Canada’s Agri-Food Economic Strategy

Table:
A Roadmap to Growth
Discussion Paper

July 4, 2018
Introduction

Ever since the Second Report of the Economic Advisory Council (the Barton Report) was released, the Canadian agriculture industry has galvanized around the targets set out in the Report for growth in agri-food exports. However total agri-food exports have already reached $70 billion, so the question must be asked whether the Report was too conservative in its outlook and should we strive for more ambitious export targets by 2025.

Furthermore, Canadian agriculture has significant growth opportunities here at home as well. Whether it’s new processes for value-addition, an ever-increasing diversity of desired product attributes, or new end-uses for raw agricultural products and waste, Canadian agriculture has immense potential to add more value to the abundance of raw agricultural products we produce.

However, these market opportunities face no shortage of competition. If Canada’s agriculture industry is to leverage its many advantages and maximize the value of its raw agricultural products, industry and governments must develop a roadmap to strategically tackle both short and long-term barriers to growth.

The agri-food economic strategy table presents a unique opportunity to lay out a roadmap and mobilize industry and government leaders along the way.

As the agri-food economic strategy table concludes work on its first report and engages with stakeholders, CFA has put together the following overview of key recommendations responding to the five key themes identified in the strategy table’s interim report:

- Modernizing infrastructure and regulations;
- Increasing innovation and seizing value-added opportunities;
- Adopting technology and advancing digitization;
- Increasing market access and growing exports; and
- Dealing with labour shortages and being prepared for the future.

What follows is a series of CFA recommendations for discussion as critical steps that would eliminate key barriers to growth and help set out a roadmap that will help Canadian agriculture industry achieve its immense potential.

“Canada needs to seize value-added opportunities, including more domestic processing, innovative end-uses for our agri-food products, co-product manufacturing and turning waste products into revenue streams”

Murad Al-Katib
President and CEO, AGT Food and Ingredients

Source: Canada’s Economic Strategy Tables, Agri-food Interim
Modernizing infrastructure and regulations

1. Regulatory modernization

CFA believes regulatory modernization needs to be an urgent priority for the agri-food growth strategy. Canada continues to struggle with cumbersome, costly regulatory processes, resulting in delayed access to innovative products and lost efficiencies that add up over the entire value chain. Modernizing and harmonizing regulations is critical to the continued growth and advancement of the sector, as this will enable both the adoption and development of innovative products and techniques.

Investing in regulatory modernization can spur improvements in production, food safety, environmental performance, and long-term agricultural growth. Innovative products continue to take too long to gain regulatory approval, thereby raising costs for small and medium enterprises that cannot afford to wait years for regulatory approval on new technology.

Furthermore, the process to obtain permits, licenses and certification across a suite of federal departments is cumbersome and impedes growth and efficiency, while ongoing attempts by governments to recover costs and introduce fees raise costs at a time where producers already face significant financial pressures and regulatory burden.

Recommendation: An innovative approach to regulatory modernization:

CFA was pleased to see Budget 2018 announce the targeted review of regulatory bottlenecks for Canada’s agri-food and aquaculture sector as an important step forward in addressing these impediments. This process presents a unique opportunity to create a new regulatory environment that enables innovation, adaptability and overall competitiveness.

To ensure this process contributes to enhanced overall competitiveness, Canada’s regulatory modernization must account for the cumulative burden imposed by existing and proposed regulations across all departments and agencies. Modernization efforts must have the flexibility to adopt novel regulatory approaches to deal with emergent agri-food innovations if they are to address identified irritants and barriers to future growth.

2. Infrastructure modernization

The cost of bringing goods to markets is a prevailing factor in determining the success of a Canadian agri-food sector that is heavily reliant on international exports. The competitiveness of Canadian agri-food businesses suffers if they cannot access transportation systems capable of moving products to the market in a cost-effective and timely manner. Furthermore, Canada’s international reputation as a trusted supplier of quality products can be tarnished.

However, infrastructure is more than just transportation of end products. Inadequate access to critical agricultural inputs can just as significantly hamper growth and competitiveness. For example, modern crop production, particularly in the horticulture sector, requires an adequate, affordable and reliable supply of non-potable water. For many producers, the lack of access to irrigation, and the inability to finance large-scale water infrastructure projects is a critical growth constraint.
Missed opportunities are also a concern. For example, the emergence of on-farm, renewable energy production presents an opportunity to reduce energy costs, carbon footprints, and add value through enhanced sustainability metrics. Yet, in many rural parts of Canada, the energy infrastructure has not kept pace and prevents businesses from fully leveraging the benefits of decentralized, renewable energy sources.

Improving infrastructure directly increases the affordability and sustainability of inputs, the efficiency of getting product to market, and Canada’s reputation as a consistent provider of high quality agri-food products.

**A comprehensive infrastructure plan:**

CFA believes that infrastructure modernization requires a truly comprehensive, strategic approach. This strategy must be industry-led, focused on addressing the future needs of a growing agri-food industry, and must lay out a long-term, iterative plan focused on tackling strategic targets of all shapes and sizes.

This strategy must not shy away from ambitious projects. Transforming Canada’s agri-food infrastructure will require investments that are large, long-term and complex. Realizing this strategy will require a collaborative approach from all levels of government and leverage all the tools available, such as ensuring Canada’s infrastructure bank is responsive to agri-food infrastructure needs to realize truly ambitious projects.

**Increasing innovation and seizing value-added opportunities**

*Promoting on-farm innovation*

Differentiating Canadian agri-food products, domestically and abroad, begins with innovation on the farm. Canada’s natural resources endowment provides a potential comparative advantage, but it’s up to the farmers and processing businesses across Canada to maximize the value of these resources through the adoption of innovative technologies. While the entire value chain plays a part in providing high-quality products to the markets, this story begins with on-farm practices.

With increasing consumer expectations come changes in product demand. Successful businesses must take calculated risks and make forward-looking investments into innovative technologies, processes, and products. While these decisions are made by individual businesses, the investment climate they operate in has a significant influence on these decisions.

CFA strongly supports the recent Canadian Agricultural Partnership’s continued prioritization of support for industry-led science, research and innovation, but this prioritization needs to be supported with investments that reflect the sector’s immense potential as a key driver of growth in regions all across Canada. A number of critical steps must be taken to create an environment that supports companies looking to embrace new innovations.

*Investing in ambitious agri-food growth:*

Despite nearly 20% inflation since 2007 in both the consumer price index and federal government revenues, the budget for Canada’s agriculture policy framework has remained relatively stagnant and decreased in relative terms. With forecasted federal revenue growth of another 21% by 2023, and ambitious growth targets for the
sector, the governments’ level of investment in the sector must keep up with these projected increases. Without this commitment, Canadian agriculture alone will not be able to successfully face an increasingly complex set of key priorities for the sector.

The government support available to Canada’s competitors is another issue that directly impact Canadian agriculture’s ability to compete and grow around the world. More importantly, it can become a significant competitive trade barrier with the US because of our integrated industries, our proximity to the US market, and in international markets where we compete against US products. Canada cannot continue to lose ground in the level of support it provides to its producers and processors, as this has direct bearing on the short and long-term competitiveness of the sector.

FPT governments need to undertake a collaborative review of Canada’s investments relative to inflation, growth objectives for the sector, and the level of agri-food support provided by Canada’s major trading partners.

**Tax policy that encourages innovation:**

Canada’s tax policy is a key enabler behind the adoption of innovative technologies throughout the value chain. To this end, CFA recommends that tax measures be adopted that encourage investments in value-adding and productivity-enhancing technologies throughout the value chain.

In particular, CFA calls for 100% first year deductibility for farm equipment, which is available to U.S. farmers for many farm equipment purchases and puts Canadian farms at a distinct disadvantage. Introducing this measure in Canada would encourage farmers in profitable years to invest in innovative technologies that add value and, as a result, promote Canadian agriculture’s global competitiveness.

**Optimizing BRM programs to respond to producer needs:**

Effective BRM programming helps farmers confidently make investments in their farm businesses to capture opportunities and remain competitive. While investments in research, innovation and science can have lasting long-term benefits for risk management, they do little to address the risks that threaten farm viability and limit the ability to make immediate investments needed to mitigate current and emerging risks. CFA supports the continued progress of the BRM review, based on a shared objective to modernize our BRM programs and create an optimal suite of programs that enables farmers to manage risks beyond their control.

Importantly, the review must not confine the discussion to the existing BRM programs by focusing on program constraint but must commit to identifying a suite of programs that best meet the risk management needs of Canadian farmers, exploring potentially transformative change in the process. Once an optimal program mix is understood, industry and government need to then work together to identify a fiscally responsible approach to their timely implementation.

**Adopting technology and advancing digitization**

*Addressing the rural connectivity gap*

Investments in rural broadband are sorely needed to allow farmers and other businesses in remote, rural areas
to fully benefit from advances in technology. Farmers operating in global markets are reliant on mobile devices for everything from undertaking basic market research to monitoring advanced farm management systems that provide them with access to real-time data on what’s happening in their barn. Precision agriculture technologies drive the efficiencies and information-sharing needed to remain globally competitive, by better targeting inputs and increasing yields, while allowing for better planning and decision making. However, without affordable access to consistent broadband, these technologies are unavailable, resulting in inefficiencies and lost opportunities.

**A digital infrastructure strategy for rural Canada:**

To systematically address rural Canada’s long-standing deficiencies in digital infrastructure, CFA recommends the development of a pan-Canadian rural digital infrastructure strategy. The government of Canada must work with its provincial counterparts to bring together telecommunications providers, rural communities, as well as leadership from agriculture and other rural industries to lay out a clear vision for truly comprehensive broadband access across Canada.

This will require a strategy with clear timelines for incremental roll-out of new infrastructure in underserved areas, accompanied by a plan to promote competition and affordability, while adopting rolling targets to ensure upload and download speeds keep pace with the pace of innovation. This strategy should also look to leverage further benefits by exploring opportunities to reduce the installation costs of fiber optic cables by partnering with other utilities, such as natural gas, to concurrently install cables and pipes at a reduced total cost.

**Increasing market access and growing exports**

*Capitalizing on opportunities at home and abroad*

As identified in Budget 2017, Canada’s agri-food industry is a significant driver of economic growth, with considerable unmet potential. CFA was pleased to see clear growth targets set for the sector, specifically the target of $75 billion in agri-food exports by 2025. Canada is already the fifth largest exporter of agricultural and agri-food products in the world after the EU, U.S., Brazil, and China, exporting $56 billion annually.

Even though growth opportunities are often seen as coming almost exclusively from international markets, we can ill afford to underestimate the opportunities provided by our own domestic market. Interprovincial trade in agricultural and agri-food products was valued at $40 billion in 2011 and there is room to grow. With Canada’s Free Trade Agreement, farmers see that economic opportunities are on the horizon, provided that governments are willing to make changes that modernize and open up our domestic markets. The harmonization of vehicle weight and dimension limits on inter-provincial trade corridors presents a prime example of regulatory disharmony that continues to limit growth in interprovincial trade.

And so while CFA believes there are significant growth opportunities for the agri-food sector within Canada’s domestic market, Canada has immense potential to expand its exports and meet the increasing global demand for food. Currently a large percentage of Canada’s farmers are dependent on exports as is approximately 40% of the food processing sector.

The growth of our current agriculture industry is largely dependent on increased profitable market access
around the world, and opportunities abound. The recent CETA and CTPP trade agreements will give Canada’s agriculture industry improved market access to at least one billion new consumers. And closer to home, we have considerable potential to increase agricultural trade with the United States. However, it is not enough to simply negotiate trade agreements. These agreements must come with a commitment from all parties to eliminate non-tariff trade barriers through regulatory alignment and harmonization. CFA applauds Canada’s efforts to include regulatory cooperation, coherence and reconciliation chapters in CETA, CPTPP and Canada’s Free Trade Agreement, putting in place a process to identify regulatory differences, and to facilitate regulatory cooperation.

While we continue to seek new and improved markets around the world Canada must continue to defend its supply managed industries operating within a domestic, non-trade distorting policy. Canada’s dairy, poultry and egg industries create a combined farm-gate value of well over $10 billion, manage production to prevent under and over-supply in the market, benefit from having some of the most innovative, efficient producers around the world, and form an important part of a rules-based trading system by providing free market access through established tariff rate quotas.

**Trade Priorities**

- Prioritize key, new markets, domestically and around the world.
- Target regulatory barriers to interprovincial agri-food trade, such as by developing uniform weight and dimension limits on inter-provincial trade corridors.
- Support the ratification of CPTPP by at least 6 countries to implement the agreement.
- Clarify Britain’s trade relationship with Canada, while ensuring Canadian agriculture accrues the full benefits of CETA.
- Complete NAFTA renegotiation while upholding the principle of “do no harm”.
- Eliminate non-tariff trade barriers in international and interprovincial trade agreements to facilitate trade flows.
- Maintain Canada’s ability to uphold supply management as a domestic non-trade distorting policy, preventing over and under supply in the market.
- Recognize supply management market access concessions in the CPTPP and ensure no additional access concessions in NAFTA.
- Confirm programming to address the recurring incomes losses of supply managed producers resulting from market access concessions in CETA and the CPTPP.

**Dealing with labour shortages and being prepared for the future**

If Canadian agriculture is to prosper and grow, it must be built upon the efforts of a skilled, well paid, secure and satisfied labour force. As of 2015, research into Canada’s primary agriculture industry identified a labour shortage of approximately 59,000, having doubled since 2005 and forecasted to increase to 114,000 by 2025. This shortage has ramifications for the future, but farmers alone already identified losses of $1.5 billion due to unfilled vacancies. As a sector that employs 1 in 8 Canadians, unfilled vacancies and lost opportunities threaten the viability and competitiveness of Canadian agriculture and place these existing jobs in peril.
The lack of available labour to meet the sector’s diverse needs, both seasonal and year-round, represents one of the most significant constraints on the competitiveness and sustainability of Canada’s agri-food sector. Many agri-food positions require unique skill sets, which are increasingly difficult to find in remote, rural areas, as urbanization continues to change the landscape of Canada’s labour markets. If Canadian producers can’t access the right labourers, the industry is seriously constrained in its ability to maintain growth.

As agriculture continues to evolve and adopt new technologies, the sector offers exciting new careers, but there will also continue to be a wide range of skills needs, including an ongoing demand for those traditionally deemed ‘low-skilled’. Technology is changing the face of Canadian agriculture and creating a range of exciting new opportunities, but automation is not a panacea to the continued vacancies constraining the sector.

Maintaining access to adequate agricultural labour is a complex, multi-faceted challenge. Building upon the Canadian Agricultural Human Resource Council’s continued research into current and future skills needs, industry has come together across the value chain roundtables in support of a long-term strategy with two basic objectives: increasing the agri-food labour supply and improving workers’ skills. This strategy has broad-based industry support, but needs support from all orders of government to fully realize a number of specific goals to accomplish the two following over-arching objectives:

**Increase the labour supply:**

An education and career promotion initiative is needed to addresses the complete range of agri-food labour needs by targeting a wide range of available labour sources, including projects to integrate under-represented groups, and a long-term strategic plan to ensure Canada’s immigration policies are conducive to agri-food growth. More immediately, work is needed to ensure Canada’s international farm worker program provide timely and efficient access to international workers where Canadians are not available.

**Improve knowledge and skills:**

As skills and knowledge requirements for the sector continue to involve, all orders of government must invest in enhanced labour market information to understand the current needs and the needs of the future. This information needs to then inform skills training programs, ensuring they are flexible enough to accommodate support training for in-demand skills.
Canadian agri-food needs a strategy that clearly identifies systematic barriers to growth and the means to remove them, providing a roadmap that energizes leadership from the public and private sectors. CFA supports the key themes identified by the Agri-food Economic Strategy Table in their interim report, and recommends the following actions for further discussion:

- **Modernize infrastructure and regulations** - Canada’s regulatory modernization must account for cumulative regulatory burden and look to innovative regulatory approaches, while a comprehensive, long-term strategy is needed to tackle the multitude of infrastructure gaps that constraint agri-food growth.

- **Increase innovation and seizing value-added opportunities** — Canada must ensure that Canada’s agriculture policy framework keeps pace with inflation, growth, and Canada’s global competitors, coupled with tax policy and risk management programs that are conducive to forward-looking investments.

- **Adopt technology and advancing digitization** — Data and digital technologies are critical to the traceability and product qualities demanded by increasingly discerning customers, but Canada requires a clear, long-term rural digital infrastructure strategy to ensure agri-food businesses can capitalize on these opportunities.

- **Increase market access and growing exports** — Capitalize on opportunities home and abroad by completing pending trade agreements, prioritizing key markets, addressing non-tariff barriers to trade, and maintaining Canada’s ability to uphold supply management as a domestic non-trade distorting policy.

- **Deal with labour shortages and being prepared for the future** — In order to increase the supply of labour and the skills of agri-food workers, Canada needs to better target education and skills training across the population, including efficient access to international farm workers, initiatives to integrate under-represent groups, and immigration policy that ensure agri-food career opportunities are made available to new Canadians.