

COVID-19 pandemic tests Canada's agri-food supply chain

Public policy matters because it can influence consumer behaviour, particularly at times like these—wash your hands, practice social distancing, limit activities to those with only a few people. Recently, we have witnessed behavioural changes occurring at the speed of light because of COVID-19. What was unthinkable two weeks ago has become the new “normal” for Canadians. We need to think about what policy changes might help the Canadian agri-food processing sector survive the expected economic fallout of COVID-19 and thrive in the months and years beyond it.

Challenges to the agri-food sector arising from the COVID-19 pandemic

The current COVID-19 pandemic risks challenging the resiliency of Canada's agri-food supply chains. The Canadian Agri-food Policy Institute (CAPI), along with primary producers, processors, food product distributors, truckers, food retailers and food service providers, are all looking to develop policies, strategies and best practices to make it through this extremely challenging period. Consumers have been shocked into a fuller appreciation of how intricate the agri-food supply chain actually is. They have become aware how the chain extends way further back from the now occasionally empty retail store shelves.

Before COVID-19, a primary concern for Canadians with their food supply was food safety, food choice and affordability. But now added to these considerations is the realization that our food needs to be readily available and accessible as well. Food security is suddenly becoming a top-of-mind issue.

Food and beverage processors will need to adopt new strategies for diversifying markets and production

— BY DON BUCKINGHAM —

Because of Canada's highly functional agri-food supply chains—from input suppliers to producers, processors and retailers to consumers—the average Canadian has not had to worry much about being able to access food at affordable prices. In recent days, many leaders in the agri-food supply chain and our federal and provincial government officials have rightly signaled that there is plenty of food in the system and, for now, there will be no shortages. Whether this will continue is significantly complicated by the length and variety of the Canadian agri-food supply chain. One of the many critical points along this chain is the processing sector and it is not immune from the enormous challenges posed by COVID-19. Whether that relates to managing production in the midst of panic-buying by consumers, to maintaining quality and quantity of production with a healthy workforce, or to withstanding the financial strains put on operations in light of these very uncertain times.

Reasons for hope — improving competitiveness in the Canadian processing sector over the last decade

Underneath this uncertainty however, there is a solid foundation for hope and resilience for the Canadian processing sector as set out in a recent CAPI report, “Canadian Agri-Food Processing Competitiveness, Quality Growth and Global Opportunities,” released February 28, 2020, and available on CAPI's website (<https://capi-icpa.ca>).

This new CAPI research, undertaken and completed before the onset of COVID-19, updates analysis it undertook in 2012-14. Relying on data from 2016-2018, the CAPI study shows that the trade balance for Food and Beverage (FB) processing products has improved from a deficit of -\$1.1 billion in 2015 to a surplus of \$2.7 billion in 2018 (see Figure 1). This is primarily the result of an improvement in the deficit for most further processed products, from -\$8.1 billion in 2015 to -\$7 billion in 2018, due to a reduction in the gap between exports



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and imports for most products except for beverages and spirits. And this reduction continued in 2019 when the further processed trade deficit fell to -6.5 billion.

The sector has become more competitive since the last study was undertaken in 2012. Specifically, several FB processing segments improved their competitiveness as measured by export market shares in 2009 and 2018 (see Figure 2). The largest improvements were experienced by cocoa (up 55.2 per cent) and meat and fish preparations (21.8 per cent), followed by cereal, flour and bread (8.5 per cent) and sugar and confectionery (6.4 per cent). The greatest deterioration was recorded for beverages, spirits and vinegar and miscellaneous food, with declines of 15 and 21 per cent, respectively. Overall, the competitiveness gains came from productivity growth at rates that were above Beverage and Total manufacturing.

Two steps forward... one step back

The CAPI report shows that even before the COVID-19 crisis, the export targets set by the Agri-Food Economic Strategy Table were out of reach for the FB Processing sector. These targets aimed for a 5.2 per cent world market share for exports by 2027, which would require FB processing exports to grow by 13.7 per cent per year. When the report was written there were some glimmers of hope from the benefits of recently signed trade agreements with Europe (CETA), the Pacific regions (CPTPP) and the U.S. and Mexico (CUSMA). While the agreements provide some certainty around trade with these partners, it is highly unlikely that trade will expand significantly in the face of the COVID-19 virus and the economic contraction expected globally. In light of the economic chaos in the global economy, the decline in rules-based trade and the potential for disruptions in domestic and international supply chains, it appears incredibly optimistic that Canada can expect to hit its export market share target of 5.2 per cent by 2027. ↪

FIGURE 1: Exports, imports and trade deficit for further processed foods products (HSIV), 2000-2018 (\$millions)

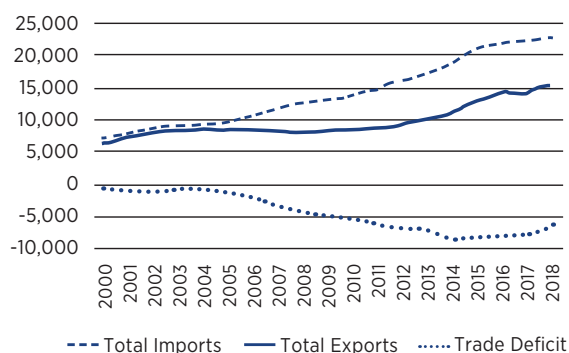
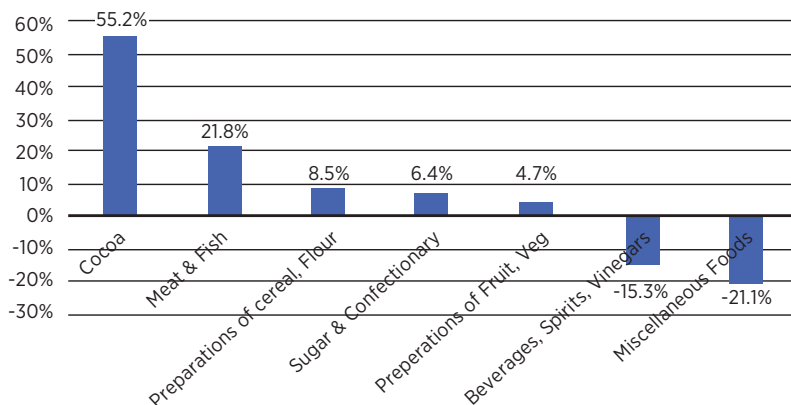


FIGURE 2: Change in export competitiveness, 2009 to 2018



Innovation offers the best potential gains for the sector

Out of the uncertainty of the COVID-19 tragedy and to take advantage of any new trade opportunities, Canadian FB processors will need to develop new strategies and ways of collaborating with supply chain partners to increase innovation and differentiation while investing in technology and more rapidly scaling up.

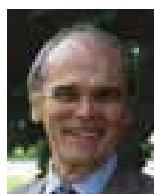
Canadian FB processors have made some progress already in becoming more competitive by boosting value-added, building new plants, investing in new machinery and equipment and new technologies. They have been responding to changing consumer demands for healthier, more sustainable and environmentally responsible food products, such as Maple Leaf Foods and its new carbon-neutral strategy and its plan to reduce its GHG emissions by 30 per cent by 2030. New plants have been built on the Prairies to produce pea-based protein for the alternative meat market and small, local breweries and artisanal facilities have emerged that produce locally produced niche products to respond to consumer demand.

In the longer run, to remain resilient in the face of recent developments affecting trade and consumer confidence, Canadian FB processors will need to adopt new strategies for diversifying markets and production, adding more value to commodity agri-food and increasing efficiencies through supply chain collaboration and investment in advanced technologies (i.e. AI, robotics) and marketing strategies. At the same time, governments need to ensure that the policy, tax and regulatory environments are business-friendly and

conducive to investment and innovation. Most importantly, there is a need to work towards developing multilateral standards to safeguard human-animal-plant health to make sure COVID-19-like events are prevented and the sustainability of food systems is protected. They should also engage industry in a strategic review of agri-food trade and find ways to curb the increasingly destructive use of subsidies, in order to enhance trade and competitiveness of the sector. In this way, the FB processing industry can remain competitive and resilient in the event of future disruptions such as those it is currently facing with COVID-19, the rail transportation blockages and yet unseen “black swan” events.

We at CAPI know that generating solid, forward-looking public policy requires a good understanding of these critical points along the supply chains that could determine whether the system will continue functioning. Some of the key ones that come to mind are: labour availability; continuity of inspection services; alignment of transportation services with societal needs; maintaining critical infrastructure and keeping borders open; as well as maintaining consumer confidence with assurances to consumers that the Canadian food system provides safe, reliable, high-quality, accessible and affordable food.

Long-term public policy implications must also be a focus. In addition to these immediate public policy concerns, CAPI, alongside the whole agri-food supply chain will need to focus on the longer-term public policy implications to ensure resilience for the whole of the agri-food supply chain, and of our processing sector in particular. CAPI will continue to assist the sector by completing studies and developing policy options to provide solutions for adoption by the government and by the sector to respond to the challenges of maintaining safe and reliable food supplies, of growing wealth and employment and of providing important environmental goods and services for all Canadians. ●



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