

Speaking notes

Sylvie Cloutier, Dimitri Fraeys

Conseil de la transformation alimentaire du Québec (CTAQ)

The *Conseil de la transformation alimentaire du Québec* (CTAQ), or Quebec Food Processing Council, is the main business group in the food processing sector in the province, whose mission is to support entrepreneurs in reaching their full potential to ensure the sustainability of the food industry in Quebec and Canada. The Council is a federation of 13 sectoral associations and brings together more than 550 member companies that account for 80% of the business volume of a \$33 billion industry.

This sector buys more than 70% of all agricultural products and almost 100% of all fish products in Quebec. It also promotes, processes and packages them to offer quality, diversified food products that are easily accessible to the public at grocery stores, all year round.

The food processing industry is facing many challenges, including labour shortages, low margins, lack of capital and lagging productivity and innovation, to name but a few.

The main issue: labour

As far as the workforce is concerned, the pandemic has aggravated an already difficult situation: workers who test positive or who show symptoms must isolate for 14 days. Many employees are no longer available or must stay home to protect their children or parents. The generous CERB program, replaced by unemployment insurance in September, has encouraged many workers to stay at home. It is estimated that 8% to 10% of positions are vacant — 6,000 to 7,000 in Quebec alone.

This crisis has brought to the forefront food companies' productivity issues.

Robotization, automation and digitization are indeed some of the tools of choice to increase productivity and compensate for the lack of workers. Since 2013, food manufacturers' margins have been declining, dropping to 7.9% in Canada (5.7% in Quebec) in 2018. The ability to invest in productivity and innovation is therefore more difficult. The pandemic has accelerated this downward pressure on margins.

Furthermore, during the shift to Enterprise 4.0, the food processing industry is at 2.7; SMEs must quickly adopt management software packages (MSPs) in the short term to be able to support the shift to 4.0, the Internet of Things, connections between equipment, data collection, business intelligence (BI) and online product marketing. Agri-food SMEs need help to accelerate this shift.

Companies need programs and financial support for economic recovery. The Emergency Processing Fund (EPF) has reimbursed equipment expenses but has not been able to reimburse salaries and additional expenses incurred because of health regulations, including increased absenteeism, hourly wage bonuses and additional shifts to better maintain physical distance.

Companies are asking the federal government to increase its offer of financial products in quasi-equity or unsecured loans to avoid increasing project debt ratios. In this recovery period, liquidity (cash flow) remains essential. Appetite for risk and access to conventional financing will be a challenge for businesses in the coming months. The food industry is asking for dedicated funding in the \$70 to \$100 billion envelope of the

2021 economic recovery program. The Barton report listed the agri-food industry as one of the five pillars of the economy and Canadian society, and a player in the creation of prosperity for all Canadians.

As for temporary foreign workers (TFWs), companies have started applications for workers expected to arrive in April 2021. The industry wants to ensure that all measures are in place to facilitate the reception of TFWs, who are essential to maintain supply chains. In order to ease access to foreign workers, the industry is asking that the threshold of 10% of the number of employees per company be raised to 20%.

Code of conduct

Finally, as you know, the food retail market in Canada is highly concentrated, with five major banners controlling over 80% of the grocery market. The major players are consolidating their businesses by acquiring various banners and diversifying their services. These distributors need to renew themselves in order to maintain and attract customers. Each strategy developed by one of them leads its competitor to develop a more aggressive one, creating a spiral that results in increasingly restrictive, demanding and costly measures for suppliers.

According to a recent report produced by the Centre for Interuniversity Research and Analysis on Organizations (CIRANO), in conjunction with the context of the pandemic, significant impacts on food producers and suppliers in Quebec can be attributed to market consolidation, asymmetrical bargaining power and pressure on margins. Furthermore, with gross profit margins estimated at 5.7% in Quebec in 2018 and 7.9% in Canada, an increase in fees charged by certain retailer distributors will undermine access to the mass distribution market.

This will also have a negative impact on the competitiveness of food suppliers in Quebec and Canada, in a context where companies must continually innovate to adapt to changes in food behaviours and new environmental and technological standards.

On the other hand, supermarkets and other grocery shops are showing the opposite trend. Despite a slight decrease in gross margins between 2012 and 2014, there has been a steady increase since 2014. Over the 2014-2018 period, retailer distributor gross margins rose by 2.5 percentage points in Quebec and 2.9 percentage points in Canada.

As for mass distribution, according to CIRANO, a healthy balance must be maintained in the supply chains between mass distribution players (retailer distributors) and their suppliers in order to mitigate the negative effects of the power imbalance that is tilting in favour of retailer distributors. This means that a code of good conduct is increasingly necessary. Such a code, called for by several processor associations and by Sobeys, would help to rebalance competitive forces and maintain Canada's share of in-store and online product purchases.

The adoption and development of alternative distribution methods is also recommended, including short channels (public markets, agri-tourism, kiosks, organic baskets, specialty shops) and emerging online sales platforms.

In our opinion, there must be concerted action to set up such mechanisms to ensure the sustainability of the agri-food sector.

Thank you for listening.

Following the appearance, CTAQ would like to propose **recommendations** to the members of the Standing Committee on Agriculture.

1. Labour

The food processing industry needs temporary foreign workers (TFWs). The pandemic has shown how much Canada needs these workers to feed Canadians. If we want to receive TFWs as early as next April, companies must send in their applications in December. To replace workers who will be in quarantine, companies will need more workers in 2021. In 2020, experience showed that public health measures limit the number of TFWs in the workplace.

The CTAQ recommends increasing the maximum number of workers in the TFWP (Temporary Foreign Worker Program) from 10% to 20% of a company's total employees.

28,000 positions are available in the food processing sector in Canada. The unemployment rate is on the rise and our industry wants to offer new job opportunities to these workers. The agri-food industry can help Canada reduce unemployment, but these opportunities need to be communicated.

The CTAQ recommends a vast information and communication campaign to promote the food processing trades and attract new workers to the industry.

2. COVID-19

Several food processing companies, mainly in the meat sector, have slowed due to employee absenteeism. COVID cases are on the rise in factories; employees must comply with 14-day periods; parents must isolate themselves to stay with their children. We need to maintain supply chains and prevent animals from being euthanized in the wake of temporary slaughterhouse closures. We understand that priority must be given to the most vulnerable and health workers, but we also have an obligation to feed the population.

The CTAQ asks that essential workers in meat plants who feed Canadians be moved up the list of vaccination priorities.

The \$77.5M Emergency Processing Fund (EPF) has been very popular. In addition to Agriculture and Agri-Food Canada, four regional/provincial organizations each managed a \$5 million budget. This fund made it possible to reimburse personal protective equipment (PPE) costs and to invest in equipment that ensured distancing and implementation of public health measures.

The CTAQ recommends that the federal government renew the EPF and permit compensation for additional employees assigned to public health measures (temperature taking, frequent cleaning, disinfection).

3. Productivity

The Canadian food processing industry's productivity is trailing behind that of other manufacturing sectors. Low and shrinking margins, presented in the CIRANO report, reveal the importance of supporting SMEs to automate, robotize, digitize.

The CTAQ recommends the implementation of a productivity improvement program for food processing companies. Both SMEs and large companies could be eligible for this program.

SMEs need coaching, unbiased consulting services and training on the new tools for innovative manufacturers. BDC services and the network of CFDCs/CBDCs are not well known in Quebec. These federal agencies need to work more closely with provincial economic development and SME support organizations.

Productique Québec is helping some companies in Quebec with this process. The federal government could do more (consulting services, coaching, training, \$) to help Canadian SMEs improve productivity and make the digital transition.

The CTAQ recommends that the CAD and the network of CFDCs/CBDCs assist SMEs in improving productivity and in transitioning towards enterprise 4.0.

4. Innovation

Lower margins (see CIRANO document) will slow down innovation among suppliers and distributors. Governments must help SMEs to innovate more. Currently, the CRA considers that food processing companies' R&D projects are an insufficient technological risk and excludes them from R&D credits. This is a source of funding not available to the industry.

The CTAQ is asking the Government of Canada to simplify and ease the rules for obtaining R&D tax credits.

Integrating innovation is a success factor for the survival of SMEs. Knowledge or technology transfer is an issue for smaller businesses that do not have the resources to integrate innovations. It is not about marketing new technologies; rather, it's about integrating new technologies or advanced equipment within SMEs.

The CTAQ is asking the federal government for additional support for technology and knowledge transfer.