CAPI
THE CANADIAN AGRI-FOOD POLICY INSTITUTE

A Business Case for Expanding Food and Beverage Manufacturing in Canada

October 2026

Food and Beverage Canada
Aliments et boissons Canada

A Report prepared for Food and Beverage Canada by the Canadian Agri-Food Policy Institute
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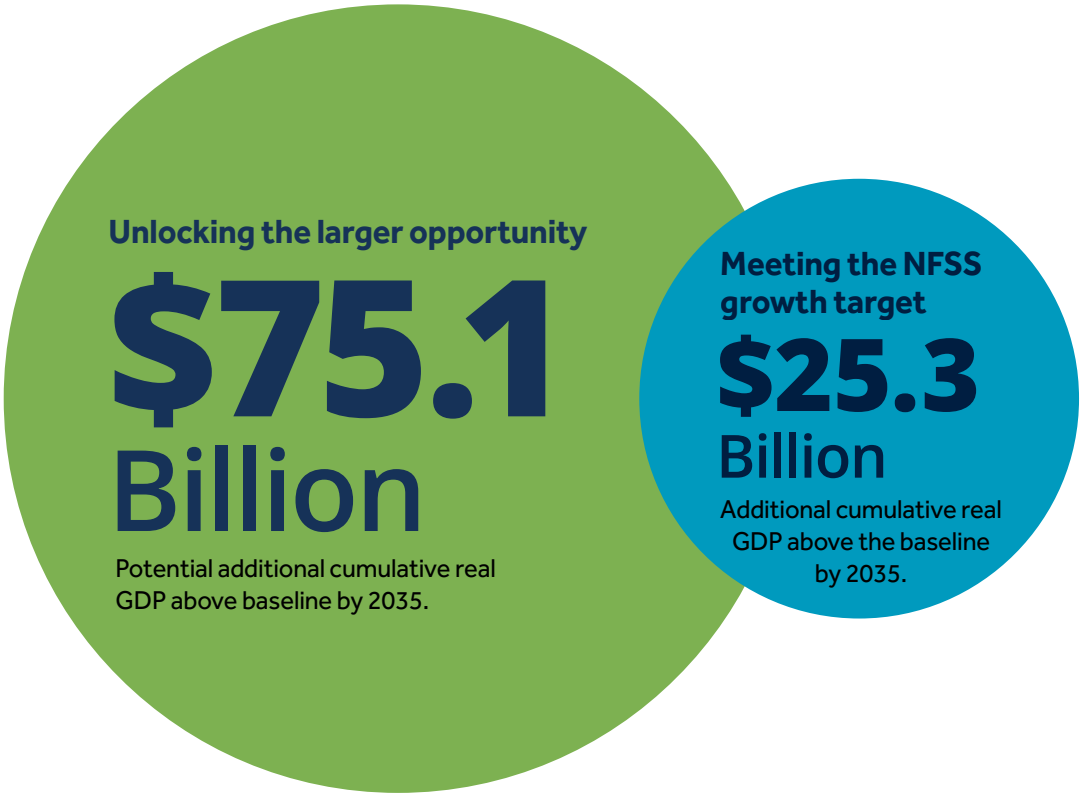
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Executive Summary

Canada has a major economic opportunity in food and beverage manufacturing.



A key industry for Canada

Canada's food and beverage manufacturing industry is already the country's largest manufacturing sector, generating approximately:

$188 billion in annual revenues

$35.1 billion in GDP

and more than **318,000** direct jobs

With over 9,000 establishments across the country, the industry connects Canadian agriculture to consumers, foodservice and global markets, while purchasing approximately half of Canada's agricultural output.

But productivity has stalled

Labour productivity in food manufacturing grew by 1.4% annually between 2011 and 2018 but was essentially flat between 2019 and 2025. At the same time, manufacturers faced rising costs, trade uncertainty and increasing pressure to invest, automate and improve productivity.

The opportunity is real

The federal government's National Food Security Strategy has established a target of 2.75% annual food-processing GDP growth between 2027 and 2035. Achieving this — and capturing the larger opportunity — will require more than individual programs. It will depend on the broader conditions that allow companies to invest, modernize, scale and compete.

Five priorities to unlock the opportunity

Turning economic potential into investment and growth requires more than funding alone. Canada should treat food and beverage manufacturing as strategic industrial capacity and adopt a coordinated approach built around five priorities.

1

INVEST

Leverage private capital to support automation, expansion and new manufacturing capacity.

2

MODERNIZE

Recognize automation, robotics, digitalization and incremental technology adoption as critical forms of innovation in food and beverage manufacturing, and ensure federal programs support these investments.

3

REGULATE SMARTER

Protect public and food-safety objectives while reducing unnecessary duplication, delay and non-value-added regulatory burden.

4

BUILD THE WORKFORCE

Align immigration, training and workforce policy with the industry's long-term labour and skills requirements.

5

COMPETE

Address the structural costs that affect the ability of Canadian manufacturers to compete at home and abroad.

Canada's largest manufacturing industry should be treated like one.

The Case for Action

Canada's largest manufacturing industry is a strategic economic asset, yet its potential for investment, productivity and growth remains underrealized.

Canada's food and beverage manufacturing industry is the link between Canadian agriculture, consumers, retailers, foodservice and export markets. It is also Canada's largest manufacturing industry and an important part of a vibrant agriculture and agri-food system. Yet despite its economic importance, its role in domestic food production and its contribution to Canada's trade balance, food and beverage manufacturing has not historically received the same level of strategic policy attention, investment support or industrial prioritization as other major manufacturing sectors, such as automotive and aerospace. **With companies making decisions now about where to invest in their next plants, production lines and equipment, Canada cannot afford to miss this opportunity.**

There are signs this is changing.

The federal government's National Food Security Strategy (NFSS) commits $3.2 billion over ten years to strengthen domestic food production, improve affordability, increase value-added production capacity and build a more resilient food system. This commitment was reinforced in Halifax, where Ministers of Agriculture prioritized building domestic value-added capacity and improving productivity and profitability as foundations of the next Agricultural Policy Framework. **These commitments represent an important step, but their success will depend on translating this renewed attention into investment and expanded manufacturing capacity.**

The challenge is that the conditions for growth are becoming increasingly constrained.

Canada needs an enabling environment that encourages businesses to invest, innovate, scale and compete, **particularly as rising costs, trade uncertainty and competition for capital influence where companies choose to invest.** The evidence from Canada's experience with industrial support programs points to an approach that combines capital investment, innovation and R&D, skilled labour, open markets and regulatory modernization. Government support can help, but it needs to be flexible, responsive, transparent and designed to leverage private investment rather than substitute for it.

The opportunity is bigger than growing one manufacturing industry.

The question now is whether Canada's policies and investment support are sufficient and appropriately targeted to unlock the investment and productivity growth needed to build a thriving food and beverage manufacturing industry for the future. A strong food and beverage manufacturing industry can contribute to food security, agricultural resilience, rural economic development, exports, productivity, competitiveness and affordability. But realizing these benefits requires recognizing food and beverage manufacturing as strategic industrial capacity and creating the conditions for companies to invest, automate, scale and build here.

The Importance of Canada's Food and Beverage Manufacturing Industry

Food and beverage manufacturing is an economic powerhouse, supporting jobs and communities across Canada, adding value to agricultural production and competing in global markets.

In 2025, Canada's food and beverage manufacturing industry generated approximately **$188 billion in revenues and $35.1 billion in GDP**. In 2025, there were over 9,000 establishments spread across the country, with the majority found in Ontario and Quebec. Canada is home to one of North America's largest food and beverage manufacturing clusters. The industry is increasingly adopting advanced technologies, including robotics, automation, artificial intelligence (AI), digital process controls, advanced packaging and specialized equipment, to improve productivity, efficiency and competitiveness.

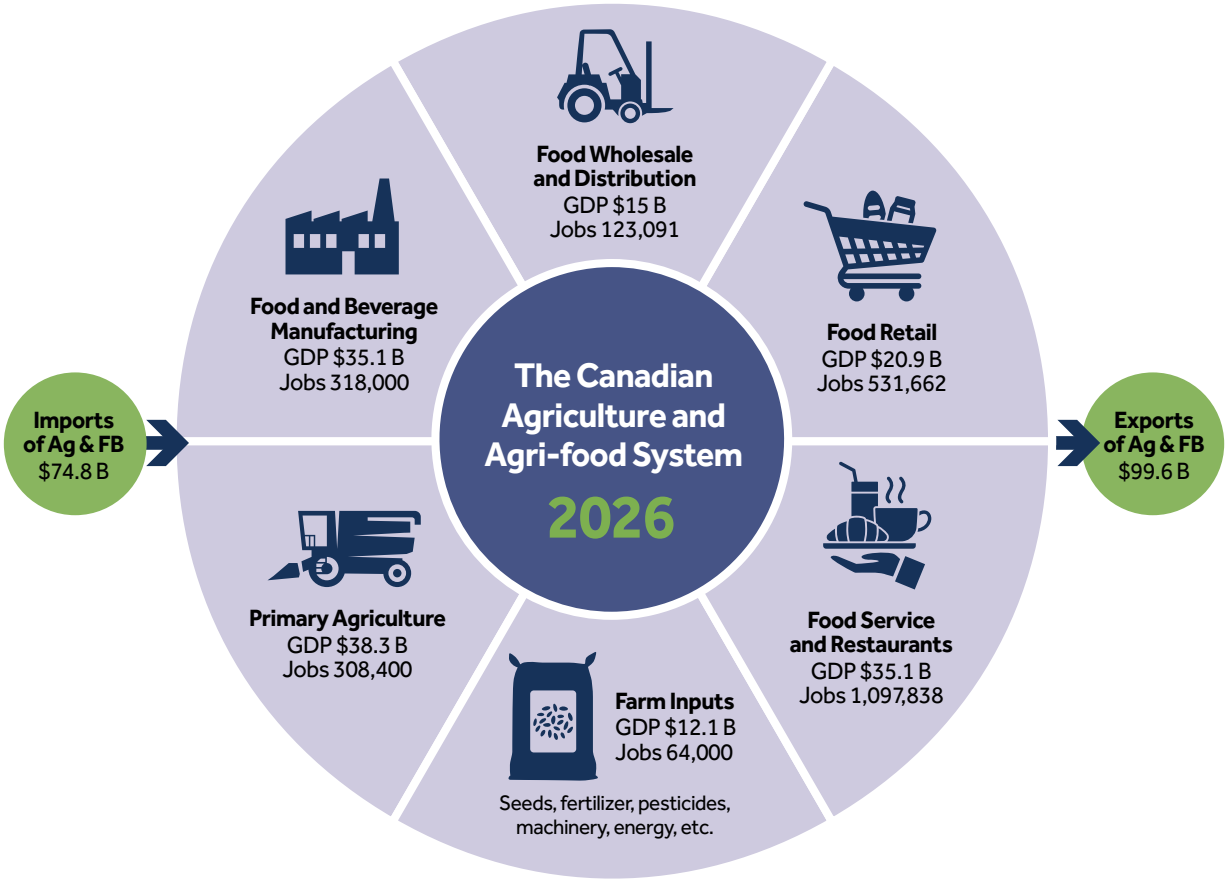
Many food and beverage manufacturing businesses are small and medium enterprises (SMEs), while the largest companies employing over 500 employees account for only 1% of businesses. They also account for about 72% of revenues. The industry produces a wide variety of food products, the largest being processed meat and bakery and cereal products, in addition to dairy, fruit and vegetable preparations, sugar and confectionery, seafood and other food products.

The industry plays a unique role in addressing food insecurity here at home and as a major net exporter.

Domestic food and beverage manufacturing contributes to domestic food security through local food production capacity in local communities across Canada. The industry also provides jobs in rural communities, contributing to quality of life and economic well-being in rural and urban Canada. As one of the world's relatively few net agri-food exporters, Canada relies on food and beverage manufacturers both to strengthen its international trade balance and contribute to global food security, and to create demand for Canadian agricultural products. Food and beverage manufacturers purchase approximately half of Canada's agricultural output.

When international markets are disrupted, the food and beverage manufacturing industry plays a strategic role in strengthening Canadians' food sovereignty, security and resilience. This is why it is essential that Canada realize the opportunities from treating food and beverage manufacturing as strategic industrial capacity and create the conditions for companies to invest, automate, scale and build here. **Canada not only needs to grow more food, it needs to strengthen its capacity to make more of that food here at home**.

Figure 1: The Canadian Agriculture and Agri-food System



Source: Statistics Canada and CAPI calculations

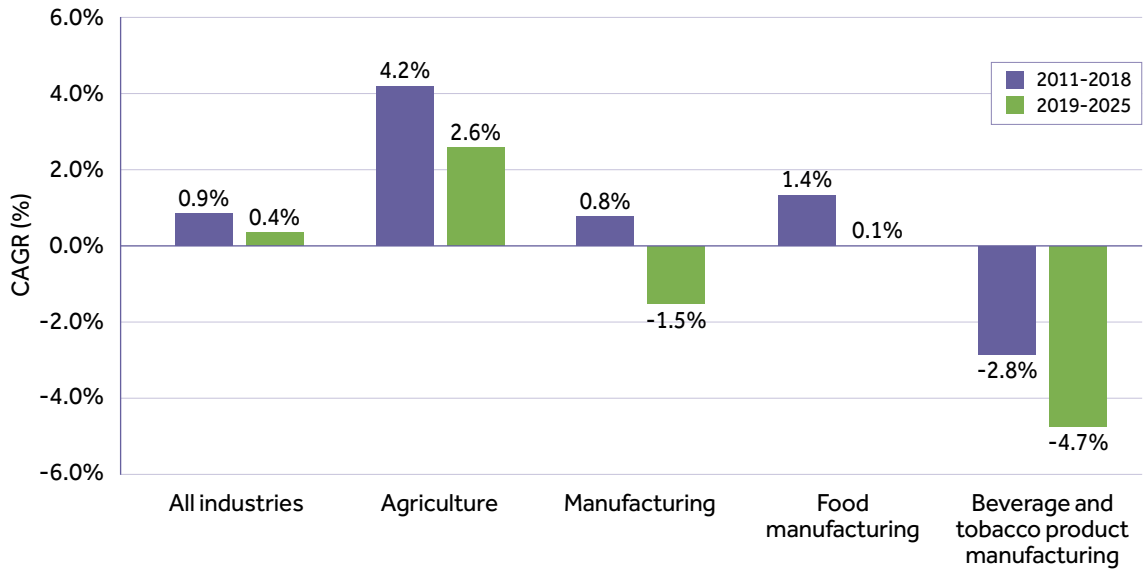
The recent slowdown in productivity growth may have contributed to the 2.5% decline in real food and beverage manufacturing GDP in 2025. The industry faced significant pressures from trade uncertainty, rising raw material prices and higher intermediate input costs. GDP declined in several major subsectors, including meat processing, bakery products, and grain and oilseed milling, which collectively account for more than half of the industry. At the same time, stronger performance in primary agriculture contributed to its GDP surpassing that of food and beverage manufacturing. This divergence underscores the importance of strengthening Canada's domestic value-added manufacturing capacity through greater investment, productivity improvements and a more competitive operating environment.

Canada is Leaving Growth on the Table

Canada has significant potential to build on its agricultural resources and manufacturing base, expertise and skills, and global reputation as an agri-food superpower.

But Canada is leaving growth on the table. Recent work by CAPI on productivity, which is key for the future growth and competitiveness of the industry, found that food manufacturing performed relatively well over the period 2011 to 2018 compared to other industries supported by strong capital investment and technology adoption. However, its longer-term performance has weakened since 2019 when labour productivity stagnated. Labour productivity in food manufacturing increased by 1.4% annually between 2011 and 2018 but was essentially flat between 2019 and 2025 (Figure 2). While the slowdown can be partly associated with the disruption of COVID-19, rising geopolitical and trade uncertainty and higher costs now pose additional challenges to investment and productivity growth for the industry.

Figure 2: Labour Productivity Growth in Food and Beverage Manufacturing, 2011-2025



Source: Statistics Canada

The slowdown in productivity growth is worrisome.

This slowdown is particularly concerning given the NFSS target of 2.75% annual GDP growth between 2027 and 2035. Pressures arising from the Canada-U.S. trade war are increasingly driving uncertainty. Achieving this growth will require strengthening the broader drivers of productivity, including capital investment, technology and innovation, skilled labour and market access, while ensuring Canada's enabling and regulatory environments promote growth. With the federal government's goal of catalyzing $1 trillion in new investment over the next five years, there is some optimism that future prospects for the food and beverage manufacturing industry may be achievable.

CAPI's recent value-added report provides a basis for considering where federal support could help address these drivers and spur future growth in the food and beverage manufacturing industry. Given that food and beverage manufacturing is an advanced technology industry, Canada's industrial policy should recognize modernization and technology adoption in food and beverage manufacturing accordingly when determining what support can help boost business investment.

Canada's challenge is creating an investment environment that allows manufacturers to capture the opportunities ahead.

Recent federal tax measures, including accelerated capital cost allowances and other investment incentives such as immediate expensing of capital investments have been proven to strengthen the returns to business investment. However, investment decisions about where a company will build its next plant or production line, or invest in new M&E, are shaped by broader conditions, including regulatory requirements, capital costs, labour and energy availability and input costs. Rising trade tensions, geopolitical risks and cost pressures are reducing the attractiveness of investing in Canada and heightened uncertainty has been hampering Canada's investment climate and future investment decisions. Creating greater certainty and a competitive business environment will therefore be important for sustaining the investment needed to support future productivity and growth. So Canada's challenge is not a lack of opportunity — it is creating an investment climate that allows manufacturers to capture that opportunity.

The Size of the Opportunity in 2035

Future opportunities for growth of the food and beverage manufacturing industry will depend on government and business response.

Given our understanding of what it will take to seize future opportunities for the food and beverage manufacturing industry by 2035, several scenarios were developed to show where Canada's food and beverage manufacturing industry could be in 2035. The five scenarios show how different assumptions about capital investment, productivity and policy changes can spur industry GDP growth. These are not forecasts in the sense that they make no assumptions about the probability of outcomes but rather are used as an exercise in examining potential opportunities.

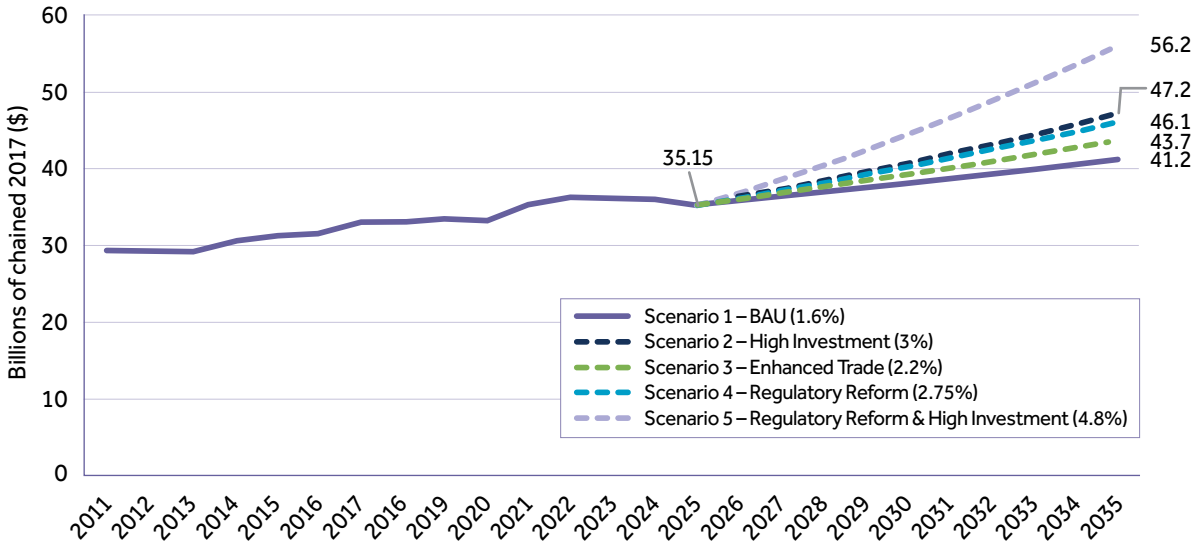
The **baseline scenario (BAU)** starts with actual GDP in food and beverage manufacturing of $35.1 billion in 2025 and assumes a historical growth rate of 1.6% per year out to 2035.

Under these modest productivity and capital investment assumptions, real GDP grows to $41.2 billion (Figure 3).

Scenario 2 assumes capital investment doubles in the face of higher government support and business investment. This boosts capital intensity (K/L) to 1.4% growth per year, which together with stronger productivity growth leads to real GDP growth of 3% annually out to 2035. The cumulative GDP results in $31 billion more GDP by 2035 compared to the baseline scenario (Figure 4). Given the industry's economic multipliers, this additional economic activity would support an estimated 190,286 jobs across the economy through direct, indirect and induced effects, generate $1.2 billion more in tax revenues and $12.6 billion in extra labour income for Canada's economy.

Scenario 3 assumes more open trade. This boosts GDP through greater market access and demand for food and beverage manufactured

Figure 3: Five Scenarios for Real GDP Growth



Source: Statistics Canada and CAPI Calculations

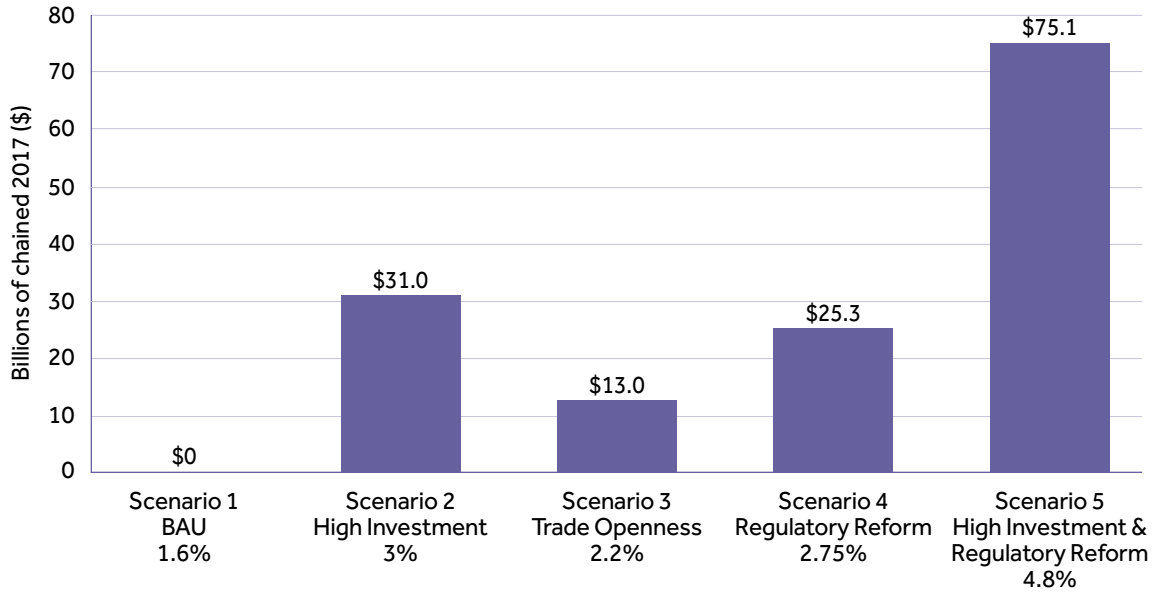
products so firms can increase scale and competitiveness while benefiting from new knowledge, technologies and business practices they are exposed to in international markets. This leads to productivity growth of 1.5% and GDP growth of 2.2% per year to 2035. Cumulative GDP adds $13 billion over and above the baseline scenario by 2035 (Figure 4). This additional economic activity would support an estimated 79,797 jobs across the economy through direct, indirect and induced effects and $5.3 billion in labour income for Canadians once the full economic impacts are taken into account.

Scenario 4 assumes regulatory reform that reduces costs and improves efficiency so higher profits can lead to capital investment that boosts the K/L ratio by 1% per year. Recent studies show how regulatory impediments are holding back growth and discourage innovation and adoption that could increase MFP by 0.75% per year. Real GDP consequently grows by 2.75% annually in this scenario, which is also the target growth rate for the NFSS. Real GDP in food and beverage manufacturing rises to $46.1 billion by 2035, which translates to an additional (cumulative) GDP of $25.3 billion over the baseline scenario, and support an estimated 155,342 jobs across the economy through direct, indirect and induced effects and $10.3 billion more labour income given economic multipliers. This implies that meeting Ottawa's own food and beverage manufacturing growth objectives represents a $25 billion economic opportunity over the next decade.

But we can do better. **Scenario 5** provides insight into what we can control versus what we cannot. Trade openness is important but subject to the whims of leaders and protectionist policies in other countries. On the other hand, regulatory reform here at home and increased government support to leverage private-sector investment are policy measures we can control which play a more certain role in enhancing our enabling environment and boosting productivity and growth prospects.

Scenario 5 combines regulatory reform with high government investment/funding in the best of both worlds, to have real GDP grow by 4.8% per year out to 2035 (Figure 3). This option requires substantial regulatory reform and higher capital investment that can boost growth in the K/L ratio to 2% a year, strengthen MFP growth to 1.8% annually and raise labour productivity growth to 3.8% per year. Reducing unnecessary and non-value-added regulatory burden would create significant opportunities for the industry. In this scenario, real GDP would rise to $56.2 billion by 2035, and the additional cumulative GDP generated would increase to $75.1 billion by 2035. The additional economic activity associated with this scenario would support an estimated 460,983 jobs across the economy through direct, indirect and induced effects, along with $30.5 billion more in labour income, $3 billion in tax revenues and an additional $65.8 billion to the Canadian economy through total multiplier effects.

Figure 4: Future Opportunities and Food and Beverage Manufacturing under Different Scenarios — Cumulative GDP relative to the BAU by 2035



Source: Statistics Canada and CAPI Calculations

Employment estimates reflect total jobs supported across the economy through direct, indirect and induced effects, based on Statistics Canada input-output multipliers. They should not be interpreted as new direct jobs in food and beverage manufacturing.

Canada Already Knows How to Attract Investment

Canada needs to prioritize approaches that leverage the strengths of the industry.

The five scenarios provide insight into what it would take to promote future growth opportunities in the food and beverage manufacturing industry over the next decade. Assumptions were made based on the findings of CAPI's work on productivity growth and value-added agri-food opportunities that identified the importance of productivity growth and potential policy and program approaches to strengthen Canada's food and beverage manufacturing industry. Boosting private-sector investment and innovation are key for productivity and GDP growth and the government has a role to play by providing incentives, leveraging business investment, and creating a business environment that enables this future growth.

Recently announced government funding under the NFSS is promising. However, it remains unclear whether existing policy tools are sufficient or appropriately targeted to support the investment and innovation needed to achieve the 2035 targets. Reaching these targets will require well-designed federal support programs that deliver value for money, as well as an enabling environment that encourages private-sector investment.

What We Have Learned

Evaluations of past federal government programs that targeted investment and innovation taught us a lot about what is required for successfully achieving program goals. Examples from the Automotive Innovation Fund (2008), the Strategic Innovation Fund (SIF) (2018) and Innovation Superclusters (2018) provide useful lessons on program design, funding and delivery and criteria for success.

Competitiveness incentives matter.

Funding by the **Automotive Innovation Fund** (2009-2017) ($1.1 B) was initially made available through repayable contributions but became less attractive once capital was easier to access in competing jurisdictions. Non-repayable contributions were offered instead and the program was able to leverage $4.9 B in private-sector funding for industry renewal.

Public funding can leverage private-sector investment under the right terms and conditions.

The **Strategic Innovation Fund** (2017–2023) ($18.5 B) showed that for every $5.2 billion of public funding, $54 billion was leveraged from the private-sector. Yet the food and beverage manufacturing industry was not able to benefit since the terms and conditions of the program discouraged smaller scale projects, focused primarily on job creation and promoted disruptive innovation rather than incremental initiatives more relevant to this industry;

Coordination and flexible program design matter for innovation programming.

Program funding for the **Innovation Superclusters** (2017-2021) ($950 M) was successful at helping develop innovation ecosystems in core areas through its collaborative approach, knowledge sharing and catalyzing effect on R&D investment. But success varied by focus and region, and projects were still too siloed to benefit participants more broadly.

The automobile, aerospace, and critical minerals sectors account for smaller shares of total GDP at 0.7%, 0.3% and 1.2% respectively, yet federal support has been more substantial, with the Automobile Industry Strategy allocating funding equivalent to 20% of sector GDP, aerospace 22.4%, and the Critical Minerals Strategy, about 13.4% of sector GDP (Table 1). By comparison, food and beverage manufacturing accounts for 1.6% of Canada's GDP, yet announced federal funding commitments represent just 5% of the industry's annual GDP.. Despite its size and importance to the Canadian economy, food and beverage manufacturing has not received federal support commensurate with its strategic importance. Canada has missed an opportunity to strengthen this strategic industry.

Table 1: Relative Importance of food and beverage manufacturing compared to other strategic industries

2025	Food and Beverage Manufacturing	Automobiles and Parts Manufacturing	Aerospace Products Manufacturing	EV Battery Supply Chain	Critical Minerals (Mining and Quarrying)
GDP ($ 2017 chained) billions (Source: Statistics Canada)	$35.1 B	$15.7 B	$7.8B	$24 B GDP estimated in 2026; Source Electric Mobility Canada (2025)	$28.3 B
% of total GDP	1.6%	0.7%	0.3%		1.2%
Shipments $ billions	$188.7 B	$92.9 B	$31.6 B		$62.6 B
Employment	318,513	103,435	47,165	186,000 jobs estimates in 2026; Source: Electric Mobility Canada (2025)	85,407
Exports	$60.2 B	$70 B	$23.7 B		$87.6 B
Dedicated industrial strategies	National Food Security Strategy (2026-2035) – $3.2 B over 10 yrs; est. $1.75 B for food and beverage manufacturing	Automotive Strategy (2026) (SRF & RTRI) $3.1	Aerospace (SIF) $1.75 B in Budget. National Aerospace and Defence Strategic Framework (2025)	SIF support for EV battery plants $19 B – Northvolt ($7 B), Stellantis ($5 B) and Volkswagen ($7 B); (PBO estimated total govt funding of $43.6 B)	Critical Minerals Strategy; Budget 2012 – SIF $1.5 B; Budget – $3.8 B
Announced federal funding as % of annual industry GDP	5% ($1.75/$35.1)	19.7% ($3.1/$15.7)	22.4% ($1.75/$7.8)	79% ($19/$24)	13.4% ($3.8/$28.3)

Source: Statistics Canada and CAPI Calculations; Electric Mobility Canada, 2025

What This Industry Needs

Looking forward, federal funding to strengthen competitiveness and growth of the food and beverage manufacturing industry will require more flexible terms and conditions that take into consideration the structure, capital intensity, and nature of innovation in the industry. This means designing programs around the realities of the industry, including:

- **Flexible design for businesses of all sizes.** Programs focused on leveraging and attracting capital investment must be designed to help small businesses grow, medium-sized businesses scale, and larger companies undertake significant investments in Canada. Earlier federal innovation programs sometimes struggled to reach intended applicants because program criteria did not reflect the realities of all sectors and business sizes. Strong demand for newer investment programs demonstrates that, when programs are well targeted, there is significant appetite among Canadian businesses to invest and grow.
- **Recognize modernization and technology adoption as innovation.** Given the capital-intensive nature of food and beverage manufacturing, innovation often takes the form of adopting new technologies, improving production processes and business practices, and developing new products. Federal programs should recognize and support these forms of innovation, rather than focusing primarily on breakthrough or discovery-based innovation. In addition, R&D support should shift from size-based to age-based criteria to avoid penalizing firm growth.
- **Prioritize productivity, growth and efficiency.** The agri-food sector and SMEs were initially underserved by the SIF program because eligibility required job creation while food and beverage manufacturing suffers from chronic labour shortages that make job creation difficult to achieve. A focus on productivity improvements would be a more appropriate criterion.

Make Canada the Obvious Place to Invest, Modernize and Grow

Canada has the ingredients to lead globally in food and beverage manufacturing. Now it needs a strategic approach to drive investment and long-term growth.

While the NFSS is a good starting point, transforming Canada's advantages into greater domestic value-added production, stronger export performance and long-term economic growth will require more than investment support alone. Canada needs a competitive business environment that enables food and beverage manufacturers to invest, modernize, scale and grow. To realize this opportunity, federal policy and investment decisions should be guided by five priorities:

1. **Invest:** Leverage private-sector capital to support automation, expansion and new manufacturing capacity.
2. **Modernize:** Recognize automation, robotics, digitalization and incremental technology adoption as critical forms of innovation in food and beverage manufacturing, and ensure federal programs support these investments.
3. **Regulate smarter:** Protect public and food-safety objectives while reducing unnecessary duplication, delay and non-value-added regulatory burden.
4. **Build the workforce**: Align immigration, training and workforce policies with the industry's long-term labour and skills requirements.
5. **Compete:** Address the structural costs that affect the ability of Canadian manufacturers to compete at home and abroad.

A strategic approach aimed at making Canada one of the best places in the world to manufacture food and beverage products must set ambitious goals. This is in order to raise real GDP in food and beverage manufacturing by at least 4% per year, which would surpass the 2.75% target set in the NFSS. To measure the industry's success in achieving these goals, the following measures and KPIs could be used by governments:

- **Private capital leveraged:** For every $1 of government support provided to the food and beverage manufacturing industry for boosting investment, an additional $10 of private-sector investment would be generated.
- **Productivity growth:** Labour productivity growth of 3% per year.
- **Investment per worker (K/L):** Growth rate of 2% per year in investment per worker.
- **Exports:** Growth of 5% per year in exports through market access, maintaining a positive trade balance, and diversifying trade. This includes boosting trade with countries with which Canada already has trade agreements.
- **Domestic Processing:** Increase the proportion of processed food consumed in Canada that is domestically produced from 70% to 80%.

Canada has the agricultural resources, manufacturing expertise, skilled workforce and market access to become a global leader in value-added food and beverage manufacturing. What is needed now is a strategic approach that recognizes the industry as essential economic infrastructure and creates the conditions for companies to invest, modernize and expand here at home. The opportunity is significant, but it is not guaranteed. Decisions being made today will determine whether Canada captures that growth or sees the next generation of food and beverage manufacturing investment go elsewhere.

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A Report prepared for Food and Beverage Canada by the Canadian Agri-Food Policy Institute
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