FCPC Food & Consumer Products of Canada | PACC Produits alimentaires et de consommation du Canada

Food & Consumer Products of Canada

Pre-Budget Submission

August 3, 2017

Executive Summary

Food & Consumer Products of Canada (FCPC) is Canada's largest industry association representing the companies that manufacture and distribute the vast majority of food, beverage and consumer goods found on store shelves, restaurants and in people's homes. Our membership is truly national, providing value-added jobs to urban and rural Canadians in more than 170 federal ridings in every region of the country. Please find attached our member company logos.

Food processing is the largest employer in the manufacturing sector in Canada, providing approximately 300,000 Canadians with high-quality jobs in over 6,000 manufacturing facilities in every region of the country. Canada's food manufacturers employ more than the automotive and aerospace sectors combined.

The food and consumer products manufacturing industry has an important economic footprint in thousands of communities across Canada, and is well-positioned to play an even greater role.

Given the federal government's identification of agri-food as a key growth sector for Canada, we are interested in appearing before the Finance Committee to explain how we can together build a more productive and competitive industry in Canada.

Our recommendations outline how to strategically position Canada to be successful in a fiercely competitive and knowledge-based global economy, while growing jobs for middle class Canadians across the country. We are focused on meeting the federal government's export targets identified for the agri-food sector, and look forward to continuing to work in collaboration with the government.

Our three recommendations include:

1. **Provide investment support to manufacturers to innovate, modernize and grow operations.**
2. **Renegotiate NAFTA with a view to boost Canadian value-added products and jobs.**
3. **Modernize regulations to ensure that they are future-facing, evidence-based and supportive of innovation and growth.**

Introduction:

Food manufacturing represents one of Canada's biggest global economic opportunities. The world's population is estimated to grow to 9.6 billion by 2050; this will require a 70% increase in global food production.

According to the Chair of the Advisory Council on Economic Growth, Mr. Dominic Barton, food is going to be one of the biggest businesses in the world. Canada is well positioned to play a vital role in feeding the world with its safe, high quality, made-in-Canada products. This strategy hinges on a competitive food manufacturing sector.

For the first time, the 2017 Federal Budget singled out agri-food as one of three key strategic industries with “great potential for growth and job creation”. The government’s commitment to diversify and move Canada beyond our reliance on commodities toward growth in value-added production is significant.

When Canada’s food manufacturing sector grows, so do the opportunities for farmers and middle class Canadians in every region of the country. As food processing is the largest manufacturing employer in rural Canada, our industry plays a critical role in linking rural and remote Canadians through economic opportunity.

Canadian farmers and food manufacturers work interdependently to produce some of the most trusted food in the world. Food manufacturers support farmers by providing a predictable and convenient market for the high-quality and safe food that they grow. Our industry also provides off-farm employment opportunities for rural residents and countless indirect jobs across Canada.

Recommendations for Budget 2018:

1. ***Provide investment support to manufacturers to innovate, modernize and grow operations***

We are very pleased with the federal government’s initiatives to support Canadian manufacturing in Budget 2017. Important measures were announced which will help spur investment and innovation in Canada’s most promising sectors.

More incentives are required, however, to encourage manufacturers to re-invest in their Canadian plants and open new, modern facilities. Other countries are fiercely competing for these investment dollars. The Trump administration’s focus on repatriating US manufacturing and the uncertainties created by the NAFTA negotiations is putting additional pressure on Canadian manufacturers.

We work closely with the Canadian Manufacturers & Exporters (CME) to help ensure that manufacturers retain – and grow – their operations in Canada. We support their recommendations to increase direct investments in high-potential firms by creating a risk-sharing funding program, expand the Strategic Innovation Fund to $2 billion per year and provide tax credits to encourage investment in machinery and advanced technologies.

In light of the unique challenges facing Canadian food manufacturers, additional support is required to complement the assistance provided in Budget 2017.

According to government statistics, investment in processing plants, advanced technologies and R&D in food manufacturing facilities in Canada has not kept pace with our competitors. We are increasingly concerned about the challenges presented by ageing manufacturing facilities across the country. Modern facilities are a prerequisite to productivity and competitiveness.

Food manufacturers are lagging in their adoption of advanced technologies. A 2014 KPMG Report called *Technology Readiness Assessment of Automation and Robotics in the Food and Beverage Processing Sector in Canada,* found that Canadian food processors are falling behind their competitors in Europe and the US. Top barriers include cost.

Additional challenges for food manufacturers include the compliance cost of the government's proposed food labelling changes, which is estimated at $1.8 billion. (More details are provided below.) Importantly, this is money that will not be spent on capital investment or R&D in Canada.

A sector-specific fund is required. The government previously announced an Agri-Food Value-Added Investment Fund to encourage the development of new value-added products, but no funds have been allocated toward this. We urge the allocation of the earmarked $160 million, and for the fund to be implemented immediately.

We support the excellent recommendations of the Food Processing Industry Roundtable to create a unique fund to implement the priorities identified in their Action Plan, which includes support for regulatory modernization. The Roundtable's proposal seeking $500 million in funding over five years would support a significant increase in investment (up to $ 8 billion) in the sector.

Provide investment support to manufacturers to innovate, modernize and grow operations in the following ways:

a. **Create a risk-sharing funding program for high-potential firms, expand the Strategic Innovation Fund to $2 billion per year, and provide tax credits to encourage investment in machinery and advanced technologies, as per CME's recommendations.**

b. **Allocate the earmarked $160 million to the Agri-Food Value-Added Investment Fund.**

c. **Create a Food Innovation Fund of $500 million over 5 years to help modernize the Canadian footprint of food and beverage manufacturers.**

2. Renegotiate NAFTA with a View to Boost Canadian Value-Added Products and Jobs

Competitive access to international markets is critical for Canada's food and consumer products manufacturers. The free and fair trade generated by NAFTA has been a success for our industry. NAFTA modernization should preserve and build upon these beneficial aspects.

Our industry in North America is highly integrated and dependent on trade. Our products may cross the borders several times at different stages to produce a finished good. Many of our members rely on imported ingredients from our NAFTA partners to manufacture in Canada, and require predictable access to their markets to sell their final products.

A successful renegotiated NAFTA can help us meet the government's ambitious target to grow Canada's agri-food exports to at least $75 billion annually by 2025, and domestic manufacturing jobs.

FCPC urges Canada to consider the following priority objectives for modernizing NAFTA:

- **Protect existing market access**
- **Update rules that increase the competitiveness of companies operating in Canada**
- **Increase regulatory alignment**

NAFTA must maintain and improve:

- **Chapter 3 National Treatment and Market Access for Goods**
- **Chapter 4 Rules of Origin**

- **Chapter 5 Customs**
- **Chapter 7 Technical Barriers to Trade**
- **Chapter 9 Standards-Related Measures**
- **Chs.11, 19 and 20 Dispute Settlement**

New Additions to NAFTA:

- **a new chapter on Regulatory Coherence and Good Regulatory Practices**
- **incorporation of the TPP's Annex 8-D on Cosmetics**
- **a new, separate Annex on Prepackaged Food and Non-Alcoholic Beverages**

3. Modernize regulations to ensure that they are future-facing, evidence-based and supportive of innovation and growth

We continue to face antiquated regulations that make it difficult for our industry to innovate and compete. Importantly, Mr. Barton's report rightly recognized the "challenging regulatory environment" facing food manufacturers in Canada.

Canadian businesses require a modern regulatory framework in order to increase productivity and competitiveness. Regulations for our industry, however, have not kept pace with advanced technologies, global practices or new product innovations. The lack of an adequate number of qualified regulators and high-turnover contributes to the problem. According to Health Canada, at current funding levels it will take more than 20 years to modernize existing food regulations, at which time most will already be outdated.

We are concerned with the lack of resources to address regulations currently under consideration and long-standing regulatory irritants that, if fixed, would encourage innovation. Regulatory change needs to be timely and a mechanism is required to fast-track irritants that impede innovation and growth.

While outdated regulations continue to pile up, we are now facing a whole new set of regulations and unprecedented government intervention in our industry, including Health Canada's labelling of self-care products and *Healthy Eating Strategy (HES)*. While we agree with the objectives of the HES, we have concerns with their process in engaging with stakeholders, lack of scientific rigor and bias toward certain segments of the agri-food value chain.

The government's HES will change how we make our products, how we package our products and how we market our products. This shifting landscape will transform the entire food sector in Canada in a very short time frame. Our industry is being asked to grow, invest and innovate on the one hand, while, on the other hand, we are facing monumental changes that will impact every aspect of our operations.

Of particular concern is Health Canada's proposal to place harsh warning labels on the front of food packages. The proposed labels are misleading and would put "stop" or "yield" style signs on many Canadian-made products like cheese, yogurt, chocolate milk, potato products, breads/ pastries, meat, honey and maple syrup. Please find enclosed the proposed warning labels.

Health Canada has not conducted research to demonstrate that warning labels are more effective than fact-based, more positive labelling options in improving the health of Canadians. This runs counter to the government's commitment to evidence-based decision-making. Warning labels are a missed educational opportunity because they do not encourage consumers to become more informed.

Moreover, Canada's proposal does not align with our NAFTA partners who currently use fact-based labels.

There is substantial evidence that shows warning labels will have a devastating impact on food manufacturers and the entire value-chain. The total net cost of the government's proposed food labelling changes is enormous, estimated at $1.8 billion. (This does not factor in the cost of reformulation - an explicit goal of the HES.)

These costs are outlined in a Report by the Food Processing Industry Roundtable found in English: http://www.fcpc.ca/Portals/1/Userfiles/PAResources/Public2017/FPIRT_RIWG_summary_paper_June_2017%20FINAL%20ENGLISH.pdf?timestamp=1500921769377 and French http://www.fcpc.ca/Portals/1/Userfiles/PAResources/Public2017/FPIRT_RIWG_report_FRENCH_June_2017.pdf?timestamp=1500921771869

Harsh warning labels will undermine public trust in Canadian food, and industry's efforts to increase exports.

Regulatory Recommendations:

- **Modernize existing food and consumer product regulations at Health Canada and the Canadian Food Inspection Agency to address longstanding food regulatory irritants and delays in product approvals before introducing new regulations.**
- **Develop a mechanism to fast-track regulatory irritants that impede growth and innovation.**
- **Conduct a comprehensive economic analysis of the impact of all of the components of the Healthy Eating Strategy on the entire agri-food value chain.**
- **Conduct consumer research to examine how warning labels on food packages compare with alternative, more positive, approaches to inform consumers.**
- **Ensure the timely implementation of the *Safe Food for Canadians Act and Regulations* and the modernization of the federal food inspection system (as recommended by the Canadian Supply Chain Food Safety Coalition).**
- **Shift the coming-into-force timeline to 5 years after the last of all labelling changes has been finalized to avoid unnecessary burden on industry.**
- **Conduct a fulsome review of the impact of the overall regulatory landscape on Canadian food and consumer product manufacturers.**

We look forward to continuing to work in partnership with the government to increase productivity and competitiveness for our industry.

Thank you.

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Members

Health Canada's Proposed Warning Labels on Food