minister, officer or Board. All forms are used. The extent and form of delegation of regulation making authority are of concern.

There is a range of regulations which apply to the food and beverage industry. Furthermore, the type and nature of regulations applying to different companies in the industry varies.

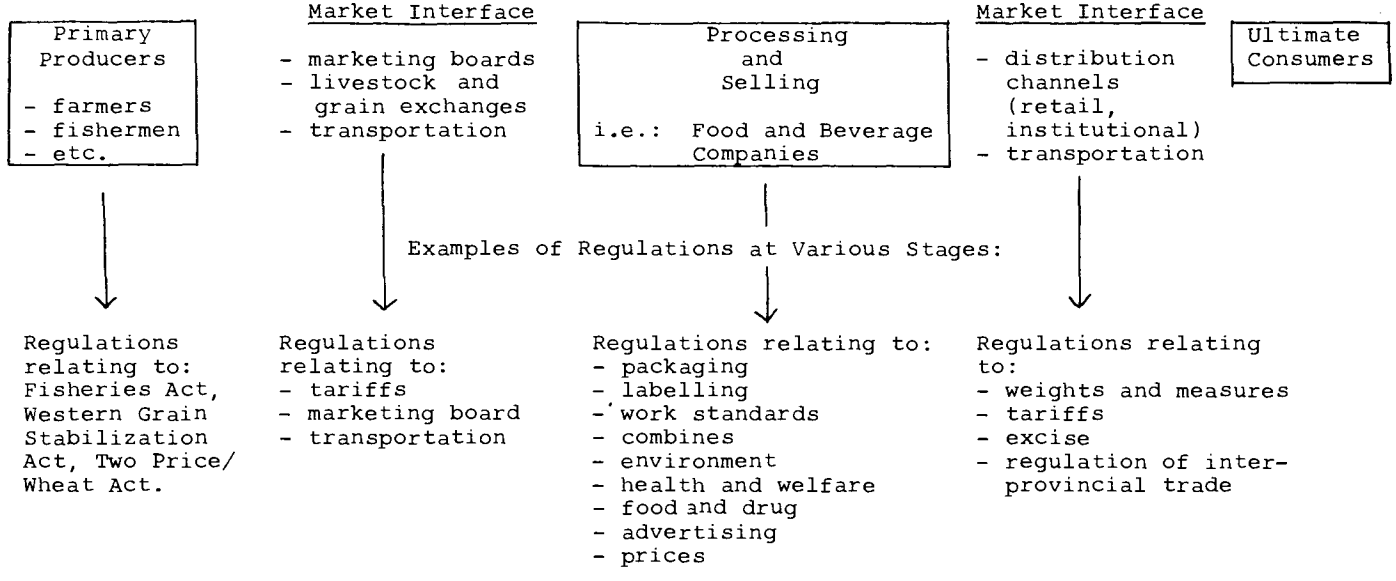
For example, companies in the brewing sector of the industry face different types of regulations concerning the prices of their product than do companies in the meat packing or confectionery business. Companies in the distilling sector must deal with excise tax regulations unlike some of the other companies in the food and beverage industry.

Processing companies can be affected by regulations that apply to any stage in the chain between primary producers and ultimate consumers (Figure 1). Our discussion deals primarily with regulations specifically directed at food and beverage companies and not those directed at primary producers, although reference is also made to regulations dealing with the market interfaces between primary producers and processing companies and between processing companies and final consumers.

Consideration of the general framework (Figure 1) indicates that many regulations apply directly to companies in the food and beverage sector and

Figure 1

The Chain Between Primary Producers and Final Consumers and Examples of Regulations that Apply at Each Link



there has been a proliferation of new regulations in recent years, particularly in the environmental and consumer related areas. Furthermore, the primary producer market interface and the consumer market interface have also been subject to strong regulatory influence in the form of tariffs, marketing boards and transportation related matters for a number of years. There has been a considerable number of changes in marketing board regulations in recent years.

General Problems

One of the very real problems with government regulations is the vast number and type of them. One estimate is that the Government of Canada alone has between 700,000 and 1,000,000 regulations. Admittedly many of these will be trivial but the numbers by themselves are revealing. In addition, regulations are enunciated by provincial and municipal governments as well.

The essence of the problem of coming to grips with and understanding the proliferation of regulations is captured in the "Second Report of the Standing Committee of the Senate and the House of Commons on Regulations and other Statutory Instruments", jointly chaired by Senator Eugene A. Forsey and Mr. Robert McCleave, M.P. (Second Session of the Thirtieth Parliament 1976-77). The Committee commented that:

> "There persists a view that statutory instruments need not be made generally available and need not be put in as simple, comprehensible and explicable form as possible. This view rests on the assumption that ordinary folk will not concern themselves with statutory instruments and that those affected by them, lawyers, businessmen, fishermen, farmers, and so on will take thought for themselves and make it their own business to find out what the law is, through lawyers, trade associations, commercial services and the like. While the Committee acknowledges that this may well be the case, the premises of the argument are wrong. If once admitted, the conclusion must also follow that the statutes need never be revised, consolidated, or published in compendious form, because those affected will themselves do all the necessary research and piecing together of amendments. And, however effective the commercial services may be, there is something fundamentally amiss when even officers of Government themselves depend on an outside commercial service for a consolidation of their own regulations."

There has been considerable concern about the regulatory situation in various jurisdictions. President Carter of the United States recently announced procedures to improve existing and future regulations. Mr. Darcy McKeough, Treasurer of Ontario has also expressed concern about the growth of government regulation and its costs.

The problems surrounding the current framework of regulations in the food and beverage sector are examined under the following three headings: A) Proliferation of Regulations; B) Attitude of Government to Regulations; and C) Effects of Government Regulations.

(A) Proliferation of Regulations

An example of the volume of regulations affecting grocery manufacturers can be seen by looking at the Health Protection Branch of Health and Welfare Canada. When a major policy change in regulations is contemplated, Health Protection Branch issues an Information Letter outlining the proposal and inviting comments. In the five and a half years from May 1, 1972 to November 30, 1977, 50 Information Letters were issued, averaging nine per year. Eighteen of these have been incorporated in new regulations, 17 have extensively amended existing regulations and 15 are currently under review.

In their testimony before the Food Strategy Conference, the National Dairy Council listed 27 items of proposed legislation affecting their industry which

were under current discussion, including fill tolerances, ingredient listing on bulk packages, bilingual label exemptions, financial data for the Canadian Dairy Commission, reconciliation of milk shrinkage data between Statistics Canada and the Canadian Dairy Commission, new definitions for cheese foods, Canadian Dairy Corporation imports of butter to Western Canada and starter distillate in cottage cheese.

There is overlap between different departments of the Federal Government. There is also overlap between different federal and provincial governments. We also have the situation where there are differences in regulations regarding similar subjects from one jurisdiction to another. This applies from one province to another. A number of examples of overlapping regulations and jurisdictions follow:

i) Meat Inspection and Label Approval

One example of overlapping jurisdiction within the Federal Government pertains to inspection of meat plants and approval of labels used by meat packers. Very specific powers are vested, for instance, in the Health of Animals Division of Agriculture Canada which maintains resident inspectors in meat packing plants, and approves all labels used by the industry. Yet, nominally at least, the activities of that Branch are also subject to the Consumer Packaging and Labelling Act which is declared to have precedence in consumer labelling matters; and to the Food and Drugs Act and Regulations which are now jointly developed and enforced by the Health Protection Branch of Health and Welfare Canada in respect to public health aspects, and the Department of Consumer and Corporate Affairs in respect of labelling matters. This strange division works more effectively than would seem possible, but it does constitute a real problem of jurisdictions.

One result is a protracted system of clearances and approvals for new labels. Proposals have to pass through a number of federal departments.

It is possible for a company to receive approval for a new product name and label from Agriculture Canada and Health and Welfare and still fail to receive approval from Consumer and Corporate Affairs.

A large number of inspectors are also required. To enforce regulations there are inspectors from the Health of Animals Branch of Agriculture Canada, the Dairy Branch, the Processed Fruits and Vegetables Branch; together with the body of Health Protection Branch inspectors under their regional directors with a primary responsibility for inspection of food processing plants; and a further body of Department of Consumer and Corporate Affairs inspectors covering primarily the retailing operations but becoming increasingly involved in plant inspection.

ii) Introduction of a New Brand of Regular Strength Beer in Ontario

The following table sets out the required levels of approval to be obtained prior to launching a new brand of beer in Ontario. Note the significant overlap of Acts and regulations at the federal and provincial level.

| | FEDERAL | | | | ONTARIO | | |
|---|---|---|---|---|---|---|---|
| | Food and Drug | Consumer Pkg. and Labelling | Broadcast Act | CRTC | Liquor Control Act | Liquor Licence Act | Liquor Licence Board Directives |
| Liquid: | | | | | | | |
| Ingredients | X | | | | X | | |
| Additives | X | | | | X | | |
| Alcohol Content | X | | | | X | | |
| Packaging: | | | | | | | |
| Labelling | X | X | | | | X | |
| Carton Design | X | X | | | | X | |
| Advertising: | | | | | | | |
| Television | | | X | X | | X | X |
| Print | | | | | | X | X |
| Promotion | | | | | | X | X |

iii) Packaging and Labelling

Dale Beckman and Richard Knudson of the Faculty of Administrative Studies at the University of Manitoba, in their Packaging and Labelling Study, prepared for the Department of Consumer and Corporate Affairs, had some interesting comments on the effects of the recent federal consumer Packaging and Labelling Act on the food industry. They pointed out that the way the act was handled "greatly lessened the negative impact upon the food industry". They also indicated, however, that "much frustration could have been avoided if more thought had been given to co-ordinating the regulations between other overlapping government departments and within the regional branches of Consumer and Corporate Affairs". (page 77).

There were some co-ordination problems with the introduction of the legislation. "Several companies pointed out that some of the requirements conflicted with the regulations of other departments. It is alleged that Consumer and Corporate Affairs had not co-ordinated the Packaging and Labelling Program with the regulations of other departments such as Agriculture, and the Food and Drug Directorate." (page 41).

The authors note that the implementation of the Packaging and Labelling Act was felt to be "generally fair and reasonable". Two factors appear to have contributed to this view: good lead time and a well publicized compliance date.

"However, some criticism warrants attention. First, several companies again allege that there was a lack of co-ordination among various government departments. Second, there was too long a delay between the implementation of the Act and the issuance of the guidelines. Third, some companies encountered translation difficulties when complying with the requirements for bilingual labels....finally, companies which serve markets in Western Canada generally feel that dual language labels should not be required for their products." (page 43 and 44).

The report also pointed out that companies indicated "interpretations of the regulation vary in similar situations, and some of the regional branches of CCA were unsure of how the act translated into specifics. As an example, two companies reported that labelling changes that had been approved by the department were subsequently required to be changed".(page 44).

iv) Soft Drink Container Return Policy

Different provinces in Canada have different regulations regarding soft drink containers. This creates some problems because it is annoying to a certain degree, as well as time consuming to have to deal with this number of jurisdictions.

Some provinces have handled the formulation of regulations better than others. For example, Manitoba is regarded by the industry as having handled the situation better than some other provinces.

The real difficulty perceived with container return regulations is that they don't deal with the overall problem of solid waste. It is felt that if the regulations were subjected to a cost-benefit analysis the probability that they would not be found to be justified is very high.

v) Ontario Ban on Asbestos Filters

The Liquor Control Board of Ontario advised domestic distillers and foreign suppliers that effective January 16, 1978 asbestos filters could not be used in the filtering process for wines and spirits.

The federal Department of National Health and Welfare does not ban asbestos filters for spirits.

The industry has obtained a delay in the L.C.B.O. deadline to July 16, 1978 on the condition that tests be conducted and evidence provided to the effect that asbestos filters do not add asbestos particles to the product.

The fact that one province decides to take such action, means that all companies selling to that province must comply with the directive or requirements. Such provincial controls should be co-ordinated nationally. Further, the government agency involved should obtain conclusive evidence before disrupting industry operations.

vi) The Saccharin Ban

The saccharin ban highlights a relatively recently introduced regulation. It illustrates a regulatory measure introduced with limited evidence of consultation. There were also some questions about the way the ban was implemented in the early stages. One industry representative commented:

> "There are two aspects to this regulation which need close scrutiny. Firstly, it is not at all clear from the experimental work carried out that saccharin represents a health hazard. It was used in the same way as that which led up to the cyclamate ban. The fact that the product is still freely available in the U.S. is highly significant. As far as I am aware, there was no warning prior to the announcement last year that saccharin was even under investigation. The first indication was a peremptory announcement that the products containing saccharin would be removed from retail shelves by September, 1977. This was subsequently extended to December 31. However, the great amount of scare publicity given to the experimental results (which although not conclusive and not in agreement with those obtained in the U.S.) caused a serious slowdown in sales. The result was that a considerable quantity of "dangerous" biscuits and candy remained on the shelves. Early in January bureaucrats began visiting stores and breaking open packs so that the product would be unsaleable. This seems to me to be an over-zealous approach to the problem and makes me wonder why it is now considered safe to consume saccharin in the States but out of the question in Canada."

(B) Attitude of Government to Regulations

Governments, in their efforts to fulfill their perceived responsibility to manage the economy and create a propitious climate for business and social development, have in recent years relied increasingly on the enactment and exercise of regulatory powers to enable this responsibility to be discharged. In general terms, this exercise by governments of the power to regulate has had a negative impact on business in the broadest sense with serious consequences for the Canadian economy. Two aspects of the sort of regulatory activity which is responsible for this negative impact are:

(a) The creation by governments of administrative tribunals such as the Foreign Investment Review Agency and the proposed Competition Board which have the statutory authority to subjectively apply very broad general guidelines to specific cases, often with differing results in seemingly similar cases;

(b) The enactment by governments of statutes which delegate the authority to Cabinet to enact specific implementing regulations which contain the detailed provisions governing business activity. Often these regulations have neither been seen by those affected in advance nor in fact even debated by the legislators.

Without debating the merits of these techniques suffice it to say that business confidence which is a prequisite to making decisions for new capital investment has been eroded at an increasingly rapid rate and this erosion will only accelerate unless there is a demonstrated change by governments in the use of the regulatory process.

This is not to suggest for a moment that business believes it is a privileged part of Canadian society which is immune from regulation and which should be left to behave as it pleases. No responsible businessman objects to governments legislating in clear terms those types of activity or standards which are or are not permissible. In fact, the illustration below entitled "Customs and Excise Facilitation" provides an example of a regulatory system that is regarded by the industry it affects as well organized and administered.

Of greatest concern is a regulatory structure in which the bureaucracy has the power to affect sound business decisions based on economic reasons by substituting a decision based on the bureaucracy's assessment of the contribution of the business decision to the attainment of broad policy goals.

On the other hand, the Association of Canadian Distillers, in its relations with federal and provincial government departments, has found that the Customs and Excise Division of the Department of National Revenue has a sensible and equitable approach in its dealings with industry.

Over the past 20 to 25 years, officials of Customs and Excise have brought a commonsense approach to administering laws and regulations and applying controls. They encourage consultations and review with industries concerned the existing laws and regulations and their impact on industry and commerce. They have managed to simplify procedures and facilitate industrial and commercial business and operations while maintaining controls required by law.

In view of the increasing government activities and interference with industry, we would suggest that other federal and provincial government departments and agencies should adopt the attitude of Customs and Excise towards industry.

(C) Effects of Government Regulations

Four effects of the regulatory situation are identified. These are uncertainty, demands on executive time, paperburden, and actual and opportunity costs.

(C)1 Uncertainty

One of the effects created by the flood of new government regulations is uncertainty. With respect to the uncertainties associated with the new competition policy the 1978 Ontario Economic Council Report on Government Regulation says:

> "The revision of competition law in Canada is another case in point. The initial Competition Act was introduced in June 1971 and parts of the new law have still not been approved. These kinds of delay lead to great uncertainties which have a perverse effect on business decision making. While not readily quantifiable, the costs arising from the uncertainty of regulatory policy are undoubtedly significant." (p. 2).

Also regarding the subject of uncertainty created by changes in the regulatory framework, in the preface to the recent book Canada Has a Future, Herman Kahn says:

> "Various regulation issues are particularly important here (i.e., in cutting costs and risks so as to restore profitability). Uncertainty vis-à-vis government policy and legislation has created a climate in which investors are extraordinarily cautious and reluctant to commit themselves to long-term investments . . . it is increasingly important for business to feel it knows and can predict the 'rules of the game'."

(C)2 Executive Time Demands

Another effect of the shifting regulatory framework is the time demands it places on company executives. Particularly during the period immediately before and after a significant change in regulations there is a tendency for top executives of a firm to become more involved. This often results in temporary centralization of decision making at head office.

The problem with this is that when executives are spending their time on government matters they cannot be concentrating upon growth prospects of the firm. A number of companies in the food and beverage industry have appointed full time people at the executive level to deal with government relations.

The problems for small businessmen are greater than those of larger firms in this regard. This is because larger firms are more likely to have the resources to deal with these types of problems than small firms.

(C)3 Paperburden

The best source for discussion of the paperburden problem is the report prepared for the Minister of State for Small Business in February 1978:

> "In the Spring of 1977, Department of Industry, Trade and Commerce interview teams went across Canada and met with business people to listen to their views on how well government operates generally, and how well Industry, Trade and Commerce specifically operates to meet their needs. Of the 5,000 businessmen interviewed 35 per cent identified paperburden as the major irritant. The overwhelming response to the subject of paperwork was negative (85 per cent) and this response was fairly uniform in all regions of the country.
>
> To these businessmen (and to the general public) paperwork represents an increasing burden of forms, surveys, applications, procedures, questionnaires, licences, regulations, standards and record-keeping and public resentment to this burden is increasing dramatically. Indeed, the magnitude of these requirements is formidable, as the following list of required government paperwork illustrates:

| | |
|---|---|
| federal sales tax collection | CMHC housing surveys |
| provincial sales tax collection | safety inspections |
| excise duties | tax audits |
| customs clearance | FIRA requirements |
| UIC deductions | elevator licences |
| workmen's compensation | boiler licences |
| hospitalization | subsidy applications |
| loan applications | development permits |
| building permits | waste control |
| equipment operating licences | minimum wage guidelines |
| property taxes | Statistics Canada Surveys |
| vehicle registration | manpower training programs |
| transport operating licences | employee hiring procedures |
| communication licences | government contracts-procurement |
| income tax forms | grants and incentive programs |
| income deductions at source | consumer protection standards |
| detailed household surveys | census of population |
| bonding | driver's licences |
| business licences | welfare and health benefits |
| restaurants and liquor taxes | CPI sample |

This list by no means captures the entire problem. For example, such vehicles as shared-cost programs impose high information and paperwork demands on other levels of government. Also, there is the paperwork imposed on institutions, labour unions, professional groups, farmers and fishermen, etc.

Meeting these paperwork requirements poses a significant cost to public and private sectors, but in Canada these costs have not been accurately estimated. One U.S. estimate puts the annual dollar cost alone at $500.00 for each U.S. citizen. First, there are the economic costs. These vary from business to business and from person to person but include: first time costs to design, develop and install information systems; repetitive direct and indirect costs of data collection, processing and analysis; costs of filling out forms; costs to hire consultants, lawyers, accountants or other professionals to prepare reports; costs of delays; costs to transmit or mail data; costs of correcting reporting errors on completed forms; personnel training costs; costs of extra time to interpret the meaning of government requirements; costs of travel to government offices; record/data storing costs; computer costs; overhead costs; audit and compliance costs. The previously cited study in British Columbia for example, estimated that the cost, for the two small firms studied, to comply with information demands from all three levels of government (but overwhelmingly the federal) were estimated at close to $5,000 annually. Income Tax and associated regulations added an additional $3,000. Second, there are the very important "psychological costs" that unquestionably are strongly counterproductive to government efforts to improve its relationship with business and the general public. These costs are more difficult to measure but they exist and are expressed in terms of anger, frustration, disillusionment, helplessness and the prevalence of a general attitude that it is "them against us". Findings of the Enterprise Canada'77 Survey indicated the existence of these costs quite clearly and dramatically.

In assessing costs exacted by government paperwork, small business can undoubtedly be singled out as particularly hard hit. Paperwork impacts upon small businesses most because they do not have the resources to hire specialized personnel or outside consultants to handle the paperwork. Often, paperwork represents a direct demand on the time of the principle operator - time he requires to work, plan and innovate in order to stay in business or grow. Long suspected to be true, this phenomena has been confirmed by recent U.S. studies, and the conclusion is applicable here."

(C)4 Actual and Opportunity Costs

There are significant actual costs associated with dealing with government regulations. These costs are incurred by both businesses and governments. The costs have not been fully documented, nor will they be here. Our approach has been to indicate some of the types of costs incurred in implementation of regulations.

i) Cost of Implementing "Packaging and Labelling Act Regulations"

In their 1977 study of Packaging and Labelling Costs, Beckman and Knudson concluded that, "almost half (45 per cent) of respondents did not have to scrap any packaging and labelling supplies in conforming to the new regulations. For the 55 per cent (i.e. 23/42) who did have to discard materials...(there was) an average loss of approximately $50,000.00 with a range from $200.00 to $250,000.00 (page 52). This level of cost was not found by the study to have had a significant effect on processor's costs. They say that this may not continue to be the case, i.e. "although the past government-induced packaging changes have not been extremely costly this may not be the case in the future. This is simply because past changes have dealt largely with labelling requirements. As the results of this study show, this particular packaging cost component is rather insignificant. However, as hard metric conversion becomes a reality, there will be a very large changeover cost which will inevitably be borne by consumers".

ii) Suburban Property

One example of a direct cost to business is a request from a municipal administration to a small firm to clean up what was termed a visual environmental problem. The changes would cost the company an estimated $50,000.00.

iii) Government (Taxpayer) Costs

A minor example of a cost to the government is illustrated in the following situation described by a company representative:

> "Early this year our General Production Manager was visited without any forewarning by a representative from the Department of Consumer and Corporate Affairs armed with one (1) complaint relating to unit of measure blown into the bottle wall of one of our liqueurs. The complaint which concerned our misuse of the U.S. measurement "3/4 QUART" on a bottle containing 25 Imperial ounces while justified could have been settled with correspondence rather than a personal trip.
>
> We feel the expenditure involved in salary costs, hotel bills, meals, as well as travel demonstrates a spendthrift attitude which is perhaps all too common in government today."

iv) A.I.B. Costs

The Ontario Economic Coucil report cited a report that indicated the cost to 6 major Canadian companies for dealing with the A.I.B. ranged from $200,000-$1,000,000.

v) Opportunity Cost - Marketing Boards

Higher prices created by marketing boards cause us to lose out on potential export markets if the prices of our exports become non-competitive.

vi) The Enriched Flour Declaration

The enriched flour case is an example of a situation where Canadian industry can become less competitive in exploiting a U.S. market opportunity. This is because of an inability by the industry to get a regulatory agency (the Department of Consumer and Corporate Affairs) to change a regulation to make it

consistent with the regulation in the U.S. This situation indicates a lost market opportunity because of the difficulties of the industry and the government in communicating. It also illustrates a confusing paradoxical situation where government on the one hand wants more descriptive labelling but on the other resists it when requested by the industry. An industry representative commented on the situation. He said:

> "This situation is still going on (June 9, 1978) and the absurdity of the detail at issue defies comprehension. Following a pre-announced (9 months) change in U.S. regulations, the Association of Canadian Biscuit Manufacturers asked the (Canadian) government if it might be allowed to identify the additives in enriched flour. This would allow the industry to continue to export to the U.S. without the burden of special packaging.
>
> Anyone could see the advantages of allowing the requested change. However, Consumer and Corporate Affairs seem to fear that disaster will follow any move to align Canadian food regulations with the other 90 per cent of North America.
>
> After several months and many meetings, including one with the Minister himself, we still do not have final confirmation that he will allow the change.
>
> I shall not go into detail on the nit-picking attitude of (U.S.) inspectors vis-à-vis Canadian products while our frontiers remain wide open to the importation of all kinds of packages whose violations would never be passed by Consumer and Corporate Affairs for a Canadian manufacturer."

Recommendations

It is considered that the current regulations under which the industry operates should be streamlined and that all new regulations should be subjected to a consultative process at the problem definition phase and undergo cost-benefit analysis before they are put in place. To allow time to streamline the framework of regulations and to establish the consultative process and cost-benefit analysis procedures, a temporary moratorium should be placed on new regulations. Specifically, it is recommended that:

A) Regarding changes in regulations, or new regulations:

i) A consultative forum should be established which would require the federal and provincial civil service to consult those industries and other sectors of society affected as soon as a perceived problem has been identified and prior to the time when regulations have been prepared.

(Some progress has been made by governments in the use of this process but by the time draft regulations are prepared, even if introduced for discussion purposes only, much time and effort is needlessly consumed. It is critical that perceived problems be discussed as early as possible as frequently governments, insulated as they are from some of the practical aspects involving particular problems, do not comprehend all of the issues involved.)

ii) The Federal Government's cost-benefit regulatory review system announced December 14, 1977 should be broadened to encompass all new regulations of any consequence. It should be a clear requirement of the review process that the cost of new regulations be clearly identified and reasonably quantified in economic terms. Cost-benefit analysis should also be undertaken prior to introduction of provincial regulations.

iii) In accordance with the Second Report of the Standing Joint Committee of the Senate and the House of Commons on Regulations and other Statutory Instruments it is recommended that "no subordinate legislation (regulation) should come into effect before it is published" and that "all subordinate legislation (regulation) should be registered (and) published".

iv) The delegation of regulation making authority by legislators should be halted. Furthermore, no new regulatory body should be created whose decisions cannot be appealed in a Court of Law.

B) Regarding streamlining of the existing regulatory framework:

The existing regulatory framework of the food and beverage sector should be reviewed with the objectives of eliminating trivial, redundant and irrelevant regulations, and simplifying and making less costly the procedures involved in implementing them. It is suggested that this review, which should take no longer than 18 months, be co-ordinated by the various regulation making authorities who should consult the various food and beverage industry associations and companies. Every effort should be made to:

i) Standardize regulations between provinces.

ii) In each region of the country, reduce to as small a number as possible the points of contact between business and all governments. It is also important that industry associations represent the interests of their membership more effectively by ensuring greater con ensus among their members. This is particularly relevant for small business which has limited resources for dealing with governments.

iii) Continue efforts to co-ordinate and simplify the amount of paperwork associated with regulations.

C) Process for new regulations and temporary moratorium:

A basic principle should be adopted which would require that no new regulation be enacted (other than to deal with emergency situations) unless the above consultative and cost-benefit processes have been followed and it has been clearly demonstrated as a result that there is a need which requires the regulation. Further, it is recommended that for the next 18 months a moratorium (except in emergency situations) be placed on all new regulations to allow time for development of the consultative and review processes and for streamlining the existing regulatory framework.

# MARKETING BOARDS

A characteristic of agricultural production is that most commodities are produced by a large number of persons and that, in many cases, there is a problem of income instability due to fluctuating prices. As a result, the net revenue to producers from the sales of primary agricultural products can vary significantly, causing fluctuations in their incomes.

## The Selling Function

Marketing boards have a useful role to play in the sale of commodities by combining the selling needs of their members into a single agency, thus improving their bargaining strength. This usually results in better returns to the producers.

In fact, over the years, a large majority of the boards have developed efficient marketing and selling systems to promote their products, to pool market risks, improve market opportunities and enhance the bargaining strength of their members in the marketplace (e.g. teletype system of marketing hogs in Ontario, export promotional activities of several provincial hog marketing boards, etc.). These systems have left production decisions to the discretion of individual producers.

There is enough evidence to indicate that the marketing boards which adopted this approach have performed well and improved significantly the net returns to the producers.

## The Income Problem

Producers' incomes are affected by inherent instability and uncertainty associated with their own production and marketing environment, worldwide surpluses and deficits related to the commodity, inflation, tax rates, production and capital costs, etc. Severe income fluctuations can occur. Income reductions resulting from these factors cause hardships to, primarily, small producers.

Some marketing boards have responded to this problem by seeking powers from governments to control production and farm prices of their commodities in an attempt to stabilize and improve the incomes of their members.

In the absence of other policies to deal with the problems of income instability, the governments granted the powers requested by the boards. This has resulted in the creation of unregulated regional and provincial monopolies, under the protection of the law, thus undermining free market structures. The consequences of this have been and still are:

(a) Misallocation of resources. Because of the natural tendency of the boards to set both production quantities and farm price levels higher than markets can bear, this can result in high cost surpluses and/or severe losses.

(b) Market distortions occur because production and pricing decisions are geared to be responsive to income protection rather than to demand and other market conditions. The policy and practices of some marketing boards have seriously eroded the competitive position of specific Canadian products, both primary and processed.

(c) Where marketing boards have used production quotas to control the amount produced, these quotas have acquired a capital value. This has increased the cost to producers to enter the industry, which in turn, has affected

the price of the product or the producers' rate of profitability.

(d) Reduced incentive for improved productivity. The restrictive production quota systems employed by the boards create artificial barriers to entry, thus making it difficult and costly for new entrepreneurs to enter the industry. This, invariably, results in the industry being spared from pressures to improve productivity by adopting modern methods and technology essential to compete successfully.

Also, the quota systems make it very difficult to improve productivity and efficiency of the industry by consolidation and rationalization.

The net effect of the foregoing would be that the industry finds it increasingly difficult to compete in both domestic and export markets.

Government Commitment to Competition

The government has stated that it is committed to strengthening competition within the Canadian economy. This policy has been pursued with vigour in several sectors of the economy. However, the philosophy of legislation in the agricultural sector runs counter to these stated commitments of the government. The legislation thus far openly encourages and supports the creation of monopolies in this sector, undermining its competitive strength. It has primarily resulted in insulating the sector from competition by various means rather than strengthening it to become more competitive.

The Powers of Marketing Boards

At present there are more than 100 producer marketing boards in Canada. The power and responsibility of each board varies according to the legislation under which it was established. Federal and various Provincial Marketing Acts have conferred very broad powers on some marketing boards. Marketing board powers can include some or all of the following:

(a) Establish prices for basic farm products and establish prices for commercial products made therefrom.

(b) Establish production quotas which control the amount of production.

(c) Cancel quotas.

(d) Prohibit any persons without a quota from marketing the product.

(e) Purchase products.

(f) Exclusively deal with imports of products.

Recommendations

A) Legislation should be re-examined with a view to confining the role of marketing boards to a selling function.

B) Marketing boards should not be permitted to control the quantity of production and to fix the selling price. Control of either the quantity or price still allows ordinary forces of supply and demand to determine the uncontrolled variable, but control of both neutralizes ordinary market forces and substitutes for them decisions of the board.

C) To improve the international competitiveness of Canadian food products, marketing boards should consider negotiating two-price systems where appropriate.

D) The income instablility problem should be addressed separately and appropriate programs designed to deal with it outside the marketing board framework.

# COMPETITION POLICY

The Food and Beverage Industry Task Force, for the reasons set out below, recommends that Bill C-13, the Bill to provide for a new Competition Act, be not proceeded with and be allowed to die on the order paper.

The assumption that Bill C-13 is necessary to permit a more flexible approach to industrial rationalization is false. Industrial rationalization can currently take place on a reasonable scale within the known rules provided by the Combines Investigation Act and the case law which has grown up interpreting the Act. To advance the argument that the Competition Bill is necessary to permit rationalization is misleading.

While this Task Force does not urge the adoption of the recommendations of the Report of The Royal Commission on Corporate Concentration, careful reference should be made to pages 157 to 167 where the subjects of Competition Law and Policy Concerning Mergers are dealt with in general terms and Bill C-13 is dealt with in particular. The Report is illustrative of the kinds of concern that the proposed Competition Law raises. The view stated on page 166 of the Report is most appropriate and worth quoting, "... competition law should deal with abuses or further entrenchment of market power. The law should act in the traditional prohibitory fashion: if facts are established showing that a firm is guilty of proscribed conduct, the court or responsible tribunal makes an order designed to stop the practice and, possibly, to compensate those who had been injured by it".

Canadian industry has long believed that the Bill in no way strengthens the ability of Canadians to compete in world markets. The long drawn out legislative process of introducing successive Competition Bills has done nothing to increase general business confidence and has had an adverse effect on attitudes towards new investment. Moreover, the proposals of the Bill which extend the all too prevalent technique of permitting bureaucratic intervention on a basically ad-hoc basis have not only been a matter of serious concern to business but increasingly are becoming a concern of a broad sector of Canadian society.

## Recommendations

A) It is considered that the existing Combines Investigation Act and the case law which has grown up as interpreting the Act represents satisfactory legislation and that Bill C-13 should consequently be dropped.

B) If, however, the government is determined to proceed with the Bill, the following specific changes should be made to it:

   i) The Competition Board should have its review powers severely restricted by creating a minimum threshold below which no review can take place. The criteria for review should be to deal only with matters which are of clear importance as a result of having a significant impact in limiting competition in Canadian markets.

   ii) Any Bill should provide for a full appeal on matters of fact and law to the courts as of right.

   iii) The provision entitling the Competition Board to intervene in cases of joint-monopolization and monopolization should be deleted.

   iv) The powers of the Competition Board to intervene in an effort to "fine tune" pricing decisions should be deleted.

v) The powers of the Competition-Advocate should be strictly prescribed to the end that his powers are controlled by the courts and the responsible Minister is clearly accountable for the actions of the Competition-Advocate.

vi) In view of the considerable doubt as to the constitutionality of the provisions providing for civil damage actions, resulting from breaches of the Combines Act, it seems premature to provide for class actions. The many abuses which have become evident, particularly in the United States, associated with class actions, such as the overloading of the courts and the difficulty in managing class actions, should cause considerable concern. As a minimum class actions should only be permitted if:

a) contingency fees to lawyers are prohibited;

b) the actions are only allowed to proceed on the basis of an opt-in procedure requiring at least 51 per cent in number and value before a group of plaintiffs are entitled to claim they represent a specific group;

c) it is required that proof of individual damage be made before any obligation to pay on the part of the defendant arises.

APPENDIX D

# AN OUTLINE OF THE FOOD AND BEVERAGE INDUSTRY IN CANADA

JUNE, 1978

# C O N T E N T S

# AN OUTLINE OF THE FOOD AND BEVERAGE INDUSTRY IN CANADA


## SUMMARY

The food and beverage processing industry is the largest of the manufacturing industries in Canada, both in terms of shipments and of employment.

Output of the industry has been expanding steadily, although at a somewhat slower rate than the total manufacturing sector, with growth resulting from population increases, increasing demand for more sophisticated or intensively processed products, and increased consumption or trade of certain items.

Employment in the industry has remained relatively stable in recent years, although there have been some significant changes within individual industries as the result of technical advances, changed tastes and lifestyles, competitive factors, etc. Total industry employment is spread across Canada in close proportion to population distribution. This is not the case for the manufacturing sector as a whole and consequently the food and beverage processing industry accounts for approximately a quarter of total manufacturing employment in the Prairies and considerably more in the Maritime provinces.

The Canadian market for processed foods and beverages is relatively small and widely dispersed in comparison to other industrialized countries. Consequently, transportation costs have been a major determinant of plant location and size for a large segment of the industry, outweighing in many of the less capital-intensive processes, the advantages of economies of scale. For another segment of the industry involved in primary processing of certain agricultural or fisheries inputs, plant location and size is influenced by the source of the major input.

The industry supplies approximately 90 per cent of domestic processed food and beverage requirements. While the volume of trade is small compared to overall industry output, it is a major factor in a number of individual industries. Imports have been growing at a faster rate than have exports, and as a result imports have marginally exceeded exports for three out of the last four years.

A detailed examination of the industry follows.

STRUCTURE

1. PRODUCTS

1975 Employment and Shipments By Sub-Sector

| Industry Sub-Sectors | Total Employees[1] (Ranked) | Value of Shipments[1] ($ Million) |
|---|---|---|
| Slaughtering and Meat Processing | 32,993 | 4,218 |
| Bakeries | 27,379 | 932 |
| Dairy Products | 27,988 | 3,025 |
| Fish Products | 16,987 | 806 |
| Misc. Food Processors, n.e.s. | 19,815 | 1,736 |
| Fruit and Vegetable Processors | 19,519 | 1,137 |
| Soft Drinks | 13,808 | 872 |
| Breweries | 11,652 | 734 |
| Confectionery | 9,399 | 482 |
| Poultry Processors | 8,220 | 635 |
| Feed Industry | 9,260 | 1,470 |
| Biscuit Manufacturers | 7,712 | 384 |
| Distilleries | 5,992 | 511 |
| Flour and Breakfast Cereals | 4,983 | 614 |
| Sugar Processing | 2,780 | 797 |
| Wineries | 1,198 | 82 |
| Vegetable Oil Mills | 730 | 306 |
| Total Processed Food and Beverage Industry: | 220,415 | 16,492 |
| Total All Manufacturing: | 1,741,545 | 102,178 |

1) Total Activity

SOURCE: Statistics Canada publication, catalogue 31-203.

The food and beverage sector is the largest of the manufacturing industries in Canada, accounting in 1975 for 13 per cent of total manufacturing employment and

more than 16 per cent of total value of shipments. It is also one of the most diverse of industries producing within the individual sub-sectors shown a wide range of products differing as to the combination of inputs used, the nature or extent of processing, the sophistication of the end product, the intended market, etc.

2. NUMBER AND SIZE OF FIRMS

Establishments and Shipments by Employment Size Group - 1974

| Employment Size Group | Establishments | | Shipments of own Mfg. | |
|---|---|---|---|---|
| | Processed Food and Beverage Industry | Total Manufacturing | Processed Food and Beverage Industry | Total Manufacturing |
| | | | ($ Million) | |
| 1 - 4 | 1,624 | 9,515 | 178 | 769 |
| 5 - 9 | 854 | 4,963 | 324 | 1,132 |
| 10 - 19 | 851 | 5,009 | 781 | 2,550 |
| 20 - 49 | 791 | 5,522 | 1,868 | 6,971 |
| 50 - 99 | 381 | 2,779 | 2,195 | 8,134 |
| 100 -199 | 452 | 1,940 | 6,064 | 12,879 |
| 200 -499 | | 1,297 | | 18,999 |
| 500 -999 | 39 | 349 | 1,862 | 12,151 |
| 1,000 + | 13 | 161 | 1,466 | 18,871 |
| Totals: | 5,010 | 31,535 | 14,738 | 82,455 |

SOURCE: Statistics Canada publication, catalogue 31-203.

The industry ranks first in number of establishments, accounting for 16 per cent of total manufacturing establishments. The distribution by size of establishments in the industry is generally similar to that for the total manufacturing sector with approximately 50 per cent of establishments having less than 9 employees.

Median plant size (measured in terms of shipments) in the food and beverage industry is 100-199 employees, as compared to a median size of 200-499 employees for the total manufacturing sector.

3. SHIPMENTS PER ESTABLISHMENT

| | Average Value of Shipments[1] per Establishment (1972) | |
|---|---|---|
| | CANADA ($ Cdn. '000) | U.S. ($ U.S. '000) |
| Sugar Processing | 20,214 | 17,733 |
| Distilleries | 15,672 | 14,859 |
| Flour and Breakfast Cereals | 6,909 | 6,568 |
| Misc. Foods Processors, n.e.s. | 3,596 | 3,940 |
| Slaughtering and Meat Processing | 5,887 | 6,614 |
| Biscuit Manufacturers | 4,107 | 5,598 |
| Fruit and Vegetables Canned/Preserved | 2,949 | 4,020 |
| Fish Products | 1,526 | 2,156 |
| Dairy Products | 2,543 | 3,554 |
| Poultry Processors | 4,057 | 5,893 |
| Soft Drinks | 1,394 | 2,042 |
| Confectionery | 2,249 | 3,331 |
| Vegetable Oil Mills | 17,024 | 28,875 |
| Wineries | 2,344 | 4,061 |
| Breweries | 12,095 | 24,278 |
| Fruit and Vegetables/Frozen | 3,673 | 8,863 |
| Feed Industry | 1,117 | 2,751 |
| Bakeries[2] | 346 | 1,852 |

[1] Total Activity, 1972 data used for comparison purposes with latest available U.S. data.

[2] U.S. and Canadian data for the bakery industry is not directly comparable.

SOURCE: U.S. Department of Commerce
"Census of Manufacturers"
Statistics Canada publication, catalogue 31-203.

4. REGIONAL DISTRIBUTION

1975 Regional Distribution (%) [1]

| Province | Share of Total Population | Share of total Food and Beverage Employment | Share of total Manufacturing Employment | Food and Beverage Employment as a % of total Mfg. Employment |
|---|---|---|---|---|
| Newfoundland | 2.0 | 2.7 | 0.1 | 46.0 |
| Prince Edward Island | 0.5 | 0.1 | - | 69.9 |
| Nova Scotia | 3.6 | 4.5 | 2.1 | 26.8 |
| New Brunswick | 2.9 | 3.9 | 1.7 | 29.1 |
| Quebec | 27.2 | 25.9 | 30.6 | 10.7 |
| Ontario | 36.0 | 39.2 | 48.8 | 10.2 |
| Manitoba | 4.5 | 5.1 | 3.2 | 20.3 |
| Saskatchewan | 4.0 | 2.6 | 1.1 | 30.3 |
| Alberta | 7.8 | 7.0 | 3.7 | 23.7 |
| British Columbia | 10.7 | 8.3 | 7.9 | 13.3 |
| Yukon/N.W. Territories | 0.3 | - | - | 20.0 |
| Total: | 100.0 | 100.0 | 100.0 | 12.7 |

[1] Total Activity

SOURCE: Statistics Canada publication, catalogue 31-203 and 91-201.

Employment in the processed food and beverage industry is relatively evenly distributed across Canada in proportion to population. In contrast the opposite is true of the total manufacturing sector, with nearly 80 per cent of employment concentrated in Ontario and Québec.

In terms of total manufacturing employment, the food industry accounts for a very high proportion of jobs in both the Atlantic and Prairie provinces.

5. MARKETS

DOMESTIC DISAPPEARENCE - 1975[1)]
($ Million)

| | Shipments of Own Mfg. | Exports | Imports | Domestic Disappearance |
|---|---|---|---|---|
| Slaughtering and Meat Processing | 3,829 | 257 | 234 | 3,852 |
| Dairy Products | 2,613 | 40 | 58 | 2,631 |
| Misc. Food Processors, | 1,534 | 76 | 191 | 1,649 |
| Feed Industry | 1,257 | 40 | 20 | 1,237 |
| Fruit and Vegetable Processors | 982 | 66 | 264 | 1,180 |
| Bakeries | 829 | 10 | 10 | 829 |
| Sugar Processing | 738 | 54 | 51 | 735 |
| Breweries | 694 | 23 | 6 | 677 |
| Soft Drinks | 733 | 1 | 6 | 738 |
| Fish Products | 579 | 365 | 135 | 349 |
| Poultry Processors | 563 | 2 | 15 | 576 |
| Distilleries | 500 | 244 | 79 | 335 |
| Flour and Breakfast Cereals | 562 | 138 | 18 | 442 |
| Confectionery | 442 | 12 | 89 | 519 |
| Vegetable Oil Mills | 289 | 32 | 133 | 390 |
| Biscuit Manufacturers | 271 | 18 | 12 | 265 |
| Wineries | 80 | - | 84 | 164 |
| Total Processed Food and Beverage Industry | 16,492 | 1,378 | 1,405 | 16,519 |

1) No account is taken of stock changes Manufacturing Activity only.

SOURCE: Statistics Canada publication, catalogue 31-203 and Industry, Trade and Commerce.

Some 90 per cent of domestic demand for processed foods and beverages is supplied internally (imports in 1975 accounted for only 8.5 per cent of domestic disappearence; this compares with an equivalent figure of 29.2 per cent for all manufacturing industries in the same year).

In most instances, imports consist of products or brands not produced domestically. These include processed tropical or semi-tropical items and items

with special brand, quality or geographic identification.

While exports of processed foods and beverages were close to $1.4 billion in 1975 and provided a significant contribution to total exports of the manufacturing sector, these exports were equivalent to less than 9 per cent of domestic disappearance of processed foods and beverages (the equivalent figure for all manufacturing industries, in 1975, was 22.0 per cent.) Exports are of particular importance to the fish, distilled beverages, and processed meat industries which together account for some 65 per cent of the total food and beverage exports.

Estimated Domestic Market for Processed Foods and Beverages 1975

| | |
|---|---|
| Retail - Grocery outlets | 56% |
| Food Service Sector | 20% |
| Industrial Sector (input for further processing) | 16% |
| Provincial Liquor Commission | 8% |
| Total Domestic Market: | 100% |

SOURCE: Industry, Trade and Commerce

With the exception of animal feeds, the ultimate domestic market for goods produced by this sector is the Canadian consumer. Processors do not sell directly to individuals however, but rather channel their production through the sectors noted above.

The food service sector (i.e. the market for food prepared away from the home) is the fastest growing sector. It is currently estimated to account for approximately one of every five consumer dollars now spent on food and some analysts expect this amount to increase to 50 per cent of the food dollar by the mid-1980's. The sector already accounts for 30 per cent of all meat production. The sector generally requires products incorporating a relatively high degree of manufacturing and, due to uniformity requirements, the use of fairly sophisticated processing techniques.

The retail-grocery sector is the largest outlet for industry production with total sales in 1975 of $13.2 billion (this figure includes fresh products, soaps,

and detergents and other non-food items however, in addition to processed food products). Outlets range from corporate or voluntary chain supermarkets, superettes (convenience or neighbourhood stores), food shops, to those general stores where food represents more than 1/3 of sales.

Corporate chains account for the major share of retail-grocery sector sales. In 1974, corporate chains, which comprised about 12 per cent of total outlets, are estimated to have accounted for 55 per cent of total sales. Five national chains accounted for more than 90 per cent of the corporate chain sales although the relative strength of each varied substantially from region to region.

Voluntary chains (i.e. buying organizations or wholesaler-sponsored groups of independent stores) are the second largest group in the retail grocery sector. This group accounted for about 23 per cent of total sales in 1974 and about 21 per cent of total stores.

The corporate and voluntary chains show a higher degree of concentration overall in Canada than in the United States, accounting for both a larger total share of retail-grocery sales and a higher average sales-volume per store. To some extent, this is a reflection of the fact that the major growth in Canadian chains took place in the post-war period, at a time of rapid urbanization of the population, and of a shift in emphasis by chains, to larger, more efficient supermarkets. Consequently, the Canadian market tended to pass over the stage of smaller sized (and now obsolete) supermarkets which had been the case in the United States up until that point.

In addition to contributing the single most important sales outlet for the food processing industry, the majority of the major Canadian chains are involved to some extent in the food processing industry. The extent of this involvement varies depending on the policies of the individual chain but the effect appears to be apparent primarily in the sourcing of private label products. The listing by the chains of branded items, in contrast, is based primarily on sales performance rather than corporate ownership.

6. OWNERSHIP

| Processed Food and Beverage Industry | % of Foreign Ownership in terms of Shipments of own Manufacture (1972) |
|---|---|
| Slaughtering and Meat Processing | 13.8 |
| Poultry Processors | 19.2 |
| Feed Industry | 25.5 |
| Distilleries | 26.2 |
| Dairy Products | 32.1 |
| Fish Products | 33.8 |
| Wineries | 34.5 |
| Bakeries | 35.2 |
| Frozen Fruit and Vegetables | 39.6 |
| Soft Drinks | 52.3 |
| Canned Fruit and Vegetables | 65.5 |
| Flour and Breakfast Cereals | 67.6 |
| Misc. Food Processors n.e.s. | 72.0 |
| Confectionery | 77.7 |
| Biscuits Manufacturers | 77.9 |
| Breweries | N/A |
| Vegetable Oil Mills | N/A |
| Sugar Processing | N/A |
| Total Processed Food and Beverage Industry | 35.7 |

N/A-Confidential

SOURCE: Statistics Canada publication, catalogue 31-401.

Foreign ownership accounts for 35.7 per cent of the industry by shipments and 10.4 per cent in terms of establishments as compared to 51.7 per cent of shipments and 12.4 per cent of establishments in the total manufacturing sector. Foreign ownership accounted for 43.1 per cent of food and beverage industry value-added in 1972. Foreign ownership in the food industry tends to be highest in those industries producing specialized manufactured products, rather than staple or perishable items.

7. CONCENTRATION

| | Concentration: % Share of Industry Shipments Accounted for in 1972 | | | |
|---|---|---|---|---|
| | Establishments | | Enterprises | |
| | 4 largest | 8 largest | 4 largest | 8 largest |
| Slaughtering and Meat Processing | N/A | 30.3 | 54.0 | 62.1 |
| Poultry Processors | 18.5 | 32.4 | 38.3 | 54.3 |
| Fish Products | 17.9 | 26.9 | 42.5 | 54.5 |
| Fruit and Vegetable Processors (1) | 28.2 | 37.9 | 39.8 | 55.9 |
| Flour and Breakfast Cereals | 36.7 | 54.9 | 66.8 | 85.4 |
| Feed Industry | 9.5 | 15.8 | 29.1 | 38.5 |
| Biscuit Manufacturers | 45.9 | 67.6 | 73.4 | 86.8 |
| Bakeries | N/A | 21.9 | 33.5 | 47.8 |
| Confectionery | 40.7 | 59.3 | 49.4 | 70.4 |
| Sugar Processing | 68.1 | N/A | N/A | 100.0 |
| Vegetable Oil Mills | 75.6 | N/A | 75.6 | 90.0 |
| Misc. Foods, n.e.s. | 23.0 | 34.2 | 35.2 | 51.3 |
| Soft Drinks | 19.4 | N/A | 46.2 | 55.9 |
| Distilleries | N/A | 73.4 | 80.9 | 94.5 |
| Breweries | N/A | 66.2 | 96.6 | 100.0 |
| Wineries | 47.0 | 72.6 | 63.9 | 89.5 |
| Dairy Products | 14.6 | 20.2 | 33.0 | 45.9 |

N/A - Confidential

SOURCE: Statistics Canada publication, catalogue 31-514.

1) Does not include frozen products.

Concentration, in terms of percentage share of industry shipments, is generally higher in the more capital intensive industries, in which a single plant can supply a national market and take advantage of economies of scale. Consequently, there is little difference between concentration figures on an establishment basis (plants) and on an enterprise basis (companies). Because of multi-plant operations serving regional markets, measurements of concentration in the less capital intensive or staple product industries tend to show higher ratios on an

enterprise basis than on an establishment basis.

There are indications that the degree of industry concentration is higher in Canada than in the United States. However, preliminary investigation does not suggest that the difference is of great significance given the differences in size of markets.

8. FACTORS OF PRODUCTION

MAJOR MANUFACTURING INPUTS[1)]
1975
($ Million)

| Inputs | Processed Food and Beverage Industry | Total Manufacturing |
|---|---|---|
| Production Wages | 1,396 | 12,672 |
| % of Shipments | 8.5% | 14.3% |
| Fuel and Electricity | 194 | 1,806 |
| % of Shipments | 1.2% | 2.0% |
| Materials and Supplies | 11,326 | 51,177 |
| % of Shipments | 68.7% | 57.9% |
| Value added | 5,030 | 36,139 |
| | 30.5% | 40.9% |
| Shipments (of own Manufacture) | 16,492 | 88,460 |

1) Manufacturing activity only - excludes distribution and marketing activity.

SOURCE: Statistics Canada publication, catalogue 31-203.

Measured in relation to value of shipments, wages accounted for a relatively small share of input costs in the food and beverage industry, whether compared to other input costs or to the total manufacturing sector. In terms of value-added, however, wages represent a more significant input which can vary substantially between industry sectors (see following table).

Material and supply inputs, which in large part consist of or have been processed from agricultural or fishery items subject to natural supply uncertainties, domestic price management or international market considerations, and which also include packaging materials, account for the major share of value of shipments.

9. WAGES

WAGES AS A PER CENT OF VALUE ADDED [1]
1975

| | PRODUCTION WAGES ($'000) | VALUE-ADDED ($'000) | PER CENT OF WAGES/VALUE ADDED |
|---|---|---|---|
| Total Processed Food and Beverage | 1,396,422 | 5,030,036 | 27.8 |
| Total Manufacturing | 12,672,237 | 36,139,301 | 35.1 |
| Fish Products | 109,955 | 205,680 | 53.5 |
| Poultry Processors | 56,159 | 133,275 | 42.1 |
| Slaughtering and Meat Processing | 278,193 | 711,711 | 39.1 |
| Biscuit Manufacturers | 48,654 | 126,026 | 38.6 |
| Bakeries | 153,735 | 437,184 | 35.1 |
| Fruit and Vegetable Processors | 115,500 | 388,601 | 29.7 |
| Confectionery | 53,370 | 207,663 | 25.7 |
| Feed Industry | 55,729 | 224,282 | 24.9 |
| Dairy Products | 141,454 | 576,693 | 24.5 |
| Sugar Processing | 24,257 | 102,337 | 23.7 |
| Flour and Breakfast Cereals | 37,023 | 156,995 | 23.6 |
| Breweries | 100,302 | 460,352 | 21.8 |
| Misc. Food Processors, n.e.s. | 108,021 | 565,147 | 19.1 |
| Vegetable Oil Mills | 5,650 | 29,868 | 18.9 |
| Soft Drinks | 61,479 | 325,603 | 18.9 |
| Wineries | 6,564 | 44,141 | 14.9 |
| Distilleries | 40,386 | 334,479 | 12.1 |

[1] Data is manufacturing activity.

SOURCE: Statistics Canada publication, catalogue 31-203.

The share of value-added accounted for by wages varies substantially from industry to industry depending upon a number of factors including the degree of labour intensiveness or the nature of the processing operations involved, the level of training or skills required, the regional location of the industry, and wage levels.

| | Average Hourly Earnings[1] January 1978[2] | |
|---|---|---|
| | Processed Food and Beverage Industry | Total Manufacturing |
| | $/hr. | |
| Newfoundland | 5.37 | 6.61 |
| Prince Edward Island | N/A | N/A |
| Nova Scotia | 4.95 | 5.89 |
| New Brunswick | 4.72 | 6.16 |
| Quebec | 6.09 | 6.05 |
| Ontario | 6.30 | 6.66 |
| Manitoba | 6.37 | 5.90 |
| Saskatchewan | 6.92 | 7.08 |
| Alberta | 6.82 | 7.13 |
| British Columbia | 7.99 | 8.73 |

[1] Gross wages but excluding employer's contributions to supplementary labour costs (i.e. medical, UIC, etc.). Based on establishments generally employing 20 employees or more.

[2] Data is preliminary.

SOURCE: Statistics Canada publication, catalogue 72-002.

Wages rise steadily from east to west in Canada in both the food and beverage and total manufacturing sectors. Wages vary substantially however from industry to industry and thus provincial or regional averages are determined not only by the east-west phenomenon but also by regional concentrations or mixes of particular industries.

| | Average Hourly Earnings January 1978 | |
|---|---|---|
| | CANADA[1] ($ Cdn/hr.) | U.S.[2] ($ U.S./hr.) |
| Processed Food and Beverage Industry | 6.26 | 5.60 |
| Total Manufacturing | 6.64 | 5.92 |
| Biscuit Manufacturers | 5.68 | 5.78 |
| Bakery | 6.04 | 5.69 |
| Confectionery | 4.77 | 4.76 |
| Slaughtering and Meat Processing, includes Poultry | 6.84 | 5.65 |
| Breweries | 8.28 | 8.62 |
| Fruit and Vegetable Canners and Preservers, includes frozen | 5.48 | 5.11/5.45* |
| Grain Mill Products (Flour, Breakfast Cereals and Feeds) | 6.21 | 6.03 |
| Misc. Food Processors, n.e.s. | 6.02 | 5.34 |
| Fish Products | 5.37 | 4.44 |
| Dairy Products | 6.63 | 5.52 |
| Soft Drinks | 6.48 | 4.98 |
| Distilleries | 7.58 | N/A |

NOTE: Figures not available for: sugar, vegetable oil, and wineries industries.

Data is preliminary.

*Represents sub-industry figures, composite figures not available.

1) Gross wages but excluding employer's contributions to supplementary labour costs (i.e. medical, UIC, etc.). Based on establishments generally employing 20 employees or more.

2) Gross wages but excluding employer's contributions to supplementary labour costs. Based on total establishments.

SOURCE: Statistics Canada publication, catalogue 72-002 and U.S. Department of Labour: Employment and Earnings.

SOURCE: Statistics Canada publication, catalogue 72-002 and U.S. Dept. of Labour: Employment and Earnings.

Wages, shown in the preceding table, include shift differentials, overtime and time paid but not worked (vacation or sick leave), but exclude employer's contributions to supplementary (fringe) labour costs.[1/]

Data for January 1978 indicates that wages in a number of industries exceeded the equivalent U.S. industry wage, before adjustment for exchange values. It should be recognized that the figures are national averages, and consequently any variations resulting from regional differences or from the industry aggregations used are not apparent.

1/Preliminary work is underway on the calculation of total labour costs (i.e. hourly earnings plus employer's contributions to supplementary (fringe) labour costs) in both Canada and the United States. Comparable data for fringe labour costs in the total manufacturing sector is available, indicating that employer contributions to supplementary labour costs add some 19.4 per cent to the average hourly earnings figure in the United States as against a figure of 11.6 per cent for the equivalent Canadian sector. This difference, in large part, is a reflection of fundamental differences in health care funding and coverage.

Application of this data to the food and beverage processing industries, suggests that the current differential between total hourly labour costs in the U.S. and Canada (without adjustment for exchange differences) is something less than half that indicated above.

10. FINANCIAL STRUCTURE

Financial Structure - 4th Quarter 1976

| Assets | Processed Food and Beverage Industry | | Total Manufacturing | |
|---|---|---|---|---|
| | ($ Million) | (%) | ($ Million) | %) |
| Current Assets | 4,334 | 53 | 38,724 | 52 |
| Net Fixed Assets | 2,614 | 31 | 28,318 | 38 |
| Other Assets | 1,312 | 16 | 6,858 | 10 |
| Total Assets: | 8,260 | 100 | 73,900 | 100 |
| Liabilities | | | | |
| Current Liabilities | 2,616 | 32 | 21,851 | 30 |
| - of which short-term loans and notes: | 979 | 12 | 6,071 | 8 |
| Long term Liabilities | 1,650 | 20 | 16,380 | 22 |
| | 4,266 | 52 | 38,231 | 52 |
| Shareholders Equity | | | | |
| Total Shareholders Equity | 3,994 | 48 | 35,669 | 48 |

SOURCE: Statistics Canada publication, catalogue 61-003.

The financial structure of the food and beverage processing industry does not differ greatly from that of the total manufacturing sector. The industry does have a higher percentage of short-term financing. This is in part a reflection of the seasonal nature of a number of the industries (i.e. fish and fruit and vegetable processing in particular) and the need to hold and finance inventory through the off-season.

11. CAPITAL INTENSITY

| | 1975 | |
|---|---|---|
| | Processed Food and Beverage Industry ($) | Total Manufacturing |
| Gross fixed assets per employee [1)] | 22,648 | 30,262 |

[1)] Total Activity. Fixed Assets plus Depreciation.

SOURCE: Statistics Canada publications, catalogue 61-003 and 31-203.

Capital intensity in the food industry is low, in comparison to total manufacturing. A large part of the volume of the industry is produced by relatively unsophisticated and non-capital intensive industries (meat, fish, bakeries and dairies). There are however certain industries, including sugar, distilleries and miscellaneous foods which involve very sophisticated, capital-intensive operations.

12. TRANSPORTATION

The Canadian market for processed foods and beverages, in comparison with the United States and most other major industrialized countries, is relatively small and widely dispersed geographically. Consequently, transportation costs, particularly for an industry characterized by high volumes and low margins, become a major determinant of plant location and size.

In non-capital intensive processing operations, economies of scale can often be rapidly outweighed by the increased costs of transportation of the finished product. In other cases, in those industries engaged in relatively straightforward processing of primary agricultural or fisheries products, either transportation cost factors or perishability considerations may require that plant size and location be determined instead by the source of the primary input.

HISTORICAL PERFORMANCE

1. SALES

REAL DOMESTIC PRODUCT: BY SECTOR [1]

| | AGRICULTURE | FISHERIES | FOOD PROCESSING |
|---|---|---|---|
| 1961 | 100.0 | 100.0 | 100.0 |
| 1964 | 123.9 | 110.9 | 117.9 |
| 1967 | 118.6 | 115.6 | 136.8 |
| 1970 | 131.4 | 119.7 | 149.3 |
| 1973 | 142.3 | 104.1 | 166.9 |
| 1976 | 153.3 | N/A | 173.5 |

[1] Indexed measure of output in constant 1961 dollars. (Deflator is the industry selling price index.) 1976 data is approximate with 1971 base series rebased to 1961.

SOURCE: Statistics Canada publications, catalogue 61-005 (March 1974 supplement) and 61-510.

Volume of output of the food processing sector has grown steadily, with the total increase in output considerably exceeding that of either the fisheries or agricultural sectors. This growth is attributable partly to population increases (around 22 per cent over the period shown), partly to increased consumption of certain items and increased trade in others, and partly to the growing sophistication and degree of processing of other products.

REAL DOMESTIC PRODUCT BY INDUSTRY

| | 1961 | 1965 | 1971 | 1975[1)] |
|---|---|---|---|---|
| Total Manufacturing | 100.0 | 139.5 | 183.3 | 208.6 |
| Total Food and Beverage Industry | 100.0 | 123.5 | 155.5 | 167.0 |
| Wineries | 100.0 | 146.9 | 326.9 | 381.8 |
| Distilleries | 100.0 | 136.3 | 236.7 | 292.6 |
| Feed Industry | 100.0 | 146.5 | 216.5 | 280.4 |
| Vegetable Oil Mills | 100.0 | 138.4 | 193.5 | 209.4 |
| Misc.Food Processors n.e.s. | 100.0 | 122.9 | 175.5 | 196.9 |
| Slaughtering and Meat Processing | 100.0 | 136.0 | 158.6 | 176.3 |
| Poultry Processors | 100.0 | 128.8 | 201.2 | |
| Breweries | 100.0 | 112.6 | 149.3 | 173.5 |
| Fruit and Vegetable Processors | 100.0 | 129.7 | 165.3 | 173.4 |
| Biscuit Manufacturers | 100.0 | 109.6 | 125.7 | 142.8 |
| Confectionery | 100.0 | 124.0 | 145.5 | 141.1 |
| Soft Drinks | 100.0 | 108.6 | 148.1 | N/A |
| Dairy/Process Cheese | 100.0 | 125.1/153.5 | 127.4/261.0 | 136.0 |
| Sugar Processing | 100.0 | 117.8 | 137.4 | 129.4 |
| Bakeries | 100.0 | 110.4 | 112.5 | 109.8 |
| Flour Mills/ Breakfast Cereals | 100.0 | 87.5/102.8 | 84.2/121.5 | 97.0 |
| Fish Products | 100.0 | 130.2 | 127.2 | 95.9 |

[1)] 1975 Index calculated from published and unpublished 1971 base data converted to 1961 base. 1975 data is for comparison purposes only and is not necessarily accurate.

SOURCE: Statistics Canada publications, cataloglues 61-005, 61-213, 61-510 and unpublished data.

Within the sector, growth in output has varied substantially from industry to industry. While as noted, population growth has affected all areas of the industry, individual industries have also benefited or suffered as a result of various other factors including: changes in trade (positive in the case of

distilleries, fish and meat and negative in the case of vegetable oil and flour); increased per capita consumption (breweries, meat and poultry); substitution of processed product for fresh (fruit and vegetables); changes in consumer tastes (wineries, soft drinks); demand for more sophisticated foods (miscellaneous foods); and a combination of price and dietary aspects (bakeries and dairies).

## 2. COSTS AND PRICES

Supplies and materials together account for the largest share of input costs (equal to 61 per cent of the value of industry shipments in 1975 versus approximately 65 per cent from 1961-70) and as such are a major factor in cost increases in the industry. Supplies and materials consist in large part of agricultural, fisheries or commodity products subject to international and domestic supply, prices and policy uncertainties, in part of inputs from within the industry and in part of packaging materials which have also been subject to substantial cost increases. The cost of energy consumption in the manufacturing activities of the industry amounted to only one per cent of the value of industry shipments, in 1975. To this should be added, however, the relatively evergy-intensive distribution procedures of the industry as well as the significant use of energy in the primary agricultural or fisheries sectors. These various components are all reflected in final selling prices and, as a result of international developments, will be assuming increasing importance.

AVERAGE HOURLY EARNINGS

| Year | CANADA[1] Processed Foods and Beverages (Cdn $/hr.) | CANADA[1] All Mfg. (Cdn $/hr.) | U.S.[2] Processed Foods and Beverages (U.S. $/hr.) | U.S.[2] All Mfg. (U.S. $/hr.) |
|---|---|---|---|---|
| 1961 | 1.61 | 1.83 | 2.17 | 2.32 |
| 1967 | 2.12 | 2.40 | 2.64 | 2.83 |
| 1973 | 3.50 | 3.85 | 3.83 | 4.07 |
| 1974 | 4.03 | 4.37 | 4.15 | 4.40 |
| 1975 | 4.78 | 5.06 | 4.57 | 4.81 |
| 1976 | 5.18 | 5.46 | 4.80 | 5.19 |
| 1977 | 5.94 | 6.38 | 5.34 | 5.63 |
| January 1978 | 6.26p | 6.64p | 5.60p | 5.92p |
| | % Increase | | % Increase | |
| 1977/1961 | 389% | 363% | 246% | 243% |

p = preliminary

1) Gross wages but excluding employer's contributions to supplementary labour costs (i.e. medical, UIC, etc.). Based on establishments generally employing 20 employees or more.

2) Gross wages but excluding employer's contributions to supplementary labour costs. Based on total establishments.

SOURCE: Statistics Canada publication, catalogues 72-002 and U.S. Dept. of Labour: Employment and Earnings.

Average wages, in both the Canadian food and beverage processing sector and the total manufacturing sector, have historically been lower than in the equivalent U.S. sectors. Canadian industry average wages have increased significantly faster over the period 1961-1977 in both these sectors, however, and now exceed equivalent U.S. industry average wages.

SELLING PRICE INDEX - BY INDUSTRY[1)]

| | 1961 | 1970 | 1973 | 1974 | 1975 |
|---|---|---|---|---|---|
| Processed Foods and Beverage Industry: | 100.0 | 124.3 | 164.1 | 198.1 | 217.6 |
| All Manufacturing | 100.0 | 119.1 | 142.7 | 168.2 | 186.9 |
| Vegetable Oil Mills | 100.0 | 110.1 | 253.7 | 248.6 | 221.0 |
| Fish Products | 100.0 | 153.8 | 246.0 | 286.0 | 277.0 |
| Sugar Processing | 100.0 | 126.8 | 191.9 | 533.0 | 422.3 |
| Slaughtering and Meat Processing | 100.0 | 129.0 | 186.0 | 191.2 | 206.0 |
| Poultry Processing | 100.0 | 106.7 | 177.8 | 192.7 | 215.0 |
| Feed Industry | 100.0 | 108.0 | 174.1 | 189.3 | 186.9 |
| Soft Drinks | 100.0 | 137.2 | 173.6 | 219.3 | 286.2 |
| Flour Mills | 100.0 | 116.7 | 167.4 | N/A | N/A |
| Bakeries | 100.0 | 129.9 | 150.6 | 196.7 | 225.9 |
| Breakfast Cereals | 100.0 | 134.3 | 148.7 | N/A | N/A |
| Biscuit Manufacturers | 100.0 | 126.0 | 148.5 | 201.6 | 241.2 |
| Confectionery | 100.0 | 127.2 | 143.6 | 203.7 | 255.9 |
| Fruit and Vegetable Processors | 100.0 | 121.7 | 142.8 | 170.6 | 198.3 |
| Butter, Cheese mfgs. | 100.0 | 119.5 | 141.8 | N/A | N/A |
| Misc. Food Processors, n.e.s. | 100.0 | 119.4 | 136.3 | 182.0 | 200.7 |
| Breweries | 100.0 | 111.4 | 127.5 | 165.2 | 191.3 |
| Wineries | 100.0 | 105.3 | 121.2 | 125.8 | 148.3 |
| Distilleries | 100.0 | 109.8 | 116.7 | 120.3 | 126.7 |

1) The index is a measurement of the movement of prices, e.g. plant, of representative items, deflated and indexed to 1961.

2) Calculated from 1971 base series. Does not take account of revised weighting of 1971 series.

SOURCE: Statistics Canada publication, catalogue 62-002.

Price increases in the industry have been significantly greater in the period 1970-1975 than during the period 1961-1970. The price increases have stemmed primarily from increased cost of inputs from the agricultural, fisheries or

international commodity sectors. The primary processing or international commodity industries (meat, fish, vegetable oil, sugar, feeds) have all shown price increases well in excess of average. Those industries which are less reliant on these inputs and which, in general, incorporate a higher degree of processing, have shown only average or below average price increases.

Selling prices continued to escalate in 1974 and 1975, again primarily due to increases in the cost of the inputs noted. Labour and packaging costs both rose more rapidly in this period however their impact on selling prices is tempered by the relatively smaller share of total costs for which they account.

3. PROFITABILITY

| | Processed Food and Beverage Industry | | | Total Manufacturing | | |
|---|---|---|---|---|---|---|
| | Av. 1971-75 | 1975 | 1976 | Av. 1971-75 | 1975 | 1976 |
| | (%) | | | (%) | | |
| Profit Before Tax as a percent of Sales | 5.1 | 4.7 | 4.2 | 7.6 | 7.4 | 6.3 |

SOURCE: Statistics Canada publication, catalogue 61-003.

Profits before tax as a per cent of sales in the industry have averaged two-thirds of those of total manufacturing.

4. RETURN ON INVESTMENT

| | Processed Food and Beverage Industry | | | Total Manufacturing | | |
|---|---|---|---|---|---|---|
| | Av. 1971-75 | 1975 | 1976 | Av. 1971-75 | 1975 | 1976 |
| | (%) | | | (%) | | |
| Profit Before Tax as a percent of Capital Employed[1)] | 14.6 | 14.9 | 13.3 | 14.8 | 15.2 | 13.4 |

1) Working Capital, net fixed assets, other assets.

SOURCE: Statistics Canada publication, catalogue 61-003.

Return on investment in the food and beverage industry has been approximately equal to that of the total manufacturing sector.

5. CAPITAL EXPENDITURES

| | 1961/1963 ($ Million) | 1973/75 ($Million) | 1975/77 ($Million) | Increase 1975-77/61-63 |
|---|---|---|---|---|
| | | (3 year analysis) | | |
| Processed Food and Beverage Industry | | | | |
| Capital Expenditures: | 160 | 390 | 439 | 274% |
| Repair Expenditures: | 78 | 172 | 202 | 259% |
| Total: | 238 | 562 | 641 | 269% |
| Total Manufacturing | | | | |
| Capital Expenditures: | 1,225 | 4,627 | 5,623 | 459% |
| Repair Expenditures: | 731 | 2,133 | 2,634 | 360% |
| Total: | 1,956 | 6,760 | 8,257 | 422% |

SOURCE: Statistics Canada publication, catalogue 61-205.

Capital expenditures in the industry have grown at only about two-thirds the rate of total manufacturing. Contributing factors to the slower rate of growth are the less capital-intensive nature (overall) of the industry, a lower rate of technological obsolescence, and the slower growth of output resulting from a more inelastic demand.

6. CAPACITY UTILIZATION

RATE OF CAPACITY UTILIZATION[1)]

| | Processed Food and Beverage Industry | Non-Durables | Total Manufacturing |
|---|---|---|---|
| 1967 | 99.6 | 95.0 | 93.2 |
| 1970 | 94.1 | 92.2 | 90.0 |
| 1973 | 91.5 | 94.5 | 95.0 |
| 1975 | 86.9 | 84.7 | 85.1 |
| 1976 | 86.3 | 85.0 | 85.5 |
| 1977 | 85.7 | 83.9 | 84.5 |

1) Based on "trend-through-peaks". Relative peaks in physical output are determined from a time series and are held to represent the potential output that the industry could produce at the time of the peak.

SOURCE: Industry, Trade and Commerce

Capacity utilization in the food and beverage processing industry compares favourably with that of the total manufacturing sector on the basis of the measurements used here.

7. EMPLOYMENT

| Industry Sector | Employment: Processed Food and Beverage Industry Av. 1961/1963 | 1975 | Absolute Change 1961/63-1975 |
|---|---|---|---|
| Fish Products | 15,204 | 16,987 | 1,763 |
| Misc. Food Processors, n.e.s. | 13,277 | 19,815 | 6,538 |
| Poultry Processors | 5,178 | 8,220 | 3,042 |
| Slaughtering and Meat Processing | 28,481 | 32,993 | 4,512 |
| Distilleries | 4,709 | 5,992 | 1,283 |
| Breweries | 9,236 | 11,652 | 2,416 |
| Fruit and Vegetables Processors | 17,782 | 19,519 | 1,737 |
| Biscuit Manufacturers | 6,789 | 7,712 | 923 |
| Feed Industry | 8,257 | 9,260 | 1,003 |
| Wineries | 653 | 1,198 | 545 |
| Vegetable Oil Mills | 584 | 730 | 146 |
| Soft Drinks | 13,212 | 13,808 | 596 |
| Confectionery | 10,282 | 9,399 | -883 |
| Sugar Processing | 3,149 | 2,780 | -369 |
| Flour and Breakfast Cereals | 5,779 | 4,983 | -796 |
| Bakeries | 31,926 | 27,379 | -4,547 |
| Dairy Products | 33,291 | 27,988 | -5,303 |
| Total Industry Employment | 210,661 | 220,415 | 9,754 |

1) Total Activity

SOURCE: Statistics Canada publication, catalogue 31-203.

Total sector employment has remained relatively stable over the period 1961-1975, however for particular industries within the sector, there have been significant changes as the result of changes in consumer demand or lifestyle, changes in trade flows, adoption of new or additional processing techniques,

rationalization, etc.

8. PRODUCTIVITY

VALUE ADDED PER MAN-HOUR[1)]

| Year | Processed Food and Beverage Industry ($ Cnd.) | Total Manufacturing ($ Cnd.) | U.S. Processed Food and Beverage Industry ($ U.S.) |
|---|---|---|---|
| 1961 | $ 6.21 | $ 5.43 | $ 8.68 |
| 1972 | 11.51 | 9.51 | 16.52 |
| 1975 | 16.52 | 13.83 | N/A |
| PER CENT INCREASE 1975/1961 | 266% | 255% | N/A |

VALUE ADDED PER LABOUR DOLLAR[1)]

| | | | |
|---|---|---|---|
| 1961 | 4.03 | 3.03 | 4.09 |
| 1972 | 3.73 | 2.77 | 4.45 |
| 1975 | 3.60 | 2.85 | N/A |
| PER CENT INCREASE 1975/1961 | -10.7% | -5.9% | N/A |

[1)] Manufacturing Activity. Labour dollar is wages paid.

SOURCE: Statistics Canada publication, catalogue 32-203 and U.S. Department of Commerce, Census of Manufactures.

Productivity increases can depend upon a wide range of factors including the degree of utilization of major inputs (capital or labour), changes in the relative utilization of each, and other variables such as scale or new technology. Comparative data is readily available for the processed food and beverage industry only in terms of the labour input. This data is shown above and the following comments refer to it.

While value-added per man-hour paid has increased generally over the period shown, partly for reasons of inflation, the increase in the Canadian food and beverage processing industry has been somewhat less than in the equivalent U.S. industry. Using a measure of value-added per labour dollar, both the Canadian food and beverage industry and the total manufacturing sector have shown decreases while the U.S. food and beverage industry has registered an increase. A major

factor behind this divergence appears to be the fact that wages, which are equal to more than one-quarter of value added in the food industry and more than 35 per cent in the total manufacturing sector, have risen at a substantially faster rate in Canada than in the U.S.

The general lag in productivity in the Canadian food and beverage processing industry, relative to the U.S. industry, can, at least in part, be attributed to differences in plant scales or degree of specialization resulting from differences in the size and distribution of markets.

9. LABOUR RELATIONS

| | 1961/63 | 1971/73 | 1974/76 |
|---|---|---|---|
| Processed Food and Beverage Industry | | | |
| Number of man-days lost (000) | 54 | 249 | 324 |
| Number of disputes | 19 | 43 | 76 |
| Total Manufacturing | | | |
| Number of man-days lost (000) | 1,223 | 5,463 | 4,872 |
| Number of disputes | 293 | 592 | 556 |
| Per Cent Share | | | |
| Share of Employment | | | |
| Per Cent of Food and Beverage/ Total Manufacturing | 15% | 13% | N/A |
| Share of Man-Days Lost | | | |
| Per Cent of Food and Beverage/ Total Manufacturing | 4% | 5% | 7% |

SOURCE: Labour Canada: Strikes and Lockouts in Canada. (based on 3 year averages)

While the number of labour disputes and man-days lost within the food and beverage processing industry have been increasing, the record of the industry is considerably better than that of the total manufacturing sector. For the period 1971-1973 the industry accounted for 13 per cent of total manufacturing employment but only 5 per cent of total man-days lost in the sector.

10. INNOVATION

ESTIMATES OF R & D EXPENDITURES[1)]

| | Intramural, current expenditures only ($Million) | Fed. Gov't contrib. to Intramural, current ($Million) | Ratio: Intramural current/Value of Industry shipments (%) |
|---|---|---|---|
| 1971 | | | |
| Canada: Food processing industry | 12 | 0.7 | 0.1 |
| Canada: Total manufacturing industry | 399 | 65 | 0.8 |
| U.S.: Food processing industry | 245 | 2 | 0.5 |
| 1974 | | | |
| Canada: Food processing industry | 12.5 | 1 | 0.1 |
| Canada: Total Manufacturing industry | 448 | 75 | 0.7 |
| U.S.: Food processing industry | 270 | 2 | 0.4 |

1) Intramural capital expenditures and extramural expenditures not available.

SOURCE: Industry, Trade and Commerce

Expenditures on R & D in the Canadian food processing industry were equal to only 1/10 of one per cent of the value of food industry shipments in 1974. This was a substantially lower rate of expenditure than in either the total Canadian manufacturing sector or the equivalent U.S. food processing industry.

In comparison to food industries in other industrialized countries, the Canadian industry is relatively small and consequently innovations tend, in many cases, to be transferred in from outside Canada. The relatively low level of expenditures on R & D does not therefore appear to have caused the industry to lag behind in either the adoption or utilization of new technology, and on a cost-benefit basis, this probably represents an efficient approach for the industry.

11. INTERNATIONAL COMPETITIVENESS

PRODUCTION AND TRADE
BY INDUSTRIAL SECTOR (MILLION $)

| | 1965 | | | | 1975[1] | 1977 | | | ABSOLUTE INCREASE 1977/1965 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shipments of own mfg. | Exports | Imports | Trade Balance | Shipments of own mfg. | Exports | Imports | Trade Balance | Exports | Imports |
| Slaughtering and meat proc. | 1,439 | 115 | 64 | +51 | 3,829 | 387 | 349 | + 38 | +272 | +285 |
| Dairy Products | 1,062 | 46 | 13 | +33 | 2,613 | 92 | 64 | + 28 | + 46 | + 51 |
| Misc. Food Proc., n.e.s. | 588 | 13 | 45 | -32 | 1,534 | 94 | 272 | -178 | + 81 | +227 |
| Feed Industry | 393 | 16 | 3 | +13 | 1,257 | 70 | 24 | + 46 | + 54 | + 21 |
| Fruit and Veg. Proc. | 436 | 27 | 101 | -74 | 982 | 96 | 361 | -265 | + 69 | +260 |
| Bakeries | 444 | 3 | 3 | 0 | 829 | 10 | 19 | - 9 | + 7 | + 16 |
| Sugar Processing | 153 | 3 | 6 | - 3 | 738 | 49 | 13 | + 36 | + 46 | + 7 |
| Breweries | 298 | 6 | 1 | + 5 | 694 | 43 | 9 | + 34 | + 37 | + 8 |
| Soft Drinks | 226 | - | 3 | - 3 | 733 | 2 | 6 | - 4 | + 2 | + 3 |
| Fish Products | 269 | 153 | 28 | +125 | 579 | 681 | 220 | + 461 | +528 | +192 |
| Poultry Proc. | 193 | 1 | 3 | - 2 | 563 | 3 | 30 | - 27 | + 2 | + 27 |
| Distilleries | 8 | 117 | 22 | +95 | 500 | 274 | 87 | + 187 | +157 | + 65 |
| Flour and Breakfast Cereals | 292 | 80 | 4 | +76 | 562 | 160 | 24 | + 136 | + 80 | + 20 |
| Confectionery | 188 | 6 | 25 | -19 | 442 | 20 | 132 | -112 | + 14 | +107 |
| Veg. Oil Mills | 95 | 34 | 51 | -17 | 289 | 97 | 173 | - 76 | + 63 | +122 |
| Biscuit Mfgs. | 103 | 3 | 6 | - 3 | 271 | 18 | 18 | 0 | + 15 | + 12 |
| Wineries | 23 | - | 13 | -13 | 80 | - | 123 | -123 | - | +110 |
| Total Food/Bev. Proc. Ind. | 6,429 | 624 | 390 | +234 | 16,492 | 2,094 | 1,926 | +168 | +1,470 | +1,536 |
| Total Mfg. Ind | 37,368 | 5,624 | 7,090 | -1,466 | 88,460 | 30,745 | 34,925 | -4,180 | +25,121 | +27,835 |

[1] 1975 data is latest available for shipments of own manufacture

SOURCE: STATSCAN 31-203 and Dept. of Industry, Trade and Commerce; Totals may not add due to rounding.

11. INTERNATIONAL COMPETITIVENESS (Cont'd.)

The food and beverage processing industry has to date been relatively unaffected by external competition. The domestic industry supplies some 90 per cent of consumption requirements with imports consisting in large part of tropical or semi-tropical derived items with specific geographic, quality or brand identification not produced in Canada. Imports of directly competitive staple items, produced in low cost countries, have to date accounted for only a small share of total imports. Import tariffs on processed foods and beverages (excluding alcoholic beverages) were, in 1970, very close to those of the total manufacturing sector (the median value for total manufacturing was 8.34 per cent as compared to a median value of 7.96 per cent for food and beverages).

Exports of processed foods and beverages currently (1977) account for around 11 per cent of industry shipments. Although relatively small in comparison to total food and beverage output, these exports are, for the most part, generated by and represent a major outlet for the fish, meat and distillery industries which together account for some 65 per cent of total industry exports.

Exports have, over the period 1965-1977, generally tended to grow at a slower rate than have imports and between 1974 and 1976, a previously favourable balance of trade for the industry disappeared. While the situation was reversed in 1977, with exports again exceeding imports, it is too early to judge whether this change will be sustained.

The United States is Canada's major trading partner in terms of processed food and beverage products, supplying close to half the sector imports and accounting for nearly two-thirds of industry exports.

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