The Forum on Canada's Agri-Food Future 2015

Shaping Canada's Destiny: What is possible?

CAPI
THE CANADIAN AGRI-FOOD POLICY INSTITUTE

PART 2

A DISCUSSION PAPER & PRIMER

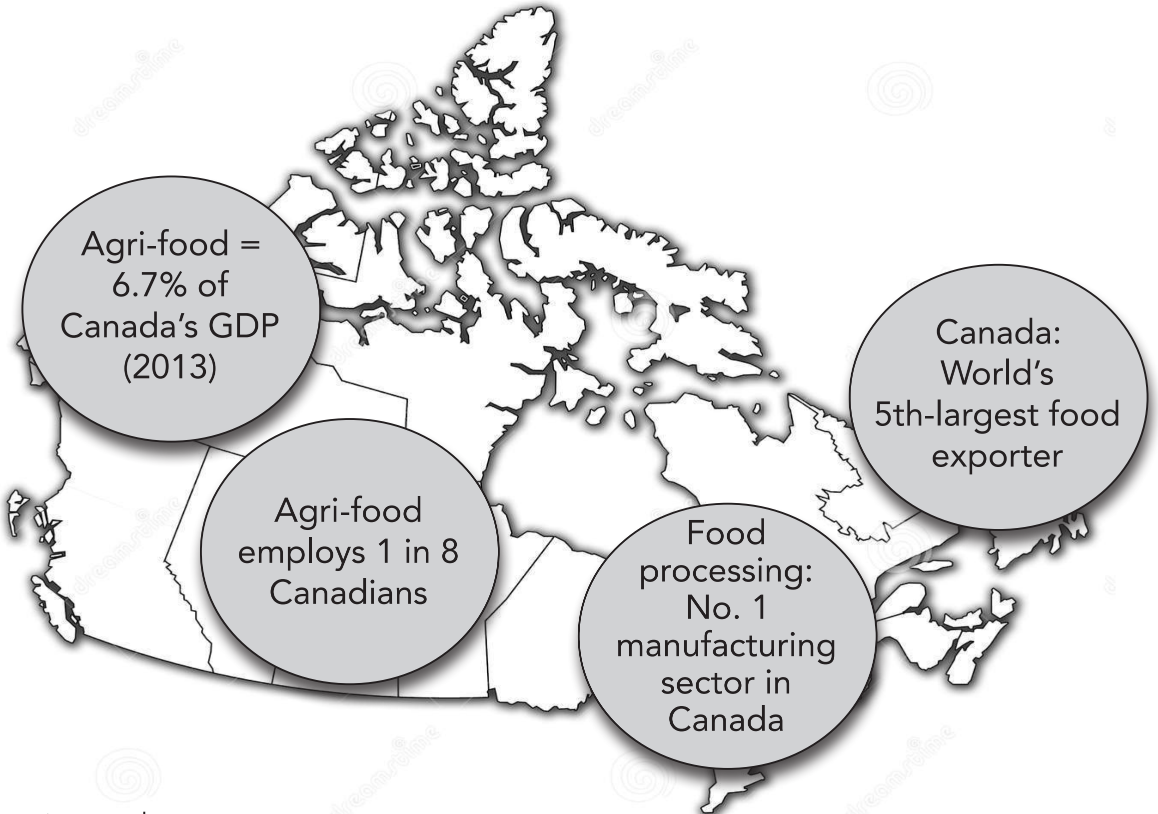
Canada 2020

Context for prompting ideas and discussion

The agri-food system connects urban and rural Canada unlike any other sector. It is a job-creator, it feeds us, it is an export engine, it drives innovation, and it attracts investment.

CAPI and Canada 2020, and their partners, will hold The Forum on Canada's Agri-Food Future November 3 - 4, 2015, in Ottawa. (Please refer to the companion document, *Part 1: About the Forum*).

Our guiding question is: ***Should Canada aim to become the most trusted food system in the world?***



We are interested in getting your ideas prior to the event:
www.CAFF15.ca

Context for prompting ideas and discussion

When it comes to food, “trust” means different things to different people. With that in mind and to help set up the dialogue, this discussion paper describes the sector’s complexity, its inter-connectedness and some of the changes, opportunities and limitations it faces. The discussion is organized under the three themes below.

The November Forum may not address every point raised here, and other insights may arise. To address the guiding question, we first need to understand what is most pertinent so we can identify our country’s strategic and policy-oriented choices.

PART 1: Consumers

PART 2: The Marketplace

PART 3: Coping with Change

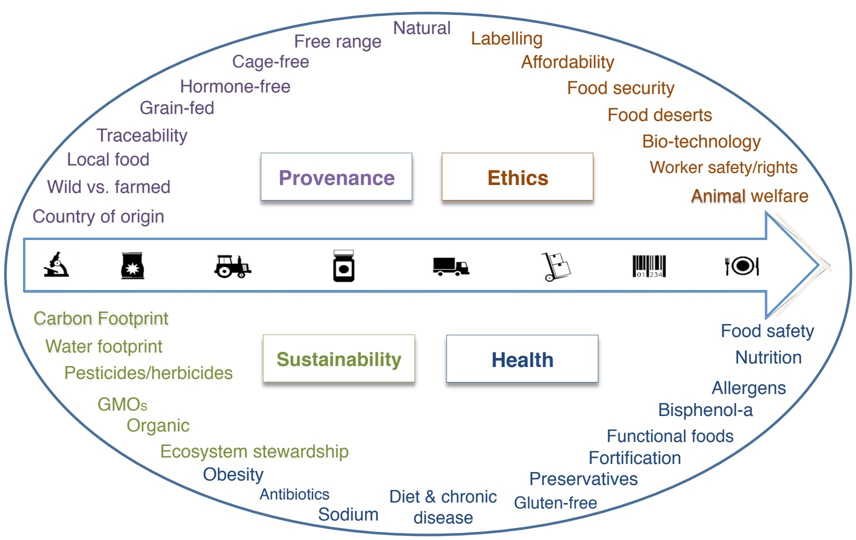
PART 1: Consumers

- **Food expectations are rising**
- Demographics influence diets
- Rising diet-related chronic diseases

Food expectations are rising

Consumers expect more from their food system. Price remains important for many. But ever-evolving demands are changing how our food is produced and sold.

Rising consumer and societal food expectations facing the food system (CAPI)



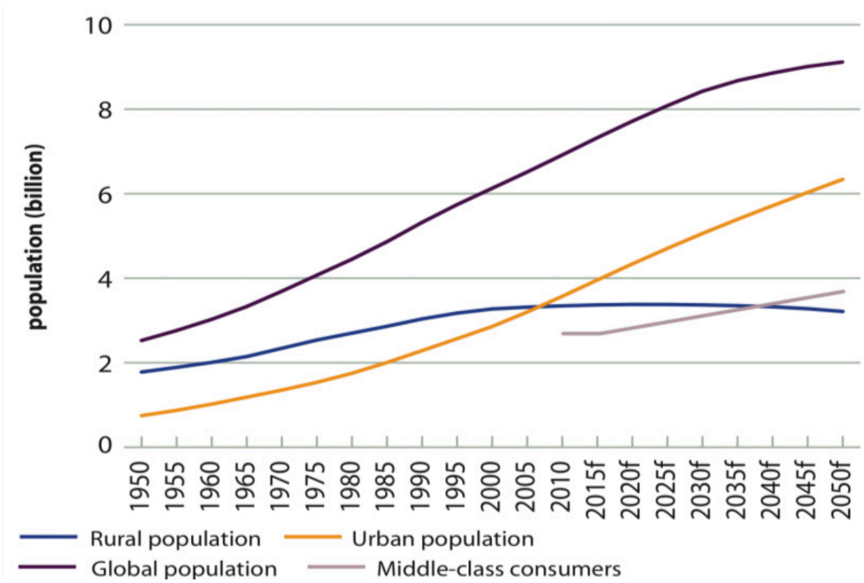
Source: Differentiate to Compete: The Consumer Perspective, *CAPI, 2014*

Trust is determined in part by how the market responds to these (and emerging) expectations; it is about meeting the test of authenticity.

Demographics influence diets

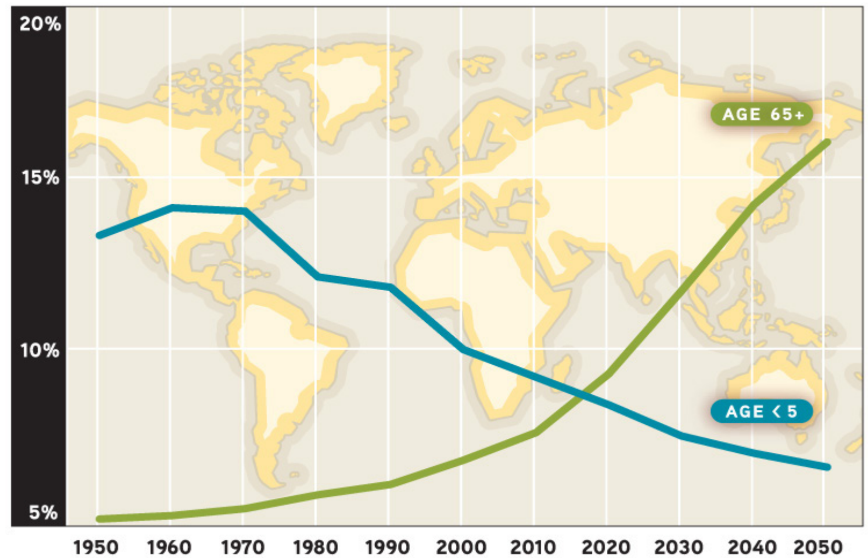
Given the current trend toward rapid urbanization, by 2030 the developing world will be home to half of the world's middle class. Global societies are aging. Diets are changing. The demand for high-quality, safer foods and new food products is rising. (See page 9 for more about the global demand for processed foods.)

Rising urban populations; rising middle classes



Source: United Nations Department of Economic & Social Affairs, 2012; Rabobank, 2014

Change in young children vs. older people as a percentage of the global population



Source: U.S. National Institute of Aging

Canada is ranked as a "Tier 1" food safety regime; public trust in our food is high.[1] However, Europe leads on traceability. And traceability is essential to managing food safety and tracking food life cycles. Increasingly, it is used to demonstrate origin, health and other food attributes and expectations.[2]

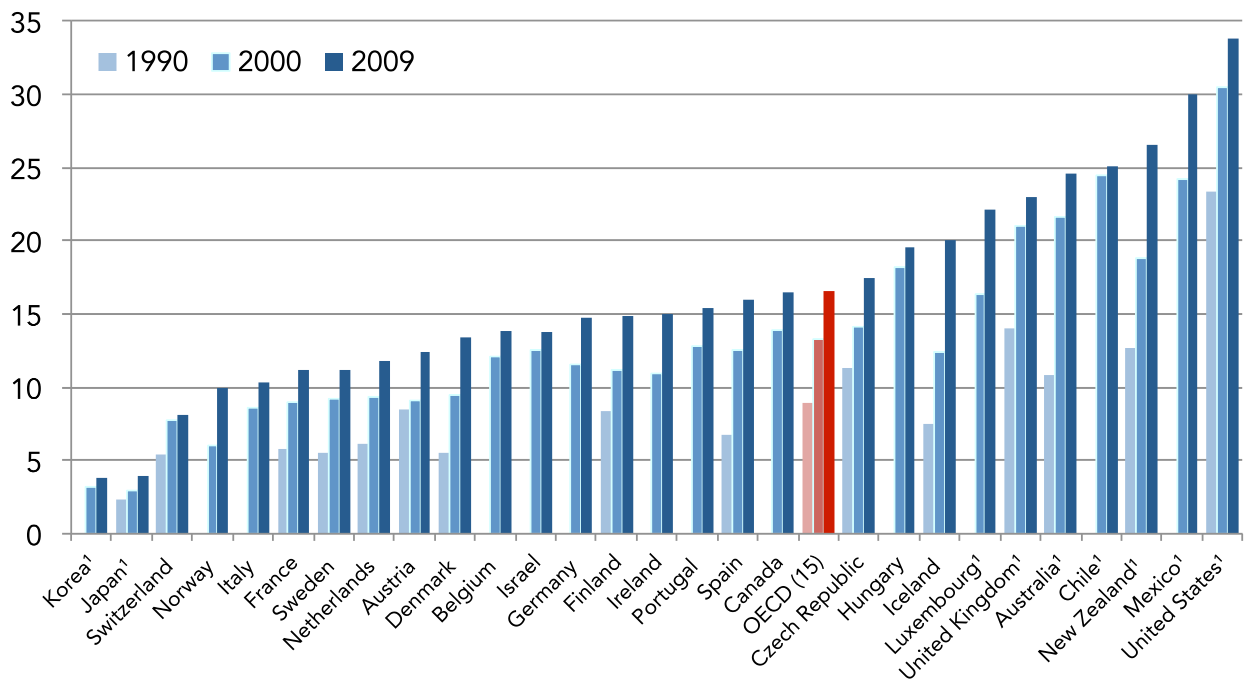
PART 1: Consumers

- Food expectations are rising
- Demographics influence diets
- **Rising diet-related chronic diseases**

Rising diet-related chronic diseases

The world is grappling with the rising costs of chronic diseases. Obesity has become an epidemic.[3] The agri-food industry as a whole is now tasked with determining what is safe and nutritious and how food and diet contribute to chronic disease and health outcomes.

Global growing prevalence of obesity (%)[4]



1. Data based on measurements rather than self-reported height and weight.

Source: OECD Health Data, 2011

PART 2: The Marketplace

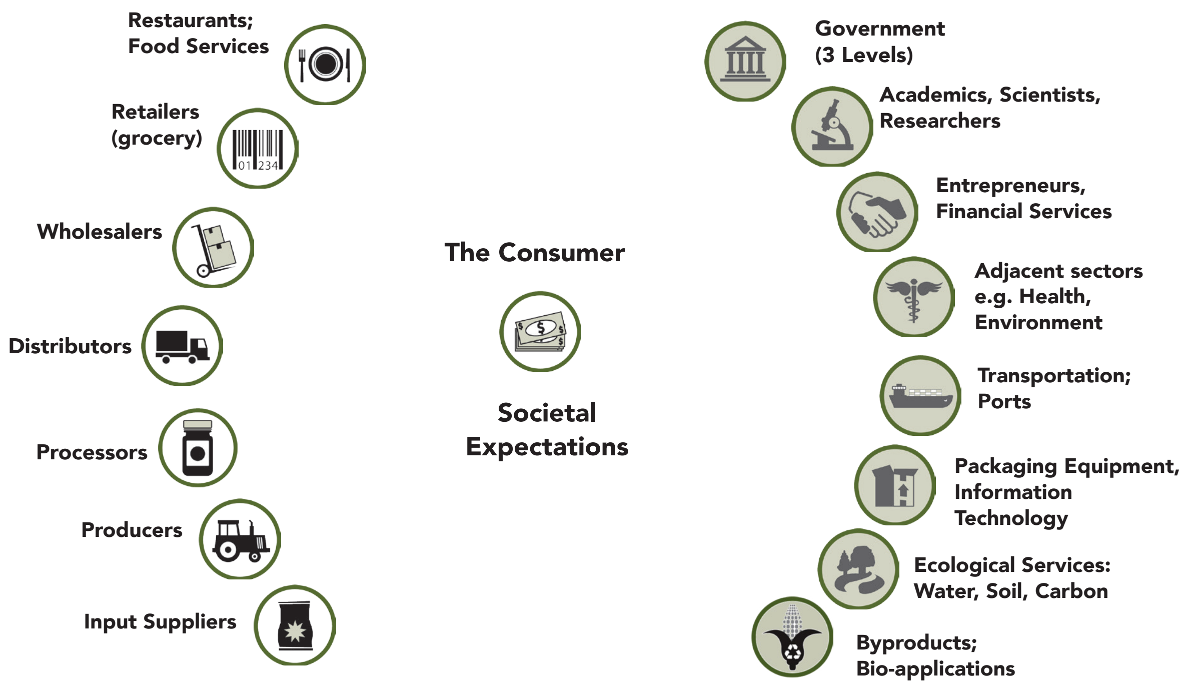
- **The shape of Canada's food system**
- Profiles of the Canadian marketplace
- Canada is a trading nation (trade balance)
- Access to markets

The shape of Canada's food system

How much scope is there to embrace significant change? Many players across the food system have a stake in the outcome.

In Canada, the wealth of agri-food associations serves both to unite and fragment the sector's interests. Some segments are concentrated (e.g., three retailers control nearly 70% of the Canadian grocery business); others are highly diversified (e.g., restaurants). Foreign ownership of land, production and processing assets is growing. Primary producers extend from small hobby farms to large commercial ventures; there are primary and secondary processors. Other sectors, such as Canada's transportation infrastructure, play vital roles. While new local food chains are forming, Canada's food system is also part of an integrated North American economy and is bound by various international trade agreements.

The food system (CAPI)



Source: Canada's Agri-Food Destination Update, *CAPI, 2011*

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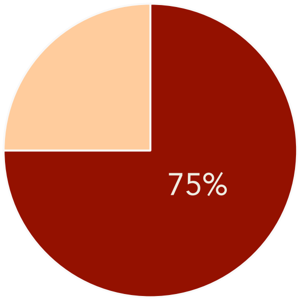
Profiles of the Canadian marketplace

There are many ways to portray the Canadian food marketplace.

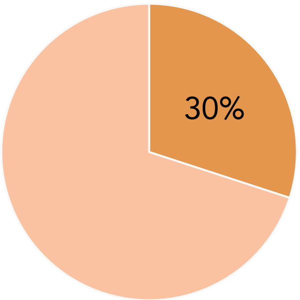
Consuming "Canadian"



We consume about 75% of the food we produce.[5]

Nearly 40% of what we produce is processed here in Canada. The share in Quebec and Ontario exceeds 65%.[6]

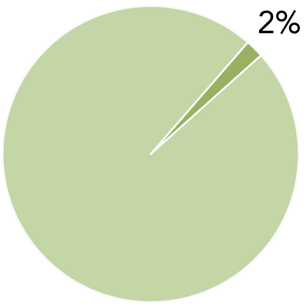
Eating out



Almost a third of meals are eaten outside the home.[7]

The top three restaurant menu trends (2014): Gluten-free and food-allergy conscious; quinoa; and locavore (locally sourced) foods.[8]

Organic grocery retailing



< 2% of total retail sales is organic, but this category is growing.[9]

Other retail perspectives: e.g., the market share of "ethnic grocers" in Toronto climbed from 2% (2006) to over 9% (2014).[10]

PART 2: The Marketplace

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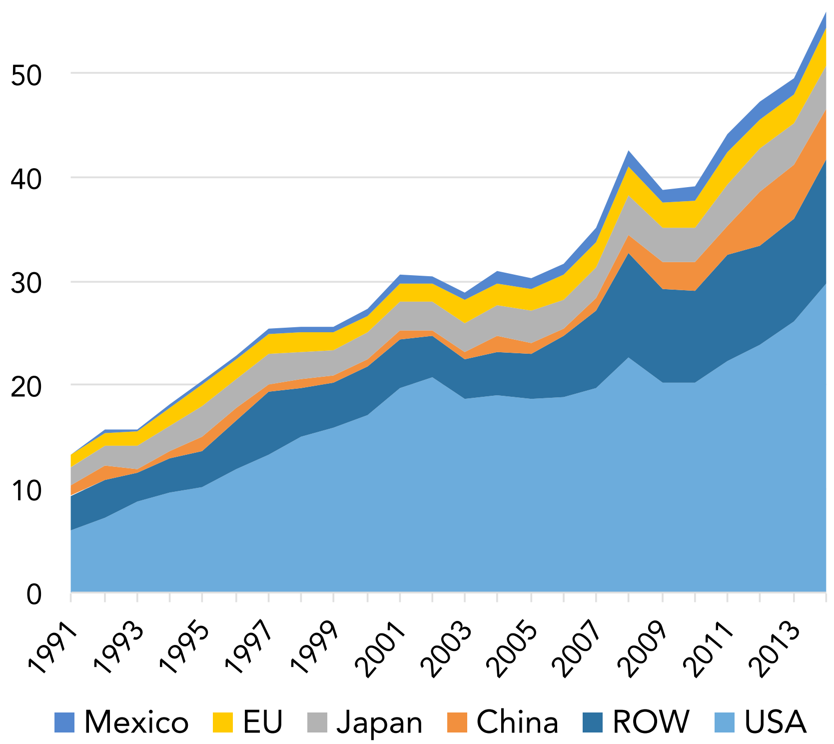
Canada is a trading nation

Canada is the world's largest per capita agri-food trader and demand for our ingredients is rising. Still, our global influence is modest; China is our second-largest export customer but we supply only 4% of its agri-food imports.

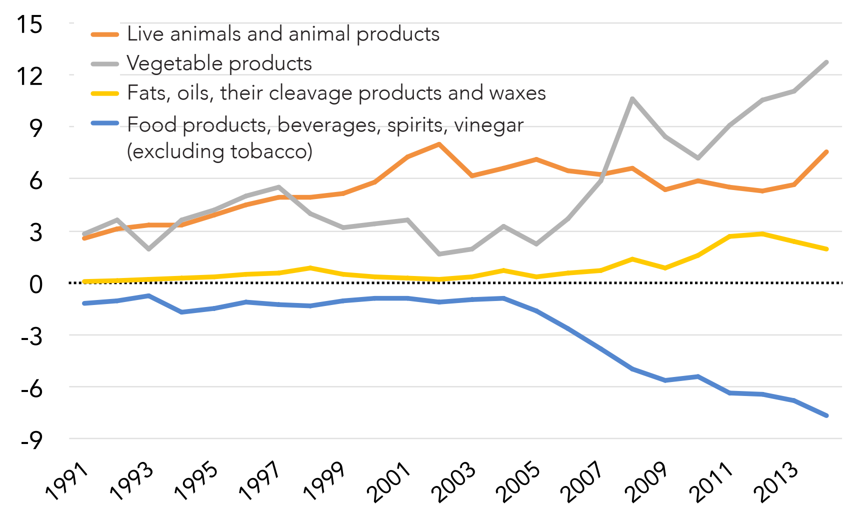
Canadian agri-food exports: Key countries and rest of world (ROW) (CAD$ billions)



Source: Statistics Canada

A breakdown of our trade balance is revealing. Canola and pulses have been highly successful (grey line). Secondary food processing (blue line) has been recording consecutive trade deficits.

Trade balances for major agricultural and food products (CAD$ billions)



Source: Statistics Canada

The global trade in processed food more than doubled from 1995 to 2008, growing faster than agricultural products.[11] How can Canada play a bigger role in this growing market?

PART 2: The Marketplace

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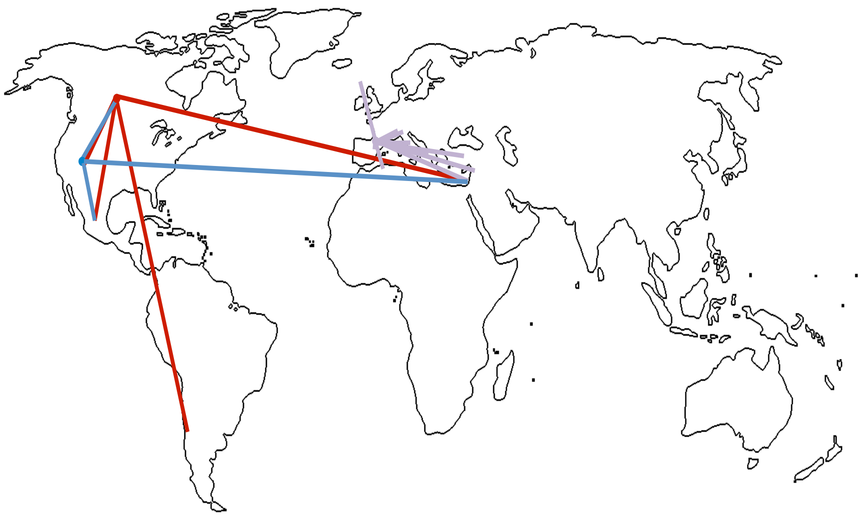
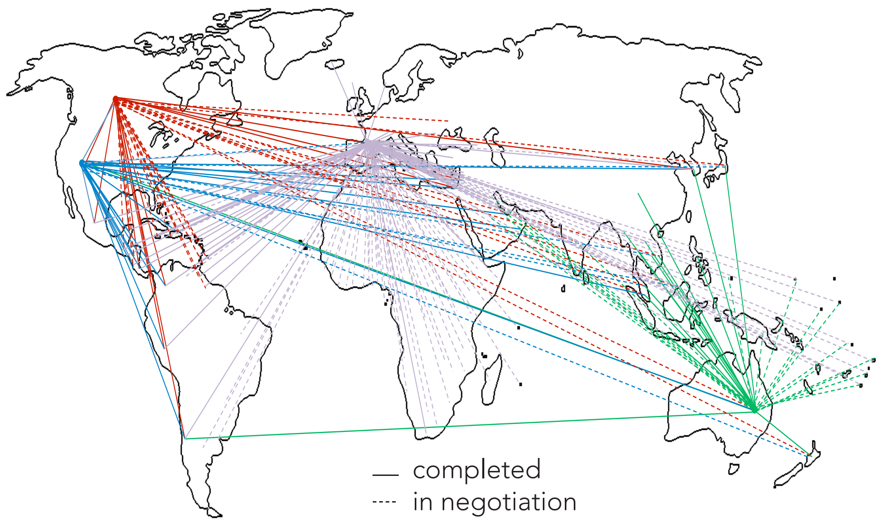
Access to markets is increasing but trade is not "free"

Trade deals are proliferating, but exporters must still deal with remaining non-tariff barriers, domestic regulations and protectionist measures. Access is no guarantee of success. So how do we create demand for our ingredient and food products?

Trade agreements signed in 2000: Canada, US, EU



Trade agreements signed and in negotiation (at January 2015): Canada, US, EU and Australia



Source: CAPI/Foreign Affairs, Trade and Development Canada, 2015

PART 3: Coping with change

- **Producing food sustainably**
- Consumer decisions
- A global phenomenon
- Canadian food strategies
- Investing in our future
- Agri-food subsidies and supports

On a global basis, are we producing food sustainably or doing so at the expense of future generations?

Today, agriculture is responsible for about 40% of the global carbon emissions associated with climate change. Other sectors (transportation) are beginning to make significant cuts in their contributions. If they continue this progress and agriculture does not follow suit, agriculture could become a lightning rod for its practices, which would undermine agriculture's *social licence* to operate.

On a global basis, agriculture uses some 70% of the planet's available fresh water. As biodiversity, water management, and carbon removal become higher priorities, land may become too valuable to be dedicated solely to producing food. Should our future agricultural brand be linked to reliable food supply and the ecological benefits we can secure?

Algae bloom, Lake Erie (Pelee Island at centre)[12]

Source: National Centres for Coastal Ocean Science, 2011

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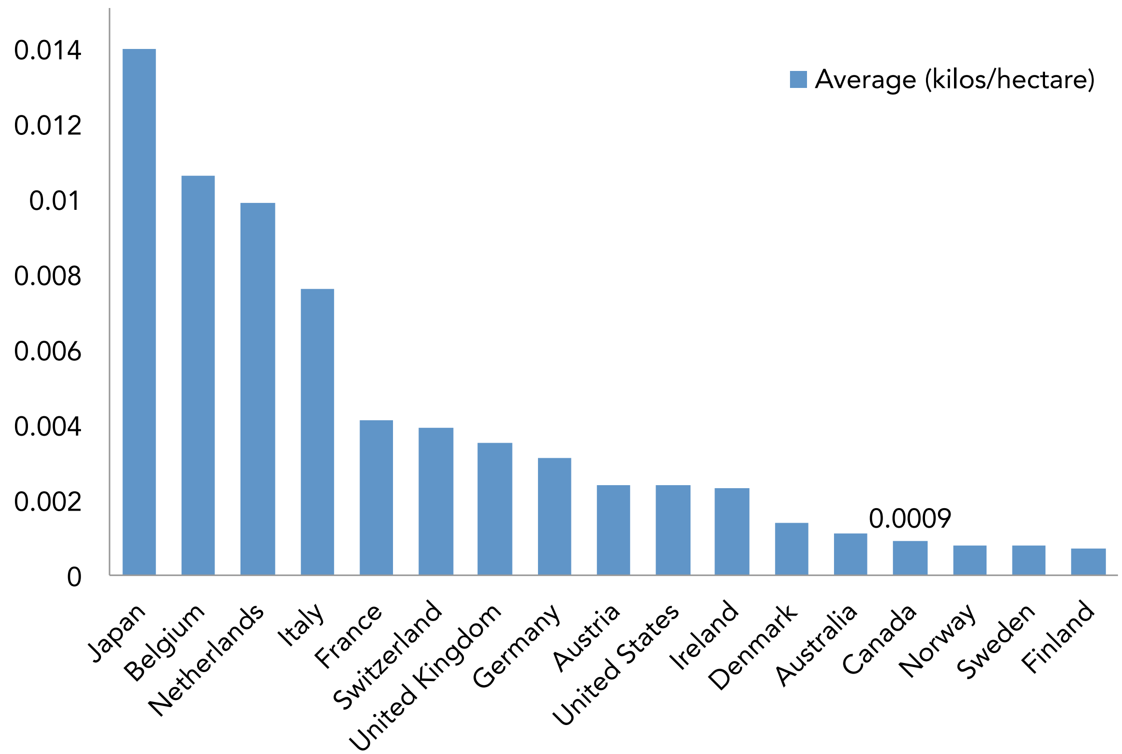
Consumer decisions: will they seek out foods with the lowest impacts?

Canadian producers may benefit from longer growing seasons that come with climate change, but they may also face new threats from insects and other changes as ecosystems adapt to new conditions. Canada's natural advantages (e.g., northern climate) confer certain benefits. Cold winters minimize the need for pesticides (see graph). But will consumers come to judge the food they eat on the basis of such performance? The manner in which food is produced may become the ultimate food-health issue.

Rate of Use of Agricultural Chemicals (pesticides)[13]



Source: Conference Board of Canada/Sylvain Charlebois, University of Guelph

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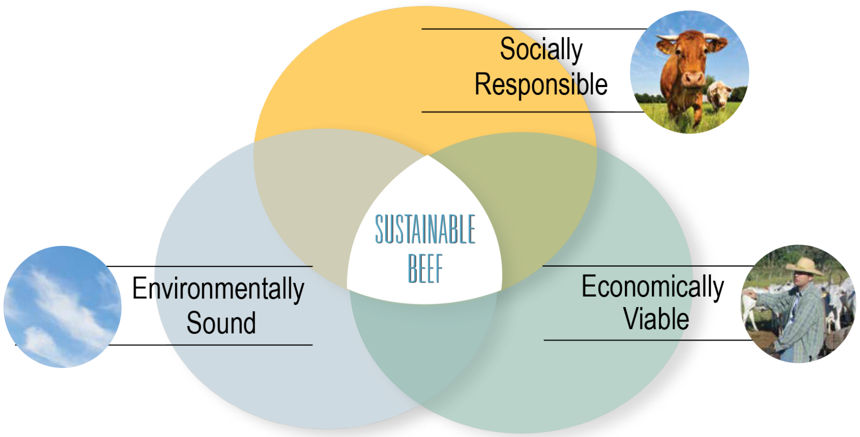
Coping with change is a global phenomenon

Securing the "triple win" of meeting environmental, social and economic goals is a widely shared objective of those trying to meet food challenges and sustainability. See the World Economic Forum's response as a basis to unleash creativity (image and caption):

World Economic Forum's New Vision for Agriculture (2011): 20% reduction in poverty, 20% reduction in emissions; 20% increase in agricultural production

Entire sectors are responding in this spirit to the triple win, as illustrated by a global beef initiative:



Global Roundtable for Sustainable Beef: linking priorities for the planet, people, animals and progress

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Individual companies are making supply chain-wide commitments, such as Unilever's pledge to source 100% of its agricultural raw materials sustainably, while doubling its revenues and halving its environmental impact. Major Canadian supermarkets are now procuring seafood only from sustainable sources.

As well, governments here and abroad are advancing "one health," a concept that links animal, human and ecosystem health (image at right).

People everywhere are trying to determine how best to prioritize and manage food issues.[14] The very nature of their strategies is changing as stakeholders grapple with these inter-connected issues.

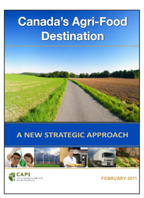
One Health-Inter-Sectoral approach, Public Health Agency of Canada

PART 3: Coping with change

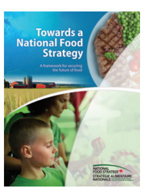
Canadian food strategies

In Canada, a variety of industry-specific and government strategies are at work.[15] Some set bold objectives and encourage better collaboration. Yet certain stakeholders continue to feel that the food system operates in "silos." Strategies can fall short of fully adopting genuine systems thinking.

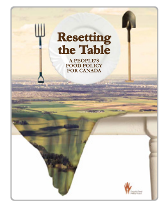
Proposals to better link economic, environmental and health priorities have been advanced in Canada (see below). Some promote highly integrated (whole-of-government) policy-making and deeper engagement with support sectors. What, then, is missing?



"Canada can be the world's leading producer of nutritious and safe foods produced in a sustainable, profitable manner. This would pack a competitive punch that few other countries in the world can match."
Canada's Agri-Food Destination (2011),
Canadian Agri-Food Policy Institute



"The continued well-being and, indeed, the existence of mankind relies on a sustainable food supply. That can only happen through comprehensive planning and execution of a shared set of food chain and food system objectives."
Towards a National Food Strategy (2011)
Canadian Federation of Agriculture



"This vision lays the groundwork for a food system where all Canadians can afford to buy and/or produce safe, nutritious, and culturally acceptable food that sustains the environment, economies, and communities."
Resetting the Table: a People's Food Policy (2011)
Food Secure Canada

"Given the many challenges that lie ahead — climate change and resource depletion, growing inequity, loss of farmland and farmers, and rising health care costs from diet-related illness — it is critical that cities and citizens around the world play their part."
What Feeds Us; Vancouver Food Strategy (2013)
City of Vancouver
(one of over 60 municipal food plans in Canada[16])

"The Strategy explicitly builds on Canada's advantages by emphasizing our national brand as a country that creates major new food products for world markets and produces exceptionally safe and healthy foods."
The Canadian Food Strategy (2014)
Conference Board of Canada

PART 3: Coping with change

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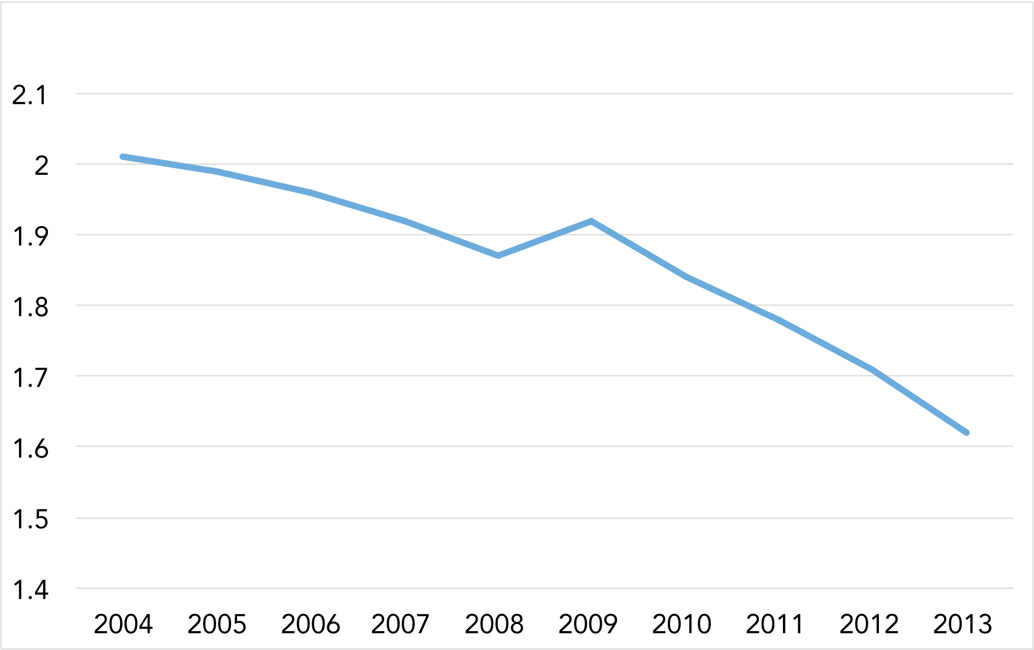
Investing in our future

Our capacity to manage change and compete depends, in part, on how we innovate. One proxy for this is R&D spending. Is this an indicator of a declining capacity to respond to change?

Gross domestic expenditure on research and development in Canada (% of GDP)



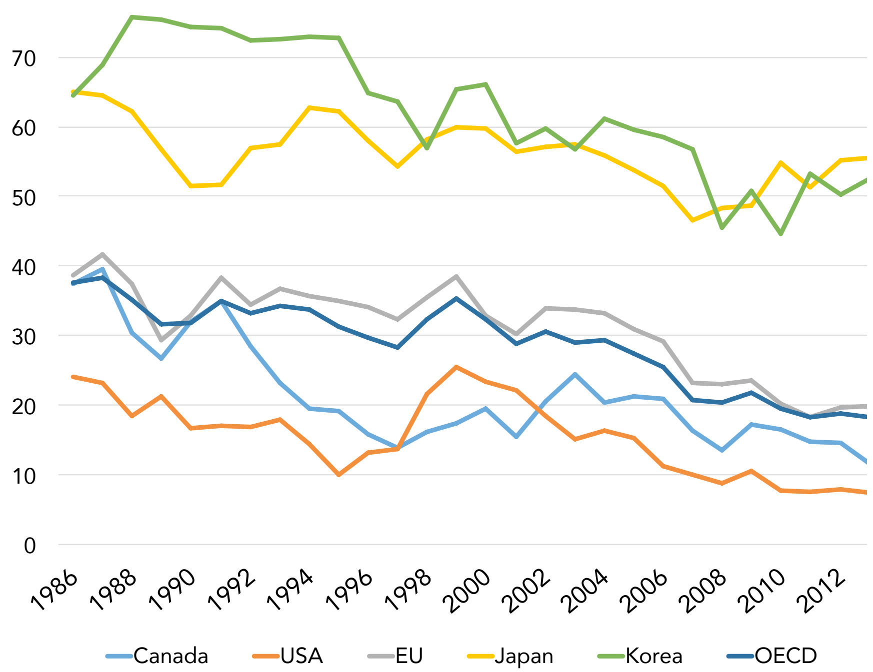
Source: Statistics Canada

PART 3: Coping with change

Agri-food subsidies and supports

Most countries use agricultural subsidies to offset certain production risks, although this strategy is largely in decline across the OECD. The advent of modern trade agreements means exporters enjoy much lower levels of direct protection and support.

Producer support estimates (%) in the OECD and selected countries



Source: OECD

Less clear are trends in indirect subsidies, which rarely take into account real production costs and can encourage unsustainable practices. For instance, California's highly successful food producers generally depend on water from aquifers – which is a societal benefit granted to farmers.

Many commentators single out Canada's supply-managed dairy sector (which is managed sustainably) for receiving special support. Yet little is known about the nature of support given by other countries to their dairy producers.

There are other forms of support. Governments both here and abroad compete to attract food company investments in communities by offering generous tax and other incentives. Trying to out-subsidize others, directly or indirectly, is not a viable long-term option for Canada. But what sort of offensive strategy do we need to confront other countries about the transparency of their indirect practices?

SUMMARY

In short ...

In the face of the changes outlined in this paper, do we continue along the same course — a course that has, to date, contributed to Canada's prosperity? Or do we set our sights on a bigger prize and become **the world's most trusted food system?**

We believe that consumers and supply chains will demand improved supply reliability and will continue to raise the bar on food safety, nutrition and responsible production practices. How do we derive value from this? What are our comparative advantages? How can we leverage "transparency" of practices across multiple fronts? Is there another choice?

As a country, we have to decide how best to secure future success. This is the intent behind The Forum on Canada's Agri-Food Future in November 2015.

We would like your feedback on this choice and how can we best position ourselves for the future: www.CAFF15.ca.

NOTES

1. See change in public trust in food safety over a five year period among countries (table 12, page 38). Le Valleé, Jean-Charles, and Sylvain Charlebois. *2014 World Ranking in Food Safety Performance*, The Conference Board of Canada, 2014.
2. *2014 World Ranking in Food Safety Performance*, The Conference Board of Canada, 2014, pages 27-29.
3. It is estimated that more than one billion adults are overweight (World Health Organization). In addition to overweightness, "the other" food-related burden in the developing world is hunger.
4. OECD Health Data, 2011.
5. AAFC estimates the number is about 75%; Statistics Canada estimates it is over 70%.
6. *Taking the Sector from Trade Deficits to a Competitive Resurgence*, CAPI, 2014.
7. *Drivers of Canadian Food Processing Competitiveness – Macro Factors and Micro Decisions*, George Morris Centre, March 2014.
8. Restaurants Canada's 2014 Chef Survey; "Hot Trends."
9. *The National Organic Market – Growth, Trends & Opportunities*, 2013, Canada Organic Trade Association, November 2013. Organic food is valued at about $3 billion in retail sales (2012). Annual sales in farmers' markets exceed $1 billion (2008), although this is a fraction of total food retailing.
10. For Greater Toronto Area, Estimate, Perry Caicco, Managing Director, Equity Research, CIBC World Markets.
11. *Changing Patterns of Trade in Processed Agricultural Products*, OECD, 2011.
12. Image shows the cyanobacterial harmful algal bloom caused by phosphorus loading and discharge largely from Ohio's Maumee River (National Centres for Coastal Ocean Science and the National Center for Water Quality Research). 2011 was deemed to be a "severe" year.
13. *2014 World Ranking in Food Safety Performance*, The Conference Board of Canada, 2014, page 10.
14. Rabobank has published, for instance, 10 ideas to address by 2050, including how to adopt "big data" in the US and improve food systems in China. *10 Big Ideas: Unleashing the Potential of Global Food and Agriculture*, Food & Agribusiness Research and Advisory, 2015.
15. Federal, provincial and territorial governments work from rolling five-year plans (lately known as "Growing Forward"). Several provinces are setting out agri-food sector-wide growth targets. Municipalities are becoming more active as many have introduced food policies.
16. *Municipal Food Policy Entrepreneurs*, Toronto Food Policy Council, Vancouver Food Policy Council, CAPI, 2013.

The Forum on Canada's Agri-Food Future
Shaw Centre, Ottawa
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