CANADA PACKERS LIMITED

REPORT TO SHAREHOLDERS

The fourteenth fiscal year of Canada Packers Limited closed March 27th, 1941.

Net Profit, after Bond Interest, Depreciation and Taxes, was $1,555,028.47
Equivalent (on 200,000 Shares of Common Stock) to ..... $7.77 per Share.
Previous year $1,667,809.78
..... $8.34 per Share.

DIVIDENDS

The Company was organized in August, 1927.

Until April, 1935, no Dividends were paid on the Common Shares.

At that time Dividends were begun at the rate per year (payable quarterly) of ..... $3.00 per Share

In July, 1939, and July, 1940, an extra Dividend was paid of ..... $1.00 per Share

This brought Dividends for each of those two years to $4.00 per Share

The Directors have decided the Working Capital position is now such that $4.00 per Share may be adopted as the regular Dividend. To give effect to this decision an extra Dividend was paid April 1st, 1941, of 50c. per Share, and until further change, regular quarterly Dividends will be at the rate of $1.00 per Share.

		Preceding year	Increase
Sales for the year were	$110,291,839.97	$88,205,639.75	25.4%
Weight of product sold, lbs...	1,091,263,352	913,251,116	19.5%
Net Profit	($1,555,028.47) was therefore equivalent		
to	1.4% of Sales	1.9% of Sales	
and to	14c per 100 lbs.	18c per 100 lbs.	
that is approximately	1/7 cent per lb.	1/5 cent per lb.	

* * * * * *

The following analysis of the Profit & Loss Account expresses the operations of the year in comparison with those of the previous year:—

	Year ended March, 1941	%	Year ended March, 1940	%
Sales	$110,291,839.97	100.0%	$88,205,639.75	100.0%
Cost of products, chiefly Live Stock	88,959,695.51	80.7	69,767,159.36	79.1
Cost of materials and packages	3,279,579.72	3.0	2,461,790.30	2.8
Salaries and Wages, Including Bonus	8,879,264.87	8.1	7,738,780.98	8.8
Expenses, — Selling, Advertising, Repairs, and general operating costs	4,612,388.85	4.1	3,808,775.20	4.3
Bond Interest	69,825.00	.1	95,564.79	.1
Taxes	1,575,637.94	1.4	1,194,515.13	1.3
Total cost of product, plus Expenses	107,376,391.39	97.4	85,066,585.76	96.4
Wartime Inventory Reserve	380,000.00	.3	579,000.00	.7
Depreciation on Fixed Assets	907,656.60	.8	898,081.71	1.0
	108,664,047.99	98.5	86,543,667.47	98.1
Profit from Operations	1,627,791.98	1.5	1,661,972.28	1.9
Income from Investments	4,037.00	—	5,837.50	—
Write-off of Investments	76,800.51	—	—	—
Net Profit	$ 1,555,028.47	1.4%	$ 1,667,809.78	1,9%

* * * * * *

The increased volume was due to war conditions. Export volume showed the greatest increase. This was due to demand from Britain. In the domestic field, the increase was less, but still substantial. The following table sets up the comparison with the previous year:—

COMPARISON OF VOLUME

Exports	1941	1940	% Increase
To Britain	138,682,956 lbs.	76,693,288 lbs.	81%
To other countries	27,954,290	18,623,124	50%
Domestic Volume			
In Canada	892,762,340	789,638,081	13%
In U.S.	31,863,766	28,296,623	12%
	1,091,263,352	913,251,116	19.5%

The increase of 13% in Canadian volume is probably a fairly accurate measure of the increase in domestic food consumption. It is due to the increase of purchasing power, resulting from expanding industrial activity.

The increased volume to Britain was due almost entirely to heavier shipments of Wiltshire Bacon. And since this Report will deal largely with the subject of Bacon exports, it is well to set up a framework for the discussion. The factors involved are:—

(1) Number of Hogs marketed in Canada.
(2) British requirements since the beginning of the war.
(3) Contracts between the British Ministry of Food and the Canadian Government.

(1) NUMBER OF HOGS

It happened that just at the time war was declared, Canada's Hog population stood at (to then) a record level. (Space does not permit a review of the causes of this, but the subject was dealt with fully in the two previous Annual Reports of this Company.)

As the war began September 1st, it will assist in measuring its effect on Hog production if marketings are quoted in years September 1st to August 31st. (In any case this is the natural crop year, as the heavy Fall marketings begin in September.)

Following is a table of Hog marketings for crop years 1929/30 to 1940/41, inclusive:—

Crop Year— Sept. 1 to Aug. 31	Hog Marketings	
1929 — 1930	2,493,339	
1930 — 1931	2,334,320	
1931 — 1932	3,251,916	
1932 — 1933	3,097,048	
1933 — 1934	3,073,251	
1934 — 1935	2,975,316	
1935 — 1936	3,195,056	
1936 — 1937	4,141,158	
1937 — 1938	3,429,857	
1938 — 1939	3,264,856	
1939 — 1940	4,640,762	42.1%*
1940 — 1941x	6,100,499	31.3%*

* Increase over previous year.
x August 1941 estimated.

FIRST YEAR
Sept. 1st, 1939 to Aug. 31st, 1940

The increase in marketings during the first war year (42.1%) derived from breedings dating September 1938 forward. It was due to causes entirely unconnected with the war.

However, it was fortunate the Hogs were available. For there was need of them all.

In the early months of the war this need seemed by no means certain. Until April/May 1940, when Denmark and Holland were overrun, Britain continued to receive large quantities of Bacon from the Continent. In addition, because of the heavy Canadian marketings, very large quantities of Bacon were going forward from Canada. Total arrivals in Britain exceeded current consumption. The surplus was placed in freezers throughout Britain, to be held as a food reserve.

By February, 1940, all available freezer space was filled. The Ministry was actually embarrassed by the quantity of Bacon it had on hand. Instructions were cabled to cut down Canadian shipments to 50,000 cwts. weekly. The surplus over 50,000 cwts. had to be placed in freezers in Canada. The quantity stored as a result reached its peak (31,000,000 lbs.) in May 1940. For several months there was serious doubt as to whether or not these Canadian reserves could be cleared before the beginning of the new crop season in September 1940.

When Denmark and Holland were overrun (April/May 1940) it was expected that increased quantities would soon be needed from Canada. But reserves in Britain were so large that this demand was long delayed. As late as July 1940, the Ministry advised they wished,—and would continue to wish,—from Canada, not more than 50,000 cwts. weekly.

This advice was very disturbing. Not only had Canada heavy reserves in the freezers, but all forecasts agreed that in the approaching crop year (beginning September 1940) the increase in the number of Hogs marketed would be not less than 25%. If those forecasts proved true, Canada would need an export outlet for 70,000 cwts. of Bacon weekly.

(It was under these conditions the second Bacon Contract,—referred to in the next section,—was negotiated.)

The situation was finally cleared. In early August, 1940, the Canadian Bacon Board received permission to step up shipments to a level which would clear Canadian storage stocks by the end of September. The fear was thus removed that heavy reserves would have to be carried into the coming crop year.

SECOND YEAR
Sept. 1st, 1940 to Aug. 31st, 1941

An increase in marketings was expected of approximately 25%. Actually, the increase proved to be 31%.

Total marketings (second year) were .... 6,100,499 hogs
Total marketings (first year) 4,640,762

Increase 1,459,737

After providing for normal domestic consumption, this made available for export approximately 70,000 cwts. weekly.

THIRD YEAR
Sept. 1st, 1941 to Aug. 31st, 1942

Owing to conditions to be mentioned later, no increase in production is expected in Ontario and Quebec. In these Provinces some well-informed persons look for a slight decrease.

In the West there will undoubtedly be another substantial increase, except insofar as it may be limited in certain areas by an unfavourable crop.

An average estimate of the total Canadian increase for the coming crop year (over the second year) would perhaps be 15%, equivalent to, approximately ..... 915,000 Hogs.

If this estimate proves accurate, marketings during the crop year September 1941 to August 1942 will be, approximately .... 7,000,000 Hogs

(2) BRITISH REQUIREMENTS SINCE THE BEGINNING OF THE WAR

To some extent this subject has been dealt with in Section (1), so that a brief recapitulation will be sufficient.

(a) From September 1939 to February 1940, the British Ministry of Food accepted all the Bacon Canada wished to ship.
(b) From February 1940 to early August 1940, the Ministry rigidly limited Canadian shipments to 50,000 cwts. weekly. During this period it was frequently stated no larger shipments would be required.
(c) In November 1940, the Ministry agreed to take 70,000 cwts. weekly. The Ministry stipulated the sum paid for the 70,000 cwts. should not exceed that formerly paid for the 50,000 cwts., but in the end, the sum paid was somewhat higher.
(d) By May 1941, the situation had been transformed. Although Bacon was rationed to 4 ounces per person per week (one-half pre-war consumption) Britain was receiving from all sources less than sufficient to fill the ration. From that date forward, Canada was urged to produce and to ship all the Bacon possible.

This bald summary of the facts may appear to imply a criticism of the Ministry of Food. This is not intended. In wartime, conditions change with great rapidity, and policy must be adjusted to the changes.

Perhaps there was some delay in recognizing the inevitable implications when Denmark and Holland were overrun. If so it is easy to understand. It must be remembered, Bacon was only one of scores of food products, for the supply of which the Ministry had to lay its plans.

(3) CONTRACTS BETWEEN THE MINISTRY OF FOOD AND THE CANADIAN GOVERNMENT

Soon after the declaration of war, the British Ministry of Food asked the Canadian Government to quote a price on 40,000 cwts. weekly. After exchange of cables extending through several weeks, the first contract was completed: Its terms were as follows:—

FIRST CONTRACT

(a) Term—November 17th, 1939, to October 31st, 1940.
(b) Quanity—Minimum 50,000 cwts. weekly. The Ministry promised to take as much more as could be used.
(c) Price— .....91/1 per cwt. (112 lbs.)
equivalent to .....$18.02 per 100 lbs.
f.a.s. (free alongside)
Atlantic Seaboard.

When the contract was made, it was estimated that, for its total period, the price would work back to approximately ....9c per lb. live weight, Toronto (for Bacon Hogs).

Actually the average price throughout the contract period was almost one-quarter cent per lb. less. It was ....8.77c. This was due to the influence of conditions in the domestic field. From April to August, 1940, the apparent surplus was such that product had to be 'forced' upon the domestic market. During this period domestic prices were on a level much below the export parity.

The contract price was a fair one.

For the five years preceding the war, average prices of Bacon Hogs, Toronto, had been as follows:—

1935	8.94c per lb.
1936	8.43
1937	8.92
1938	9.45
1939 to Sept. 1st	8.62
Average	8.89c

It may appear that a price of ....8.77 in a war year, was low in comparison with —8.89 for the five pre-war years. But two countervailing factors must be kept in mind.

(a) But for the war, because of heavy deliveries, Canadian prices would undoubtedly have been lower;—perhaps much lower.
(b) Throughout the whole term of this contract, Hog prices in United States were much below those prevailing in Canada. As against a Toronto price for the year of .... $8.77 per 100 lbs., top Chicago Hogs in the same period sold for (average) ..... 5.94 per 100 lbs.

SECOND CONTRACT

Term— November 1st, 1940, to October 31st, 1941.
Price— .....80/—per cwt.
equivalent to .....$15.82 per 100 lbs.
f.a.s. Atlantic Seaboard.
Quantity—70,000 cwts. weekly.

The conditions under which this contract was negotiated have already been explained.

An 'apparent' surplus of Hogs existed, and the price was fixed accordingly. The reduction in price proved discouraging to Canadian Pig Producers, especially in Quebec and Ontario. In these Provinces many sows were marketed which otherwise would have been bred.

To some extent the situation was relieved by bonuses paid by the Provincial Governments of these two Provinces. But at the end of six months the contract had to be revised.

The immediate cause of the revision was an advance in the price of American Hogs. In April the American market reached a level at which Canadian Hogs began to move South. This movement had to be stopped, and on May 2nd, 1941, the contract was amended.

The Ministry of Food raised its price from ..... 80/—per cwt.
to ..... 85/—per cwt.

The Canadian Government undertook to pay whatever additional sum was necessary to prevent the Hogs moving to United States. To implement this clause, the following payments (by the Canadian Government) have been necessary:—

On June 2nd, 1941 ..... 75c per 100 lbs.
On June 24th, 1941, a further ..... 75c per 100 lbs.
On July 23rd, 1941, a further ..... $1.00 per 100 lbs.

At the present time, on every Hog exported from Canada, the Dominion Government is contributing ....2½c per lb. (Wiltshire weight). This contribution amounts to approximately —$150,000.00 per week.

THIRD CONTRACT

Negotiations for the third contract are now in progress. The terms are as yet unknown, and only general comment in regard to it would be in place. This much may properly be said:—

(a) That the price should be fair to Canadian Producers,—indeed, such as to insure maximum production.
(b) That the price should be in no way influenced by the urgency of British need for Bacon. This war is Canada's war as well as Britain's, and to suppy the sorely needed Bacon is one of Canada's first duties.

In the discussions, Canadian negotiators will also have in mind considerations which go beyond the immediate contract.

When the war is over, Canada will be producing Hogs on a scale far exceeding all previous experience. Prior to the war, Canada's Bacon quota (under the Ottawa Agreements) was ..... 48,000 cwts. weekly.

But her heaviest shipments in any one year had been (1937) ..... 33,000 cwts. weekly.

In the two war years, shipments have been:—
September 1st, 1939 to August 31st, 1940 ..... 50,000 cwts. weekly.
September 1st, 1940 to August 31st, 1941 (August estimated) ..... 74,000 cwts. weekly.

And in the coming (third) year Canada expects to deliver ..... 115,000 cwts. weekly.

At the end of the war, Canada will have a surplus production of at least ....100,000 cwts. weekly, and for that surplus Great Britain will be the only outlet. Canada will then need a quota in the British market such as (in peace time) has never before been thought of. In the main, quotas are fixed as a result of discussions involving economic give and take;—but also an important element in such discussions is 'good will'.

At that time good will on the part of the British Government will have a high importance for Canada.

There is another type of good will still more important. That is the good will of the British consumer. In the past, Canadian Bacon has held 'second' place in the favour of the British housewife. Danish Bacon came first.

In this respect, the present is Canada's opportunity. 'Canadian' is now the only imported Bacon the British housewife can buy. More than ever before, it is important that now, during the war, Canadian Bacon should become established on the highest level of quality, flavour, and sizeability.

Toward this objective a good deal has already been accomplished. In spite of difficulties in transportation (due to the slow speed of convoyed ships), Canadian Bacon to-day stands higher than ever before in British estimation. The improvements have been brought about by co-operation between Producers and Packers under very expert guidance by Officers of the Federal Department of Agriculture. Though little has been heard of it, this is one of the most important and far-sighted achievements of the war period.

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The amount of space devoted, in this Report, to the Bacon contracts seemed necessary, because of the interest in the subject on the part both of Producers and pubic.

In the carrying through of these contracts, the Packing Industry had a vital part to pay. And this review would be incomplete without some reference to the manner in which the job has been done. It is especially called for by the fact that not infrequent criticisms of the Packing Industry have been heard.

The reasons for such criticisms are easily understood. The Producer is constantly told that the price of Hogs hinges chiefly upon the outlet for the country's surplus.

This is equivalent to saying that, during the past year, the price of Hogs has depended chiefly upon the British contract price. That price has been constant. And yet the price of Hogs has not been constant. At times it was higher than the contract parity. At other times it was lower.

When the price is above the export parity, producers may not fully understand the reason, but they naturally do not complain. On the other hand, when the price is below parity, producers whose Hogs are then being marketed feel they have a grievance.

In both cases the explanation lies in the fact that other factors also have an influence on Hog prices,—at times a quite important influence. During the past year such factors have been:—

(a) The dramatic advance in American Hog prices. (Between April and July, 1941, top prices at Chicago advanced from....8c low to....12c high.)
(b) Fluctuating conditions of supply and demand in the domestic field. Within the past fifteen months there was one period in which Canadian housewives were urged to consume all the pork products possible. Supply exceeded demand. During that period Pork products sold as much as ....2c per lb. below the export parity. At a later period exactly the opposite happened. In order to make larger quantities available for Britain the Bacon Board restricted the amount of Pork product whch could be offered for sale in Canada, first by ....25% and later by a further ....25%. By reason of these curtailments, domestic supply was much below demand, and the price advanced above the export parity to a maximum of ....2c per lb.

As to the manner in which the Packing Industry has discharged its obligations, certain facts are essential, and they are clear enough:—

(1) The Packing Industry performs a vital service in processing the Live Stock and distributing the resultant meat products.
(2) Its obligation is primarily to the Producer. That obligation is:—
to produce good meats by the most efficient processes, and
to perform this service at a reasonable margin of profit.
It can fairly be claimed the Industry has measured up to these obligations. In the year under review an unprecedented volume of Live Stock was handled. The product was admittedly good, particularly the vital export product. The reputation of Canadian Bacon in Great Britain today stands higher than ever before.
The margin of Profit for the whole Industry is not known, but in the case of this Company the margin was .... 1/7 of a cent per lb. For the total Industry, it would perhaps not be higher than ..... 1/10 of a cent per lb.
(3) Most of the anomalies which puzzle the Producer are caused by the highly competitive character of the Industry. Nevertheless, it is this highly competitive feature which is the Producer's chief safeguard.

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Although this review is already long, a section must be added in respect of the Cattle Industry. Within the Live Stock field, Cattle are second in importance only to Hogs.

On the surface, the war has not seemed directly to affect Cattle prices. No Beef has been shipped to Britain. As in past years, the outlet for Canada's surplus was to United States. And if numbers alone were considered, even that outlet seemed less important than in the immediate pre-war year.

Shipments to United States for the last four crop years have been as follows:—

Crop Year Sept. 1 to Aug. 31	Cattle Shipments to United States
1937 — 1938	81,245
1938 — 1939	292,078
1939 — 1940	134,071
1940 — 1941*	158,000

*August estimated.

Although numbers have been reduced, these exports to United States have been vitally important. It was because the Beef was needed in Canada that fewer Cattle were exported. Nevertheless, the outlet in the United States for the surplus has been the factor which chiefly determined prices. The United States-Canadian Trade Agreement of 1935, and the subsequent modified Agreement of 1938, have had a value to Canadian Cattle Producers corresponding (in respect of the Hog Industry) to the Ottawa Agreements and the later war demand for Bacon.

Throughout the two war years, Cattle prices have steadily advanced. Cattle breeding and Cattle feeding have both been much more profitable than at any time since 1930.

The following table indicates the advance in prices:—

Crop Year Sept. 1 to Aug. 31	Average price for year, Good to Choice Steers 1,050 lbs. down, Toronto
1934 — 1935	$5.27 per 100 lbs.
1935 — 1936	5.21
1936 — 1937	6.32
1937 — 1938	6.10
1938 — 1939	6.28
1939 — 1940	7.55
1940 — 1941*	8.45

*August estimated.

This rather dramatic advance was due to two major causes:—

(1) Demand for Beef was greater than normal. For this there were two reasons:
(a) Exports of Bacon were heavy, and a domestic 'vacuum' was created for Beef.
(b) The very large number of men in military camps set up a new and important 'demand' factor.
(2) In the face of this extra demand, supplies were barely normal, as will be seen from the following table of Inspected Killings:—

Crop Year Sept. 1 to Aug. 31	Killings in Inspected Houses
1937 — 1938	912,355
1938 — 1939	870,096
1939 — 1940	884,053
1940 — 1941*	915,000

*August estimated.

Canada produces, and must continue to produce, a surplus both of Hogs and of Cattle. And the prosperity of her Agriculture depends upon securing a satisfactory export outlet for those surpluses.

(Continued on following page)