CANADA PACKERS LIMITED

REPORT TO SHAREHOLDERS

The twelfth fiscal year of Canada Packers Limited ended March 30th, 1939.

Profit, after Depreciation, Bond Interest, and Income Tax is $1,238,736.31
Equivalent, on 200,000 Shares, to .....$6.19 per Share.

Out of this sum it has been decided to distribute, during the current fiscal year, as regular Dividend ..... $ 600,000.00
that is, ...$3.00 per Share.

Canada Packers was formed (in 1927) through the merging of four Companies. The cause for the merger was that for several years three of the Companies had suffered severe Losses. By reason of these Losses, Working Capital was much reduced, and when Canada Packers was formed Common Shareholders were informed it would be necessary for a number of years to retain Profits, for the purpose of building up Working Capital. In pursuance of this policy, no Dividend was paid on the Common Shares for 8 years,—that is until 1935.

Since then, Dividends have been paid at the rate of ....$3.00 per Share per year.

Working Capital is now such that Directors feel justified out of this year's Profits (....$6.19 per Share) in declaring, in addition to the regular Dividend, an extra Dividend, payable July 3rd, 1939, of....$1.00 per Share.

During the year an important replacement has been made in the Company's Bonds. At the end of the previous fiscal year, (March 31st, 1938) there were outstanding the following Bonds:—

$ 750,000.00	due January 2nd, 1939,	Interest rate	3¼ %
750,000.00	" " " 1940,	" "	3⅜ %
3,000,000.00	" " " 1946,	" "	4 %
Total $4,500,000.00			

On January 2nd, 1939, the Serial Bond of....$750,000.00 was duly retired.

Notice has now been given to call the $3,000,000.00 of 4% Bonds on July 3rd, 1939. These will be replaced by Serial Collateral Trust Debentures, in the same sum, as follows:—

$750,000.00	due January 2nd, 1941,	Interest rate	2 %
750,000.00	" " " 1942,	" "	2¼ %
750,000.00	" " " 1943,	" "	2½ %
750,000.00	" " " 1944,	" "	2¾ %

The new Issue has been entirely placed in advance.

By this transaction, after payment of all charges, including the call premium, a saving in Interest will be effected of.... $ 110,000.00

After its completion, the Bonded Indebtedness of the Company will be $3,750,000.00
repayable in amounts of....$750,000.00 on the 2nd day of January each year from 1940 to 1944 inclusive.

The average rate of Interest of the new Serial Debentures is 2.47 per cent.

Total Sales for the year were $77,225,732.65
Total Tonnage ..... 800,763,592 lbs.

The Net Profit, (....$1,238,736.31....) is, therefore, equivalent to:—
1.6% of Sales,
or to (approximately) 16c per 100 lbs. of product sold

....

The products deriving immediately from Live Stock, are Meats and By-Products. These constitute the main volume of the Company's business. But many other products are dealt in,—for example Canned Goods, Vegetable Oil products, Butter, Eggs, Poultry, Fish, Soap, etc.

Because of the special interest of the Producer, a separate accounting is kept of purely Live Stock products.

On these for the year under review, Profit was.....		12c per 100 lbs.
Profit on Cattle (average approximately 1000 lbs.)	$1.20	per head
" " Hogs (" " 200 ")	24c	" "

....

Expressed in relation to Shareholders' Investment, Profits are as follows:—

Shareholders' Investment approximately	....$18,000,000.00
Profits	$ 1,238,736.31
Equivalent to 6.8%	
Dividend	$ 800,000.00
Equivalent to 4.4%	

....

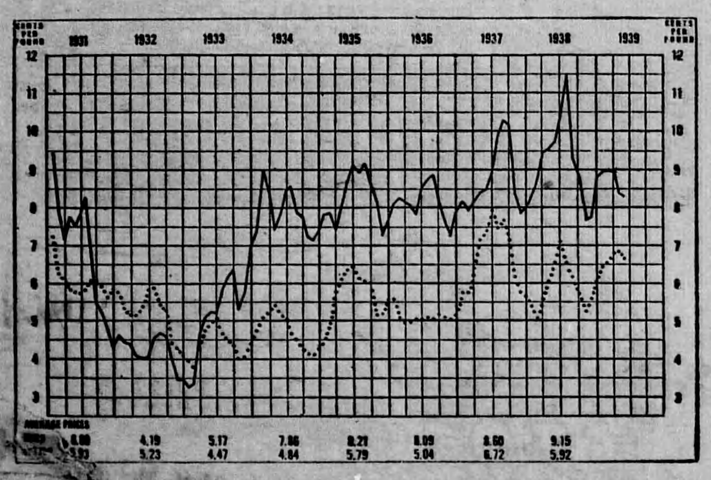
The following is an analysis of Sales, expressed in terms of
Raw materials,
Expenses,
Profits.

	Average 4 years to March, 1938	Year Ended March 1938	Year Ended March 1939
Cost of raw materials, principally Live Stock	79.2%	81.2%	80.5%
Cost of materials and packages	3.1	2.7	2.6
Wages and Salaries, including Bonus	8.8	8.6	8.9
Expenses	5.2	4.5	4.4
Interest on Bonds	.2	.2	.2
Taxes	.7	.6	.7
Total Cost of Product, plus Expenses....	97.2	97.8	97.3
Depreciation on Fixed Assets	1.1	1.0	1.1
Profit from operations	1.7	1.2	1.6
	100. %	100. %	100. %
Income from Investments	.2	.1	....
Total Profit, including Income from Investments	1.9%	1.3%	1.6%

Live Stock prices during 1938 were high.

The following graph sets forth market prices of Hogs and Cattle since 1931:—

————Bacon Hogs, f.o.b. Ontario Country points.
.....Good Steers, 1050 lbs. down, Toronto market.



The two early years depicted in the graph, were the low period of the depression. Since then a great advance in prices has occurred, and it is instructive to examine the causes.

The graph reveals that the Cattle price dragged on bottom much longer than did the Hog price, and that the advance when it did come was less than that on Hogs.

The reason is well known. Prices for both had been extremely low because Canada produces a surplus of Cattle and of Hogs, and in 1931, and 1932, no markets abroad could be found for those surpluses.

In the case of Hogs the situation was relieved by the Bacon Quota clauses of the Ottawa Agreement. That Agreement was concluded in August, 1932. In Canada the Bacon clauses became effective March, 1933. (At the expiry of the first 5-year term,—in August, 1937,—they were renewed for 3 years. That renewal expires August 20th, 1940.)

In the case of Cattle, relief also came from the re-opening of a market to which the Canadian surplus could be shipped. That market was the United States. By the Trade Agreement of November, 1935, the Duty on Canadian Cattle entering United States was reduced (on a limited Quota) from ....3c to ....2c per lb. And by the subsequent Agreement of November, 1938, the Duty was further reduced to ....1½c per lb., and the Quota increased.

....

HOGS:

In respect of Hog prices, the British Bacon Quota, conferred by the Ottawa Agreement, was an event of the first magnitude. Probably no single trade concession ever accorded Canada has compared with it, in importance to the Canadian Farmer. When the Agreement was made, Hogs were selling in Canada for ....3¼c per lb. Within one year of the time it came into effect, the price had advanced to....9c per lb. And since that time the average price, year by year, has been as follows:—

	(Bacon Hogs, f.o.b. Ontario country points)
1934	$7.86 per 100 lbs.
1935	8.21 " " "
1936	8.09 " " "
1937	8.60 " " "
1938	9.15 " " "

It is a conservative estimate that this outlet has been worth 40 million dollars per year to Canadian Pig Producers.

....

In spite of the high prices, production of Hogs in 1938 showed a heavy decline as compared to 1937. The decline was due to a single cause, viz. lack of feed. The lack of feed was due to the crop failures of 1936 and 1937.

The intimate connection between quantity of feed and Hog production is brought home by the following two tables:—

(a) Grain production for the last 3 years.
(b) Hog marketings for the last 2 years.

GRAIN PRODUCTION
(000,000 omitted)

	Wheat 1936	Wheat 1937	Wheat 1938	Barley 1936	Barley 1937	Barley 1938	Oats 1936	Oats 1937	Oats 1938
Alberta	66	76	143	17	22	29	50	77	101
Saskatchewan	110	36	132	17	5	20	65	22	90
Manitoba	26	45	51	19	35	31	20	43	41
Total West	202	157	326	53	62	80	135	142	232
Ontario	14	20	21	14	16	17	67	74	82
Quebec	1	1	1	4	4	4	47	36	38
Total Canada	219	180	350	72	83	102	272	268	371

HOG MARKETINGS
(By Province of origin)

	1937	1938	Decrease
Alberta	986,206	782,857	20.6%
Saskatchewan ..	569,723	217,152	61.9
Manitoba	255,646	250,055	2.2
Ontario	1,758,351	1,631,497	7.2
Quebec	342,912	283,087	17.4
Maritimes	73,559	80,887	10.0 (increase)
Total Canada ..	3,986,397	3,245,535	18.5%

Grain production one year is, of course, reflected in Hog production the following year. The Farmer breeds a number of sows more or less in proportion to the amount of feed he has in his bins after the harvest. And the resulting litters are marketed 9 to 12 months later.

If the two tables immediately above are compared, Province by Province, it will be seen the decline is heaviest in the Provinces in which crop failures are most serious.

By the same reasoning, the much larger crop of 1938 should be followed by heavily increased Hog deliveries in 1939. This increase is not yet in evidence. There has not been time. For the sows were bred after the harvest (August/September), and the early litters are not due to reach market until May/June.

For the first 5 months of 1939, Hog marketings (compared to 1938) have been as follows:—

	1939	1938	Decrease
January	216,354	291,684	25.8%
February	252,643	284,338	11.2
March	339,748	340,717	.3
April	256,067	262,355	2.4
May	312,713	301,197	3.8 (increase)
Total— 5 months	1,377,525	1,480,291	7.0%

It is expected that from June forward the increase will be substantial.

From August, 1939, forward, exports of Wiltshire Sides should show a marked increase, compared to the previous year, and if Canada harvests another large crop in 1939, Bacon shipments in 1940 might for the first time approximate the British Quota of ....280,000,000 lbs.

This would be a notable event in the Canadian Pig Industry, but it would immediately introduce a new problem. For there is no reason to think Canadian Pig production will stabilize at that exact basis. And if it goes on increasing, an enlarged export Quota would be necessary to keep the Canadian Pig Industry sound.

This consideration lends special significance to the discussion for the renewal of the Ottawa Agreement, which must be held before August, 1940.

It is important to remember that in these discussions, British negotiators have in mind chiefly the interest of their own Country. The Bacon clauses which, in the past 7 years, have proved so helpful to Canadian Pig Producers, were conceived chiefly for the purpose of stimulating Pig production in England. It was realized those clauses would also help the Canadian Farmer. But for this a quid pro quo was expected. Mutual advantage was the keynote of the Ottawa Conference, and the discussions were conducted in an atmosphere of goodwill. But nevertheless, there was at the time, and there has continued, a feeling that Canada drove a hard bargain, and in fact got the better of the deal. This is a fact which Canadians should keep constantly in mind.

....

A proposal vitally affecting the Ottawa Agreement has recently been made in the Canadian Parliament;—viz. to impose an Excise Tax upon Vegetable Oils entering Canada from Great Britain.

Canada imports large quantities of Vegetable Oils. She does so because she needs them. They are used in the manufacture of two products, Shortening and Soap. By the terms of the Ottawa Agreement, Vegetable Oils from British sources are admitted free, whereas from all other sources they are taxed. This preference has had the result of diverting nearly all Canada's Vegetable Oil business to England.

The demand for a Tax on Vegetable Oils dates back 2 years. At that time an application was made to the Canadian Government. The reason assigned was that such a Tax, by advancing the price of Vegetable Oils, would bring about a corresponding advance in the price of Animal Fats,—Butter, Tallow, Lard,—and so the Farmer would be benefitted.

The application was referred to the Canadian Tariff Board, and the finding of this Board was tabled recently in the House of Commons. It recommended an Excise Tax of ....3c per lb. on Vegetable Oil used in Shortening, and ....2c per lb. on Vegetable Oil used in Soap. A tentative clause to implement this recommendation was included in the Budget (submitted April 25th, 1939), but subject to the acquiescence of the British Government.

The British Government demurred on the following grounds:

(a) That British shipments to Canada of Vegetable Oil are large and important.
(b) That Britain buys annually from Canada....£50,000,000 to ....£60,000,000 more than Canada buys from Britain.
(c) That in view of this heavy adverse balance, the British Government could not "contemplate with equanimity" a further loss of trade.
(d) That the imposition of an Excise Tax would have the same effect as a protective Duty, and would therefore be contrary to the Ottawa Agreement which granted FREE entry to Vegetable Oils.
(e) That the Tax, if imposed, would result in a serious reduction of imports of Vegetable Oil, and the substitution therefor of imports of American Lard.
(f) That for this reason (because American Lard would flow in) the advance of the price of Canadian Lard would be very slight, and therefore "the proposed Excise Tax would seem to involve a great risk that United Kingdom would be deprived of a large and important export trade to Canada, and that foreign Lard would be substituted with little benefit to Canadian Producers of Lard."

The memorandum concludes as follows:—

"Attention should perhaps be called to the special advantages afforded to Canadian Pig Producers in respect to Bacon and Ham by Article V of the United Kingdom-Canada Trade Agreement. These advantages are obviously very much greater than those which the present proposals are designed to secure in respect to Lard, which is a relatively unimportant Pig By-Product. It should, moreover, not be overlooked that if United Kingdom exports to Canada are substantially reduced, the ability of the United Kingdom to buy Canadian Produce, including Bacon and Ham, might well be affected."

In view of this demur, the tentative clause in the Budget imposing the Tax was not implemented, and a serious threat to live stock producers was thereby averted.

CATTLE:

Reference has already been made to the benefit to Cattle Producers of the Canadian/American Trade Agreement. This Agreement was announced in November, 1938, and became effective January 1st, 1939. Under its terms, supplemented by a defining clause in February, 1939, the Quota for Canadian Cattle was increased to ....193,950 per year,—maximum per quarter approximately ....50,000.

The importance of this outlet is best evidenced by the fact that the Quota for the first quarter was completed within one month, and that for the second quarter (beginning April 1st) was completed within 6 weeks. Exports of Cattle to United States for the year to date, as compared to last year, are as follows:

	1939	1938
January	29,673	4,462
February	9,275	3,046
March	3,946	10,171
April	26,840	4,271
May	22,775*	4,369
Total	92,509	26,319

*Estimated

It cannot too often be repeated that the chief condition of health for the Canadian Live Stock Industry is the securing of satisfactory markets abroad for the Canadian surplus. To secure such markets is a function of Governments, and no one will deny that in this matter, both the present Government and its predecessor have been zealous, and successful.

Under the direction of the Federal Department of Agriculture, a small but interesting experiment has been carried on through the past year, of shipping Dressed Beef to England. Weekly shipments have been made of 25 carcasses of Baby Beef. From the beginning these shipments have met with a good reception. For the first time Dressed Beef from Canada has sold at a price equal to that of the best home-killed Beef.

These shipments have already proved that a demand exists for this class of Beef. Moreover, Baby Beef is a type in the production of which Canada seems able to hold her own. It is hoped plans may be made this year to enlarge the volume of these shipments. The English market would probably take 500 to 1,000 carcasses weekly of this type of Beef. If so, the trade might become most useful as a stabilizing influence upon Cattle prices in Canada. To develop it, would require close co-operation between Producers, Government agencies, and Packers. For in connection with it many problems must be worked out, particularly that of regular deliveries.

....

Every new Live Stock problem, and indeed every old one, lends emphasis to the importance of this co-operation between Producers, Government, and Packers. To promote such co-operation should be the constant objective of all groups engaged in the Live Stock Industry.

As a step towards this end, Canada Packers would welcome the appointment, by representative organizations of Producers, of a Director to the Board of the Company. The duty of this Director would be to study operations of the Packing Industry from the Producers' standpoint. He would have access to all the records of the Company, and would be kept informed in detail of its operations.

It is felt that this would lead towards a fuller recognition of the unity of interest between Producer and Packer, and that from it might emerge a broader plan which would embrace the whole Industry. If such a plan is to be brought about it must first be tried with a single Company and the Directors feel that Canada Packers, as the largest unit in the Industry, should be the one to take the initiative.

At the approaching Annual Meeting, Shareholders will be asked to authorize the plan.

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Another recommendation, equally important, will be submitted at the Annual Meeting for the approval of Shareholders. This is to appoint a Director who will represent the Company's Employees.

Canada Packers has approximately 5,500 Employees. Of these 3,500 are hourly paid, and 2,000 straight time men (and women). Whatever success the Company has enjoyed, has derived in no small part from the loyalty and efficiency of Employees of all ranks.

In recognition of this fact, for the past 6 years, a policy of Profit-sharing has been followed. This plan has been as follows: When Profits have been ascertained, there is first allocated to Shareholders a sum equivalent to 6 per cent of Shareholders' equity. Beyond that point Profits are divided equally between Shareholders and Employees.

The Employees' share is distributed at the year-end in the form of a Bonus. The Bonus distribution for the past 6 years has been as follows:—

Year ended March, 1934	$254,500
" " " 1935	291,825
" " " 1936	413,275
" " " 1937	511,572
" " " 1938	192,490
" " " 1939	215,905
	$1,879,567

The appointment of an "Employee" Director is a natural development of this Profit-sharing policy. In addition to conceding Employees a logical right, the Directors feel it will further promote the sense of partnership which is the true relation between Shareholders and Employees, and from which the success of this business has to such an extent derived.

A copy of this Report is forwarded to each Employee. As in previous years, the Directors wish to thank Employees of all ranks, on behalf of Shareholders, for work well done.

During the year quality of products has improved and cost of production has declined. These steps forward have contributed substantially to the satisfactory result of the year, and are the best evidence of the loyalty and efficiency with which the Company is served.

J. S. McLEAN,
President.

Toronto, 20th June, 1939.

Books And You

BY

ELIZABETH EEDY

"MURDER ON DISPLAY"

By Christopher Hale

A first-rate yarn of murder mystery in a small town is to be found in "Murder on Display" by Christopher Hale. Mr. Hale knows his small town types quite intimately, and he has given us here a story which will be enjoyed the more because it is not only the tale of a mysterious crime but also of the morals, gossip, emotions and cross-currents of small town life. The murdered woman was the town gossip, and naturally, therefore, a good many people breathed easier when they heard that she was dead.

Those who have read "Stormy Night" will doubtless remember Bill French, the attractive lieutenant of the State Homicide Squad, who was the hero of the earlier book by Mr. Hale. To Bill falls the task of solving the murder of Mrs. Ivy Sanders, and believe it or not, it was not Bill, but a blind woman, who discovered the murderer! This is lively reading from cover to cover.

"Murder on Display" . . . by Christopher Hale . . . Toronto: Doubleday, Doran & Co., Ltd., . . . $2.25.

ONTARIO OUTDOORS

By VIC BAKER

GUIDES TELL ALL

Recently a questionnaire was circulated among a large number of guides in Ontario and the results concerning lake fishing should be of interest to most fishermen, especially those of us who have our troubles rousing the big fellows.

Most anglers, according to the guides, drag their lures too fast for lake fishing; the slower the action the better. Many use too large plugs; smaller ones should be tried but don't forget to slow down the action.

All disturbances must be eliminated, even more than the majority of anglers realize, caution the guides. Fly fishermen should use at least a 3-0 spinner for bass and work the shaded shorelines when using artificial baits. Only rarely will the fishermen get a strike from shadeless deep water when using artificials. Early morning or late evening are the best times to fish the lake, although over 70 per cent. of the guides indicate they prefer the dawn hours.

Examine The Lake

Shorelines should be carefully studied by the anglers, remind the guides. As the summer progresses, the shoreline will drop and shallower shore waters develop. Look for inlets of small cold streams or springs. Usually small coves lying close to deep channels are the best productive spots. Do not give up if the lake itself is murky. Too many fishermen, it seems, take one look at the muddy water and turn away. They forget that there are many arms that lead back from the most lakes and if followed, lead to good fishing grounds. But all the guides agree on this one point, that too much time cannot be spent on examining the lake. The average fisherman goes according to where it looks good and not where it is real good.

These guides should know what they are talking about for, after all, they do get a chance to meet every type of angler from the least expert to the mastermind fisherman; and the questionnaire replies came from guides experienced in all types of fishing for all types of Ontario fish. Now that you've reached this far, it might be a good idea to read the above facts over once again!

NOTE—Mr. Baker will be glad to answer readers' questions or discuss any particular subject you wish.

"We know that the path of least resistance leads to ruin os surely as does the path of conquering force."—Albert Einstein.

Ask for BEE HIVE