



HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Standing Committee on Industry, Science and Technology

INDU • NUMBER 026 • 1st SESSION • 42nd PARLIAMENT

EVIDENCE

Wednesday, October 5, 2016

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Chair

Mr. Dan Ruimy

Standing Committee on Industry, Science and Technology

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• (1550)

[English]

The Chair (Mr. Dan Ruimy (Pitt Meadows—Maple Ridge, Lib.)): We are going to get started because we do have a second panel. The bells will ring at 5:30 so we want to get through this panel by 4:30, and then we can have roughly an hour for the second panel.

Everybody, welcome to meeting number 26 of the Standing Committee on Industry, Science and Technology. Today we have, from the Department of Agriculture and Agri-Food, Andrea Johnston, director general, sector development and analysis directorate, market and industry services branch. From the Canadian Food Inspection Agency, we have Lyzette Lamondin, acting executive director, food import export and consumer protection directorate.

We're going to give you each six minutes, and then we'll get into half an hour of questioning.

Ms. Johnston, please go ahead.

Ms. Andrea Johnston (Director General, Sector Development and Analysis Directorate, Market and Industry Services Branch, Department of Agriculture and Agri-Food): Thank you, Mr. Chair.

It's my pleasure to appear before this committee as you study potential ways to improve competitiveness in the Canadian manufacturing industry.

[Translation]

Today, I would like to provide you with some context on the Canadian food processing industry, including the importance of food processing as a manufacturing sector to Canada's economy, the challenges and opportunities facing the Canadian food processing sector, the state of innovation in this sector, and potential solutions to help improve the sector's global competitiveness.

[English]

First, I'd like to point out a few facts with respect to the economic importance of the food processing industry. With about 2% of Canada's GDP in 2015, it is the largest manufacturing industry in Canada in terms of GDP.

The industry employs close to 256,000 Canadians and is the largest manufacturing employer in the country. Employment in the food processing industry has been stable. In fact, it grew about 1% between 2008 and 2015, and it is the second-largest manufacturing industry in terms of revenue with about \$106 billion in sales. As the largest purchaser of Canadian agricultural products and the largest

manufacturing employer of rural areas, food processing is a key economic driver for rural Canada.

In looking at the industry's performance, industry sales continued to grow throughout the recession and grew by 3% last year. Exports for the industry totalled \$31 billion in 2015, which is an 11.7% increase when compared to the previous year.

Canada's top five export markets for processed food and beverages, including seafood, were the United States with 74%, China with 6%, Japan with 5%, Mexico with 2% and South Korea with 1%.

The food processing industry has a high level of economic spinoff to the rest of the economy. For every additional \$1 million in output generated by the food and beverage manufacturing industry, an additional \$1.23 million in output is generated.

However, the food processing industry in Canada is also facing a number of challenges. As an example, the growth in the country's sales in exports of processed foods and beverages has not kept pace with the growth in imports, and as a result, Canada went from a trade surplus of \$5 billion in 2004 to a \$750 million deficit last year for processed foods.

Investment in processing plants and advanced technologies in Canada has not kept pace with that of its competitors, and therefore Canada's productivity is lagging behind other countries such as the United States. According to a study by the Ivey School of Business, there have been about 140 plant closures between 2006 and 2014.

With respect to innovation, Agriculture and Agri-Food Canada's engagement with the industry suggests that industry sees a key role for innovation in terms of supporting industry competitiveness.

Last year alone industry invested \$139 million in research and development, a little under 0.2% of total sales. However, when compared to Canada's global competitors, this level of R and D investment is relatively low. For instance, in the Netherlands where the food processing industry is of equivalent size to the Canadian industry, food processors spend about double the amount on R and D as a percentage of sales as Canadian processors do, namely 0.4%. In the U.S., the industry also spends about 0.4% of sales on R and D.

Agriculture and Agri-Food Canada is working with other federal departments such as Innovation, Science and Economic Development Canada, as well as with provincial and territorial governments to better understand challenges facing the industry with respect to innovation and potential ways to address them.

Canada has a strong foundation in science within industry, academia, technology centres, and other research partners, but the level of collaboration between these stakeholders on innovation projects for the benefit of industry is relatively low, particularly if we compare it to global innovation leaders like the Dutch.

We also understand that the Canadian industry needs to have a greater capacity at a strategic level to identify key priorities or themes for precompetitive innovation that will procure a competitive advantage to Canada globally, or at least to the same extent that our competitors do.

With a growing demand for processed foods globally, there is a tremendous opportunity to grow the industry in the years to come. Agriculture and Agri-Food Canada has been working with the food processing industry to address these challenges through the food processing industry round table, which is a forum bringing together leaders from the Canadian food processing industry and governments to improve the industry's competitiveness. Through the round table, the industry has identified a vision for Canada as a food basket to the world, with the goal to grow industry sales to \$135 billion, to increase the level of processing of Canadian agriculture products from 39% to 45% in total output, and to grow exports from 27% to 35% of sales.

● (1555)

Industry strategy includes investing in capital to improve productivity. The industry has asked for a government program to support capital investment, increasing innovation and differentiation to meet consumer demands, improving access to competitive ingredients, growing global exports, increasing access to labour and developing a globally competitive work force, and maintaining competitive and business-friendly regulations.

Through Growing Forward 2, which is the current federal, provincial and territorial policy framework for Canada's agriculture and agrifood sectors, federal and provincial governments have been supporting the food processing sector through a broad range of policies and programs. These include investment in machinery and equipment, innovation through supports to Canadian food innovators' food processing cluster, and market development in foreign markets.

Outside of Growing Forward 2, Agriculture Canada is also working with Employment and Social Development Canada on industries' access to labour. Going forward, supporting a vibrant and competitive food processing industry will require a clear focus on addressing the competitiveness challenges facing the industry. We need to help the industry improve its productivity by increasing its level of capital investment and by targeting support to specific strategic investments for broad economic benefits to Canada, such as production mandates or investment in leading-edge technologies.

We need to build the industry's innovation capacity by helping the sector to articulate an innovation strategy; enhancing the role of

science and generating innovation products within the industry; increasing collaboration between industry, academics, and other innovation partners; and encouraging firms to engage in more scientific R and D with innovation partners.

We need to better understand the challenges that industry faces in expanding to offshore markets. We need to focus on initiatives to encourage companies to explore these new markets, including countries with which we sign new trade agreements in emerging markets where most of the growth will occur in the coming years.

Last, governments need to continue working collaboratively on improving industry's access to labour, including looking at potential options for the temporary foreign worker program in food processing subsectors and regions facing acute labour shortages.

In conclusion, while the Canadian food processing industry has been stable, it has been losing ground compared to its global competitors. There are three main strategic areas to focus on to support the industry's competitiveness: strategic investments to grow the industry and address productivity issues, Canada's innovation system and private sector R and D, and market development efforts and increased market share in offshore markets.

Co-ordination with other federal departments and with provincial and territorial governments in the next policy framework is crucial to support the industry. Agriculture and Agri-Food Canada is engaged with provincial and territorial governments in addressing the industry's competitiveness issues. Agriculture and Agri-Food Canada also continues to support Minister MacAulay in delivering on the commitments outlined in his mandate letter, such as the value-added agrifood investment fund.

Thank you again for this opportunity, Mr. Chair.

● (1600)

The Chair: Thank you very much.

We're going to move right away to Ms. Lamondin.

[Translation]

Ms. Lyzette Lamondin (Acting Executive Director, Food Import, Export and Consumer Protection Directorate, Canadian Food Inspection Agency): Thank you, Mr. Chair.

I appreciate the opportunity to participate, and I would like to explain what the CFIA is doing to support harmonizing regulations for the food production sector.

The CFIA is a science-based regulatory agency dedicated to safeguarding plants, animals, and food. It reports to the Minister of Health. Our first priority is the health and safety of Canadians.

The CFIA also supports the Minister of Agriculture and Agri-Food in his responsibilities.

[English]

CFIA's approach to supporting harmonization with other countries has several dimensions. Perhaps the most important and foundational element we are working towards today is the implementation of the Safe Food for Canadians Act through new regulations. That act received royal assent on November 22, 2012, with support from all federal parties. The act establishes a modern legislative framework for food safety that shifts the focus from responding to food safety hazards and incidents to prevention. It also enables a new regulatory framework that is being developed and has so far been the subject of extensive consultation.

The proposed regulatory framework is modern and would allow for more efficient inspections based on risk and greater flexibility for industry innovation. Of particular relevance to today's discussion is that the new regulations will replace 13 existing inconsistent and prescriptive regulations with a single outcome-based regulation that applies to all food that is imported, exported, and traded between provinces.

What we mean by outcome-based is that as long as the food achieves the safety outcomes that are required, they can be achieved in multiple ways. This will significantly improve the ability of the food sector to innovate and the ability of Canadian exporters to meet not only Canadian but foreign requirements, while further strengthening the food safety system in Canada.

Finally, the Safe Food for Canadians Act and the regulations will instill even greater confidence that all food produced in Canada is safe and subject to the same requirements—requirements based on international standards established by Codex Alimentarius. That confidence is extremely important when it comes to exports. Perhaps the most important factors in maintaining and expanding access to foreign markets are the efficacy of the food safety system in Canada and the credibility of the competent authority, which is the CFIA.

The other element I want to talk about is specific to the U.S., the Canada-U.S. Regulatory Cooperation Council, or RCC. Canada and the U.S. have highly successful world-class regulatory systems that have evolved independently while their economies have grown closer. The RCC provides a structured and accountable process for Canada to work continuously with the U.S. to improve trade opportunities and enhance regulatory alignment. The RCC focuses on joint initiatives—both countries agree what they are going to work on—that seek to align regulatory systems and reduce unnecessary requirements.

For example, under the RCC, the CFIA and the United States Food and Drug Administration, the U.S. FDA, evaluated each other's food safety control systems and determined that they provide a similar level of health protection. A food safety systems recognition arrangement was subsequently signed this past April by the CFIA, Health Canada, and the FDA. The arrangement applies to fish, fresh fruit and vegetables, processed foods, and certain milk products. The recognition of an exporting country's food safety system as being comparable allows an importing country to focus its inspection resources on higher-risk foods and potentially higher-risk countries.

Importers can be confident that the food source from the other country meets domestic requirements.

• (1605)

While the U.S. FDA covers most food, meat and poultry are the responsibility of the U.S. Department of Agriculture, the USDA. Canada and the U.S. routinely audit each other's meat inspection systems, which have been determined to be equivalent. However, in both countries, the regulatory frameworks for these products are much more prescriptive and entrenched than for other foods, making harmonization extremely difficult. The CFIA has a unique work plan with the USDA for meat and poultry. Both countries are committed to seeking greater harmonization and facilitating trade, and there has been some success. For example, in 2015, CFIA harmonized with the U.S. on meat nomenclature, essentially using the same terminology for beef products on both sides of the border.

[Translation]

I trust this sheds light on how the CFIA is working to support harmonizing regulations for the food production sector.

[English]

I look forward to any questions you may have.

Thank you.

The Chair: Thank you very much.

We are going to jump right into this.

Mr. Arya, you have five minutes.

Mr. Chandra Arya (Nepean, Lib.): Thank you, witnesses, for coming here today.

Ms. Johnston, I have a couple of questions for you. You mentioned that the industry is stable, but losing ground. You also mentioned that the investment in the processed food industry is going down. What are the main reasons for it?

Ms. Andrea Johnston: Employment has always been stable, so that's a good thing, but in terms of investment in R and D, as I mentioned, in terms of benchmarks to other countries, like the U.S. and the Netherlands, it's just not at the same level. Why? I would say the recession has caused a lot of companies to focus on cutting costs and now that we're moving out of the recession, the companies are starting to look at new opportunities. Companies are also now starting to look at automation and starting to invest more in those technologies. Hopefully, we'll start to see a trend in terms of more private sector R and D in the years to come.

Mr. Chandra Arya: That's the fact, but what is the reason it is not happening?

Ms. Andrea Johnston: Most of the companies right now are focused on cutting costs—efficiency.

Mr. Chandra Arya: Okay.

You also mentioned that the collaboration between researchers and the industry is quite low. Why is that?

Ms. Andrea Johnston: In Canada, we just don't have a system that has a strong collaboration, particularly in the food processing area, between academics, universities, and the private sector. There's a lot of discovery-type research in universities, and then the private sector tends to focus on its own areas. There still is a need to make those connections between the two organizations.

Mr. Chandra Arya: What you say worries me because we are emphasizing discovery research and we have increased funding for the research, but if that is not getting translated into something usable by the industry, then what is the point in investing so much money into research?

Ms. Andrea Johnston: We've done some research in the Netherlands, and a lot of the focus there is if a university gets funding, it has to be tied to industry commitment and collaboration and industry skin in the game. As we move forward, particularly in Agriculture and Agri-food Canada's innovation program, we're looking at a strong collaboration between industry and government and universities in terms of all partners putting money on the table.

Mr. Chandra Arya: I take it that you own the research and development, and innovation that is not happening is not resulting in commercialization.

Ms. Andrea Johnston: In some cases, yes.

Mr. Chandra Arya: One of things we heard from many other industry groups was about the lack of talent. What is your opinion on that?

Ms. Andrea Johnston: The food processing sector in Canada is very diverse. There's certainly a lot of areas in terms of where we need to attract global high-skilled talent, and many of the manufacturing sectors that you're investigating require that. Also, the food processing sector has the meat processing sector, and there's a huge shortage for what we call butchers or meat cutters. They are tremendously important to the growth of the meat processing sector. Canada signs international trade agreements. We get market access. We need to grow the meat processing sector and we need to have those types of skilled labour. Maybe it's not considered skilled from a Canadian sense, but it's certainly important for the meat processing sector.

Mr. Chandra Arya: Several witnesses have said that the rural manufacturers face additional problems. What do you say about that?

Ms. Andrea Johnston: If we use the example again of the meat processors, they do have a challenge to attract employees. They're not located, obviously, in urban centres. They're further away from universities or colleges. You have to make almost a cultural commitment to move into rural Canada if you want to find jobs.

Mr. Chandra Arya: What can we do? Can we develop any specific program to address that?

Ms. Andrea Johnston: It's not necessarily just programs, I see the companies actually taking lot of initiative in attracting prospective employers to these areas. They have training programs within those areas. They ensure that there is housing. I think it's more of a combination between government and industry working together.

• (1610)

Mr. Chandra Arya: Okay.

I know the industry is stable but not growing. If anybody wants to start a new processing plant, what is the source of funding? Do you have any idea whether adequate funding is available for new manufacturing start-ups?

Ms. Andrea Johnston: There's likely seed funding within federal government programming.

Mr. Chandra Arya: Thank you.

The Chair: Mr. Dreeshen, you have five minutes.

Mr. Earl Dreeshen (Red Deer—Mountain View, CPC): Thank you to our witnesses for being here today.

I've had an opportunity as a farmer and someone involved in the industry to see a lot of innovative ideas that are taking place. I had the opportunity yesterday to sit in with the Senate agriculture committee when they were speaking about honey imports and some of the issues that have happened there, primarily at the border. Those are CBSA issues as well as CFIA. The concern is with adulterated honey coming in from other countries. Again, that puts pressure on the products we have.

There are some ideas about some new testing procedures that perhaps we could do. Otherwise, we end up sending samples to Germany to have them tested for the adulteration. If we could do some of that closer to home, it would be certainly much better.

The other thing I've been engaged with the Senate agriculture committee, SCAF, on is the interprovincial barriers especially with meat production. That has more to do with the border issues we have across this country versus border issues with other countries. I think that's where we should also be focusing some of our thoughts.

Another point I want to make, before I specifically ask you a question on this, has to do with investments and the dollars we put in. I had the opportunity a couple of weeks ago to be with the science minister in Germany. When you take a look at the actual investments that our governments have been putting in over the last number of years, it is equivalent to what you would see going into German scientific research.

The point is that we are not getting the buy-in from business. They were saying that there are three specific reasons. Geography is one of them. It takes us six hours to fly from one end of our country to the other. That's part of it. Another one is a jurisdictional issue as far as provinces are concerned. The third is market access. They are the place that people want to go because they are one of the bigger centres. When we look at this, people really don't want to spend the money here. They'd sooner spend it in the United States.

I'm curious if, in your discussions, you found some ways to mitigate some of the issues I've just presented.

Ms. Andrea Johnston: There's a long list of issues.

Certainly in terms of the internal barriers, internal trade is a key issue, and for any processing company, having consistent rules and regulations across the provinces is critically important. We see that being critically important in terms of attracting foreign investment into Canada. Understanding the rules of the game between each province and having some kind of level playing field as we move products across the country is important.

One of the interesting issues that you raised is in terms of technology and testing. If you were at SCAF or other...you would hear a bit about spent fowl and the issues that the sector is facing there. We're working closely with Trent University in developing DNA testing. There are opportunities to make made-in-Canada solutions for some of these border control issues. That's a very exciting area.

The last comment you had, was it on R and D investments and the challenges?

Mr. Earl Dreeshen: Yes.

Ms. Andrea Johnston: I think the point is correct. There are a limited amount of R and D funds in the world, particularly in Canada. The challenge for Canadian businesses is to attract those funds, show that they can be used for commercialization purposes and better spinoff.

It is like anything in market access issues. It's a globally competitive area in terms of attracting R and D investment funds.

•(1615)

Mr. Earl Dreeshen: One of the other issues, of course, as we try to sell products to other countries.... Fortunately, when China was looking at reducing dockage on canola from 2% to 0.5%, that was finally dealt with. There was the recognition of how it was simply being set up as a trade barrier and nothing else. These are important things for our governments when we are discussing issues with other countries, to make sure we're aware of the reasons that certain countries make decisions.

Thank you.

The Chair: Mr. Masse, you have five minutes.

Mr. Brian Masse (Windsor West, NDP): Thank you to the witnesses for being here.

Ms. Lamondin, I find some of the things that have changed on the Canada-U.S. border interesting. Also what interests me is the U.S.-Mexico border, given Mexico's expansion of their overall GDP and also their imports and exports going across our nations. Are they

treated exactly the same as Canada and the United States when it comes to food inspection between the United States and Mexico?

Ms. Lyzette Lamondin: That's a very good question.

It's not exactly the same as Canada and the U.S., because we've done much more work in looking at each other's systems for equivalence, whether it's meat or with the U.S. FDA. With the U.S., we have a high level of confidence, probably more than any other country in the world. We've looked at it so systematically, the laws, the inspections, the resources, and whatnot.

Mexico does send a lot of product to Canada, and we send a lot of product to Mexico, so we do have a strong relationship with them. We just signed a protocol last week for full expansion with meat to Mexico. There had been limitations on it, but now it's a full expansion from there. We routinely go down and look at their systems, for example, for fish, shellfish, and elements like that. They also come to Canada. We have a strong relationship in trade there. I would say they fall in the category more of countries other than the U.S., because they are definitely different.

Our primary trading partner is the United States. That's where most of the food coming into Canada comes from, and that's where most of our food exports go. Our systems are very equivalent on almost every level.

Mr. Brian Masse: Thank you for that answer. With that, maybe we could have an update regarding the current situation. I know there was a change on the border for food inspection. I raised some concerns about this. For the trucks that were coming into Canada that were identified for food inspection, there was a fax and the destination time was tracked for the truck to get to the food inspection site. We have two sites in Windsor. When there was no fax, some trucks went missing and went to inspection sites along the 400 highway up to Toronto even. Then the trucks would disappear. We saw that some of the meats went right into the inspection stations in Windsor. It went public that for some of the meats and fish that required extensive inspection included canned goods, and some had maggots in them and stuff like that. The concern was what was happening in the time between the truck getting to the border and getting to the inspection site, and what happened to the truck in the meantime.

Can you explain what that process is right now and whether that's been...? If you don't know, then maybe we can get a written response later. I know it's highly technical, but it's important for food safety.

Ms. Lyzette Lamondin: I can't speak to that situation, as I'm not aware of it. I do know there are some stringent rules particularly about meat having to be inspected at the border and then going to registered facilities for follow-up and reinspection. If it doesn't happen, then I would think that would be a contravention of the regulations, and that would be in a whole other area. Other food coming into Canada doesn't have the same level of requirements. Meat is the most strictly regulated of all the sectors, but it has to be routinely checked at the border. They have to meet requirements. The requirements are different. One of the reasons we want to change the regulations is that they are so radically different from some other commodities. Canned products, for example, could be fish, which is well regulated, to a number of processed products that only have to be safe when sold. So we have a patchwork there.

Mr. Brian Masse: Do we know what percentage comes into Canada from trucks versus out of containers in ports? Is that something where we would have an idea about food products and breakdowns?

• (1620)

Ms. Lyzette Lamondin: I don't think that's the type of information that the CFIA would track. We mostly track non-compliances.

Mr. Brian Masse: Maybe I can ask our researchers, because I know we have one thing to follow up on. I would be interested in that because that's important, and I know containers go through a lot less of an inspection process. Are you just going to track the non-compliance?

Ms. Lyzette Lamondin: We do samples at the border of certain products. The determination of what product we sample and where it's coming from is based on historical figures of risk, and we're moving more and more towards that. As we find more non-compliances, then we target that product, and as we find fewer, then we move things over.

Mr. Brian Masse: Yes.

Ms. Lyzette Lamondin: It does change from year to year for what we do. I don't think the method of transport has any bearing. I think it's the food and where that food is coming from.

Mr. Brian Masse: Thank you for your time.

The Chair: Thank you.

Mr. Baylis, you have five minutes.

Mr. Frank Baylis (Pierrefonds—Dollard, Lib.): The major part of our study is about manufacturing productivity. We're looking for ways to help our manufacturers be more productive. In other industries, such as transportation, medical devices, health care, the regulator plays an important role in approving products that are developed here before they have access to market.

In that light, can you speak to the role that you play in helping our food manufacturers get access to market?

Ms. Lyzette Lamondin: Health Canada, which is not us, plays an important role in certain food products and allowing them in certain processes that are allowed onto the market.

For our part, the CFIA doesn't do pre-approvals of food products or technologies, per se. What we do rely on are the international standards, and we're moving more to those standards in terms of what sorts of controls companies put in place. We're also moving more and more at looking to companies under our new proposed regulations—again, this is an internationally based way of doing it—leaving it to the companies to be more innovative and not stifle them. If they come up with new technologies or new methods of doing something, they can use these products if they've been appropriately scientifically validated.

In the past we have, and still have, examples of that in our regulations until the new regulations come in. We did approve certain things before they could do it and we put it in our manual. An example is the material that a dairy plant would have to be made from. It had to be stainless steel. That was limiting in terms of innovation. We would routinely get requests saying another country

is able to use other material that has been demonstrated to be just as safe, but in Canada they couldn't.

Mr. Frank Baylis: We weren't able to keep up with technology. What are we doing about that now?

Ms. Lyzette Lamondin: That's where the new regulations come into play. The new regulations take out all that prescriptiveness of saying you must use this process, you must use this material, and you must do it in this way. It say, you have to address these risks. You have to do your hazard analysis. You have to find out what the critical control points are and put in place the preventive controls. We're going to give you some idea of already validated methods, like stainless steel, but if you can come up with a newer, innovative process and prove to us that it's safe, you'll be able to use it.

That's really where it is.

Mr. Frank Baylis: You've made that change, to take into account the rate of change.

Ms. Lyzette Lamondin: We're hoping to make that change.

Mr. Frank Baylis: It has not been made.

Ms. Lyzette Lamondin: No, the regulations are still pending under the act. Drafts have been put out. They've been heavily consulted upon. Industry has been very excited about the potential to be able to do it.

Mr. Frank Baylis: When we do put those regulations in place, it will have a marked impact on the ability to innovate by our food producers.

Ms. Lyzette Lamondin: Absolutely. That's what we're expecting. We'll be getting rid of those barriers that exist now.

Mr. Frank Baylis: I have a quick question. Are you properly staffed to do that?

Ms. Lyzette Lamondin: Yes, I believe we are.

Mr. Frank Baylis: Okay.

Ms. Johnston, on the role of technology in your industries to make them more productive, can you speak to how they're adopting that and what, if anything, the government should be doing to encourage that?

Ms. Andrea Johnston: In Canada, we have a low rate of automation in the food processing sector. We're looking at ways to ensure that there could be government and industry collaboration, government trying to reduce the risk in terms of investing in those technologies. Some of the programming that we have in our Growing Forward 2 policy framework, sometimes called AgriInnovation, will assist in terms of the sector investing in technologies to automate their sectors and their plants in order to make them more productive.

Mr. Frank Baylis: Are they aware of the automation and choosing not to do it, or do they need help to even understand that those automation opportunities exist?

Ms. Andrea Johnston: I think it's a bit of both. It really depends on the companies and the sectors. There's a lot of innovators within the sector that can see the technologies from other countries and are looking to adopt and adapt it in their plants. Then there are other food processors that have tight margins. It's about cost cutting and efficiency, and that's what they are focused on. It depends on the companies.

• (1625)

Mr. Frank Baylis: We've heard a lot about links between universities and businesses, but also about colleges and businesses. Colleges have made the argument that they're closer to the ground and they actually help more because they can innovate faster with a company. Do you have a view on that? Is it working, or not working, between colleges or universities and your industries?

Ms. Andrea Johnston: It's another one of it depends. Some colleges are reaching out more closely to the cluster areas, where they are in terms of the food processing sector, where you're starting to see a bit more of an ongoing business-client relationship between the colleges and the food processing area, but there's still work to continue.

Within the food processing sectors we have what are called food tech development centres. They're in every province. They're hidden gems, in the sense that they're underutilized, but they really have exceptional equipment and they're there to help the small businesses further develop their products and test them.

We're hoping in the next policy framework, as we work more closely with the provinces, that these food tech development centres can further assist the small businesses.

The Chair: Thank you very much.

Mr. Lobb, you have three minutes.

Mr. Ben Lobb (Huron—Bruce, CPC): Thank you for coming today.

Perhaps you could help me understand the issues around spent fowl and diafiltered milk. Obviously, those are hot button topics. We have a certain system in this country whereby we try to make sure that what's coming into this country in the form of an import is what it is supposed to be, and they aren't skirting the rules. The U.S. has a lot of technology with regard to their processing and other methods. CFIA would know clearly what is going on in the United States because you would have people who would be assured of what's coming into this country at a dairy processing plant, for example.

If they know that diafiltered milk is being produced in a certain area, how come CFIA isn't working with the CBSA or working better with CBSA so we don't have these issues with diafiltered milk?

Ms. Lyzette Lamondin: The short answer to that question is that it is not illegal to bring diafiltered milk into Canada. It's a perfectly legal product that's allowed to be used in a number of dairy products. CFIA's sole responsibility is to deal with the importation of food that is not legally allowed to come into Canada or that is not meeting our requirements.

On the aspect of spent fowl it, too, is legally allowed to be imported into Canada.

Mr. Ben Lobb: But it's not to be sold as regular meat that you would buy off the shelf. You don't expect to buy a spent fowl when you're trying to buy chicken.

Ms. Lyzette Lamondin: That's right.

Mr. Ben Lobb: That's the issue.

Ms. Lyzette Lamondin: From the CFIA's legal perspective, our rules and regulations don't differentiate between the age of a bird. It's just poultry. As long as it says "chicken" or "poultry" it's not illegal or a falsely misleading label.

Mr. Ben Lobb: That's CFIA's legal position?

Ms. Lyzette Lamondin: That's our law. Those are the regulations in place right now.

Mr. Ben Lobb: I think you need to take another look at the law, because that's not a very good law.

You know when people go to the grocery store they expect to buy chicken that has not been around for over a year, that has been raised properly under what you'd expect from the Chicken Farmers of Ontario standards. They don't expect to buy an old hen that's been laying eggs in some farm in Missouri as fresh chicken.

Would you agree?

Ms. Lyzette Lamondin: As I said, right now our laws do not differentiate. Poultry is poultry for the purpose of food safety and labelling.

Mr. Ben Lobb: There's a good recommendation for our study right there.

• (1630)

The Chair: If we were in agriculture, but we're in manufacturing.

Thank you very much. It was very interesting information.

Mr. Longfield, you have three minutes.

Mr. Lloyd Longfield (Guelph, Lib.): Thanks for the presentations.

Ms. Johnston, it's good to have you in this committee as we've been in agriculture.

Exploring something along the lines of agriculture and becoming number one in the world in food and knowing that the Netherlands is beating us at that game you mentioned the Canadian Food Processing Innovation and Prosperity Cluster. We're very interested in clusters. In Guelph, Conestoga College has one of those food tech development centres. It's got the smart manufacturing centre that started as food processing. They couldn't get students into the program. They have really good equipment there with state-of-the-art control systems, and they're trying to build that up as a manufacturing destination.

Could you describe what that cluster is? How big is it? Where is it heading? Maybe these tech centres could be helped by the federal government, particularly our support of colleges versus universities.

Ms. Andrea Johnston: Those are a lot of questions.

Mr. Lloyd Longfield: I know. Sorry.

The Chair: That's okay. You have two minutes to answer them.

Ms. Andrea Johnston: Under the Growing Forward 2 policy framework, we have a program called AgriInnovation. In it we have the cluster program. It is commodities specific, so we have a wheat cluster and a canola cluster. This time around, we created the food processing cluster through the Canadian Food Innovators. They identified some key priorities, like health and well-being and food security and safety, through a collaboration between government, universities, and industry, and they're working on some key projects.

One project is a blueberry juice that uses not only the juice but also the blueberry pulp and seeds. They were working with food safety scientists, likely in the Guelph food technology centre, to ensure that they could have a liquid form with the health benefits. If they heat it up, they lose the health benefits. How do they have the capacity to ensure that it is safe but not heated so high that they lose the health benefits? They worked on that, and it's now commercially available and has won what they call the Sial prize.

It's that kind of collaboration that's happening in the food processing clusters.

Regarding colleges, it's a unique challenge. I think you'll probably find that in any manufacturing sector.

Mr. Lloyd Longfield: If I can interrupt, that's where automation happens. It is at the colleges. That's where I graduated from.

We don't have the automation, and we're not supporting colleges. That is what I am concluding.

Ms. Andrea Johnston: Agricultural colleges are declining in enrolment, as well.

Mr. Lloyd Longfield: Thank you very much.

The Chair: Thank you very much.

The last question goes to Mr. Masse. You have three minutes.

Mr. Brian Masse: To follow up on the U.S. and Mexico, I think it is important for Canadian competition. Is there a measurement standard? Do we share data with these nations?

Say, for example, we're getting a Mexican product that's going to come through the U.S. If they find problems with it, is that information then shared with Canada? Say, for example, it's a fruit or

vegetable that is caught in the U.S. If they have a chronic problem, do they let us know about that company and that processing?

Ms. Lyzette Lamondin: Right now I don't believe there's a formal standard. Normally, if they catch something that's non-compliant, it would just be turned away by the U.S. That's through their own import rules.

We do, without question, have a good relationship in terms of, if we have any concerns that products have made it to market in either country and we know about it, advising our neighbours to the south. If they find a product, from any country in the world, that they feel is a food safety risk, without question they will alert us as well as the international bodies. There's an organization called INFOSAN, where countries notify one another of those issues.

In addition, there is the food safety systems recognition arrangement. This year is about implementing that recognition agreement. One of our objectives is to sit down with the United States Food and Drug Administration and actually discuss how to improve our relationship, which includes notification and sharing of information. That's already been identified, now that we have this recognition agreement and our relationship is so strong, as an area we can definitely put more effort into to try to improve what's already a very successful process. There's always room for improvement.

• (1635)

Mr. Brian Masse: With regard to the country of origin labelling between our countries, one of the things that took place was that a grain mill, one of the last ones in Canada if not the last one, Dainty Foods in Windsor, was going to actually have a tax put on for rice coming in from the United States. It was kind of odd, because we were punishing ourselves. There were 100 different potential penalties for that.

What type of consultation is done when we start using potential penalties with the United States when we get into a dispute about labelling and other issues?

The Chair: You have about 20 seconds.

Ms. Lyzette Lamondin: CFIA doesn't get into tariff issues or taxes. It's only about food safety and labelling requirements, in that sense.

Normally we try to work it out through consensus building and working with each other. I think the country of origin was a unique incident that went to the WTO, but the vast majority of differences we work out through negotiations between our two countries at the official and ministerial levels.

Mr. Brian Masse: Thank you for your time.

The Chair: Thank you very much.

That's about all we have time for. Thank you very much for coming in and giving us some great information.

We're going to suspend for two minutes while we switch panels, and we'll get right back on track.

Thank you.

• (1635) _____ (Pause) _____

• (1635)

The Chair: For the second, almost hour, we have from the Canadian Agri-Food Policy Institute, David McInnes, president and chief executive officer, and Ted Bilyea, chair, board of directors. Then from Food and Consumer Products of Canada, we have Carla Ventin, vice-president, federal government affairs.

We're going to jump right into this. If you could make your comments in six or seven minutes, that would give us a bit more time for questions. We will have votes starting at 5:30. The bells will be going off.

Let's go ahead, Mr. McInnes.

Mr. David McInnes (President and Chief Executive Officer, Canadian Agri-Food Policy Institute): Thank you, Mr. Chair.

For purposes of the translation, I'm going to be jumping past a couple of paragraphs, just so you're aware.

• (1640)

[*Translation*]

We thank you on behalf of the Canadian Agri-Food Policy Institute for this opportunity to present our views on the status of the manufacturing sector in Canada.

We represent an independent and impartial think tank dedicated to advancing research, ideas and dialogue on the long-term competitiveness of the Canadian agri-food sector.

[*English*]

We're going to address three questions with you today. How is the idea of competitiveness changing? What does this emerging shift mean for Canada and Canadian food manufacturers? What can Canada do to take advantage of this change?

In short, I think Canada could aim to become not simply competitive or more competitive, but how we can become sustainably competitive. I'm going to go through each of the three questions very quickly.

Turning to the first, how is the idea of competitiveness changing? What's the single most important determinant of success in food manufacturing? Is it labour, price of ingredients, good road infrastructure, a low Canadian dollar, lower hydro costs? These are all important for sure, but the scarcest and most precious ingredient or resource is trust.

Germany's Volkswagen showed what happened when it lost consumer trust. It misled consumers and regulators on its car

emission tests, costing the company billions of dollars and seriously denting its corporate reputation.

Global trust in food production is taking a beating as well, if we look at algae blooms threatening oceans and lakes, fostered by the overuse of fertilizer, and the runoff of phosphorus and nitrates from towns and cities. In Europe and elsewhere, pesticide levels and nitrates in groundwater are a concern. In China, people have come to mistrust their food so much that they seek food online from Canada and other countries in order to source products.

Consumers have an abundance of food to choose from, and very safe food, but consumers are growing increasingly uneasy about the food they eat. It's no wonder that food manufacturers and their supply chains are working to develop sustainable sourcing for a whole variety of products, including sustainable seafood, sustainable beef more recently, and sustainable palm oil. This also helps to explain the rise of organic food.

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

The Global Footprint Network, an international NGO, has calculated that most countries are in what they described as ecological deficits. It's calculated that more than 80% of the world's population lives in countries that use more resources than what is renewably available within their own borders, and climate change is going to make this worse.

The Bank of England's Mark Carney has said that climate change will threaten financial resilience and longer-term prosperity. International financial institutions will soon require borrowers to submit climate risk disclosure statements. Norway's \$900-billion government pension fund has dropped 11 companies because of their deforestation practices. Moody's, the ratings agency, now assesses the water risk of mining companies in the developing world. So, managing natural capital, the building blocks of how we produce food and everything else, is becoming a financial systems and an access to capital risk. This is going to impact all manufacturers. Fortunately, Canada is in an ecological surplus. This is a strategic opportunity if we can diligently preserve that surplus.

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

Canada produces safe, high-quality foods, but so do a lot of other countries. To compete, we must differentiate. This is important given that food manufacturing is a national economic engine, and you heard some statistics and data just before us about the size of the sector.

We examined 13 food companies and why they were so successful, from Bonduelle and PepsiCo, large multinationals, to Lassonde and other mid-size companies in Canada, to small companies in P.E.I., such as Island Abbey Foods.

We tried to identify what was common to explain their success. For the start-up and small business in every province and territory, success often depends on having a niche product, a terroir, an intellectual property that they can become regionally or locally dominant in, and build an export market for.

What does the larger Canadian mid-size company need for success and how does that drive it? Those companies need, ultimately, to build resilience to American firms. The U.S. firms often have the advantage of scale, and to counter this, Canadian firms need to offer several points of differentiation, which is also a way to attract capital.

For multinational firms operating in Canada, outperforming the NAFTA option is what they must do to stay here. They also compete for capital within the global corporation, and that means they need to secure a reliable supply of high-quality competitive ingredients and have a mandate that often includes exporting from Canada, as well as serving the domestic market.

Common to all these types of companies is differentiation. Going forward, we believe that companies will increasingly try to differentiate themselves based on how they manage natural capital. This is Canada's huge opportunity, and we are among the few in the world that can attract the companies that want to develop innovative products and processes here in this country because of it. We have adequate fresh water. Our winters act as a natural pesticide. We use less pesticides and other chemicals than our key competitors do. Our ratio of animal density and human population to arable land is among the lowest in the world. I should also add that we have a reputation for good governance.

The third question is what we can do to take advantage of this emerging and shifting marketplace. We need to better leverage the opportunity that I just outlined, but we face some barriers, and we need to be proactive. Our long-term game should focus on how we raise the bar on our competitors. This means taking action on global subsidies and quality standards. Global agricultural subsidies are huge. They allow global food manufacturers to access relatively inexpensive food ingredients, giving many of our competitors the ability to achieve global scale. As well, such subsidies incent production without really factoring in the ecological impact. This actually prevents us, here in Canada, from leveraging those natural capital strengths.

Here's an example. We often look to the Netherlands as a food manufacturing model, and rightly so. They have many large food companies, and the Netherlands is the second-largest food exporter, after the United States. However, this has come at a cost. Its agricultural practices are highly intensive, unduly impacting soil, water, and carbon through pollutants and greenhouse gases. The sector contributes an average of 10 billion euros annually to the Dutch economy by GDP, but its ecological net impact is 1.6 billion euros. The EU subsidies support this form of agriculture.

Canada can shine a light on what's happening here with global subsidies as part of a concerted global campaign, but we need to be cautious in imposing new requirements and regulations on the Canadian food system, such as new environmental protections, as we don't want to give our competitors a cost advantage in the meantime. Instead, we should be trying to raise the bar on global standards

internationally. Over time we believe this will be harder for our competitors to meet as these rising expectations and standards go up.

Domestically, we also need to continue to focus on having an inviting business climate. How we enable investment and innovation to help us differentiate is really the strategic task. Clearly, many consumers and investors are expecting more transparency from food companies and the agrifood supply chains on a whole host of matters from nutrition, animal care, sustainability, antibiotic use, and ethics, and the list really goes on. We see this as a catalyst to build a better Canadian brand. To help us, we need data and credible metrics and measures to track our progress and reassure consumers and markets at every stage and step in food production and supply, from field to fork.

• (1645)

These steps will actually help to deepen trust. Governments and industry need to work more closely together to make such traceability a reality. We need to be able to demonstrate that food production does not undermine water and ecosystems, add to greenhouse gases or use unhealthy ingredients, and so on. Better transparency of such practices on our part will make this a race to the top and not a race to the bottom. As well, we can better align our innovation and science organizations on priorities that will help enable this transformation. This needs to include deeper collaboration with industry.

We believe that Canada can define a very powerful food brand around trust and use this to differentiate our food products and beverages. Sustainable competitiveness is our big possibility because of our natural resource base, if managed right.

Thank you for your time.

• (1650)

The Chair: Thank you very much for that passionate presentation.

Ms. Ventin.

Ms. Carla Ventin (Vice-President, Federal Government Affairs, Food and Consumer Products of Canada): Thank you.

On behalf of Food and Consumer Products of Canada, FCPC, and the member companies we represent, I would like to thank the Standing Committee on Industry, Science and Technology for undertaking a study on Canadian manufacturing. I would like to take this opportunity to highlight the important role of the food and consumer products industry to Canada's manufacturing sector and its future.

I'd also like to say how pleased I am to have the Canadian Agri-Food Policy Institute testifying with me today. We collaborate closely, and they do excellent work.

FCPC is Canada's largest industry association representing companies that manufacture and distribute the majority of food, beverage, and consumer goods found on store shelves, in restaurants, and in people's homes. Our membership is truly national, providing high-quality jobs to both urban and rural Canadians in more than 170 federal ridings across the country.

Food manufacturers, as we heard earlier, are in fact the largest employer in the manufacturing sector in Canada. We were pleased that budget 2016 recognized food manufacturing as the largest employer in Canada and an important contributor to the economy. For the first time, food manufacturing was also identified as a priority in July at the federal, provincial, and territorial agriculture and agrifood ministers' annual meeting. We are hopeful that this recognition will be reflected in future government research, policy, and programs.

We also heard earlier that there's enormous growth potential for this industry. It's estimated that the world's population will grow to 9.6 billion by 2050. This will require a 70% increase in global food production. According to the chair of the government's advisory council on economic growth, Mr. Dominic Barton, food will be one of the biggest businesses in the world. Mr. Barton believes Canada has the potential to be a leading global food player, but we're not there yet.

Canada is well positioned to play a vital role in feeding the world with its high-quality and made-in-Canada products. Our reputation in food safety, ranked as number one in the world by the Conference Board of Canada in 2014, can help propel Canada into this leading role. Despite the growing global demand for food and trust in Canadian products, however, Canada is actually importing more value-added processed food than it is exporting. Most recent figures show that we have a trade deficit of \$7.55 billion in further processed food products.

According to CAPI, which studied the issue extensively, the reason for the trade deficit is the steady decline in net capital investment in machinery, equipment, and buildings. Certainly we are seeing those challenges presented by aging manufacturing facilities across the country. More incentives are required to urge food and consumer product manufacturers to reinvest in their Canadian plants, open new and modern facilities, and integrate new technology like automation robotics. Other countries are fiercely competing for these investment dollars. We need to be in the game if we want to keep value-added manufacturing jobs here in Canada.

Now, another hurdle is our backward-looking regulations that have not kept pace with advanced technologies, global practices, or new product innovations. A modern regulatory framework would encourage companies to manufacture in Canada, grow their operations, and introduce innovative processes and products. Canada's innovation and growth agenda depends on Health Canada's ability to modernize its food and consumer product regulations.

We also need to carefully consider the impact of new regulations on our industry's ability to innovate and grow. There is currently a lot

on the table in terms of Health Canada's potential intervention in our sector: how we make our products, how we package our products, and how we market our products. We recommend that the government take a balanced and holistic view of existing and potential regulatory initiatives as a whole in terms of the efficacy of the measures and their economic consequences.

Overall, I think we need a new way of looking at the food processing sector in Canada and a recognition of its current economic contribution and potential. I like the way CAPI summed this up in a recent report, "Canada is often viewed as satisfied with remaining largely a commodity supplier, rather than doing more to add value to what it produces or enhance its processing potential."

● (1655)

We need to process for the sake of processing, and figure out how to add value beyond the farm gate. Food manufacturers, however, remain currently under-represented in the federal government. In our home, which is Agriculture and Agri-Food Canada, only about 5% of the entire departmental budget is allocated to the food manufacturing sector. This means that only about 5% of the department's funds in areas like research and programs, which are critical for our sector, are focused on food manufacturing.

If we want to retain and grow food manufacturing jobs here in Canada, we need more balance and equity in the department. We need to take a step back and map out these challenges and opportunities presented by the fourth industrial revolution on a global scale and figure out how to equip Canadian manufacturers with the tools that they need to compete. I highlighted a few steps needed along the way, including more incentives for capital investments, a modern regulatory framework, and more focus on food manufacturing research and programs.

We're taking a deeper dive on these critical issues in partnership with Canadian Manufacturers & Exporters. As explained by CME at this committee on May 31, they're spearheading Industrie 2030, and we are pleased to be working with them in partnership on this project. The objective of Industrie 2030 is to outline an action plan for growth to double manufacturing activity in Canada by 2030. Industrie 2030 will be launched on October 18 and 19 in Ottawa, and we encourage the committee to review the findings as you prepare your report on manufacturing.

Canada has the potential to be a global leader in manufacturing and the work of this committee is extremely important. We share the government's focus on growth, innovation, and competitiveness and look forward to working closely with members in this committee to make manufacturing a priority.

Thank you.

The Chair: Thank you very much.

We're going to go right to Mr. Arya. You have five minutes.

Mr. Chandra Arya: Thank you, witnesses, for coming here.

Mr. McInnes, I have a bit of confusion here. I believe CAPI, in 2014, released some reports that noted trends of falling levels of investment in buildings but rising investments in machinery. Earlier we heard Ms. Andrea Johnston, director general from Agriculture Canada say, and now Ms. Ventin also say that one of the reasons for the deficit of \$7.55 billion in trade of processed food is less investment in machinery, whereas in your report you mentioned that there's a rising investment in machinery. Why is that?

Mr. David McInnes: There are two parts. One is the deficit, which I think we'll leave off to the side, and if you would like, I can come back to that. The other is on the investment side.

What we found is that during the period of our research we saw a lot of closures of companies and retrenchment primarily to the United States. While there might have been a lot of plant closures, we did see a period where companies were actually starting to increase investment in machinery. This was due in part to their ability to use the accelerated capital cost allowance and some other tax tools. Often this takes place with changes in the value of the Canadian dollar and other factors as well.

Mr. Chandra Arya: You are saying there has been increasing investment in machinery.

Mr. David McInnes: Our analysis was from a number of years ago, and we don't have current data, so I can't talk about the present trend, but when we did look at it—

Mr. Chandra Arya: Ms. Ventin, what is your comment?

Ms. Carla Ventin: I've relied on the statistics that I read from both CAPI and Agriculture and Agri-Food Canada, so I don't have the most current against the last year or two—

Mr. Chandra Arya: Okay, that's fine.

Ms. Ventin, I believe in the submission to the Standing Committee on Finance you called for more federal investment in food manufacturing to stimulate innovation. Earlier we heard from Ms. Andrea Johnston that there is no collaboration between the researchers and the industry. We have increased funding for research, especially emphasizing basic research. If there's no collaboration between the researchers and the industry, why should we pump in more money?

• (1700)

Ms. Carla Ventin: If you look at the overall scale of things in Canada, there is not a lot of collaboration in those sectors. That's one reason why, for example, in the Netherlands, they've done very well as you see that collaboration with industry, government, and universities or colleges.

There are specific examples in which the collaboration works very well, but overall I think that a lot of work needs to be done in that area.

Mr. Chandra Arya: Okay.

Mr. McInnes, do you agree that although there's a bit of research and development going on, the commercialization is quite limited?

Mr. David McInnes: In fact, I just wanted to tack on to the question that Carla answered. What we're seeing is that, at the small and mid-size company level, they do depend quite a bit on incubators across the country. Whether in southern Ontario, western Canada, or eastern Canada, these incubators bring together scientists, food researchers, along with food companies and others to try to help along product development. At that level there's actually quite a robust growth in start-up companies, and I think that's a hopeful sign because—

Mr. Chandra Arya: I'm sorry. You mentioned there's robust growth in the start-up companies.

Mr. David McInnes: At a very small level, that's correct.

Mr. Chandra Arya: That's quite interesting, especially going back again to what Ms. Johnston said about the industry being stable but losing ground.

Mr. David McInnes: I think it's important to look at the fact that there are a number of ways to look at the industry. I tried to outline in my remarks that, if we look at the very largest companies such as multinationals operating here, right back through the start-ups—

Mr. Chandra Arya: Okay. I have only 30 more seconds, and I have one last question.

When you talk about new manufacturing start-ups, how is the funding position? Is funding readily available for these new companies?

Mr. David McInnes: I'm not sure, on a macro sense, as to how they're being funded, but I do know that the incubators are very helpful, particularly because these companies are targeting, for example, the ethnic food market or the products that we are all buying every day that are captivating our taste buds, like artisanal foods, for example. This is very much in demand, and we're seeing a lot of activity. These incubators help to do the research and bring that together.

The Chair: Thank you.

Mr. Nuttall, you have five minutes.

Mr. Alexander Nuttall (Barrie—Springwater—Oro-Medonte, CPC): Mr. McInnes, one thing you started off with was that the most important thing for the food processing agri-market is trust. I was in Taiwan, actually, not too long ago, on a mission there. It's a place we're trying to reopen our beef exports to. Then further on you went into climate change being very tied into that trust issue. Do you believe that climate change is more of a factor for our food processing industry than hydro? That seemed to be part of the case you were making.

Mr. David McInnes: What I was saying is that, as our research revealed, there are a whole series of factors that determine the success, failure, or struggle of an individual company, whether they are day-to-day hydro costs, access to labour, or border issues. Whatever they may be, there are a whole series of factors, which is reasonably expected.

What we're trying to articulate is that, when we look at the overall trends of where the consumer is going and where retailers are going, the attributes around trust from nutrition, ethics, and sustainability are huge game-changing opportunities for Canada to innovate around. We're adding to how we can differentiate when we present that.

Mr. Alexander Nuttall: I'll accept that.

I guess I look at food as one of those things. Yes, you need food safety because that's where the credibility of the food is. I think it's one thing that people just need. Someone's always going to be there to buy it.

It's interesting, because in my riding we've been approached by a couple of maple syrup people who are making vodka and wines out of maple syrup. Their target is northern Europe, because it's popular there now. The only issue they brought to us—we have a steady flow of maple syrup, we have all these things—is the hydro rate, the cost of hydro. It leaves us in a position in Ontario where we're not even competitive with Newfoundland. I find it difficult.

If you were to do a survey of agribusiness, especially of food processing in Ontario, what would they say is the number one issue they're facing?

• (1705)

Mr. David McInnes: When we did our research, we got all the issues that you probably can think of and identify, such as the cost factors, cost of doing business, the business climate, business environment issues, which we still believe we have to pay very close attention to as a country, because investment will go to the places that have a low-cost environment. However, we're thinking about where we want to be in the future and the trends in consumer demographics. If you look at companies such as Nestlé, Unilever, and even Loblaw's, and many of the largest companies, they're all trying to identify those niche attributes that could sell product. We're really working on two different planes at the same time.

Do you want to jump in?

Mr. Alexander Nuttall: I only have so much time. I think I have only one minute left.

The Chair: You have one minute.

Mr. Alexander Nuttall: In southwestern Ontario, one of our companies had about 200,000 square feet of greenhouses, and they put in requests for permits for another 100,000 square feet, a 50% increase in their capacity. After building it, they closed their doors and went across the border. The number one reason was hydro.

What I hear from all the food processing guys every time is “hydro, hydro, hydro.” In my riding, I have a gentleman who owns millions of square feet of food processing in the United States. He doesn't employ a single person in Canada, except for his receptionist, and it's because of the cost of hydro.

The Chair: You were bang on five minutes. Thank you very much.

Mr. Masse, you have five minutes.

Mr. Brian Masse: I want to continue with regard to southern Ontario, obviously, since I represent Windsor West here.

With regard to the southern economic development file, do you know whether the federal regional economic development agency has been partnering with any of your businesses and organizations and whether it has been successful over the last number of years? Especially, I am interested in some of the artisan stuff that has been taking place, the niche marketing. You do see it especially with “buy local”, and so forth, and the organic element is huge. Have they been able to access capital, or have you heard much from them? They may not be part of the larger voice, but they're out there at the farmers' markets and really trying to get into the grocery stores. That's one of the challenges they face. Do you know what type of incubation supports they've been receiving?

Mr. David McInnes: I'm afraid I don't know specifically about that organization. I do know that many of the other larger research firms and entities, whether it's Genome Canada or the National Research Council, are devoting much more attention to the food and agriculture space, but I can't answer about that one in particular.

Mr. Brian Masse: To move forward with regard to food safety and international trade, I was talking with the previous witnesses about trade between Canada and the United States, and between Mexico and the United States.

Ms. Ventin, I noted that some of your companies here would be doing business among Canada, the United States, and Mexico. I'd be curious about your position or your thoughts on whether the border processing taking place between United States and Mexico is similar to that between Canada and the United States with regard to food safety, inspection, and processing under our current trade agreements.

• (1710)

Ms. Carla Ventin: The North American market is definitely important for our member companies. Concerning how products are treated differently between the Canada-U.S. border and the Canada-Mexican border—

Mr. Brian Masse: Yes. Is the U.S. comparably treating inspection and safety reviews of products coming in from Mexico to the United States, as they are from Canada into the United States?

Ms. Carla Ventin: I probably don't have much more to add than what the CFIA said, but I do know that the Canada-United States Regulatory Cooperation Council is working on this comparability to help with the facilitation, what we call “the thinning of the border”, and to help the free flow of these products, but going both ways.

I think you might also be referring to what I have heard on a few occasions, the greater ease of some products coming into Canada, whereas in Canada it's still harder to get access. It's a little bit harder. There are a few more layers to get access to these markets. So we definitely need equivalency there.

Mr. Brian Masse: I suspect, as well, that coming from Mexico into the United States equivalency may not be the same. It seems our standards—

Ms. Carla Ventin: That's right.

Mr. Brian Masse: Yes. That's what I'm a little concerned about. I'm wondering with some of the organizations whether it might be tougher for us to get stuff in there because of the standards and the border processing versus that of Mexican goods coming into the United States.

Ms. Carla Ventin: That may be.

Mr. Brian Masse: I am interested in the capital cost reduction allowance and the brief growth in manufacturing because of that. That was one of the recommendations that came in when one of the first manufacturing studies was done here, as there was party unanimity on that.

I had argued for years that the capital cost reduction allowance should be a five year or a 10 year...like a five and a double year, but we've jumped to a couple of years, and then to a year extension. My thought is that it should always be at least five years with maybe a five-year renewal, that there should be more consistency there, because I think a lot of business decisions are made already by the time we get it out the door. I'm looking for the long-term investment. The short and medium term have already been made.

Do you have any thoughts on the duration of that program?

Ms. Carla Ventin: Just quickly, that is definitely important for our member companies—long-term, permanent, consistent, predictable. We need to have a vision on how they are going to be doing their investments, so it has been a real help.

Mr. David McInnes: That's the same message we heard in our discussions.

Mr. Brian Masse: Thank you, Mr. Chair.

The Chair: Mr. Longfield, you have five minutes.

Mr. Lloyd Longfield: Mr. Chair, I'll be splitting my time with Mr. Baylis.

That was a wonderful presentation, Mr. McInnes. The part that really stood out for me that could help our study was the examination of the 13 food companies to see how they have been successful.

Is that a report you could submit to the clerk so that we could use it in part of our study?

Mr. David McInnes: Absolutely.

Mr. Lloyd Longfield: That's tremendous.

What is also exciting is the differentiation of product around environmental standards and sustainability. We're going to be going from here to vote on our climate change resolution. Canada can be a leader in climate change, and this could be part of our brand.

Is that where you were leading with your comments?

Mr. David McInnes: We weren't thinking specifically of what's been happening here in the House over the last several days. This is some work that was born out of an event we held here in Ottawa several months ago. We brought in some pretty interesting speakers from Alibaba from China to the secretary of food and agriculture from California, among many others. This notion of trust and brand sustainability were formulated at that time.

Mr. Lloyd Longfield: I think in terms of our study, that might be something we haven't considered yet: our climate change program

around manufacturing. That will be interesting as energy costs grow. As Mr. Nuttall was saying, we will have to make sure we're on top of that, as it will become more strategically interesting for us.

Before I toss it over to Mr. Baylis, Carla, we've talked about the investment in innovation for manufacturing. It's only 5% of AAFC's budget. We're trying to position this in terms of our study, which is why we're talking to you. This is a key part of Canada's value added in manufacturing.

Do you see this having a home in another department versus the Department of Agriculture?

• (1715)

Ms. Carla Ventin: Yes, definitely.

Agriculture and Agri-Food Canada is our home as you know. It's interesting because, as the top employer in manufacturing, it would make sense for us to be in a different department—

Mr. Lloyd Longfield: Yes.

Ms. Carla Ventin: —in ISED.

What's interesting is that in 2010 the Netherlands—I know you asked about them previously—transferred their ministry of agriculture into their ministry of economic affairs.

Mr. Lloyd Longfield: Perfect. That's what I was wanting for our record.

Ms. Carla Ventin: If you can make that happen, that would be fantastic.

Mr. Lloyd Longfield: Thanks. That's great for the record.

Over to you, Mr. Baylis. I know you had some regulatory stuff.

Mr. Frank Baylis: I'd like to follow up with Ms. Ventin.

You mentioned that Health Canada could benefit from modernizing the regulations. Can you explain to us how they are a barrier right now to our manufacturers, and what would you like to see done to remove that barrier?

Ms. Carla Ventin: Right now with the regulations, according to Health Canada, it would take at current levels and current pace 20 years to modernize their existing regulations, by which time they will already be out of date.

The issue here is that when you have industry trying to introduce new ingredients, new products, and new manufacturing processes, these things take so long to get approval in Canada. I hear this often from our member companies. If you're a manufacturer here in Canada, you may have this great new product or new innovation, or you may want to introduce some technology, but it takes years for Health Canada to get back to you to say whether or not it can be approved.

Mr. Frank Baylis: Is that because of lack of knowledge, funds, or personnel? What is the core problem there?

Ms. Carla Ventin: I think there's just been a backlog, and I don't think regulations are exciting, but they are a huge barrier to innovation and growth for our industry. They cause a lot of frustration. I would say it's the lack of resources.

Mr. Frank Baylis: It's the lack of resources.

Ms. Carla Ventin: It's not only the existing regulations, like that 20 years for the existing regulations to be modernized. The sciences back this up. The science is there, and everyone agrees that they have to be modernized, but it's all of the new regulations as well.

Mr. Frank Baylis: I understand.

Ms. Carla Ventin: So how is the department going to handle that?

Mr. Frank Baylis: I'm going to jump very quickly with a question to Mr. McInnes.

You had mentioned we could use standards to our benefit. How could we raise international standards? Could we do that in Canada and then force that on to the industries that are trying to come in here?

Mr. David McInnes: This is a long-term proposition around how international food standards and other standards are set. The real issue here is that, if we have not factored in the full cost of production into the food ingredients we eat, we are basically conferring and keeping an advantage with our competitors. How do we best move the goal posts so we can better compete, achieve scale, and innovate from this country? The international standards and the global subsidy issue that I mentioned are such an opportunity where we try to raise the bar on our competitors for residues in our foods.

Mr. Frank Baylis: What can we do for standards?

Mr. David McInnes: Do you want to jump in?

Mr. Ted Bilyea (Chair, Board of Directors, Canadian Agri-Food Policy Institute): I think we have to think very hard and long every time we go to Codex and not simply agree on the lowest possible standard that we can all agree on. Where we have a distinct advantage, we should dig our heels in a little bit at Codex.

Mr. Frank Baylis: Who does those negotiations on our behalf?

Mr. Ted Bilyea: I think that's run through Agriculture Canada, CFIA, and Health Canada. They are all involved.

The Chair: All right, thank you very much.

Mr. Dreeshen, you have six minutes.

Mr. Earl Dreeshen: Mr. Chair, it's great to have the witnesses here.

One of the things you spoke about earlier, Mr. McInnes, is developing our food brand around trust. I think that's so critical, but by the same token, we have so many different fads that are coming about. I mean I think you can go to the Calgary Stampede and you can buy lard on a stick, but you're going to have gluten-free buns that are being advertised at the same kiosk. We see these types of things happening, like the issue with A&W as far as hormones are concerned. If you do any research on it, you realize that you could probably eat 50,000 burgers to get as much estrogen as a male is going to produce during a day. Yet these are things that we see become marketing ploys.

I understand the significance of that, the types of things that are associated with it, but then you start to fear where this is going. We also hear in the beef industry that people are saying there should be restrictions because of the methane gas coming from beef animals. Those become some of the things producers are looking at and they

are nervous about them. We may end up with the same situation if we have all of these groups that come in, because as Canadians, we apologize for everything we do, and therefore Brazil will take up the beef production in the world. It will be the same as bringing in oil and gas from the Middle East because we don't want our oil and gas moved. These are the kinds of issues that people are so concerned about, when all you hear is media turning things around. Farmers are concerned about that.

I mean the issue with Earls on the humane treatment of animals, again, was a marketing ploy. There are people who will say, "Well, I can do that because that's how I run my operation anyway, so if somebody wants to sign me up, go ahead." These are the concerns that people in agriculture have, and they are going to affect our industry and our manufacturing industry as well. What can we do to try to make sure we can stay on top of this, as it is so important for every one of us?

• (1720)

Mr. David McInnes: That was a great question. There were a lot of pieces to that.

On the one hand, we're not talking about trying to get in the way of day-to-day marketing and ask what trend is the right trend to brand Canada around. That's just not what we're looking at.

On the other hand, there is this issue of social licence. A lot of work is being done across the country by a lot of people in industry and government on how we can counter bad information, misinformation, or the lack of scientific information, so we can better communicate the care and responsibility that the agrifood sector takes to produce and supply food.

Actually, we're going beyond that. That's a communication, education, and information imperative. We're also moving into the space of thinking about our Canadian brand not necessarily in terms of what we put on a website and how we market with the Canadian flag but more in terms of what stands behind the food that we produce here. We're looking at brand in a much deeper way. For example, when you mentioned the beef sector, when we initially started looking at traceability, we wanted to trace where an animal was raised, what feed protocol it was given, and what drugs it may have had from a health standpoint. If there is a food incident, we want to understand and to be able to identify and isolate very, very quickly a problem that occurs. That's driven by food safety, and that's very important to the Canadian beef brand. However, there's another aspect, which is that information shared through traceability can also be used to improve the calibre, quality, and cuts of meat that different consumer demographics might desire, whether in China, in Japan, or here at home.

The sophistication of using traceability is not necessarily about putting the Canadian flag on the package. There are a lot of good people trying to promote Canadian food. We're looking at the protocols that stand behind it. That is what we're getting at in terms of trust. What we're seeing are global supply chains quite rightly trying to ensure safety, quality, and sustainability themselves. We're asking ourselves, if global supply chains are doing this, how then are we going to differentiate ourselves if we're merely going to subscribe to these often very good standards? Otherwise we're still playing on the same playing field as our competitors.

The caution, quite rightly pointed out or implied, is that there's a marketing piece here, and we want to make sure we're careful that we don't adopt a cost structure that puts us off base. This is a very complex issue that requires industry, government, and scientists to actually work far more collaboratively. I think that is what we're trying to emphasize around this issue of trust.

Mr. Ted Bilyea: May I just add one point, if you don't mind?

The reason we're onto this is fundamentally that we want to get people to begin paying attention to the fact that, when you have to ship grain to animals, there's no one in the world who can make an equation that can show me that you can actually profitably ship grain to animals. North America has a grain surplus; Europe doesn't. Last year, China imported 70% of its pork in record numbers from Europe, and the other 30% came from the Americas, which have a grain surplus. Give your head a shake and try to figure out how that works. Then you can begin to understand that if you can drive something into this equation so they will actually have to look at their external costs in this process.... That's where we're coming from. It's very much a cost argument, and it will help North American exports of beef and alfalfa to Asia.

How can that work when you have the alfalfa here? That's where we're coming from. If you put a value on the natural capital, the water, and things like that, suddenly the competitive thing changes completely.

• (1725)

The Chair: Thank you.

Ms. Carla Ventin: May I jump in here quickly?

I agree. Consumer pressures are everywhere. Everybody has an opinion about food, and it's not just the farmers who feel it, it's also the food manufacturers. I think we need to step back and put it in context. If we basically reacted to every single consumer interest or whim, we would have, for example, food labels that were larger than this room, and that had every single detail that had nothing to do with health, or safety, or science.

It's a challenge, yet we do have to address the issue of consumers with regard to trust and transparency.

The Chair: Thank you.

Mr. Masse, you have two minutes.

Mr. Brian Masse: What I'd like to follow up on is the issue over percentage of budget for food manufacturing. That's obviously something that's very important to consider.

For example, Nestlé Waters, which is essentially known for “rip and ship”, what would be in the manufacturing element there that they could actually add, other than production processing? What percentage do you think is a fair percentage for R and D back into, say, their Ontario operations?

Ms. Carla Ventin: Concerning the 5% in the department's budget, I think that's a very low number for the value-added for the largest manufacturing employer in Canada. In dealing with other federal government departments, we're always punted back to Agriculture and Agri-Food Canada. That 5% number is extremely important to us. It really does reflect a lack of research policy and focus on our sector, government wide. As per specific company issues, I don't speak to those specific things in here. I speak in a general broad sense on behalf of our members and on behalf of the industry.

Mr. Brian Masse: That's unfortunate, because you do represent three versions of Nestlé here. What would be the average industry research and development investment?

The Chair: You have about 30 seconds.

Mr. Brian Masse: We know that for other sectors, for example the pharmaceutical industry, generic industry, we generally get an industry average of R and D.

Ms. Carla Ventin: Right.

From what I understand—I would have to look at those stats. Maybe you know—it is lower than some of the leading manufacturing sectors in Canada.

Mr. Brian Masse: Could we get that?

The Chair: Thank you very much.

If you could bring that information to the clerk, that would be wonderful.

Ms. Carla Ventin: Sure.

The Chair: I do have to cut it off because we have to get back to the House.

Thank you very much to our guests. Again, they were great presentations.

Thank you everybody for great questions.

The meeting is adjourned.

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