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Chair

Mr. Larry Miller

Standing Committee on Agriculture and Agri-Food

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● (1530)

[*English*]

The Chair (Mr. Larry Miller (Bruce—Grey—Owen Sound, CPC)): We'll call our meeting to order.

I'd like to welcome and thank our witnesses for being here today.

We got notice here just a minute ago that there's going to be a vote sometime after four o'clock. Depending on exactly when that is, we will have to stop the meeting and go. My intention is that we would come back the minute the vote is over. I apologize for that, but it's out of our control.

With that, we'll move to our first witness, Food & Consumer Products of Canada. We have Mr. Derek Nighbor, for 10 minutes or less, please.

Mr. Derek Nighbor (Senior Vice-President, Public and Regulatory Affairs, Food and Consumer Products of Canada): Thank you very much, Mr. Chair, members of the committee.

Food and Consumer Products of Canada welcomes this opportunity to contribute to the House of Commons Standing Committee on Agriculture and Agri-Food and its review of the food supply value chain.

FCP is the voice of Canada's leading food, beverage, and consumer products manufacturers. We represent a mix of small and medium-sized Canadian manufacturers and multinational companies. Our members manufacture about 80% of the packaged foods, beverages, and consumer products you'll find in your local grocery store.

From an employment perspective, our industry provides high-paying jobs to approximately 300,000 Canadians in rural and urban areas in every region of the country. This is in addition to the hundreds of thousands of indirect jobs along the supply chain that our industry provides to Canadians. Our sector is now the largest employer in manufacturing in Canada.

As you know, the Canadian food processing industry is a key component of the food value chain and our members have a close working relationship with Canada's farmers. Our 6,000 processing facilities across the country purchase and use over 40% of what Canadian farmers grow. In Ontario and Quebec our members purchase closer to 70% of what farmers grow in those provinces.

In order to sustain and grow our industry here in Canada and to control our food processing capacity and our food security for generations to come, we rely on this committee and the federal government to ensure we have the right conditions for success. Our submission to you today will discuss some of the current pressures being faced by Canada's food processing industry, some opportunities for government to engage in, in a positive way, to eliminate barriers to growth, to sustain and grow our food processing capacity here in Canada, and to ensure that Canadians have access to safe, competitively priced products and sufficient options in grocery stores for years to come.

The presentation is also going to touch on some lessons learned from around the world, which will hopefully provide you with some helpful ideas as to how we might address Canada's food, beverage, and consumer product manufacturers' concerns in this regard.

Let me get right to it and set the stage.

One of the biggest challenges facing Canada's food processors today is the Canadian grocery retail landscape and the growing importance of store brands in many categories as a competitor on the shelf. We have seen a shift from national brands to store brands on retail shelves right across the country. Right now the top five grocery retailers make up about 75% of the retail marketplace in Canada, and this consolidated marketplace is similar to what we see in places like Australia, the United Kingdom, and the European Union. The United States is a bit different, with a much more fractured and fragmented retail base. I raise this comparison because there are some lessons we can learn from markets like Australia, the U.K., and the EU to better understand the market impacts of retail consolidation and the proliferation of store brand products and how these countries have responded.

Let me talk about store brands as a competitor in grocery stores across the country. They represent about 20% of the overall grocery retail market today in Canada. In the United Kingdom, they're at about 43%; in Australia, they're closer to 30%. Our report last year, commissioned by Rabobank, a leading financial institution in the Netherlands, stated that store brand offerings are expected to double globally to 50% of the market by 2025. This is an important fact to keep in mind as we consider the impact of the growth of store brands on Canada's food and consumer product manufacturers, and how that is a barrier to innovation and additional investment and a future threat to farmers, consumer choice, and keeping prices competitive.

Retailers in Canada today are not merely the buyers of our products who control the shelf space; they are also direct competitors. They now play a double-agent type of role.

Let me be clear from the outset, though. My remarks today are not to be construed to be anti-store brand, nor are they to suggest that the increased prevalence of these store brands are anti-competitive. That's not why I'm here today. The challenges our industry is seeing today and that we're concerned about for tomorrow relate not to the presence of these store brands themselves, but rather to the associated business practices that have resulted at the manufacturer-retailer interface. It's the conduct and the demands of retailers, in tandem with the rise in store brand products in Canadian stores, that's causing concern about the future of our industry, as well as the farmers they provide markets for.

What are we seeing in the marketplace? I want to touch on three areas.

Number one is greater demands for information. Many retailers are asking for more information about input costs, product formulations, brand information, marketing plans, insights on investment and innovation plans. Some retailers are requesting up to 26 weeks of lead time for the introduction of a new product. These practices can create serious challenges for manufacturers who are seeking to get access to the limited shelf space in leading stores. At the same time, they are concerned about the longer-term impacts of sharing this critical business information with retailers and how it could be used against them.

Number two is something called parasitic copying or look-alike types of products. Manufacturers invest millions of dollars in product development and marketing to establish their brands and to build loyalty with their consumers. We're seeing real growth in a troubling trend in look-alike products in stores across the country. We're not like the pharmaceutical industry, which has brand names and generics, in which you have a patent and you can control the market for *x* number of years. That luxury does not exist in our industry. The parasitic copying of our products is a real problem.

Manufacturers small, medium-sized, and large are frustrated by the lack of protection offered by intellectual property laws to prevent this. This activity is constraining innovation and threatening the viability of some branded products in the marketplace.

The third point is on off-loading of costs to manufacturers, increased product listing fees, and increased delisting activity. Increasing shelf space allocated to store brands creates limited space for other products in the store. In a consolidated retail market, getting listed and staying on the shelf in leading stores can be cost-prohibitive for smaller Canadian processors. Exorbitant fees to get on the shelf and stay on the shelf remain serious barriers for many manufacturers. We're seeing this not only in Canada but in other countries around the world.

The off-loading of costs by retailers to manufacturers in this unbalanced environment is making our manufacturing sector less competitive. In short, this makes Canada a less desirable place for both domestic and foreign investment. All of these issues, combined with higher commodity prices and a strong Canadian dollar, are having a very real and negative impact on investment and innovation in our sector.

What can we learn from others? In recent years, governments from around the world have acknowledged these marketplace trends within their borders and have identified the potential impacts on their food value supply chains. In January 2011, the European Commission tabled a report on the impact of store brands, stating that, and I quote:

> As retailers consolidate their positions and increase their power as both sellers and buyers over time, the likelihood of economic harm arising from retailer practices to exploit their double-agent position increases. Consumers may now have plenty of choice and benefit from the continuing widespread presence of brands, offering the benefits of brand reassurance through consistent quality, value and innovation, together with an increasing number of private label options. However, as the challenge from private label grows further, backed by retailer power, there is the increased danger that a greater number of brands will disappear from supermarket shelves, and ultimately consumers will face less choice.

The European Commission set up a task force in 2008, which culminated into a multi-stakeholder dialogue in 2011 and the development of a document on principles of good practice. In the United Kingdom, the Office of Fair Trading referred matters to the Competition Commission, which tabled a report called “The Supply of Groceries in the UK - Market Investigation”. The outcome was the development of a grocery supply code of practice, followed by the tabling of the Groceries Code Adjudicator Bill in May 2011. Similar headline-grabbing activities by governments have ensued in recent years in Australia, Ireland, and Norway.

What should we do in Canada?

In Canada, we currently have a document, housed at the Competition Bureau, that governs appropriate practices in this area. It's called the “Interpretation Bulletin” but is otherwise known as the grocery bulletin. It's linked to sections 78 and 79 of the Competition Act. It has not been updated since 2002, when it was first published in response to concerns about consolidation in the grocery retail trade. This bulletin clarifies how, from an enforcement policy perspective, the bureau addresses allegations around abuse of dominance, barriers to entry, and anti-competitive acts in the marketplace. We've made repeated requests to the bureau to have this bulletin updated in the past couple of years, but it hasn't been on their list of priorities.

Given the trends globally in the area and the risks that the trends towards retail consolidation and store brand expansion pose to processors, farmers, and consumers, FCPC strongly believes that a consultation to review and update the grocery bulletin to take into consideration the new market realities is in order. Currently it does not address store brand issues and the issues associated with retailers acting as a double agent or a competitor. It's imperative that these issues be addressed in the interest of having a level playing field, especially for smaller and mid-sized Canadian processors who are trying to sustain and grow their businesses here in Canada.

In closing, I want to be very clear that FCPC believes there is an important role for store brand products to play in the marketplace.

● (1535)

Our issue is not with the products themselves; it is with how their prevalence in the marketplace is allowing the country's largest retailers to squeeze manufacturers and farmers. We are concerned that if the Canadian government does not review these issues in a substantive way, like governments in the U.K., Ireland, Australia, Norway, and the EU have, we are putting the future of our food and consumer products manufacturing sector, farmers, and Canadian consumers at risk.

If we take too long to take action and lose a number of these players in the market, we could find that the damage to industry will be beyond repair.

Thank you for this opportunity to address your committee today. I look forward to answering any questions you might have.

The Chair: Thank you very much.

We're going to move to Mr. Sparling.

Thank you very much for joining us, Mr. Sparling. You have 10 minutes or less, please.

● (1540)

Dr. David Sparling (Professor, Richard Ivey School of Business, University of Western Ontario, As an Individual): Thank you very much, Mr. Miller.

All of you have a copy of my presentation.

I was really looking at this as an opportunity to talk about some of the trends I see and some of the things I think we need to be thinking about looking forward.

First, when we talk about Canada's food supply chain, we often envision it as a flow of product from input suppliers to producers to processors to the consumer. Information flows both ways up and down the chain. Those processes in Canada actually don't work as well as they should. In reality, a food supply chain isn't really a chain; it's a network. The next slide illustrates how complex it is.

We have a lot of different players, and the dynamics are changing in the industry all the time. Right now, the big driver is the change in the Canadian dollar, which has made a huge difference. Consolidation at several levels is making a difference. And new international opportunities are also changing the chain.

I thought I'd talk through some of the things we're starting to see at the different levels and some of the areas where I think we may want to invest. I want to look at them from a policy perspective and in terms of an industry strategy.

In genetics, a lot of the major crops, in particular, with the exception of canola, are controlled by multinationals. A lot of the work is being done in other parts of the world. In Canada, we've been losing some of our capabilities in that area, and that's an area I think we may want to look at investing in, particularly in genetics that mean a Canadian difference. I think that's important. We're relatively strong in the dairy genetics, and we've done quite well around the world in that.

The input supply sector is changing a lot, and we're seeing consolidation there right across the country. We're seeing reorganization, and that's in response to consolidation at the farm level from having to supply bigger customers who are more sophisticated. But it's also in response to opportunities and competition from around the world.

From a competitiveness perspective, we have done a lot better lately. We were at a significant disadvantage in terms of chemicals and veterinary drugs, but we've made some advances in that area in aligning regulations between Canada and the U.S. Here at Ivey, we're involved with the Regulatory Cooperation Council and are trying to actually push those alignments a little further and make the border a little less of an issue for us.

Primary agriculture is changing. We still are in a situation where most of our policy is focused on primary agriculture. A lot of it is focused on business risk management programs and farm income. The industry remains dominated by small farms, but the reality is that the large farms produce most of the product. I think just recently we looked at some of the numbers and found that the biggest 7,000 farms produce more than the smallest 105,000 farms, using one-quarter of the resources. I think they produce about 50% more.

When you look at what assets it takes to produce $1 of revenue, for farms under $100,000 it's about $18; for farms over $2.5 million it's about $2.50 in assets. So there is a huge competitive disadvantage there. There are major economies of scale, but we still have an industry dominated by small players. But if you look at the future, it's an industry that is quite optimistic about where it's going, particularly if you're in the grain and oilseed business. The projections are for volatility. There will definitely be more volatility, but there will be pretty strong long-term markets.

● (1545)

I think our meat industry has now adapted pretty much to the higher Canadian dollar. We built up a huge export business to the U.S in both hogs and beef. That was under free trade. Since then, with the adjustment of the dollar, we've had to adjust the entire industry to lower exports. That's going to continue because this dollar's not going to go away.

There's lots of focus on local food, and that presents new opportunities for us and for some of the smaller players. If we are going to take advantage of the local food option, we're going to need to build up the networks to connect producers to consumers. Some of that will be through retail and some of it will be direct. That seems to be the biggest gap right now.

To me, local is an interesting market opportunity and a niche. It is not the way Canada really can view the future of our agriculture. We export almost half of what we produce at the farm level and over a quarter of what we produce at the food processing level, so we don't really want the world to go local. It's important for us to maintain our exports.

On food processing, though, Derek did a good job talking about some of the challenges in food processing: more competition, harder to get into the States. We've actually been relatively good in terms of maintaining employment. We are losing plants in food processing, but there's a definite need to modernize. There's also a need for larger scale, certainly in some areas.

Our food processing sector has a whole lot of small players. Derek was talking about private labels being a threat to processors. In some cases it's a threat; in other cases it's an opportunity for small processors to access big markets through private label. I know a lot of processors that actually survive predominantly on that.

That sector is going to change with the new pressures on health and sustainability, health in particular. You're going to see much more emphasis—and we should see more emphasis—on reducing salt, reducing fats, and so on. The sector right now is trying to come to grips with creating an innovation strategy, so what should they be focused on, looking ahead? We had a food innovation forum last May, and we're having another one this May, looking at food processing innovations. We saw a few things. Last year we saw...and it's not really any surprise, but the major drivers of food processing innovation are new markets, increasing market share, and reducing costs. Food safety, regulations, and health are driving some of the change a little bit less so.

They're doing a combination of both product and process innovation, adopting things like lean manufacturing methods and so on. They're doing it with internal teams, but they're also working extremely closely with suppliers and with customers. So food processing innovation tends to be a full-chain activity instead of just a single, inside-the-company activity. They also get ideas and help from government, universities, other companies, and consultants.

When we ask what's the biggest barrier to change and to innovation in food processing, resistance to change came up as the number one issue; and then money, because these guys are relatively small; and then there's time—they don't have much time for this; regulations to some extent; and in some cases finding good people.

Derek did a great job talking about the retail consolidation. That continues, as well as having new major foreign entrants—Walmart and Target—and we have only just begun to see the impact of having those players in the market. I think we're going to see a whole lot more change come out from that.

We're also seeing the power of consumers reaching back all the way to farms. Consumers are very simple. They like what's important to them, so health is an issue, and cost is always an issue. Retailers are telling us they're not as driven by sustainability yet, but you're seeing things like Walmart and their 15 questions. That will change what happens throughout the entire chain. Also, consumers are starting to expect more from food and more from food processors.

● (1550)

The Chair: Mr. Sparling, you're out of time.

Dr. David Sparling: Okay.

The Chair: You may have missed this as well. We have an emergency vote called.

Dr. David Sparling: Okay.

The Chair: Bear with us, we're going to go and vote. Our intention is to return back here.

Mr. Pierre Lemieux (Glengarry—Prescott—Russell, CPC): Before you adjourn the meeting, I think there's another vote that's happening 45 minutes after this vote. That's my understanding.

The Chair: There is?

Mr. Pierre Lemieux: The bells are probably 30 minutes. I think what's going to happen is we're going to be done voting, then 15 minutes later the bells are going to go again, and we're going to be expected to be back in the House waiting to vote.

The Chair: Okay. I wasn't aware of that.

Mr. Alex Atamanenko (British Columbia Southern Interior, NDP): The bells are at 5:30 and the vote is at 6.

Mr. Pierre Lemieux: That's a different vote. Those are the known votes, but my understanding is the NDP have put forward a motion upon which we'll have to vote 45 minutes after the vote we're just about to leave for. If there are half-hour bells for the NDP....

Chair, I don't know why they're doing this now.

Voices: Oh, oh!

Mr. Pierre Lemieux: What I'm saying, Chair, is we'll have only 15 minutes to get back here and then get back there. It's probably not worth it.

The Chair: Okay. I don't think we have anything else we can do except.... I don't want to hold our witnesses here and then not get back here, and it doesn't look as if we're going to.

I apologize to our witnesses. This is a crazy place sometimes, and this is one of those days.

Mr. Frank Valeriote (Guelph, Lib.): Might we reschedule for another time?

The Chair: Well, I guess it's up to the committee. We'll have to talk about that another time. But I think we should be looking at that.

With that, I apologize to all of you for being here. Mr. Sparling, thank you for joining us. Because of what's happening, it doesn't look as if we'll be back here. Sorry about that.

The meeting is adjourned.

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