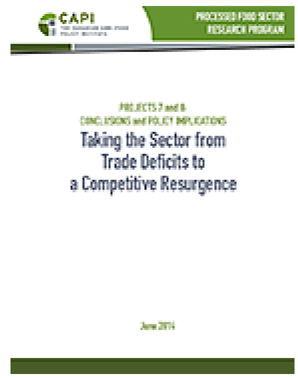
Persistent trade deficit requires immediate action and a new strategy for Canada's number 1 manufacturing sector

Global success is within reach for Canadian food manufacturers if new strategy is adopted



OTTAWA, June 16, 2014 — A report published by the Canadian Agri-Food Policy Institute (CAPI) reveals that Canada's food manufacturing industry – the leading manufacturing sector in the country – depends on increasing investment to turn the tide on rising trade deficits. A new strategy is proposed to position the sector for future success.

CAPI's work shows the link between investment and trade performance. According to its research, the industry attracted positive foreign and domestic investments and the trade deficit remained stable and low until the late 1990s. However, during the subsequent decade, investments declined and the trade deficit in secondary processing grew significantly, peaking at $6.8 billion in 2014. Secondary processing includes such products as bread, pizza, French fries and wine. Canada's trade performance in primary processing – a traditional strength – has marked record trade surpluses but this is increasingly based on a narrower group of products and its performance has been stalling across the sector with the exception of canola oil and pork products.

"Canada will always need to import food and ingredients, but complacency with rising trade deficits is hardly the foundation for creating a global-winning strategy across food manufacturing," says David McInnes, CAPI President and CEO.

Other jurisdictions intent on luring investment from Canada coupled with extensive closures of foreign-owned branch plants and a significant increase in Canadian firms investing abroad are challenging our capacity to reposition our domestic manufacturing sector for greater export success.

A new approach is a priority given the national importance of food manufacturing which may not be widely-recognized as a major economic engine. This is the largest manufacturing sector in Canada (larger than the auto and aerospace sectors, combined), the largest manufacturing employer and it is a channel to market for some 40% of all farm output and over 65% in Ontario and Quebec.

Canada can become a global leader in food manufacturing by deploying a unique two-pronged approach to strategy – with the ultimate objective being to have more consumers here and abroad want to consume our food, improve the trade balance and increase investment. Joint actions are required to do so primarily by governments and companies, and among others in the food system.

Targeted government actions that stimulate investment and support new market opportunities can have positive ripple effects. A tax program to encourage investment in machinery and equipment, a leading indicator of future productivity, is seeing results. As well, current efforts to open up export markets and promote export revenue growth are vital.

But the full benefits of these and future initiatives will only be sustainably secured if matched by robust company strategies to excel at differentiating Canadian products in the global marketplace. CAPI conducted 13 case studies on diverse food companies to reveal the factors that determine high-performance. Importantly, it's about CEO leadership and clarity of purpose which drives a strategy forward based on differentiating the company, its products, processes and partnerships at every level of operation.

A new strategy is needed also to respond to a changing global landscape. Many large foreign companies simply have the cost advantage and scale to serve the relatively small Canadian domestic market from abroad. In the aftermath of the last recession, Canadian firms have been restructuring and faring as best as could be expected but more can be done to give this sector the competitive boost it needs, such as further improving the operating environment among all three levels of government and deepening collaboration between processors and producers.

Fortunately, Canada attracts investment when we promote the advantages of working here: access to quality ingredients, a skilled workforce, availability of an innovation infrastructure, sound governance practices and expanding trade access. But a new, concerted strategy is required to stay on top of an ever-changing global marketplace.

"We need a new strategy to respond to what's not working and enhance what is working well both within the domains of government and industry", says David McInnes. "Otherwise, the industry's current trajectory could see more product categories move from a position of trade surplus to trade deficit. All the major players need to work together to change the course of this sector."

CAPI's work presents a clear choice: do we want to become a supplier of choice for consumers around the world for high quality, nutritious food products, made from the best possible ingredients from this country's farms, or are we prepared to be increasingly a customer of foods made elsewhere?

About CAPI
CAPI is an independent, non-partisan and non-government research catalyst. We bring leaders together. We provide balanced perspectives. We present strategic choices.

The analysis and reports that make up this comprehensive examination of Canada's food manufacturing sector, and the partners that CAPI worked with to complete this work, are available on its website www.capi-icpa.ca.

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