



June 5, 2020

The Right Honourable Justin Trudeau, Prime Minister of Canada

The Honourable Chrystia Freeland, Deputy Prime Minister of Canada

The Honourable Bill Morneau, Minister of Finance

The Honourable Navdeep Bains, Minister of Innovation, Science and Economic Development

The Honourable Marie-Claude Bibeau, Minister of Agriculture and Agri-food

Dear Prime Minister, Deputy Prime Minister and Ministers:

Re: Canada Emergency Wage Subsidy Consultations

We are writing on behalf of Canada's food and beverage manufacturers.

On April 24, 2020 we wrote to your government raising concerns regarding the financial pressures COVID-19 has placed on Canada's food and beverage manufacturing sector.

Food and beverage manufacturers are facing incredible challenges as they manage the health of their workers and meet the imperative – as an essential service - of maintaining Canada's food supply. These challenges include reduced revenues due to the almost complete collapse of foodservice sales, as well as increased financial pressure due to the cost of adapting to

COVID-19 - costs we estimate to exceed \$800 million, which represents an average of approximately \$3,000 per worker.

Our organizations make the following recommendations regarding measures to assist food and beverage manufacturers in managing these pressures and in continuing to operate in the context of the pandemic. The objective of these recommendations is to ensure that food and beverage manufacturers with demonstrated financial need qualify for COVID-19 financial support.

Modify the Criteria for the Canada Emergency Wage Subsidy (CEWS) for Food and Beverage Manufacturers

The CEWS was announced on April 1 to help employers protect jobs and rehire employees during COVID-19. From March to May, the subsidy has covered 75 per cent of an employee's wages (up to \$847 per week) for eligible employers that suffered a drop in gross revenues of at least 15 percent in March, and 30 percent in April and May. Last month it was announced that the CEWS would be extended to August 29, 2020.

The challenge for food and beverage manufacturers is that most are not currently eligible for the program.

Food and beverage manufacturers have and continue to experience significant pressures related to COVID-19 including:

- Reduced revenues due to loss of foodservice sales. The extent of loss varies by company based on the company's mix of retail and foodservice products;
- Reduced revenues due to the collapse of wholesale prices on some commodities, as has been the case for some supply managed sectors where producer (i.e. farmer) production volumes and prices are set by marketing boards rather than market forces; and
- Significant cost increases related to measures to mitigate the spread of COVID-19 and allow food and beverage manufacturing plants to keep operating while providing a safe working environment to their workforce.

Many food and beverage companies have been unable to take advantage of the CEWS despite facing financial hardship. In some cases, gross revenue declines have not met the strict percent threshold of revenue reductions. A company with, for example, a 25% revenue reduction would receive no benefit under the program. In other cases, companies are excluded because the program measures needs based on revenue rather than net income – providing no means of capturing the impact of COVID-19 costs on a company's financial wellbeing. As a result, some companies facing significant financial hardship find themselves in a position where they do not qualify for the CEWS despite experiencing greater reductions in net income than some of the companies that qualify for the subsidy.

In our April 24 letter, we made recommendations to modify the CEWS eligibility criteria to ensure it is applicable to a broader range of companies impacted by COVID-19. We continue to recommend revising the CEWS criteria to:

- Provide a sliding scale of support for food and beverage manufacturers experiencing revenue reduction of between 15 and 30 percent; and
- Provide an option for food and beverage manufacturers to apply for the CEWS based on reductions in net income, thereby capturing those companies impacted by the COVID-19-related costs noted above.

We strongly encourage the federal government to modify the CEWS to ensure food and beverage manufacturers are eligible for these benefits and that these changes be implemented retroactively, allowing companies to include costs incurred since the start of this outbreak.

Other Recommendations to Support Food and Beverage Manufacturers

Our organizations have also considered other means of providing support for food and beverage manufacturers impacted by COVID-19.

1. Tax Credit

We strongly encourage the federal government to establish a refundable tax credit in respect of extraordinary expenditures incurred to respond to COVID-19. The tax credit would include costs such as:

- Additional labour costs related to COVID-19 including wage premiums, overtime pay, benefits to employees unable to work due to COVID-19, replacement workers, etc.
- Purchase of PPE and health screening tools;
- Additional sanitation costs;
- Temporary non-structural modifications within plants to protect workers; and
- Required expert consulting services.

Businesses incurring these additional and significant expenses need immediate relief and support in order that they may keep their employees safe and may continue to operate. If businesses continue to shoulder the burden of these additional extraordinary expenses without any relief, recovery will be delayed and they will be forced to reconsider capital expenditures and the hiring of future employees.

2. Broaden Eligibility for Business Risk Management Programs.

Agriculture and Agri-food Canada (AAFC) offers a suite of Business Risk Management (BRM) programs for Canada's agriculture sector to help it weather economic hardship. Currently, these programs are exclusively available to primary producers and do not recognize need across the food system. AAFC currently offers no on-going programs to support the critical food and beverage manufacturing sector.

Government intervention to control the spread of COVID-19 has led to unprecedented market disruption and significantly lower selling prices in many sectors. We recommend that, in response, AAFC immediately implement a net income stabilization program to address financial losses experienced by food and beverage manufacturers caused by COVID-19. This program should be inspired by the Agri-Stability program offered to the producer (farming) community where compensation is provided once the decline in net income surpasses a specific threshold. This would be a temporary manufacturer net income stabilisation program with the objective of keeping plants open and a steady supply of food and beverages available to consumers.

For those manufacturers that may not qualify under an Agri-Stability type program, we recommend that an Agri-Recovery framework be available to respond to the extraordinary costs incurred as a result of the COVID-19 outbreak.

3. Expanding the Temporary Foreign Worker Subsidy

The federal government currently provides \$1,500 for each temporary foreign worker entering Canada to off-set the wage costs associated with the required 14-day quarantine period. This subsidy should be expanded to provide an equivalent subsidy of \$1,500 for each critical infrastructure worker required to quarantine for 14-days as a result of contracting or being exposed to COVID 19.

We would also like to take this opportunity to comment on a recent announcement by the federal government. On May 26, the Prime Minister announced the intention to work with provinces and territories to implement 10-days of paid sick leave across the country. We have yet to see full details on this proposal and, in particular, who would pay for this benefit. We encourage your government to carefully consider the potential impact of layering additional cost pressures on companies at this time. Any additional cost pressures would cause significant harm and hardship to Canada's already fragile economy.

Finally, we would like to stress the importance of Canada's food and beverage manufacturing sector. Food and beverage manufacturers are at the center of Canada's food supply. Very few agriculture products make it to Canada's grocery shelves without first being transformed by one of 7,000+ companies in our industry. Food and beverage manufacturers are Canada's

largest manufacturing sector generating \$118 billion in sales, employing almost 300,000 people and contributing billions of dollars in annual tax revenues.

Canada's food system is essential for national food security and for economic stability. Food and beverage manufacturers understand the vital role they play as an essential service and have made the investments necessary to ensure workplace safety in a challenging and, in some cases, unsustainable business environment. Providing some much-needed relief on a timely basis to maintain a resilient food supply chain is critical for us to continue to support the producers (farmers), workers and consumers that rely on Canadian food and beverage manufacturers.

Regards,

Norm Beal, CEO
Food and Beverage Ontario



Tammy Brideau, Executive Director
Food & Beverage Atlantic



Sylvie Cloutier
Présidente-directrice générale | CEO
Conseil de la transformation alimentaire du Québec



James Donaldson, CEO
BC Food & Beverage



Paul Hetherington, President & CEO
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Canadian Poultry and Egg Processors Council



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Food and Beverage Canada



CANADIAN FOOD & BEVERAGE MANUFACTURERS

At the centre of Canada's food supply chain.



7,000+
businesses

300,000
jobs

\$118 billion
gross domestic product

Food and beverage manufacturers are at the centre of the food supply chain taking fresh ingredients and making them into pizza, cakes, sausages, yogurt, pasta — a variety of products that make their way to grocery stores, restaurants, public institutions like hospitals, and your home.