

**Canadian Poultry and Egg Processors Council  
Conseil canadien des transformateurs d'œufs et de volailles**



**Submission to the House of Commons Standing Committee on  
Finance for its Pre-Budget Consultations in Advance of the 2021  
Budget**

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## **List of Recommendations**

1. That the government assist processors with extraordinary costs by immediately replenishing the Emergency Processor Fund and expanding its eligibility criteria, and/or by establishing a refundable food processor tax credit for extraordinary expenses required to operate throughout the COVID-19 pandemic.
2. That an Agri-Recovery framework be created specifically for food processors to respond to the extraordinary costs incurred in the event of disasters such as the COVID-19 pandemic.
3. That with the recent coming into force of CUSMA and the impact of the COVID-19 pandemic on our industry, the government fulfill its commitment to fully and fairly compensate poultry and egg processors to help them adjust to CUSMA and CPTPP.
4. That the federal government convene the Agri-Food Economic Strategy Table to develop a recovery plan for the agri-food sector, in addition to a “lessons learned” initiative with government and industry representatives to ensure sector resilience for the next crisis.

## **About CPEPC**

The Canadian Poultry and Egg Processors Council (CPEPC) is the national trade association that represents the interests of 181 poultry processing and further processing, egg grading and processing and hatchery establishments. The organization's role consists of leading and mobilizing Canadian poultry and egg processors in building a sustainable and thriving industry. Representing both large and small Canadian food processors, CPEPC's members process over 90% of Canada's chicken, turkey, eggs and hatching eggs, employ more than 28,000 Canadians and generate over \$7 billion in annual retail sales.

Two elements CPEPC members have in common is that they compete against one another in an open market and purchase most of their primary inputs – chicken, turkey, eggs and broiler hatching eggs – from supply-managed Canadian farmers. While CPEPC members fall outside of supply management, they support the system and are committed to ensuring the long-term competitiveness and sustainability of the Canadian poultry and egg industry.

## **Competing in a COVID-19 Environment: Issues and Recommendations**

Since the beginning of the COVID-19 pandemic, CPEPC members have been focused on two main objectives: ensuring the health and safety of our workers and plant inspectors and maintaining the supply of safe and affordable poultry and egg products for Canadians.

### **Ensuring the health and safety of our workers and plant inspectors**

Meeting the first objective has required significant investments to operate safe workplaces in a COVID-19 environment. For our sectors alone, those initial investments in the months immediately following the outset of the pandemic reached close to \$100 million. This has had a major impact on our members' cost structure. Initial investments included adding physical barriers such as plexiglass dividers between workstations and acquiring machinery and equipment such as trailers, tents, additional washrooms and medical devices to screen employees for symptoms and comply with public health guidelines.

We were pleased to see the government release the details of its \$77.5 million Emergency Processing Fund last June as it aims to help companies implement such changes to safeguard the health and safety of workers during the pandemic. We know that the value of food processors' investments far exceeds the amount of eligible funding and consider it very unlikely that all eligible processors will be able to access the funding they expect.

Another challenge identified with the Emergency Processing Fund is that eligible expenses exclude the additional operating costs that food processors continue to incur and will into the foreseeable future. These new operating costs include additional PPE purchases (e.g., face masks and shields, gloves, etc.), added labour costs due to distancing and additional sanitation

measures (e.g., isolation of shifts, break/lunch rotations, distancing where physical barriers cannot be added, more frequent cleaning and disinfection of common areas).

The commitment of our members to the health and safety of workers was commendable and effective, particularly when comparing our outcomes to those achieved by the same industry in other jurisdictions, but to achieve those results, poultry and egg processors have to bear significant, ongoing additional costs to their operations. It is critical that the federal government provides further assistance to food processors for these extraordinary costs. This could be done immediately by replenishing and expanding the Emergency Processing Fund or by establishing a refundable tax credit in respect to those extraordinary expenditures.

**Recommendation No. 1 – CPEPC recommends that the government assist processors with extraordinary costs by immediately replenishing the Emergency Processing Fund and expanding its eligibility criteria, and/or by creating a refundable food processor tax credit for extraordinary expenses required to operate throughout the COVID-19 pandemic.**

### **Maintaining the supply of safe and affordable poultry and egg products for Canadians**

Meeting the second objective of maintaining supply to Canadians has meant that CPEPC members kept operating their establishments despite challenging and, in some cases, unsustainable market conditions. In fact, processors have had to play a dual essential service role: they are an essential service to Canadians who rely on their products to feed themselves and their families, and to producers who rely on them to buy, process and market the chicken, turkey and eggs they produce.

The COVID-19 pandemic caused significant shifts in demand and consumption patterns. While processors worked closely with supply-managed producer boards to match farm production with changing demand levels, the reality of our industry's production cycles is such that these decisions only began to impact the market after several weeks of overproduction.

For instance, when confinement measures were introduced last March, foodservice demand declined sharply. To use an example from the chicken sector, producers decided in April to cut production. That change reduced the number of birds sent to processing plants starting in May. During that two-month gap, chicken processors and further processors processed every chicken grown in Canada even if market conditions did not justify it. As a result, wholesale prices plummeted below processing costs, putting processors in an unsustainable financial position. While we have seen producers in other jurisdictions euthanize animals due to falling market demand, Canada avoided that situation as processors played their dual essential service role.

Until an effective vaccine is developed and most of our population is immunized, there is a risk of this occurring again. We are concerned that should further market disruptions occur, they could have long-lasting impacts that will damage Canada's poultry and egg processing capacity, affect the reliability of Canada's food supply and permanently impact employment and

economic activity in our sectors. While the government adopted specific measures for specific industries (e.g., \$62.5 million for seafood processors), none targeted poultry and egg processors despite our members bearing most of the financial impact of COVID-19. This could lead to unwanted outcomes for Canadians relying on our products and depending on our sector for income or employment. While our producers have continued to receive their cost of production, processor margins have been squeezed. We do appreciate the Surplus Food Rescue Program and recent changes to the Canadian Emergency Wage Subsidy as these provide partial assistance to some of our members, but more support is required.

It should be noted that Agriculture and Agri-food Canada (AAFC) offers a suite of Business Risk Management programs for Canada's agriculture sector to help it weather economic hardship. Currently, these programs are exclusively available to primary producers and do not recognize needs across the food system. Besides the Emergency Processing Fund mentioned earlier, AAFC currently offers no programs to support food processors.

**Recommendation No. 2 – We recommend that an Agri-Recovery framework be created specifically to respond to the extraordinary costs incurred by food processors in the event of disasters such as the COVID-19 pandemic.**

#### **Fulfilling the government's commitment to fully and fairly compensating supply-managed producers and processors to adjust to CUSMA and CPTPP**

We summarized earlier how COVID-19 impacted our industry. The market access concessions made as part of the Canada—United States—Mexico Agreement (CUSMA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are expected to add further disruption to our industry and have a compounding effect on the challenges we face.

CUSMA recently came into force on July 1, 2020. This was ill-timed given the significant market disruption we already face, but we understand that this decision was beyond Canada's control. As for CPTPP, the agreement has been in force since December 30, 2018, and we anticipate that imports of broiler hatching eggs and chicken, turkey and egg products will start entering the country once a signatory can export to Canada.

In anticipation of these significant changes, the government committed to fully and fairly compensating supply-managed producers and processors to help them adjust to these agreements. To review the impact of these agreements and chart a path forward for supply-managed industries, the government had created a Poultry and Egg Working Group under the aegis of AAFC.

CPEPC took an active part in this Working Group and estimated the impact of these two agreements on hatcheries, egg and poultry processors will reach up to \$387 million over 10 years and up to \$868 million over 19 years. In addition, through the Working Group, we

determined that the most effective way to mitigate the impact of CUSMA and CPTPP would be to:

- i) Establish an investment program for processors to be more competitive, modernize their facilities and respond to changing customer expectations in areas such as food safety, animal welfare and environmental sustainability;
- ii) Allocate the majority of import quotas to processors and further processors based on our recommendations; and
- iii) Provide financial support for the market development initiatives proposed by producers.

If appropriately funded and structured, these mitigation measures would help offset the impact of CPTPP and CUSMA on Canadian poultry and egg processors.

**Recommendation No. 3 – Given the recent coming into force of CUSMA and the impact of the COVID-19 pandemic on our industry, the government should fulfill its commitment to fully and fairly compensate poultry and egg processors to help them adjust to CUSMA and CPTPP in the 2021 federal budget.**

#### **Recovering from the COVID-19 pandemic and ensuring the long-term sustainability of the agri-food supply chain**

We expect the economy will begin to fully recover from the COVID-19 pandemic once a critical mass of Canadians is immunized against the virus. While we will continue to focus our efforts on ensuring a safe and affordable supply of poultry and egg products for Canadians during the current pandemic, we can also start thinking about the long-term sustainability of our industry once we start the recovery phase.

When we reach that stage, we will be better positioned to review how the crisis impacted our industry and determine what must be done to ensure its recovery. This review could comprise holding a “lessons learned” exercise with government and industry participants, with the aim of improving the emergency response to the next crisis; reconvening the Agri-Food Economic Strategy Table to ensure the needs of the food processing sector are recognized and identified; and moving forward with AAFC’s Value Chain Roundtables.

**Recommendation No. 4 – We believe the federal government should convene the Agri-Food Economic Strategy Table to develop a recovery plan for the agri-food sector, in addition to a “lessons learned” initiative with government and industry to ensure sector resilience for the next crisis.**

This recovery plan should first assess the post-COVID-19 state of Canada’s food system, identify the key issues and challenges we must overcome and chart a path forward.

## **Conclusion**

In closing, CPEPC seeks the support of the Finance Committee for these recommendations as our industry continues to feel the impact of the COVID-19 pandemic. This is critical if we are to meet our shared objective of ensuring that Canadians continue to have access to safe and affordable food, that workers' health and safety be ensured as we continue to operate, and that the 144,000 Canadians employed by our industry can continue to rely on us and our supply chain partners.