



BRIEF TO THE HOUSE OF COMMONS STANDING COMMITTEE ON AGRICULTURE AND AGRI-FOOD REGARDING PROCESSING CAPACITY FOR THE RED MEAT SECTOR

March 3, 2021

For one hundred years now, the Canadian Meat Council (CMC) has represented Canada's federally licenced meat packers, meat processors and suppliers of equipment, services, and goods to the meat industry. CMC provides evidence-based advocacy on behalf of its members and works to secure and improve Canada's global meat competitiveness and promote a balanced diet, which includes high-quality and nutritious Canadian meat. The Canadian red meat industry represents over 20 billion dollars to the Canadian economy and supports 288,000 jobs across Canada.

Red meat production and exports are a large and high value-added component of our agri-food sector. Canada exports almost 70% of its pork production and 50% of its beef production to more than 90 countries contributing significantly to the health of rural communities and the broader Canadian economy. In 2020, Canadian farmers and food processors exported \$8.3 billion of red meat products, while Canada's consumption of red meat is estimated at over \$12.7 billion. In addition, red meat products and by-products are used as inputs for other industries—adding \$10.1 billion purchased for industrial use. Together, exports and domestic consumption and use support economic activity across a broad range of industries from farm-to-fork.

Conference Board of Canada findings suggest that across the entire supply chain, red meat consumption (including industrial use) in Canada generated \$15.3 billion of economic activity and supported 225,000 jobs in 2016. Adding activity associated with red meat exports lifts the economic contribution to \$20.4 billion in GDP and 288,000 jobs. Red meat consumption, industrial use and exports also contributed significantly to government coffers, generating about \$6 billion in revenues that accrued to federal, provincial and local governments.

Red meat consumption in Canada is likely to grow modestly over the long-term, restrained by slow population growth, changing consumer preferences and an aging demography. On the other hand, Canada's export potential is vast. The global demand for meat continues to rise. With a growing middle class, it is anticipated that Asia and India will grow their consumption by 80% in the next 10 years. Global per capita consumption of meat is expected to rise from 33.7 kg to 34.9 kg from 2020 to 2029. While the global demand has been on the rise and will continue to do so for the foreseeable future, we continue to lose processing capacity.

Processing Capacity

Covid-19 has revealed how fragile our food supply is in Canada – we rely on too few to feed too many. There is a real and immediate opportunity to realize growth in the livestock sector by investing in our processing plants to drive innovation and increase capacity to meet the needs of domestic and international markets.

It is crucial for Canada to get the right mix of size and scale of processors as they both contribute to the economic health of our industry. Our small, medium and large processors across the country are efficient competitors nationally and internationally, allowing us to maximize trade agreements and to supply local food systems. The protection from foreign animal diseases (e.g.: African Swine Fever, Foot and Mouth disease, etc.) is essential.

Eastern Canada

Eastern Canada beef and pork packing capacity were approaching full capacity prior to the pandemic and producers expressed concerns about long delivery times to get hogs and cattle to market. The pork industry operates a “just-in-time” delivery system from farms to processing facilities. There is an opportunity in Canada’s pork sector, to expand pork processing. Market hogs and feeder pigs are routinely exported to the U.S. and represent a lost value-added opportunity here in Canada. There is a particular opportunity to expand cull sow and boar processing in Canada. At present, the majority of our cull animals are exported to the U.S. for processing, again another value-added lost opportunity.

Since 1999, in Ontario alone, the meat processing sector has seen a 54% decline in independent abattoirs, leaving our farming partners and consumers vulnerable. We need to invest in small and medium sized businesses to help restart our economy and to ensure food security for the future.

Last year, Ontario beef packing sector lost 11% of its weekly kill capacity with the closure of Ryding Regency. Eastern Canada now has 10 operating beef packing plants, with six in Quebec, one in Atlantic Canada and three in Ontario with available weekly capacity at an estimated 12,550 head (assuming five working days). Eastern Canada federally inspected slaughter was down 4% between 2019 and 2020.

During the pandemic, Ontario beef packing capacity was keeping pace with demand but was setback last December when Covid-19 caused a shutdown at the Cargill Guelph facility. The shut down at the plant, which processes 75% of total eastern packing capacity, resulted in an estimated backlog of 10,000-15,000 head of cattle during the two-week period. Likewise, in the swine sector, Covid-19 prevention measures and temporary closure of some plants have reduced capacity caused by slowdowns creating some backlog as about 190,000 market hogs are slaughtered in our federally licenced facilities every week.

Western Canada

Over the past five years, approximately 77% to 79% of Canada’s total beef processing has taken place in Western Canada. Canadian slaughter rates have averaged 56,249 head per week with an 86% utilization rate over the last five years. Last Spring, as our industry was faced with the pandemic, temporary slowdowns effectively halted just over two thirds (70%) of Canadian beef processing capacity over a two-week period and resulted in the first half of 2020s cattle slaughter being down 11% compared to the same period in 2019. While this created a backlog of cattle, processors quickly adapted to address these issues as best they could given the labour shortage due to Covid-19. The Western federally licenced pork plants process about 190,000 market hogs per week which was also affected by the new prevention measures in place to protect the manpower at the facilities. Slaughter facilities are still adapting to optimize its operation to regain full slaughter capacity.

CONCLUSION

The Covid-19 virus challenged our industry but our sector showed great resilience owing to our strong relationship with government. Our members developed best practices and company playbooks to protect their workers but despite best efforts, meat processing establishments were among the first to be hit with significant Covid-19 infections. We suffered shutdowns and slowdowns that impacted our ability to produce food for Canadians. Throughout the beginning of the crisis, there was considerable

concern that due to the closures and slowdowns in our production, there could be a meat shortage in Canada. Our industry stepped up to the plate, and by the government declaration of food production as an essential service, and the dedication and selflessness of our employees, no shortages in meat materialized.

However, small to medium size beef packers also play a key role supplying localized slaughter capacity local food systems and overall resiliency. Over the last decade, the meat industry has been specifically challenged with maintaining small to medium-sized packers. This is due to several factors including, difficulty in competing with larger plants efficiencies of scale and regulatory burden (including but not limited to the cost burden of specified risk material removal in beef) which created higher costs leading to the exit of mid-sized enterprises. Large packers are best suited to process a standard mix of products because they do not have the same flexibility to produce niche products or to frequently change product mixes that smaller plants have and can. Creating the right conditions for small, medium and large packers is essential to a resilient Canadian red meat sector.

The government has an aggressive goal of \$75 billion in exports by 2025; meanwhile our industry is well poised to help grow this number but we need to grow our processing capacity. However, risks of market disruption must be prevented. Market disruptions caused by Covid-19, protectionism, tariffs, and foreign animal diseases (e.g.: African Swine Fever, Foot and Mouth disease) has pushed the limits of our industry's resilience. As an example, an outbreak of African Swine Fever in Canada would immediately result in trading partners closing their markets causing a price collapse given the massive backup in the number of hogs that would be unable to move through the supply chain. Prevention, response and business continuity activities are essential to maintain the economic activity and all the jobs created by the meat industry.

To make this a reality, our sector, businesses and government must work together. Long-term funding programs are needed to help our sector grow and build a resilient and more reliable food system. Open borders and Canada's excellent reputation in food quality and security provide ample opportunity for red meat exporters.

CMC proposes the following recommendations to help the red meat processing sector.

RECOMMENDATIONS

1. Address the Labour Shortage

Our sector has been dealing with a critical and chronic shortage of butchers. Jobs in primary and further processing have gone unfilled, as a result processing plants have had to shift labour to core processing activities (cutting primals) and away from value-added cuts that meet different end-user specifications in various export markets.

Industry Canada's Agri-Food Economic Strategy Table report highlighted the need to address the immediate labour shortages facing the sector and to modernize Canada's immigration and temporary foreign worker programs to access the global labour force across all skill levels. In fact, our sector needs a program outside of the Temporary Foreign Worker (TFW) program – jobs in our industry are full-time, year-round jobs and there is nothing temporary about these jobs.

- Over the last 14 years, meat processing wages have increased by over 50% with research showing that entry level and experienced butcher positions having increased the most.
- Nearly 1,700 empty butcher stations at meat processing plants across Canada with over 900 looking for a path to permanent residency.
- Conference Board of Canada research shows when we fill one job vacancy it creates 4 other jobs for Canadians in the supply chain.
- Labour shortage is having critical impacts of lost sales for meat processors of \$750 million annually; plus \$396 million lost sales for its value chain producers, also due to labour shortage, bringing the total economic impacts to the red meat sector to approximately \$1.15 billion.
- Over 90% of TFWs who are allowed to stay remain working in the rural meat packing plants for more than 10 years.

We agree that prioritizing jobs for Canadians is important. That is why our meat processing companies participate in ongoing advertising, recruitment fairs, and always hire Canadians first, only using the TFWP as a last resort. Many employers have adopted new practices to recruit, train, and retain employees, including language training, more robust advertising in core business geographics, and integrated work with community/social service providers, augmented referral incentives, augmented student incentives and more. Despite this increased recruitment, the challenges related to labour, skills, and talent within industrial meat processing remain critical. Despite our best efforts, we have an immense labour gap.

CAP:

In 2014 the Government of Canada overhauled the Temporary Foreign Worker (TFW) Program introducing a cap to limit the number of low-wage temporary foreign workers that a business can employ. There are 65,000 Canadian meat processing jobs that rely on international workers in abattoirs located mainly in rural locations. The cap remains frozen at 20% despite some attempt to change the formulas 're-calculate' the cap which has not had any impacts for our members.

Our members, meat processors, are asking that the unique nature of the rural abattoirs which includes the handling of live animals be recognized. For these rural abattoirs, the cap is too restrictive and is a severe barrier, crippling the rural Canadian economy and impairing the opportunity to increase value-added products and expand production.

The cap is restricting growth for abattoirs by limiting expansion plans, restricts immigration growth for rural Canada and does not allow the industry to increase their export capacity.

AGRI-FOOD IMMIGRATION PILOT:

We are thankful that the government has recognized butchers' shortages by launching the Agri-Food Immigration Pilot in May 2020. However, there remains several issues with the pilot that have not been addressed and preventing industry from accessing this pilot. From renewals and work permit extensions issues, to not allowing copies of high school certificates to prove education during this pandemic and an important process letter that does not remove applicants from the Cap. All these issues are currently making this pilot inaccessible to industry.

COVID-19

Government declared food production as an essential service, and thanks to the dedication and selflessness of our employees, no shortages in meat materialized at any point during the pandemic. The next most critical tool for our industry, who depend on these dedicated essential workers, is to be considered for early approval to receive the Covid-19 vaccine.

While we fully support that first responders, healthcare workers and those in long-term care must have the highest priority for vaccination, as government moves to the next categories to receive the vaccine, CMC believes it is critical that essential workers, specifically meat industry workers be next in line to be targeted for vaccination. Even though our industry has invested heavily in protecting our workers in the plants, we are still facing community spread that has once again impacted our industry in this ongoing second wave. This puts food production at risk and affects our ability to keep the supply chain going by feeding Canadians and allowing our industry to keep key export markets available.

It is critical that meat establishment workers to be next in line to be vaccinated. This request is consistent with the recommendations of the National Advisory Committee on Immunization's preliminary guidance on key populations for early Covid-19 immunization, and in line with the CDC in the United States.

2. Update Canada's SRM removal requirements to more closely align to U.S. standards once Canada is recognized by OIE as Negligible Risk Status for BSE.

Canada has submitted our application to the OIE for recognition as a negligible risk status country for the presence of BSE (bovine spongiform encephalopathy). Approval is expected to be granted at the next OIE meeting in May 2021 in Paris.

Canada's current SRM removal requirements were developed in 2003 and further enhanced in 2007. Today, with global BSE cases reaching almost negligible levels there is a need to review Canada's SRM removal protocols to better align them with current science and international guidelines. Canada is currently at a significant competitive disadvantage to our international competitors in regard to our costly SRM removal protocols and have lost regional processing capacity because of this disadvantage.

This is not a food safety issue. We import beef processed in the U.S. back into Canada, the fact we have different rules adds a significant cost disadvantage despite the fact both countries have safe beef.

While the same parts of cattle are considered SRM in Canada and the United States, one of the major factors that increase prices in Canada are the disposal costs. In the U.S., some SRMs can be used in products such as fertilizer, while in Canada all SRM must be incinerated or sent to a special landfill, exclusively used to hold SRMs. The amount of SRM removed in Canada for animals over 30 months of age weighs as much as 40 kg per animal. While in the U.S., the amount removed is as little as 2-3 kgs.

3. Technology and Automation

If Covid-19 has demonstrated anything, it is that automation could help the red meat sector considering employees work in close quarters. Meat packing – mainly the cutting of meat, is a highly skilled manual

activity and robotics cannot replace the dexterity of the human hand and the human eye, despite growth in technologies.

Manual labour will always be a part of our sector but the fact is that automation, which is adopted for good reasons, is more likely to be sustainable and have a good economic return. Investing in equipment to make cutting faster and safer makes sense, especially when it helps end users meet demand for specialized cuts and products. Safer and more consistent product, processed more safely by workers, represents a win all the way around.

Greater automation can be done through several routes; primarily through investments in innovation that support technology development. Greater access to government innovation funding would speed up the adoption process given there is often risk and large capital expenditures involved, as well as plant downtime and human resources that tend to slow the willingness to adopt.

4. Establish a Red Meat Industry Export Development Fund ***(supported recommendation from Canadian Cattleman Association)***

Between 2008 and 2017, Canada's agricultural exports grew three times faster than the Canadian average, confirming that agricultural products are a net cash generator for Canada's economy. Last year, Canadian beef exports grew an impressive 17 percent and opportunity for further growth remains. The sectors' ability to maintain jobs through Covid-19 makes agriculture a priority for economic recovery.

To capture the opportunity presented to Canadian agriculture and specifically Canadian beef, CCA recommends creating a \$100 million CDN Red Meat Industry Export Development Fund to support processing capacity optimization, export diversification and address trade limiting factors. The cost shared fund between industry and government would be used for initiatives such as segregating market specific product, implementation of on-farm production protocols that increase supply for specific markets, innovations that address current challenges such as labour and innovations that increase value-added opportunities.

CMC supports CCA's funding proposal to obtain equipment and modify infrastructure to assist in meeting export regulatory requirements. We support the recommendation to provide funds for additional facilities, infrastructure and equipment to support increased production and segregation of export market eligible carcasses, primals, finished cuts and fresh/processed meat products. Areas potentially requiring investment include lairage, coolers, hot boxes, slaughter floors, cutting rooms, packaging areas, freezers and further processing facilities.

5. Renewed Commitment to the Food Supply Chain ***(recommendation supports submission by Food and Beverage Canada)***

It is imperative that Canada learn from our recent experiences to strengthen the country's food system in the long-term. Canada must embrace a renewed commitment to tracking, analyzing, modelling, and understanding the interactions, interconnectivity, risks, and potential of the full-food supply chain – including primary agriculture, food and beverage manufacturing, distribution, retail and other input and supporting sectors. Achieving this will be a challenge.

Agriculture and Agri-food Canada (AAFC) has as its main focus one element of the food system – primary agriculture. At the same time, while many federal departments touch on the broad range of issues

critical to Canada's food supply – such as food safety, manufacturing practices, transportation, IT and connectivity, energy, labour, regulatory measures, and health – there is little federal coordination of the impact on the food system. In the context of COVID-19-19, this fragmented approach left Canada without an integrated emergency response plan for the full-food system and raised significant risks for Canada's food sovereignty. We cannot let this happen again.

It is critical that Canada's federal government, as well as provincial and territorial counterparts, broaden its focus and adopt an integrated approach to regulating and to developing policies and programs that impact Canada's food system. Key to this is enhancing the understanding, research, analysis, and policy capacity focused on all sectors along the food supply chain, as well as the integrated food system. We recommend that the federal government empower and resource a central department or agency with responsibility for Canada's entire food supply chain with a mandate to develop a coordinated approach to all federal policy and economic measures impacting Canada's food system: to ensure Canada achieves food sovereignty and leverages the strength of its food system to support economic prosperity for Canadians, and to interact with provincial governments for a coordinated approach to these measures.

The federal government has announced the creation of an Industry Strategy Council to share their perspectives regarding the impact of COVID-19-19 on key sectors. We recommend that the Strategy Council be tasked with developing a full industrial strategy for Canada's food system and, in so doing, recognize the distinct sectors within the food system and their interconnectivity.