

Submission to the Pre-Budget Consultation

Introduction

The 2017 Budget, and reports from the Economic Advisory Council have highlighted the innovation potential of the agri-food industry as a driver for economic growth in Canada. As the second-largest food manufacturing industry in Canada, the dairy processing industry is eager to contribute.

While some have viewed the dairy supply management system as a limiting factor for increased growth and innovation, initiatives taken by dairy processors and producers over the past year, namely the agreement in principle on the National Ingredients Strategy (NIS), are significant first steps in its modernization. This will create further opportunities for the dairy sector to pursue growth.

To allow the dairy processing industry to reach its full potential and maximize its contributions to the Canadian economy, we believe that Budget 2018 should consider a number of policies and programs aimed at reducing inefficiencies, and addressing key challenges to innovation and growth. As outlined in this submission, the Dairy Processors Association of Canada (DPAC) believes that this would include a Food Processing Strategy, and a mix of initiatives like greater regulation harmonization, investment tax credits, and programs which provide greater access to highly-skilled workers.

Overview of the Dairy Processing Industry

The dairy processing industry makes substantial contributions to the Canadian economy. In 2016, dairy processing had revenues close to \$18 billion and directly supported approximately 23,000 jobs with an aggregate payroll of over \$1.2 billion¹. When taking into account direct, indirect and induced employment, the dairy processing industry creates or supports over 211,000 jobs across the country, with wages and benefits of about \$9.6 billion. Dairy processing directly generates \$3.7 billion in gross domestic product (GDP) in Canada; and when indirect and induced effects are included, its economic contribution grows to a total GDP of nearly \$18 billion.²

Dairy processing has a material presence in every province in Canada, with 207 federal ridings having at least one dairy processing facility. It is important to note that many of these plants are located in rural areas where employment opportunities are otherwise limited. Although we may not be able to assign and add value to this factor, for the communities where these plants are located, the contributions made by the dairy processing industry are significant.

Nationally, dairy processing is the second largest food manufacturing industry behind meat product processing. In 2016, dairy processing represented 12% of the food manufacturing industry GDP. At 14% of total manufacturing GDP, food manufacturing represented the second largest contributor in 2016³.

¹ Source: Statistics Canada, Table 281-0047 and Table 304-0014.

² Mussell, A., Hedley, D. et al. *A Dairy Processor Strategy for CETA: A Study Completed for the Dairy Processors Association of Canada*. Agri-Food Economic Systems. 2016.

³ Source: Statistics Canada, Table 379-0031.

The Need for a Food Processing Strategy

The dairy processing industry welcomes the recent announcement of the [Canadian Agricultural Partnership](#). More specifically, the industry welcomes its focus on investments in science, research and innovation, and growth of the value-added agriculture and agri-food processing sector. In previous submissions on the Next Policy Agricultural Framework, DPAC has urged the government to support the creation of a national food processing strategy.

Currently, there are a patchwork of programs offered by various government departments and agencies, but there is no unified vision or strategy for the food processing sector. The need for a food processing strategy in Canada is clear. Such a strategy must be articulated through clearly stated objectives for the dairy processing industry and a plan of action to achieve them. One of the key objectives should be a targeted level of growth on a 10-year horizon for the dairy processing industry. Government programs could still be offered by various government departments and agencies, but they should be part of the same overarching strategy and should be developed and executed, in consultation with stakeholders, through a distinct multi-departmental team within government. Believing in the bright future of an industry also implies believing in its products. Therefore, promoting the nutritional value of dairy products as part of a healthy lifestyle must also be an integral part of the strategy.

DPAC therefore offers the following recommendation to the Government:

That the Government of Canada allocate the necessary funds in Budget 2018 to develop, in consultation with stakeholders, a food processing strategy. This strategy must be accompanied with clearly stated objectives for the dairy industry and a set of government programs to achieve them. In order for this strategy to achieve its full potential, we recommend that program development and execution be the responsibility of a distinct multi-departmental team within government.

Impediments to Innovation in the Dairy Processing Industry in Canada

There are two broad types of innovation in the manufacturing sector: product innovation and process innovation.

As it applies to the dairy processing industry, product innovation refers to the introduction of a new product or milk component, or a product or milk component that offers significantly improved characteristics or intended uses, ultimately providing better value for Canadian consumers. This approach is a priority for our industry as evidenced by the launch of Agropur Dairy Co-operative's "Together, let's rethink dairy" challenge, which is an open invitation to creative thinkers around the world to identify impactful new innovations that expand and reinvigorate the use of dairy ingredients.

Process innovation is the implementation of a new or significantly improved production or delivery method. For example, Gay Lea Foods Co-operative has acquired sophisticated machinery from a Vancouver-based industrial technology company, which has allowed the deployment of Radiant Energy Vacuum ("REV™") as a dehydration technology for the production of dairy products. This dehydration technology is faster, economical, and provides better end product quality than existing technology.

It is important to note that innovation in processing methods can take the form of improvements in energy efficiency, decreasing waste and reduction in carbon footprint. For example, rather than using

tap water, Saputo uses reverse osmosis permeate, a by-product from whey filtration processes, as a pre-rinse for the cleaning of equipment. Further, through a water recuperation project, the company also reduced its water consumption by 55 million litres annually at a plant in Québec.

Notwithstanding the above, there are currently impediments to both product and process innovation in the dairy processing industry.

- **Product Innovation**

Product innovation is made more difficult as a result of differences in provincial regulations and of federal regulations that are too stringent. Regulatory barriers that restrict the use of innovative technologies by Canadian dairy product manufacturers, reduce the free movement of products between provinces and increase red tape, should be eliminated. We are encouraged by the recent discussions by federal, provincial and territorial governments to make the Canadian regulatory system more collaborative, efficient and effective. To achieve this goal, we believe that provincial regulations must be harmonized; however, this harmonization should not be guided by the lowest common denominator, but rather supporting a thriving dairy processing industry, which will ultimately benefit consumers.

DPAC therefore offers the following recommendation to the Government:

That the Government of Canada take comments submitted in regard to the Canada Gazette Part I publication of the proposed Safe Food for Canadians Regulations into consideration and take the time necessary to ensure that the modernized regulations encompass the full food supply chain and all aspects of it. In conjunction with this, steps should be undertaken to modernize the Food and Drug Regulations, with the objective of reducing barriers to innovation in the food processing sector and eliminating red tape. The Government of Canada should also be a strong advocate for the harmonization of provincial regulations with the goal of reducing interprovincial trade barriers.

- **Process Innovation**

The investment tax credit (ITC) of 20% in the Scientific Research and Experimental Development Tax Incentive (SR&ED) program was reduced to 15% for certain types of corporation in 2012. This change was detrimental to the food processing sector, particularly as it pertains to investments in applied research. Enhancing SR&ED funding rates for eligible salary expenditures could encourage additional spending on applied research in the dairy sector. Furthermore, a review of the program and its administration should be undertaken to ensure a more streamlined process for applicants as several dairy processors have indicated that the burden of the process outweighed the benefits of a refundable contribution.

DPAC therefore offers the following recommendation to the Government:

That the Government of Canada allocate the necessary funds as part of Budget 2018 to enhance the basic investment tax credit in the SR&ED program, and streamline the application process.

Some high-quality research is conducted in Canada's colleges and universities. Unfortunately, it is often very difficult for the private sector to have access to the intellectual property (IP) resulting from this research. One of DPAC member has described the process of purchasing IP from universities as a "negotiation and communication nightmare". Universities often offer IP transfer on terms that are

unrealistic from an industry perspective. It is unfortunate that public investments in research and development end up yielding no benefits to the industry, and ultimately to Canadian consumers, as a result of convoluted IP transfer policies. It should be remembered that consumers ultimately reap the benefits of industry innovation through lower prices or increased choices as a result of new or improved product offerings. The government should consider setting an arbitration mechanism to assist companies in reaching a workable agreement with universities on the issue of IP transfer.

DPAC therefore offers the following recommendation to the Government:

That the Government of Canada allocate the necessary funds as part of Budget 2018 to set up an arbitration mechanism to facilitate IP transfer between universities and the industry. Further, as a measure of success, universities should be rated for renewal of federal funds based on the number of transfers they have secured with industry

Access to Talent and Skills

Not unlike many other business sectors in Canada, access to talent and skills is an on-going issue in the dairy processing industry. The dairy sector remains one where men are disproportionately present. Women have much to offer to the sector, and therefore, there is a need for a specific strategy in this regard. DPAC offers the following set of recommendations to the Government to ensure that the food processing sector in Canada has access to the workers it needs:

That the Government of Canada allocate the necessary funds as part of Budget 2018 to work toward:

- Launching an education campaign to attract young Canadians to pursue a career in the agri-food industry, including dairy processing. This campaign should target young women in particular.
- Adopting more flexible immigration rules (for example, changes to the temporary foreign worker program)
- Expanding co-op programs in universities and colleges, and internship programs
- Enhancing funding for food processing programs in colleges and universities (to ensure they have access to state of the art equipment)
- Broadening on-the-job training programs (for example, workplace apprenticeship program)

International Trade

The elimination of tariffs on a broad range of agri-food processing ingredients totalling approximately \$700 million was announced as part of Budget 2017. While increasing trade opportunities will, no doubt, have benefits for many in the agri-food sector, we do not believe that all will benefit equally from increased trade.

- **CETA Cheese TRQs**

The government made an announcement on August 1st regarding the administrative terms for the allocation of the tariff rate quotas (TRQs) for European cheeses, whereby 50% of these import licences was given to distributors and retailers. These groups are not negatively impacted by the terms negotiated by the Government of Canada in CETA, yet they have received half of the allocation. Any food processing strategy must first mitigate these negative impacts on the dairy processing industry, and then focus on growth.

- **NAFTA Renegotiation**

As Canada heads to the negotiating table to renegotiate the North American Free Trade Agreement (NAFTA), we believe that it is incumbent on the federal government to present a robust case if dairy is to be included in a renegotiated NAFTA.

Should a compelling argument be made by the government for including dairy in the NAFTA renegotiations, Canada's mid- to long-term strategy in dairy must be to achieve parity in terms of its trade balance with the United States. In the short term, any concessions in the dairy sector made during the renegotiations must be met by, at a minimum, equal net gains to the sector in the spirit of a "win-win" approach.

We believe that the Government of Canada's focus in these, and all, trade negotiations should be objective-based as opposed to means-based. The government should therefore seek to establish an agreement and business environment that will position the dairy sector for growth rather than simply looking at what kind of concessions are needed from Canadian dairy processors and producers to reach an agreement in the short-term.

Conclusion

As the Committee pursues the pre-budget consultations, it is important for its members to keep in mind that dairy processing plants are commonly located in rural areas and small towns throughout Canada where commercial and employment opportunities are more limited than in larger urban centres. As a result, any government measures that positively impact dairy processing will generate economic benefits that are proportionally much greater in rural areas. Conversely, any government measures that negatively impact the dairy processing industry will disproportionately affect rural areas. Canadian negotiators and public decision makers must bear this reality in mind in the context of NAFTA renegotiations.

About the Dairy Processors Association of Canada

The Dairy Processors Association of Canada (DPAC) is the national industry association representing the public policy and regulatory interests of the Canadian dairy processing industry. Our membership is made up of medium and large processors whose business models vary from multinational, publicly traded companies, to cooperatives and companies with closed capital. Our processors purchase more than 85% of the total milk produced in Canada. DPAC's [members](#) represent some of the most recognized brands in Canada and provide work to over 23,000 Canadians, contributing close to \$18 billion to the national economy.