



*Assessing Challenges and Opportunities in the Western Agri-food Sector*

## RENEWAL OF FOOD PROCESSING IN WESTERN CANADA

Agri-business has traditionally played a major role in Western Canada's economy. Food processing is a key component of Western Canada's agri-business cluster, and is increasingly important to the efforts of all prairie provinces to diversify and add-value in agriculture. While the West has historically had a relatively small share of Canada's food processing industry and a large share of Canada's commodity production, food processing continues to be Western Canada's largest manufacturing industry. This report focuses on providing a brief overview of the structure and recent trends of food and beverage processing in Western Canada.

### 1. Food Processing in Canada

The food and beverage industry has grown to a \$55 billion business in Canada. Over 3,000 firms provide close to 200,000 jobs, and the industry represents 13.5% of all manufacturing shipments in Canada and 19% of manufacturing activity in the West.

While food processing activity is quite varied in each province, on a regional basis, Western

Canada has a substantially higher share of meat processing, feed and vegetable oil production than the rest of Canada. Approximately 800 companies employing close to 50,000 people in Western Canada generate \$14.5 billion in sales or 27% of Canada's food processing industry. Tens of thousands of jobs in farming and agri-service businesses are dependent on food processing, which has high economic multiplier impacts.

Much has been written about problems in this sector. Food processing has traditionally been much more domestic-oriented than most manufacturing sectors, consisting of many small, locally-owned operations. Profit margins and value-added in the production process tend to be quite low, and the industry performs a very low share of research and development.

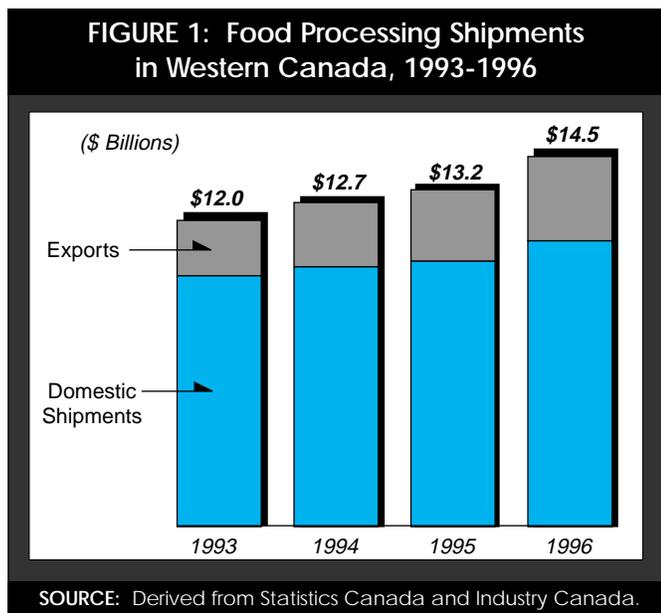
Despite these drawbacks and after slow growth across much of Canada in the past decade, the good news is the recent turnaround in food processing. Food and beverage processing shipments in Canada grew by 17% from 1993 to 1996, and Western Canada's food processing sector

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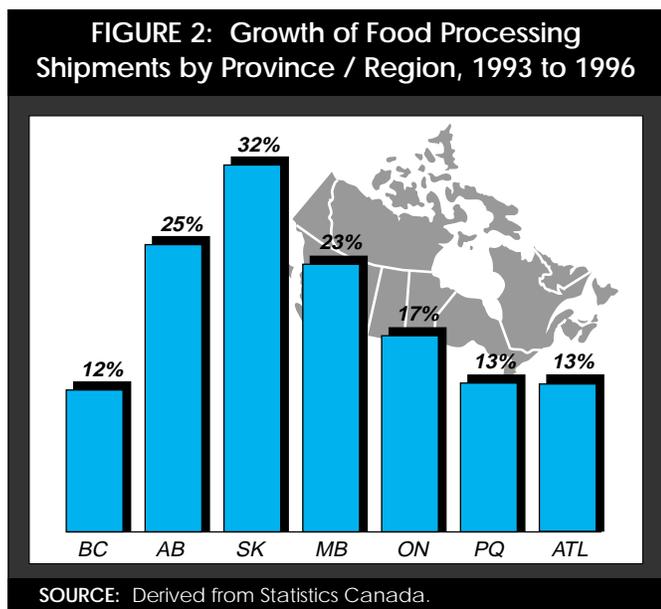
CANADA WEST FOUNDATION

25 years

has led the recent surge. As shown in **Figure 1**, the Western Canadian food processing sector grew by over \$2.5 billion or over 20% in just three years, leading all regions in Canada. Exports, which traditionally represent a low share of food shipments, accounted for over \$1.1 billion (45%) of all shipment increases. These trends are encouraging.



In the past three years, the prairie provinces have led the nation in terms of food processing growth by a considerable margin (**Figure 2**). Last year, growth in all four western provinces was particularly strong, contributing to a healthy increase in overall farm cash receipts in Western Canada.



## 2. Key Factors of Food Processing Growth

A number of factors are facilitating a restructuring and resurgence of food processing in Western Canada:

- International trade agreements such as the Uruguay Round of GATT (now the World Trade Organization), the Canada-U.S. Free Trade Agreement and now NAFTA;
- A greater emphasis on diversification in farm production;
- Growing international demand in Asia Pacific countries, the U.S. and Latin America for high-quality food products;
- Favourable monetary conditions in Canada (eg. low and stable inflation, the lowest average interest rates in decades and a favourable exchange rate versus the U.S. dollar);
- More aggressive marketing and growing success by Canadian companies in export markets;
- The termination of government transportation payments under the WGTA (Crow Rate);
- Attention from all levels of government on value-added opportunities reflected in recent policy and program announcements such as new R&D programs in value-added agriculture by all prairie provinces;
- A renewal of community-based entrepreneurship and interest in value-added agri-food business in many areas reflected in several small start-ups from basic processing in rural towns to ag-biotech firms; and
- A series of major expansions of food operations on the prairies, creating hundreds of jobs.

*A sample of recent announcements of major expansions or new plants either completed or underway in the prairie provinces include:*

- A \$75 million expansion of a potato processing facility in Portage la Prairie, Manitoba;
- A \$40 million investment to build a technologically advanced pork processing facility in Winnipeg;
- A \$20 million expansion of potato processing facilities in Carberry, Manitoba;
- A \$55 million canola plant in an industrial park in Ste. Agathe, Manitoba with further agri-food investments planned;

- Over \$10 million in canola operations in Watson, Saskatchewan;
- A \$10 million expansion of meat packing operations in Saskatoon;
- A \$55 million canola crushing plant in the Saskatoon area;
- A \$16.5 million investment in a new 250,000 square foot brewery in Calgary;
- A \$23.5 million investment in an integrated grain processing operation in Red Deer, Alberta;
- A \$20 million expansion of a pork processing facility in Red Deer, Alberta; and
- A \$25 million expansion of a major bakery in Calgary.

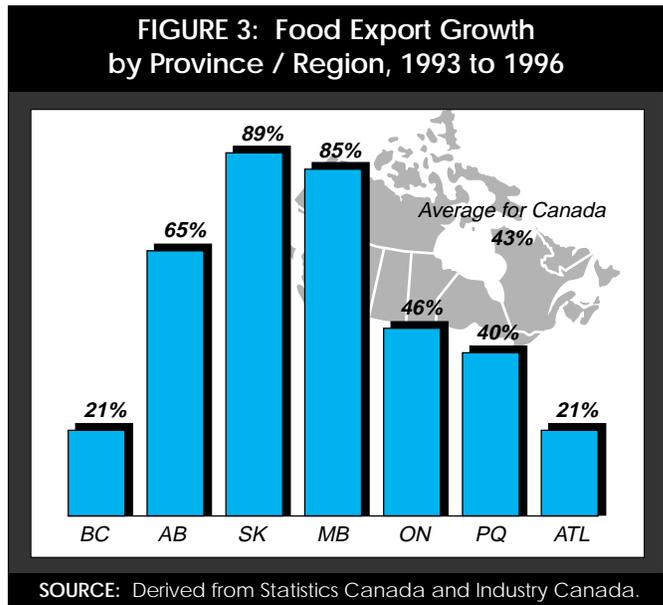
### 3. Western Canada's Food Processing Exports

Total world agri-food exports now exceed \$425 billion. The lowering of tariff barriers and increasing customer base in regions such as Asia Pacific are facilitating a rising demand for food products.

There has been much discussion about Canada's dependency and concentration on bulk commodities in export markets, our declining share of world markets and our lagging behind most industrialized countries in the exports of final consumer products. While Canada has a long way to go, recent growth in our agri-food exports has been driven by value-added intermediary and consumer products. In 1996, total Canadian food exports reached a record level of over \$10 billion. Canada also has a small surplus in food processing, as exports have grown slightly faster than imports in recent years.

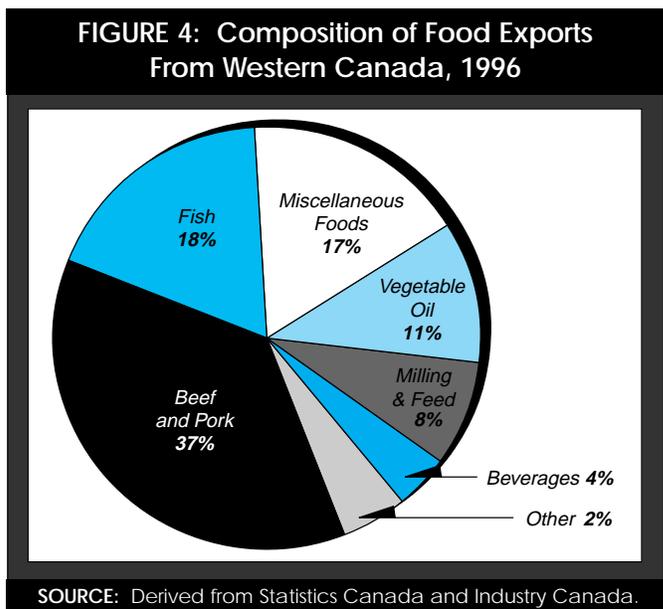
**Figure 3** shows export growth of food and beverage products by province/region over the last three years. Like food shipment growth, in export growth, the three prairie provinces also ranked ahead of the rest of Canada. In the past three years, the growth of food exports from Western Canada was exceptional, averaging 17% annually, to a record level of \$3.3 billion.

Food processing exports from Western Canada have increased sharply from 15% of shipments in the early 1990s to about 23% today (the Canadian average is 19%). Of Western Canada's food product exports, over half go to the United States and about one-quarter to Japan.



Alberta's food exports and recent growth are dominated by meat products, which represent nearly two-thirds of their food exports. Saskatchewan's growth has been led by meat products, vegetable oil and feed. Manitoba's export growth has been quite diversified, led by processed products like frozen french fries, vegetable oil and pork. About one-half of B.C.'s exports are fish products, of which sales have been recently flat.

**Figure 4** shows food exports from the West by sub-industries. The top four, representing 83% of world food exports, are meat products (37%), fish products (18%), miscellaneous products such as snack foods and frozen prepared foods (17%) and vegetable oil (11%). Exports of supply-managed products such as dairy and poultry are minimal.



#### 4. Strengths of Western Canada's Agri-Food Industry

While Western Canada's industry has some competitive disadvantages such as transportation costs to major markets, the continued expansion of food processing in Western Canada can be built upon a number of key competitive strengths:

- Exceptional and abundant agricultural land resources;
- Western Canada is a major producer of high-quality grains, oilseeds, specialty crops and livestock products;
- Labour costs in food processing are lower than central Canada (about 15-20% under Ontario) and lower than most U.S. locations;
- Relatively lower operating costs in areas such as electricity, fuel, land and industrial space than most North American regions;
- Several existing food processing plants producing a variety of foods and many multinationals with a base in the West;
- Ready access to lucrative markets in the western and mid-continental U.S. states which are closer than eastern Canadian markets;
- Growing linkages to move products to the world's fastest growing regional market of Asia Pacific; and
- Access to suppliers, services, federal and provincial research facilities and recognized programs at universities and colleges.

#### 5. Looking Ahead

Western Canada's food processing sector has generated recent momentum in growth and investment. This sector has the capacity and potential for considerable growth. The three prairie provinces in particular have experienced a resurgence in food processing, and there is significant investment and further interest in agri-food operations. It is not coincidence that the prairie provinces are leading the country in the growth of both sales and exports. The sustained growth of food processing activity in Western Canada over the remainder of the 1990s will continue to be affected by a number of central factors:

- Macro-economic conditions;
- Increasing merger and acquisition activity as well as alliances and vertical integration in the sector;
- Fluctuations in commodity prices (which represent the bulk of food processing operating costs);
- Changing demographics and consumer and retail demands for very specified products;
- Attracting investment from locally-based entrepreneurs, major domestic food processors and foreign multinational corporations;
- Efficient infrastructure development of trade, transportation and distribution links and facilities.
- Advances in technology (biotechnology, technology commercialization and advanced technology transfer in food processing operations);
- Partnerships among producers, processors, suppliers, distributors, marketers, researchers, educators, financiers, agri-service specialists and governments;
- Domestic policies, marketing strategies, programs, systems, institutions and regulations. Many programs and systems are still aligned in traditional segments rather than as a collective interdependent cluster; and
- International trade developments and effective preparation and positioning for the next round of world trade negotiations. Despite substantial tariff reductions, the reality is that trade in many food products is managed or limited by domestic systems.

Notwithstanding the problems in Canada's agriculture and food processing sector, it is moving in the right direction. Now is the time to seriously effect changes to support long-term sustained growth of value-added agri-food activity. In several reports to be released over the next 18 months, Canada West will continue to identify the opportunities for growth, the barriers that inhibit this growth, and what can be done to realize these growth opportunities.