

ALIMENTS ET
BOISSONS
ATLANTIQUE



FOOD &
BEVERAGE
ATLANTIC

Food and
Beverage
Canada



Aliments
et boissons
Canada



December 4, 2020

Pat Finnigan, M.P., Chair
Lianne Rood, M.P., Vice Chair
Yves Perron, M.P., Vice Chair
Aimée Belmore, Clerk of the Committee
Standing Committee on Agriculture and Agri-Food
Sixth Floor, 131 Queen Street
House of Commons
Ottawa ON K1A 0A6

Re: Study on Processing Capacity

We are writing to you on behalf of Canada's 7,000 food and beverage manufacturers.

Food and beverage manufacturers are at the center of Canada's food supply. Food and beverage 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 food and beverage manufacturers generate \$120 billion in annual sales, employ almost 300,000 people, and supply much of the food Canadians buy. A strong and vibrant food and beverage manufacturing sector is critical to ensure Canada's food sovereignty, to maintain our primary agriculture sector and to continue contributing to the country's economic wellbeing.

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

With COVID-19, food and beverage 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 food and beverage 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 potentially bankruptcies within food and beverage manufacturing. Recent fees announced by some of Canada's major grocery retailers will simply add to the burden.

The impact: these cumulative pressures on our food system will reduce investment and destabilize our food sovereignty. Already we are seeing a significant innovation deficit in food and beverage manufacturing. Today, Canada's food and beverage manufacturing sector ranks 20th among OECD countries for R&D investment. In addition, more than 80 percent of new products in our grocery stores are either developed or manufactured outside of Canada.

As we look to the future, Canada's food and beverage manufacturing sector is prioritizing measures that will stabilize the sector and supporting recovery.

Stabilizing Canada's F&B Manufacturing Sector

Since the start of the COVID-19 pandemic, Canada's food and beverage manufacturing sector has experienced a number of shocks, including the collapse of foodservice, disruption of supply chains, impact of border closures, strains on labour availability, additional costs associated with COVID-19 protections and most recently arbitrary fees imposed by some of Canada's largest grocery retailers. These shocks have destabilized not just food and beverage 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 food and beverage manufacturers weather this crisis. The cost of food and beverage 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 food and beverage manufacturers have been ineligible for support under the Canada Emergency Wage Subsidy (CEWS) which measures need based on revenue rather than net income.

Food and beverage 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 food and beverage manufactures representing less than 3% of a given retailer's product volume.

If food and beverage manufacturers, and other groups that supply Canada's food, such as primary producers, continue to absorb COVID-19 cost pressures the Canadian food system will be severely

weakened. 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 food and beverage manufacturing – to respond to COVID-19.

Retailer Code of Conduct

As noted above, Canada's retail food sector is highly concentrated leaving food and beverage 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 food and beverage manufacturers.

These practices are no longer tolerable. Within the past few months, with food and beverage manufacturers grappling with pandemic costs, some of Canada's largest food retailers have announced more new fees. In the context of the 4 to 6% margins in the food and beverage manufacturing sector, these fees are egregious and have the potential to destabilize Canada's food system.

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 onto food and beverage manufacturers and primary producers. These cumulative costs will ultimately undermine Canada's ability to supply its own food, impacting our food sovereignty and the viability of critical sectors like food and beverage manufacturing and agriculture.

We are pleased that, at their November meetings, the federal, provincial and territorial Agriculture ministers committed to strike a working group to look at this issue. We encourage the federal government to continue to prioritize this and to commit to having a Code in place by the end of 2021.

We recommend that the federal government continue to prioritize the issue of retail practices and to commit to having a Canadian Grocery Code of Conduct in place by the end of 2021.

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, food and beverage manufacturing, distribution, retail and other input and supporting sectors. Achieving this will be a challenge. Agriculture and Agri-food Canada (AAFC) has as its main focus one element of the food system – primary agriculture. At the same time, while many federal departments touch on the broad range of issues critical to Canada's food supply – such as food safety, manufacturing practices, transportation, IT and connectivity, energy, labour, regulatory measures, and health – there is little federal coordination of the impact on the food system.

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 food and beverage manufacturers. On any given day this, Canada's largest manufacturing sector, is short 10% of its workforce. By 2025 we expect to be short 65,000 workers. 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 food and beverage manufacturing sector and that the government appoint a lead to coordinate this work across key departments.

Innovation will also be critical to growth in food and beverage 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 food and beverage manufacturing.

Existing federal innovation programs are not well suited for food and beverage 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 food and beverage 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 food and beverage 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 food and beverage manufacturing sector , we 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.

Yours truly,

Norm Beal, CEO
Food and Beverage Ontario



Tammy Brideau, Executive Director
Food & Beverage Atlantic



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