

CREATING BALANCE IN CANADA'S FOOD SUPPLY

FOOD, HEALTH &
CONSUMER PRODUCTS
OF CANADA

FHCP PASC

PRODUITS ALIMENTAIRES,
DE SANTÉ ET DE CONSOMMATION
DU CANADA



Canadian
Federation of
Independent
Grocers | Fédération
Canadienne
des Épiciers
Indépendants

CFA FCA
CANADIAN FEDERATION
OF AGRICULTURE | FÉDÉRATION CANADIENNE
DE L'AGRICULTURE

DPAC ATLC
Dairy Processors Association of Canada
Association des transformateurs
laitiers du Canada



Food Processors of Canada



UPA L'Union des
producteurs
agricoles

CM & E CANADIAN
MANUFACTURERS
& EXPORTERS

CMC
100 YEARS
CANADIAN MEAT COUNCIL



Canadian
Horticultural
Council | Conseil
canadien de
l'horticulture

FCEI CFIB
FÉDÉRATION CANADIENNE
DE L'ENTREPRISE INDÉPENDANTE. | CANADIAN FEDERATION
OF INDEPENDENT BUSINESS.

Food and
Beverage
Canada | Aliments
et boissons
Canada

Canadian Beverage Association
Association canadienne des boissons

The voice of Canadian fruit and vegetable growers

**FOOD AND
BEVERAGE
ONTARIO**

**FOOD &
BEVERAGE
manitoba**

ALERTA
food processors association

ODC
Ontario Dairy Council

WESTERN DAIRY COUNCIL

**Conseil des
industriels laitiers
du Québec inc.**



Canadian Corrugated and
Containerboard Association
Association canadienne du
cartonnage ondulé et du
carton-caisse

**ALIMENTS ET
BOISSONS
ATLANTIQUE**



**FOOD &
BEVERAGE
ATLANTIC**

CTAQ

CONSEIL DE LA
TRANSFORMATION
ALIMENTAIRE
DU QUÉBEC

**FOOD &
BEVERAGE**



Association des
producteurs maraîchers
du Québec



**BC
GREENHOUSE
GROWERS'
ASSOCIATION**

HORTICULTURE
HNS
NOVA SCOTIA

ONTARIO
**FRUIT & VEGETABLE
GROWERS' ASSOCIATION**



KAP KEYSTONE
AGRICULTURAL
PRODUCERS
OF MANITOBA

BCAC
BC AGRICULTURE COUNCIL
Leading the way together

NOVA SCOTIA
NSFA
FEDERATION OF AGRICULTURE

Alberta
Federation
of Agriculture

Alliance
of NB • agricole du N.-B.

The current Canadian food landscape consists of five large retailers controlling over 80% of the grocery market. This level of concentration means that Canada's largest retailers can aggressively and unilaterally dictate the terms of business with their food suppliers.

These practices have shaped Canada's food system in a way that disadvantages farmers, processors, independent grocers, and Canadian consumers. They have reduced investments in food production and processing in Canada, making the country more reliant on food produced elsewhere and decreasing our food security.

The high cost of doing business with major retailers stands as a major hurdle to expansion and growth in Canada's agri-food sectors. It limits the ability of small and medium-sized farmers and processors to get their products to consumers and puts small and medium-sized independent grocers at a competitive disadvantage. For consumers, this means only being able to access a select portion of the products produced in Canada.

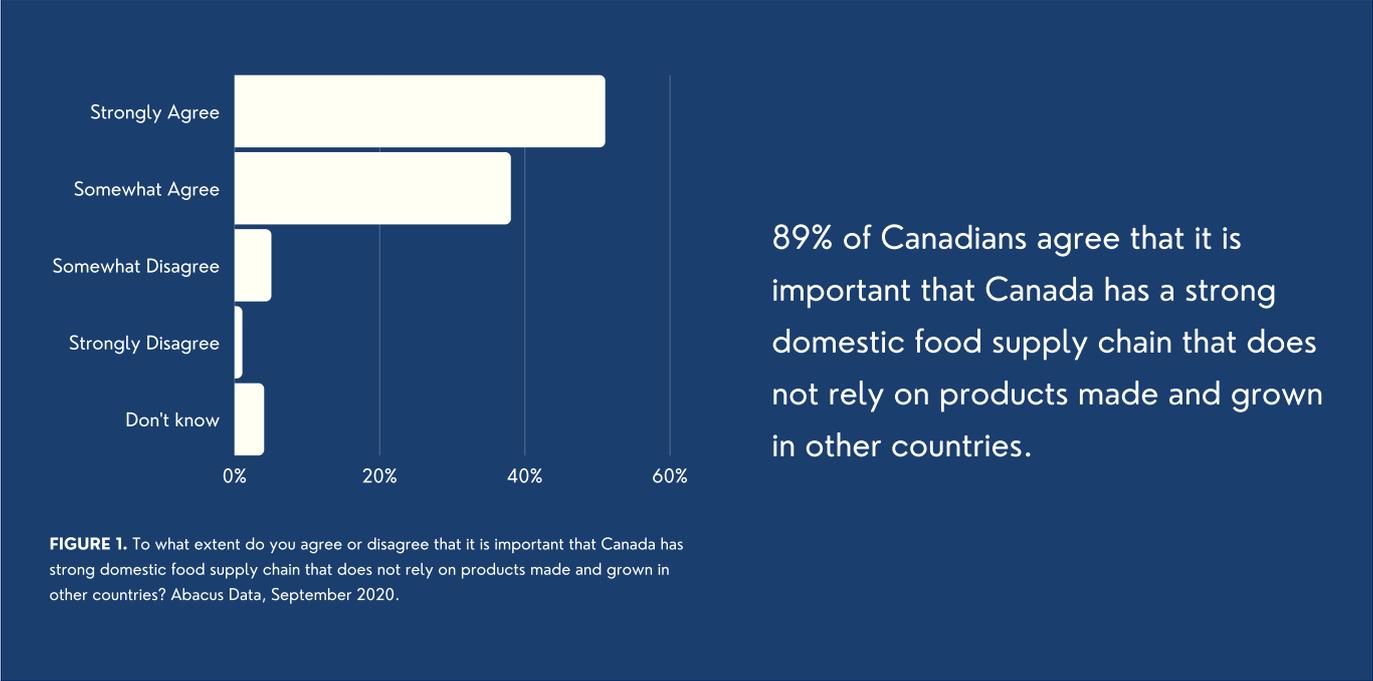
This is an increasing concern for farmers and food processors. As Canada looks to the future of its food system, now is the time to look at interventions that will support the kind of food supply chain that Canadians want and deserve.

Last month, Abacus Data was commissioned to ask Canadians their thoughts on the current food supply chain. It turns out that Canadian consumers think there is room for improvement. A large majority of Canadians feel that having a small number of competing grocery chains results in grocery prices being higher than necessary and that greater balance in the country's food supply chain is needed [1].

Canadians want strong domestic agri-food sectors

Canada's experience with Covid-19 has highlighted the importance of a resilient and robust domestic food supply chain. During this time, reliance on imported products left the country without access to vital equipment and, as borders closed with trading partners, Canadians worried about disruptions to their food supply. Now, more than ever, Canadians want their food to be grown and processed at home as much as possible and they feel that the government needs to support its agri-food sectors.

As Canada considers lessons learned and looks to strengthen its domestic supply chains—food and otherwise, it is vital to consider how these supply chains are influenced by the practices of large retailers. Retailers' use of arbitrary fees and deductions, and lack of adherence to terms of contracts have **created a climate of uncertainty which disincentivizes investment in Canada's agri-food sectors.**



Participants in a 2018 study noted that the high listing fees charged by retailers played a major role in their decision to not innovate or invest in Canada. While almost half of the food available in Canada is produced domestically, over 80% of new products introduced for retail customers were either developed or manufactured outside of Canada [2].

A weakened domestic processing sector has a cascading effect along the supply chain and makes our country more reliant upon imported products. For example, it reduces domestic market opportunities for Canada’s farmers and forces them to turn to export markets. This potentially creates a situation wherein Canadians will see agricultural products exported only to return home as goods processed elsewhere. For processing companies looking to export, the current environment makes it difficult to establish the kind of foundation necessary to develop export markets for Canadian innovations, further limiting the growth of Canada’s agri-food sectors.

Furthermore, these practices put independent grocery retailers at a competitive disadvantage. Ensuring fair supply to these retailers not only ensures they can continue to operate, but it also ensures they remain a critical component in supporting the food security of the many rural and remote communities they serve.

Canadians want their food to be grown and processed at home as much as possible and they believe that the government needs to support its agri-food sectors. But to strengthen and grow Canada's value-added agri-food sectors, the government first needs to address the factors which discourage investment and innovation.

CANADIANS DO NOT BELIEVE THE CURRENT GROCERY ENVIRONMENT BENEFITS THEM

Canada has a highly concentrated grocery retail sector with just five large companies controlling over 80% of Canada's grocery market. Retailers' power over the food supply chain is unmatched; even the largest food processor with multiple brands controls no more than 3% of any given retailer's volume [3].

The vast majority of Canadians (79%) feel that having a small number of grocery chains competing for their business results in grocery prices being higher than necessary [1]. Canadians

are correct. Retail practices and fees decrease the efficiency and productivity of Canada's food supply chain. It is estimated that the fees, deductions and administration required to simply get products on to shelves—known as 'trade spend'—has grown at twice the rate of sales over the past five years. Trade spend is significantly higher in Canada than in other countries; it accounts for 28% of processor costs here, compared to just 18% in the United States [1].

These practices also force the supply chain to focus on the wrong priorities: instead of finding ways to be more efficient in logistics and processes, suppliers are spending significant resources

79% of Canadians feel that having a small number of grocery chains competing results in grocery prices being higher than they need to be.

76% of Canadians feel that government should step in to ensure that more products sold on Canada's shelves are actually made in Canada.

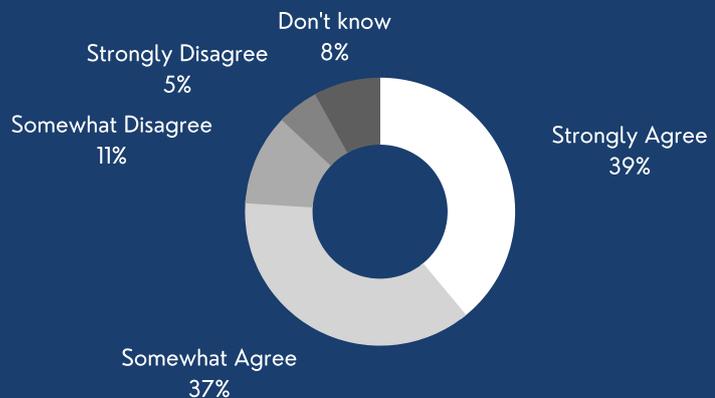


FIGURE 2. Over 80% of new products available at grocery stores are not made in Canada, in other words they come from the United States or other countries. With that in mind, to what extent do you agree or disagree that the government should step in and put in regulations or incentives in place to ensure more products sold on Canadian shelves are made in Canada? Abacus Data, September 2020.

on administration. One such example is the practice of 'post audits' whereby a retailer will deduct several hundred thousand dollars from a payment with limited supporting documentation. The subsequent process for suppliers to determine the validity of a retailer's claim and reclaim any money owed takes countless administrative hours and creates a heavy and unexpected financial burden which can amount to millions of dollars in extra trade spend per processor per year. This has a significant negative impact on innovation and growth, as well as consumer prices.

Canadians support measures to strengthen our country's food supply

From Quebec's Panier Bleu initiative to commitments made in the recent federal Speech from the Throne, governments across Canada are looking at ways to strengthen our country's local food supply chains. Canadians believe that governments have a role to play in encouraging agriculture and agri-food investment and ensuring that there is balance between players in our food system. **In fact, a strong majority (82%) of Canadians support governments doing more to encourage investment in Canada's farming and food processing sectors [1].**

As governments explore just what is needed to support investment and strengthen the country's food supply chain, the creation of a Grocery Code of Conduct must be a key consideration. A Code could create greater balance in the food supply chain and create parameters to establish a level of certainty that suppliers will be paid on time, at the negotiated price, and without being subject to surprise or retroactive fees levied at the whim of the retailer. This would help to reduce practices that create disincentives to investment and innovation in Canada's agri-food

87% would support the Canadian government playing at least some role in ensuring that grocery retailers are treating food suppliers and consumers fairly.

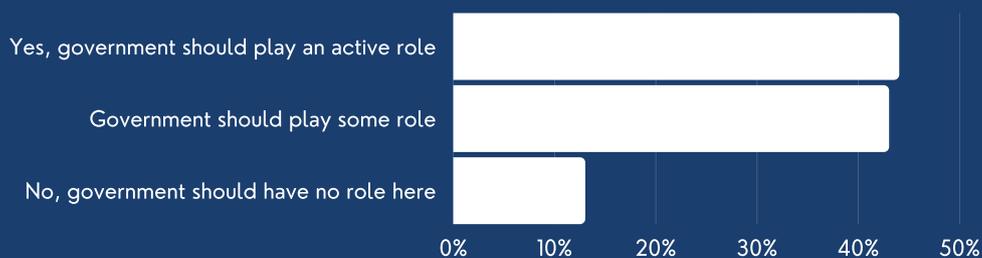


FIGURE 4. When compared to other countries, the grocery market in Canada is controlled by a relatively small number of companies. Do you support government playing a role in ensuring these companies are treating suppliers and consumers fairly? Abacus Data, September 2020.

Increase in food prices, adjusted for inflation (2013-2020)

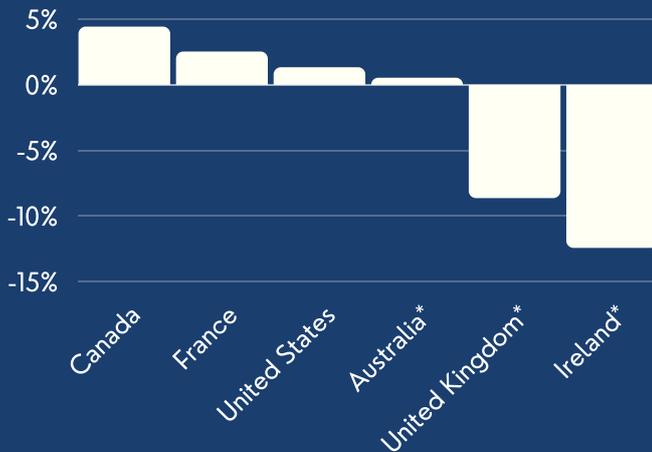


FIGURE 3. Source: StatCan; U.S. BLS; UK Office of National Statistics; Ireland Central Statistics Office; Australia Bureau of Statistics; France-Insee

*Countries with a grocery retailers code of conduct

sectors. A Code should ensure that the principle of fair dealing is applied to all stakeholders, whether they are suppliers or grocery retailers.

Retailers have made unsubstantiated claims that measures to address unfair practices and inefficiencies, such as a Grocery Code of Conduct, would increase the cost of food; however, the evidence proves otherwise. In countries where steps have been taken to address retailer behaviours, food inflation has been significantly lower than in Canada. In the seven years since the United Kingdom established its grocery code of conduct, food prices have actually decreased by over 8% while Canadian food prices have increased by 4% in the same period (when adjusted for inflation) [4].

Addressing inefficiencies and unfairness in our food supply chain helps everyone: farmers, processors, retailers, and Canadian consumers.

WE THINK A GROCERY CODE OF CONDUCT IS THE ANSWER

The experiences of the United Kingdom, Ireland, and Australia have demonstrated the benefit of introducing codes of conduct to address issues stemming from significant grocery retail market concentration. Grocery codes of conduct have brought balance to supplier-retailer relationships, improved competition in the grocery retail environment, and supported greater collaboration throughout the food supply chain. These codes have not focused on regulation or control of contracting. Rather, they have set parameters within which companies are free to negotiate the terms of contracts. The general focus has been to reduce punitive fees and

arbitrary penalties, create greater transparency and accountability, and encourage “good faith” dealing between retailers and food suppliers.

In the years following the implementation of the United Kingdom’s code, prices to consumers have decreased, and the food industry’s culture has shifted to be more collaborative and consumer-focused. Recent reviews have indicated that even retailers now view the code as a step in the right direction.

We believe that it is time for Canadian governments to consider the introduction of a Grocery Code of Conduct as a cornerstone of their efforts to strengthen our country’s food supply chain.

More than three-quarters (77%) of Canadians support government action to encourage food suppliers and grocers to adopt a Grocery Code of Conduct in Canada [1].

Our call for a Grocery Code of Conduct is about restoring balance in Canada’s food supply chain by leveling the playing field and addressing the heavy-handed ways in which our country’s largest grocery retailers deal with their suppliers. More importantly, it is about ensuring that decisions made today do not undermine Canada’s ability to grow and process food at home in the future.

References

[1] Abacus Data (2020). Testing appetite for a grocery code of conduct. Conducted on behalf of the Dairy Processors Association of Canada September 23-29, 2020.

[2] Food, Health and Consumer Products (formerly FCPC) (2018). FCPC industry sustainability and competitiveness study.

[3] Food, Health and Consumer Products (formerly FCPC). “Fair Business Principles in the Canadian Grocery Industries” [Presentation].

[4] Source: Statistics Canada, UK Office for National Statistics, compilation and calculations by DPAC.