AUGUST 2026

CAPI
THE CANADIAN AGRI-FOOD POLICY INSTITUTE

VALUE-ADDED IN CANADA: The food and beverage manufacturing opportunity



A Research Report
prepared for CAPI
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The Canadian Agri-Food Policy Institute's mission is to lead policy development, collaborate with partners and advance policy solutions within agriculture and food

This report was funded in part by Agriculture and Agri-Food Canada under the Sustainable Canadian Agricultural Partnership's AgriCompetitiveness Program.

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Canada's food and beverage manufacturing

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What is strong, what is under pressure, and what questions follow?

THE SCALE OF THE SECTOR



The largest manufacturing sector in Canada by sales.

318,400
JOBS

Exports equal **34.5%** of production value — domestic demand cannot replace a lost export market.

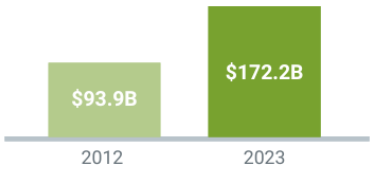
SECTOR STRENGTHS

- The largest manufacturing sector in Canada by sales.
- About **80% of the value in exports** is created in Canada
- Robotics adoption reached **11.4%** in food manufacturing in 2022

REALITIES SHAPING THE SECTOR

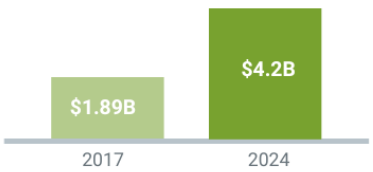
- **34.5%** of production value is exported, so domestic demand cannot replace a lost export market
- Beverage manufacturing ran a **$4.9B trade deficit** in 2024
- **Export markets are narrow,** with **80%** of processed exports going to the US, and **89%** of processed exports going to the top 3 destinations.
- Modernization is **not spreading evenly,** especially among smaller firms
- Processing depth is **uneven** across segments and product categories
- Governments still lack a clear, **shared picture** of the sector's health
- Tax measures suit projects **already close to viable** more than firms facing financing constraints, weak margins, or scale-up barriers

Revenue



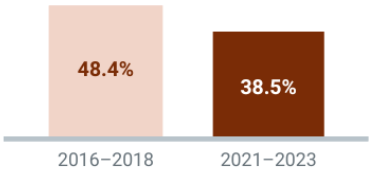
▲ INCREASED BY 83%
Revenue from goods manufactured, in nominal terms.

Capital spending



▲ MORE THAN DOUBLED
Capital spending between 2017 and 2024.

Process innovation



▼ 9.9% DROP
Share of businesses innovating in production processes and operations.

SUPPORT IS BROAD, BUT NOT COHESIVE

AAFC / APFS
Framework programs, innovation, market development, bilateral streams

ISED
Strategic Innovation Fund, innovation clusters, large project support

PROVINCIAL GOVERNMENTS
SCAP delivery, stand-alone grants, tax incentives

TAX POLICY
Capital cost measures, expensing, provincial processing credits

WORKFORCE & LABOUR
Training, immigration, labour supply measures

TRADE, REGULATION & INFRASTRUCTURE
Market access, CFIA, logistics, ports

FINANCING
FCC, RDAs, private and institutional capital

BOTTOM LINE

Canada's food and beverage manufacturing sector is strong, but without clearer alignment across trade, infrastructure, programs, and tax incentives, it will continue to under-deliver on scale, resilience, and value capture.

QUESTIONS MOVING FORWARD

Where should Canada build more domestic processing depth?

Which segments matter most for resilience, supply security, and value capture?

How should capital, tax, workforce, infrastructure, and regulation be better aligned?

What would a more cohesive national food manufacturing strategy look like?

Note from CAPI

Food and beverage manufacturing is receiving greater policy attention, and the timing is important. The sector sits between Canadian agricultural production and the markets that determine where value is created, where producers can sell and how the food system responds when trade or supply chains are disrupted. Yet public discussion often moves quickly from the ambition to process more in Canada to announcements about funding, without a clear view of the sector's structure, the investments required or the policy tools already in place. CAPI's previous work examined productivity and growth in food and beverage manufacturing. This report builds on that work by looking at the policy environment surrounding investment. Support is delivered through agricultural frameworks, industrial programs, tax measures, provincial initiatives, public financing, workforce policies, regulatory systems and trade services. These measures were created for different purposes and are administered by different institutions, which makes it difficult to see how they work together or where gaps remain.

The report brings those elements into one assessment. It maps the support available to food and beverage manufacturers and examines it against the sector's structure, vulnerabilities and investment conditions. Its purpose is to provide a clearer basis for deciding where additional or preserved capacity could create value, what may prevent viable projects from proceeding and how public policy can support investment without replacing the commercial responsibilities of firms.

Key Takeaways

- **Food and beverage manufacturing is a major part of Canada's economy and agri-food system.** It purchases more than half of Canadian agricultural production, supplies most processed food and beverages sold domestically and supports more than 300,000 jobs. Its structure varies considerably across firms, products and regions.
- **Canada has a broad range of policies and programs affecting processing investment, but they do not yet operate as a connected system.** Support is delivered through agricultural frameworks, industrial programs, tax measures, provincial incentives, workforce initiatives, regulatory services and trade tools.
- **The food and beverage manufacturing sector's strong performance conceals important vulnerabilities.** Export dependence is concentrated, processing depth is uneven across products and regions, some supply chains rely on a limited number of facilities and governments have limited information on capacity, utilization, facility condition and closure risk.
- **The transition from product development to commercial production remains a weak point.** Firms may be able to develop and validate products but still struggle to secure the equipment, technical capability, working capital and financing required for sustained commercial production.
- **Funding alone will not produce durable processing capacity.** Investment also depends on infrastructure, labour, regulatory approvals, transportation, inputs and access to customers. Public support should therefore be assessed by whether it changes an investment decision, helps a project reach operation and results in capacity that remains commercially viable.

Disclaimer given increased uncertainty of outcomes

The report's analysis is based on certain assumptions that rely on historical trends and relationships. However, with the increasing uncertainty and variability in outcomes associated with the current world we are living in, where trade rules no longer apply and the traditional assumptions about relationships are questioned, we can only base our analysis on what we know and will assume reasonable probabilities of risk until we learn otherwise. Hence, the outcomes may be different than previously thought.

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Introduction

Canada's food and beverage manufacturing sector is a major part of the national economy and a critical link on the agri-food value chain. It purchases more than half of Canadian agricultural production, employs more than 300,000 people and includes roughly 9,000 establishments. Through processing, Canadian crops, livestock, fish and other raw products become food, ingredients and consumer goods for domestic and international markets. Where that transformation occurs affects the value retained from Canadian production, the markets available to producers and the capacity of the food system to respond to disruption.

The national scale conceals significant differences. Processing capacity is concentrated in some subsectors and regions and thin in others. Most establishments are small, while relatively few firms reach the scale needed to finance major expansions, supply large buyers or compete in export markets. Some supply chains rely on a limited number of facilities, and almost 80% of processed food and beverage exports go to the United States. These conditions affect which investments can proceed through conventional finance, the consequences of losing a facility or market, and where additional processing capacity could create meaningful economic or strategic value.

Canada has long supported food processing through agricultural policy frameworks, tax measures, regional development programs, innovation funding, workforce initiatives, regulatory systems and trade services. These measures have been delivered through different institutions and designed for different purposes. Some support modernization and productivity. Others address commercialization, export development, labour or regional economic development. The resulting policy environment has been broad, but difficult to assess as a single connected system.

The National Food Security Strategy[1], released in June 2026, creates a new context for that assessment. It places domestic processing within a wider agenda covering food security, affordability, economic growth and reduced import dependence. The strategy aims to increase average annual growth in food-processing GDP from 1.6% to 2.75% between 2027 and 2035. It also aims to increase the domestically produced share of processed food consumed in Canada from 70% to 80%. Announced funding as part of the strategy cannot yet be treated as additional capacity, and approved projects will not by themselves establish that the strategy has changed investment, production or resilience. Early reactions also reflect the different expectations placed on it. Some farm organizations have welcomed its focus on resilience, competitiveness and domestic supply chains. Food and beverage manufacturers have argued that the strategy does not fully reflect the level of ambition needed to significantly expand domestic processing capacity and create more value from Canadian agriculture. Commodity groups have emphasized regulatory approvals and access to new technologies as conditions for investment and growth.

These responses point to a wider policy issue. Processing capacity depends on the performance of the full value

[1] Because the National Food Security Strategy is still at an early stage, the report assesses its design and place within the wider policy environment rather than its realized economic impact.

chain. Firms need competitively priced inputs, labour, infrastructure, technology, approvals, transportation and customers. Many projects also require access to export markets to operate at an efficient scale. Capital can move a viable project forward, but it has limited effect when the main constraint lies elsewhere in the system.

This report maps the funding and policy environment affecting food and beverage manufacturing and assesses its alignment, coverage and limitations in relation to the sector's structure, vulnerabilities and investment conditions. It identifies some of the fundamental gaps that must be addressed for public and private investment to produce additional, commercially viable and durable processing capacity.

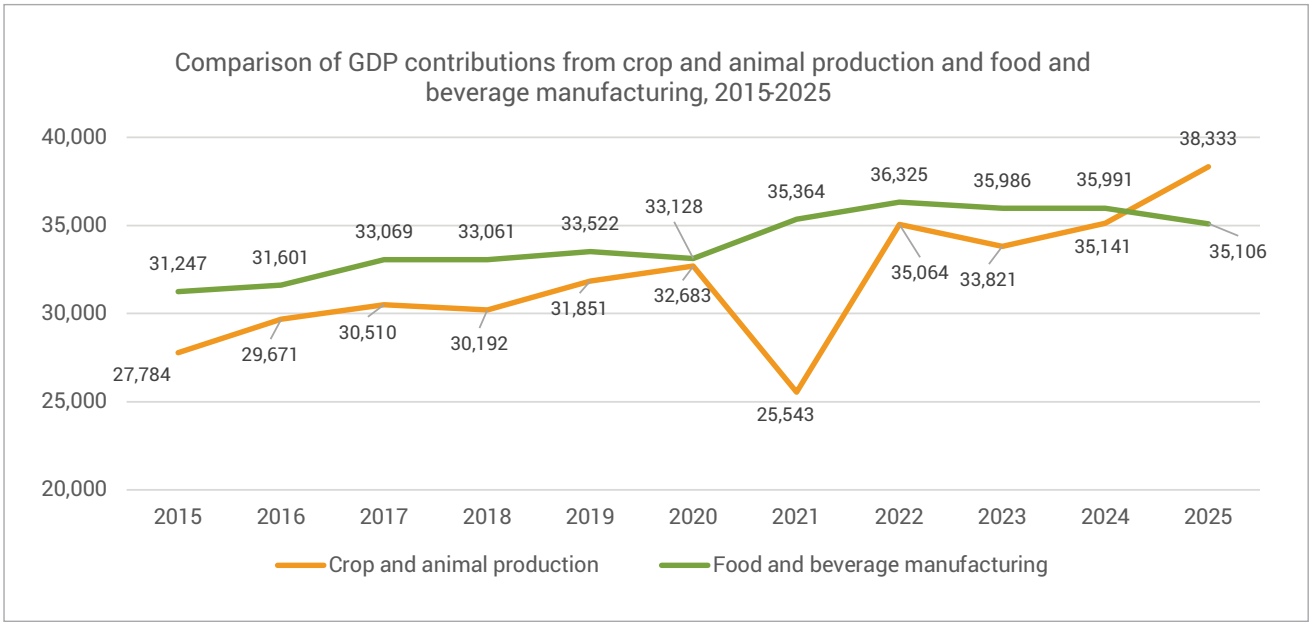
State of Canada's Value-Added Sector

For the purposes of this report, value-added agriculture refers to the processes that increase the economic value of raw agricultural products by converting them into food, ingredients, beverages and other market-ready goods. These activities include milling, meat preparation, dairy manufacturing, canning and other forms of food and beverage manufacturing. The terms value-added processing, food processing, and food and beverage manufacturing are used interchangeably throughout the report.

The sector enters the current policy period with a large production base, substantial private investment and strong export activity. Its structure is dominated by smaller establishments, while processing facilities require significant capital and long planning periods. Productivity performance has also been uneven. These conditions affect which firms can expand through conventional finance, which firms may require support to reach commercial scale, and whether new public measures address the constraint preventing an investment from proceeding.

Canada's agri-food economy is slightly more weighted toward primary production than downstream manufacturing. In 2025, crop and animal production contributed $38.3 billion in real GDP, about 9% more than the $35.1 billion generated by food and beverage manufacturing. This marked a change from the previous decade, when food and beverage manufacturing had consistently contributed more.

The two sectors are nonetheless closely connected. Processors purchase over half of Canadian agricultural production and supply about 80% of the processed food and beverage products sold in Canada. The scale and location of domestic processing therefore affect how much value Canada retains from its agricultural output, the market options available to producers, and the ability of domestic supply chains to respond to disruptions.



Note: *GDP at basic prices, chained 2017 dollars. Source: Table: 36-10-0434-03*

TABLE 1: Structural baseline: Canada's primary agriculture and food and beverage manufacturing, 2024

Indicator	Primary agriculture	Food and beverage manufacturing
Share of Canada GDP	1.4%	1.4%
Share of manufacturing GDP	/	17.2%
Share of manufacturing jobs	/	17.6%
Jobs	223,000	318,400
Manufactured sales		$173.4B
Farm cash receipts	$98.1B	/
Share of total manufacturing sales	/	20.3%
Establishments with employees	/	about 8,800
Share of establishments with fewer than 100 employees	/	92%
Share of Canadian agricultural production purchased by processors	/	over half
Temporary foreign workers	just over 78,000	just over 42,000

Source: *AAFC, 2024, Sector overview, Food processing industry, Data Reports*

Canada's processing base includes roughly 9,000 establishments operating across the country. Size is concentrated at the small end: as of 2025, 26.3% of employer establishments were micro (fewer than five employees), 64.3% were small, 8.3% were medium-sized, and 15 were large. Sales are correspondingly concentrated by geography: Ontario, Quebec, British Columbia and Alberta together account for 83% of food and beverage manufacturing sales. This structure has a direct bearing on how the sector can use the instruments now available. A federal contribution or financing facility sized for a large capital project reaches a fraction of a percentage of establishments; an instrument sized for a small operation may be too small to move a medium-sized firm to the next stage of scale. The sector also has significant technological and innovation capacity. In 2022, 11.4% of food and beverage manufacturing firms reported using robotics, one of the stronger adoption rates in Canadian manufacturing. Two-thirds reported introducing at least one innovation during 2022-23. These measures show that many processors are investing in new products, equipment and production methods, although they do not establish how widely those investments reached commercial scale or improved productivity.

This capability exists alongside aging systems and facilities that require substantial maintenance and upgrading. Firms consulted for this report described individual production lines and ovens costing millions of dollars and large facilities valued in the hundreds of millions or billions. Existing plants require ongoing maintenance, replacement and modernization, while new facilities involve substantial upfront capital and long planning horizons. The resulting capital needs differ across the sector. An established processor may be replacing an aging production line, while a smaller firm may be trying to finance its first commercial facility, the same distinction in scale that shapes which policy instruments can reach which firms. Several indicators point to continued investment and market growth, despite inflation, the COVID-19 pandemic and repeated supply-chain disruptions. Revenues increased by approximately 83% between 2012 and 2023 in nominal terms, capital spending in food manufacturing rose from $1.89 billion in 2017 to $4.2 billion in 2024, and exports increased from $18.5 billion in 2002 to $57 billion in 2023. The increase in capital spending is important because public programs can influence investment decisions, but they cannot substitute for firms committing their own capital to facilities, equipment and expansion. Productivity performance has been less consistent. Labour productivity grew by an average of 0.4% per year between 2000 and 2022, with weaker growth after 2015.

Close to 80% of the value embodied in food and beverage manufacturing exports in 2022 was generated domestically. This is a measure of how much value the export activity actually retains in Canada, and it indicates a substantial share. The remaining one-fifth of export value reflects imported ingredients, packaging and other intermediate inputs, showing that domestic processing remains connected to cross-border supply chains even where the finished product is Canadian-made. These measures indicate continued business investment and market expansion, although they do not isolate how much of the increase came from production volumes, prices or productivity.

A look at government support

Support reaches food and beverage manufacturers through several policy systems. Agricultural frameworks, industrial programs, regional development agencies, tax measures, labour and immigration policies, regulatory services and trade programs all influence investment. These instruments act at different stages and through different mechanisms. Their value depends on whether they address the condition preventing a firm from investing, expanding or reaching commercial scale.

Agricultural Policy Frameworks

Federal-Provincial-Territorial Agricultural Policy Frameworks (APFs)[2] have consistently included support for agri-food processing, though the way this support is structured has evolved over time.

Under the Canadian Agricultural Partnership (CAP) (2018–2023), value-added agriculture and agri-food processing was identified as one of six cost-shared priority areas. Spending in this category amounted to $20.7 million in 2018-19 and $24.5 million in 2019-20—just 6.5% of total cost-shared spending across those two years. While the sector was formally recognized within the framework, the level of investment tells a different story: value-added processing was a stated priority, but not a funded one.

Earlier frameworks reflected a similar pattern. Under Growing Forward 2 (2013–2018), programming was organized around broad themes such as competitiveness and market development, innovation and adaptability, and industry capacity, rather than around a distinct category for value-added processing. During this period, only about 5% of AAFC total spending was directed to the food processing sector, despite the sector's size and its role as the largest purchaser of farm output. While an analysis of figures from 2013-2018 have little bearing on today's economic realities or spending decisions, it demonstrates that the underlying assertion of limited investment has been persistent for more than a decade.

Under the current framework, Sustainable CAP (2023–2028), support relevant to food processing is delivered through a range of program streams including innovation, market development, workforce initiatives, and provincial cost-share initiatives. Selected initiatives (Table 3) support equipment purchases, energy efficiency, capacity expansion, product development and shared commercialization infrastructure. Their scale and eligibility differ considerably, reflecting provincial priorities and the structure of processing in each jurisdiction.

TABLE 2: CAP cost shared spending by national priority area (selected years)

CAP priority area	2018-2019	2019-2020
Environmental sustainability and climate change	$105.2M	$85.5M
Science, research and innovation capacity	$101.9M	$101.9M
Markets and trade	$60.2M	$64.9M
Risk management	$42.2M	$42.2M
Value-added agriculture and agri-food processing	$20.7M	$24.5M
Public trust	$5.6M	$4.6M
Total	**$335.9M**	**$359.9M**

[2] APFs have historically been anchored by large producer-facing Business Risk Management (BRM) programs, an obligation rooted in legislation. For example, under GF, federal spending on BRM programs exceeded $5 billion over the framework period, while federal spending on non-BRM programming amounted to about $1.3 billion. In other words, for every five dollars spent, four went to producer risk and income supports. Under later frameworks, strategic envelopes increased and some of that funding clearly supported processing, but the core architecture remained more heavily oriented toward farm-side risk and income supports than toward a dedicated processing stream.

TABLE 3: Selected provincially delivered Sustainable CAP programs relevant to food processing initiatives for value-added agriculture and food processing under SCAP (2023-2028)

Prov.	Program	Envelope	What it Funds
MB	MB Capital Infrastructure and Investments Program	$6M+ announced (July 2025, 19 processors); program ongoing	Equipment upgrades, facility expansions, and new technologies to improve efficiency, production capacity, and environmental performance
ON	Agri-Food Energy Cost Savings Program	Up to $10M total	Energy-related investments to lower operating costs and improve competitiveness
ON	Meat Processors Capacity Improvement Initiative	Up to 60% of eligible costs, to a maximum of $150,000	Equipment and related upgrades to strengthen meat-processing capacity.
AB	Value-Added Program	Stream B grants over $50,000 to a maximum of $250,000	Capacity expansion, market development, and productivity projects for food and bio-industrial processors.
SK	Product Development Program	Service-based support for eligible firms	Prototype and product-development services for food, beverage, and other agri-processing value-added companies.
SK	Ag-West Bio+Saskatchewan Food Industry Development Centre	$9.5M + $5.0M = $14.5M (SCAP-linked, 5-yr)	Institutional support for food innovation and processing sector development. Builds sector infrastructure rather than funding individual projects.

Direct funding and financing outside Agricultural Policy Frameworks

Federal support for food processing outside of the Agricultural Policy Frameworks (APFs) includes a range of targeted programs and funding streams delivered through multiple departments and agencies. These interventions often focus on specific sectors, policy objectives, or innovation mandates, rather than operating as part of a single, unified processing-focused envelope.

Additional support is delivered through innovation and financing channels. Programs administered by Innovation, Science and Economic Development Canada (ISED), including support for innovation clusters, which spawned initiatives such as Protein Industries Canada (PIC). PIC contributes to sector development through research, commercialization, and collaboration. Farm Credit Canada (FCC), along with private and institutional investors, also provides significant capital to the broader agri-food sector, including processing. All told, these supports illustrate a broad landscape of federal activity outside core APF programming, spanning targeted funds, innovation platforms, and financing tools.

Provinces have also created dedicated processing funds outside the agricultural policy frameworks. A few examples include Ontario's Strategic Agri-Food Processing Fund, Quebec's Transformation Alimentaire program and British Columbia's Food Processing Growth Fund. These initiatives supported facility expansion, automation, productivity and commercialization, but were time-limited and specific to individual jurisdictions. They demonstrate that provinces can respond directly to processing investment needs, while their episodic nature makes them less predictable than standing tax measures or multi-year national programs.

Stakeholders consulted[3] for this report questioned whether direct contributions are large enough to influence investment in a capital-intensive sector. At the time, interviewees indicated that a mid-scale facility or significant expansion could require between $50 million and $200 million or more. As one processor observed, "it costs $2 million just to pave the driveway at one of our facilities."

The National Food Security Strategy materially expands the federal role outside the APFs. It introduces new funding and finance while directing existing industrial resources toward agri-food projects.

[3] These interviews were conducted before the release of the National Food Security Strategy and therefore do not reflect stakeholder views on the new measures announced in June 2026.

TABLE 4: Selected federal funding and financing instruments outside APFs

Program/ Instrument	Period	Envelope	Scope and Structural Constraints
Supply management sector - dedicated processing programs			
Supply Management Processing Investment Fund	2022-2028	$397.5M overall budget; 103 approved projects and $258M in project funding as of March 31, 2025.	Dairy, poultry and egg processors only; supports automation and technology investments to improve productivity and efficiency. Poultry and egg funding is fully allocated; dairy intake remains open.
Dairy Processing Investment Fund	Ended 2023	$100M	Dairy-processing competitiveness and adaptation to CETA.
Dairy Innovation and Investment Fund	launched 2023	up to $333M / 10 years	Dairy processing capacity, product and market development, solids non-fat uses.
Economy-wide federal instruments - processing accessible but not prioritized			
Emergency Processing Fund	2020	$77.5M	COVID-era support for PPE, facility modifications, worker safety protocols. One-time emergency response. Not a capacity program.
The Strategic Innovation Fund	Ongoing	Supported more than 150 end-recipients in the agri-food sector and co-funded large processing-related projects.	Examples include a $744 million project by Maple Leaf Foods to expand automation and robotics in poultry processing, a $52 million Canadian Food Innovation Network project that builds food and beverage innovation and supply chain capacity, and a $134 million Canadian Agri-Food Automation and Intelligence Network project, which received a $49.5 million SIF contribution.
Regional Development Agencies	Ongoing	Not aggregated by sector	Project-by-project processing investments: over $21 million from PrairiesCan for 14 manufacturing and value-added agriculture projects in Alberta, and over $12 million from FedDev Ontario for agri-food businesses in southern Ontario. No dedicated food processing stream in any RDA, episodic investments.
Protein Industries Canada	Ongoing	Over $353 million dollars over 2018-2028	Between 2018 and 2023, PIC co-invested about $173 million in federal funds into 55 projects, leveraging around $304 million in private investment. Budget 2022 and the cluster renewal announced in 2023 added another $150 million in federal funding for 2023-2028. This is processing-relevant money, but it comes from ISED's cluster budgets rather than AAFC's APF or SCAP envelopes.
FCC Capital commitment	February 2026; to be invested by 2030	$2B committed by FCC; $5B investor coalition	Direct equity and fund capital across the ag and food value chain, including agri-food manufacturers and ag-tech companies. Largest single structural shift in processing capital access in the past two decades.

TABLE 5: Processing-related funding and financing identified in the National Food Security Strategy

Instrument	Funding	Intended Role
Strategic Response Fund: agri-food projects	$350 million in existing funding	Contributions of up to $50 million for major agrif-food investments
Strategic Response Fund: innovation ecosystems	$150 million in existing funding	Support for national food-related innovation ecosystems
Regional Economic Growth through Innovation	$150 million in new funding	Regional agri-food project contributions of up to $10 million
Food Security Fund	$150 million in new funding	Support for food-related SMEs and food-system organizations undertaking processing, production, storage and distribution projects
Collaborative Food Innovation Fund	$100 million in new funding	Consortium-based support for commercialization and growth across the food-innovation continuum
Agri-food Project Finance Fund through FCC	$1 billion	Project finance for capital-intensive, high-potential value-added investments

The emerging landscape is therefore broader and more processing-focused than the one it replaces. The remaining implementation issue is whether the instruments operate as a connected investment pathway. Innovation funding must lead into commercial finance, regional and provincial contributions must complement rather than duplicate federal support, and project selection must be tied to additional capacity or capability that would not otherwise be developed in Canada.

Federal support through workforce, market access, and regulatory measures

This report examines workforce measures given the critical importance of labour to the viability and performance of food and beverage manufacturing. Processing is not a passive activity: it depends on a reliable, skilled, and increasingly technical workforce to operate facilities, maintain throughput, meet regulatory standards, and adapt to new technologies. Labour shapes not only day-to-day operations, but also investment decisions and the ability of firms to expand or modernize.

In 2023, the federal government committed $7.7 million to Food Processing Skills Canada to train 1,250 Canadians for the food and beverage processing sector. This is equivalent to approximately $6,200 per planned participant. The commitment provides a measure of program scale, while its economic effect depends on completion, placement, retention and whether trained workers fill positions that were constraining production. Federal supports also extend to immigration policy, which also shapes workforce availability, particularly in labour-intensive and geographically isolated parts of the sector. Processors use the Temporary Foreign Worker Program and other immigration streams where domestic recruitment is insufficient. Changes to eligibility, processing times or pathways to permanent residency can alter staffing conditions and the viability of facilities in regions with small labour pools.

Market development programs support another part of the investment chain. AgriMarketing, the Canadian Food Inspection Agency's Market Access Services and Global Affairs Canada's Trade Commissioner Service help firms identify customers, meet foreign requirements and address technical barriers. These services are especially relevant to facilities that require export volumes to operate efficiently. Rail, ports, cold storage and transportation reliability also affect whether market access achieved on paper can be used in practice. Regulatory policy influences the time and cost required to introduce products, modify facilities and enter new markets. The National Food Security Strategy includes commitments to reduce approval backlogs, shorten future approval times and assist provincially licensed establishments seeking to meet federal requirements. These measures could widen market access and reduce delays for some firms.

Their effect will depend on implementation times, the consistency of requirements and whether processing projects can secure approvals within their financing and construction schedules.

Workforce, trade and regulatory measures should therefore be treated as operating conditions, because a facility may have access to capital and still remain unviable if it cannot recruit workers, obtain approval, move products reliably or reach enough customers.

Tax policy

Tax policy is one of the broadest forms of support available to food and beverage manufacturers. Unlike a grant program with a fixed budget and selected recipients, tax measures can apply to qualifying investments across the sector.

Federal capital-cost treatment has become more favourable since 2015. Accelerated depreciation for manufacturing and processing machinery and equipment, followed by immediate expensing in 2018, coincided with a strong increase in food manufacturing capital investment after 2017. The timing is consistent with these measures having improved the economics and cash flow of financeable projects, although tax policy was not the only factor. The signing of CUSMA in 2018 also reduced uncertainty about continued preferential access to the United States, giving processors greater confidence that expanded Canadian capacity could serve the larger North American market.

A smaller firm planning its first commercial facility may lack collateral, retained earnings or the operating history required by lenders. Immediate expensing improves the after-tax economics once an asset is acquired and brought into use; it does not supply the capital needed to purchase or construct it. Firms with limited taxable income may also receive less near-term value because there is less current tax liability for the deduction to reduce.

This does not make capital-cost measures ineffective for smaller firms. A profitable small processor with financing in place may benefit substantially from faster deductions. The limitation arises where the firm's main constraint is access to capital, delayed profitability, infrastructure, labour or regulatory approval. In those cases, changing the timing of tax deductions does not remove the condition preventing the project from proceeding.

Capital-cost treatment remains an important part of the current investment environment. Qualifying manufacturing and processing machinery and equipment can receive a full first-year deduction. Budget 2025 also proposed a full first-year deduction for eligible manufacturing and processing buildings acquired after November 4, 2025, and brought into use before 2030, followed by reduced deductions during a four-year phase-out. Extending this treatment to buildings is particularly relevant because the facility itself can account for a large share of the cost of a processing project.

These measures are most useful to processors that have assembled a financeable project. Bringing reductions forward reduces early tax payments, improves cash flow and can affect the timing or scale of an expansion or modernization. Their reach is narrower where the investment cannot yet be financed. Fewer than one in ten food and beverage manufacturing establishments are medium or large.

Other tax measures address different parts of the investment process. The Scientific Research and Experimental Development (SR&ED) tax incentive can support qualifying experimental work on products and production processes. Its relevance ends before many of the larger costs of commercial scale, including plant construction, equipment finance and market development. It therefore supports technical development rather than providing a complete route from innovation to operating capacity. SR&ED is also an economy-wide research incentive rather than a food-processing tax measure, and eligibility is determined by the nature of the work rather than the industry undertaking it.

Provincial incentives vary in design and intended reach. Ontario provides a refundable manufacturing investment credit, allowing qualifying firms to receive the benefit even where current provincial tax liability is limited. Alberta provides a 12% non-refundable credit for agri-processing projects with at least $10 million in eligible capital spending, with up to $175 million available per project. Saskatchewan also uses a non-refundable credit tied to major value-added agriculture investments. The minimum project thresholds in Alberta and Saskatchewan direct these incentives toward large facilities and place them outside the normal investment range of most establishments.

Saskatchewan's Small and Medium Enterprise Investment Tax Credit addresses an earlier financing stage. It provides a 45% non-refundable credit to investors purchasing equity in eligible manufacturing firms with between five and 49 employees. The processor does not claim the credit against the cost of its equipment; the incentive is intended to make it easier for the firm to raise equity. Its scale is limited, but its design responds more directly to firms that need capital before they can make use of accelerated depreciation. Provincial credits can also influence where a major facility is located. From a provincial perspective, attracting a plant can create investment and employment. From a national perspective, the result is additional only when the incentive causes a project to proceed, increases its scale or retains

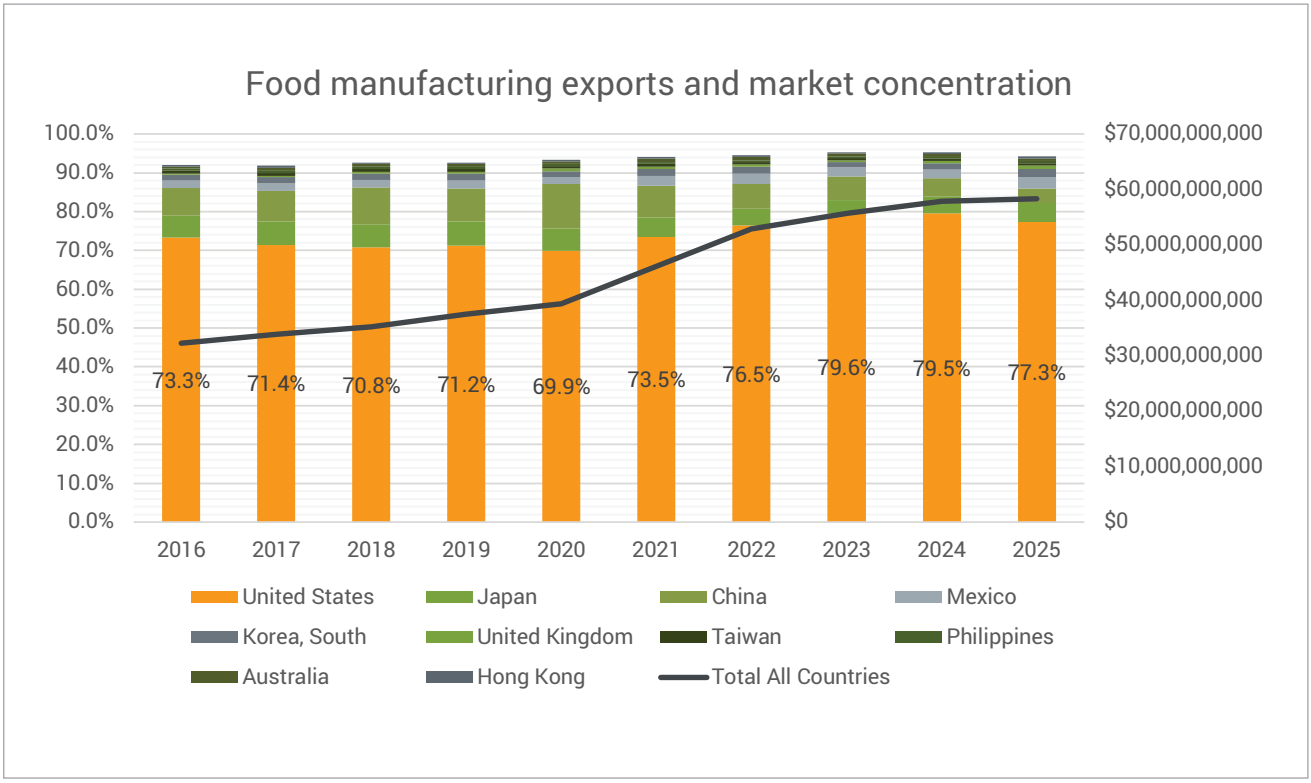
investment that would otherwise occur outside Canada. Moving a planned project from one province to another changes the regional distribution of capacity without increasing the national total. Canada's tax treatment has become more supportive of manufacturing and processing investment and now covers physical capital, qualifying research, major project attraction and, in Saskatchewan, equity formation for smaller firms. Its reach remains uneven across the investment chain. Capital-cost measures are most useful once a firm can finance a project, while refundable credits and investor incentives can reach some firms with limited current tax liability or equity. Evidence on uptake by food processors, firm size and investment type remains limited, making it difficult to determine how much additional capacity the measures have generated and where financing or direct support is still required.

Structural vulnerabilities

The preceding sections establish the sector's economic position and map the support available to it. This section isolates four vulnerabilities that can weaken existing capacity or prevent public measures from producing additional, durable capacity. Each provides a test of policy fit: whether the current framework reduces the exposure, leaves it unresolved or reinforces it through poor targeting, sequencing or information.

Concentrated export dependence

In value terms, the sector's trade position is strong. In 2024, processed exports reached a record $59.7 billion, while imports were about $51 billion, leaving a trade surplus of $8.7 billion. Food manufacturing, excluding beverages, remained in surplus. Beverage manufacturing continued to run a deficit that reached $4.9 billion. Exports accounted for 34.5% of production value, so the sector is clearly export-oriented, but a large share of that value-added revenue still depends on a very narrow set of markets. Eighty percent of processed exports went to the United States alone, and 89% went to the top three markets combined (United States, Japan, China). A narrow export base represents a key vulnerability. With such a high concentration in three single markets, any disruption would have immediate and significant consequences for Canadian processors – an all too real scenario in 2026. Alternative markets would be difficult to scale in the short term, and domestic consumption would be insufficient to absorb displaced production. The policy test is therefore whether trade, regulatory and logistics measures give processors credible alternatives during a disruption, without weakening commercially valuable access to the U.S. market.



Source: *Generated internally using ISED data*



Source: *Generated internally using ISED data*

Having access to the large US market for our manufactured food and beverage products has allowed our industry to thrive and grow. At the same time, having access made Canada a more attractive place to invest, since countries such as those in Europe invested here knowing they would have access to the market to the south.

The fear is that without reliable access to this market in response to the trade war, demand for our products will fall, since it will be difficult to replace this market quickly. Canada will also become a less attractive foreign investment destination without this access.

This is why it is particularly important for Canada to focus on investing in its industry so we can develop new products for new markets instead. This will also require investing in the infrastructure needed to deliver those products to the new export destinations and the workforce skills required.

Uneven processing depth across products and regions

Canada does not process as much of the food it grows, raises and harvests as it could. The gap is uneven across products and regions. In 2025, 24% of live hogs and 20% of live cattle were exported to the United States, while imports supplied 30% of pork and 26% of beef consumed in Canada. Canada also exported more than $724 million in fresh tomatoes while importing over $511 million in processed tomato products. Imports accounted for 45% of preserved fruit and vegetables consumed in Canada.

The same pattern appears in fish and seafood. Canada is a major producer, yet imports of prepared and packaged seafood exceed $2.5 billion annually. Domestic processing, cold storage and logistics capacity is concentrated in relatively few locations, leaving some coastal, northern, remote and Indigenous communities with limited ability to process and distribute local harvests.

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When there is less domestic transformation or a narrower range of products, Canada retains less value from what it produces and becomes more exposed to trade disruptions and supply shortages. It is impractical to suggest that Canada replace all imports. Product type, seasonality, production costs and consumer demand will continue to shape trade. The priority is to identify categories where thin domestic capacity materially affects resilience, supply security, producer market options or domestic value capture, and where additional processing could be commercially viable.

The policy test is whether project selection distinguishes commercially and strategically important gaps from imports that reflect normal specialization or cost differences. This is the "missing middle": the gap between promising products, technologies, and business cases, and the financing, plant capacity, workforce, and operational capability needed to move them into durable production.

The challenge is amplified by the high cost of operating in Canada, given stringent regulatory standards, a vast geographic footprint, concentrated retail environment, a relatively small domestic market, and high labour costs. SMEs operate alongside transnational firms who have access to deeper resources, making it difficult for this segment of the market to compete.

The National Food Security Strategy introduces separate instruments for innovation, smaller firms, regional projects and major investments. Their effectiveness will depend on whether firms can move between them as they grow, rather than reaching another financing gap once one stage has been completed.

Weak translation from opportunity to commercial scale

A central weakness in the sector is its inconsistent ability to scale. Canada has firms, ideas, ingredients, and research capacity—but these do not reliably translate into commercial-scale processing (particularly for small and medium-sized enterprises, which often struggle to raise sufficient capital).

The policy test is whether the emerging framework creates a continuous route from product development to first commercial production and later expansion, with each instrument addressing the constraint present at that stage.

Limited visibility into capacity and facility risk

Canada collects data on processing GDP, sales, trade, employment, capital spending and establishment counts. It has much less visibility into installed capacity, utilization, plant condition, deferred maintenance, expansion plans and closure risk.

This information gap makes it difficult to identify which facilities are difficult to replace, where nearby plants could absorb production after a closure or where additional investment would address a significant regional or supply-chain exposure. Relevant information is held across firms, industry associations, lenders, regulators and different levels of government, but it is not assembled into an agreed-upon common national assessment. In a sector tied directly to food security, this gap is significant. It also underscores an unresolved question of institutional responsibility: no single actor appears to be accountable for maintaining a comprehensive understanding of the sector.

The National Food Security Strategy establishes targets for processing GDP growth and the domestic share of processed food consumption. Those indicators can measure broad progress, but they cannot show whether growth is addressing the most important capacity gaps. Better information on facility condition, utilization and regional dependence is needed to guide project selection and assess whether supported investments produce additional and durable capacity.

The policy test is whether governments have enough information to direct support toward additional capacity, identify assets at risk and distinguish strategically important projects from routine commercial investment.

Taken together, these vulnerabilities identify where the current framework must demonstrate its fit. Public measures should reduce concentrated market exposure, build commercially viable capacity where processing depth is thin, help firms cross the gap to commercial scale and improve visibility into existing assets and risks. Where the framework leaves these weaknesses unresolved, or reinforces them by favouring only finance-ready firms, supporting capacity without viable markets or selecting projects without sufficient evidence, additional spending alone will not produce durable results.

Lessons from other sectors and countries

Food processing projects often depend on decisions that sit outside the firm making the investment. A processor may have committed capital and secured customers but still be unable to proceed without utility upgrades, transportation access, regulatory approvals or a suitable workforce. Similar coordination problems appear in other capital-intensive sectors and in countries that have made domestic production capability a policy priority. Their experience helps identify how responsibility can be assigned and how support can follow an investment from development into operation.

Canadian experience

Canada's critical-minerals approach treats extraction, enabling infrastructure, processing and market development as parts of the same investment chain. It backed the strategy with nearly $4 billion in 2022, created a Critical Minerals Centre of Excellence to coordinate policies across departments, put up to $1.5 billion behind the Critical Minerals Infrastructure Fund, and used the Strategic Innovation Fund to support critical-minerals projects. By March 2025, the infrastructure fund had conditionally approved up to $303 million for 31 projects. In March 2026, a further $165.2 million was announced for 22 projects aimed at planning, development, and processing capacity.

Forestry policy similarly links facility support with transportation, trade, domestic demand and assistance navigating federal programs. The current forest-sector push is aimed at the stretch between fibre and market. The industry action plan focuses on three frictions: regulatory and permitting drag, trade and transportation bottlenecks, and weak domestic demand pull. The 2026 federal package followed that same logic. It combined retooling support with domestic demand tools, Indigenous participation programs, export development, and a one-window pathfinding service to help firms navigate federal programs. Their economics differ from food processing, but both show the importance of identifying the constraint affecting an investment and assigning responsibility for addressing it. Separate programs do not automatically produce a coherent value-chain outcome.

International experience

Australia treated food and beverage as a National Manufacturing Priority and attached project-sized support to that choice. Under the Modern Manufacturing Initiative, firms in the food and beverage rounds could apply for grants between $1 million and $20 million, covering up to 50% of eligible project costs. The program was built around value-chain integration and scale-up, not only around general business support. That is directly relevant to Canada, where the gap is not sector existence but the strength of the pipeline from investment interest to operating capacity.

Singapore provides a narrower lesson on resilience. It is highly import dependent, importing more than 90% of its food, and that is precisely why this example matters. The country has responded to that exposure by turning food vulnerability into a domestic capability agenda. A measurable target was set through the 30-by-30[4] goal. Achieving it was tied to technology adoption, productivity, resource efficiency, and workforce upgrading. Food manufacturing capability was not treated as a side benefit. It was treated as part of how resilience would be built under severe land and resource constraints. The comparison point for Canada is not land scarcity. It is policy discipline. Singapore translated a strategic vulnerability into a production, technology, and skills agenda with explicit targets and operating tools. Canada has not done that yet for food processing.

The Netherlands and Germany add a different lesson: translation capacity. In the Netherlands, agri-food sits inside a mission-driven top-sector system built around public-private collaboration, sector priorities, and deliberate links between business, government, and knowledge institutions, a sophisticated public-private partnership model referred to as the "Triple Helix". Germany's strength lies more in its applied-research infrastructure. Food-relevant institutes work closely with industry on processing technology, packaging, new proteins, machinery, and product performance, known as the "Mittelstand" approach, the backbone of the German economy. The practical implication is straightforward. Strong sectors usually sit on stronger systems for moving knowledge into production, not only on grant programs or trade support. Food processing in Canada still relies too heavily on separate conversations about research, commercialization, and plant-level competitiveness.

[4] A visionary goal by the Singapore Government in 2019 to produce 30% of the nation's nutritional needs by 2030.

Implications for Canada

The cases address different parts of the investment process. Critical minerals and forestry assign responsibility for coordinating major projects across programs and enabling conditions. Australia supports the transition from development into production. Singapore links investment decisions to an identified exposure and a measurable capability. The Netherlands and Germany provide technical support before firms commit to full commercial facilities.

Canada already has many of the required instruments. They are distributed across agricultural programs, industrial funding, regional development agencies, Farm Credit Canada, tax policy, workforce measures, regulatory services and trade programs. The National Food Security Strategy adds further funding and financing. The main weakness lies in the connection between these instruments and in the evidence used to decide where they should be applied.

Recommendations

The analysis points to four areas where the current policy framework should be strengthened. Together, they would improve the conditions for investment, help viable projects overcome constraints, provide a clearer route to commercial production and strengthen the evidence used to direct and evaluate public support.

Continue improving the sector's competitiveness and attractiveness to investment

Federal and provincial governments should continue using tax policy, regulatory reform and investment-attraction measures to improve the underlying conditions for food and beverage manufacturing.

Priorities should include:

- maintaining competitive capital-cost treatment for processing equipment and facilities;
- examining the uptake and effects of tax incentives by firm size and investment type;
- establishing clearer regulatory service standards and approval timelines;
- reducing unnecessary duplication between federal and provincial requirements;
- improving coordination among investment-attraction agencies; and
- targeting foreign and domestic investment toward opportunities that add productive capacity, technology, market access or supplier relationships in Canada.

Investment incentives should be assessed according to whether they cause a project to proceed, expand, accelerate or remain in Canada.

Federal and provincial governments should avoid competing primarily to shift a planned facility from one province to another without increasing national processing capability.

Coordinate enabling conditions around priority processing projects

Projects receiving substantial public support, or identified as addressing an important economic, regional or supply-chain gap, should have a lead public organization responsible for coordinating the conditions required for the investment to proceed and operate.

For each priority project, the lead organization should:

- identify the main financial and non-financial constraints;
- determine which department, government, utility or organization has responsibility for addressing each constraint;
- coordinate the timing of financing, infrastructure, regulatory approvals and construction;
- track unresolved issues through to a decision; and
- report whether delays or project failure resulted from conditions that public authorities could not align.

This coordination should extend to infrastructure, labour, regulatory approvals, transportation, input supply and market access where these affect project viability. It should simplify navigation across institutions rather than establish another approval process.

The private sector should remain responsible for the business case, customers, private financing, project delivery and commercial risk. Public involvement should focus on constraints that individual firms cannot resolve alone or that require several public decisions to align.

Create a clearer pathway from product development to commercial scale

Agriculture and Agri-Food Canada should work with Innovation, Science and Economic Development Canada, regional development agencies, Farm Credit Canada and provincial organizations to create a clearer route from product development to first commercial production and later expansion.

The pathway should:

- define the principal stages from technical development through commercial operation;
- identify the programs and financing instruments available at each stage;
- establish referral procedures when a firm's needs move beyond the mandate of its current program;
- allow verified project information to be reused across programs where possible;
- identify the technical, regulatory, management and financing requirements for moving to the next stage; and
- assess whether firms have adequate access to pilot production, process engineering, packaging validation and other scale-up capabilities.

Firms completing an innovation or productdevelopment program should receive a clear assessment of what remains necessary to reach commercial production and which institution is best placed to address the next constraint. This should improve continuity between programs without guaranteeing further public support.

The pathway should remain focused on firms able to demonstrate credible demand, realistic production costs, capable management and a viable operating model. Progress should be measured by whether firms reach commercial production, how long the transition takes and whether they sustain production and sales.

Improve information on processing capacity, risk and investment outcomes

Agriculture and Agri-Food Canada should work with Statistics Canada, Innovation, Science and Economic Development Canada, provinces, territories and industry to establish a common framework for assessing processing capacity and the outcomes of public support.

The capacity component should begin with targeted assessments of subsectors where processing alternatives are limited, regional dependence is high, facilities are aging or significant opportunities for expansion have been identified.

Assessments should examine:

- installed capacity and utilization;
- expansion and modernization potential;
- facility condition and replacement requirements;
- closure or consolidation risk;
- producer and regional dependence on individual facilities; and
- the availability of alternative processing options.

The findings should inform decisions about where new capacity, modernization or preservation would create material value and where proposed projects would duplicate underused capacity.

The investment-outcomes component should track significant publicly supported projects from approval through commercial operation.

Reporting should distinguish among:

- funding announced, approved and disbursed;
- construction started and completed;
- capacity installed;
- commercial operation reached;
- actual utilization; and
- continued operation after the initial support period.

Programs should also assess whether public support changed the timing, scale, location or viability of the investment. Private capital associated with a supported project should not automatically be treated as investment caused by public funding.

The results should be used to refine project selection criteria and program design. This framework should provide the evidence required to determine where intervention is warranted, whether it changed the investment decision and whether the resulting capacity remained commercially viable.

Converting the opportunity into durable capacity

Canada has an opportunity to retain more value from its agricultural production, strengthen the markets available to producers and reduce vulnerabilities in domestic food supply-chains.

The policy environment is now better equipped to unlock that opportunity. The National Food Security Strategy adds new funding and financing to an already broad mix of tax measures, innovation programs, regional supports, workforce initiatives, regulatory services and trade tools. It should be understood as one part of the response rather than a complete solution. Its contribution will depend on how well it is integrated with the wider conditions that shape investment, including infrastructure, labour, regulation, transportation, market access and access to private capital.

The recommendations set out the areas where the current framework requires stronger execution. Competitive tax and regulatory conditions influence whether firms choose to invest and expand in Canada. Coordination around priority projects can help align the public decisions that affect whether an investment proceeds. A clearer route from product development to commercial production can reduce the gap between innovation support and financeable scale. Better information on capacity, risk and investment outcomes can improve project selection and show whether public intervention changed the result.

Acting on these recommendations would improve the likelihood that public and private investment reinforce one another. It would also reduce the risk that funding is committed without resolving the constraint preventing a project from reaching production or remaining viable. Domestic processing can expand alongside Canada's role as a supplier to international markets, provided that investment is directed toward credible opportunities and supported by the conditions required for long-term operation.

The opportunity will be realized through facilities built or modernized where there is a credible need, firms that progress from innovation into sustained commercial production and existing capacity preserved where its loss would create wider economic or supply-chain consequences. Those outcomes, rather than the size of announced funding alone, will determine whether the current framework produces additional, competitive and durable food processing capacity in Canada.