



CAPI

THE CANADIAN AGRI-FOOD
POLICY INSTITUTE

ANNUAL REPORT 2013-2014



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Mission

The Canadian Agri-Food Policy Institute (CAPI) is an independent, unbiased policy forum dedicated to the success of Canada's agriculture and agri-food sector. CAPI identifies emerging issues, promotes dialogue, presents new possibilities and advances alternative solutions in consultation with stakeholders across the diverse agriculture and agri-food value chain, with the help of academia, research institutes, governments and other sectors in Canada. CAPI is a catalyst.

Established as a not-for-profit corporation in 2004 by the federal government, CAPI is guided by a diverse Board of Directors and an Advisory Committee. Its offices are located in Ottawa.

By taking a longer-term perspective, CAPI fulfills its work according to its objectives and purpose. Its Charter indicates that CAPI will:

- Provide independent, unbiased and credible input to the Canadian agricultural policy debate and policy development process.
- Function as an agricultural policy forum focused on promoting dialogue between industry stakeholders, the policy research community and the federal and provincial governments by:
 - (a) gathering intelligence and sharing results;
 - (b) identifying emerging issues in the agricultural sector that should be coordinated and addressed on a national basis;
 - (c) bringing together a wide range of expertise and new voices to examine existing and emerging issues in the agricultural sector;
 - (d) discussing alternative solutions to issues before they become polarized;
 - (e) providing balance when polarization within the agricultural sector is unavoidable; and
 - (f) providing advice and a third-party perspective when agricultural policy decisions are made.

Contacting CAPI

For information on this report, or on the work that CAPI is conducting, please contact:

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Message from the Chair

This past year we delved deeply into understanding Canada's processed food industry. The reasons were quite simple. It is the largest manufacturing industry in Canada by jobs and more recently also by GDP – larger than autos and aerospace manufacturing combined. Consumers and farmers depend on Canadian food processors to transform some 40% of the country's agricultural raw materials into the ingredients and foods we eat. In some sectors and provinces this share is much higher. Food processing is a critical sector, is integral to many rural and urban communities from coast to coast and, as we discovered, possesses extraordinary business opportunities.



It is with this in mind that CAPI raised the concern that we were running increasingly large processed food deficits. The trade balance is a surrogate measure of competitiveness and we were particularly sensitized to this from our previous work examining Canada's beef sector (that work flagged a deficit unexpectedly in that key primary processed product). CAPI set out to understand why Canada, one of the few countries that actually has a positive trade in total food (including commodities overall) can also be running such large deficits in secondary processed foods (at -\$6.8 billion) and to see if there is some way to turn this around. While Canada's primary and secondary processing sectors have strong performers, we realized that the country's primary processing sector's trade surpluses are driven by only a handful of commodities. As well, the sector was facing news-worthy retrenchments, as some 140 plants closed between 2006 and 2014.

Understanding the largest manufacturing sector in the country demanded comprehensive treatment. Our diagnostic work discovered broad systemic issues at the root of the deficit. However, despite the deficit we found a number of highly successful companies and took a novel approach by working with several business schools to develop case studies to uncover what drives successful food companies. The cases ranged from small to large multinationals and revealed a number of common internal factors of success, as well as many shared challenges and opportunities for processors operating in Canada. The work also isolated drivers in the external environment that could better contribute to making Canada more open-for-business and the sector more successful.

Importantly, as this work unfolded, we were receptive to several stakeholders who wanted to develop projects, build on ideas and create new solutions to help food manufacturers to do better. As well, we have been heartened to see that many across the food manufacturing sector emphasized that their success depends on agricultural producers – and vice versa. As our conclusions neared publication, our work was already being acted on in several ways. CAPI is creating the evidence, encouraging the dialogues and presenting the choices needed to create change.

I would like to thank the many sponsors, partners, researchers, stakeholders, my colleagues on the Board of Directors and members of the Advisory Committees, who were always ready and willing to offer their guidance and helped shape the project in many ways. To the CAPI team, my deepest thanks for successfully stick-handling this complex research program, as well as managing other projects over the year.

A handwritten signature in black ink that reads "M.E. Bilyea". The signature is fluid and cursive.

Ted Bilyea
Chair

Message from the President & CEO

It's often said that the pace of change is accelerating. We, too, are noticing this as a policy institute. While media attention is generally instantaneous upon the release of a report, influencing change and adoption of ideas face inevitable time-lags. But, the uptake on CAPI report recommendations is shortening. When the Destination Report was published in 2011, substantive uptake of its ideas took place after 18 months to two years following the report's publication. When the Beef Food Systems Report was released in 2012, the timeline for substantive pick-up was reduced to a couple of months to half a year. In this current fiscal year, as our processed food project unfolded, various stakeholders expressed a desire to partner and take our ideas forward even before the final report was completed (the final report will be published early in the next fiscal year). Complex issues are not resolved overnight, and there is more that can be done to be even more relevant to the agri-food sector. But CAPI is generating the insights and principles needed to support the call for change, providing the space to have thoughtful dialogues amongst diverse stakeholders, and enabling some to take the lead and take action.



Our work cannot proceed without the work, support and ideas of others. Our Chair, Ted Bilyea, has devoted considerable attention to helping to conduct a deep understanding of the competitiveness of the processed food sector, and with considerable guidance from the Board of Directors. Our Voting Members, the Alberta Department of Agriculture and Rural Development, the Ontario Ministry of Agriculture and Food, and Farm Credit Canada, and our Associate Member, the Quebec Ministry of Agriculture, Fisheries and Food, contributed their advice on the direction of our research program. Our Honorary Members and Advisory Committee have helped to push our thinking. Our core funder, Agriculture and Agri-Food Canada, and our research partners and project sponsors have enabled our efforts to proceed. On behalf of the CAPI team, we express our thanks to you. Plus, we have appreciated the many interactions with hundreds of people across the food system to help us refine our ideas and have inspired us to press on with our work.

As well, I would like to thank Daniel Yeon, Kim Kelly and Chelsea Berry in the CAPI office for helping to manage all aspects of our work and enable us to undertake the most comprehensive research program conducted thus far for this Institute in one fiscal year.

A handwritten signature in black ink, appearing to read 'D. McInnes', followed by a period.

David McInnes
President & Chief Executive Officer

The Year in Review

Food Processing

CAPI's signature research project in the fiscal year was devoted to the competitiveness of the country's food processing sector. This project started toward the end of the last previous fiscal year and final reporting will be undertaken early in the next fiscal year. Over the course of 2013-2014, CAPI conducted multiple research projects with a variety of research partners across three phases of work. Several reports were published in the fiscal year, as noted below:

| PHASE 1 | PHASE 2 | PHASE 3 |
|--------------------------------------------|----------------------------------------------------|---------------------------------------|
| Diagnosis | Inspiring practices | Competitive advantage |
| 1a. Diagnosing the trade deficit | 4a. Case studies on company success | 7. Conclusions |
| 1b. Reasons for the trade deficit | 4b. Cross-case analysis | 8. Implications for policy & strategy |
| 2. Explaining the trade deficit | 5. Consumers and markets | 9. Dialogue on outcomes |
| 3a. Food manufacturing performance | 6a. Innovation insights: Capital investment | |
| 3b. Plant openings, closings & investments | 6b. Innovation insights: Talent, skills and people | |
| | 6c. Innovation insights: Off-grade food | |

Food processing was selected as a research priority because of its importance. Food manufacturing is the largest manufacturing employer and largest manufacturing sector in terms of GDP – larger than automobile and aerospace manufacturing combined and is national in scope. Moreover, the sector is a channel to market for nearly 40% of all agricultural production output in Canada and that number exceeds 65% in Ontario and Quebec. However, while the secondary processed food sector is vital to Canada's economic vibrancy, it faces a rising trade deficit. In 2004, the trade balance was negative \$1 billion. Today, it has reached negative \$6.8 billion (2013 data). CAPI's research explored in depth the reasons and implications of this matter and the strategic and policy implications of responding to this. It also examined the state of the trade balance in terms of primary food processing. This sector witnessed a remarkable rise in its trade surplus (now at about \$2 billion) but its positive performance is driven by a fairly narrow number of commodities and, over the past 13 years, its performance has remained fairly static. Within both categories (primary and secondary processing), there are major export success stories but the trend lines for the sector as a whole is concerning, as elaborated upon extensively in our work.

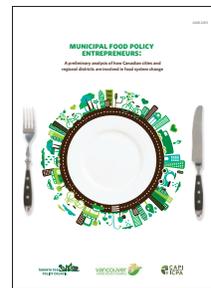
Among the variety of research projects, one delved into the trade performance of multiple food and beverage products. It found that the reasons for change and competitiveness are (naturally) very complex but this helped us to address commonly-held views that mainly regulations, operating costs and the value of the currency were the main reasons for the deficit. Another project examined the state of plant openings, closures and investments. This project offered perspectives on changes among multinationals versus domestic firms operating in Canada.

A key project examined what drives companies to succeed. In what is believed to be a first for the agri-food sector, several business schools across the country worked on a coordinated research project to conduct multiple food company case studies to determine their “traits of success.” The 13 companies included multinationals and small and larger domestic firms. A cross-case synthesis of the findings was also undertaken. The findings are significant. Companies, themselves, must do their part to be successful. Success requires CEOs to have clarity of purpose; this drives all aspects of the business focus. Success depends on the degree to which companies differentiate at multiple levels and not just how they differentiate the product. High performance companies also depend on the important linkages to growers and our agricultural capacity cannot be underestimated, among many needed relationships to help companies mitigate risks across all aspects of their business. The other key factor for success is that governments must create the conditions for success, such as enabling investment. The emphasis on the importance of investment was addressed in another paper as well. Investment trends were observed to be a major determinant of the direction of the trade balance.

For some partners, this was the first time they have become involved in food issues. Extensive outreach and consultation was undertaken over the course of the year to launch the research, consult on emerging findings and to share final results from published papers. CAPI’s research has been used by food processing associations to document competitiveness issues. The work has prompted collaborations between producer and processor associations given the increasing recognition of the mutual importance of each other’s sector to overall agri-food success. The groundwork has been laid for a variety of initiatives to be announced and acted upon early in the next fiscal year of interest to governments, agri-food stakeholders, financial services and academia. In short, stakeholders are acting on the research even before the consolidated findings in a “final” report has been published.

Municipal Food Strategies

Interest in CAPI’s food system concept (initially developed in 2010-2011) prompted a study of municipal food strategies. Entitled *Municipal food policy entrepreneurs: A preliminary analysis of how Canadian cities and regional districts are involved in food system change*, the June 2013 report was steered and co-funded by the Toronto Food Policy Council, along with the Vancouver Food Policy Council and in partnership with York University. A broad consultative group was established that included municipal food leaders across Canada to help guide the work. The project documented the number and type of municipal food system strategies now underway across the country and some high-level implications of these developments. Some 64 food policy initiatives were noted coast to coast.



Urban areas across the country are undertaking such efforts because “food” touches many aspects of municipal activities and the lives of people living in communities. This is particularly relevant given that most Canadians live in urban communities. Municipalities are responding to issues and opportunities in urban agriculture, promoting local supply chains, addressing nutrition-needs and food security, population health, ecosystem management, and food-related tourism and economic development, etc. The report was profiled at the Canadian Association of Food Studies Conference in Vancouver and received diverse media coverage including *The Wall Street Journal*, *Vancouver Sun*, and *Ontario Farmer*.

Outreach & Furthering our Previous Work

In addition to the outreach associated with the above-mentioned initiatives, CAPI undertook or supported the following over the course of the fiscal year:

Beef Report

After publishing a major report on the competitiveness of the country's beef sector in the last fiscal year (entitled *Canada's Beef Food System*, September 2012), this report continued to get attention in the current fiscal year. Indeed, CAPI's report was the genesis for an industry-wide and industry-led strategy discussion known as the Straw Man Canadian Beef Industry Strategy, which reported in December 2013. Building specifically on CAPI's conclusions, one leader of this process, Kim McConnell, noted that: "Creating a unified industry voice, and developing an action plan focused on meeting the changing expectations of consumers is the purpose of this forum of leaders."¹

The beef issue also continued to garner media and industry attention. For instance, a Canadian *Cattlemen's Association* magazine article reported that "efforts to find a national strategy for beef find approval" and that sector leaders were "ready to take up CAPI's challenge" about presenting ideas for what a Canadian beef strategy could look like.² The news service GlobalMeatnews.com did a feature article "Can Canada recover meat exports?" in August 2013.³ It quoted the CAPI report from September 2012 and went on to discuss the implications for Canada's competitiveness. CAPI made presentations to the Beef Farmers of Ontario and the Livestock Research Innovation Corporation.

Canadian Produce Marketing Association & Canadian Public Health Association

In June 2013, CAPI's food systems work prompted two associations to come together on a joint conference to promote consumer health and the fresh produce industry. The conference, "Increasing Fruit & Vegetable Consumption for a Healthier Canada: Partnerships, Promotion and Policies," brought together over 100 health practitioners, educators, industry representatives and governments to share best practices and develop ideas to improve people's health through the increased consumption of fruits and vegetables. CAPI participated on the steering committee of this initiative and presented its food systems work at the event to help frame the dialogue.

Water

CAPI made a presentation to the "Innovations in Water Monitoring and Treatment Panel" webinar in October. The event was arranged by the Canada Agriculture and Food Museum during National Science and Technology Week.

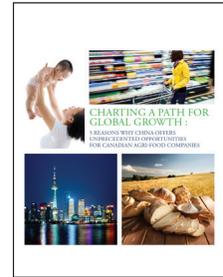
1. Press release: New Report Suggests Window of Opportunity for Canada's Beef Industry, Dec. 27, 2013. See also "Straw Man leader David Andrews in The Beef Straw Man Attempts to Facilitate a Canadian Beef Industry Strategy," on Real Agriculture by Shaun Haney, Nov. 28, 2013: <http://www.realagriculture.com/2013/11/the-beef-straw-man-attempts-to-facilitate-a-canadian-beef-industry-strategy>

2. "Strawman gets a pass", Gren Winslow, *Canadian Cattlemen* magazine, May 2013, page 4.

3. "Can Canada recover meat exports", Jayne Hunt, GlobalMeatnews.com Aug. 6, 2013.

China

As part of CAPI's effort to catalyze dialogues, it partnered with Export Development Canada, the Ontario Ministry of Agriculture and Food and MNP to promote a session on doing business in China in August 2013. CAPI invited Andrew Wu, LVMH Group President for Greater China, to give Canadian food processors in the Toronto area an insider's view on the Chinese marketplace and that country's demographic shifts and its dramatically changing consumer trends. The partners collaborated to publish highlights from the symposium in a report in October 2013, *Charting a Path for Global Growth: 5 Reasons why China Offers Unprecedented Opportunities for Canadian Agri-Food Companies*.



Ontario Agri-Food Education Inc.

In October 2013, Ontario Agri-Food Education Inc. (OAFE) used CAPI's food systems concept to help develop a teaching/learning platform for students and teachers. OAFE launched a web-based tool to reach out to young people and promote careers across the food system.

Premier Kathleen Wynne's Agri-Food Challenge

In October 2013, the Premier of Ontario and Minister of Agriculture and Food, Kathleen Wynne, announced the setting of industry-wide targets to help the province's agri-food sector succeed. The targets include the doubling of exports by 2020 and were inspired in part by CAPI's Destination Report from 2010.

Ontario Economic Summit

CAPI presented its unfolding work on the importance of food manufacturing to the Ontario Chamber of Commerce's Ontario Economic Summit in November 2013. CAPI's ideas, along with those of other panel presenters, emphasized that "Session participants agreed that to leverage our global potential in this sector we need to strengthen cross-sector collaboration to take advantage of opportunities in rapidly growing markets."⁴

Communications

CAPI revitalized its website and launched the new site in October. The website provides a better platform for CAPI to present its work more effectively while ensuring that previous work remains accessible. CAPI also became active on Twitter (@CdnAgriFood) which is an increasingly important platform to engage stakeholders, learn and prompt dialogues.

CAPI continued to reach out to stakeholders in "the traditional way" – by meeting people at board meetings, organized consultations and at events.

4. *Emerging Stronger, Convening for Success, Report on Key Outcomes and Next Steps*, Ontario Chamber of Commerce, 2013.

Governance

CAPI adheres to the terms and conditions established at its founding. The CAPI Charter (page 3) defines how the Institute will conduct its activities and remain accountable. As a matter of good governance, CAPI continues to monitor and upgrade current internal policies to ensure the transparency, integrity and clarity of its operating practices. As such, CAPI commenced a formal process during the fiscal year to prepare for its compliance with the new Canada Not-for-profit Corporations Act (by October 2014).

CAPI's work depends on the breadth of experience and expertise of those involved in its governance structure. CAPI's Board of Directors is drawn from all regions of the country and Directors represent the agriculture and agri-food sector, public policy and government, and research and business. The President reports to the Chair of the Board of Directors. CAPI welcomed Alberta-based Brenda Schoepp, President of Brenda Schoepp Consultants, to the Board of Directors.

CAPI's three Voting Members are represented by Alberta Agriculture and Rural Development, Farm Credit Canada and the Ontario Ministry of Agriculture and Food and its Associate Member is Quebec's Ministry of Agriculture, Fisheries and Food. CAPI also has four Honorary Members: Dr. Robert Church, Kenneth Knox, Gaëtan Lussier and Chuck Strahl.

CAPI's Advisory Committee represents key stakeholders from across the food system and is completely independent from the Institute. It provides expert advice to the Board of Directors and the President on the policy research agenda and emerging future policy issues. Agriculture and Agri-Food Canada is an ex-officio member of the Advisory Committee. Several people joined the Advisory Committee over the year: Vincent Cloutier, Principal Economist at La Coop fédérée, Elspeth Copeland, President of Elspeth Copeland Consulting, Rory McAlpine, Vice President of Government & Industry Relations at Maple Leaf Foods, Dr. Grant Pierce, Executive Director of Research at St. Boniface Hospital Research Centre, Canadian Centre for Agri-Food Research and Medicine and Howard Wheeler, Director of the Global Institute for Water Security at the University of Saskatchewan.

Financial Review

The Funding Agreement between Her Majesty the Queen in Right of Canada represented by the Minister of Agriculture and Agri-Food (Minister) and the Canadian Agri-Food Policy Institute (CAPI) represents the major source of contribution to CAPI's activities.

In 2007, CAPI entered into a long-term financing agreement with the Government of Canada, for which CAPI received an amount of \$15 million. As defined in the agreement, the total maximum financial support that may be drawn down for the eligible administrative costs and the eligible policy research costs of CAPI in any fiscal year shall not exceed \$1 million of the original \$15 million paid to CAPI by the Government plus any accumulated interest or income from the investment of the grant that may be available for draw down at any time.

The following presents a summary of the financial statements of CAPI as at March 31, 2014.

Report of the Independent Auditor on the Summary Financial Statements

To the Directors of the Canadian Agri-Food Policy Institute

The accompanying summary financial statements, which comprise the summary balance sheet as at March 31, 2014 and the summary statement of revenue and expenses and changes in net assets for the year then ended are derived from the audited financial statements of the Canadian Agri-Food Policy Institute for the year ended March 31, 2014. We expressed an unmodified audit opinion on those financial statements in our report dated May 31, 2014. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain all the disclosures required by Canadian accounting standards for not-for-profit organizations applied in the preparation of the audited financial statements of the Institute. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Institute.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements. The summary balance sheet and the summary statement of revenue and expenses and changes in net assets are derived from the complete set of financial statements of the Institute. They meet the recognition and measurement principles of Canadian generally accepted accounting principles.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the summary balance sheet and summary statement of revenue and expenses and changes in net assets of the Institute for the year ended March 31, 2014, are a fair summary of those financial statements, in accordance with the established criteria stipulating that the summary financial statements are derived from the complete set of financial statements of the Institute and that they meet the recognition and measurement principles of Canadian accounting standards for not-for-profit organizations.

Deloitte S.E.N.C.R.L. / s.r.l.

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 31, 2014

SUMMARY STATEMENT OF REVENUE AND EXPENSES AND CHANGES IN NET ASSETS

year ended March 31, 2014

| | <u>2014</u> | <u>2013</u> |
|---------------------------------------------------------|---------------------|--------------|
| REVENUE | | |
| Contributions | | |
| Grant contributions | \$ 1,261,351 | \$ 1,062,658 |
| Initial contributions | - | 7,301 |
| Other contributions | 155,819 | 103,666 |
| Interest income | 1,381 | 2,298 |
| Other | 10,000 | 8,333 |
| Amortization of deferred contributions - capital assets | 2,785 | 10,063 |
| | 1,431,336 | 1,194,319 |
| EXPENSES | | |
| Administration | 212,360 | 210,560 |
| Research Activities | | |
| Communication and outreach | 306,672 | 207,190 |
| Projects | 900,922 | 725,297 |
| Program Activities – CAPI projects | - | 48,974 |
| | 1,419,954 | 1,192,021 |
| EXCESS OF REVENUE OVER EXPENSES | 11,382 | 2,298 |
| NET ASSETS, BEGINNING OF YEAR | 273,400 | 271,102 |
| NET ASSETS, END OF YEAR | \$ 284,782 | \$ 273,400 |

SUMMARY BALANCE SHEET as at March 31, 2014

| | March 31, 2014 | March 31, 2013 |
|------------------------------------------|----------------------|----------------------|
| ASSETS | | |
| Cash | \$ 482,948 | \$ 530,998 |
| Accounts receivable | 125,906 | 92,780 |
| Prepaid expenses | 13,463 | 10,267 |
| Capital assets | 6,455 | 5,368 |
| Long-term investments | 10,556,758 | 11,580,133 |
| | \$ 11,185,530 | \$ 12,219,546 |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 132,509 | 130,619 |
| Deferred contributions | 205,026 | 230,026 |
| Long-term deferred contributions | 10,556,758 | 11,580,133 |
| Deferred contribution - capital assets | 6,455 | 5,368 |
| | 10,900,748 | 11,946,146 |
| NET ASSETS – UNRESTRICTED | 284,782 | 273,400 |
| | \$ 11,185,530 | \$ 12,219,546 |

On behalf of the board





