



Building Back a Better Food & Beverage Manufacturing Industry: A Plan for Affordability, Accessibility and Food Security

House of Commons Standing Committee on Agriculture and Agri-Food
Processing Capacity Study

Submitted by
MNP_{LLP}

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A Plan for Enhanced Competitiveness

We are pleased to make a submission to the House of Commons Standing Committee on Agriculture and Agri-food to provide detailed measures that the Federal Government can take to enhance our domestic and global competitiveness with respect to processing capacity in the food and beverage manufacturing industry.

MNP LLP (MNP) is a leading national accounting, tax and business consulting firm headquartered in Canada. MNP proudly serves and responds to the needs of our clients, which include over 20,000 agri-food clients, and more than 1,000 food and beverage processors from coast to coast.



Our Recommendations

- **Recommendation 1:** That the federal Government, in partnership with provincial governments and industry, establish new policies and programs to ensure the consistent availability of **labour and skills**.
- **Recommendation 2:** That the federal Government, in partnership with provincial governments and industry, redesign/refocus technology, automation and **innovation funding programs** to incentivize food and beverage manufacturers to invest in the areas of automation, mechanization, digitization, e-commerce and AI.
- **Recommendation 3:** That Federal-Provincial-Territorial (FPT) Agriculture Ministers continue to rebalance the relationship between grocery retailers and food and beverage manufacturers through the implementation of a **Grocery Code of Conduct**.

On May 21, 2020, MNP made a submission to the House of Commons Standing Committee on Finance to discuss the Government's response to the COVID-19 pandemic. In our submission, we outlined an action

plan for Canada’s economic sustainability, provided immediate action steps for economic stabilization and provided transition measures to “Build Back Better”.

Continuing on the theme of Build Back Better, a familiar concept in disaster recovery – the Government must now focus on long-term policy objectives and economic stimulus to restart the Canadian economy. The recommendations included in this submission and in testimony provided by MNP to the House of Commons Standing Committee on Agriculture and Agri-food on February 18, 2021 will aid in the resolution of ongoing issues and impediments to growth and competitiveness in Canada’s food and beverage manufacturing industry. The result will be a more robust and prosperous sector ensuring this critical industry is well prepared to participate in the Canadian food supply chain for both domestic and export markets.

What could Canada’s food and beverage industry look like post COVID-19?

One thing is for certain: the post-COVID-19 business environment will look much different than the pre-COVID-19 business environment.

More virtual activity is forecast post-COVID-19, as food and beverage manufacturers look to technological solutions to increase their efficiencies and competitiveness in areas such as automation, mechanization, digitization, e-commerce and AI.

MNP believes Canadians are going to witness a significant increase in the applicability and investment in these areas within the industry’s supply chain. It’s already happening as we speak. Anyone not playing or investing in this space will be caught flat-footed, especially in terms of competitiveness and profitability.



RECOMMENDATION 1: Access to Labour and Skills

As the Government contends with how to restart the economy and ensure a competitive food and beverage manufacturing industry, we recommend that the federal government establish new policies and programs to ensure the consistent availability of labour and skills.



Consistent availability of skilled labour is a paramount consideration for an industry that is a vital component of the Canadian food supply chain. This is especially valid in anticipation of future and unexpected shocks and disruptions much like Canada experienced as a result of COVID-19.

The Canadian food and beverage manufacturing sector is currently facing a 10% shortage of its workforce. The shortage is expected to increase to 65,000 workers by 2025, which is of significant concern for Canada's largest manufacturing sector. To accommodate a large number of manufacturing and distribution enterprises competing for labour and skills in an ever-receding pool of labour, automation is required to play a major role in the sector.

Recognizing the positive role the Government can play in addressing this issue, consideration should be given to the following:

- Automation must be utilized as a tool to increase efficiencies and cost savings, as well as address the labour shortage
- Advancement in the education, technological applications and utilization of automation is critical
- Promoting awareness of the skilled and technologically focused careers involved in a modern food and beverage manufacturing industry in high schools and local communities to attract progressively minded youth is of the utmost importance
- An educated and skilled work force will aid in boosting economies of local communities that serve this and other industries
- Retraining and skills development for the existing workforce will be required, as well as necessity of raising awareness of industry and career options for new entrants and those being reskilled

Policy Measures

- Increase number of and priority of partnerships with provincial governments to establish new policies and programs to address labour shortage, training and ensure consistent availability of both domestic and foreign skilled labour
- Establish programs and opportunities focused on automation to ensure a competitive and highly trained workforce in the food and beverage processing industry
- Provide incentives to not only retain but attract a workforce who may be recruited by competing interests such as emerging warehousing industries and distribution centres

RECOMMENDATION 2: Program Funding

The Government should foster an industry environment conducive to innovation in the food and beverage manufacturing sector.



As a means to help spur innovation in the industry, the federal government should redesign and refocus funding programs such as Agriculture and Agri-Food Canada's AgriInnovate Program and the Industry Science and Economic Development Department's Strategic Innovation Fund. This exercise should be done in partnership with provincial governments as well as industry. With proper policy mechanisms and focus, these programs would incentivize food and beverage manufacturers to invest in the areas of innovation, automation, mechanization, digitization, e-commerce and artificial intelligence (AI). MNP also recommends stand-alone funding programs for the food and beverage manufacturing industry that are separate and distinct from other manufacturing sub-sectors.

It is important to note that innovation in the food and beverage manufacturing sector can include the adaptation of proven and existing technologies and programs. These technologies or programs may exist within or outside of Canada and can be modified or adapted as necessary to serve the needs of the Canadian industry by improving efficiencies and competitiveness.

The food and beverage manufacturing industry is currently experiencing decreased investment caused by declining margins, difficulties for accessing capital for investment and ongoing barriers to accessing tax credits toward scientific research and development.

Recognizing the expertise within the industry and the willingness to innovate, the Government should consider the following:

- Canada's food and beverage producers and processors provide nutritious, safe and high-quality foods for both Canadians and the global market
- Considering the scale of the operations within the industry, capital and funding are a major barrier to entry. Access to funding, or backing of funding would incentivize new projects
- New projects and industry members will result in significant economic boosts to local economies and strengthen Canada's position as a global supplier

Policy Measures

- Broaden program eligibility/criteria to include food and beverage manufacturers that wish to invest or apply technologies that increase efficiencies in the areas of innovation, automation, mechanization, digitization, e-commerce and AI
- Review the grant and contribution segments of program funding to incorporate more flexible terms and conditions. An example of this could be rapid response time and streamlined administrative process
- Work with provincial governments to maximize capacity of available funding and ensure alignment of programming to reduce duplication and leverage existing innovation and experience
- Provide access to funding, or mechanisms to back funding that will incentivize new projects and players to enter, or expand in, the Canadian food and beverage manufacturing industry
- Re-evaluate the process required to access SR&ED tax credits to ensure the barriers to access are no longer prohibitive, inconsistent and discouraging for the industry to take advantage of



RECOMMENDATION 3: Implement a Grocery Code of Conduct

The federal government is encouraged to implement a Grocery Code of Conduct in order to assess and correct the imbalances being experienced as a result of the impacts of COVID-19 on the food and beverage manufacturing industry.



The following considerations are important to provide context to the current situation in order to move toward a resolution:

- Currently, five retailers in Canada control 80 per cent of the grocery market
- Food and beverage manufacturers are facing seemingly arbitrary transaction costs, fees and penalties without notice and often retroactively
- COVID-19 has been punitive to the supply chain in general. However, the damage in this instance is not being distributed equally, as retailers have pushed down some costs to food and beverage manufacturers through one-sided price reductions
- Food and beverage manufacturers are experiencing escalating costs due to challenges resulting from COVID-19, such as reconfiguration of workspaces, plant disruptions and new health measures to ensure safety of products and employees
- A meeting of the Federal-Provincial-Territorial (FPT) Agriculture Ministers in November of 2020 recognized the importance of a productive and balanced relationship between the grocery retailers and food and beverage manufacturers

Policy Measure

- Implement a Grocery Code of Conduct to ensure fees charged by retailers are transparent and predictable allowing for fairness, profitability and competitiveness across the supply chain.

Canada's food and beverage manufacturing industry is a critical component of the supply chain.

With the proper supports from and partnerships with the federal government, Canada's food and beverage manufacturing industry is confident that resolutions for several of the issues they are currently facing are attainable. The three key recommendations provided in the submission are consistent with feedback from more than 20,000 agri-food clients and 1,000 food and beverage manufacturers that MNP services as clients. These recommendations are vital to ensure future food security and an affordable supply of quality food for all Canadians.

MNP is pleased to continue to work with the Government, Parliamentarians and policy makers across Canada to further discuss our comments and recommendations in this submission.

Thank you.



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Thank you for the opportunity
to submit our Proposal.

