

POLICY BRIEF:

Small-scale Food Processing

24 March, 2022



RATIONALE:

The Small Scale Food Processor Association approached Dr. Irena Knezevic to help develop a formal academic Canadian agri-food policy analysis and assist the Association to effectively advocate for improved policy and programs that would recognize the importance of the start-up/scale-up work of the thousands of small and medium food value-added enterprises in Canada working to strengthen the domestic food system.

PURPOSE AND SCOPE

This document makes policy recommendations for the small-scale food processing sector. The brief summarizes preliminary findings from an exploratory study of this under-researched sector of the economy in Canada. The study was executed by a team of researchers in British Columbia, Alberta, Ontario, and Nova Scotia, in collaboration with the Small Scale Food Processor Association. Research activities comprised a scoping review of relevant reports and policy documents, and 80 interviews with 83 stakeholders, including processors, community development officers, government employees, and various agencies and organizations associated with the sector.

CONTEXT

The most recent statistics for the food and beverage processing industry in Canada show that in 2019 the sector was worth \$117.8 billion or 2% of the national Gross Domestic Product (GDP), with some 290,000 employees (Agriculture and Agri-Food Canada, 2021). The industry is steadily growing, and in 2019 it exported nearly \$39 billion worth of goods, but it continues to compete with exports that have also been increasing over the years. Agriculture and Agri-Food Canada (AAFC) counted roughly 7,800 food and beverage processing companies in Canada, with 91% of them considered small-scale, with fewer than 100 employees, compared to just 1% counting as large, with more than 500 employees (2021). Meat and dairy processing form the largest segments of the industry, but the processing sector spans a wide range of products, and is the largest buyer of agricultural product in the country. A 2018 report by the Agri-Food Economic Strategy Table identified value-added opportunities, and specifically domestic processing, as essential for a robust agri-food sector (p. 2).



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Small Scale Food Processor Association provides leadership, education, marketing, networking, and advocacy to foster success in a competitive global market.



KEY FINDINGS

All levels of government are in some way linked to food processing. Municipal and regional governments' interest in local food has been growing, often as part of local and regional economic development strategies. Provincial and territorial governments view local food as essential to developing agriculture, tourism, and rural development (see, for example, Ontario Ministry of Agriculture, Food and Rural Affairs, 2019). Federal government has been investing in the agri-food sector while also developing its *Food Policy for Canada* with the core aim of ensuring that "All people in Canada are able to access a sufficient amount of safe, nutritious, and culturally diverse food. Canada's food system is resilient and innovative, sustains our environment and supports our economy" (Government of Canada, 2019). Our scoping review reveals the complex landscape in which small-scale food processors operate and the interviews corroborate observations from the literature.

Significance of the sector

Processing is crucial to a vibrant agri-food sector and a network of small processors is essential to security of the domestic food system. Diversity of scale in the food system is widely and institutionally recognized as key to food security and the health of the planet (IPES-Food). The COVID-19 pandemic has further revealed the risks associated with concentrated, industrial-scale operations. From significant workplace infection outbreaks in large processing plants, to interruptions in the supply-chain, to unprecedented amounts of food wasted and livestock culled during the pandemic, the importance of a vibrant, diverse set of small-scale agri-food

"In terms of jobs, these companies usually have one or two operators, and don't have many employees, but they grow. Out of 1000s of companies I've dealt with, only 3 have folded. Most of them have grown into larger operations, or I have connected them to co-processors. And there are indirect employment benefits as they are buying from other companies."

(food safety specialist, Nova Scotia).

operations seems more important than ever (Knezevic et al; Standing Committee on Agriculture and Agri-food).

Small-scale processors play a critical role in community economies. They provide **employment and income opportunities**, which is of particular significance in rural areas where other options are limited or non-existent. They support **other local businesses** through purchases of inputs, supplies, and services. They support **place-branding and tourism** by offering culinary experiences. They contribute to a sense of community through **local collaboration and promotional events**. Beyond their community impact, small-scale food

processors meet **niche market demands** and provide products for consumers with food allergies and sensitivities. They nurture specific **skill-sets required in artisan food and beverage production**. They often provide **educational opportunities** related to food systems, ecosystems, and local community.

They also act as **hubs of innovation**, in terms of processing equipment and technology, artisanal processing practices, packaging and distribution, and the collaborative (as opposed to competitive) approach to their counterparts in the sector. There are significant innovation opportunities in: niche-markets that respond to diverse dietary needs, distinctly local products that appeal to both local consumers and visitors to the region, products that feature flavours and seasonings from different parts of the world, and products that feature

A beverage processor from our study, for example, worked in conjunction with national research council to run detailed microbiome laboratory testing on her non-dairy probiotic kombucha product, the first of its kind in Canada.

some aspect of environmental sustainability (packaging, process, etc.)

There is major potential for these businesses to grow to serve larger markets, but they face barriers and challenges in the current food system.

Recognizing the tremendous importance of food safety, our participants nevertheless discussed the nearly universal frustration with the regulatory frameworks, dearth of financing options, and a variety of barriers to entry into supply chains.

Barriers to growth

Despite these sector contributions, the challenges for small-scale processors persist. Primary production continues to play a more prominent role in public and policy discussions of food, and both regulations and support programs continue to favour large-scale operations with major incentives for these operations to focus on export. In policy development, particularly at the federal level, large food processors are frequently consulted, while small operations remain underrepresented and their rarely understood as relevant.

Processors are subject to multi-layered regulation, typically designed for larger operations and insensitive to unique operating circumstances of small business. Small and medium enterprise (SME) processors struggle to secure **financing**, as financing options are limited, and the interest rates often prohibitive for small operations. They also have difficulty accessing **business development programs that recognize the challenges in the food industry**, and training and mentorship opportunities are available only sporadically, although they are essential

“There is no education for processors to prepare them for making safe food and attract more people into this sector. I think apprenticeships are essential for that. We need more apprenticeships for artisanal food making.”

(cheesemaker, Ontario)

for sector success. These enterprises encounter multiple **barriers to market-access**, that are sometimes related to regulation, and other times to corporate procurement policies of institutional and retail chains. For rural enterprises, **distribution and availability of qualified labour** presented additional challenges, and training program (e.g., in cheesemaking, butchering, digital technologies) is limited and often difficult to access when onboarding new employees.

In urban settings, zoning and the cost of space presented additional challenges. Finally, the meat processing sector is subject to complex rules, which differ depending on the regulatory body (provincially or federally inspected). Meat processors are also severely restricted by the lack of access to local abattoirs, which is a challenge across the country.

Small-scale processors are often lost in **the patchwork of regulations and agencies** directly related to their work but often virtually impossible to navigate effectively. From local health units and zoning departments, to federal grant programs, small enterprises are required to interface with all levels of government, and find it difficult and sometimes impossible to find the right information, right office, or the right person to assist them in meeting regulatory requirements. SME processors have a difficult time making sense of different sets of regulation (different agencies, different levels of government). Permits and licences can take months to process. Interprovincial trade barriers also present a challenge for businesses trying to grow. Meat processing in particular is greatly impeded by lack of harmonized food safety standards across provinces.

The amount of ‘red-tape’ involved with food processing is in effect, if not in intent, tailored for larger businesses that can afford administrative staffing dedicated to interfacing with various agencies, excluding, even if inadvertently, small businesses from pathways to growth. Multiple support programs exist, but

“Some of the rules are not about food safety, but about aligning the regulations with what the large slaughterhouses have to do for safety.”

(farmer-microprocessor, Ontario)

processors indicated that many grant programs, for instance, target very specific stages in business development, disqualifying enterprises at other stages of growth. All levels of government emphasize the importance of innovation, but programs that support innovation tend to focus on technology over other types of innovation, such as collaboration, employment, marketing, and environmental innovation.

Opportunities

The Small-scale food processing sector is laden with innovative practices and creativity. This is promising with the right supports. The key opportunities we identified in our research include: **collaboration, streamlined regulation with supportive decision-makers, and online marketing.**

Collaboration was a common theme in our interviews and many processors associated their success with it. The sector's contribution to community economies is intentional, and our interviews reveal a strong ethical commitment in the sector to both social and environmental goals. Collaborative approach characterizes how small-scale food processors work with one another when cross-promoting and joint-promoting their products; how they work with primary producers and other local businesses when sourcing ingredients, equipment, and services; and how they work with local community organizations.

The interviews also reveal that processors are sometimes able to overcome the complexity of the regulatory and administrative framework associated with the sector, but only when connected to a knowledgeable and supportive advisor. The examples of such advisors include: local economic development agencies staff, established businesses and business associations, food-focused community groups, retail chain procurement managers, and employees of municipal, provincial or federal agencies (e.g., food inspectors, zoning officers).

"It's really both about what the regulations are and how they are implemented. The food hub has a nice, shared kitchen for processors, but the inspector said it could not be done, that they could not be there to inspect everyone all the time and it was too risky. So how can we build capacity to ensure food safety while also supporting development of small processing businesses?"
(community developer, Nova Scotia)

Whereas some of these individuals are in positions to also be barriers to success, the interviews suggest that the execution of their roles is very much person-dependent. To illustrate, in one province several processors credit a single inspector for setting them on the path of success – a person with extensive experience in several government agencies who understands their role as inspector to not be one focused on policing, but on guiding processors to effective food safety practices. In another province, the regional office of the provincial department responsible for agri-food is staffed by someone with a personal commitment to community economic development and an extensive direct contact with small businesses in their area, many of which credit this individual for helping them navigate the regulatory

framework and better understand available grants and other support programs. Similarly, several interviewees in one province credit a regional buyer for a national retail chain for making a personal commitment to helping small suppliers meet the retail chain's procurement requirements. Most interviewees noted that a well-organized, curated, and centralized information repository accessible to everyone would help processors make sense of the regulatory landscape. Some promising initiatives are already developing on that front, such as the Canadian Food Innovation Network's plans to develop a "concierge" service with knowledgeable advisors. SSFPA is in the process of developing relationships across the country of organizations wishing to improve their support to entrepreneurs in their jurisdictions.

"When we first got into this, local food was starting to be a buzzword, and now it's mainstream, it's the number one push even for grocery stores now is to bring in local producers and processors onto their shelves. The consumer is demanding it." (berry producer, Alberta)

Finally, online marketing has opened multiple new opportunities for the sector. Even before the COVID-19 pandemic, many processors relied heavily on social media for promotion, and to connect with their sectoral counterparts for collaboration and cross-promotion. With the steady growth in e-commerce, new online sales platforms are now available at low or no cost to small business. Shipping challenges for some notwithstanding, these developments are of significance especially to micro-processors, who rely on direct sales rather than retail. This allows them to keep more profit and boost customer loyalty through direct interactions.

RECOMMENDATIONS

- Regulatory frameworks continue to present barriers for small businesses. The processors we interviewed are committed to producing safe food – not a single one wanted lower food safety requirements. But much of the regulation is designed for larger-scale operations and **making the requirements scale-appropriate** is critical for small and micro-processors to thrive. Further **harmonizing provincial and federal food safety standards**, especially in the meat industry, would help processors get market-ready.
- To address the financing challenges, government agencies at all levels can develop and expand **flexible low- and no-interest micro-loan funds**. Processors, business associations, and community organizations can consider community investment pools and peer financing, as well as impact investing and philanthropy capital. The flexibility of financing options needs to be scale-sensitive and conscious of the unique regional and urban/rural needs. **Cost sharing** approaches like commercial/commissary kitchens, co-packing facilities, and online marketing platforms help enable businesses to establish themselves and gradually ramp-up production.
- **Mentorship and support systems** are essential for the development of the sector. Various decision-makers have proven helpful to processors, but this is person-dependent. Institutionalizing the approach that is supportive, and emphasizing the facilitative rather enforcement implementation of regulation, could open up tremendous opportunities to small business and new entrants. Such institutionalization will require thoughtful training to ensure knowledgeable people are hired and prepared for the job that privileges assisting over policing the sector. Centralized information repositories and “concierge” services can also go a long way in supporting individual businesses. Non-government groups can facilitate better peer networks and broker mentorship connections, which some organizations are already doing, and these efforts should be expanded and further supported with government investments.
- Small-scale food processors need access to **better infrastructure** for both business development and marketing/distribution. Inexpensive incubator programs, affordable production and storage spaces, and technical support are critical, along with specific infrastructure efforts, with abattoirs being an immediate challenge across the country. Meat processing is particularly difficult, but kitchens, packing facilities, and distribution and sales channels are also too few in numbers to support a robust sector. Mobile abattoirs; new food hubs/shared processing facilities; support for low-cost digital farmgate platforms are all potential solutions to these challenges. Underpinning this issue is the need for substantial investment to create regional food processing infrastructure.
- To encourage collaboration, supports are needed for **collaborative models** (co-ops, food hubs, co-packing, shared distribution) and accessible networking opportunities. Investing in such models will support a robust sector, generate economic and social returns, and strengthen regional food systems.
- Supporting collaboration can also support the **innovation in the sector**. Creative products and production processes, novel equipment and technologies, and innovation that supports community and environment, are all abundant in this sector. Support for all forms of innovation, and not only digital technologies can open up possibilities for the sector to: collaborate with organizations that support individuals with employment barriers; participate in social innovation and have valuable impact on the community; develop creative ways of using ingredients that would otherwise go to waste; and encourage other environmentally and socially sustainable business practices. Support is also needed for reliably funded **training programs** and relevant apprenticeship programs that enable business owners and employees alike to develop general business skills (planning, marketing) and sector-specific skills (e.g., trained butchers, cheesemakers, brewers). Primary producers have access to risk management programs, however, risk for food small-scale food processors falls on their own shoulders.

CONCLUSION

Our research identified a growing recognition, in government, scholarship, and community work, of the significance of robust regional food systems. Strong regional processing is essential for such systems. These observations have only been magnified by the COVID-19 pandemic, which exposed the fragility of global supply systems and spurred the consumer demand for local and regional food. These observations were confirmed throughout the interviews, and many processors also reported quick changes to their business operations when the pandemic began, showing great resilience and flexibility. They also reported their communities rallied to support them throughout the pandemic. The public awareness of the role of local food in food security for everyone living in Canada is greater than ever, and the time to develop a robust small-scale food processing sector is now.

Such endeavour will require concerted government efforts to invest in **infrastructure and training**, develop accessible **financing options**, support sector and community initiatives that emphasize **collaboration** as well as **social and environmental innovation**, provide better **guidance** around regulation (including developing a culture of supportive, rather than enforcement approaches in their work), and – perhaps most urgently, **revising regulation** to make it simpler, scale-appropriate, and better harmonized across jurisdictions.

NOTES

* As we were analyzing our data and developing the above recommendations, The Standing Committee on Agriculture and Agri-Food released its 2021 report titled *Room to Grow: Strengthening Food Processing Capacity in Canada for Food Security and Exports*. Several of its 18 recommendations to the Government of Canada align with our findings as noted in Appendix 1.

** This brief offers a high level summary our work. For additional information including reporting materials, bibliographies of other publications consulted, further reading material on food systems challenges, and additional details about our research activities, please visit <https://carleton.ca/foodstudies/food-processing/> or contact irena.knezevic@carleton.ca

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Appendix 1

Our recommendations align with some of the 18 recommendations from The Standing Committee on Agriculture and Agri-Food's 2021 report *Room to Grow: Strengthening Food Processing Capacity in Canada for Food Security and Exports*.

- 1) Recommendation 1, to “invest in trade infrastructure, such as transportation systems, to improve access to markets and support a modern supply chain”;
- 2) Recommendation 2, to “modernize... 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”;
- 3) Recommendation 3, to “identify strategic funding opportunities to address regional processing capacity”;
- 4) Recommendation 4, to “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”;
- 5) Recommendation 6, to “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”;
- 6) Recommendation 7 to “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”; and
- 7) Recommendation 17 to “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”.

Additionally, we suggest that Recommendations 14 (to “support innovative approaches to skills development and encourage training and reskilling programs”) and 15 (to “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”) are welcome, but should be expanded to also include various product, process, social, and ecological innovations evident in the sector.