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Canada's Food & Beverage Manufacturing Sector

Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

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Recommendations:

Recommendation 1: That the federal government establish a refundable tax credit in respect of the extraordinary expenditures incurred by critical infrastructure sectors – like F&B manufacturing – to respond to COVID-19.

Recommendation 2: That the federal government direct the Competition Bureau to launch an investigation into the practices of Canada's food retailers and work with industry and provincial governments to moderate the conduct of Canada's food retailers by implementing a Retailer Code of Practice.

Recommendation 3: That the federal government empower and resource a central department or agency with responsibility for Canada's entire food supply chain with a mandate to develop a coordinated approach to all federal policy and economic measures impacting Canada's food system: to ensure Canada achieves food sovereignty and leverages the strength of its food system to support economic prosperity for Canadians, and to interact with provincial governments for a coordinated approach to these measures.

Recommendation 4: That the Industry Strategy Council develop a full industrial strategy for Canada's food system.

Recommendation 5: That the federal government work with industry to develop a *People, Careers & Workforce Planning* action plan for Canada's F&B manufacturing sector and that the government appoint a lead to coordinate this work across key departments.

Recommendation 6: That the federal government increase support for F&B manufacturing by working with industry to identify the barriers to innovation and by creating a \$150 million innovation fund to support innovation adoption.

Supporting Canada's Food and Beverage Manufacturing Sector

Food and beverage (F&B) manufacturers are at the center of Canada's food supply. F&B is the largest manufacturing sector in Canada. Few Canadian agriculture products make it to Canada's grocery shelves without first being transformed by one of this sector's 7,000+ companies.

Canadian F&B manufacturers generate \$118 billion in annual sales, employ almost 300,000 people, and supply most of the food Canadians buy. A strong and vibrant F&B manufacturing sector is critical to ensure Canada's food sovereignty and to continue contributing to the country's economic wellbeing.

Entering 2020, the F&B sector was focused on the goals set by the federal Agri-food Economic Strategy Roundtable – increasing domestic sales and exports by 30% by 2025. While this was already a challenge, COVID-19 has exacerbated the situation.

With COVID-19, F&B manufacturers have undertaken the incredible challenge of managing worker health while meeting the imperative – as an essential service – of maintaining Canada's food supply. This has led to significant cost pressures as F&B companies have modified plants and introduced safety measures for their employees. Many of these costs will be either long-term or permanent and are expected to contribute to liquidity pressures and bankruptcies within F&B manufacturing.

As we look to the future, Canada's F&B manufacturing sector is prioritizing measures that will both help stabilize the sector - minimizing the risk of bankruptcy and closures, and supporting recovery – ensuring Canada's food supply is secure and that F&B manufacturing, as one of the country's key economic engines, thrives.

Stabilizing Canada's F&B Manufacturing Sector

Since the start of the COVID-19 pandemic, Canada's F&B manufacturing sector has experienced a number of shocks, including the almost complete collapse of the foodservice sector; the disruption of supply chains and labour availability; and the additional costs associated with manufacturing in a COVID-19 environment. These shocks have destabilized not just F&B manufacturing, but the entire food system, and, with that, Canada's food sovereignty and economic wellbeing.

Support for COVID-19 Costs

It is critical for all Canadians that F&B manufacturers weather this crisis. The cost of F&B manufacturers adapting to COVID-19 has, by industry estimates, exceeded \$800 million, including costs related to increased absenteeism/labour shortages; hourly wage premiums; enhanced use of PPE and health screening tools; scheduling changes to achieve more physical distancing; temporary non-structural modifications to protect workers where physical distancing is not possible; increased employee benefits such as child-care subsidies, and securing expert consulting services.

While Agriculture and Agri-food Canada (AAFC) has announced a \$77.5 million Emergency Processor Fund to address some COVID-19 related costs, this will not come close to addressing the full impact of the pandemic. In addition, many F&B manufacturers are ineligible for support under the Canada Emergency Wage Subsidy (CEWS) which measures need 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 do not qualify for the CEWS despite experiencing greater reductions in net income than some qualifying companies.

F&B manufacturers are also limited in their ability to capture any additional cost pressures in the marketplace. Canada’s retail food sector is highly concentrated. Just five companies control more than 80% of the grocery market, with even major F&B manufactures representing less than 3% of a given retailer’s product volume.

If F&B manufacturers, and other groups that supply Canada’s food, such as primary agriculture, continue to absorb COVID-19 cost pressures the Canadian food system will ultimately collapse. It is therefore critical that the federal government establish a program to alleviate the liquidity and other financial pressures imposed on the food system due to the costs of managing COVID-19.

We recommend that the federal government establish a refundable tax credit in respect of the extraordinary expenditures incurred by critical infrastructure sectors – like F&B manufacturing – to respond to COVID-19.

Retailer Code of Conduct

As noted above, Canada’s retail food sector is highly concentrated leaving F&B manufacturers with limited negotiating power. Even before COVID-19, food retailers regularly imposed arbitrary transaction costs, fees and penalties on their suppliers – often without notice or retroactively. In addition, food retailers regularly extend payment terms for months, delaying payments and impacting the liquidity of F&B manufacturers.

These practices are no longer tolerable. Within the past few weeks, with F&B manufacturers grappling with pandemic costs, one of Canada’s largest food retailers – representing an estimated 10% of the retail market – announced new fees of up to 6.25% for its suppliers starting mid-September. In the context of the 4 to 6% margins in the F&B manufacturing sector, these fees are egregious and have the potential to destabilize Canada’s food system. In addition, a second group of vendors representing a further 34% of the retail food market has called for these fees as well.

While food retailers stress the benefits of lowering food prices for Canadians, we need to strongly consider the overall impact of simply layering additional costs on the food system. These costs will ultimately undermine Canada’s ability to supply its own food, impacting our food sovereignty and the viability of critical sectors like F&B manufacturing and agriculture.

We recommend that the federal government direct the Competition Bureau to launch an investigation into the practices of Canada’s food retailers and work with industry and provincial

governments to moderate the conduct of Canada's food retailers by implementing a Retailer Code of Practice.

Supporting Canada's F&B Manufacturing Sector's Growth

The COVID-19 pandemic has magnified the importance and fragility of Canada's food supply. It has also highlighted the need for increased focus on and investment in critical infrastructure like the food supply chain to ensure Canada can weather COVID-19 and future disasters.

Renewed Commitment to the Food Supply Chain

It is imperative that Canada learn from our recent experiences to strengthen the country's food system in the long-term.

Canada must embrace a renewed commitment to tracking, analysing, modeling, and understanding the interactions, interconnectivity, risks, and potential of the full food supply chain – including primary agriculture, F&B manufacturing, distribution, retail and other input and supporting sectors. Achieving this will be a challenge. AAFC has as its main focus one element of the food system – primary agriculture. At the same time, many federal departments touch on the broad range of issues critical to Canada's food supply including food safety, manufacturing practices, transportation, IT and connectivity, energy, labour, regulatory measures, and health.

In the context of COVID-19, this fragmented approach left Canada without an integrated emergency response plan for the full food system and raised significant risks for Canada's food sovereignty. We cannot let this happen again.

It is critical that Canada's federal government, as well as provincial and territorial counterparts, broaden its focus and adopt an integrated approach to regulating, and to developing policies and programs that impact Canada's food system. Key to this is enhancing the understanding, research, analysis, and policy capacity focused on all sectors along the food supply chain, as well as the integrated food system.

We recommend that the federal government empower and resource a central department or agency with responsibility for Canada's entire food supply chain with a mandate to develop a coordinated approach to all federal policy and economic measures impacting Canada's food system: to ensure Canada achieves food sovereignty and leverages the strength of its food system to support economic prosperity for Canadians, and to interact with provincial governments for a coordinated approach to these measures.

The federal government has announced the creation of an Industry Strategy Council to share their perspectives regarding the impact of COVID-19 on key sectors. We recommend that the Strategy Council be tasked with developing a full industrial strategy for Canada's food system and, in so doing, recognize the distinct sectors within the food system and their interconnectivity.

We recommend that the Industry Strategy Council develop a full industrial strategy for Canada's food system.

Labour and Innovation

Entering 2020, labour was already a top issue facing Canada's F&B manufacturers, with industry projecting a shortfall of 65,000 workers by 2025. Increased retirements, a shortage of skilled workers, and the need for seasonal labour have taken their toll on the sector, as has COVID-19. Operating in a COVID-19 environment requires significant investments to protect workers. It has also led to additional absenteeism and challenges finding replacement workers. This cannot continue. Without healthy, skilled workers, Canada's F&B manufacturing sector cannot produce the food Canadians need.

Industry and government have a shared imperative – to ensure Canada's food system succeeds. In 2019, FBC-ABC developed a *People, Careers & Workforce Planning* model that identified key elements of a strong workforce: Awareness of Industry and Career Options; Progressive HR Practices; Skills Training; Qualified Foreign Workers; Underrepresented Groups; and Automation. We invite the federal government to work with industry to identify and implement the measures needed to support the sector in developing a strong workforce.

We recommend the federal government work with industry to develop a *People, Careers & Workforce Planning* action plan for Canada's F&B manufacturing sector and that the government appoint a lead to coordinate this work across key departments.

Innovation will also be critical to growth in F&B manufacturing. Automation – one form of innovation - could in fact play a key role in mitigating labour shortages in the sector. Unfortunately, Canada has an innovation deficit in F&B manufacturing. The Organisation for Economic Cooperation and Development (OECD) ranks Canada 20th among developed countries in food manufacturing R&D investment.

Existing federal innovation programs are not well suited for F&B manufacturing. Often, they are premised on job creation or on the development of disruptive technologies. Technology will not always lead to jobs, and as noted above, could help relieve labour pressures. As well, in a small market like Canada, it is unrealistic to think all or even most innovation will be disruptive. Canadian F&B manufacturers can, however, benefit from adopting technologies that already exist in other countries or industries, and in so doing, introduce and customize innovative products and processes within the sector.

We recommend that the federal government increase support for F&B manufacturing by working with industry to identify the barriers to innovation and by creating a \$150 million innovation fund to support innovation adoption.

As representatives of Canada's F&B manufacturing sector would like to thank you for this opportunity to share our views on the measures needed to strengthen Canada's food system. We look forward to the opportunity to discuss these recommendations with you further.