CANADA PACKERS LIMITED

REPORT TO SHAREHOLDERS

The eleventh fiscal year of Canada Packers Limited ended March 31st, 1938.

Profit, after Depreciation, Bond Interest, and Income Tax is		$1,100,559.48
Equivalent, on 200,000 Shares, to	$5.50 per Share.	
Out of this sum it has been decided to distribute, during the current fiscal year, as Dividends on the Common Shares		$ 600,000.00
That is	$3.00 per Share.	

The year began well. For the first 7 months,—April 1st, 1937, to November 1st, 1937,—Profits exceeded those of the previous year by $100,000.00. But from November forward Profits declined rapidly.

This decline was brought about by the economic recession which set in about midsummer 1937. In the Packing Industry the recession registered, not so much in reduced Volume, as in a drastic decline in prices of certain commodities, chiefly By-Products.

The following table illustrates the extent of this decline as between September 1st, 1937 and March 1st, 1938:

	Price per lb. Sept. 1st, 1937	March 1st, 1938
Hides, Light Cows, Toronto	15½c	8c
Calf Skins, "	24½	14
Tallow, "	5½	3⅞
Lard, "	13½	11¼
Vegetable Fats, "	6.7	4.85

On these products alone, large quantities of which must always be carried as a necessary part of operations, Canada Packers took an Inventory Loss of more than one-half Million Dollars. This Loss was inescapable. When prices again advance a corresponding Inventory Profit will be made.

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The Plant extension programme, begun about 3 years ago, was completed in January, 1938, when operations commenced in the new Vancouver Plant. That programme has involved a total expenditure as follows:

Year ended March, 1936	$ 304,091.81
" " " 1936	1,067,030.72
" " " 1938	1,161,953.41
Total	$2,533,075.94

From the time of its organization, in August, 1927, Canada Packers' main objective,—continued for 7 years,—had been to build up Working Capital. But it had always been recognized that the Company's operations must in time extend to Alberta and British Columbia. The decision so to extend was made in 1935. In addition, certain jobs of expansion and repair had to be undertaken at the older Plants.

The buildings and equipment of the Company are now in excellent condition. The new Plants at Edmonton and Vancouver are of the best type of Packing House construction, and are also amongst the finest examples of industrial architecture in Canada.

The completion of the Plant extension programme has involved a reduction in Working Capital, as follows:

Working Capital, as shewn in Balance Sheet March 25th, 1937			$6,842,769.72
Profit for the year		$1,100,559.48	
Depreciation set up	$836,759.55		
Transfers from Depreciation Reserves of amounts set up in respect of properties sold during the year	231,291.02	605,468.53	1,706,028.01
			$8,548,797.73
Less			
Investments in Plants	$1,393,244.43		
Less Book Value of properties sold during the year	231,291.02	$1,161,953.41	
Dividends		600,000.00	
Serial Bonds retired		750,000.00	
Transfer from Current to non-Current Assets		89,051.58	2,601,004.99
Working Capital, as shewn in Balance Sheet March 31st, 1938			$5,947,792.74

It is hoped now to settle down to another period of rest, so far as Plant construction is concerned, and to start again building up Working Capital.

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Total Sales for the year were	$84,145,896.57
Total Tonnage	836,420,547 lbs.

The Net Profit, (........$1,100,559.48........) is, therefore, equivalent to:—
1.3 percent of Sales, or to
approximately ⅛c per lb. of product sold.

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The following table sets up an analysis for 4 years, in percentages, shewing how the total sums received from Sales were apportioned as between cost of Live Stock, Expenses, and Profits:

Year ended,—	March 1935	March 1936	March 1937	March 1938	Average 4 Years
Cost of raw materials, principally Live Stock	78.3%	78.6%	78.9%	81.2%	79.2%
Cost of materials and packages	3.3	3.1	3.2	2.7	3.1
Wages and Salaries, including Bonus	8.8	8.9	8.8	8.6	8.8
Expenses	5.6	5.5	5.1	4.5	5.2
Interest on Bonds	.2	.1	.3	.2	.2
Taxes	.7	.8	.8	.6	.7
Total Cost of Product and Expense	96.9	97.0	97.1	97.8	97.2
Depreciation on Fixed Assets	1.2	1.1	1.0	1.0	1.1
Profit from operations	1.9	1.9	1.9	1.2	1.7
	100. %	100. %	100. %	100. %	100. %
Income from Investments	.3	.1	.2	.1	.2
Total Profit, including Income from Investments	2.2%	2.0%	2.1%	1.3%	1.9%

The Farmers of Canada, particularly Western Canada, of late have had a difficult time. When the Saskatchewan Farmer, struggling to raise Hogs and Cattle through continued years of drought, reads that a Packing Company has made a Net Profit of a Million Dollars, it is small wonder if he contrasts the lot of the Live Stock Producer with that of the processor. What he may not realize is that the Million Dollars derives from Sales of 80 Millions,—processed in Plants which have cost approximately 20 Millions. In other words, that the sum, though large, is small in relation to Investment and to Turnover.

The essential facts are epitomized in the table of percentages above. Out of each dollar of Sales, the Packer pays—

To the Farmer	79.2 cents
To Employees	
To Suppliers of materials, and for sundry Expense,	8.8 "
Finance, and Taxes	9.2 "
He Himself retains for Depreciation and obsolescence	1.1 "
and for Profit	1.7 "
	100. cents

The Packer performs an essential service in marketing the Farmer's Live Stock. For clearly the householder cannot buy live Cattle and live Hogs. The Packer buys the live animals and converts them into Meats. His job is to produce the most palatable Meats possible; then to offer them for sale in those markets of the world in which they will bring the highest price.

The Packer constantly seeks new markets in his own interest. For the pioneer in a market makes an extra Profit. But he is followed into that market by competing Packers. This competition immediately brings the Packer's Profit back to the normal level (1 to 2 per cent). Thereafter the entire benefit of the new market goes to the Farmer.

This is not just theory. A striking illustration of it occurred in the advance of Hog prices when the British market for Bacon was opened up by the Ottawa Agreement. Within 12 months (March 1933 to March 1934) Hog prices in Canada advanced from 3¼ cents per lb. to an average level of more than ....8c per lb. The Packer was the instrument through which this advance was realized. He shared in the benefit through an extra Profit during the period of the advance. This extra Profit was approximately one-half of one per cent of Sales. But the Farmer's advance was from a 3 cent level to an 8 cent level, (nearly 200 per cent) and this remained.

These facts are worth recalling inasmuch as they illustrate clearly the fundamental relations between the Farmer and the Packer. These may be summarized as follows:—

When prices of Live Stock advance, the Packer makes an extra Profit.

Conversely, when prices decline, the Packer's Profit is reduced.

Therefore, the Packer works constantly for higher Live Stock prices.

But the Packer, within his own province, can do little to advance prices.

Advances come from two main sources:—

(a) Improved markets:—example, the rapid advance in Hog prices which derived from the Ottawa Agreement. Improved markets are brought about mainly by Government action.

(b) Better Live Stock:—example, Canadian Bacon sells on the British market at 8/- per cwt. less than Danish Bacon,—because it is not so good.

If the Canadian price could be brought up to the level of the Danish price, the Canadian Producer would receive for his Hogs an extra 15/20 million Dollars per year.

To interpret market opportunities such as this to the Producer, and to the Government, is one of the Packer's chief duties. For he is the only person in intimate contact with the Producer on the one hand and outlets for product on the other.

From the point of view of the Producer, the year was profitable as to Hogs and disappointing as to Cattle.

Month by month, average prices for Hogs were as follows:

(Bacon Hogs, f.o.b. Ontario Country points)

	1934	1935	1936	1937	1938
January	7.36c	7.81c	8.10c	8.18c	8.21c
February	8.92	7.85	8.24	7.93	8.67
March	8.36	7.43	8.15	8.16	9.47
April	7.47	7.99	8.02	8.40	9.54
May	7.80	8.64	7.81	8.50	9.80 (estimated)
June	8.47	9.17	8.52	8.90	
July	8.54	8.90	8.71	9.89	
August	7.87	9.16	8.89	10.27	
September	7.74	8.63	8.13	10.17	
October	7.25	8.19	7.66	8.37	
November	7.14	7.24	7.24	7.85	
December	7.37	7.65	7.86	7.97	
Average for year	7.85c	8.21c	8.09c	8.70c	9.14c

During part of the year the price of Grains was also high. To the Producer who had to buy his feed, the relation between Hog and Grain prices at times caused anxiety. However, most Farmers do not buy their feed. They grow it on their Farms. And the Farmer who gets normal crops of Wheat, Oats, and Barley, and converts those into Hogs on the basis of 9 cents per lb. gets a good return on his land. Since January 1933, when the Ottawa Agreement came into operation, Hog production has without question been the most profitable branch of Canadian Agriculture.

As has always been the case in the past, that Farmer has done best who continued to produce Hogs all the time. The unfortunate Farmer is he who, through a series of crop failures, has been forced out of Hogs. And there are many such. The evidence of this lies in the Hog deliveries of the Prairie Provinces during recent months

HOG GRADINGS

	Alberta 1937	Alberta 1938	Saskatchewan 1937	Saskatchewan 1938	Manitoba 1937	Manitoba 1938	Total—Prairie Provinces 1937	1938	Percentage Decrease
January	77,698	74,585	32,109	21,636	63,322	45,402	173,129	141,623	18.2%
February	85,138	67,076	34,262	15,491	53,393	38.270	172,793	120,837	30.1%
March	106,704	82,817	35,046	15,945	56,711	39,629	198,461	138,391	30.3%
April	94,352	60,963	30.341	14,635	43,412	26,042	168,105	101,640	39.5%
May	84,891	58,526*	27,375	12,249*	39.658	24,957*	151,924	95,732*	37.0%
June	94,297		33,600		45,783		173,680		
July	56,645		23,798		36,840		117,283		
August	49,939		18,552		21,712		90,203		
September	35,145		16,995		27,153		79,293		
October	46,977		24,450		38,489		109,916		
November	91,915		39,972		62,519		194,406		
December	90,991		29,455		50,940		171,386		
TOTAL	914,692	343,967	345,955	79,956	539,932	174,300	1,800,579	598,223	

*May estimated.

For the 5 months January to May 1938, decrease of Hog marketings as compared to the previous year have been:

	Number of Hogs	Percentage decrease
Alberta	104,816	23.4%
Saskatchewan	79,177	49.8
Manitoba	82,196	32.0
Total Prairies	266,189	30.8%

This decrease is due entirely to crop failure. Many Farmers have no feed. And in many districts there has not been water for Live Stock.

As this Report is written, Cash and October Grains are quoted as follows:

	Fort William Cash per bu.	Fort William October per bu.	Equivalent at Farm Cash per bu.	Equivalent at Farm Cash per lb.	Equivalent at Farm October per bu.	Equivalent at Farm October per lb.
Wheat	$1.17	75c	$1.01	1.68c	59c	.98c
Oats	.44	35	.33½	.98	24½	.72
Barley	.53	57	.39½	.82	43½	.90

Based on October prices, the cost per lb. at the farm of a mixed ration—one-third each Wheat, Oats, Barley, would be................87c

The best available estimate is that in Canada, on average, it takes 5 lbs. of Grain to produce 1 lb. of Hog.

Accepting this as the basis, and estimating the cost of the Grain at October prices, the cost of producing Hogs farrowed October forward, would be:

5 x .87c or 4.35c per lb.

The average selling price for Bacon Hogs, **f.o.b. Prairie points**
throughout 1934 was approximately 6.85c per lb.
" 1935 " " 7.21c per lb.
" 1936 " " 7.09c per lb.
" 1937 " " 7.70c per lb.
" 1938 to date) " 8.14c per lb.

If a price obtains throughout 1939, equal even to the lowest of the above years (1934),—there will be a Profit in producing Hogs as follows:—

Selling price	6.85c per lb.
Cost price	4.35c per lb.
Profit	2.50c per lb.
Per Hog (200 lbs.)	$5.00

So favourable a prospect is bound to bring about a large increase in Hog production. If a good crop is harvested this year on the Prairies there will likely be the greatest increase on record in Hog breedings.

Fortunately, Canada's Bacon Quota in Great Britain is such that a very large increase can still be absorbed. That Quota is 2,500,000 Hogs.

During 1937 shipments totalled	1,600,490 Hogs
For the first 5 months of 1938 (January to May) shipments have been	674,000 Hogs
Shipments for the year 1938 will probably total	1,500,000 Hogs

So that increased shipments can still be made of one million Hogs. Given a large crop it is quite possible that in 1939,—or more likely in 1940,—Canada may fill her Quota.

The calculation above of production cost, is made on a basis of.... 5:1 i.e. 5 lbs. of mixed Grain (Wheat, Oats, Barley) to 1 lb. of Pig. That is the ratio generally accepted as representing average Canadian experience.

But in every Province of Canada there are hundreds of Farmers who are producing Hogs on a basis of 3½:1

And in Denmark the **average for the whole production is** 3¾:1

These are challenging figures. Their significance is that if average Canadian feeding efficiency were brought up to the level of Danish efficiency, the cost of producing Hogs would be reduced one-quarter.

In 1937, when Grains were high, Canada produced approximately 7,000,000 Hogs. It is impossible to state exactly the average cost, per lb. at the Farm, of producing those Hogs. An approximation to this average cost per lb. at the Farm may be taken at .... 6½c.
(Most Producers would probably say it was substantially more.)
At this basis a 200 lb. Hog would cost to produce $13.00

If we assume that average feeding efficiency was on a basis of 5:1,
and if we further assume that it was possible throughout Canada to achieve a feeding efficiency equivalent to Denmark, i.e. 3¾:1,
then it follows that a saving in the cost of production might have been made of one-quarter, (of....$13.00), i.e. ....$3.25 per Hog.
On 7,000,000 Hogs, approximately ....$22,750,000.

On two occasions, after achieving an important position in Great Britain, Canadian Bacon has been pushed out of that market by the Danes. In a general way it was realized this happened because Danish Bacon was better than Canadian Bacon. But it is only recently that Canadians have begun to realize fully that the Danish advantage lay chiefly in their higher feeding efficiency.

There must, of course, be some explanation for this very great difference in feeding efficiency. It lies partly in the fact that Danish Pigs from birth get a balanced ration. This is due chiefly to the fact that almost every Farm in Denmark carries on Milk production as well as Pig production. And throughout the entire growth of the Pigs, Milk is included in their ration.

In Canada this is not possible, for many of the Farms on which Pigs are produced have no Milk available for feeding. Moreover, on most of those Farms, it is not possible to go in for Milk production. But in recent years the knowledge has become general that although a Milk ingredient provides the best ration, still a balanced ration is possible without Milk. The elements contributed by Milk can be made up from other sources, including Beef Scrap, Fish meal, etc.

The next great advance in Pig husbandry in Canada will be the general use of a balanced ration. The facts involved are no longer a matter of speculation. For in almost every Pig producing area of Canada, individual Farmers have achieved a feeding efficiency as high as 3½:1,—with and without skim Milk. When Canada has achieved a standard of quality and also a standard of feeding efficiency equal to that of Denmark, then it will not again be possible for Denmark to push Canada off the British market. For, granted equal quality and equal feeding efficiency, Canada is endowed by nature to produce Bacon Hogs more cheaply than Denmark. And there seems at last a possibility of Canada achieving the dream of two generations, that of becoming the dominant shipper to the British market.

But to achieve this objective there is still a long way to go.

In Cattle the year has been disappointing. The season 1936/7 had been a very successful one. Feeders had made large Profits. As a result, in the Fall of 1937 much larger numbers of Cattle than usual were put on feed. Demand for the feeders was so active that prices were forced up........1 to 1½ cents per lb. above those of the previous Fall. And by January, 1938, it was already evident more Cattle were on feed than were needed.

In United States, which ordinarily takes Canada's surplus Cattle, conditions were very similar. Prices there were........ 2¼ cents per lb. lower than in January, 1937. As a result the movement of Cattle from Canada to United States was much less than in the previous year. Shipments were as follows:

	1937	1938
January	22,680	4.462
February	15,680	3,046
March	17,551	10,171
April	11,305	4,271
May	14,816	3,372 (estimated)
Total	82,032	25,322

Some relief came from Great Britain. There prices of fed Cattle were high. They were willing to take as many Canadian Cattle as could be transported.

Unfortunately, due to limited Ocean space, the number was not large. However, those shipped helped greatly to relieve the situation. Shipments to Great Britain were as follows:

	1937	1938
January	—	1,440
February	35	3,114
March	211	4,046
April	474	2,469
May	373	3,186 (estimated)
Total	1,093	14,255

Both in United States and Canada, Packers made strenuous efforts to relieve the depressed Cattle situation. In both countries "Eat more Beef" campaigns were launched, with the object of stimulating consumption. Attention was called to the fact that Beef was plentiful, of good quality, and reasonable in price. In United States the campaign was organized on a broad scale, Packers, Cattle Producers, and the Government all participating. In Canada plans were not made in time to permit this wider organization, but individual Packers carried on active campaigns. In this movement it is perhaps fair to say that Canada Packers took the lead.

As the result of these campaigns, Beef consumption was substantially stimulated, and from April forward Cattle prices became firmer. Unfortunately feeders are still making Losses, but these are much less serious than those anticipated in January.

The success of these campaigns suggests possibilities for stimulating Beef consumption which had not previously been thought of in Canada. It will probably lead to a broad plan of co-operation between Producers, Packers, and Government.

As is always the case, the conditions which brought about a Loss to Cattle Producers, similarly brought about a Loss to the Packer on his Beef. In the year 1936/7,—the year of advancing prices and large Profits to Producers,—Canada Packers made a Profit on Beef of $279,000.00

The year just closed, which was an unprofitable one to Producers, was likewise unprofitable to Packers. On Beef operations during this year Canada Packers made a Loss of.................... $262,000.00

On the other hand, on Hogs, prices for which throughout the year were high, the Result was unusually good, Profit being........ $756,000.00

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The Directors again wish to inform the Shareholders of the highly loyal and efficient service rendered by the Company's Employees. In a food industry quality of products is the fundamental condition of success. Employees of all ranks have taken a zealous interest in achieving perfection of product and of service. Absolute perfection will, of course, never be realized, but the constant aim to achieve it not only contributes to the success of the business, but adds dignity and significance to the job of each man and woman.

Wages at all Plants are now on a higher level than at any previous time, not excepting the post-war peak of 1921.

For several years the Company has practised a Profit-sharing plan. From net earnings is first deducted a sum equivalent to 6 per cent on the Shareholders' equity. Beyond that point, Profits are divided evenly as between Shareholders and Employees. The Employees' share is distributed at the end of the year,—in the form of a Bonus.

In the last three years, the sums distributed to Employees as Bonus have been:—

Year ended March, 1936	$413,000.00
" " " 1937	511,000.00
" " " 1938	193,000.00

Each Employee of the Company shares in the Bonus. The distribution is made by a Committee of the Senior Executives, who do their best to allocate to each individual in accordance with his or her contribution to the business.

At the approaching Annual Meeting, Shareholders will be asked to give approval to this distribution.

A copy of this Report will be forwarded, as usual, to each of the 5,000 Employees of the Company.

J. S. McLEAN,
President.

Toronto, 24th June, 1938.

VOICE of the PRESS

CANADA — THE EMPIRE — THE WORLD AT LARGE

CANADA

When the Howl Starts

The howl of the timber wolf will be as nothing to the howl that will go up if they start pulling up railway tracks in Canada. —Regina Leader-Post.

Delicate Problem

The delicate problem, as no doubt Mr. Bennett knows, is to eliminate graft and corruption from politics without eliminating politics. — Toronto Saturday Night.

Adapted to the Times

Collingwood reports a hail storm with ice the size of golf balls smashing down crops. The vernacular of the day is going modern, as years ago hail stones were always referred to as being as big as hen's eggs.—Peterboro Examiner.

The Prison Report

Penologists may differ as to the recommendations, but the layman who believes that humane treatment of prisoners is, in the end, the wisest course, and is the only way that reform can be accomplished—and this should be the main objective of all prison confinement—will indorse the report.—London Free Press.

The EMPIRE

Sunday Observance

In the interests of all parties it is greatly to be hoped that the unofficial compromise that has been generally reached between ancient laws and modern practice will remain undisturbed. Public opinion today is on the whole in agreement with the principle enunciated by John Stuart Mill nearly a century ago that "the only ground on which restrictions on Sunday amusements can be defended must be that they are religiously wrong; a motive of legislation which can never be too earnestly protested against." The banning of harmless ways of employing Sunday leisure would drive many people, not into places of worship, but into far less innocuous methods of utilizing the day. Under modern conditions there must be a measure of tolerance and give and take on both sides. Few in this country would like to see a Continental Sabbath involving merely another working day for a vast number of people whose vocation lies in serving others. But an attempt by legal enactment to restore the Sabbath of the Puritans would be equally unpopular.—Johannesburg Times.

Gold hoarding is being reported in Belgium.

Spaghetti Is Touchy Dish

As a Subject for Comedy it Must Not Be Made Light Of Before Italians

Few realize how censorable and dangerous is the use of spaghetti in the movies. Italy would ban Hollywood films on account of it.

This problem of spaghetti came to the attention of Archie Mayo of Hollywood when he directed "The Adventures of Marco Polo." It seems that an Italian edict prohibits the use of spaghetti in comedy sequences for the reason that it is the favorite food of the Romans.

Must Have Two "Takes"

But Mayo had to show actors fumbling with the food in a scene which recreates the discovery of spaghetti by Marco Polo in 13th century China.

After some deliberation, Mayo hit upon a compromise. "We'll make another 'take' for the Italians," he said, "and this time be sure to call it noodles—that won't offend anyone."

Balloon Barrage Defends London

Against Air Attack—Is Like A Giant Fence Mile or So Up

This "balloon barrage" the air ministry is using as one means of defence against air attack over London means throwing a fence high up in the air.

There will be the common garden variety of fence which consists of a line of balloons strung together, trailing steel cables in to which attacking planes are expected to crash. And there will be the "barbed wire" type whose cables are attached to high explosives, and with which contact would prove fatal.

Force Enemy to Heights

The balloon barrage, when fully developed, is designed to form an important part of the co-ordinated scheme — consisting of fighter airplanes, balloons, guns and searchlights—for the air defence of London.

The object of the barrage is to force the enemy aircraft to a height at which they can be effectively dealt with by fighter aircraft and anti-aircraft guns. It is hoped to produce balloons which may reach a height of 25,000 ft., trailing steel cable of sufficient strength to bring down intruding planes.

Can Move Them About

Each balloon has its own single cable and a winch, driven by the lorry engine to which it is connected on the ground to wind it in. The barrage may thus be varied in character and location from day to day. The cables may be arranged in line like a fence or in clumps like a forest.

Many hundreds of balloons have been constructed. Each is of about 20,000 cubic feet capacity. Balloons and winch lorries have been stored in an old airship shed which once housed the ill-fated R-101.

Jerry-Building

When Mr. Justice Goddard, of London, Eng., said recently in the course of a building dispute, "There have been jerry-builders ever since the Tudor times," he was asked by learned counsel, "Who was Jerry?"

Nobody seems to know, but probably there was no such person. Jerry is generally considered to be a corruption of the French word "jour", from which we take the expression jury-mast, i.e., a mast for the day, a temporary mast. Thus a jerry-built house would be one that was not built to last.

The suggestion that, since the walls of Jericho fell flat at the blast of trumpets, "jerry-built" houses are ones that can easily be blown down, is more ingenious than probable.

120 M.P.H. Train

The "Flying Silver Fish of Saxony," a novel type of streamlined train now being tested in Germany, is attaining speeds of more than 120 miles an hour.

Two hundred and ten feet long, the "Silver Fish" is made of light aluminum, and its cylindrical body is perfectly smooth from end to end. It is driven by two 600-h.p. Diesel engines, and has accommodation for 100 passengers.

Gizzard Is Full Of Auto Parts

N. Schiller, Parry, Sask., farmer, while overhauling his car, missed 10 bolts, nuts and washers which he had placed on the ground. Aggravated, he had to suspend work. Two days later his wife, deciding to cook a chicken pie, grabbed one hen from the flock of 60 in the farmyard. In its gizzard she found the ten missing parts from the car. The overhauling job was completed.