CANADA PACKERS LIMITED

REPORT TO SHAREHOLDERS

FOREWORD

In this Report, at various stages, four time periods are used:—

1. Calendar Year

2. Fiscal Year —of the Company; 52 weeks.
Ending last Thursday in March.
Designated by year of close.
e.g. Year under review is Fiscal 1943.

3. Crop Year —or Production Year.
Beginning month of flush production.
e.g. Flush production of Hogs begins in September.
Therefore, the Hog Crop Year is from September to following August.
Designated also by year of close.
Hog Crop Year 1943—is year from September, 1942, to August, 1943.

4. War Year —The war began September, 1939.
First War Year—September, 1939, to August, 1940.
Second War Year—September, 1940, to August, 1941.
Third War Year—September, 1941, to August, 1942.
Fourth War Year—September, 1942, to August, 1943.
Note—'War Year' is therefore co-terminous with 'Hog Crop Year.'

The sixteenth year of Canada Packers Limited closed March 25, 1943. In respect of weight of product sold, and also dollar value of sales, new records were established:—

Weight of product sold		1,328,616,840 lbs.
Previous high (fiscal 1942)	1,228,029,942 lbs.	
Increase over previous high		8.2%
Dollar value of sales		$169,141,670.71
Previous high (fiscal 1942)	$144,509,292.41	
Increase over previous high		17%
Net Profit (after Wartime Inventory Reserve, Depreciation and Taxes) was		$1,611,417.68

Equivalent,
On Sales $169,141,000, to .... .95%
On Tonnage 1,328,616,000 lbs., to .... 12.1c per 100 lbs.

Net Profit in relation to Sales,—.95%—was the lowest but one in the history of the Company. In the depression year 1932, Net Profit was .64% of Sales.

The regular dividend of $4.00 per share ($1.00 quarterly) was paid throughout the year.

The year was the fourth of the war period. (In fiscal 1940, there were seven war months, September, 1939 to March, 1940.)

The following table sets up Tonnage and Sales for the four war years in comparison with the four pre-war years.

TABLE 1

Fiscal Year	Tonnage	Sales	Average Price per lb.
	PRE-WAR YEARS		
1936	659,706,573 lbs.	$ 63,586,883	9.6c
1937	774,270,797	72,699,519	9.4c
1938	836,420,547	84,145,896	10.1c
1939	800,763,592	77,225,732	9.6c
Average	767,790,377 lbs.	$ 74,414,507	9.7c
	WAR YEARS		
1940	913,251,116 lbs.	$ 88,205,639	9.7c
1941	1,091,263,352	110,291,839	10.1c
1942	1,228,029,942	144,509,292	11.8c
1943	1,328,616,840	169,141,671	12.7c
Average	1,140,290,312 lbs.	$128,037,110	11.2c
Increase (average)	48%	72%	15%
Increase fiscal 1943 over last pre-war year (fiscal 1939)	66%	119%	32%

The last column of the above table shows the average price, per pound of product sold.

In the last pre-war year (fiscal 1939), this price-per-pound was 9.6c

For the year under review (fiscal 1943), the corresponding figure was 12.7c

An increase of 32%

It is interesting to set up a comparison of farm prices for the same two years. The following table gives this comparison for the main farm products.

TABLE 2

COMPARISON OF FARM PRICES, 1939-1943

	Average March 1939	Average March 1943	% Increase 1939 to 1943
Wheat, No. 1 Nor., Ft. William	59½c	97c	63%
Oats, No. 2 C.W., Ft. William	28½	51	79
Barley, No. 3 C.W., Ft. William	35½	62½	76
Cheese, f.o.b. Factory, Ontario	11	20) 3)*	109
Creamery Butter, Toronto	21¾	35) 8½)*	100
Eggs, Grade A Large, Toronto	21½	33	53
Chickens, Milk Fed A, Toronto	24½	34	39
Good Steers, live, Toronto	6.78	11.77	74
Hogs, B-1, dressed, Toronto	12.25	17.12) .40)*	43
Lambs, live, Toronto	9.10	15.91	76

*Subsidies. Federal plus Provincial.

It is not possible to arrive at an accurate weighted percentage of increase for all farm products, but a glance over Column 3 in the above table would indicate that 60% increase may be taken as an approximate average.

In addition to the comparison of sales volume (Table 1), Shareholders (and the public generally) will be interested in a comparison of profits as between the war and pre-war periods.

Unfortunately, no records are available for the Packing Industry as a whole. But the following table sets up the record for Canada Packers.

TABLE 3

Fiscal Year	Net Profit	Net Profit expressed as— Percentage of Sales	Per 100 lbs.
	PRE-WAR YEARS		
1936	$1,288,011	2.0%	19.5c
1937	1,522,662	2.1	19.7
1938	1,100,559	1.3	13.1
1939	1,238,736	1.6	15.5
Average	$1,287,492	1.7%	16.8c
	WAR YEARS		
1940	$1,667,809	1.9%	18.2c
1941	1,555,028	1.4	14.2
1942	1,611,465	1.1	13.1
1943	1,611,418	.95	12.1
Average	$1,611,430	1.3%	14.1c

The profits listed above are net, after deduction of Bond Interest, Wartime Inventory Reserve, Depreciation, and Taxes.

The principal deduction is that for Taxes.

In the four pre-war years, Federal Taxes totalled $1,384,004.12

In the single year under review, Federal Tax (Income plus Excess Profits) is $1,843,664.65

For the four war years, Federal Taxes (Income plus Excess Profits) total $5,997,682.30

In war time, volume expands and prices advance. These are the conditions most favourable to profits. So profits (in war time) are high.

It is the policy of Government to take back the largest feasible share of these profits in the form of taxes. Such a policy is fair and necessary. The cost of carrying on the war could be met in no other way.

However, at some stage after the war, a reverse trend is bound to occur. Volume will decline, and prices will drop. The profits of war time will then be replaced by unavoidable losses.

To provide a buffer against these losses, the Excess Profits Tax Act provides for the setting up of a Wartime Inventory Reserve. This reserve is limited in scope. It may be set up only after the minimum tax (40%) has been paid; also it may be set up only in respect of a volume equivalent to that of the last pre-war year.

The need for such a reserve is indicated by the fact that, to convert this year's inventory to the pre-war price basis (that of March 1939) would require a reserve of .... $5,900,000.

In the year under review, the Wartime Inventory Reserve set up was .... $ 650,000.

The Consolidated Profit and Loss Account tells the story of the business in the simplest form. Each item in the Statement is expressed as a percentage of total sales.

The following table sets up a comparison for the fiscal years 1939 (last pre-war) and 1941, 1942, 1943.

TABLE 4

Analysis of Profit and Loss — Years Ended March

	1939	1941	1942	1943
Sales	$77,225,732	$110,291,839	$144,509,292	$169,141,671
Cost of products, chiefly Live Stock	80.5%	80.7%	81.4%	83.64%
Cost of materials and packages	2.6	3.0	3.0	2.74
Wages and salaries	8.9	8.1	7.3	7.00
General Expenses	4.4	4.1	3.8	3.54
Bond Interest	.2	.1	—	.02
Wartime Inventory Reserve	—	.3	.9	.38
Depreciation	1.1	.8	.6	.50
Total cost of product, plus expenses	97.7	97.1	97.0	97.82
Written off Investments	—	.1	—	—
Profit before taxes	2.3	2.8	3.0	2.18
Taxes	.7	1.4	1.9	1.23
Net Profit	1.6	1.4	1.1	.95

It will be seen that, in the year under review,—fiscal 1943,—out of each dollar of sales, there was paid for raw materials, principally live stock 83.64c

This is a new and very important record.

The previous high for live stock,—in fiscal 1942,—was 81.4c

Compared to fiscal 1939, the increased percentage to the producer is (83.64 — 80.5), ... 3.14%.

Expressed in dollars, the extra sum accruing to the producer is (3.14% of $169,141,671), ... $5,311,048.

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Another item in Table 4 which challenges attention is that for Wages and Salaries.

Expressed as a percentage of sales, there is a decline year by year. This does not mean that wage rates are lower. In fact, they have advanced substantially. But the percentage of advance in rates has been less than the percentage of advance in sales.

At the end of fiscal 1943, workmen at all plants but one had been granted the full cost of living bonus,—$4.25 per week,—and, in addition, individual adjustments which averaged approximately 4c per hour. (At Vancouver, for special reasons, the cost of living bonus was slightly less.)

Over and above this, the Regional War Labour Boards at Vancouver and Edmonton have recently granted a further increase of 5c per hour. The Company declined to join in the application for these increases.

Following this action by the British Columbia and Alberta Boards, it was felt that employees at other plants were entitled to equivalent advances. These have been granted or are now under discussion.

The decision of the British Columbia and Alberta Boards has imposed upon the Company an additional cost for wages of approximately $750,000.00 per year.

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A reference to labour would not be complete without mention of the strain which has at times been put upon plant workmen by reason of war conditions.

The appeal for increased live stock production has met with a signal response from the farmers of Canada,—also under very difficult conditions in respect of manpower.

The measure of that response is shown in the live stock deliveries (reported later in Table 5).

However, owing to complications resulting from ceiling regulations, the increased deliveries, especially of cattle, have come in a quite irregular flow. Over considerable periods deliveries have been extremely light, with the result that certain of the plant gangs have had very short hours. During these periods, the attraction of higher wages elsewhere has drawn off many key workmen.

These periods of short deliveries have in turn been followed by other periods of heavy deliveries. At these times the strain upon the reduced gangs has been very severe.

The present month (August) is normally the month of minimum deliveries of cattle plus hogs. And even at the present time the problem of processing the live stock is by no means light.

In the coming Fall, beginning mid-September, the appeals of the last three years for increased live stock production will begin to take their full effect. It is expected that in October and November, record deliveries of cattle, hogs, and lambs will arrive on the markets.

How these record deliveries are to be processed is a problem which is causing much anxiety. For the first time in history the Canadian Packing Industry may find itself unable to handle all the live stock. Plant facilities are ample. The shortage will be that of skilled workmen.

The Council of Canadian Meat Packers has had this subject up urgently with the National Selective Service. During the past two months, deferment has been requested for all key men. And some consideration has been given to these requests. But many men have been taken.

The only possible method of avoiding a most serious crisis is that National Selective Service should provide replacements in large numbers, and should assist in turning back to the industry,

(a) those key men who have gone to other industries;

(b) perhaps also, for limited periods, certain key men in Armed Services who have not yet left Canada.

Only those engaged in the Live Stock Industry can realize how serious would be the crisis, if live stock, especially hogs, could not be processed when they reached market weights.

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The Packing Industry is an element (an important one) in the broader Live Stock Industry. The key element is the Farmer. It is he who determines what quantity of live stock shall be produced.

Since July 1940, constant appeals have been made to the farmer to increase production, particularly of hogs and cattle. Higher prices have added further stimulus.

To these appeals, the farmer has made a notable response. It is indicated in the following table of Slaughterings at Inspected Establishments:—

TABLE 5

Slaughterings At Inspected Establishments
Total Canada

Crop Year Sept. 1 to Aug. 31	Cattle	Calves	Sheep	Swine
1939	854,953	674,963	793,724	3,186,740
1940 (War Year 1)	887,312	690,706	758,428	4,601,845
1941 (" " 2)	940,795	696,943	794,638	6,172,982
1942 (" " 3)	1,010,012	708,546	798,315	6,467,185
1943 (" " 4)*	998,886*	598,619*	837,048*	6,457,635*
Increase from crop year 1939 to " " 1943	143,933	76,344°	43,324	3,270,895
	17%	11%°	5%	103%

*August estimated.
°Minus.

Note 1—The diminution in marketings of calves indicates, not so much a decline, as a prospective increase in meat production. The reason fewer calves were marketed is that a greater number were held on the farms to grow up into breeding stock.

2—Although crop year 1943 shows a diminution, as compared with 1942, in the number of cattle (11,126) and of hogs (9,550), —nevertheless the actual quantity of beef and of pork produced was greater, inasmuch as the animals were heavier.

The increase in weight of meat produced (crop year 1943 over 1942) was:—

Beef 6.5 per cent.
Pork 5.5 " "

3—Table 5 is the record of Inspected Slaughterings. No record exists of Uninspected Slaughterings, but in crop year 1943 these were much higher, both of cattle and hogs.

It is the general view, though no official record exists, that beef cattle population in Canada is now higher than at any time in ten years.

As to hogs, a forecast of marketings for the first quarter of the approaching crop year has been issued by the Federal Department of Agriculture. It is as follows:—

TABLE 6

Forecast by Federal Department of Agriculture
Hog Marketings — October, November, December, 1943

	Forecast 1943	Actual 1942	Percentage Increase
Alberta	799,000	599,600	33.0%
Saskatchewan	575,000	329,700	74.0
Manitoba	295,000	218,500	35.0
Total Prairies	1,669,000	1,147,800	45.4
Ontario	529,000	526,900	.45
Quebec	150,500	119,500	26.0
Total Central Provinces	679,500	646,400	5.0
Total five Provinces	2,348,500	1,794,200	31.0

It is likely the unfavourable crop prospect in Eastern Canada may lead to reduced breedings. If so, the increase for the later part of the coming crop year will be less. There might even be a decrease.

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Recent Allied successes give ground for hoping that an Allied victory in Europe may come at an earlier date than had been expected. The problems of the post-war period already call for study.

What demands will that period present to the Canadian Live Stock Industry?

The discussions of the recent Allied Food Conference at Hot Springs give some lead as to the answer.

In that Conference, forty-four Allied countries participated. The published reports may be summarized as follows:—

(a) In the immediate post-war period the demand for food will be greater, not less, than at present. In that period, many occupied and neutral countries, now extremely short of food, must receive immediate supplies.
Committees were set up at the Conference, to work out plans in advance for these immediate post-war shipments.
These relief shipments will need to be continued for a period of one or two years.

(b) As to the long-range food problem, the Conference envisaged a policy of setting up higher nutritional standards in all Allied countries. It was the view of the Conference that if effect could be given to such a policy, the food problem would be, not how to dispose of surpluses, but rather how to produce enough food to meet world requirements. Such a world policy, if practical effect can be given to same, would have far-reaching implications for Canada, which produces, and must for many years continue to produce, a large food surplus.

But to set up adequate standards of nutrition in 44 countries (and many more,—for neutral and enemy countries would have to be brought in) is a vastly complicated problem. In every country new methods of food distribution would have to be introduced. It would be a programme which would take years to work out to completion.

It is, therefore, simple common-sense that every existing outlet for Canada's surplus food should be assiduously cultivated.

In the field of live stock, Canada has one chief surplus crop, and one established customer. The surplus crop is hogs. The customer is Great Britain;—(the surplus is shipped in the form of Wiltshire Bacon).

In this market, before the war, Canadian Wiltshire Bacon was a second-place product. Danish Bacon held first place. Canadian Wiltshires sold at a price approximately 8 shillings per Cwt. below that of Danish.

In respect of British bacon supplies, the war imposed upon Canada a special obligation. From June 1940, when Norway, Denmark and Holland were overrun, Canada became Britain's sole outside source of Wiltshire Bacon.

Canadian farmers were urged to increase production to the limit. Their response is indicated in the record of bacon shipments.

Exports to Great Britain in the highest pre-war year (1937) had been .... 192,000,000 lbs.

This year, the objective is 675 million lbs.

Shipments may fall short of this, but will exceed .... 600,000,000 lbs.

Alongside the increased production, for two years there was carried forward a most successful campaign of hog improvement (led by the Canadian Department of Agriculture and the Canadian Bacon Board).

By the Spring of 1942, Canadian bacon had reached a standard of quality and sizability higher than had ever before been achieved. Reports coming back from England gave ground for the hope that at last Canadian bacon might become established in first place in the British market.

(In addition to the popularity based upon improved quality and sizability, there was the strong emotional factor that Canada had come to Britain's help when bacon was not available from any other source.)

What would it mean to the Canadian farmer if Canadian bacon were established in first place in the British market?

In addition to the greatly increased volume, it would mean an extra 8 shillings per Cwt. ($3.00 per hog) on all the bacon shipped to England.

That, in turn, would mean an extra $3.00 per hog on all the hogs produced in Canada. (For the price of the total crop is determined by the price which can be obtained for the surplus.)

Inspected killings in Canada this year will be approximately .... 6,500,000 hogs.
Uninspected killings, at least .... 2,500,000 "
i.e. total hog production in Canada is now in excess of .... 9,000,000 "

An extra $3.00 per hog would mean to the Canadian farmer an added income of .... $27,000,000 per year.

This is the sum at stake in the issue whether Canadian bacon, after the war, shall occupy first or second position in the British market.

Within the last twelve months the prospect of achieving first position has been jeopardized. The reason lies in the urgency of the British demand for bacon. The British Ministry of Food was very intent upon mainataining a four-ounce ration of Wiltshire Bacon. To do this, they required from Canada 675 million pounds per year.

To meet this requirement, the Canadian Bacon Board cut down domestic consumption to one-fifth of the Canadian production. Notwithstanding this, however, British requirements could be met only by finishing Canadian hogs to a heavier weight.

At the urgent request of the Ministry of Food, this has been done.

The result is that Canadian bacon is beginning to lose its acceptance, not with the Ministry of Food, but with the British public.

British housewives are beginning to think of Canadian bacon, as in the last war, as heavy, fat bacon. Consciously or subconsciously, the idea is being re-established in their minds that Canadian bacon is really a second-grade bacon.

But that is not the only penalty.

In the last analysis, the person who determines the quality of the bacon is the man who produces the pig. Twenty years have been spent in bringing home to the Canadian farmer the necessity for lean hogs and sizeable weights. The present request for heavier bacon is bound to blur the farmer's mental picture of the proper type of bacon hog. It is a much easier matter to break down standards than to restore them.

All these facts have many times been considered by the Department of Agriculture and the members of the Bacon Board. In the emergency they have felt they must respond to the request of the Ministry of Food.

However, the increased marketings of the coming crop year should make possible an early return to the standards already reached in the Spring of 1942, and thereafter a further sustained campaign of improvement.

The sum at stake makes this the most important single issue in Canadian Agriculture.

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As in previous years, a copy of this report will be sent to every employee of the Company.

And, as in previous years, the Directors wish to express their appreciation and gratitude for the loyal and efficient work of employees of all ranks.

The Company's profit-sharing plan has been continued. The bonus distributed to Employees at the close of the fiscal year was $790,000.00

A reference at length has been made to the difficult problems which will arise in the coming months, of getting the work done.

The processing of foods is one of the most essential war jobs. The Directors feel they can assure Shareholders and the public, that the men and women who work for Canada Packers will not fail.

TORONTO, 23rd August, 1943. J. S. McLEAN, President.

Extra copies of this Report are available, and so long as they last will be mailed to anyone requesting them. Address to Canada Packers Limited, Toronto.