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Chair: Mr. Pat Finnigan

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• (1535)

[English]

The Chair (Mr. Pat Finnigan (Miramichi—Grand Lake, Lib.)): I call the meeting to order.

Welcome to the sixth meeting of the House of Commons Standing Committee on Agriculture and Agri-Food.

Pursuant to Standing Order 108(2), and the motion adopted by the committee on October 24, the committee is commencing its study on processing capacity.

[Translation]

Today's meeting is taking place in a hybrid format, pursuant to the order of the House adopted on September 23, 2020. Proceedings will be published on the House of Commons website.

For information purposes, the webcast will always show the person speaking rather than the entirety of the committee.

To ensure an orderly meeting, I would like to outline a few rules to follow. Members and witnesses may speak in the official language of their choice. You have the choice at the bottom of your screen of “floor”, “English” or “French”. Before speaking, please wait until I recognize you by name.

I remind you that all comments by members and witnesses should be addressed through the chair.

Please ensure that your mike is on mute when you are not speaking.

[English]

With that, we are ready to begin.

I would now like to welcome our witnesses.

For the first hour, from the Canadian Food Inspection Agency, we have Theresa Iuliano and Tammy Switucha; from the Department of Agriculture and Agri-Food, we have Warren Goodlet, director general, research analysis directorate; Frédéric Seppey, assistant deputy minister, market and industry service branch and Marco Valicenti, director general, sector development and analysis directorate, market and industry services branch; and from the Department of Industry, Sheryl Groeneweg, director general, manufacturing and life sciences branch.

We'll start with Ms. Iuliano, for seven and a half minutes.

Ms. Theresa Iuliano (Vice-President, Operations, Canadian Food Inspection Agency): Thank you very much, Mr. Chair.

Frédéric Seppey is presenting opening remarks on behalf of all departments.

The Chair: That's fine.

[Translation]

Mr. Seppey, the floor is yours.

[English]

Mr. Frédéric Seppey (Assistant Deputy Minister, Market and Industry Services Branch, Department of Agriculture and Agri-Food): Thank you very much, Mr. Chair.

It's a great pleasure and honour for all of us to appear and have the opportunity to speak before this committee.

Before speaking to the current situation of the agri-food sector, let me start with a few facts on the importance of the food processing sector to the Canadian economy.

In 2019, the agri-food sector was a key contributor to the gross domestic product, employment and exports.

The food and beverage processing industry is the largest manufacturing sector in terms of GDP, representing 17% of manufacturing GDP and 290,000 employees.

The food industry is a major economic driver for rural communities, as it purchases about 40% of the total Canadian agriculture production.

Small and medium-sized enterprises account for over 95% of establishments, while large establishments account for about half the industry's total output.

Exports of processed food and beverage products stood at a record value of \$38.1 billion in 2019. Globally, Canada is the eleventh largest exporter of processed food and beverage products in the world.

In total, Canadian-based processors supply about 70% of all processed food and beverages that Canadians consume every day.

[Translation]

The food and beverage processing industry performed relatively well over the recent five-year period. Specifically, I wish to give a sense of the results in terms of growth, trade and employment.

Industry revenues for the food processing sector increased at an average rate of 3.5% per year, compared to 2.3% per year for total manufacturing. In addition, employment increased by 2.9% per year, compared to 1.1% for total manufacturing. Finally, exports of processed food and beverage products grew at an average annual rate of 6.9% during the last five years, whereas growth was at 3.5% for total manufacturing.

Overall, the opportunities for the Canadian food processing industry are significant given the growing global demand for processed foods and beverages, as well as population and income growth in emerging markets. Our well-recognized food safety regulatory framework is a key positive attribute for our products in foreign markets.

There is no doubt that the current pandemic has caused an unprecedented shock to the whole food system as a result of significant changes in food demand.

I shall preface my upcoming comments on the impact of the pandemic with a word of caution. Any current assessment is no indication of how the situation can evolve in coming months.

To give you a sense of the dramatic shift in demand, between February and April 2020, food service sales declined by 57% , while food and beverage store sales increased by only 18%. Purchases at restaurants continue to lag pre-COVID-19 levels. In August, food service demand was at about at 80% of pre-pandemic levels. However, this is likely lower now with the recent restrictions in many regions of the country.

Purchases at grocery stores in October were at 8% above the pre-COVID-19 levels. As mentioned earlier, although the supply chain seems to have stabilized, we cannot take the resilience of the sector for granted. Extraordinary efforts were required to keep grocery store shelves stocked and food on the table. The system remains vulnerable as the COVID-19 pandemic continues to have an impact.

Since the beginning of the pandemic, the food processing industry experienced a number of challenges that resulted in new and significant cost pressures. For example, industry had to adapt to health protocols that required plant modifications, increased sanitation measures, and changes in manufacturing processes, often leading to reduced production.

To provide for increased worker safety, companies had to provide their employees with personal protective equipment. Further, labour costs rose significantly due to additional payments for overtime, hero pay and training. Other increased costs included higher transportation, packaging costs and increasing fees paid to retail for infrastructure development such as for e-commerce. Lastly, some companies faced lost revenue from food service without commensurate increases in retail sales, as well as increased cost for surplus inventory.

The total financial implications of COVID-19 on the food processing industry remain to be seen as statistical agencies, such as Statistics Canada, continue to gather information over time. However, it is clear that impacts throughout the industry have not been homogenous.

In response to COVID-19, the Government of Canada has implemented a number of food industry specific initiatives to ensure a safe, reliable food system. I will just mention three of those initiatives.

The government set up a \$77.5 million emergency processing fund (EPF) to help companies implement changes to safeguard the health and safety of workers and their families, as well as to improve facilities needed to increase Canada's food supply capacity.

The government also set up a \$50 million surplus food purchase program to help move surplus food commodities through the food system as efficiently as possible to help feed vulnerable Canadians.

Finally, there is the mandatory isolation support for temporary foreign worker program to support these workers who are absolutely essential not only for our horticultural industry, but also for our food processing sector. The \$50 million fund helps cover some of the incremental costs associated with the mandatory 14-day isolation period imposed under the Quarantine Act.

I would also like to highlight the efforts of the Canadian Food Inspection Agency (CFIA) to preserve the integrity of Canada's food safety system. First, CFIA prioritized critically important activities and services during the ongoing COVID-19 pandemic by introducing a temporary suspension of low-risk activities that did not immediately impact the safety of food or the protection of our agricultural resources.

● (1540)

The Chair: I'm sorry to interrupt you, Mr. Sepey. My understanding is that you are going to be speaking on behalf of the three departments. Is that correct?

Mr. Frédéric Sepey: Yes, Mr. Chair.

The Chair: Okay. I will give you some extra time, because each department has seven and a half minutes. You may continue, Mr. Sepey.

Mr. Frédéric Sepey: That's very nice. Thank you very much, Mr. Chair.

The Agency is maintaining oversight of domestic production and imported food products while also supporting trade and the supply chain, including through the certification of exports.

The Agency also temporarily suspended certain non-food safety labelling requirements for foodservice products so that they can be quickly repurposed for retail sale. Also, in order to prevent meat shortages, the CFIA has been working with the provinces and territories to enable the interprovincial trade of meat produced in provincially regulated establishments. To assist in these efforts, the CFIA received an additional \$20 million in funding to support its efforts. This will help the Agency continue its important work to safeguard Canada's food system and better support the production demands of Canada's food industry.

[English]

In conclusion, although COVID-19 has taken a financial toll on the food processing sector, given its agility and its resilience, the sector can play a major role in the economic recovery.

My colleagues and I are pleased to be with you today and to answer any questions you may have.

Thank you very much, Mr. Chair.

As we look beyond COVID-19, we expect that there will be a greater emphasis on innovation in the food processing industry. Business spending on research and development is vital to ensure that Canada's food and beverage processing sector responds to shifts in consumer demand with globally competitive products and processes.

With continued support of Canadian innovators, we can capitalize on emerging technology areas and changing consumer demands and realize incredible growth opportunities in the food sector.

The Government of Canada is making targeted investments towards innovative companies in the value-added food processing sector through the strategic innovation fund or the innovation superclusters initiative.

To further strengthen this sector and realize these recommendations, the Government of Canada also awarded up to \$30 million towards the Canadian Food Innovators Network, through the strategic innovation fund, for the development of a network that will accelerate innovation and collaboration specifically in the food processing sector.

With respect to investments, we continue to invest in industry to build capacity in the value-added food and beverage processing sector at the intersection between market opportunities and Canadian potential.

The Government of Canada's investment in the Protein Industries Canada supercluster, known as PIC, is an illustration of these efforts. Through the Innovation Canada supercluster program, the Government of Canada recognizes the potential of Canada's existing strength in areas such as pulses and the growing global demand for value-added plant-based foods.

• (1545)

[Translation]

The Chair: Thank you, Mr. Seppey.

[English]

We will now start our questioning, and for the first round we have Ms. Lianne Rood for six minutes.

Go ahead, Ms. Rood.

Ms. Lianne Rood (Lambton—Kent—Middlesex, CPC): Thank you, Mr. Chair, and thank you to the witnesses for being here today.

Last week we heard, and have been hearing this all along from processor groups, a call for a grocery code of conduct in Canada. Industry has been buckling under the costs of COVID-19 for the last 10 months or so, and now we are seeing retailers adding arbitrary fees of up to 6% on processors and farmers while they're recording record profits.

Ms. Groeneweg, at what point will the Competition Bureau step up and address the abuse of market domination by grocery chains?

Mrs. Sheryl Groeneweg (Director General, Manufacturing and Life Sciences Branch, Department of Industry): Thank you very much for that question.

I would just like to express that of course we share the concern about fair market practices, and departments are working together to ensure that Canada's food supply chain has the right conditions for all businesses to thrive. I would note that this topic will be discussed in an upcoming federal-provincial-territorial agricultural ministers meeting in order to involve the provinces and territories in ensuring the health of Canada's food supply chain.

With regard to the Competition Bureau, it is of course, as you know, an organization at arm's-length from the Department of Innovation, Science and Economic Development Canada. As such, I cannot comment on priorities or practices within the Competition Bureau itself.

Ms. Lianne Rood: Thank you very much.

Producers, and processors and others along the supply chain have had to, again, make significant investments to keep their workers safe. The processing sector has estimated that the additional cost to them has been about \$800 million.

I'm just wondering why the processing fund was only set at \$77.5 million, which is well short of the actual cost we have seen for processors to keep their employees safe.

Mr. Frédéric Seppey: Mr. Chair, perhaps I can take this question from the member.

The decision was taken by the government and, therefore, is a question of policy that I, as a public servant, cannot provide an answer to. I can tell you that the program, since its inception, has received a number of applications. We have been assessing these applications in a thorough way. The funds continue to flow.

We are also working beyond the terms of the program. We are working with processors to ensure that they have all of the tools and advice they require to be able to adapt to, for example, the requirements of local public health authorities as well as the requirements from the Canadian Food Inspection Agency.

● (1550)

Ms. Lianne Rood: I'm going to turn over to the question of labour. We know right now, and I have heard from processors and farmers across the board, that labour is one of the biggest obstacles we face right now in this country in getting people to work and making sure that the positions are filled to keep our processors moving along and the factories open so that we can continue to have food in the supply chain.

The federal government's own Barton report tapped into agri-food as one of the leading economic sectors in the country. How can we that claim agri-food is a priority and ignore labour, which is, again, the biggest issue?

Will your departments commit to developing a labour action plan for these sectors?

Mr. Frédéric Seppey: As you may be aware, tomorrow will mark the first virtual session of the annual meeting of federal, provincial and territorial ministers of agriculture and agri-food.

The issue of labour is on the agenda for that meeting tomorrow. In fact, as the member pointed out, labour is a key issue for the agricultural sector as well as for the food processing sector. I believe you will hear later this afternoon from representatives from the Food, Health and Consumer Products of Canada. The number of labour vacancies in the processing sector is quite significant, with 28,000 jobs remaining vacant. When you compare that with the 290,000 jobs figure I indicated in my opening remarks, it is quite significant.

This is why we are working closely with our colleagues at Immigration, Refugees and Citizenship Canada as well as Employment and Skills Development Canada, who lead on several of the labour issues. We're working closely with them and the provinces to make sure that we can do our utmost in addressing these very significant challenges in labour in the agriculture and agri-food sector, as the member pointed out.

The Chair: You have 13 seconds, Ms. Rood.

Ms. Lianne Rood: That's fine, Mr. Chair. I'll pass on them, and save my questions for later.

The Chair: Thank you, Ms. Rood.

Mr. Drouin, you have six minutes.

[*Translation*]

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you very much, Mr. Chair.

I want to thank all our colleagues who have taken the time to join and discuss food processing in Canada. Like us, you understand the importance and the fragility of this sector. I am sure that the COVID-19 pandemic has made that even more evident.

My first question is for Mr. Seppey.

Do we have some sort of overview of food processing in the country? Do we know whether it is enough or not enough? Is it diverse enough?

Mr. Frédéric Seppey: Thank you for the excellent question, Mr. Drouin.

We are major agricultural producers in the world. In fact, we are the fifth largest exporter of agricultural and agri-food products in the world and the fifth largest importer. This shows that we have a very strong absorptive capacity. We import a great deal to meet our needs. However, as I mentioned in my opening statement, we have to keep in mind that a very large portion of Canadian demand for processed products is met by products made and processed in Canada.

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.

It is difficult to answer this question 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.

● (1555)

Mr. Francis Drouin: Thank you very much.

You have raised an excellent point in terms of whether market forces are there to meet market demand.

We have certainly noticed that some sectors may have been too centralized during the COVID-19 pandemic. Whether because of transportation or an outbreak in a factory, for example, difficulties ensued everywhere along with a delay in food processing.

[English]

I'd like to switch my questions to the director general for industry. There are some programs with the regional development agencies, and on a smaller scale, they'll fund smaller processors. Is there data you guys in Industry Canada are keeping on processors on a smaller scale?

Mrs. Sheryl Groeneweg: Yes, indeed. In fact, the Department of Innovation, Science and Economic Development has been quite active in this space over and above what the regional development agencies have been up to.

Since 2017, I can report that ISED has committed up to \$203 million to support innovation in Canada's value-added food and beverage processing sector through two avenues: the strategic innovation fund and Innovation Canada's superclusters initiative. Mr. Seppey has already indicated such investments in that regard.

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.

In 2018, we launched a competition under stream 4 of the SIF. It's a competition to spur on consortia coming together to bring different actors around the same ecosystem in such a way that smaller players across the country could interact with bigger players with research components of the ecosystem, and create value and, hopefully, garner new market share.

There were 55 different applicants to that process. Two victors came from that: the Canadian Agri-Food Automation and Intelligence Network and the Canadian Food Innovators Network.

The Chair: Thank you, Mrs. Groeneweg. That is all the time we have.

[Translation]

Mr. Perron, you have the floor for six minutes.

Mr. Yves Perron (Berthier—Maskinongé, BQ): Good afternoon.

My thanks to the witnesses for joining us.

I will continue along the same lines as my colleague Mr. Drouin's question. Decentralization was mentioned, but I will explore it a little further.

During the pandemic, we were told that we have a strong processing capacity in the meat industry, among others. That is good. However, we saw the dramatic effect that the closure of a plant due to the COVID-19 outbreak had on markets and upstream producers. We don't know what the situation will be in three, four or five years. We have to adapt and we have to adjust our system.

Has the department addressed this issue? How can we diversify the supply?

It could be another scenario, but if we are talking about the slaughter process, how do we make room for smaller players, for example?

• (1600)

Mr. Frédéric Seppey: Thank you very much for the question.

You're probably talking about the closure of the Olymel plant in Yamachiche, which took place at the end of March. That plant processes 28,000 piglets every week, and it clearly plays a pivotal role in the entire hog processing chain.

In fact, when the processing assistance program was put in place, one of the priority sectors was actually meat processing. We knew that investments were needed in the area. For example, slaughter capacity had to be increased in order to deal with the delay in slaughtering animals.

The pork industry, as you probably know, operates like a pipeline. You have to be able to pasture the animals and feed them until you have the processing capacity. Otherwise, you have to do the slaughtering to take into account animal welfare. That's why the \$77.5 million program placed particular emphasis and priority on applications from the meat processing sector.

Mr. Yves Perron: In terms of the \$77.5 million, which you also discussed with Ms. Rood, you said that money still needs to be distributed. Are we to understand that there is money left?

The amount seemed small to us. Can you elaborate on that?

Mr. Frédéric Seppey: The program has been extremely popular and there are very few funds left. Some disbursements still need to be made under the program. I don't have the figures with me, but the total envelope has been almost fully used. Applications from the meat processing sector were prioritized.

Mr. Yves Perron: So a large number of requests have not been answered.

Do you plan to increase the assistance fund? The \$77.5 million for Canada as a whole seems to us to be a very small amount.

Mr. Frédéric Seppey: We are not planning to increase that envelope at this stage.

Mr. Yves Perron: In your presentation, you talked about interprovincial trade and the Canadian Food Inspection Agency's more flexible rules. Could you tell us in a few seconds what has been done specifically?

Mr. Frédéric Seppey: As you know, all food products traded interprovincially must normally be manufactured in a federally certified plant. The Canadian Food Inspection Agency, in cooperation with provincial and territorial authorities, has made an exception to this rule to allow interprovincial trade in meat products processed in provincially regulated establishments and to prevent meat shortages. As there have been no shortages, no province or territory has applied to the agency for this exception. The exception exists and would be ready for use should the situation require it.

Mr. Yves Perron: Is there any possibility of establishing this on a regional basis? In certain regions of Quebec, there are particular slaughter problems and the slaughterhouse may be located close to another province. If I'm correct, there would be an opening for temporary arrangements to be made on this basis. Is that correct?

Mr. Frédéric Seppey: There is this obligation, given that inter-provincial trade is under federal jurisdiction. The work done by the CFIA demonstrates that exceptions can be considered in specific cases. In the case you point out, particularly in border regions such as the Outaouais, there is enormous interest in these elements. In fact, a few years ago, the Canadian Food Inspection Agency was working on a pilot project to allow this type of temporary arrangement in the national capital region.

• (1605)

The Chair: Mr. Perron, you have only one second left.

Mr. Yves Perron: Thank you.

The Chair: Your time is up, Mr. Perron.

[English]

We'll go to Mr. MacGregor, for six minutes.

Mr. Alistair MacGregor (Cowichan—Malahat—Langford, NDP): Thank you, Chair, and to the witnesses who are appearing before us today.

Yesterday I had a meeting with representatives from UFCW, which represents approximately 70,000 workers in processing plants across Canada. I'm happy to hear the acknowledgement that labour is a critical part of the puzzle, because indeed it is. However, during the course of my meeting with UFCW, they clearly raised some ongoing concerns they had for the safety of their members.

If we acknowledge the important part that labour plays...I want to reiterate to members of the committee and our witnesses that UFCW did submit to Minister Bibeau's department seven recommendations for best practices. Even with the timeline we are on right now, and with all that we know about COVID-19, they found that in some cases recommendations were adopted and followed, but in many cases they were not.

With COVID numbers now on the rise again, and the vulnerability we've already seen in our supply chain, with some processing plants having to shut down, why is the CFIA not stepping in to enforce these consistently applied protocols to protect the health and safety of our workers?

Ms. Theresa Iuliano: Mr. Chair, I'll start by saying that CFIA is committed to protecting the health and safety of our employees, while of course maintaining and delivering critical inspection services. All of the facilities we operate within are required to follow appropriate public health protocols and seek guidance from local public health authorities.

We expect that the facilities are undertaking efforts to control any risks associated with workers who are ill. This is in addition to their regular cleaning, sanitation and other preventative controls.

We've also asked our own employees to follow the health and safety protocols put in place at the establishments where they work. CFIA employees, including inspectors, who exhibit any signs or

symptoms of illness are advised to contact their management. We work very closely with the industry, the unions and public health authorities to ensure that appropriate measures are put in place.

Mr. Alistair MacGregor: I appreciate the answer, Mr. Chair.

However, it was made very clear to me yesterday by the UFCW that many of these protocols are still being applied haphazardly.

When can we expect a full compliance rate? How is CFIA measuring the timeline for that level of enforcement?

Ms. Theresa Iuliano: CFIA's mandate in food establishments relates to food safety. Therefore, we take the measures necessary to enforce the acts and regulations in relation to the safety of the food produced in the establishments.

Compliance with public health measures is the responsibility of the operator working in collaboration with local public health authorities and following the requirements of the Public Health Agency of Canada.

Mr. Alistair MacGregor: Part of our study, for the information of the witnesses, is looking at the goal of increasing local capacity to protect food security. I've heard some very positive responses about the local food infrastructure fund, particularly how it's allowed small-scale primary producers to gain access to funding to invest in processing capacities, especially in small rural communities like the ones in my riding.

I'd like to hear from our witnesses about the status of the local food infrastructure fund. What has the uptake of it been? Also, what are the department's plans for this particular fund going into the future? Are there plans to improve or increase it and so on and so forth?

• (1610)

Mr. Frédéric Seppey: Like other programs, I cannot comment on whether there will be an increase in the future. The member is absolutely right that this is a program that has been quite popular. In fact, the amount under that fund was already increased once from the initial amount. We definitely felt there was a very good response to this program.

I can also mention that 95% of all food processing establishments in Canada are small and medium-sized enterprises. In the evolution of the demand for food products across the country, we have seen a greater attachment to procuring from local producers and local food processors. Therefore, when we discuss with food processors and think about future programs or initiatives and being able to empower and help these processors diversify what they offer in response to increased consumer demand, there is this aspect of raising awareness about the importance of supporting local farmers. It's definitely one element of our consideration for future strategies.

The Chair: Thank you, Mr. MacGregor.

Now we'll start our second round with Mr. Steinley for five minutes. Go ahead, please.

Mr. Warren Steinley (Regina—Lewvan, CPC): Thank you to all the witnesses who are here today. I really think, as a government, there really isn't anything more important than food security for the citizens of our country. The people on this witness list are important to ensure that.

My first question goes to Mr. Seppey. Food has been designated by Public Safety as one of Canada's critical infrastructure sectors. Going into COVID-19, did Canada have an emergency response plan for the food system?

Mr. Frédéric Seppey: Yes, you are absolutely right that the food supply is critical infrastructure. Under Public Safety, there are a number of plans for the various sectors. There's an emergency function that exists for food and water. Of course, it is thinking more in terms of localized, regional crises that require a punctual intervention to procure food and water for a specific situation, whether it's an area affected by flooding, etc. Having a comprehensive plan to deal with the magnitude of the COVID-19 situation, I don't think any plans could have anticipated that. However, as you pointed out, it was key to designate workers in the food area as essential from the get-go.

Mr. Warren Steinley: A nation-wide plan probably wasn't in place. I heard there's a regional plan. Are steps being taken now for another instance, a crisis like COVID-19, to have the food system prepared for another such disaster, should it come?

Mr. Frédéric Seppey: Since the beginning of the pandemic, we have established a number of mechanisms to enable us to monitor and to engage with the various segments of the sectors, in terms of addressing specific situations, because the situations may vary from one sector to another. For example, immediately when the crisis started, we had the first closure of a meat processing plant—Olymel—in Quebec in late March. We established plans with CFIA, with AAFC, with the Quebec Ministry of Agriculture as well as with public health authorities in Quebec to have a crisis cell able to manage the situation associated with such a plant being shut down.

We had similar situations where there were outbreaks of COVID-19 among staff in large poultry plants in southwestern Ontario.

It is definitely about acting quickly in dealing with specific situations. So far, we have indications that the sector appreciated these quick responses. They had access immediately to senior officials in the government and to ministers to address these concerns.

Mr. Warren Steinley: Thank you very much for that answer. I'm hoping there's a nation-wide plan that's going to be looked at.

I'm going to switch gears here now, as I only have five minutes.

I know there are some trade people who are here as witnesses as well, so I'm going to ask a question in that regard. In general, how are we working to increase market access and ensure that current trade agreements are implemented—because once they're signed, there also is the implementation process—which improves predictability and creates further global opportunities for our country's oilseed processors? What I'm asking is, once we've signed trade deals as a country, are we working with Global Affairs to ensure that those agreements are implemented? As our processors across the country can have more access to our world-class quality products, they'll obviously be able to add to their bottom line.

• (1615)

Mr. Frédéric Seppey: Yes, as somebody who has been closely involved with the negotiations of free trade agreements over the previous year, I can assure you that the whole purpose of these trade agreements is to make sure that they include strong, enforceable provisions on dispute settlements, so that we can use all of the levers at our disposal to advance our interests.

You're mentioning, for example, our oilseed products. 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.

Mr. Warren Steinley: Well—

The Chair: Thank you, Mr. Seppey.

Thank you, Mr. Steinley.

Unfortunately, we are out of time.

Mr. Louis, for five minutes.

Mr. Tim Louis (Kitchener—Conestoga, Lib.): Thank you all for being here. I very much appreciate this.

I am wondering if you could tell me about got interprovincial travel and trade as well. That's something that gets brought up from time to time, the fact there are different credentials for federal and provincial.... What kinds of steps are we taking to work on that basis to procure co-operation for our food processor?

I'm not sure who would want to answer that question.

Mr. Frédéric Seppey: Perhaps I can start, Mr. Chair, with your permission. My colleague from the Canadian Food Inspection Agency may wish to add.

I gave a number of examples. For example, allowing exemptions from the requirement that if there's interprovincial trade in meat products they have to be produced in federal plants. That's one venue.

An unprecedented level of federal-provincial-territorial co-operation on regulatory issues is under way. It has always been like that, but since the beginning of the pandemic, that collaboration has been more intense than ever. Therefore, regulators are discussing concrete problems that may exist. To give an illustration, in Nova Scotia there are meat plants that would like to reach the level required for a federal establishment to export outside the province. These issues are being discussed between CFIA and the Government of Nova Scotia.

Mr. Tim Louis: I appreciate that.

I know that my colleague had previously mentioned protecting our workers. That's important to all of us. Can you explain what steps we have taken as a government to help some of the food processors make sure that their workers stay safe so we can keep food on the table?

Mr. Frédéric Seppey: My colleague Madame Iuliano from CFIA will probably have things to add.

I would make a very quick point. In addition to what Theresa mentioned earlier, we are working closely with organizations such as the Canadian Meat Council, the Canadian Centre for Occupational Health and Safety, and the Public Health Agency of Canada to ensure that operators have all of the guidance and policies to understand what are the best practices to put in place to ensure the safety of workers, as Mr. MacGregor indicated before.

I don't know, Theresa, if you want to add to that.

• (1620)

Ms. Theresa Iuliano: Thank you.

Obviously, the CFIA plays a critical role in providing service to food processing establishments. Because of that critical role, we make maintaining the safety of our employees a number one priority. Our staff work very closely with the industry to ensure that we are putting in place the appropriate risk mitigation, including personal protective equipment, following public health guidelines and working closely with the establishments to minimize any unnecessary physical contact.

Mr. Tim Louis: Thank you.

Maybe I can stay with CFIA questions. We also have to make sure that our inspectors themselves are protected and safe. What kinds of challenges did you have, especially in the beginning of this pandemic, in making sure that these inspectors could get their jobs done but remained safe as well?

Ms. Theresa Iuliano: I think that in the early days of the pandemic one challenge was ensuring that we had an adequate supply of personal protective equipment. As soon as the public health guidance on the provision of non-medical masks evolved, we acted immediately to ensure that our front-line staff had access to the appropriate personal protective equipment, including face masks, face shields, visors, wipes, as required.

We also took measures to ensure that our staff were delivering critical services in person only when required, and to deliver services remotely where that was feasible. Those were some measures we've taken to protect the safety of our staff.

Through an investment of \$20 million that was made in the agency, we've used those funds to hire emergency staff to bring in previously retired inspectors to work with the provinces to increase inspection capacity, all of that with the intent of reducing pressure on the current workforce, to make sure we could continue to deliver those critical services.

The Chair: Thank you, Ms. Iuliano.

Thank you, Mr. Lewis.

[*Translation*]

Mr. Perron, you have two and a half minutes.

Mr. Yves Perron: I'd like to come back to the emergency processing fund. Of course, there wasn't enough money. Small processors told me that they received a vague response from government officials, saying that the funds had run out or that they couldn't be guaranteed to receive the money. Sometimes, companies have already started to make investments by the time they get that answer.

Don't you think it would be wise to increase this kind of investment?

Mr. Frédéric Seppey: Thank you for the question.

This is a policy question, which should be addressed by Madam Minister.

Mr. Yves Perron: So I understand that the funds are depleted, the needs haven't been met and more money is needed.

I'm going to move on and talk to the Canadian Food Inspection Agency representatives.

At a convention of the Union des producteurs agricoles, or UPA, in 2019, a cheese producer spoke. She said she herself found samples of 23 foreign cheeses that did not pass 200 inspection points. Quebec's minister of agriculture, fisheries and food, Mr. Lamontagne, who was on hand, responded by saying he wants to be a leader in standards reciprocity.

At present, it seems that we are having difficulty establishing reciprocity of standards. If we want our processors to be dynamic and present everywhere, there needs to be a level playing field for products coming into Canada from abroad.

Do you have an action plan to increase resources for this purpose? How do you see this problem?

[English]

Ms. Tammy Switucha (Executive Director, Food Safety and Consumer Protection Directorate, Canadian Food Inspection Agency): Thank you, Mr. Chair. I'd be happy to answer that question from the member.

First, I'd like to begin by stating that the Safe Food for Canadians Act and regulations require that imported food must meet all the same regulatory requirements as food that's produced in Canada, so when it comes to imports, all imported products are treated equally, as they would be treated for those that are produced and sold in Canada.

The CFIA undertakes various activities to ensure compliance of imported products. Before they leave their countries, we also work at the border very closely with the CBSA to ensure that products entering Canada meet all Canadian requirements. Then, when they arrive in Canada, we do engage in post-border activities. We do testing and we do follow-up compliance and enforcement activities to make sure that those products meet all Canadian requirements.

• (1625)

The Chair: Thank you, Ms. Switucha.

Now we'll go to Mr. MacGregor for two and a half minutes.

Go ahead, Mr. MacGregor.

Mr. Alistair MacGregor: Thank you, Mr. Chair.

I again want to revisit the issue of our meat-processing capacity. This of course has been a huge topic for the committee. We've heard a lot of reports from many witnesses about how the over-concentration of meat-processing capacity in Canada, while it has been very efficient in the past, has certainly been one of our weak links.

I have a specific question. Back in August in the province of Ontario, it was reported that the old Ryding-Regency meat plant had been going through its final inspection. I think the plant is being renamed. It's under Tru Harvest Meats.

The Beef Farmers of Ontario were quite excited about this because, of course, they are suffering from a lack of meat-processing

capacity in Ontario, but we are now in November and we still have yet to hear from the CFIA as to whether this plant is going to restart. Given the situation we find ourselves in, is the CFIA able to comment on this specific application? Can we expect some news on it soon? I know that a lot of farmers would like to hear some good news on that front.

Ms. Theresa Iuliano: I'm afraid I can't comment specifically on the application itself. When an operator chooses to make an application for a licence, that's a business decision on behalf of the operator, and we will assess those licence applications on a case-by-case basis.

I can tell you that we have a process in place and that we stand ready to work with the operators as those licence applications come forward.

Mr. Alistair MacGregor: Thank you, Chair. Where am I at with time?

The Chair: You're at 35 seconds.

Mr. Alistair MacGregor: Very quickly, does the federal government regard the concentration of meat plants like the old model we operate under as a threat to food security? Is it part of its strategic plan going forward? Is it going to be a big part of trying to diversify those operations?

Mr. Frédéric Seppey: Perhaps I can try to respond very quickly.

First, it varies from one sector to another. Under the emergency processing fund, we had one stream that was specifically to address imbalances at the regional level. That's one element that is on our radar.

The Chair: Thank you, Mr. Seppey.

Thank you, Mr. MacGregor.

Unfortunately, that's all the time we have for the first hour.

I want to thank the Canadian Food Inspection Agency, Ms. Iuliano and Ms. Tammy Switucha; and also the Department of Agriculture and Agri-Food, Mr. Warren Goodlet, Monsieur Frédéric Seppey and Marco Valicenti; and also the Department of Industry, Sheryl Groeneweg.

I thank you all for updating us on the situation in the food processing sector in Canada and also for your hard work in keeping Canadian food and Canadian people safe. Thank you so much.

We shall have a small break for a few minutes to bring in the next panel. The clerk will let us know when we're ready. Thank you so much, all of you.

• (1625) _____ (Pause) _____

• (1635)

The Chair: Welcome to the second hour, and to the second panel for our study on processing.

From the Deans Council-Agriculture, Food and Veterinary Medicine, we have Martin Scanlon, dean of the faculty of agricultural and food sciences at the University of Manitoba;

[*Translation*]

We also have Christine Theoret, dean of the faculty of veterinary medicine of the Université de Montréal.

[*English*]

from Food, Health and Consumer Products of Canada, we have Michael Graydon, chief executive officer;

[*Translation*]

Finally, we have Jean-Sébastien Gascon, director general of the Société des parcs d'engraissement du Québec of Boeuf Québec.

You each have seven and a half minutes for your presentations.

[*English*]

Mr. Scanlon, we'll begin with your opening statement.

Dr. Martin Scanlon (Dean, Faculty of Agricultural and Food Sciences, University of Manitoba, Deans Council - Agriculture, Food and Veterinary Medicine): Thank you very much for the opportunity to speak here today on behalf of the Deans' Council to discuss food processing in Canada, a topic that's even more critical in light of the COVID-19 pandemic.

After a brief introduction to the Deans' Council—Agriculture, Food and Veterinary Medicine faculties, we wish to address two things. The first is the importance of innovation and innovation training for building an internationally competitive food processing sector. Second is the importance of taking an integrated approach to the continuum that is environmental health, animal health and human health. Canada's food processing industry is an integral part of that continuum.

The Deans' Council is a pan-Canadian network of eight agricultural faculties and five veterinary colleges for training, research and knowledge translation. It's really a core to the national ecosystem in food, agriculture and health. Indeed, as one of the world's most advanced producers of food, Canada does have a leadership role to play in meeting the expanding requirement of the globe for quality nutrition.

As a result, Canada's communities and trading partners must have confidence in the integrity, resilience and safety of our food system. It's important to emphasize that the Deans' Council faculties not only hold the talent, but they're also responsible for developing the talent and the knowledge that will enable the tremendous economic and export growth potential of Canada's agri-food sector to be realized.

Our faculties also contribute to public confidence in the integrity and safety of Canada's food system, and they also shield it and po-

tentially also our health care system from future infectious disease incursions, food safety threats and environmental risks.

About a year ago the Deans' Council worked with Industry, Science and Economic Development Canada to produce a report examining the path to growth for Canada's food and beverage processing sector. More specifically, ISED asked us how the Deans' Council could help cultivate a skilled, innovation-minded workforce. How could we also marshal the enormous research and development capacity within our faculties to address the short, medium and long-term goals of a transformed food sector?

In the report to ISED Canada, we made various recommendations that our analysis showed were necessary for attracting a diverse set of students to our faculties, and that way we could ensure that there was a broad range of ideas and creative solutions to both ingredient and process innovations.

One recommendation was the need for renewal of core infrastructure that is absolutely vital for student training as well as for research. It's worth noting that hundreds of scientists and indeed thousands of students in our faculties conduct internationally recognized research that fuels ingredient innovation for Canada's crops and livestock. They also devise process science innovations for retooling Canada's small to medium-sized enterprises. As you're likely aware, it's these SMEs that dominate Canada's food processing landscape.

When we did this, though, as deans we recognized that we couldn't take a narrow perspective on just renewal of infrastructure for the food process sector, because consumer choice and confidence in food is increasingly driven by considerations of this important lifeline between human health, animal health, plant health and environmental health. The intimacy of this lifeline is recognized through a one-health concept, a concept that's been endorsed by the World Health Organization and the Food and Agriculture Organization as the way to tackle zoonotic disease threats.

Renewal of the research, innovation and training capacity in our veterinary and agriculture facilities must be a priority if we're realistic in our aspirations to turn natural capital, through our human capital, into an international leadership position for our agri-food industry.

An investment into unique, cutting-edge, highly connected national initiatives will provide the evidence that Canada is willing to protect its borders and its communities from current and future infectious diseases and food safety threats. The investment will also fundamentally strengthen Canada's economic recovery from this pandemic and prepare us for future pandemics.

● (1640)

The first of these investments, “growing Canada”, is directed to training and research capacity in sustainable ag and food processing. This will integrate the academic innovation that's spread across the country for the prospering of Canada's agriculture and food processing sectors. The second, “one health Canada”, will integrate science and data-driven approaches to human, animal and environmental health risks: these risks have been starkly evident over the past year, but it will also propose solutions to these threats. These two initiatives are interconnected and interdependent, and both are vital elements for the economic and social progress of a growing agri-food sector.

As Monsieur Seppey had talked about earlier on, this is warranted not only by the size of the industry, its importance to our national economy, but also its effect on the employment sector. One point Monsieur Seppey emphasized is the fact that both these metrics, the employment and the size of the sector, are growing faster in the agri-food sector than in other sectors of the economy.

In closing, the Deans' Council would emphasize one salutary lesson from COVID: we cannot take our food system for granted. We ask you to use the Deans' Council as a valuable resource for both building talent and knowledge creation for the agri-food sector. It's this innovation-focused perspective on the development of the tools and the talent in agri-food and veterinary science that will sustainably fashion the long-term economic and social benefits of Canada's agri-food system.

Thank you.

● (1645)

The Chair: Thank you very much, Mr. Scanlon.

Now, we have Food, Health and Consumer Products for seven and a half minutes. Go ahead.

Mr. Michael Graydon (Chief Executive Officer, Food, Health and Consumer Products of Canada): Good afternoon, Mr. Chair and members of the committee.

I'm Michael Graydon, chief executive officer of Food, Health and Consumer Products of Canada, the leading voice of Canada's largest manufacturing employers. The food, health and consumer products sector employs more than 350,000 Canadians across businesses of all sizes that manufacture and distribute the safe high-quality products that are at the heart of healthy homes, healthy communities and a healthy Canada.

We transform Canada's agricultural riches into value-added finished goods that feed families here at home and around the world. We work closely with Canadian farmers and are the single largest employer in rural Canada, serving as a critical link between rural and urban communities. We are present in every region across the

country, providing good-paying jobs, strengthening communities and adding more than \$39.9 billion to the economy each year.

Key initiatives like the national food policy, the agri-food economic strategy table and the food processing industry round table have all recognized the critical importance of the agri-food industry, and in particular the potential for value-added food manufacturing to make Canada a global leader in food production and innovation. Our sector is a necessary engine for jobs, growth and self-reliance.

Today I'll focus on two of the top constraints facing the Canadian food-manufacturing industry: first, a chronic and growing labour shortage that has left one in 10 job vacancies in our sector unfilled; second, unfair practices from grocery retail giants that harm Canadian farmers, grocery suppliers and consumers.

For Canada to be an attractive destination for investment, we must be able to attract and retain workers, yet labour gaps continue to worsen for food manufacturers, with nearly 28,000 job vacancies. 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.

Despite our efforts, labour challenges persist, and we ask the government to incentivize unemployed Canadians to take these jobs, to continue to help ensure predictable and timely access to workers outside of Canada to fill the domestic labour gap, to provide support and incentives for companies to invest in automation, and to convene a round table with food manufacturers to discuss these labour challenges and work together towards solutions.

If Canada truly prioritizes jobs and growth, it must also urgently correct the second constraint that I'd like to raise today: unfair practices by a handful of powerful grocery retail giants. Just five grocery retailers control more than 80% of Canada's grocery stores and drugstores, creating a significant power imbalance over manufacturers, farmers, suppliers, small retailers and consumers.

Some grocery retail giants have exploited this power to impose unfair and unethical business practices that hurt everyone else who grows, makes, buys or sells food and other essential products. For far too long, some large grocery retailers have used farmers and suppliers as a piggy bank, imposing arbitrary fees, raising costs and paying suppliers less than they are owed, all while charging shoppers more and more.

The consequences are severe. When farmers and suppliers are forced to pay retail giants' bills, they struggle to pay their own and must cut back on innovating new products, investing in new facilities and creating new jobs. Made-in-Canada food becomes more expensive, and our food system weakens. Consumers have fewer, more expensive choices; workers lose job opportunities; and, Canada is already losing investment to more competitive countries.

Now, in the midst of the ongoing pandemic, companies like Loblaw and Walmart have doubled down on this bullying behaviour, forcing suppliers to fund retailers' expansion, all while making record profits. New fees imposed by Walmart and Loblaw alone cost suppliers an estimated \$1 billion per year, bringing the total cost of getting and keeping products on store shelves to an estimated \$6 billion a year, with no tangible benefit to the suppliers or to consumers.

Canada's grocery giants may control the majority of stores and shelves in the country, but it's time that we all remember there would be nothing to sell without food and other grocery suppliers.

- (1650)

Proven models, such as the U.K.'s groceries supply code of practice, with a dedicated enforcement agency, have shown significant success in restoring balance and fairness to the relationship between grocery retailers and the suppliers, while keeping food-cost inflation low. A recent statutory review confirmed that the U.K. code has improved communication, collaboration and efficiency while maintaining flexibility in the food supply chain. It resulted in clear benefits for all stakeholders. The code's results prove that strong oversight and good governance are good for business and good for consumers.

We are calling on the provinces and territories to lead the way in implementing an enforceable code of conduct, similar to the U.K. model, that holds large grocery retailers accountable for fair treatment of suppliers. We also urge the federal government's leadership to develop a common framework that would be used by provinces and territories to avoid a patchwork approach of various codes of conduct.

It is long past time for governments to take seriously the negative consequences of unfair practices by Canada's grocery giants. Leaders across the supply chain agree that failing to do so will threaten food security in this country, weaken our essential supply chains, hurt consumers and jeopardize Canadian growth, jobs, and the COVID-19 recovery.

I thank you, Mr. Chairman, for your time.

The Chair: Thank you very much, Mr. Graydon.

[*Translation*]

Mr. Gascon, you have the floor for seven and a half minutes.

Mr. Jean-Sébastien Gascon (Director General, Boeuf Québec - Société des parcs d'engraissement du Québec): Distinguished parliamentarians, I would like to begin by thanking you for this invitation. I'm honoured, excited even. I love the level of consideration this committee gives to issues. This is the first time I've been invited to appear before a federal committee. It's very exciting for me. I hope my presentation will interest you in some way.

Globalization puts Quebec and Canadian beef production in competition with the world. It's a commercially unstable industry, highly complex and high-risk. This is why the processing sector is concentrated in the hands of a few giants.

I would like to highlight four elements that illustrate the challenges we face.

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. The same is true for producers in the rest of Canada. Finally, several governments support their processing sector financially.

Boeuf Québec is an innovative initiative for the recovery of the industry. Sales are doubling every four to six months, and we hope that this pace will be maintained for the next two years, even though it is still a small industry.

How can the government support the Boeuf Québec program so that we can seize the opportunities? The Boeuf Québec program is simple, and I'll tell you a big secret later. It is based on four key elements to strive for excellence and be among the best in the world. The government assistance announced today must help us innovate to meet these four major challenges. What are they?

First, we need to better respond to consumer demands. Indeed, the consumer is the final arbiter of our project.

Second, there is a need for better vertical coordination from farm to table, because collaboration between the links in the production chain leads to significant gains in productivity and agility. Mr. Graydon pointed out the difficulties of working with distributors and major brands.

Thirdly, we must start the race for greater business productivity. If we want a relaunch, we must seek better value and profitability for all businesses, especially processors, slaughterhouses and producers. In Canada, there is no recovery in the beef industry, and it's even worse in Quebec.

Fourth, we need to increase the competitiveness of the business environment. We need to innovate to better manage risk, better regulate, train the workforce, and foster research, investment and innovation. Government support is an essential lever to offset global disparities. It's clear that we aren't on a level playing field with the rest of the world.

The needs are clearly expressed to accelerate the Partenaires Boeuf Québec program, which takes the same direction as the Canadian Beef program. The challenge of such a program is to make it work on a large scale, and all partners have a stake in making it work.

On a more concrete level, I will now say a few words about productivity.

The key element that will require the most investment over the next few years is productivity. There will be no revival of production and processing in the Boeuf Québec industry without an increase in business profitability. I'm convinced that this is the same challenge across Canada.

As far as producers are concerned, one of Boeuf Québec's objectives is to increase production profitability by 6% by launching a pilot project in 2021. More value must be produced at lower cost. Today, this means innovating, selling better and producing better. That's how we'll get producers to invest and produce more.

As far as slaughterhouses and processors are concerned, we can now turn our weak links into a driving force. We have several slaughterhouses that are federally inspected. Surprisingly, in Quebec, slaughterhouses are constantly being shut down or doing other activities because they can't do it. Some provincially inspected slaughterhouses demonstrated during the pandemic that they have a tremendous capacity for strategic slaughter. Again, if left to their own devices, they won't be able to do it.

We need to make a radical technological shift. Technology allows us to manage the complexity of a project like Boeuf Québec's and allows us to be more productive. We need to make a radical technological shift in production and processing now. This is synonymous with automation, robotization, industry 4.0, blockchain. We have to focus on innovation, otherwise we won't be able to compete on a level playing field with other countries.

We are currently working on a blockchain project that will change the way we produce. We need the government to make this chain a technological leader and to compete with the giants that dominate this industry. You've probably already seen the robots coming into the factories at high speed. In five years, if we haven't innovated, we'll be dead.

I brought a note. Currently, there are two destabilizing issues in the processing sector that need to be seen and understood. The first one is technology—I think I've expressed it pretty well. A comet is coming towards us, and if we don't turn the corner now, I think it'll

be too late in five years. The second earthquake came with the pandemic crisis. North America has been undercapacity in slaughter for years.

● (1655)

[English]

In "Business Insider" it says:

The era of big beef may be over as Americans turn to small-scale butchers in the pandemic.

The COVID-19 pandemic has exposed the fragile nature of America's meat supply chain as tens of thousands of meat industry workers fell sick, and hundreds died. Small-scale farms have seen a huge spike in demand as consumers search for alternative meat sources. Right now, 80% of the US beef market is controlled by four huge meat producers, and they're the target of a Justice Department antitrust investigation.

[Translation]

The current context is particular. There is an undercapacity in slaughter, and we are faced with the need to make not only a technological shift, but also a shift in relation to the consumer. The consumer is asking more questions and is willing to ask more questions. Demand must be met now.

For years, the beef production sector was viewed as a commodity producing system. In a sense, that era may be coming to an end. That's where we come in, and I go back to the strategic points I mentioned earlier: the consumer, productivity, vertical coordination and competitiveness.

My goal is for us to in some way become the Cirque du Soleil of the beef industry in North America. To do so, we subscribe to a marketing strategy called the "blue ocean". In my opinion, that's what we're achieving through Boeuf Québec. We want to surprise you.

I, for one, find it quite exciting to have conversations like the one being held today with Canada's leaders in this field. However, I believe that we need to be able to—

● (1700)

The Chair: Thank you, Mr. Gascon. Your time is up. You'll be able to conclude your remarks when you are asked questions.

[English]

We'll start the round of questions for second panel, beginning with Mr. Epp for six minutes.

Go ahead, Mr. Epp.

Mr. Dave Epp (Chatham-Kent—Leamington, CPC): Thank you, Mr. Chair.

I'd like to begin by thanking all of the witnesses for their testimony.

I'd like to focus my questions on one of the barriers that was identified to increasing processing capacity, namely that of retailer concentration, which obviously has been in the news recently. Through you, Mr. Chair, I'd like to direct some questions to Mr. Graydon.

Thank you for your testimony and thank you very much for the very comprehensive briefing note that covered almost all of the questions I had prepared.

I'd like to begin at the end of the value chain with the consumer. Yesterday StatsCan published the last monthly CPI report. It was up again 0.7%. It's up 1% apart from gasoline, and that's being led by rising food prices.

How, though, is the consumer being affected by these trade relationships? How is it possible that the consumer can benefit from the behaviours in the industry if those are corrected between the suppliers and farmers to manufacturers and processors? If they all receive a fairer price for their product, won't that raise prices for consumers?

The Chair: Mr. Graydon, go ahead.

Mr. Michael Graydon: I don't believe so. In the work that we've done in analyzing the success of the code in the U.K., consumer pricing went down. We're looking at 3% to 5% food inflation in Canada. In the U.K. they're looking at below 1%.

What happens is that there's a cultural transition where you look from farm gate to shelf collectively and collaboratively to identify efficiencies that can be had and can be translated into cost benefits for the consumer. If we have to continue to pay these outrageous fees to the retailers, then unfortunately those are the sorts of things that do eventually get passed on to the consumer. We just cannot absorb those cost increases any longer.

Mr. Dave Epp: Thank you.

Some retailers are actually saying that relative to the onset of COVID earlier this year, things are almost back to normal now, yet, of course, the data we're seeing shows that infection rates are rising. We're in the middle of a second wave that actually may be more traumatic than the first.

With the recent announcements of record profits by several of the major retailers and the costs that are being shoved downstream to the suppliers, as well as the loss of pandemic pay to retail workers—all of these capital expansion costs are being pushed down—what are the consequences of this dynamic? Our goal here is to actually increase processing capacity in Canada. That's the direction of the Barton report. That's the goal of this study. Is there actually a risk of contraction, and if so, what could be the implications for rural Canada?

Mr. Michael Graydon: Yes, there are major opportunities for contraction, unfortunately. Ninety per cent of the food manufacturers in this country are small to medium enterprises that employ fewer than 100 people. They do not have the financial flexibility to continue in this environment. They're vulnerable. They're running, sometimes, at less than a 3% margin. They are very vulnerable. Their ability to sustain business is going to be very difficult.

The large multinationals have other options. They have a much broader portfolio to work with and a lot more power to negotiate. Quite honestly, they have production options, which, fundamentally, are moving or transitioning their manufacturing to the United States and using Canada as a distribution centre.

What happens to agriculture is it loses its key business connection. In the province of Ontario, our industry takes over 60% of the agricultural output, and on average across Canada, 50%. All of a sudden you lose those markets, you lose that opportunity within 100 kilometres of your farm to be able to process that. You become a purveyor of commodities.

I think the margins and the impact on the farm and agriculture will be significant. It will be a cascading effect. There will be lost jobs, and I think, lost profitability, success and sustainability of the strong agriculture we're very proud of here in this country.

• (1705)

Mr. Dave Epp: Thank you.

In some recent discussions I've had with processors about their major concerns, one of them identified the fines both for late and short delivery; another identified the new fees they're facing as of January 4; and another identified the 1.3% cost on all volumes being supplied to a major retailer. What are the effects? Your briefing note was extensive and actually included a litany of unfair practices. I appreciate that. What is the collateral impact on the independent grocers? They're often the only grocers in rural Canada. Can you list the results of this power imbalance on them?

Second, as a corollary to that, in your opinion is it a necessary role of government to address this power imbalance? Is a Canadian study to further this necessary or can we transfer the findings of the U.K. and Australian studies?

Mr. Michael Graydon: I think we can transfer the U.K. studies, but I think we need to take a made-in-Canada approach to it as well.

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. Do they send to Walmart and Loblaws or the large grocer and avoid the fine, and minimize the amount—

The Chair: Thank you, Mr. Graydon. Sorry, we're out of time.

Now we go to Mr. Blois for six minutes. Go ahead.

Mr. Kody Blois (Kings—Hants, Lib.): Thank you, Mr. Chair.

I'd like to start by thanking all of the witnesses for their testimony.

I'll start with Mr. Graydon. You mentioned during your remarks that we need to be more competitive versus other countries internationally. What does that look like? I want to ask a number of questions, so what does that look like in terms of our being more competitive?

Mr. Michael Graydon: It's exercising and utilizing our export capacity. The Barton report, I think, was a wonderful piece of work that identified the opportunity that exists for agri-food and agri-food processing.

Mr. Kody Blois: You mentioned the code of conduct in the United Kingdom. Look, this is something I'm hearing from my agriculture stakeholders in Nova Scotia, as well. I don't know if we actually get to make the connection that the code of conduct in the U.K. led to greater processing capability. Is that something that actually happened? Did the U.K. see a rise in its processing capability as a result of its code of conduct, or just, perhaps, less inflation on its products?

Mr. Michael Graydon: No. It had a very marked impact in regard on manufacturer profitability, which they re-engaged back into capital investment, as it did for retail and consumer price deflation.

Mr. Kody Blois: You might have this data on hand, or you might not. In terms of where Canada ranks internationally on some of its margins for its processors that are selling to retailers, where do we rank in terms of our percentage of margins versus, perhaps, other jurisdictions, particularly in Europe? It seems that Europe is on the cutting edge of automation and advanced processing in the agri-food sector.

Mr. Michael Graydon: Canada is one of the most expensive countries in the world to do business. With the combination of the retailer consolidation and other things, the margin of performance in this country is near the bottom.

Mr. Kody Blois: You mentioned, obviously, the cost of doing business. Some of that can of course be tied to retailers and the concentration that you alluded to in your remarks. Is some of this also tied to regulatory harmonization and the fact that there might be other jurisdictions in the world that are doing a better job on regulatory harmony?

Mr. Michael Graydon: The regulatory burden is a challenge, there's no question about that. It's been very helpful in regard to food safety, but there are many regulations that are adding significant cost. Harmonization, especially in North America, would be very helpful.

Mr. Kody Blois: You mentioned labour. You talked about it's importance and that we do have a chronic labour challenge. For example, in my riding of Kings—Hants, we have Apple Valley Foods, which is Sarsfield family run. It is one of the largest pie manufacturers in North America, which certainly has talked about the challenges they've faced.

How do we encourage more automation? I think, at least anecdotally, that Canada is behind other jurisdictions in the world in using artificial intelligence or automation in its food processing, not only as a way of improving our efficiency but also of ensuring that the chronic labour gaps can be satisfied through some of these techniques.

• (1710)

Mr. Michael Graydon: We need to improve the profitability of the industry so that capital investment can be made back into automation, which is going to be, I think, very important for continued success. Any programs the government can provide to assist the industry with regard to that are going to be very much welcome.

Mr. Kody Blois: Obviously, as I mentioned, I'm a member of Parliament from Nova Scotia. In this area, we have seen a big deindustrialization from economies of scale, and we're looking to be globally competitive. I know you represent a vast variety of stakeholders. Do you have any suggestions on the balance of how government can find the way forward to improve regional capacity but also to understand that there still has to be some level of business efficacy and profitability or sustainability? Government can't be providing that regional capacity in all cases if it doesn't still make business sense. Do you have any recommendations or any thoughts from your stakeholders on regional capacity?

Mr. Michael Graydon: Regional capacity works very much in favour of our industry. Land costs in Nova Scotia for building a plant are a lot different from what they are in Toronto, Ontario. I think that if government can work to create...and to remove some of the barriers and inhibitors of success, such as the consolidation of retail and some of the significant challenges we have with regulations, then the industry will be prepared to invest. In many cases, it will also be prepared to diversify regionally across the country and follow where the labour pools are, where the agriculture is, and where the best opportunity for the cost of running your businesses resides.

Mr. Kody Blois: Thank you very much.

I'd like to go to Mr. Gascon.

[Translation]

My French has improved, but it isn't perfect, so I'll ask my question in English.

[English]

I'll go back to English.

I did research on your organization, and there are about 70 family farms. You mentioned trying those four competitive mechanisms. Are you finding that consumer trends are changing, or is it still really based on price? Despite the fact that you're trying to create a quality product with those margins, how do you compete when many consumers still base their decisions on the bottom line and therefore the affordability of the product?

Mr. Jean-Sébastien Gascon: The more we advance in this project, actually...

[Translation]

Can I answer in French?

[English]

Will you understand if I answer in French?

Okay.

[Translation]

The more this project progresses, the more we discover the margins that are hidden everywhere, all along the value chain. By taking into account all these small margins that are being added and by coordinating the industry more and more closely, we are succeeding in lowering the price to the consumer to make it more competitive.

This is where the importance of vertical coordination must be recognized. With this approach, we get the players working together, and we are then able to offer a price that is almost like a commodity.

We have a choice: compete with the commodity sector or create additional value. It's a very nice choice, honestly, except the difficulty is that no one in this industry gives themselves gifts. I'm using the same direction that Canadian Beef is going in, but we're not doing it right.

The Chair: Thank you, Mr. Gascon. You don't have any time left.

Mr. Perron, you have six minutes.

Mr. Yves Perron: I'll let Mr. Gascon take the floor again. I find his comments very interesting.

Have you finished what you had to say, Mr. Gascon?

Mr. Jean-Sébastien Gascon: No, I hadn't finished.

Getting people to work together is the key. Since this is my sector, I'll use the example what one of the Canadian Beef representatives said last year. They can probably be applied elsewhere, too. He said that the beef industry had never been more unstructured, that getting people to work together was a challenge, but it's the key.

Mr. Yves Perron: You seem to have several solutions in mind. You're an enthusiastic person, and the development of your business shows it well.

What specific, concrete measures could the federal government take to help you? What would you need to remove barriers?

Mr. Jean-Sébastien Gascon: I'm thinking about regulations, labour, and so on, but I think the most urgent thing is to get the technology shift right. If we don't invest massively and take the necessary steps to do so, I think it will be dramatic, and we'll see the results in five years. That's my main fear. In addition, from a regulatory standpoint, there's definitely a lot of clean-up to do, that's for sure.

• (1715)

Mr. Yves Perron: Basically, you're saying that there isn't enough investment in research and development in this country and that, in terms of regulation, there are things that need to be done.

What would be the first regulation you'd like to see abolished and what would be the first thing you'd like to see relaxed?

Mr. Jean-Sébastien Gascon: There's certainly the issue of specified risk material, or SRM. The carcass value in Canada is a legacy of the situation related to what is commonly referred to as "mad cow disease". I'm guessing everyone remembers it. Right now, we're getting a value that's close to what Americans can get. On the other side of the border, their costs are lower, and they're able to get more value for their product. We urgently need to do the same thing here.

Mr. Yves Perron: You're basically asking for a reciprocity of standards. Is that correct?

Mr. Jean-Sébastien Gascon: That's right.

Mr. Yves Perron: Ms. Theoret, I would like to hear your reaction to what Mr. Gascon said about research and development.

Do you feel the federal government is doing enough in that area? Do we need a massive investment program?

The audio is not working. So let me ask Mr. Scanlon to answer the question.

Dr. Martin Scanlon: I will answer in English if it's okay with you.

Mr. Yves Perron: No problem, because interpretation is provided.

[English]

Dr. Martin Scanlon: Certainly, there is a need for investment. Mr. Graydon made the case that there need to be better margins on manufactured foods for this investment to occur. We would say that there needs to be this investment not only in the food processing innovation—some of the technologies that Mr. Gascon has mentioned—but also in area of investment in people.

If 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 that sector in five, 10, or 15 years ahead. It's at two levels: right in the plant itself, to make them more efficient and more food safe, but also to actually help out with the personnel and their capacity to deliver on innovation.

[Translation]

Mr. Yves Perron: Thank you.

I will address Mr. Gascon again.

Mr. Gascon, you mentioned the standard for specified risk materials, which is not the same. What changes need to be made? Is it the asking price? What's the difference?

Mr. Jean-Sébastien Gascon: It's about how you dispose of the carcass. In Canada, you can't add value to certain parts. There are even costs associated with the disposal of certain parts of the carcass, which has a negative impact on yield. So there's a very fine line between making money and losing money.

When you want to be competitive, every third of a percent counts with a carcass. That is one thing we know for sure. I could draw up a list of solutions and send it to you, but this one is really easy, because this situation makes no sense.

Mr. Yves Perron: You could indeed provide us with some concrete solutions. This is part of the committee's work and we would appreciate it.

You said that technology poses a challenge. As you saw, I asked Mr. Scanlon, from the University of Manitoba, about investment in that area.

I'd like to know what might help you invest further. Would federal government appropriations or a direct investment help?

Mr. Jean-Sébastien Gascon: I feel the costs will be tremendous.

As we are seeing in many industries, a productivity gap is widening between businesses that are taking the plunge and those that are not. I can't predict the future, but the businesses that are succeeding right now are the ones bringing robotics into their factories. Automated meat portioners can produce 280-gram steaks at breakneck speed. Butchers certainly can't compete with those businesses.

Moreover, if you want to create well-paying jobs, you have to go for the technology. Things are moving fast in this area right now. I don't see who could adequately support factories in this, but they must be supported if they are to take that leap.

Mr. Yves Perron: I'd like you to speak briefly to your second point, the lack of slaughter capacity in the regions.

Mr. Jean-Sébastien Gascon: A few big players decided that they were going to pay as little as possible for raw materials. Right now, everyone is investing to rebuild slaughter capacity in North America. However, the big players now have an incredible profit margin because—

• (1720)

The Chair: Thank you, Mr. Gascon.

[English]

Mr. MacGregor, go ahead for six minutes.

Mr. Alistair MacGregor: Thank you very much, Mr. Chair.

I would also like to follow my colleagues in thanking our witnesses for appearing before the committee. Your testimony is very helpful in the formulation of our report.

In previous meetings at this committee we've talked a lot about the powerhouse that Canada is when it comes to exports. However, I want to swing the pendulum back to our local food capacity.

I represent a riding on Vancouver Island, and it's estimated that here on Vancouver Island we probably have about a three-day supply of fresh food. If something catastrophic were to happen to supply chains, then we would be feeling quite the pinch. I know there are many communities across country that would feel the same kind of pressures. It's a bit of an irony that we are a huge food producer, but we still have many examples of food insecurity across Canada.

Maybe, Professor Scanlon, I'll start with you because I know you've written on this topic, and I really appreciated your remarks on resiliency. That's a theme I really identify with.

Do you have any thoughts for the committee on how we build up that kind of resiliency and establish conditions, such as through programs like the local food infrastructure fund, to improve or in-

crease the capacity and resiliency of smaller communities to have that kind of food security?

Dr. Martin Scanlon: Thank you, Mr. MacGregor.

I agree. As Dr. Yada from UBC and Dr. Van Acker from Ontario Agricultural College and I talked about, we do need to build in this resiliency with small "boutique" food processing operations so that there is this ability. When you have fractured supply chains—and it didn't happen much, but it is a real potential in terms of the efficiencies driving these long supply chains—you certainly put urban populations at risk of food insecurity.

Certainly, there need to be both the element of people who are prepared to take the risk and also the support for them, both from an investment perspective from government support for their own investments, and also from a supportive environment and a supportive innovation ecosystem. It takes a number of players, colleges and universities, as well as investment opportunities and, of course, provincial and federal governments.

Mr. Alistair MacGregor: Thank you.

Mr. Graydon, maybe I'll ask you to chime in.

I did make mention of that program, the local food infrastructure fund, because what I often hear at committees like mine is that there's a willingness to start up in the market, but they lack the capital to either purchase the infrastructure or build it. We have a lot of primary food producers who would love to set up a co-operative, but they need access to a commercial kitchen or a commercial canning facility.

Can you lend any thoughts to how important those targeted types of investments are? Do we need to see funding by the federal government put into programs like the local food infrastructure fund? Have any of your small-scale members expressed an interest? Do they see value in those types of programs to expand their operations?

Mr. Michael Graydon: Many do, and I think there's a lot of support for it. I don't know that it's all about government funding. The food manufacturing process, especially at the small to medium level, is seen as a very high risk within the banking community. It's very hard to get the capital they require to make the investments. It then requires government to step in and support them. Many of the larger organizations are looking, especially for unique products that are being developed in secondary markets, to make the capital investments to support them and take a capital position within the company, but not necessarily take it over. There are opportunities; I think we're looking for them where we can.

Mr. Alistair MacGregor: Thank you very much for that.

Professor Scanlon, in the previous Parliament this committee did a study on technology and innovation and one of the things we heard repeatedly from witnesses when we were touring across Canada was the regulatory challenges. We do have a lot of appreciation from our worldwide customers for our extremely strict standards on our food supply and food safety, but sometimes you have producers complain about the onerous requirements by CFIA. Do you have anything that you can contribute to the committee about how we can strike that appropriate regulatory approach so that people both have confidence in our food supply and the high safety standards, but without our having as much red tape in place?

• (1725)

Dr. Martin Scanlon: I think red tape or regulations are important, as you say, to ensure our food safety. Part of it is this educational component of those innovations like flow cytometry online tools that can be used to automatically detect food safety issues, rather than some of the old technologies that are proven and that our regulations are built around. There has to be this matching between using the regulations effectively as they are at the moment, and also being prospective in what innovations can overturn those regulations and in turn help innovate on the line to slow down the amount of hold up on product, for instance, because you've now got these 30-second response times rather than 18- or 24-hour response times waiting for a regulation to be enforced.

Mr. Alistair MacGregor: Thank you.

The Chair: That's all the time we have. We have to vacate the room at 6:30 sharp because there's another committee after us.

I want to thank our panel for giving us an insight into our Canadian food processing sector. Thanks for all of your really good information. I want to start by thanking Martin Scanlon, dean, Faculty of Agricultural and Food Sciences, and Christine Theoret, dean,

[*Translation*]

of the Faculty of Veterinary Medicine at l'Université de Montréal.

[*English*]

and Mr. Graydon from Food, Health and Consumer Products of Canada.

[*Translation*]

I would also like to thank Mr. Jean-Sébastien Gascon of the Société des parcs d'engraissement du Québec.

[*English*]

The meeting is adjourned.

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