



Agriculture and
Agri-Food Canada

Agriculture et
Agroalimentaire Canada



GROWING THE CANADIAN FOOD PROCESSING SECTOR

AN INDUSTRY/GOVERNMENT ACTION PLAN

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EXECUTIVE SUMMARY

The food and beverage processing industry is the largest manufacturing industry in Canada in terms of shipments, accounting for 17% of total manufacturing shipments. It provides employment for 296,000 Canadians (about 1.7% of the Canadian workforce) and produces shipments worth \$89 billion which account for 2% of the national GDP. It supplies approximately 77% of processed food and beverage products available in Canada. It is also the single largest market for Canadian agricultural products.

Given a stronger Canadian dollar, rising input costs, a tightening credit market and increasing off-shore competition, the food processing industry, like other manufacturing sectors in Canada, has struggled over the past few years. This difficult business situation resulted in the closure of a number of plants and, for the first time in almost 20 years, a trade deficit in 2009.

Given the difficulties facing the sector, Agriculture and Agri-Food Canada (AAFC) initiated discussions with senior industry and departmental officials in June 2008, in the form of a Food Processing Competitiveness Working Group (FPCWG), to examine the situation and recommend appropriate industry and government actions to address the challenges facing the sector. The following categories were identified by industry as critical to its competitiveness:

- **Economics** – ability to access affordable capital to modernize and automate facilities, to enhance scale of production, to improve productivity and to address industry labour shortages specifically with regards to the recruitment and retention of foreign workers;
- **Market Access** – support for market development better suited to the food processing industry and better access to domestic and foreign markets;
- **Research and Development and Innovation** – need for programming better suited for the food processor sector, and consistent application of research tax credits; and,
- **Regulatory** – an environment that facilitates innovation with respect to, for example, the introduction of health claims and novel foods and a level playing field with competitors.

Following the initial findings of the FPCWG, a Food Processing Industry Roundtable hosted by the Minister of State for Agriculture with a cross-section of senior industry representatives was held on June 15, 2009. At this meeting, the competitive issues identified above were validated by industry.

At the close of the Roundtable meeting, the Minister of State committed that AAFC would work with industry to prepare an action plan to assist the sector to overcome the competitiveness challenges that it faces for presentation to industry. A draft of this *Action Plan* was presented at a second Roundtable meeting in April 2010. It was agreed that the draft Action Plan would be finalized by December 31, 2010 after further consultation with industry and other interested government departments.

While a wide range of actions has been identified in the Action Plan in areas such as domestic market assistance, training program assessments, innovation and Product of Canada labelling, the FPCWG has placed a priority on the following six areas.

1. **Access to Affordable Capital** – Small and medium sized companies need to make investments now but such needs may be difficult to meet.
2. **Access to Competitively Priced Inputs** – The Canadian processing industry requires competitive access to the following inputs: dairy ingredients, sugar, potato starch, energy and packaging.
3. **Market Access** - Improved access, in particular, to the U.S. market, enhanced export market support better suited to the food processing industry and improved import labelling compliance are needed.
4. **Regulatory Environment** – The approval process for novel food, fortification, health claims and additives must be simplified to facilitate innovation.
5. **Customer Concentration** – The high level of concentration is increasing business costs and restricting access for smaller companies.
6. **Scientific Research and Experimental Design Tax Credit** – The program should better address the needs of the sector and its administration should be simplified.

The *Action Plan* defines a workplan with a timeframe of 12 months for the completion of most of the action items to help address the critical issues identified by industry to improve its competitiveness. The Minister of State for Agriculture has committed to the development and implementation of this *Action Plan* to assist the food processing sector to better respond to the current market realities and resume its previous levels of growth in a business environment that is no longer based on a weak Canadian dollar. This is a dynamic document which will be reviewed and revised on an annual basis to ensure its currency in light of the rapidly changing world economy.

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GROWING THE CANADIAN FOOD PROCESSING SECTOR

- AN INDUSTRY/GOVERNMENT ACTION PLAN -

INTRODUCTION

The food and beverage processing industry is the largest manufacturing industry in Canada in terms of shipments, accounting for 17% of total manufacturing shipments. It provides employment for 296,000 Canadians (about 1.7% of the Canadian workforce) and produces shipments worth \$89 billion which account for 2% of the national GDP. It supplies approximately 77% of processed food and beverage products available in Canada. It is also the single largest market for Canadian agricultural products.

Given a stronger Canadian dollar, rising input costs, a tightening credit market and increasing off-shore competition, the food processing industry like other manufacturing sectors in Canada has struggled over the past few years. This difficult business situation has resulted in the closure of a number of plants and the loss of a significant trade surplus.

Given the difficulties facing the sector, Agriculture and Agri-Food Canada (AAFC) initiated discussions with senior industry and departmental officials in June 2008, in the form of a Food Processing Competitiveness Working Group (FPCWG), to examine the situation and recommend appropriate industry and government actions to address the challenges facing the sector. The following categories were identified by industry as critical to its competitiveness:

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At the initial Food Processing Industry Roundtable, hosted by the Minister of State for Agriculture with a cross-section of senior industry representatives, on June 15, 2009, the competitive issues identified above were validated by industry. A discussion paper, prepared by the FPCWG, that examined the business situation and identified the challenges facing the sector was circulated. The Roundtable participants confirmed the findings of the discussion paper.

At the close of the Roundtable meeting, the Minister of State committed that AAFC would work with industry to prepare an action plan to assist the sector to overcome the identified competitiveness challenges for presentation to industry. A draft of the *Action Plan* was presented at the second Roundtable meeting in April 2010. It was then agreed that the draft Action Plan would be finalized by December 31, 2010 after further consultation with industry and other interested government departments.

The call for an industry vision was frequently raised by participants at the Roundtables as an important element that should be discussed within the context of helping the sector to grow and prosper. In July 2008, AAFC implemented a five year policy and program framework for federal, provincial and territorial governments formally known as *Growing Forward*. However, within this framework, industry does not feel that a specific, coordinated approach to addressing the long term competitiveness of the food processing sector exists. It maintains that programs and assistance for the food processing sector vary significantly across provinces and territories.

Growing Forward puts emphasis on building a profitable agricultural and agri-food sector through its three strategic outcomes:

- A competitive and innovative sector: from idea to invention to consumer, growing new opportunities that support innovation and competitiveness.
- A sector that contributes to society's priorities: enabling the sector to contribute to the priorities of increasingly health-conscious and environmentally aware Canadians.
- A sector proactive in managing risks: providing business risk management tools that are more responsive, predictable and bankable.

While the food industry acknowledges the efforts of AAFC with respect to the guiding vision of *Growing Forward*, it is concerned that this vision does not specifically include the food processing sector. Industry suggests that greater attention be paid to the needs of the food processing sector in terms of the development of a vision for the food processing sector, the implementation of an on-going consultative process and further integration of food processor needs into departmental and interdepartmental programs and policies.

The FPCWG recognizes this concern and the need for a policy discussion regarding the holistic impacts of food in terms of wellness, health, farming, rural development and overall food security. However, the FPCWG feels that this Action Plan should reflect a business plan for improving the competitive business environment for the sector since other fora could more appropriately pursue this complex and lengthy policy question.

Proposed Actions

- The Food Processing Industry Roundtable will meet on a regular basis. It will be co-chaired by an elected government official and a senior bureaucrat from AAFC and will partner with industry to discuss sectoral challenges and seek actions and solutions to help sustain the competitiveness of the sector.
- The FPCWG will continue to act as an advisory committee for AAFC to identify and evaluate issues of importance to the food processing sector in Canada and recommend actions to ensure the growth and prosperity of the sector. It will meet regularly and report on its progress semi-annually.
- AAFC will continue to better integrate the needs of the food processing sector with the objective of ensuring that forthcoming policies and programs (with the exception of Business Risk Management) are developed within a lens of the value chain. Where practical, this would mean, for example, both producers and processors would have access to programs.

Proposed actions to address specific challenges follow and most are expected to be realized over the next 12 months. In the course of developing this *Action Plan*, the FPCWG completed a number of actions aimed at helping to enhance the competitiveness of the food processing industry. These actions are listed in the *Annex*.

THE CHALLENGE OF ECONOMICS

Productivity

Interviews of senior officials of food processing companies provided further specificity of the challenges identified by the FPCWG. The priority challenge identified most frequently by companies was the need to reduce operating costs to offset a stronger Canadian dollar and rising input costs. So companies are examining every facet of their business in the search for cost savings. This situation, coupled with the fact that the productivity of the Canadian food processing industry continues to trail the U.S. industry, our major competitor, leads industry to believe that assistance to narrow this gap is required.

The federal government has taken action to help address this issue. For example, on September 11, 2009, AAFC announced \$50 million in assistance over five years in repayable contributions for the food processing industry through the AgriProcessing Initiative (API). The API provides contributions for the purchase and installation of equipment to adopt new manufacturing technologies and processes. This assistance will help processors to reduce operating costs and improve productivity.

Proposed Action

- AAFC and industry will work with provincial and territorial partners and other government departments to develop and recommend further initiatives to improve the competitiveness of the sector including efforts to automate and modernize plants and to significantly increase productivity. These recommendations may include programs: to assist with the acquisition and installation of modern production equipment and the training of skilled workers needed to operate modern equipment; and to retrain production workers displaced by modernization and automation. These actions should also respond to other competitiveness challenges facing the sector, in particular, assistance to meet the needs of small and medium size enterprises (SMEs) such as their lack of efficient scale. These efforts will be guided by the outcomes of the API.

Access to Capital

Access to affordable capital has been cited by industry as a significant barrier to improvements to productivity. A large percentage of small and medium sized Canadian food processors believe that access to capital is an important obstacle to competitiveness and their ability to grow to efficient scale. It appears that access to affordable capital may be less of an issue for large scale processors. Further research is needed to more fully explain the circumstances associated with the sectors inability to secure access to affordable capital. For example, is a particular form of capital not being made available to the sector or are companies not meeting lenders' criteria?

Proposed Actions

- The FPCWG established a sub-committee to examine the financing options available to food processors to ensure that they are meeting needs of industry and, where shortcomings are identified, to recommend alternatives. This examination will include a review of available regional financing options for consideration as national programs. The actions of the subcommittee include:
 - In conjunction with Farm Credit Canada (FCC), gain a better understanding of the access to capital issues facing food processors. An industry outreach initiative could also be undertaken by AAFC and food processing associations to ensure that industry is better aware of the services offered to them by the FCC and other federal agencies (such as the Business Development Bank of Canada) that could assist food processors in securing capital.
 - Conduct a study to quantify the size of the capital input needed to bring Canada's food processing industry to the state of modernization, automation and scale required to compete effectively and sustainably in the world market.
 - Explore with federal partners the importance of maintaining the current provisions with respect to accelerated capital cost allowance in the medium term.

Access to Competitively Priced Inputs

Previous industry surveys and recent company interviews indicate continuing sectoral concern with access to competitively priced inputs. The FPCWG identified the top five inputs of concern to Canadian food processors: dairy ingredients, sugar, potato starch, energy and packaging.

On behalf of the FPCWG, AAFC carried out a study regarding the competitiveness of dairy ingredients that concluded that the Special Milk Class Permit Program pricing mechanism does not appear to be the main issue. Rather, price competitiveness differentials, especially as reported by some large users, appear to result from the extent to which the discount on milk paid at the producer level is passed on by dairies to further processors. This situation is constrained by controlled access to limited permits to process Class 5 milk and excess demand for competitively priced industrial milk.

Proposed Actions

- AAFC will present the results of the dairy ingredient study to the Market Committee of the Canadian Milk Supply Management Committee.
- Similar to the above study on the competitiveness of dairy ingredients, AAFC will initiate a review on the availability and pricing of sugar and potato starch.
- The FPCWG will discuss with Natural Resources Canada its programs to enhance competitiveness through improved energy management and the dissemination of this information to industry.
- AAFC will work with other federal and provincial governments to identify existing programs or work relating to energy and packaging.

Access to Labour

Access to skilled labour has been a longstanding concern identified by industry and labour issues were raised by several companies during the recent interviews. The labour shortages in Western Canada during the past year have resulted in some companies turning away contracts. In Ontario, the critical skilled labour shortage is being addressed by the federal and provincial governments through the establishment of the Institute of Food Processing Technology. Labour shortage issues are further complicated for the sector's SMEs that do not have dedicated human resources (HR) departments. Their HR issues revolve equally around recruitment, retention and training. Programs have been developed in each province to assist with the training of workers for the industry, as well as, training is being developed through the Food Processing Human Resources Sector Council (FPHRC) at the national level.

Proposed Actions

- In collaboration with industry, AAFC will work with the FPHRC to assess the training programs available for the industry to determine where gaps exist.
- The FPCWG, in collaboration with AAFC's Value Chain Roundtables, will undertake analysis to review regional financing options with respect to training for consideration as national programs and to examine the ways to enhance programming and tools with respect to "English as a Second Language" training to assist foreign workers and their families adapt and settle in their new jobs and homes.
- AAFC will collaborate with Human Resources and Skills Development Canada to carry out a case study of company use of Labour Market Opinions associated with the Temporary Foreign Worker Program to develop best practices and literature/guidelines to better inform companies about how to more easily and effectively comply with this requirement of the program.

Domestic Customer Concentration

The four major chain grocery retailers in Canada account for about 65% of domestic retail food sales.¹ At the same time, the number of independent grocers who may provide alternative markets is declining. Food manufacturers have long asserted that, with so few buyers, this situation has resulted in a more difficult business environment for them. While the foodservice sector, which accounts for about 40% of consumer purchases of food products, is not as concentrated as the retail sector some segments reflect high levels of concentration. For example, the three largest broadline foodservice distributors account for about 40% of sales and the three largest quickservice operators represent about 70% of such sales.

Food processors cite concerns with growing slotting allowances, reduced shelf space access, narrowed margins, additional service fees and the rising market share for private label products. These concerns were noted by food processors attending the second Food Processing Industry Roundtable on April 19, 2010.

The retail food sector in Canada is more concentrated than in the U.S. but is less so than in other countries such as the U.K. The issue of the impacts of a concentrated food retail sector has been the subject of many government reviews with mixed results.

Proposed Actions

- AAFC will continue to monitor the implications of customer concentration on Canada's food processing sector.
- The FPCWG will consider strategies to further engage the federal government on this issue.

¹ Based on AC Nielsen 2009 Grocery Watch Report information, other estimates cite the top 3 retailers control up to 80% of sales.

Environment

Like other manufacturers, food processors are recognizing the changing societal and regulatory philosophies with respect to the value and consequences of using input resources. While the sector has never been regarded as having a major negative impact on the environment, food processors are increasingly seeing the environment as a business priority. This priority includes actions to more efficiently use inputs such as energy and packaging and reduce industrial outputs such as waste water and organic discharges. In the process, companies are reducing costs and becoming better corporate citizens. This heightened interest is resonating with consumers, customers and government regulators.

Consumers concerned about environmental issues respond by choosing products from companies that have developed and promoted their “green plans.” However, the costs of developing new conservation, recycling and other initiatives aimed at reducing a processor’s impact on the environment typically can be difficult to pass on to the consumer. Governments (federal, provincial and municipal) are introducing new environmental policies and programs that encourage food processors to review their operations and change the ways that they do business. For example, most provinces have or soon will develop new packaging recycling programs where the responsibility for the financing and running of the program is designed to be borne by industry. In most cases, the costs of these programs cannot be completely passed on to the consumer.

Moreover, food distributors including retailers, foodservice distributors and mass merchandisers are developing environmental standards that their suppliers must adhere to if they wish to continue to do business with the distributor. These programs are unique to each corporation and require processors to adopt new procedures and record keeping processes for each customer. In addition to being subject to compliance audits from each customer, the incremental costs do not result in higher selling prices.

The FPCWG will continue to monitor this area as there may be areas where new programs can be developed to assist the industry. For example, the ability to reduce packaging to meet environmental goals must be considered in the context of the need to maintain food safety and quality. Further the provision of assistance with the technical aspects of these kinds of evaluations by unbiased third parties would be of benefit especially to SMEs. Or there may be an opportunity to develop an ‘environmental operating standard for food processors’ that would be acceptable to a number of distributors so that the number of competing programs that processors must comply with is reduced.

Proposed Action

- Given its growing importance, the FPCWG will examine this area with the aim of developing and prioritizing a list of issues facing the industry for subsequent study and the eventual development of specific actions.

IMPROVING MARKET ACCESS

Domestic Market Assistance

Canada's food processing sector is facing increasing pressures as a result of foreign government policies and competitive factors resulting from low-cost labour and less regulated production practices. Domestically, the agri-food value chain is pressured by consumers that demand low-priced food and by food retailers/distributors that respond to this pressure by sourcing more and more raw, semi-processed and consumer-ready goods from lower cost foreign suppliers. While Canadian value added processors have and will continue to increase efficiencies and reduce overhead costs, there is a limit to what can be achieved. The most significant but often overlooked long term outcome of this continued shift to off-shore finished goods suppliers is a rapidly diminishing local market for primary producers and their products.

Approximately 5,500 registered food processing operations exist in Canada. In terms of structure, a number of larger multi-nationals are very visible in the Canadian and foreign markets they compete in. Many more medium sized firms that have grown from their start up phase to be strong sellers in many parts of Canada also exist. Depending on the competitive advantage they have from product differentiation or from production efficiencies, many of these mid-size firms also export to one or more countries.

However the vast majority of Canada's 5,500 food processors are best described as small scale businesses. They are dependant on the local domestic market for generating sufficient levels of sales. They then can grow their businesses by entering regional Canadian markets and, when they are suitably prepared and resourced, they can enter export markets. These small scale businesses often bring many innovative new products to market. Yet the programming to support the establishment and growth of these small businesses is fragmented at the provincial and territorial levels at best and non-existent on a national basis.

Proposed Actions

- AAFC will prepare an annual analysis of the state of the Canadian food processing industry regarding the structure and performance of the sector.
- Under the Canada Brand Strategy, AAFC will assist in increasing the sales of processed food products beyond the local market by implementing a strategy to better identify and promote the Canadian content or process of food products to Canadian consumers through a consumer-oriented interactive website, in-store promotions, and tools for industry. All promotional strategies and tools highlighting the advantages of the Canadian food and agriculture sector value-chain will be based on consumer research and industry consultation, including the FPCWG, to leverage consumer preference to buy Canadian.

Export Market Assistance

Export markets will always hold strong potential for future growth given the typically modest growth rates in the domestic market. The current export challenges facing food processors are illustrated by the substantial decline in its trade surplus which is expected, based on year to date data, to be only modestly positive in 2010. Canada is no longer a major food exporter having dropped from the third largest to the seventh largest. In 2009 AAFC introduced a \$2 million component for company specific export market development support aimed at SMEs in the AgriMarketing program.

Proposed Actions

- AAFC will review its current company-specific export assistance programs as part of the development of the next agricultural policy framework, the successor to Growing Forward, to better position food processors to access international markets and increase exports of processed food products beyond the U.S. market.
- The FPCWG will examine the most effective way of providing export preparedness workshops and events specifically targeting the needs of SMEs.

Access to U.S. Market

AAFC completed a comprehensive study in June 2009 to better understand the scope and magnitude of the business impacts of the thickening U.S. border on Canadian food exporters. The results indicated that, while challenges continue to exist for about a third of food processors in accessing the U.S. market, most companies (95%) have been able to cope without significant business impacts. Further work is needed on limiting present and future costs to industry in this regard.

Attention is now focused on the potential impact of food safety measures being considered by Congress. These measures could result in further thickening of the border for food exporters and increased costs.

Proposed Actions

- AAFC will continue to monitor the developments in the U.S. and is implementing a collaborative industry-government advocacy strategy to ensure that Canadian interests are advanced with respect to the development of new U.S. food safety legislation and changes to programming under the existing U.S. food safety regulatory authorities.
- On behalf of the FPCWG, AAFC conducted a case study to quantify the financial and competitive impacts of the “thickening U.S. border” on large and medium sized Canadian food exporters to fully understand the magnitude of the problem and develop strategies to countermand those impacts. This study indicates that such border compliance costs represent a surprising 10% of operating profit. The FPCWG will investigate next steps in relation to the study.

Off-Shore Market Access

Off-shore food exports are limited in scope and Canada had a \$2.6 billion trade deficit in 2009 in these markets. As indicated in AAFC's 2008 survey of food exporters and supported by feedback from our interviews, lack of market access is a major issue in off-shore markets. Companies face significant tariffs (often in excess of 15%) in many of these markets. For example, in the BRIC (i.e., Brazil, Russia, India and China) markets, tariffs are applied to further processed food products. The Market Access Secretariat announced by AAFC Minister Ritz on January 9, 2009 is the focal point for market access activities for all agriculture and agri-food products as priorities are established by the Value Chain Roundtables. The Market Access Secretariat will focus, align and integrate the efforts of the Government of Canada, industry and the provinces to aggressively and strategically go after new markets and keep pace with international competitors.

Proposed Actions

- AAFC will better coordinate Government of Canada efforts to aggressively pursue access to markets for Canadian food products.
- The Canada Brand team at AAFC will undertake and complete a project by June 30, 2011 to review country branding programs implemented by competitor countries to determine best practices. The Canada Brand team will also work to ensure alignment of the Canada Brand story with sector messaging. Within the \$32 million Canada Brand initiative, AAFC will work closely with the food processing industry on strategy development and execution using the recent successful Sam's Club pilot in Mexico as an example.
- By March 31, 2011, the Canada Brand team will also review attributes and supporting proof points currently used by Canadian industry (e.g., the Beef Information Centre) and associations to help determine how to optimally promote the advantages of the sector to target markets. AAFC will present the findings and recommendations from this work to industry for consultation on improvements to the Canada Brand initiative.
- Industry will annually provide the FPCWG with its priority market access issues. The first update is to be provided by the end of 2010.
- AAFC will regularly apprise industry of the progress of negotiations of bilateral trade agreements and the EU trade negotiations. AAFC will take account of both the needs of processors and producers in these negotiations.

INNOVATION AS THE FOUNDATION OF PROSPERITY

Innovation's Role in Competitiveness

Improvements in the sector's competitiveness will come about as the result of the investments and innovations that these companies regularly undertake in response to changing market conditions. For example, the industry continues to invest over \$1.5 billion annually in machinery and equipment to improve productivity and introduce new processes and technology. Innovation in the industry is apparent as thousands of new products are introduced each year. So companies are not standing still in terms of the adoption of innovation but the need exists for them to accelerate the pace of adoption to keep current with companies in other countries.

The Canadian food processing sector lacks both the scale and the commercialization mechanisms to effectively utilize domestic primary research but must rather become much better "rapid adapters" or "fast followers." While such innovation is seen as the foundation of the future prosperity of the manufacturing sector in Canada, recent studies and our interviews with food processing companies do not indicate a systematic issue with industry's efforts regarding innovation affecting its competitiveness. However, industry remains concerned about the Government of Canada's commitment to support "adaptive" innovation in the food processing sector and the future ability of the sector to make a better connection between what is next on the innovation horizon and the food industry.

The Industrial Research Assistance Program (IRAP) program is a contributor to the R&D activities of Canadian food processors. In 2009/10 agri-food clients represented only 5.4% of the program's client base.

Proposed Actions

- AAFC will ensure that its policies and programs with respect to innovation support the development of the food processing sector, in relation to technology uptake and adaptation and the development of new products and processes that create new markets and improve productivity.
- In collaboration with industry, AAFC will examine the current state of knowledge translation and transfer in the Canadian food processing industry. This examination will include an assessment of Canada's situation vis-à-vis other countries, in particular the Netherlands and its Food Valley project, to garner the lessons to be learned and develop recommendations on how to move Canada forward based on those lessons.

- AAFC and industry will explore options for disseminating global information regarding new technologies and processes directly or indirectly of interest to the food processing industry in Canada.
- AAFC will continue to work with the Canadian Revenue Agency (CRA) regarding industry concerns, in particular with respect to the predictability and timeliness of client decisions, with the Scientific Research and Experimental Development (SR&ED) tax credit program. In the process, industry will contribute recommendations regarding revisions to CRA's SR&ED tax credit guide.
- The FPCWG will meet with officials responsible for the National Research Council Industrial Research Assistance Program (IRAP) to identify the importance of the Canadian food processing sector as a high priority manufacturing sector that will be eligible for IRAP support.

REGULATORY ENVIRONMENT – REFORM AND INNOVATION

The FPCWG and participants at the Roundtable emphasized the importance of a food regulatory environment that supports investment and provides regulatory stability. Stakeholders cite problems with unclear and inconsistent regulatory requirements; slow and non-transparent decision-making; insufficient alignment between international and domestic regulations, standards and policies; and an outdated system that is not responsive to change or rapidly evolving technology. The level of cost, coordination and expertise associated with scientifically substantiating a regulatory submission can also be significant impediments.

Health Claims, Novel Foods, and Ingredients/Additives

Health claims provide legitimacy to marketers and to consumers for the health benefits of certain food products and ingredients. Yet the food industry in Canada has been slow to apply for health claims because of the length of time, lack of regulatory responsiveness, uncertainty and costs it associates with the regulatory process required to have a claim approved. This has resulted in lost opportunities for the development of innovative products and decreased the competitiveness of the Canadian food industry. Similarly, industry confusion regarding pre-market approval data requirements and processes for novel food and ingredient approvals has created obstacles and delays in the development of new international markets and limited Canadian consumers' access to health-related food products. Industry maintains that Canada needs regulations that are adaptable to those of the country's major trading partners, and to accelerate its review processes, particularly in cases where an equivalent national body (such as the U.S. FDA) has made a ruling permitting new products, processes or technologies.

Under the *Growing Forward Regulatory Action Plan*, AAFC is implementing a major initiative to:

- Enhance industry engagement and knowledge transfer to:
 - provide analysis and advice on domestic food regulatory issues (e.g., trans fat, sodium, Natural Health Products in a food format) that impact investment and competitiveness, particularly with regard to innovative foods for health;
 - help stakeholders determine plans and priorities with respect to health claims, novel foods, and ingredients based on information on market opportunities, sector capacity and the current state of science;
 - work with industry, the research community and other stakeholders to develop awareness of the science based regulatory environment for innovative food products; and
 - help stakeholders to complete regulatory submissions.

- Contribute to science substantiation through leveraging of partnerships, to help sector groups fill gaps required to demonstrate novel ingredient safety and health claim validity in their regulatory submissions; and
- collaborate with Health Canada to:
 - improve regulatory processes to help make pre-market approval and review processes more predictable, transparent and timely while maintaining health and safety standards;
 - develop enhanced policy frameworks, standards and regulations that will continue to protect and promote health but are better able to respond to advances in food technology and innovations in product development; and
 - establish strategic partnerships with food regulatory agencies internationally, with the aim to promote work-sharing, information exchange towards more consistent food regulatory decisions, supporting further market access to Canadian food products domestically and internationally.

Proposed Action

- The FPCWG will monitor progress of the *Growing Forward Regulatory Action Plan* and identify corrective actions.

Discretionary Addition of Vitamins and Minerals to Foods

Currently, fortified foods must contain the prescribed level of nutrients specified in the regulations. Health Canada developed a set of proposed amendments to the Food and Drug Regulations that would allow manufacturers to add certain vitamins and minerals to foods within regulated limits, expand the category of special-use foods, and define nutrient content claims for labelling. Manufacturers in Canada maintain that this would pave the way for them to produce innovative products, compete for North American product mandates, and broaden consumer choice. The regulations were originally scheduled to be pre-published in the Canada Gazette Part I in 2009.

However, as a result of concerns expressed by a number of health and consumer stakeholders, Health Canada decided not to proceed with the regulatory amendments for discretionary fortification in the short term. Instead, Health Canada undertook further consultation with stakeholders in February 2010 and is currently analyzing the results. It is also offering industry the option to obtain a Temporary Marketing Authorization Letter for foods fortified on a discretionary basis with vitamins and minerals which are not currently permitted. This will assist Health Canada in determining the policy, and eventual new regulations or permanent authorizations for managing voluntarily fortified foods. In addition Health Canada intends to put in place a system to better monitor the presence and health impact of voluntarily fortified foods on the Canadian market.

Proposed Action

- AAFC will continue to support Health Canada regarding the path forward on fortification and, as appropriate, provide resources for activities from within the *Agricultural Regulatory Action Plan* under *Growing Forward*.

Product of Canada Labelling Guidelines

At the Roundtable meetings, food processing representatives raised the issue of Product of Canada labelling (PoC). The view was expressed that the new PoC guidelines of 98% content are too restrictive and that the government should correct the situation. Some of AAFC's Value Chain Roundtables also identified this as an issue. Industry is supportive of the 85% content level that was proposed the government's own House of Commons Standing Committee on Agriculture report.

Proposed Action

- Government will undertake a review of the PoC implementation guidelines. FPCWG will assess the review upon its completion.

Regulatory Predictability

Regulatory predictability is seen as a benefit for companies that have invested in major assets in Canada with an expected payback period that is predicated on a particular regulatory environment.

Proposed Actions

- AAFC supports industry efforts to highlight to Health Canada and CFIA the need for predictability in the context of business climate and continued investment.
- AAFC will provide economic analysis and advice regarding industry business impacts to Health Canada and CFIA on industry regulatory issues.

Imports and Regulatory Compliance

Industry has long maintained that imported food products are not held to the same level of inspection as domestically produced products particularly in the area of labelling. In its opinion, this situation has led to an unfair playing field.

Whether imported or domestically produced, all agricultural products sold or traded in Canada must meet Canadian standards. Food safety is a top priority for the Government and the principal focus of the Canadian Food Inspection Agency (CFIA). The Government is committed to a strong and rigorous inspection system that protects Canadian families so that they can have confidence in the safety of the food they buy.

In terms of the enforcement of food labelling requirements, the CFIA uses a number of tools including targeted random samples and inspections, and responding to complaints to ensure that corrective actions are taken. The particular compliance approach taken will depend on the history of compliance of the company involved, the severity of the infraction/damage to consumers and the willingness of the company to comply.

CFIA and the Canadian Meat Council have established a process to review the current regulatory framework for labelling and its implementation for meat.

Proposed Action

- As per the request of the FPCWG, CFIA presented an action plan on October 26, 2010 which will be refined to include operational contact information. The FPCWG will monitor its effectiveness.

SUMMARY

Recognizing the strong interdependence between the agriculture and food processing sectors in Canada, the Minister of State for Agriculture has committed to the development and implementation of this *Action Plan* to assist the food processing sector to better respond to the current market realities and resume its previous levels of growth in a business environment that is no longer based on a weak Canadian dollar. This is a dynamic document which will be reviewed and revised on an annual basis to ensure its currency in light of the rapidly changing world economy.

Actions Completed by the Food Processing Competitiveness Working Group

The Food Processing Competitiveness Working Group (FPCWG) completed the following actions in the development of the “Growing the Canadian Food Processing Sector - An Industry/Government Action Plan.”

The Challenge of Economics

- The FPCWG promoted the establishment of the AgriProcessing Initiative that was announced on September 11, 2009. It is a \$50 million initiative to help strengthen the competitiveness of the agri-based processing sector. It supports food processing companies with projects that involve the adoption of new manufacturing technologies, new manufacturing processes and/or the introduction of new products to a processing operation. Support is provided through interest free loans of up to \$2 million per project for the acquisition of capital equipment and services.
- The FPCWG established a Finance Sub Committee in July 2010 to examine the financing options available to food processors to ensure that they are meeting needs of this industry and, where shortcomings are identified, will recommend alternatives.
- The FPCWG met with officials of Human Resources and Skills Development Canada to discuss the Labour Market Opinion (LMO) process including potential solutions for companies to work with the LMO in the recruitment of offshore workers. The FPCWG was informed that the industry request to return to a two year validity for a LMO was not possible at this time.
- On September 1, 2010, AAFC posted information on its web site to help companies identify federal financial assistance programs available to food processors in Canada. It is found at <http://www4.agr.gc.ca/AAFC-AAC/display-afficher.do?id=1282949930799&lang=eng>
- AAFC completed a “Benchmarking for Success 2009” survey that examined the financial status, trends and structure of the food and beverage processing industries in Canada and the U.S. The study showed that although Canadian firms trail their U.S. counterparts on common profitability measures this “profitability gap” has shrunk by 300% since 2001. Follow-up work to look at the differences in debt financing between Canadian and U.S. food and beverage processors and how it impacts profitability was completed in March 2010.

- AAFC completed a study to look at the impact of dairy ingredient pricing on the competitiveness of Canadian further food processors. In summary, the study found that the issue is predominantly of concern to large users of dairy ingredients while medium and small users are much less likely to have looked at/be concerned with dairy ingredient pricing. The study also concluded that the Special Milk Class Permit Program pricing mechanism does not appear to be the main issue. Rather, price competitiveness differentials, especially as reported by some large users appear to result from the extent to which the discount on milk paid at the producer level is passed on by dairies to further processors.

Improving Market Access

- AAFC completed “A Study of the Impacts of U.S. Border Security Measures on the Competitiveness of Canada’s Food Manufacturers/Exporters” in July 2009. The study affirmed that the stricter border security measures did cause business challenges for food processors but that, over time, most companies have been able to effectively adapt to the stricter border security measures. Follow-up case studies of two food manufactures/exporters were carried out to provide more detail on the incremental costs to companies due to the U.S. border security measures. This work was completed in March 2010.

Innovation as the Foundation of Prosperity

- AAFC completed a study to enhance understanding of the current situation facing food processors in Canada with respect to the Scientific Research and Experiment Development tax credit in March 2009. The report indicated that the program is working well for many food processors but also suggested that with better education and industry-wide advocacy, access to the program and the success of claims could be improved.