

Remarks to the Standing Committee on Industry, Science and Technology
The Canadian Agri-Food Policy Institute

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October 5, 2016

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On behalf of the Canadian Agri-Food Policy Institute (CAPI), thank you for allowing us to offer our views on the state of manufacturing in Canada.

We represent an independent, non-partisan think tank dedicated to advance research, ideas and dialogues on the longer-term competitiveness of the Canadian agri-food sector.

We'll address three questions:

1. How is the idea of “competitiveness” changing?
2. What does this emerging shift mean for Canada and Canadian food manufacturers?
3. What can Canada do to take advantage of this change?

Here is the quick answer to these.

First, many countries (including some of our competitors) will increasingly struggle with achieving economic growth while having to mitigate damage to eco-systems. Moreover, consumers and investors are expressing growing unease with current production practices. This is changing the terms of local and global trade.

Second, while Canada is not immune from ecological challenges, Canada should become even more relevant as the world seeks out safe, high-quality, valued-added, nutritious and sustainably-produced ingredients and food. Few other countries in the world can match our agri-food advantages and potential to deliver on this promise. This can change the way we differentiate ourselves.

Third, monetizing this advantage faces some big hurdles. The global food system depends on a complex array of agricultural subsidies that largely disregards the impact on “natural capital”, such as on fresh water and eco-systems. Raising the bar on our competitors is an innovative approach that will enable Canada to leverage its natural resource strengths.

In short, in this emerging reality, Canada should aim not simply to remain competitive but to be *sustainably competitive*.

Turning to the first question: **How is the idea of “competitiveness” changing?**

What's the single most important determinant of success in food manufacturing? Is it the price of food ingredients, good road infrastructure, a low Canadian dollar or lower hydro costs?

These are all important. But, the scarcest and most precious resource is “trust”.

Germany's Volkswagon showed what happened when it lost consumer trust. It misled consumers and regulators on its car emissions tests – costing the company billions of dollars and seriously denting its corporate reputation.

Global trust in food production is taking a beating, too. Algae blooms threaten oceans and lakes, fostered by the overuse of fertilizer and the run-off of phosphorus from towns and cities. In Europe and elsewhere, pesticide levels and nitrates in groundwater are a concern. In China, people have come to distrust local food so much that there is a booming trade in online imports.

Consumers have an abundance of food to choose from but consumers are growing uneasy about the food they eat. No wonder many food manufacturers (and their supply chains) are working to sustainably source a growing array of ingredients, such as 100% sustainable palm oil, sustainable seafood and, more recently, sustainable beef. This explains the growth of organic foods, too.

Despite this, the stress on global “natural capital” – water, soil and the biodiversity of living organisms – is growing.

The Global Footprint Network, an international NGO, has calculated that most countries are in what they describe as “ecological deficits.” It calculated that “more than 80% of the world’s population lives in countries that use more resources than what is renewably available within their own borders”.

This will be made worse with climate change.

The Bank of England’s Mark Carney has said “climate change will threaten financial resilience and longer-term prosperity”. International financial institutions will soon require borrowers to submit “climate risk disclosure statements”. Norway’s \$900 billion Government Pension Fund has dropped 11 companies because of their deforestation practices. And, Moody’s, the ratings agency, now assesses mining companies operating in developing countries for water risk.

Managing natural capital – the building blocks of how we produce food and everything else – is fast becoming a financial systems and access to capital risk. This will impact all manufacturers.

Fortunately, Canada is in an “ecological surplus”. This is a strategic opportunity if we can diligently preserve that surplus.

Question two: What does this emerging shift mean for Canada and Canadian food manufacturers?

Canada produces safe, quality foods. So do other countries.

To compete, we need to differentiate. This is important given that food manufacturing is a national economic engine (the sector employs more people in Canada than the auto and aerospace sectors, combined).

We examined why 13 selected companies were so successful, including multinationals like PepsiCo and Bonduelle, larger Canadian firms like Premium Brands from British Columbia and

Lassonde from Quebec, and smaller companies, like Island Abbey Foods from PEI and InfraReady from Saskatchewan.

For start-ups and small processors, success depends on having a unique intellectual property or *terroir*, such as developing a craft or artisan product. With this, they can become a locally- or regionally-dominant niche player and use this to pursue export markets.

For mid- to large-sized Canadian companies, growth requires having resilience to (primarily) U.S. firms which often have the advantage of scale. To counter this, Canadian firms need to offer several points of differentiation. This also helps to attract capital.

For multinational enterprises operating in Canada, outperforming their NAFTA manufacturing options is the priority. They also need to compete for capital within the global corporation. This means, for instance, securing a reliable supply of high-quality and competitive ingredients and having a mandate that includes exporting abroad from Canada.

Common to all is the pursuit of differentiation.

Going forward, we believe that companies will increasingly try to differentiate on how they manage natural capital. This is Canada's big opportunity. Canada is among the few countries that could offer companies the place to develop such innovative processes and products.

We have adequate fresh water. Our winters act as a natural pesticide. We use less pesticides and other chemicals than key competitors. Our ratio of animal density to human population to arable land is among the lowest in the world. And, I should add, Canada has a reputation for good governance.

Question three: What can Canada do to take advantage of this emerging marketplace?

We need to better leverage this opportunity. But we face some barriers and we can be proactive.

Our long-game should focus on raising the bar on our competitors. This means taking action on global subsidies and quality standards.

Global agricultural subsidies are huge. They allow global food manufacturers to access relatively inexpensive food ingredients – giving many of our competitors the ability to achieve global scale. As well, such subsidies incent production without fully considering the ecological cost. This actually prevents us from more fully leveraging Canada's natural capital strengths.

Here's one example. Canada often looks to the Netherlands as a food manufacturing model. Many large food companies are located there and the Netherlands is the second-largest food exporter after the U.S. However, this has come at a cost. Its agricultural practices are highly intensive, unduly impacting its soil, water and air, such as through pollutants and GHGs. The sector contributes an average of €10 billion annually to the Dutch economy (by GDP). But, its

net ecological impact is estimated to cost some €1.6 billion annually.¹ EU subsidies support this form of agriculture.

Canada can shine a light on these global subsidies as part of a concerted global campaign to reduce them.

We also need to be cautious in imposing new regulations on the Canadian food system – such as new environmental protections. We don't want to give our competitors a significant cost advantage.

Instead, we can advocate for raising the bar with international standards organizations. Over time, we believe that it will be harder for most of our competitors to meet rising standards.

Domestically, we need to continue to focus on having an inviting business climate. How we enable investment and innovation to help us differentiate is strategically important.

Clearly many consumers and investors will expect more transparency from food companies and agri-food supply chains on a host of matters: nutrition, animal care, anti-biotic use, ethics and sustainability.

We see this as a catalyst to better brand Canadian foods. To help, we need better data and credible measures to track our progress and reassure consumers and markets at every step in food production and supply, from field to fork. These steps will help deepen trust.

Governments and industry need to work even more closely together to make such traceability a reality. We need to be able to demonstrate that food production does not undermine water and eco-systems, add to GHGs, use unhealthy additives, and so on.

Better transparency of such practices on our part will make this a race to the top and not a race to the bottom.

As well, we can better align our innovation and science organizations on priorities that will help enable these transformations. This needs to include encouraging deeper industry collaboration.

Canada can define a powerful food brand around trust and use this to differentiate Canada. Sustainable competitiveness is a “big possibility” because of Canada's natural capital strengths, if managed right.

¹ €1,868 million annually for the period of 2005-2012. “How Important are Agricultural Externalities? A Framework of Analysis and Application to Dutch Agriculture”, R. Jongeneel, N. Polman and G. C. van Kooten, Working Paper, June 2016, University of Victoria

Appendix

Links to related CAPI work:

- *Final report on food processing:* http://www.capi-icpa.ca/proc-food/proj7-8/CAPI_PFRP_Conclusion_ENG.pdf
- *Summary of 13 food company case studies:* <http://capi-icpa.ca/proc-food/proc4b.html>
- *Summary of the academic paper: How Important are Agricultural Externalities? A Framework of Analysis and Application to Dutch Agriculture”, June 2016, University of Victoria:* http://www.capi-icpa.ca/pdfs/2016/CAPI_summary-env%20impacts-ag-netherlands_ENG.pdf
- *Report on The Forum for Canada’s Agri-Food Future:* <http://www.capi-icpa.ca/CAFF/CAFF-finalreport-ENG.pdf>
- *How Canadian food manufacturers could enhance their access to the Chinese marketplace, based on a trade trip to that country with several companies:* http://www.capi-icpa.ca/pdfs/2015/CAPI_ChinaReport_ENG.pdf