Written Submission for the Pre-Budget Consultations in Advance of the upcoming 2023 Federal Budget

By: Food, Health & Consumer Products of Canada

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RECOMMENDATIONS

- **Recommendation 1**: Strengthen Competitiveness and Support Innovation. Specifically, (a) Accelerate access to labour; (b) Apply a competitive lens to regulatory mandates; (c) Incentivize manufacturing investments; and (d) Fund innovation initiatives for a circular economy.

- **Recommendation 2:** Implement a Broad Code of Conduct

- **Recommendation 3:** Adopt a National Self-Care Strategy

For over 60 years, Food, Health & Consumer Products of Canada (FHCP) has been the largest national industry association representing companies that manufacture and distribute the vast majority of everyday products in every Canadian household.

Our sector employs over 350,000 people in nearly 10,000 facilities across Canada. Our members transform Canada's agricultural riches into value-added finished goods that feed families at home and worldwide. They make safe over-the-counter (OTC) medications and natural health products (NHPs) that empower Canadians to practice self-care while relieving pressure on the healthcare system. Consumers have trusted FHCP members' brands for more than a century.

Business is not back to normal for our sector, which faces unprecedented and ongoing supply chain disruptions. With Canada's historical inflation rate, cost pressures are an ever-present and growing concern. FHCP member surveys reveal that significant contributors to these cost pressures are commodities, transportation, and packaging.

FHCP members have said:[1]

- 95 per cent are experiencing significantly higher cost increases and project continued increases throughout 2022;
- Labour costs for food manufacturing rose by 16 per cent; and,
- Input costs have increased significantly by 23 per cent since 2021.

Our industry faces labour, ingredient and packaging shortages. Severe labour shortages continue to impact food manufacturers and the trucking industry they rely on, transporting over 70 per cent of their products across the border. Other shortages include raw ingredients and packaging materials, such as pallets and pressure-sensitive labels. These global shortages with limited to no domestic supply impact our industry's ability to produce and deliver essential everyday products to Canadians.

A Canadian Exporters and Manufacturers' (CME) member survey echoes this reality. Nine in ten Canadian manufacturers experience supply chain issues affecting their ability to produce and sell products.[2] In response, some FHCP manufacturers have temporarily reduced variety and sizes, concentrating on making the most necessary and in-demand products. As a result, consumers have fewer choices on store shelves, and product shortages in some categories persist.

FHCP submits the following recommendations for consideration for the 2023 Budget.

[1] FHCP Member Surveys, Fall 2021, Jan and April 2022
[2] Canadian Exporters and Manufacturers Member Survey, March 2022.

<u>Recommendation 1</u>: Strengthen Competitiveness and Support Innovation

a) Accelerate access to labour

In food manufacturing, there are over 45,000 job vacancies.[3] A FHCP member survey reveals that over 75 per cent continue to report labour capacity shortages.[4] These challenges impact the production ability of food manufacturers and product availability and selection on store shelves.

According to Food Processing Skills Canada, the employer cost of vacancies in the food and beverage manufacturing industry could total up to $3.1B annually if not addressed.[5]

Despite business investments in worker training and recruitment efforts, available jobs remain unfilled. With domestic shortages, looking abroad to fill this gap is crucial. In CME's member survey, nearly half (48 per cent) cited increasing Temporary Foreign Workers (TFW) and immigrants to ease labour shortages and supply chain disruptions.[6]

We are encouraged by the government's commitments to bring in a trusted employer stream for the TFWP, expand pathways to permanent residence and increase economic immigration. We welcome the decision to increase the TFWP cap to 30 per cent for sectors including food manufacturing and ask to make this permanent. More resources are needed to accelerate progress in these areas and reduce immigration backlogs.

Many internationally trained newcomers cannot practice their profession or trade because their credentials are not recognized promptly. We recommend expanding the Foreign Credential Recognition Program specifically for the agri-food sector to help alleviate labour shortages.

To ensure continuity and predictability, we need to support newcomers to Canada. The government must continue to invest in affordable housing, language supports, public transit, childcare and broadband service, particularly in small to mid-size communities. These investments enable them to live close to their jobs and participate fully in the community and the economy.

b) Apply a competitive lens to regulatory mandates

FHCP supports regulations based on science and evidence that prioritize health, safety and sustainability while incentivizing innovation and growth. Economic and regulatory departments must better coordinate the design and implementation of policies and regulations. Critical regulatory decisions are made without sufficiently considering business impacts, producing unnecessarily costly and inconsistent government policies and undermining our economic recovery.

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[3] Food Processing Skills Canada, Crossroad to Greatness – Key Insights & Labour Market Research About Canada's Food and Beverage Processing Industry, April 2021
[4] FHCP Member Survey, April 2022.
[5] Ibid.
[6] Canadian Exporters and Manufacturers Member Survey, March 2022.

We welcome the government's proposed Competitiveness Assessment Tool (CAT) as an initial step towards its 2018 commitment to exploring applying an economic lens to regulators' mandates. FHCP has long advocated for this to ensure that the regulated parties' economic realities inform regulatory regimes and to avoid unintended negative outcomes.

The proposed Tool closes a critical gap in the cost-benefit analysis process exemplified by the 2014 Plain Language Labelling regulations. That consultation underestimated industry costs by 30-fold ($3.7 million versus over $100 million) and resulted in the loss of one in six products during the 2017-2021 implementation.

For a meaningful impact, we urge the government to make the proposed Tool mandatory, a formal part of any Governor-in-Council regulatory consultation published in the Canada Gazette and consistently applied across all line departments.

c) *Incentivize manufacturing investments*

With chronic labour shortages, manufacturers are considering less labour-intensive ways to run their operations. Investments in automation and robotics can help businesses continue operating in Canada and boosts productivity.

It is concerning that food manufacturing investment in machinery and equipment has been on a steady long-term decline.[7] A CD Howe report reveals that manufacturing and equipment investment in Canada has been flat since 2009.[8]

Canada lags behind the US and other OECD countries regarding investment. Between 2015-2019, manufacturing investment across 31 OECD countries averaged $1.77 trillion annually. Canada attracted less than $22 billion annually, accounting for 1.2 per cent of the OECD total, the lowest proportion among our G7 counterparts and Mexico. By comparison, the United States received twenty-three times this amount, while Mexico received ten times our amount.[9]

Food manufacturers' top barriers to technology adoption include the cost of equipment and installation, and the necessary skilled labour required to operate that technology.[10] Government can help by sharing this cost burden and helping train workers.

Industry and government collaboration is needed to attract investment to help overcome labour shortages and improve productivity. We support CME's recommendation to digitize, automate and adopt advanced technology by introducing a 10 per cent refundable investment tax credit. We echo CME and the Canadian Chamber of Commerce's call to extend the Accelerated Capital Cost Allowance (ACCA) to reflect Canada's low manufacturing investment. We also urge the government to broaden the Strategic Innovation Fund's objectives to address the low uptake by our sector.

[7] Report of Canada's Economic Strategy Tables: Agri-food, 2018
[8] C.D. Howe Institute, Decapitalization: Weak Business Investment Threatens Canadian Prosperity, Commentary No. 625, August 2022
[9] Canadian Manufacturers & Exporters, Canada's Net Zero Industrial Strategy, June 2022
[10] Information and Communications Technology Council, Canadian Agri-food Technology: Sowing the Seeds for Tomorrow, November 2021

d) Fund innovation initiatives for a circular economy

Our industry works with governments and partners across the country to advance a circular economy for plastics, as outlined in the Canada-Wide Action Plan Toward Zero Plastic Waste. We work towards ambitious and progressive sustainability commitments and targets globally and in Canada and encourage investments to improve the performance of plastic packaging and recycling systems. We work with governments on policies and programs to ensure plastics do not become waste.

FHCP recommends a $100 million infrastructure and innovation fund focused on system-wide investments to accelerate the decarbonization of plastics, improve the supply of quality recycled material, catalyze and scale advanced plastics processing technologies, and address the current infrastructure gaps with strategic regional investments in domestic recycling capacity.

Collaboration and incentives will keep plastics in the economy but out of the environment, create new domestic jobs, reduce emissions, and eliminate value lost from unrecovered materials.

<u>Recommendation 2:</u> Implement a Broad Code of Conduct

Amid rising inflation and supply chain disruptions, grocery retailers keep introducing new fines on manufacturers. FHCP companies have experienced a 25 per cent increase in fines.[11] These contribute to consumer inflation, food insecurity and threaten our sector's competitiveness and long-term growth.

To address this issue, a code of conduct is required and must capture the products available in a typical grocery basket and reflect the Canadian market. A unique characteristic of the Canadian market is the full integration of the pharmacy and grocery channels, an unusual feature worldwide. The five large grocery chains own most retail pharmacies in Canada.

Due to provincial drug schedules, the critical mass of consumer health products – OTCs and some NHPs – can only be sold in retail pharmacies, whether in a grocery store or a stand-alone drugstore, limiting the distribution channels for manufacturers. Moreover, when new and innovative health products come to market (i.e. when prescription drugs (Rx) switch to non-prescription (OTC)), by law, they must only sell them in retail pharmacies. Consequently, consumers shop at pharmacies that provide the full suite of consumer health products.

Since August 2021, FHCP and key supply chain stakeholders have been developing a Code to ensure the retailer-supplier relationship is transparent and fair.

We are concerned with efforts to minimize the scope to include only food products and exclude the everyday health and consumer products in a typical grocery store. Manufacturers of these products, including personal care, household products, OTC medicines, and NHPs, face the same fines as food manufacturers.

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[11] FHCP Member Survey, April 2022

Minimizing the scope would add unnecessary complications to the supplier-retailer relationship and be ineffective in changing the large grocery chains' culture and behaviour. The broad-scoped UK Grocery Code applies to health and consumer products and remains the most effective model to drive positive change throughout the supply chain.

Canada requires a Code of Conduct that reflects the integrated nature of our sector and includes a broad scope capturing all essential everyday products.

Recommendation 3: Adopt a National Self-Care Strategy

As a longstanding champion, FHCP continues to advocate that a national self-care strategy is an effective, no-to low-cost complement to investments in the publicly funded healthcare system. The healthcare system's longstanding vulnerability has never been more apparent since the pandemic. Among the many healthcare challenges is the growing burden of chronic disease. Seventy-three per cent of Canadians over 65 have at least one of ten common chronic diseases, and more than one-third have two or more. We can empower Canadians to prevent and manage chronic disease and treat minor ailments through self-care.

If just two per cent of Canadians with colds, headaches, or heartburn who seek professional care shifted to self-care, this would eliminate over three million unnecessary doctor visits annually and free up sufficient physician resources to allow an additional 500,000 Canadians to access a family doctor. These are some of self-care's tangible benefits.

Governments are taking action and the federal government must not be left behind. The World Health Organization and the Global Self-Care Federation assist countries in advancing self-care strategies to support their citizens' health. In Quebec, the government's Healthcare Plan recognizes self-care's critical role.

Canada needs a self-care strategy that supports Canadians in making healthy lifestyle choices and accessing a range of self-care products (OTCs and NHPs) when needed. A key enabler is improving health literacy to empower people to play a more active role in their health.

We recommend undertaking a parliamentary study to explore self-care's many benefits and opportunities to inform a national strategy.