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ROOM TO GROW: STRENGTHENING FOOD PROCESSING CAPACITY IN CANADA FOR FOOD SECURITY AND EXPORTS

**Report of the Standing Committee on Agriculture and
Agri-Food**

Pat Finnigan, Chair

**APRIL 2021
43rd PARLIAMENT, 2nd SESSION**

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**Pat Finnigan
Chair**

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NOTICE TO READER

Reports from committees presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON AGRICULTURE AND AGRI-FOOD

has the honour to present its

FOURTH REPORT

Pursuant to its mandate under Standing Order 108(2), the committee has studied processing capacity and has agreed to report the following:

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SUMMARY

Between 19 November 2020 and 25 February 2021, the House of Commons Standing Committee on Agriculture and Agri-Food conducted a study on measures that could be taken to increase Canada's capacity to process more of the food it produces domestically and to strengthen local food supply chains.

Canada's food and beverage processing industry is the second-largest manufacturing industry in the country, accounting for \$117.8 billion of economic activity in 2019. Food and beverage processing businesses employ some 290,000 people in Canada, more than any other industry in the manufacturing sector. In 2017, the Agri-Food Economic Strategy Table reported that the industry's export growth potential is particularly strong.

This report provides an overview of the main capacity limitations facing the food processing sector in Canada and makes recommendations to the government to help the sector reach its full potential. The report outlines the key challenges relating to processing and transportation infrastructure. Encouraging the development of small regional abattoirs to promote food security across the country is one of the Committee's recommendations in this regard.

While regulations play an important role in the sector's success, they can sometimes hamper investment and innovation. The Committee therefore recommends that the government review some of its regulations, including those governing beef processing. The government should also consider expanding the eligibility of food processors to the Temporary Foreign Worker Program and the Seasonal Agricultural Worker Program, notably by making these programmes more flexible and by raising the cap on the number of workers who can be hired through the low-wage stream. However, the stakeholders heard during the study pointed out that the Temporary Foreign Worker Program cannot be the only solution to the problem of labour shortages. Greater automation should be encouraged where possible, and the industry's appeal to the next generation of workers and those who are retraining should be enhanced.

Food processors are dealing with a concentrated retail market in Canada that is dominated by a few large retailers. A number of stakeholders suggested establishing a code of conduct for grocers to standardize the relationship between food suppliers and retailers. However, since such a code would fall under provincial and territorial jurisdiction, the Committee recommends that the federal government help the provinces and territories put one in place.

LIST OF RECOMMENDATIONS

As a result of their deliberations committees may make recommendations which they include in their reports for the consideration of the House of Commons or the Government. Recommendations related to this study are listed below.

Recommendation 1

The Committee recommends that the Government of Canada invest in trade infrastructure, such as transportation systems, to improve access to markets and support a modern supply chain..... 14

Recommendation 2

The Committee recommends that the Government of Canada modernize its regulations and implement targeted programs, in collaboration with the provinces and territories, to encourage the development of local processing businesses and regional small-scale abattoirs. 17

Recommendation 3

The Committee recommends that the Government of Canada, in collaboration with provinces and territories and the private sector, identify strategic funding opportunities to address regional processing capacity to strengthen Canada’s agri-food supply chain. 17

Recommendation 4

The Committee recommends that the Government of Canada increase funding to the Local Food Infrastructure Fund and dedicate a specific stream open to a broad group of regional agri-food businesses to promote processing capacity across the country. 18

Recommendation 5

The Committee recommends that the Government of Canada consider food insecurity a priority, looking more precisely to northern and indigenous issues, and take the necessary measures to support Canadians in need. 18

Recommendation 6

The Committee recommends that the Government of Canada conduct an external review of its regulations in order to modernize them, streamline approvals and remove barriers to bringing new solutions to market, without compromising food safety, by involving organizations like the Canadian Food Inspection Agency. 20

Recommendation 7

The Committee recommends that the Government of Canada, in collaboration with the provinces and territories, seek further harmony between federal and provincial processing standards, so as to reduce barriers to inter-provincial and international trade, and encourage innovation through a focus on outcomes rather than prescriptive measures. Furthermore, the Committee recommends that the federal government make available supports for those processors specifically seeking compliance with international trading standards, where these standards place a significant additional burden beyond provincial measures. 21

Recommendation 8

The Committee recommends that the Government of Canada consider implementing internal control measures within the CFIA to ensure uniformity in treatment and a reasonable internal appeal process, avoiding recourse to tribunals..... 22

Recommendation 9

The Committee recommends that the Government of Canada revise the slaughtering regulations related to bovine spongiform encephalopathy (BSE), including those respecting specified risk material, so that they do not weaken the competitiveness of the Canadian beef industry..... 25

Recommendation 10

The Committee recommends that the Government of Canada encourage the development of private-sector led innovation hubs, such as superclusters, to raise agri-food productivity and connect start-ups with established companies and university research centers. 27

Recommendation 11

The Committee recommends that the Government of Canada make the agri-food sector a priority for attracting foreign direct investment and to conduct research and development in Canada while preserving and promoting domestic ownership of food processing enterprises..... 27

Recommendation 12

The Committee recommends that the Government of Canada increase and facilitate access to the Temporary Foreign Worker Program, and raise the cap on the proportion of low-wage positions under the Program for food processing industries from the current rate of 10%, taking into account different regional and sectoral needs, and that it do so without limiting access to workers under the Seasonal Agricultural Worker Program (SAWP). The Government should also provide for food processor eligibility to the SAWP for their temporary labour needs..... 32

Recommendation 13

The Committee recommends that the Government of Canada evaluate the results of the Agri-Food Pilot program and consider increasing access to it in order to address labour shortages in the agri-food sector. 33

Recommendation 14

The Committee recommends that the Government of Canada support innovative approaches to skills development and encourage training and reskilling programs to meet the current and future labour requirements of agri-food businesses, and also help to promote and to raise awareness of career opportunities in the agri-food sector with a focus on future generations, while respecting agreements signed with provincial and territorial governments and their jurisdiction..... 34

Recommendation 15

The Committee recommends that the Government of Canada support innovation through programs or financial tools for access to automation-based research and development in the agri-food sector as well as prioritize expansion of Internet access to rural areas where food producers and processors are often located. 35

Recommendation 16

The Committee recommends that the Government of Canada support the provinces with the implementation of a grocery code of conduct and that it participate in collaboration with the provinces in its development in line with their respective jurisdiction and the Competition Bureau’s guidelines..... 39

Recommendation 17

The Committee recommends that the Government of Canada encourage Canada’s banks and institutional investors to establish funds to provide capital to fast-growing small and medium-sized firms in the agri-food sector, including new entrants to the sector. 40

Recommendation 18

The Committee recommends that the federal government review equivalency standards and direct the Canadian Food Inspection Agency and the Canada Border Services Agency to increase surveillance on agricultural imports to ensure compliance with equivalency standards negotiated in our trade agreements. Furthermore, the federal government should review the impact of the application of equivalency standards and reciprocity regarding agricultural imports with respect to differentials in subsidy levels and carbon footprints. 45



ROOM TO GROW: STRENGTHENING FOOD PROCESSING CAPACITY IN CANADA FOR FOOD SECURITY AND EXPORTS

INTRODUCTION

Canada's abundant arable lands and rich natural resources allow it to produce more food than its internal market of 38 million consumers can consume. Despite recent growth in domestic markets, Canadian farms continue to export much of their agricultural output abroad as raw commodities that are then processed and sold as consumer products in other countries or, in some cases, reimported for sale in Canada. In recent years, Canada's federal, provincial and territorial governments have sought to increase the amount of food processed domestically in order to realize the full economic potential of Canadian crops and livestock and to better position Canada to take advantage of positive international trends in this sector.

Growing demand for proteins and more complex foods, particularly in Asia, has led many Canadian firms to explore export opportunities for processed foods. In 2017, the Council of Economic Advisors, a body of leading business figures and economic experts commissioned by the Government of Canada, encouraged Canada to adopt a whole-of-government approach to fully benefit from the growth potential in this area through investments and removing what it found to be impediments to Canada developing a stronger food processing sector.

The arrival of the COVID-19 pandemic in Canada in March 2020 brought with it an unprecedented change in demand for food as consumers adapted their grocery buying habits in the wake of lockdown restrictions and restaurant and food service outlets such as cafeterias changing their longstanding buying habits. On the supply side, food processing workers put their health at risk to ensure Canadians stay fed. COVID-19 outbreaks at two of Canada's three largest meat processing plants created an oversupply of livestock, with ranchers selling animals at a loss and consumers seeing atypical price increases.¹ Empty supermarket shelves and news stories about farmers forced to destroy their crops due to changes in market demand led some consumers to consider the stability of the "just in time" supply chain they relied upon for food. While suppliers and retailers eventually adapted to new buying patterns and processing returned to normal

1 Statistics Canada, [*Study: COVID-19 and the Beef Supply Chain: An Overview*](#).



levels, some questioned whether the supply chain would be as resilient in the face of future shocks in supply or demand.

In response to the challenges and opportunities in the processed food sector, the House of Commons Standing Committee on Agriculture and Agri-Food chose to study the issue of how to increase Canada's ability to process more of its own food. Between November 2020 and February 2021, the Committee held 12 meetings on this topic and heard from witnesses representing farmer and consumer trade groups, local community organizations concerned with food security, and other interested parties. This report summarizes the testimony that the Committee heard and submits recommendations to the Government.

CANADA'S FOOD AND BEVERAGE PROCESSING INDUSTRY

The food and beverage processing industry encompasses the full range of activities involved in taking raw agricultural output, whether in the form of fruits and vegetables, grains, or livestock, and transforming it into the finished products that consumers find on supermarket shelves and restaurant menus.

Canada's food and beverage processing industry is its second-largest manufacturing sector, with economic activity totalling \$117.8 billion in 2019, accounting for 2% of the country's Gross Domestic Product (GDP)² and 17% of its manufacturing GDP.³ Food and beverage processors employ 290,000 individuals across the country, the largest workforce of any Canadian manufacturing sector.⁴ Employment varies among processors depending on the product being processed; in 2017, three product sectors (meat, bakery/tortilla, and beverage processing) were responsible for employing over half of the sector's workforce.⁵

The overwhelming majority (94.9%) of Canada's 7,000 food and beverage processing firms are classified as small operations with fewer than 100 employees. Only 0.5% of food and beverage establishments are large operations with 500 or more employees. Medium sized operations employing between 100 and 499 employees account for the

2 Agriculture and Agri-Food Canada (AAFC), [Overview of the Food and Beverage Processing Industry](#), 2020. [AAFC 2020]

3 House of Commons, Standing Committee on Agriculture and Agri-Food (AGRI), [Evidence](#), 2nd Session, 43rd Parliament, 19 November 2020, 1535 (Frédéric Seppey, Assistant Deputy Minister, Market and Industry Services Branch, Department of Agriculture and Agri-Food).

4 AAFC 2020.

5 AAFC, [An Overview of the Canadian Agriculture and Agri-Food System 2017](#), p. 81. [AAFC 2017]

remaining 5.4% of food and beverage processing establishments. Despite their small number, large firms were nonetheless responsible for 46.9% of the total value of the sector's exports in 2016.⁶ Agriculture and Agri-Food Canada (AAFC) notes that food and beverage processors tend to have lower, but more stable, profit margins compared to other Canadian manufacturing sectors.⁷

Food and beverage processing firms play a significant role in Canadian agriculture and agri-food. These firms purchase approximately 40% of Canadian farms' agricultural output and sell over 70% of their processed output to Canadian retailers and food service providers.⁸ The food and beverage processing industry is also a significant part of Canada's international trade portfolio, with its exports of processed agri-foods products totalling \$38.9 billion in 2019.⁹ In terms of overall production, Canada consumes roughly 30% of its agricultural output, with some sectors, such as canola, exporting as much as 90% of their product. Canada's trade deficit in processed foods totalled \$1.9 billion in 2016, with AAFC noting that, despite annual fluctuations, this figure has remained relatively stable since the late-2000s.¹⁰

PROCESSING CAPACITY

In 2016, the Minister of Finance established an Advisory Council on Economic Growth to make recommendations on long-term economic growth in the Canadian economy. In 2017, the Council published a series of reports detailing its recommendations. The Council's reports (commonly referred to collectively as the Barton Report in honour of the Council's chairperson Dominic Barton) identified Canada's agri-food exports as an economic sector with the potential for significant future growth. The Report notes several factors (including the availability of water and arable land, high crop productivity, an international reputation for high food safety standards, and the presence of agri-food research clusters) that make Canada well positioned to take advantage of a forecasted increase in worldwide demand for "higher-value" foods such as proteins and nutritionally enriched "functional foods."¹¹

6 AAFC 2020.

7 AAFC 2017, p. 84.

8 AAFC, *Food Processing Industry Roundtable*.

9 AAFC 2020.

10 AAFC 2017, p. 55.

11 Advisory Council on Economic Growth, *Unleashing the Growth Potential of Key Sectors*, 2017, p. 7.



To take full advantage of these forecasted trends, the Report recommended the Government of Canada institute a wide range of policy reforms and financial investments to help make Canadian processors more innovative and more competitive at the international level. Among the areas of federal jurisdiction, the Barton Report touched upon were international trade agreements, investments in infrastructure, reforms to immigration and skills in the Canadian workforce, and accelerating innovation throughout the supply chain.

In 2017, the Government of Canada established an [Economic Strategy Table](#) on the agriculture and agri-food sector consisting of representatives from the agri-food processing industry to make recommendations on how Canada can best pursue future growth in this sector. In September 2018, this group published a report setting targets of \$140 billion in domestic agriculture and food processing products by 2025 (a 27% increase from \$110 billion in 2017) and \$85 billion in exports of agriculture, agri-food and seafood over the same period.¹² The report recommends a number of policy and regulatory changes as well as key investments in areas such as infrastructure to ensure Canada yields the full benefits this sector is expected to provide over the next decade.

In addition to the growth-oriented recommendations outlined in the Barton Report and the Economic Strategy Table's 2019 report, agri-food industry observers note that the COVID-19 pandemic has highlighted what they see as pre-existing vulnerabilities in Canada's agricultural value chain that may jeopardize its ability to respond to future supply and demand shocks.¹³ In its report on strengthening Canada's agri-food sector in the aftermath of the pandemic, the Agri-Food Innovation Council (AIC) explains that building a more resilient Canadian food system is largely dependent on expanding and upgrading domestic food processing capacity.¹⁴

This message was echoed by several witnesses who testified to the Committee, including Dr. Martin Scanlon, the Dean of Agriculture and Food Sciences at the University of Manitoba, who indicated that the long supply chains that Canadians rely upon for food should be supported by smaller food processing operations to ensure resiliency in the face of future challenges.¹⁵ From a food security perspective, this traditional reliance

12 Innovation, Science and Economic Development Canada (ISED), [Report of Canada's Economic Strategy Tables: Agri-Food](#), 2018, p. 3. [ISED 2018]

13 National Farmers Union, [Meat packing concentration makes Canada's food system vulnerable](#), 22 April 2020.

14 Agri-Food Innovation Council, [Strengthening the Agri-Food Sector Post-COVID-19](#), September 2020, p. 4.

15 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 19 November 2020, 1720 (Dr. Martin Scanlon, Dean, Faculty of Agriculture and Food Sciences, University of Manitoba, Deans Council – Agriculture, Food and Veterinary Medicine).

on foreign processing as a destination for Canadian crops and a source of Canadian food imports is vulnerable to factors beyond Canada's control. Dr. Sylvain Charlebois, a professor at Dalhousie University and the Director of its Agri-Food Analytics Lab, explained to the Committee that climate change, currency fluctuations and logistical disruptions pose risks to Canada's supply chain.¹⁶ Todd Lewis, the President of the Agricultural Producers of Saskatchewan, also noted the vulnerability of Canada's food processing sector to geopolitical forces such as trade disputes and "arbitrary decisions" by foreign governments.¹⁷

In his testimony, Frédéric Seppey, the Assistant Deputy Minister of the Market and Industry Services Branch at AAFC, explained that food processing is a heterogeneous sector, with different products facing different challenges in achieving the market conditions needed to develop domestic processing capacity:

In terms of processing capacity, it can vary from sector to sector. In sectors such as dairy processing, it is very strong in terms of our internal needs. The supply management system ensures that our capacity is high enough to process all the products we need. In other sectors, we have a significant comparative advantage on a global scale. I'm thinking of the meat processing sector, meaning meat products. Clearly, our production capacity is far greater than our needs in Canada. We export the vast majority of our products.... because of the heterogeneity of the sector. In some regions and for some sectors, the capacity may be insufficient but, given the way our market economy operates, it is up to market forces and businesses to determine where to invest to increase processing capacity.¹⁸

In addition, representatives of supply-managed sectors stressed the importance of considering their unique characteristics. They agreed that the market access concessions for regulated commodities included in some agreements have adverse effects on their sector and should be avoided in the future.¹⁹

As part of its response to the pandemic, the Government of Canada announced the Emergency Processing Fund, a \$77.5 million fund to help Canadian food processors to help ensure worker safety and implement technology that would help automate and

16 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 1 December 2020, 1535 (Dr. Sylvain Charlebois, Professor, Dalhousie University, Director, Agri-Food Analytics Lab).

17 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1530 (Todd Lewis, President, Agricultural Producers Association of Saskatchewan)

18 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1550 (Frédéric Seppey).

19 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 23 February 2021, 1700 (Élise Gosselin, Chief Executive Officer, Novalait).



innovate processing facilities.²⁰ Several witnesses explained that while these funds were welcome, they do not address the full impact that COVID-19 has had on the Canadian supply chain.²¹ Kathleen Sullivan, the CEO of Food and Beverage Canada cited an estimate that food manufacturers had spent nearly \$1 billion on COVID 19-related measures such as personal protective equipment, health screenings, operation modifications, and enhanced cleaning.²²

Prior to the pandemic, the Government of Canada announced the establishment of the Local Food Infrastructure Fund (LFIF), a five-year, \$50 million fund to finance projects undertaken by non-profit community organizations that meet the goals of the government's Food Policy. Special consideration was given to organizations tackling food security in at-risk populations. As discussed further in the "Local Food Cooperatives" section below, some witnesses felt that the amounts in the first round of funding for this initiative were insufficient to build the type of facilities needed to ensure greater local food security.

INFRASTRUCTURE

Among the obstacles to Canada taking full advantage of the global growth opportunities in processed foods is what the Barton Report describes as the Canadian agricultural sector's traditional lack of investment in domestic food processing infrastructure.²³ A lack of processing facilities in many regions and logistical difficulties in transporting goods across the country have led to 50% of Canada's agricultural output being exported for processing.²⁴ Canada's traditional focus on exporting raw commodities rather than value-added products has also created gaps in the infrastructure needed to export finished goods to markets.

20 AAFC, *Supporting Canada's food processing and production sectors*, News release, 12 June 2020.

21 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 3 December 2020, 1645 (Sylvie Cloutier, Chief Executive Officer, Conseil de la transformation alimentaire du Québec).

AGRI, *Evidence*, 2nd Session, 43rd Parliament, 18 February 2021, 1545 (Ron Lemaire, President, Canadian Produce Marketing Association).

22 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 26 January 2021, 1650 (Kathleen Sullivan, Chief Executive Officer, Food and Beverage Canada).

23 Advisory Council on Economic Growth, 2017, p. 9.

24 Ibid.

Transportation

Among the recommendations of the government’s Economic Strategy Table on Agri-food was to create a “state-of-the-art” transportation network that would help prevent bottlenecks in the supply chain that result in losses for farmers and producers.²⁵ Reliable transport, the group notes, is particularly important if Canada wants to take advantage of growing demand for processed food products in Asian markets, access to which, in most cases, requires intermodal connections between farms and ports. The report stresses the challenge of expanding Canada’s international transport capabilities when it often struggles to ship goods domestically in a timely manner. The report cites the example of farmers’ losses during the 2013-14 winter and the spring of 2018, when rail disruptions caused significant backlogs in grain shipments, resulting in an estimated \$6.5 billion in losses for Canadian farmers between 2013 and 2015.²⁶

As part of its Investing in Canada Plan, the Government of Canada has established a National Trade Corridors Fund, overseen by Transport Canada, to fund projects that help to expand trade capacity by eliminating identified bottlenecks at ports, rail interchanges, and other transport corridors throughout the country. This \$2.3 billion fund addressed capacity constraints in its first call for proposals in July 2017; it reports that it awarded \$800 million in funding to 39 different projects located in each province and territory.²⁷ As witnesses made clear, however, Canada’s infrastructure continues to face difficulties related to the transport of agri-food products.

Several witnesses stressed Canada’s need to update its transportation infrastructure to ensure it would be able to manage any future increase in domestic processing. Mr. Lewis underlined the fact that processed products often require different transport infrastructure than the bulk shipment of raw commodities. Mr. Lewis explained that processed canola oil, for example, needs to be shipped by tanker cars, rather than the current fleet of grain cars used to transport raw canola for processing elsewhere, and that his sector is experiencing a shortage in containers.²⁸

Jim Everson, the President of the Canola Council of Canada, explained that canola oil is a “just in time” product for North American markets, with distributors and other end users requiring the finished product to arrive in their facilities on regular and predictable

25 ISED 2018, p. 8.

26 Ibid.

27 Transport Canada, [National Trade Corridor Fund backgrounder](#).

28 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 24 November 2020, 1555 (Todd Lewis).



timetables.²⁹ The importance of reliable transportation in bringing processed foods to market was also highlighted by Dimitri Fraeys of the Conseil de la transformation alimentaire du Québec. Mr. Fraeys explained that fostering stability in the supply chain is important: beyond the recent pandemic-related disruptions, suppliers have faced labour disruptions at ports and rail companies, and rail blockades in recent years.³⁰

Dr. Al Mussell, the Research Lead at Agri-Food Economic Systems, a think tank specializing in economic research related to agriculture and food, told the Committee of the importance of “mapping” supply chains to better identify bottlenecks and other inefficiencies throughout the country.³¹

Recommendation 1

The Committee recommends that the Government of Canada invest in trade infrastructure, such as transportation systems, to improve access to markets and support a modern supply chain.

Small and Medium-Sized Abattoirs

As previously mentioned, one aspect of Canada’s food system that the COVID-19 pandemic has highlighted is the concentration of its slaughterhouse and meatpacking industry. Currently, three federally regulated plants (a JBS plant in Brooks, Alberta, and two Cargill plants in High River, Alberta and Guelph, Ontario) are responsible for processing 85% of the beef that Canadians consume.³² Several witnesses spoke of the closing of smaller, regional abattoirs in recent years and the difficulties farmers and ranchers faced as a result.

Rob Lipsett, the President of the Beef Farmers of Ontario, explained to the Committee that this issue has an important regional component. Mr. Lipsett cited figures showing that federally inspected meatpacking facilities in eastern Canada had reached 100% capacity in 2020 and that Ontario had seen its provincial processing numbers increase by over 20% compared to the previous year and the 5-year average. The result of this limited capacity is that some beef farmers must wait anywhere from four months to a

29 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 3 December 2020, 1655 (Jim Everson, President, Canola Council of Canada).

30 Ibid., 1730 (Dimitri Fraeys, Vice-President, Conseil de la transformation alimentaire du Québec).

31 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 2 February 2021, 1625 (Dr. Al Mussell, Research Lead, Agri-Food Economic Systems, as an individual).

32 Statistics Canada, *COVID-19 and the Beef Supply Chain: An Overview*.

year to have their cattle processed. Mr. Lipsett quoted an estimate from Canfax, the Canadian Cattleman's Association's information service, that shortages in processing capacity had led to \$129 million in lost revenue in 2020 for eastern Canadian farmers.³³

Unforeseen delays in slaughter can have a significant impact on producers' profit margins, as they must assume the costs of feeding and maintaining cattle until slaughter capacity becomes available. Richard Horne, the Executive Director of the Beef Farmers of Ontario, explained to the Committee that processors may also require discounts for overweight cattle, resulting in farmers potentially losing hundreds of dollars per head of cattle for each day that they are delayed getting to market.³⁴

Recognizing the difficulties limited slaughter capacity placed on farmers during the COVID-19 pandemic, the federal government, in cooperation with its provincial counterparts, created cattle set-aside programs to provide emergency funding to beef cattle farmers facing processing delays. This initiative, funded through the [AgriRecovery](#) business risk management framework, helps farmers absorb the cost of keeping cattle on farm beyond their anticipated slaughter date. Mr. Horne³⁵ along with the Canadian Cattlemen's Association³⁶ both noted the importance of this program and encouraged the government to make it available to cattle farmers over the next fiscal year.

Limited access to meat processing facilities, particularly federally inspected ones that allow producers to sell their product nationally and internationally, can have a significant impact on local food production. Margaret Lamb, the Chair of Pork Nova Scotia, explained that the loss of infrastructure, including feed mills and processing plants, in Nova Scotia was an important factor in the decline of pork production in the province. Ms. Lamb explained that while, at its peak, the Nova Scotia pork industry had 225 active farms with 200,000 hogs, it now consists of eight commercial producers with an annual production of 8,500 market hogs, 25% of which are shipped to Quebec for processing.³⁷

At the export level, Jason Aitken, the President of Northern Natural Processing noted that capturing the potentially lucrative business opportunities available for Canadian

33 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 2 February 2021, 1635 (Rob Lipsett, President, Beef Farmers of Ontario).

34 Ibid., 1650 (Richard Horne, Executive Director, Beef Farmers of Ontario).

35 Ibid., 1640.

36 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 23 February 2021, 1555 (Bob Lowe, President, Canadian Cattlemen's Association).

37 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 28 January 2021, 1630 (Margaret Lamb, Chair, Pork Nova Scotia).



protein producers in the Asia-Pacific region would be difficult unless Canada is willing to make investments in its processing capabilities:

We have an amazing export opportunity. Asia-Pacific wants to do business with Canada, but they require stability and guaranteed supply. The only way to guarantee this is to develop the hard assets and truly invest in the necessary infrastructure.³⁸

The Mobile Abattoir

Mobile abattoirs offer an alternative when large corporate slaughterhouses are not available. Kirk Price, the Director of the Government of Yukon's Agriculture Branch, explained to the Committee that, prior to 2006, regulated slaughter capacity in the territory was limited to one facility that was often difficult for farmers to access. Recognizing this difficulty and the danger it posed to Yukon's self-sufficiency in red meat, the territorial government purchased a mobile abattoir, allowing farmers to slaughter animals on-farm in a territorially regulated setting.³⁹ Funding for this type of project can, however, be difficult to obtain. Judy Stafford, the Director of the Cowichan Green Community for example, explained that her organization sought funding from the provincial and federal governments to finance a mobile abattoir on Vancouver Island; she reported, however, that the costs of her project were too high for eligibility under existing federal programs.⁴⁰

The Committee also learned of the implementation of the mobile abattoir model in rural Quebec, where a collective of farmers in rural regions have formed Le petit abattoir, a cooperative micro-abattoir and mobile abattoir designed to meet the needs of small poultry farmers. As Fernande Ouellet, the organization's coordinator explained, small poultry farmers are often unable to access slaughtering facilities because of their limited production numbers and, as in the rest of Canada, most regional abattoirs have closed in recent years.⁴¹

Ms. Ouellet further explained that her project would help prevent farmers from having to travel hundreds of kilometres to one of the increasingly few facilities that is willing to accept a small allotment of animals. In addition to providing a more convenient local

38 Ibid., 1540 (Jason Aitken, President, Northern Natural Processing LP).

39 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1640 (Kirk Price, Director Agriculture Branch, Government of Yukon).

40 Ibid., 1625 (Judy Stafford, Executive Director, Cowichan Green Community).

41 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 1 December 2020, 1640 (Fernande Ouellet, Coordinator, Le petit abattoir).

option for slaughter, Ms. Ouellet highlighted several beneficial side effects the project would have on her region. By shortening the supply chain, the project helps to increase food security in smaller communities, develops the regional economy by encouraging small-scale farmers to settle in the area, and protects animal welfare by allowing animals to be slaughtered in familiar surroundings and avoiding the often stressful experience of long journeys to larger facilities.⁴²

Ms. Ouellet asked for non-repayable assistance to help establish small-scale abattoirs in regions throughout the country, citing the difficulty of local groups securing start-up costs.⁴³ As the coordinator of a federally-regulated abattoir project, she also stressed the importance of government departments adopting a more flexible regulatory approach that would allow smaller facilities like hers to meet the same health and safety outcomes as larger slaughterhouses through means other than those currently outlined in federal regulations. As an example of this approach, Ms. Ouellette explained that federal inspectors could periodically certify local facilities to make sure they meet applicable standards rather than inspect each animal carcass that arrives for slaughter.⁴⁴

Recommendation 2

The Committee recommends that the Government of Canada modernize its regulations and implement targeted programs, in collaboration with the provinces and territories, to encourage the development of local processing businesses and regional small-scale abattoirs.

Recommendation 3

The Committee recommends that the Government of Canada, in collaboration with provinces and territories and the private sector, identify strategic funding opportunities to address regional processing capacity to strengthen Canada's agri-food supply chain.

Local Food Cooperatives

In addition to meat products, witnesses told the Committee of the difficulties local food cooperatives face in building local food infrastructure to process food.

42 Ibid., 1640.

43 Ibid., 1625.

44 Ibid., 1630.



In addition to regulatory difficulties (largely at the provincial level because of their local scope), start-up capital was a significant obstacle to starting such initiatives. Two witnesses implicated in local food security efforts, Ms. Stafford⁴⁵ and Gisèle Yasmeen, the Executive Director of Food Secure Canada⁴⁶, both noted that while the government’s LFIF initiative was a welcome step in developing initiatives like theirs across Canada, the maximum amount of the awards (\$25,000) was too small to develop the infrastructure necessary for long-term food security in underserved regions. Ms. Yasmeen also encouraged the federal government to increase its support for local food economies through school food initiatives and programs focused on indigenous communities.⁴⁷

Recommendation 4

The Committee recommends that the Government of Canada increase funding to the Local Food Infrastructure Fund and dedicate a specific stream open to a broad group of regional agri-food businesses to promote processing capacity across the country.

Recommendation 5

The Committee recommends that the Government of Canada consider food insecurity a priority, looking more precisely to northern and indigenous issues, and take the necessary measures to support Canadians in need.

REGULATION

A “Challenging” Regulatory Environment

The Barton Report describes what it sees as a “challenging” regulatory environment for Canadian food processors, including lengthy permitting processes and supply management boards, as partially responsible for the country’s lack of domestic processing.⁴⁸ The Government’s Economic Strategy Table also cites regulatory burden as a key impediment to the processing’s sector’s growth, noting that the World Economic Forum ranked Canada 14th out of 36 member countries of the Organization for Economic

45 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1610 (Judy Stafford).

46 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 8 December 2020, 1715 (Gisèle Yasmeen, Executive Director, Food Secure Canada).

47 *Ibid.*, 1650.

48 Advisory Council on Economic Growth, 2017, p. 9.

Co-operation and Development (OECD) on its government regulation index in 2017-2018, suggesting that processors may seek to do business in other jurisdictions.⁴⁹

Nadia B. Theodore, the Senior Vice-President for Global Government and Industry Relations at Maple Leaf Foods, explained that a key problem in Canada's regulatory regime is its prescriptiveness. In Ms. Theodore's view, regulations too often focus on the specific processes that processors must follow rather than the outcomes they should achieve, discouraging innovation in the food processing sector:

Perhaps more troubling to us is that many regulations are either outdated or focused too heavily on prescribing a process than ensuring an outcome. This deters innovation and solutions that would improve health, safety, and environmental outcomes and stymies much-needed investment to our country. The ultimate results are additional cost, distrust between industry and regulators, and an overall less-than-efficient system that prevents us from living up to our true potential on both health and safety and global competitiveness.⁵⁰

When asked why Maple Leaf chose to acquire a new plant in the U.S. rather than in Canada, she cites the cumulative effect of regulation as one of the factors for this decision.⁵¹ Ms. Theodore's point was echoed by Dennis Prouse, the Vice-President of Government Affairs at CropLife Canada, who noted that new varieties of canola plants had moved to the United States for processing because Canada lacks a clear regulatory framework for plant-breeding innovations such as gene editing.⁵² Mr. Prouse expressed his view that Canada had fallen behind other industrialized countries in adopting science-based regulatory reforms and risked losing out on business opportunities as a result. He recommended that Canada adopt an innovation and competitiveness lens when reviewing and writing regulations.⁵³

In its 2018 budget, the Government of Canada announced that the Treasury Board of Canada Secretariat would hold reviews of its regulatory regimes for four high-growth economic sectors, including a review of regulations affecting the agri-food and aquaculture industry.⁵⁴ Following consultation with industry representatives and other

49 ISED 2018, p. 21.

50 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 23 February 2021, 1545 (Nadia B. Theodore, Senior Vice-President, Global Government and Industry Relations, Maple Leaf Foods).

51 *Ibid.*, 1710.

52 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 8 December 2020, 1535 (Dennis Prouse, Vice-President, Government Affairs, CropLife Canada).

53 *Ibid.*, 1540.

54 Treasury Board of Canada Secretariat, [Targeted regulatory reviews](#).



stakeholders the government published a Regulatory Review Roadmap for this sector outlining twenty-five regulatory issues it intends to address through amendments to existing regulations and other measures.⁵⁵

Mr. Prouse told the Committee that the Regulatory Review Roadmap was a welcome development but should be a first step in a more thorough overview of Canada's regulations on food to make sure they are keeping pace with international competitors and advances in technology.⁵⁶

Witnesses also noted that any changes to Canada's agri-food regulations should be careful to avoid any changes that might affect food safety. Besides being important to the health and well-being of consumers, Denise Allen, the President and CEO of Food Processor Canada, noted that Canada's reputation for food safety is an important part of the food processing sector's "quality value proposition" and the future ability of Canadian firms to enter and succeed in new markets.⁵⁷ Allowing food processors greater flexibility to innovate and expand while continuing to foster a reputation for safety and reliability is thus an essential balance that the government and industry stakeholders should try to achieve in any regulatory changes it makes within its Regulatory Review Roadmap.

Recommendation 6

The Committee recommends that the Government of Canada conduct an external review of its regulations in order to modernize them, streamline approvals and remove barriers to bringing new solutions to market, without compromising food safety, by involving organizations like the Canadian Food Inspection Agency.

Federal/Provincial/Territorial Regulatory Alignment

Canadian food products sold across provincial and territorial borders and those exported outside of Canada must meet federal safety standards. The harmonization of provincial/territorial and federal standards has been a long-standing concern in Canada's agricultural community and one that this Committee has previously studied.⁵⁸ In the

55 Canadian Food Inspection Agency, [Agri-food and Aquaculture Roadmap](#).

56 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 8 December 2020, 1535 (Dennis Prouse).

57 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 24 November 2020, 1705 (Denise Allen, President and CEO, Food Processors Canada).

58 AGRI, [Promoting Domestic Trade of Agricultural and Agri-Food Products By Reducing Interprovincial Barriers](#), 2nd Session, 41st Parliament, June 2015.

context of food processing, witnesses explained that discrepancies between provincial and federal standards can make it difficult for small and medium-sized processors operating provincially to “scale-up” and expand their operations to the national or international level, or even remain in operation.⁵⁹

Several witnesses brought up the sector-specific example of the sale of provincially regulated meat to other provinces. In May 2020, the Canadian Food Inspection Agency (CFIA) put in place a Ministerial Exemption process under Section 174(1) of the *Safe Food for Canadians Regulations* to allow provincially-inspected meat and poultry processors to sell their products across provincial boundaries if food businesses, such as wholesalers and retailers, experienced meat shortages.⁶⁰ Under this exemption process, food businesses apply to their provincial or territorial food safety authority for an exemption. These authorities then determine on a case-by-case basis whether a Ministerial Exemption is appropriate and send exemption requests to the CFIA’s [Centre of Administration for Permissions](#).

While the CFIA has not yet released official data on Ministerial Exemptions issued since May 2020, Assistant Deputy Minister Seppey explained to the Committee that no provincial or territorial food safety authority had requested such an exemption.⁶¹

Recommendation 7

The Committee recommends that the Government of Canada, in collaboration with the provinces and territories, seek further harmony between federal and provincial processing standards, so as to reduce barriers to inter-provincial and international trade, and encourage innovation through a focus on outcomes rather than prescriptive measures. Furthermore, the Committee recommends that the federal government make available supports for those processors specifically seeking compliance with international trading standards, where these standards place a significant additional burden beyond provincial measures.

59 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1605 (Judy Stafford).

60 CFIA, [Temporary Ministerial Exemption process to allow inter-provincial trade of meat and poultry products from establishments that are not federally licenced](#).

61 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1600 (Frédéric Seppey).



Consistency of Federal Regulation Enforcement and Inspection Procedures

When asked to identify regulations that place the greatest burden on processors, Ian Blenkharn, a retired poultry farmer, noted that one of the biggest challenges to the sector is not just the regulations themselves, but what he saw as their inconsistent application and enforcement by the Canada Food Inspection Agency (CFIA).⁶²

Mr. Blenkharn said that, in his experience, CFIA inspectors in neighbouring processing facilities may enforce different interpretations of the same regulations, creating what he saw as an “uneven playing field” for producers and processors.⁶³

In his written submission to the Committee, Ken Falk, the President of Fraser Valley Specialty Poultry, details a four-year long legal challenge with the CFIA and what he sees as the Agency’s “inconsistent” and “unreasonable” enforcement tactics.⁶⁴ In his submission, Mr. Falk asks for more independent, external oversight over the CFIA to prevent such incidents from occurring in the future.⁶⁵

Recommendation 8

The Committee recommends that the Government of Canada consider implementing internal control measures within the CFIA to ensure uniformity in treatment and a reasonable internal appeal process, avoiding recourse to tribunals.

Revisiting Canada’s Bovine Spongiform Encephalopathy (BSE) Regulations

In May 2003, Canada identified its first case of Bovine Spongiform Encephalopathy (BSE or “Mad Cow Disease”). To help control the spread of BSE-infected material and better respond to future outbreaks, the federal government implemented new regulations for the handling of cattle and the removal and disposal of so-called “specified risk material” (SRM) or tissue containing the abnormal proteins or prions that cause BSE transmission. [Section 6.1](#) of the Health of Animals Regulations defines SRM as:

62 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 26 January 2021, 1725 (Ian Blenkharn, Retired Business Executive and Farmer, as an individual).

63 Ibid.

64 AGRI, [Written submission to the House of Commons Standing Committee on Agriculture and Agri-Food](#), Brief submitted by Fraser Valley Poultry, 16 February 2021.

65 Ibid.

the skull, brain, trigeminal ganglia, eyes, tonsils, spinal cord and dorsal root ganglia of cattle aged 30 months or older, and the distal ileum of cattle of all ages, but does not include material from a country of origin, or a part of a country of origin, that is designated under section 7 as posing a negligible risk for Bovine Spongiform Encephalopathy.

Since 1997, the Government of Canada has enforced an Enhanced Feed Ban which prohibits SRM from being used in animal feed, pet food, and fertilizers in order to prevent the spread of BSE on Canadian farms.⁶⁶

The [World Organization for Animal Health](#) (OIE) currently classifies Canada as one of six countries with a “controlled risk” for BSE. This status requires Canada to enforce certain restrictions on its beef operations, including regular reporting requirements, farmer education initiatives to prevent BSE transmission, and an enhanced feed ban.⁶⁷ The OIE explains that countries are eligible to transfer from the “controlled” to “negligible” risk category 11 years after the birthdate of the last indigenous animal identified with BSE.⁶⁸ According to the CFIA, the most recent identification of a BSE-infected animal on a Canadian farm dates to February 2015 in an animal born in March 2009, making Canada eligible for a change in status as of March 2020.⁶⁹ On 12 March 2021, the CFIA announced that Canada had submitted an application to the OIE to obtain negligible risk status; the OIE will vote on Canada’s submission at its World Assembly of OIE Delegates General Session at the end of May 2021.⁷⁰

In their testimonies to the Committee, the Canadian Cattleman’s Association (CCA),⁷¹ Boeuf Québec⁷² and the Beef Farmers of Ontario⁷³ each cited Canada’s SRM disposal rules as an example of a burdensome regulation that the federal government should seek to amend. These groups explained that these regulations require Canadian beef producers to eliminate substantial potential value from cattle carcasses over 30 months

66 Canada Food Inspection Agency (CFIA), [About Canada’s Enhanced Feed Ban](#).

67 CFIA, [Canada remains a controlled BSE risk country](#).

68 World Organization for Animal Health (OIE), Article 11.4.3, “Negligible BSE risk” in [Chapter 11.4: Bovine Spongiform Encephalopathy](#).

69 CFIA, [Confirmed cases of bovine spongiform encephalopathy](#).

70 CFIA, [“Canada’s application for negligible risk status for BSE passes an important milestone,”](#) News release, 12 March 2021.

71 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 23 February 2021, 1530 (Dennis Laycraft, Executive Vice-President, Canadian Cattleman’s Association).

72 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 26 January 2021, 1715 (Jean-Sébastien Gascon, Director General, Boeuf Québec – Société des parcs d’engraissement du Québec).

73 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 2 February 2021, 1725 (Richard Horne).



old as many of the SRM materials can be sold as by-products. Mr. Dennis Laycraft of the CCA explained that while Canadian cattle farmers dispose of over 50 kilograms of SRM in cattle over 30 months of age, their American counterparts remove only one kilogram from such cattle.⁷⁴ The CCA believes that this disparity places Canadian cattle farmers at a comparative disadvantage to their international counterparts, who can obtain more value per head of cattle.

The OIE states that the incidence of BSE worldwide is “negligible.”⁷⁵ According to the most recent data from the OIE, there were only two reported cases of classical (rather than atypical)⁷⁶ BSE worldwide in 2016 compared to 561 such cases in 2005.⁷⁷ As previously mentioned, there has not been a reported case of BSE in Canada since 2015.

In addition to the SRM regulations, the Canadian Cattleman’s Association (CCA) mentioned the related issue of harmonizing Canada’s regulations with those of the United States and South Korea.⁷⁸ South Korea retains the ability to stop imports of Canadian beef if another case of BSE is identified; this requires American slaughtering and processing facilities to segregate Canadian cattle to ensure that American cattle are not affected if such a ban were to be put into effect.

The CCA claims that the additional expense tied to this segregation decreases the value of Canadian cattle on the international market. The lack of access to American facilities, in the CCA’s view, also limits options for slaughtering in the case of bottlenecks at Canadian facilities as some American facilities serving the Korean market are less inclined to accept Canadian cattle because of the logistical difficulties involved in handling them.⁷⁹

Witnesses were not, however, unanimous on lifting Canada’s BSE regulations. While acknowledging that deregulation in this area would be a “good thing,” Mr. Aitken suggested that it was neither the primary obstacle facing the Canadian beef industry nor the primary impediment to building more domestic capacity for beef processing in

74 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 23 February 2021, 1620 (Dennis Laycraft).

75 OIE, “*Bovine spongiform encephalopathy (BSE)*.”

76 As the OIE explains on its [website](#), “classical BSE occurs in cattle after ingesting prion contaminated feed; atypical BSE is believed to occur spontaneously in all cattle populations.”

77 OIE, *Number of reported cases of bovine spongiform encephalopathy (BSE) in farmed cattle worldwide (excluding the United Kingdom)*.

78 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 23 February 2021, 1530 (Dennis Laycraft).

79 AGRI, *Brief to the House of Commons Standing Committee on Agriculture and Agri-Food Regarding Processing Capacity in the Beef Sector*, Brief submitted by the Canadian Cattleman’s Association, 10 February 2021, p. 6.

Canada.⁸⁰ Anthony Eikelenboom, a drover with the Scotian Cattle Company, explained that he liked the current regime as it allows for a more targeted, regional response to any potential BSE cases preventing a nationwide shutdown of the kind seen after Canada's first case in 2003.⁸¹

Recommendation 9

The Committee recommends that the Government of Canada revise the slaughtering regulations related to bovine spongiform encephalopathy (BSE), including those respecting specified risk material, so that they do not weaken the competitiveness of the Canadian beef industry.

INNOVATION AND NEW TECHNOLOGY ADOPTION

All the witnesses who appeared before the Committee agreed that innovation and the adoption of new technology are important drivers of growth for the food processing sector and that the federal government can play a key role in this area.

For example, Mr. Lewis pointed out that canola – currently one of Canada's largest agricultural exports – “was developed through a public program, and that investment created hundreds of billions of dollars of economic activity.”⁸² Ian Affleck, Vice-President of Biotechnology at CropLife Canada, described how developing new canola seeds could deliver multiple benefits to the processing sector:

Recently, a company working out of Saskatchewan, Yield10, developed four canola varieties with a higher oil content. This is a great processing opportunity and it has benefits for more than just the processor. The farmers are getting more oil per acre, so their greenhouse and carbon footprint is going down. Their farm gate values are going up, and also, then, a processor is able to produce canola oil more efficiently because they're crushing less canola per minute to get the same amount of oil.⁸³

The witnesses also agreed that, in addition to making these traditional investments in research and development, food processing businesses must adapt to emerging technologies such as automation, blockchain and artificial intelligence. These

80 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 28 January 2021, 1725 (Jason Aitken).

81 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 26 January 2021, 1625 (Anthony Eikelenboom, Drover, Scotian Cattle Company).

82 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1535 (Todd Lewis).

83 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 8 December 2020, 1550 (Ian Affleck, Vice-President, Biotechnology, CropLife Canada).



technologies may spark major changes in many economic sectors, and agri-food businesses could be at a disadvantage if they cannot adapt quickly. Jean-Sébastien Gascon, Director General of Bœuf Québec, remarked that a productivity gap is already appearing between businesses that can rapidly adopt these technologies and those that cannot.⁸⁴ He argued that this “technological shift” is critical for Canada’s industry to remain competitive.⁸⁵

Adopting new technology is out of reach for some businesses, and a number of witnesses contended that government should play a role in helping finance these investments. Sylvie Cloutier, Chief Executive Officer of the Conseil de la transformation alimentaire du Québec, said small businesses in particular need supports in order to adopt technologies that could be of great benefit to them, such as the Internet of Things, Industry 4.0, connected equipment and online marketing.⁸⁶

Federal Government Initiatives to Spur Innovation

Federal government officials highlighted the existing resources that promote innovation in the agriculture and agri-food sector. For instance, using \$30 million from the Strategic Innovation Fund (SIF), the Canadian Food Innovators Network plans to finance projects in the following three areas:

- innovative solutions to food processing challenges;
- collaborative projects in automation, packaging, artificial intelligence and blockchain technology; and
- pilot-scale equipment at Canada’s food and beverage innovation centres.⁸⁷

Sheryl Groeneweg, Director General of the Manufacturing and Life Sciences Branch at the Department of Industry, described a project that recently received funding through this program:

84 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1715 (Jean-Sébastien Gascon).

85 Ibid., 1650.

86 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 3 December 2020, 1645 (Sylvie Cloutier).

87 AAFC, *The Government of Canada invests in innovation to advance Canada’s food processing*, News release, 28 August 2019.

In 2018, as well, there was a Maple Leaf Foods project funded through SIF to build a world-class, value-added poultry processing plant facility in London, Ontario. The SIF funded \$20 million toward a \$744 million project, and that project is expected to create one of the most technologically advanced poultry plants in the world that will lead on food safety, environmental and animal welfare processes and technologies.⁸⁸

The Innovation Superclusters Initiative is another government measure designed to drive innovation. The Protein Industries Supercluster was launched in 2018 to increase the value of key Canadian crops, such as canola, wheat and pulses, by supporting projects in the areas of plant genomics, novel processing technology and digital solutions.⁸⁹ William Greuel, Chief Executive Officer of Protein Industries Canada – the organization that coordinates the initiative – explained that the supercluster has 240 members and has already invested over \$300 million.⁹⁰ He said the program has fostered collaborative research involving multiple industry players, creating a favourable investment climate in a sector that has foreign direct investment appeal.⁹¹ Dr. Charlebois asserted that the supercluster is “one of Canada’s best open innovation systems” and that this model should be replicated for other commodities.⁹²

Recommendation 10

The Committee recommends that the Government of Canada encourage the development of private-sector led innovation hubs, such as superclusters, to raise agri-food productivity and connect start-ups with established companies and university research centers.

Recommendation 11

The Committee recommends that the Government of Canada make the agri-food sector a priority for attracting foreign direct investment and to conduct research and development in Canada while preserving and promoting domestic ownership of food processing enterprises.

88 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1555 (Sheryl Groeneweg, Director General, Manufacturing and Life Sciences Branch, Department of Industry).

89 ISED, *Canada’s Protein Industries Supercluster*.

90 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 1 December 2020, 1630 (William Greuel, Chief Executive Officer, Protein Industries Canada).

91 Ibid., 1650.

92 Ibid., 1540 (Dr. Sylvain Charlebois).



New Measures to Foster Private Investment

A number of witnesses pointed out that, in addition to government programs, the private sector has a role to play in helping agri-food businesses modernize and adopt new technologies.⁹³

Mr. Blenkharn explained that some entrepreneurs are willing to invest in the sector, but they are more likely to do so when the government provides tax incentives such as investment tax credits.⁹⁴ According to him, the federal government's primary role should be encouraging private investment rather than providing public funds:

In my opinion, financial investment with public funds is not the key to increasing processing capacity in Canada. The key is providing the appropriate business-friendly landscape for private investment to occur. There's more than enough private money in the world looking for low- to medium-risk profitable businesses to invest in.⁹⁵

Serge Buy, the CEO of the Agri-food Innovation Council, added that government support should focus on taxation and investment promotion in order to help bring agri-food sector innovations to market in Canada.⁹⁶ According to experts at MNP, a research and investment tax credit could enable the manufacturing sector to make necessary investments to modernize their sometimes aging facilities. MNP noted that, to be successful, the tax credit must be carefully designed to be as simple as possible to ensure widespread use.⁹⁷ Moreover, the Committee feels that the Government of Canada should ensure that additional direct funding and grants should come with safeguards to make sure the investment stays in Canada.

The government can also play a role in connecting different players in the agri-food value chain in order to foster innovation. Mr. Buy recommended that the government “collaborate with industry to actively attract private investments in agri-food research and innovation by promoting opportunities, success stories and incentives for investments.”⁹⁸ Mr. Lemaire said that, in his sector, bringing together growers and all

93 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 26 January 2021, 1645 (Ian Blenkharn).

94 Ibid., 1725.

95 Ibid., 1645.

96 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 2 February 2021, 1555 (Serge Buy, Chief Executive Officer, Agri-Food Innovation Council).

97 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 18 February 2021, 1630 (Kelleen Tait, Partner, MNP LLP).

98 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 2 February 2021, 1545 (Serge Buy).

other stakeholders, including retailers, is necessary “to find where those opportunities lay through the automation process.”⁹⁹

During its hearings, the Committee had the opportunity to hear from representatives of sectors in which various stakeholders have successfully come together to promote innovation. For example, Novalait is a dairy research and innovation organization established in 1995 that is jointly funded by dairy producers and processors. Élise Gosselin, Chief Executive Officer of Novalait, told the Committee that her organization works with businesses to set research priorities and then fund projects carried out by researchers and academics to meet the dairy industry’s concrete needs.¹⁰⁰

Expansion of Internet Access and Support for Business Incubators and Accelerators

Adopting many of these technologies requires broadband Internet access. Yet many witnesses reported that Internet access remains a challenge in numerous rural regions, where food processing facilities are often located. Mr. Lewis argued that Internet access is critical infrastructure for the development of the agri-food sector:

Access to modern high-speed Internet is essential to both processors and producers who are contributing to their supply chains. Access to adequate water and power supplies is essential. Access to labour resources is also essential.¹⁰¹

Multiple witnesses cited the usefulness of business incubators in helping young entrepreneurs commercialize their ideas. According to Dr. Charlebois, entrepreneurs need specific supports and mentorship for their food processing projects, as profits usually take longer to appear in this industry than in others, such as clean technology or financial technology.¹⁰² Jamie Curran, Assistant Deputy Minister at Alberta Agriculture and Forestry, outlined the role of the various organizations that provide this support to start-ups in Alberta:

The Food Processing Development Centre and Agrivalue Processing Business Incubator in Leduc support value-added agri-food business development and are an example of the Alberta government’s long-term, continuing support for value-added agriculture in the province. Alberta Agriculture and Forestry also operates the Bio Processing Innovation Centre, which provides product development and scale-up supports for

99 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 18 February 2021, 1610 (Ron Lemaire).

100 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 23 February 2021, 1600 (Élise Gosselin).

101 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1535 (Todd Lewis).

102 Ibid., 1610 (Dr. Sylvain Charlebois).



things like fibre decortication and grain fractionation. With a natural health product licence from Health Canada, the facility can also work with cosmetics, personal care products and natural health products.¹⁰³

According to the Agri-Food Innovation Council, business incubators and accelerators can bridge the gap between research and commercialization. This gap often hinders innovative new products and processes from coming to fruition, and these organizations can help early-stage companies by providing “guidance, cross-sectoral connections, mentorship and access to capital and funding.”¹⁰⁴ Mr. Buy argued that the government should also expand access to National Research Council Canada’s Industrial Research Assistance Program by making the capital costs of small businesses seeking to commercialize their innovations eligible for the program.¹⁰⁵

LABOUR SHORTAGES

Labour shortages are an ongoing challenge for the entire agriculture and agri-food sector. However, they are especially severe in food processing. Frédéric Seppey reported that the industry has 28,000 vacancies.¹⁰⁶ John Kelly, Deputy Minister of Ontario’s Ministry of Agriculture, Food and Rural Affairs, noted that, in Ontario, an estimated 85% of food product manufacturers are struggling with labour shortages.¹⁰⁷ The Chief Executive Officer of frozen vegetable processor Bonduelle Americas, Daniel Vielfaure, explained that his company has given up on projects in Canada owing to a lack of labour.¹⁰⁸ These problems were in evidence well before the pandemic, but it has made the situation worse, as workers have fallen ill and the arrival of temporary workers has been delayed. Mr. Vielfaure remarked, for example, that 105 Bonduelle office staff had to work in the plant over the summer to make up for a shortage of workers.¹⁰⁹

103 Ibid., 1540 (Jamie Curran, Assistant Deputy Minister, Processing, Trade and Intergovernmental Relations, Alberta Agriculture and Forestry, Government of Alberta).

104 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 2 February 2021, 1540 (Serge Buy).

105 Ibid., 1545.

106 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1550 (Frédéric Seppey).

107 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1650 (John Kelly, Deputy Minister, Ontario Ministry of Agriculture, Food and Rural Affairs).

108 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 8 December 2020, 1655 (Daniel Vielfaure, Chief Executive Officer, Bonduelle Americas).

109 Ibid., 1655.

The Temporary Foreign Worker Program, the Seasonal Agricultural Worker Stream and Immigration as Partial Solutions to Labour Shortages

The Temporary Foreign Worker Program fills some of the need for labour, but temporary immigration does not solve the problem in the food processing industry. First, recruiting temporary workers is more difficult in the food processing industry than in primary agriculture. This fact is reflected in the data: while Ontario typically hosts 20,000 temporary workers per year, only 600 of them work directly in food and beverage processing.¹¹⁰

The witnesses reported that hiring temporary workers in the food processing industry is a challenge. The Temporary Foreign Worker Program places a limit on the proportion of temporary labour that can be hired through the program's low-wage stream. This cap is set at 10% of total employees.¹¹¹ According to Mr. Fraeys, the labour shortage in the agri-food sector is such that this limit is too restrictive; he said it should be increased to 20%, the level allowed until 2014.¹¹² The Olymel representatives advocated for that same level during their appearance. However, they said this percentage could quickly prove inadequate, as forecasts indicate that labour shortages could worsen in the coming years.¹¹³

Ms. Sullivan wondered whether the cap is still necessary, because in her view the program includes enough safeguards to protect local labour. Employers already have to prove in every application that they first tried to hire locally, and they must ensure that temporary foreign workers are paid no less than Canadians.¹¹⁴ Mr. Vielfaure contended that the program is essentially a last resort for businesses facing an ongoing labour shortage:

we need to toss out the myth that Canadian businesses hire foreign workers to save money. It's not true. A foreign worker cost[s] us a lot more than a local worker when you take all the expenses into account.¹¹⁵

110 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1655 (John Kelly).

111 Employment and Social Development Canada, *Program requirements for low-wage positions*.

112 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 3 December 2020, 1710 (Dimitri Fraeys).

113 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 16 February 2021, 1725 (Richard Davies, Senior Vice-President, Sales and Marketing, Olymel L.P.).

114 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 26 January 2021, 1710 (Kathleen Sullivan).

115 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 8 December 2020, 1720 (Daniel Vielfaure).



Recommendation 12

The Committee recommends that the Government of Canada increase and facilitate access to the Temporary Foreign Worker Program, and raise the cap on the proportion of low-wage positions under the Program for food processing industries from the current rate of 10%, taking into account different regional and sectoral needs, and that it do so without limiting access to workers under the Seasonal Agricultural Worker Program (SAWP). The Government should also provide for food processor eligibility to the SAWP for their temporary labour needs.

Relaxing the program's rules could also help reduce costs for businesses, explained some witnesses. Jeff Sarsfield, President of Apple Valley Foods, whose company grows and processes apples, said the conditions of the Temporary Foreign Worker Program and the Seasonal Agricultural Worker Program should be made more flexible so that workers can be transferred between producers and between production and processing operations. Such a change would reduce housing and transportation costs for employers.¹¹⁶

Despite these issues, the witnesses agreed that the program is essential for many processing businesses, which use it every year.¹¹⁷ Retaining foreign workers through permanent immigration programs could help alleviate labour shortages over the long term. However, Ms. Sullivan noted that most permanent immigration programs are based on selection criteria that do not favour “blue-collar” workers, the type of workers the industry most often needs.¹¹⁸ To address this problem, Immigration, Refugees and Citizenship Canada launched the Agri-Food Pilot program, which provides a pathway to permanent residency for temporary foreign workers in the food processing sector who are already in Canada. The three-year pilot program is expected to grant 2,750 workers permanent residency every year.¹¹⁹ Mr. Lipsett said the program is a first step in the right direction, but more needs to be done.¹²⁰

116 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 28 January 2021, 1550 (Jeff Sarsfield, President, Apple Valley Foods Inc.).

117 Ibid., 1725.

118 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 26 January 2021, 1655 (Kathleen Sullivan).

119 Immigration, Refugees and Citizenship Canada, *Agri-Food Pilot begins accepting applications May 15*, News release, 15 May 2020.

120 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 2 February 2021, 1635 (Rob Lipsett).

Recommendation 13

The Committee recommends that the Government of Canada evaluate the results of the Agri-Food Pilot program and consider increasing access to it in order to address labour shortages in the agri-food sector.

Making the Agri-Food Sector More Attractive

The witnesses generally agreed that using temporary foreign workers cannot be the only solution to the labour shortages in the food processing sector. Consequently, they proposed various ways of promoting the sector to Canadian workers. Derek Johnstone, the Special Assistant to the National President of the United Food and Commercial Workers Union Canada, recommended that the government bring together industry players and representatives of the sector's workers to develop strategies to enhance recruitment and skills development in food processing occupations.¹²¹ Witnesses such as Michael Graydon, the Chief Executive Officer of Food, Health and Consumer Products Canada, noted that positions in the sector have significant appeal, but their lack of popularity reflects Canadians' low level of knowledge about the sector:

Jobs in our sector pay well and should be in demand. Hourly wages for food manufacturers have increased by 16% compared to the previous year, with an average wage of \$24 an hour. That's 60% higher than the highest provincial minimum wage. Food manufacturers have also stepped up to invest heavily in keeping workers safe through the COVID-19 crisis, to provide incentives to workers and to increase employee engagement and appreciation incentives.¹²²

Accordingly, some witnesses claimed that a lack of information and preconceptions about the sector explain the low level of interest in its jobs. Mr. Fraeys said many Canadians are unaware of the job opportunities in the sector and mentioned the importance of "raising awareness ... regarding the quality jobs the processing sector and the food sector overall have to offer."¹²³ He added that such an initiative would be particularly beneficial in this time of crisis, when many people have lost their job and are looking for a new line of work.¹²⁴

121 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 18 February 2021, 1600 (Derek Johnstone, Special Assistant to the National President, United Food and Commercial Workers Union Canada).

122 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1645 (Michael Graydon, Chief Executive Officer, Food, Health and Consumer Products of Canada).

123 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 3 December 2020, 1725 (Dimitri Fraeys).

124 *Ibid.*, 1705.



Campaigns to promote the sector should target the new generation of workers that often does not consider careers in agri-food. MNP pointed out that the development of automation and new technologies will create new, highly specialized occupations that will be more attractive to young graduates, so it is vital to raise their awareness of career opportunities in the sector as soon as possible.¹²⁵ According to Ms. Sullivan, efforts to reach out to students could use social media, as the Government of Ontario did with its “Taste Your Future” campaign, and include increased cooperation with colleges and universities to strengthen apprenticeship programs, internships and co-op programs.¹²⁶

Recommendation 14

The Committee recommends that the Government of Canada support innovative approaches to skills development and encourage training and reskilling programs to meet the current and future labour requirements of agri-food businesses, and also help to promote and to raise awareness of career opportunities in the agri-food sector with a focus on future generations, while respecting agreements signed with provincial and territorial governments and their jurisdiction.

Ms. Sullivan also said that consideration should be given to helping under-represented groups enter the labour market. In her opinion, refugees and members of First Nations are under-employed groups that could be a source of labour for food processing plants. However, these groups face barriers to hiring such as language and geographic remoteness. Ms. Sullivan noted that businesses probably cannot overcome these barriers on their own, so government support would be required.¹²⁷

Reducing Dependence on Labour Through Automation

Automating and modernizing food processing facilities could also reduce the sector’s dependence on an increasingly limited labour pool. However, this transition to new technologies will also create new needs for highly skilled labour. Glenn Fraser, the National Leader of MNP’s Food and Beverage Processing Practice, summarized the issues as follows:

Automation can bring in efficiencies and cost savings for businesses, and it also has the potential to help address labour shortages, which are particularly sensitive to disruption.

125 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 18 February 2021, 1545 (Glenn Fraser, National Leader, Food and Beverage Processing Practice, MNP LLP).

126 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 26 January 2021, 1725 (Kathleen Sullivan).

127 Ibid.

Automation will equally create demand for skilled workers and draw more youth to well-paying jobs in their communities that they can be proud of.¹²⁸

Mr. Aitken explained that the deployment of automation in the sector depends on businesses having access to the necessary capital.¹²⁹ Ms. Sullivan remarked that any business modernizing a plant will need tens of millions of dollars. These costs can be a challenge for the sector's small to medium-sized businesses, which do not always have access to government support because of the nature of their operations.¹³⁰ In a brief to the Committee, MNP recommended establishing funding programs for the food processing sector that "are separate and distinct from other manufacturing sub-sectors."¹³¹

Automation and the adoption of new technology can help alleviate labour shortages. Yet these innovations also increase demand for more highly skilled labour. As Dr. Scanlon pointed out, "[i]f people do not have an appreciation of the massive strides that have been made in technology, then they're not going to be the innovation leaders" in the years to come.¹³²

This growing need for skilled workers is already highly evident in Ontario, where Dr. Rene Van Acker, Dean of the Ontario Agricultural College at the University of Guelph, reported that "there are currently four jobs for every graduate of an agriculture and food-specific program."¹³³ He believes more must be done to inform potential students about the sector's prospects and the technological aspect of these occupations, of which many young people are unaware.¹³⁴

Recommendation 15

The Committee recommends that the Government of Canada support innovation through programs or financial tools for access to automation-based research and

128 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 18 February 2021, 1545 (Glenn Fraser).

129 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 28 January 2021, 1600 (Jason Aitken).

130 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 26 January 2021, 1715 (Kathleen Sullivan).

131 AGRI, *Building Back a Better Food & Beverage Manufacturing Industry: A Plan for Affordability, Accessibility and Food Security*, Brief submitted by MNP LLP, 18 February 2021.

132 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1715 (Dr. Martin Scanlon).

133 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 1 December 2020, 1545 (Dr. Rene Van Acker, Dean, Ontario Agricultural College, University of Guelph).

134 *Ibid.*, 1600.



development in the agri-food sector as well as prioritize expansion of Internet access to rural areas where food producers and processors are often located.

MARKET CONDITIONS

A Code of Conduct for Canada's Grocery Sector

Several organizations representing Canadian agricultural producers and processors, including [Food and Beverage Canada](#) and [Food Health and Consumer Products of Canada](#), submitted written briefs to the Committee expressing concern over increased ownership concentration in Canada's grocery sector. According to media reports from summer 2020,¹³⁵ the lack of competition in this sector has allowed retailers to demand supplier discounts, reducing already thin profit margins for suppliers and producers. According to data from the United States Department of Agriculture, 80% of the Canadian retail grocery market is controlled by five companies: Loblaws (29% market share), Sobeys/Safeway (21%), Costco (11%), Metro (10.8%), and Walmart (7.5%).¹³⁶

Numerous trade and industry groups in both their testimony and written submissions to the Committee stressed the impact of what they see as the unfair business practices of the large companies that make up Canada's grocery retail sector. The heavily concentrated nature of this sector leaves food suppliers with little choice but to comply with retailer demands for what Food and Beverage Canada calls "arbitrary transaction costs"¹³⁷ and to meet often unrealistic shipment orders or suffer severe monetary penalties for late or short deliveries. Ms. Allen explained to the Committee that the precipitous decline in sales from commercial food service outlets following the pandemic has eliminated these suppliers' primary alternative to retailers.¹³⁸ These changes in the marketplace have allowed large retailers to negotiate additional concessions from food suppliers who otherwise face their products being delisted, in many cases eliminating their only method for reaching the marketplace.

Witnesses also described a mimetic effect in the sector: when one retailer demands suppliers discount their product, other retailers will often demand the same discount. This places a significant burden on supplier price margins, which are often already quite

135 ["Supplier fears intensify as major grocer group demands match of any discount given to Walmart,"](#) *Financial Post*, 30 July 2020.

136 Maria Arbulu, [Canada – Retail Foods](#), United States Department of Agriculture Foreign Agricultural Service, 26 June 2018.

137 Food and Beverage Canada, [Re: Study on Processing Capacity](#), 4 December 2020, p. 3.

138 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 24 November 2020, 1640 (Denise Allen).

thin. Mr. Graydon, explained that the fines are often greater than the profit margin the supplier makes on the order.¹³⁹

Witnesses warned the Committee of the long-term effects of these business practices, explaining that they discourage innovation in products and make it difficult for companies to invest in new capital equipment. Dr. Charlebois explained that the concentrated nature of the Canadian market discourages international companies from investing in Canadian operations:

Kellogg's, PepsiCo, Unilever and Procter & Gamble all hire thousands of Canadians, and they are now divesting. They're now leaving the country because they can't capitalize any projects as a result of these increasing fees. The competitive environment here in Canada is not very attractive.¹⁴⁰

Mathieu Frigon, the President and CEO of the Dairy Processors Association of Canada, also noted that companies selling their products in Canadian supermarkets faced significantly higher business costs than they do in other countries:

It is estimated that the fees, deductions, and administrative costs required to simply get products onto shelves has grown at twice the rate of sales over the past five years. This is known as trade spend and it is significantly higher in Canada than in other countries. For example, in the United States, trade spend accounts for 18% of processors' costs, while here it accounts for about 28%. This stands as a major hurdle to expansion and growth, especially for small and medium-sized processors.¹⁴¹

Mr. Graydon also noted how the current state of the sector also places independent grocery stores, which are often the only retail food option in rural and remote areas, in difficulty:

The independent grocers are impacted quite significantly. Food security is the knock-on effect to the consumer in certain parts of the country where the independent is, in fact, the only solution in regard to grocery retail. If they are negatively impacted and do not have the ability to get the ample allotments of product, then the consumers in those markets end up in a grocery desert. These fines are impactful. If a manufacturer is dealing with Walmart or Loblaws and they aren't able to fulfill the order, then sometimes the fine is greater than the margin they make on the order itself. What happens is they have to make allocation decisions.¹⁴²

139 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1705 (Michael Graydon).

140 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 1 December 2020, 1550 (Dr. Sylvain Charlebois).

141 Ibid., 1645 (Mathieu Frigon, President and Chief Executive Officer, Dairy Processors Association of Canada).

142 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1705 (Michael Graydon).



In his testimony to the Committee, Gary Sands, the Vice-President of the Canadian Federation of Independent Grocers underlined the difficulties that independent grocery stores face in the current concentrated marketplace. Mr. Sands explained that independent stores frequently face shortages due to suppliers reaching targets with larger retailers and often end up buying products from suppliers at a greater price than they sold for in large retail stores.¹⁴³ Mr. Sands shared the experience of a supplier telling independent stores it would not honour a contractual agreement to provide a certain item “because Walmart and Loblaws have asked for it all.”¹⁴⁴

Mr. Sands noted, however, that not all the difficulties independent stores face are due solely to the large retailers’ market share, explaining that some suppliers and distributors of products have adopted less than fair practices in dealing with smaller independent stores.¹⁴⁵ Mr. Sands stressed the importance of adopting a code of conduct for the entire grocery sector supply chain, including farmers, processors and suppliers, rather than just the retail sector.¹⁴⁶

In response to these challenges, several other witnesses also encouraged the government to work towards the adoption of a legally enforceable code of conduct for grocery retailers and suppliers. Citing such codes currently in operation in Australia and the United Kingdom, witnesses called for Canada to adopt a similar mechanism to ensure that grocers and suppliers negotiated in good faith with a focus on the consumer. While stating his belief that a Canadian code of conduct should be considered, Dr. Charlebois also noted that such a code, if improperly designed, could have negative consequences for Canada’s agri-food sector:

I'm not entirely convinced (a code of conduct) can work in Canada. I've always told (consumer packaged goods) companies or processors to be careful what they wish for. If it's not well designed, if it's ill designed, it could actually encourage this oligopolistic group to purchase food elsewhere, outside of Canada. We have to be very, very careful, so I was very pleased to hear about the Committee at the federal level looking into this matter.¹⁴⁷

Witnesses also acknowledged that any code for the industry would fall under provincial jurisdiction, but nonetheless encouraged the federal government to provide a

143 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 16 February 2021, 1655 (Gary Sands, Senior Vice-President, Canadian Federation of Independent Grocers).

144 Ibid., 1715.

145 Ibid., 1655.

146 Ibid., 1700.

147 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 1 December 2020, 1550 (Dr. Sylvain Charlebois).

framework for provincial and territorial governments to adopt and to act in tandem with the provinces and territories to ensure it is implemented and consistently applied.

In the course of the Committee's study, the federal Minister of Agriculture and Agri-Food, the Honourable Marie-Claude Bibeau, announced at the annual Federal Provincial Territorial Meeting of agriculture ministers that she would co-chair a working group to study the issue of market concentration in the grocery sector and relations between suppliers and retailers.¹⁴⁸ In a November 2020 appearance before the Committee on the topic of the Supplementary Estimates, Minister Bibeau explained that a code of conduct for the sector would be among the topics considered and that the federal government's Competition Bureau, an independent agency that investigates violations of the *Competition Act*, would be among the parties consulted.¹⁴⁹

In March 2021, while the Committee was studying this matter, Food, Health and Consumer Products of Canada announced that it had partnered with a major Canadian food retailer to create a [draft code of conduct](#) to submit to the Federal, Provincial and Territorial Working Group. Among other provisions, the proposed code calls for an independent Adjudicator to oversee its compliance and to resolve disputes between retailers and suppliers that cannot be resolved through negotiation.¹⁵⁰

Recommendation 16

The Committee recommends that the Government of Canada support the provinces with the implementation of a grocery code of conduct and that it participate in collaboration with the provinces in its development in line with their respective jurisdictions and the Competition Bureau's guidelines.

Access to Capital

Several small and medium-sized processors explained to the Committee that they are often unable to access traditional sources of financing, such as bank loans, to expand their operations or make capital investments in their facilities. Mr. Aitken expressed the

148 AAFC, [Canada's Ministers of Agriculture focus on important support measures for farmers and processors at their annual conference](#), News release, 27 November 2020.

149 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 26 November 2020, 1545 (Hon. Marie-Claude Bibeau, Minister of Agriculture and Agri-Food).

150 Food, Health & Consumer Products of Canada, [Grocery and manufacturing leaders join forces to promote fairness and transparency in Canadian food retail industry](#), News release, 24 March 2021.



opinion that Canadian financial institutions were too “risk-averse,” particularly compared to their American counterparts.¹⁵¹

Ms. Lamb explained that lenders are often unwilling to invest in the pork sector because it is subject to often volatile price fluctuations; this lack of consistent cash flow or guaranteed market prices leaves processors such as Ms. Lamb unable to borrow from banks as well as alternative lenders such as Farm Credit Canada and farm loan boards.¹⁵² As previously mentioned, Dr. Charlebois noted that while food and beverage processing firms can provide investors with stable, regular returns on their investments, these returns tend to be more modest and less immediate than those available in other sectors, making it a less attractive investment for venture capital.¹⁵³

Witnesses explained that the lack of funding options for the sector is compounded by cashflow difficulties. Mr. Buy explained that distributors and other customers can sometimes take anywhere from 90 days to six months to pay producers and processors for their products.¹⁵⁴ Mr. Aitken agreed that processors face what he calls a “working capital gap” where they must pay producers immediately to obtain inputs, but also have to wait as long as 30 days for clients purchasing their output to pay them.¹⁵⁵

Recommendation 17

The Committee recommends that the Government of Canada encourage Canada’s banks and institutional investors to establish funds to provide capital to fast-growing small and medium-sized firms in the agri-food sector, including new entrants to the sector.

INTERNATIONAL TRADE

Canada’s agriculture and agri-food system is export-oriented. Canada ranks as the 11th largest exporter of processed food and beverage products, with total sales of \$38.1 billion in 2019.¹⁵⁶ Table 1 shows the main destination countries for Canadian exports.

151 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 28 January 2021, 1615 (Jason Aitken).

152 Ibid., 1630 (Margaret Lamb).

153 Ibid., 1610 (Dr. Sylvain Charlebois).

154 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 2 February 2021, 1615 (Serge Buy).

155 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 28 January 2021, 1545 (Jason Aitken).

156 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1535 (Frédéric Seppey).

Table 1—Value and Share of Top 10 Destinations for Canadian Exports of Food and Beverage Manufacturing Products, 2019

Destination	Value (C\$ thousands)	Share
United States	27,925,852	71.8%
China	3,152,218	8.1%
Japan	2,399,476	6.2%
Mexico	815,481	2.1%
South Korea	657,208	1.7%
Others	3,943,945	10.1%

Source: Innovation, Science and Economic Development Canada, [Trade Data Online](#), accessed 19 January 2020.

Witnesses repeatedly said that finding new markets to maintain export growth is an important goal. Mr. Prouse pointed out to the Committee that Canada consumes only 30% of what it produces,¹⁵⁷ while AAFC data reports that Canada’s trade deficit in processed foods totalled \$1.9 billion in 2016.¹⁵⁸ Mr. Curran noted that exports make up an especially large share of agricultural and agri-food production in provinces such as Alberta, where nearly all wheat and pulses are grown for export.¹⁵⁹ This fact underscores the importance of negotiating strong trade agreements to open up new markets.¹⁶⁰

Maintaining Access to Export Markets

While Canada’s overall exports have grown in recent years, Canadian businesses are also facing an increasing number of trade barriers. Mr. Everson explained, for instance, that the opening of new markets in Asia has sparked growth in recent years, but these countries are putting up more and more trade barriers, making trade in the region unpredictable.¹⁶¹

157 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 8 December 2020, 1540 (Dennis Prouse).

158 AAFC 2017, p. 55.

159 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 8 December 2020, 1540 (Jamie Curran).

160 *Ibid.*, 1615.

161 AGRI, [Evidence](#), 2nd Session, 43rd Parliament, 3 December 2020, 1635 (Jim Everson).



Trade barriers often relate to complicated technical issues. Mr. Everson cited the example of the maximum residue limits for seed, which vary from country to country. In his view, harmonizing these limits should be a priority, and this requires government assistance that includes support from “real science and technical experts.”¹⁶² Mr. Prouse expressed concern about rising protectionism that could lead to more of these barriers. He recommended that Canada work with like-minded countries to promote science-based regulation and fight non-tariff trade barriers whenever and wherever they arise.¹⁶³

Mr. Seppey explained that Agriculture and Agri-Food Canada has a Market Access Secretariat that is responsible for examining these issues, in cooperation with other departments. He described to the Committee the way the government deals with these issues, notably in coordinating with the industry to exercise Canada’s rights through dispute settlement mechanisms at the World Trade Organization:

Of course, a lot of the efforts right now by our colleagues in the market access secretariat, which is part of a unit that is hosted by both CFIA and Agriculture and Agri-Food Canada, are coordinating actions with Global Affairs Canada at home and in posts abroad. They are working to make sure we get to the bottom of the alleged issues with the phytosanitary requirements or features of our products, to address in a technical way these elements.

If we have to go to court and exercise our rights—for example at the World Trade Organization—we definitely work constantly with the industry to exercise these rights.¹⁶⁴

While free trade agreements can resolve some issues related to market access, they can also have adverse consequences on sectors operating under supply management. Michael Barrett, the Chair of the Dairy Processors Association of Canada, explained that the access Canada had granted to its dairy market under the Comprehensive Economic and Trade Agreement (CETA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Canada-United States-Mexico Agreement (CUSMA) had created a “climate of uncertainty, which has disincentivized investment and innovation.”¹⁶⁵ A representative from Novalait added that new concessions would

162 Ibid., 1720.

163 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 8 December 2020, 1540 (Dennis Prouse).

164 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1615 (Frédéric Seppey).

165 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 2 February 2021, 1645 (Michael Barrett, Chair, Dairy Processors Association of Canada).

“create an environment that will have adverse effects on business as (a) whole, not just on innovation” and should be avoided at all costs.¹⁶⁶

Ensuring Reciprocity in Trade

Some witnesses commented that Canadian producers and processors are not always competing on a level playing field with their foreign rivals. For example, Mr. Gascon noted that Canada imports beef produced to lower standards than those it requires of Canadian farmers:

The free market exposes beef producers and processors to highly volatile prices, and few businesses survive. Several countries have abundant and inexpensive labour, including the United States, Mexico and Brazil. Regulations lack reciprocity. Beef is imported from producers who are subject to production standards that are lower than Quebec’s, both in terms of animal health and welfare and the environment.¹⁶⁷

Other food processing industry stakeholders echoed this statement, including, for example, honey producers who noted that cheap honey from offshore is imported into Canada, combined with honey produced in Canada and marketed as “Canada No. 1.” Also imported are products which are mainly corn syrup combined with bee pollen from Canada but sold as honey. This causes honey prices to be artificially lowered.¹⁶⁸ Representatives of the duck and goose sectors said that Canada imports many products that do not meet slaughtering or labelling requirements similar to those that Canadian processors have to satisfy domestically.¹⁶⁹ According to Philip O’Shaughnessy, the General Manager of Canards du Lac Brome Itée, the equivalency rules in the trade agreements with the United States and the members of the European Union are rarely applied to products imported from those countries:

The high costs associated with the agency’s standards, compared to those of the European Union, contribute considerably to the fact that our production costs are sometimes higher than the selling prices in some of these countries. As a result, since the free trade agreements, some Canadian products are at a distinct disadvantage compared to foreign products. Many customers are not prepared to pay the costs related to our standards. These standards are no longer necessarily to our advantage.

166 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 23 February 2021, 1700 (Élise Gosselin).

167 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 19 November 2020, 1650 (Jean-Sébastien Gascon).

168 AGRI, [Brief for the House of Commons Standing Committee on Agriculture and Agri-Food](#), Brief submitted by the Alberta Beekeepers Commission, 24 March 2021.

169 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 25 February 2021, 1535 (Ken Falk, President, Fraser Valley Specialty Poultry).



The fact that we have stopped selling in Japan in favour of other markets is a perfect example of that.

The role of the federal government is crucial in this matter. By reviewing equivalency standards, it will allow Canadian products to be competitive with imported products in our own market.¹⁷⁰

Mr. O'Shaughnessy further explained that duck producers have promoted their products extensively in North America, where people generally eat very little duck, but that "products imported at a discount from certain European countries have benefited greatly from our advertising offensives, without having to invest any money in market development." Given this competition, he argued that the federal government should support promotional efforts and offer financial aid to develop new markets.¹⁷¹

Occasionally, specific provisions of trade agreements affect Canada's competitiveness in international markets. As previously mentioned, representatives of the beef industry reported that BSE-related provisions in the *Canada–Korea Free Trade Agreement* are responsible for a trade irritant causing Canadian livestock to be segregated in American processing plants.¹⁷² Mr. Horne asserted that the government needs to work with South Korea to resolve this issue so that Canadian and American beef is treated the same.¹⁷³

Support measures for the agriculture and agri-food sector in countries such as the United States can also hurt Canadian businesses, which do not always receive equivalent assistance. Multiple stakeholders report that the U.S. heavily subsidizes its biofuels industry.¹⁷⁴ Machinery purchases are also greatly subsidized, which artificially raises the price of equipment for Canadian producers.¹⁷⁵ According to M. Lewis, these differences between the two countries were exacerbated by the U.S.'s extensive support for its farmers in response to trade tensions with China. He argued that, since Canada's trade relations with China are also troubled, it should better support its farmers to ensure they are not hurt by the competition from their neighbours to the south.¹⁷⁶

170 Ibid., 1540 (Philip O'Shaughnessy, General Manager, Canards du Lac Brome Itée).

171 Ibid.

172 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 23 February 2021, 1530 (Dennis Laycraft).

173 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 2 February 2021, 1640 (Richard Horne).

174 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 24 November 2020, 1550 (Todd Lewis).

175 Ibid., 1600.

176 Ibid.

Furthermore, environmental standards differ from country to country. Dr. Mussell said that Canada could impose duties that reflect the carbon footprint of imported products. This measure would put Canadian producers and processors that must comply with various environmental regulations on a level footing with those in other countries, which are not always subject to such rules.¹⁷⁷

Recommendation 18

The Committee recommends that the federal government review equivalency standards and direct the Canadian Food Inspection Agency and the Canada Border Services Agency to increase surveillance on agricultural imports to ensure compliance with equivalency standards negotiated in our trade agreements. Furthermore, the federal government should review the impact of the application of equivalency standards and reciprocity regarding agricultural imports with respect to differentials in subsidy levels and carbon footprints.

CONCLUSION

Over the course of this study, stakeholders from throughout Canada's supply chain told the Committee that renewed efforts from government and industry are necessary to achieve the goals of the Barton Report and the Economic Strategy Table on Agri-food. Targeted investments in infrastructure and skilled workers, combined with prudent revisions of regulatory measures and an examination of business practices in the grocery sector, have the potential to make Canada a more innovative and competitive contender on the world stage and more resilient at home. Some Canadian Agricultural Partnership programs already negotiated with the provinces and territories seek to strengthen value-added sectors.

This study revealed that efforts to enhance Canada's processing capacity, if designed with food security in mind, can help to ensure a stable source of food for Canadians that can withstand future shocks in supply and demand. This stability would help consumers and producers avoid the food shortages and supply chain bottlenecks seen during the early weeks of the COVID-19 pandemic. It is clear, however, that while the federal government has an important role to play, the range of necessary actions go beyond what it can do alone. The Committee hopes that the consensus that emerged during this study from the wide variety of producers, processors, and trade groups that appeared before it will translate into substantive action throughout the supply chain from the

177 AGRI, *Evidence*, 2nd Session, 43rd Parliament, 2 February 2021, 1625 (Dr. Al Mussell).



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federal government, its provincial and territorial partners, and private sector producers and industry.

APPENDIX A LIST OF WITNESSES

The following table lists the witnesses who appeared before the committee at its meetings related to this report. Transcripts of all public meetings related to this report are available on the committee's [webpage for this study](#).

Organizations and Individuals	Date	Meeting
Boeuf Québec - Société des parcs d'engraissement du Québec Jean-Sébastien Gascon, Director General	2020/11/19	6
Canadian Food Inspection Agency Theresa Iuliano, Vice-President Operations Tammy Switucha, Executive Director Food Safety and Consumer Protection Directorate	2020/11/19	6
Deans Council - Agriculture, Food and Veterinary Medicine Dr. Martin Scanlon, Dean Faculty of Agricultural and Food Sciences, University of Manitoba Dr. Christine Theoret, Dean Faculté de médecine vétérinaire, Université de Montréal	2020/11/19	6
Department of Agriculture and Agri-Food Warren Goodlet, Director General Research and Analysis Directorate Frédéric Seppéy, Assistant Deputy Minister Market and Industry Services Branch Marco Valicenti, Director General Sector Development and Analysis Directorate, Market and Industry Services Branch	2020/11/19	6
Department of Industry Sheryl Groeneweg, Director General Manufacturing and Life Sciences Branch	2020/11/19	6

Organizations and Individuals	Date	Meeting
Food, Health and Consumer Products of Canada Michael Graydon, Chief Executive Officer	2020/11/19	6
Agricultural Producers Association of Saskatchewan Todd Lewis, President	2020/11/24	7
Cowichan Green Community Judy Stafford, Executive Director	2020/11/24	7
Food Processors of Canada Denise Allen, President and Chief Executive Officer	2020/11/24	7
Government of Yukon Matthew Ball, Director Energy Mines and Resources Department Kirk Price, Director Agriculture Branch	2020/11/24	7
Ontario Ministry of Agriculture, Food and Rural Affairs David Hagarty, Assistant Deputy Minister John Kelly, Deputy Minister	2020/11/24	7
As an individual Dr. Sylvain Charlebois, Professor, Dalhousie University Director, Agri-Food Analytics Lab	2020/12/01	9
Le petit abattoir Fernande Ouellet, Coordinator	2020/12/01	9
Protein Industries Canada William Greuel, Chief Executive Officer	2020/12/01	9
University of Guelph Dr. Malcolm Campbell, Vice-President Research Dr. Rene Van Acker, Dean Ontario Agricultural College	2020/12/01	9
Canadian Oilseed Processors Association Chris Vervaet, Executive Director	2020/12/03	10
Canola Council of Canada Jim Everson, President	2020/12/03	10

Organizations and Individuals	Date	Meeting
Conseil de la transformation alimentaire du Québec Sylvie Cloutier, Chief Executive Officer Dimitri Fraeys, Vice-President	2020/12/03	10
Bonduelle Americas Daniel Vielfaure, Chief Executive Officer	2020/12/08	11
CropLife Canada Ian Affleck, Vice-President Biotechnology Dennis Prouse, Vice-President Government Affairs	2020/12/08	11
Food Secure Canada Gisèle Yasmeen, Executive Director	2020/12/08	11
Government of Alberta Jamie Curran, Assistant Deputy Minister Processing, Trade and Intergovernmental Relations, Alberta Agriculture and Forestry	2020/12/08	11
As an individual Ian Blenkarn, Retired Business Executive and Farmer	2021/01/26	13
Food and Beverage Canada Kathleen Sullivan, Chief Executive Officer	2021/01/26	13
Olymel L.P. Richard Davies, Senior Vice-President Sales and Marketing	2021/01/26	13
Scotian Cattle Company Anthony Eikelenboom, Drover	2021/01/26	13
Apple Valley Foods Inc. Jeff Sarsfield, President	2021/01/28	14
Benny & Co. Nicolas Filiatrault, Vice-President Finance and Administration	2021/01/28	14
Northern Natural Processing LP Jason Aitken, President	2021/01/28	14

Organizations and Individuals	Date	Meeting
Pork Nova Scotia Margaret Lamb, Chair	2021/01/28	14
Agri-Food Innovation Council Serge Buy, Chief Executive Officer	2021/02/02	15
As an individual Dr. Al Mussell, Research Lead Agri-Food Economic Systems	2021/02/02	15
Beef Farmers of Ontario Richard Horne, Executive Director Rob Lipsett, President	2021/02/02	15
Dairy Processors Association of Canada Michael Barrett, Chair Mathieu Frigon, President and Chief Executive Officer	2021/02/02	15
Canadian Federation of Independent Grocers Gary Sands, Senior Vice-President	2021/02/16	17
Olymel L.P. Richard Davies, Senior Vice-President Sales and Marketing	2021/02/16	17
Canadian Produce Marketing Association Ron Lemaire, President	2021/02/18	18
MNP LLP Glenn Fraser, National Leader Food and Beverage Processing Practice Kelleen Tait, Partner	2021/02/18	18
United Food and Commercial Workers Union Canada Derek Johnstone, Special Assistant to the National President	2021/02/18	18
Canadian Cattlemen's Association Dennis Laycraft, Executive Vice-President Bob Lowe, President	2021/02/23	19
Maple Leaf Foods Inc. Nadia B. Theodore, Senior Vice-President Global Government and Industry Relations	2021/02/23	19

Organizations and Individuals	Date	Meeting
Novalait Élise Gosselin, Chief Executive Officer	2021/02/23	19
Canards du Lac Brome Itée Philip O'Shaughnessy, General Manager	2021/02/25	20
Fraser Valley Specialty Poultry Ken Falk, President	2021/02/25	20

APPENDIX B LIST OF BRIEFS

The following is an alphabetical list of organizations and individuals who submitted briefs to the committee related to this report. For more information, please consult the committee's [webpage for this study](#).

Agri-Food Innovation Council
Alberta Beekeepers Commission
Au Gîte des Oies
BC Food and Beverage
Canadian Cattlemen's Association
Canadian Meat Council
Canadian Pork Council
Canadian Produce Marketing Association
Conseil de la transformation alimentaire du Québec
Food and Beverage Atlantic
Food and Beverage Canada
Food and Beverage Manitoba
Food and Beverage Ontario
Food, Health and Consumer Products of Canada
Fraser Valley Specialty Poultry
Le petit abattoir
MNP LLP
Pork Nova Scotia
University of Guelph

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* ([Meetings Nos. 6, 7, 9, 10, 11, 13, 14, 15, 17, 18, 19, 20, 23, 24, 25 and 27](#)) is tabled.

Respectfully submitted,

Pat Finnigan
Chair

