# Food & Consumer Products of Canada
# Pre-Budget Submission
# August 3, 2018

## List of Recommendations:

**Recommendation 1**: Create a sector-specific Technology Adoption Fund of $500 million over five years, to encourage investment in advanced technologies and production line efficiencies.

**Recommendation 2**: Expand and improve the Accelerated Capital Cost Allowance depreciation rules to mirror the U.S. rules.

**Recommendation 3**: Remove food and consumer products, and product packaging from Canada's retaliatory tariff list.

**Recommendation 4**: Continue to engage our North American trading partners in modernizing NAFTA and focus on finding new markets for Canada's value-added sector.

**Recommendation 5**: Invest in research to explore ingredient alternatives and encourage companies to conduct product reformulation in Canada.

**Recommendation 6**: Add economic competitiveness and innovation considerations to the mandates of regulators.

**Recommendation 7**: Rebuild stakeholder confidence in the Cost-Benefit Analysis (CBA) process that informs regulatory proposals, and conduct a revised CBA for Plain Language Labelling and a comprehensive CBA for the entire Healthy Eating Strategy.

**Recommendation 8**: Re-evaluate the parameters of Health Canada's Plain Language Labelling regulations for over-the-counter medicines and those proposed for Natural Health Products.

## Introduction

Food & Consumer Products of Canada (FCPC) is Canada's largest industry association representing the companies that manufacture and distribute the vast majority of food, beverage and consumer goods found on store shelves, restaurants and in people's homes. Our membership is truly national, providing value-added jobs to urban and rural Canadians in most ridings across the country.

Food and consumer product manufacturing is Canada's largest manufacturing employer, providing approximately 300,000 Canadians with high-quality jobs in over 6,000 manufacturing facilities. Our industry employs more than the automotive and aerospace sectors combined. We have an important economic footprint in thousands of communities across Canada, and are well-positioned to play an even greater role.

The recent Canada-U.S. trade dispute and a myriad of regulatory and operational challenges - including access to labour - are directly impacting our sector. The consolidation of the retail landscape is also creating competitiveness concerns for manufacturers. FCPC is prepared to appear before the Standing Committee on Finance to explain how we can work together to contribute to Canada's growth and prosperity.

Our recommendations outline steps the government should take to build a more competitive Canadian manufacturing climate as global challenges are increasing and future cooperation with our largest trading partner remains uncertain. There has never been a more urgent need to diversify our economy and move Canada beyond our reliance on commodities toward growth in value-added production.

## Recommendations for Budget 2019:

1. **Create a sector-specific Technology Adoption Fund of $500 million over five years, to encourage investment in advanced technologies and production line efficiencies.**

In light of the unique challenges facing Canadian food and consumer product manufacturers, including unprecedented government intervention and inclusion on Canada's retaliatory tariff list, a sector-specific fund is needed. A Technology Adoption Fund of $500 million over five years would encourage manufacturers to modernize their facilities.

According to government statistics, investment in processing plants, advanced technologies and R&D in food manufacturing facilities in Canada has not kept pace with our competitors. A 2014 KPMG Report, called *Technology Readiness Assessment of Automation and Robotics in the Food and Beverage Processing Sector in Canada,* found that Canadian food processors have fallen behind their competitors in Europe and the U.S.

Other countries are fiercely competing for these investment dollars, especially south of the border. The Trump administration's generous support for their manufacturing sector and the uncertainties surrounding stalled NAFTA negotiations are adding enormous pressure to the equation.

2. **Expand and improve the Accelerated Capital Cost Allowance depreciation rules to mirror U.S. rules.**

The last federal budget fell short in addressing competitiveness concerns and the growing cost of doing business in Canada. Eroding competitiveness and high operating costs challenge industry innovation. The unprecedented, cumulative regulatory burden via the Healthy Eating Strategy and Plain Language Labelling regulations has exasperated existing challenges.

Moreover, the recent U.S. tax reform package placed us at a significant disadvantage and encouraged Canadian manufacturers to set up facilities south of the border.

Expanding and improving the Accelerated Capital Cost Allowance depreciation in Canada to mirror U.S. rules would be a positive step, and we are fully aligned on this recommendation with the Canadian Manufacturers & Exporters. This would encourage investment by allowing an immediate one-year depreciation of capital purchases, and be an improvement from the current 2.5 years.

3. **Remove food and consumer products, and product packaging from Canada's retaliatory tariff list.**

FCPC shares the concerns of government regarding recent actions taken by the U.S. to impose illegal tariffs on imports of steel and aluminum from Canada. While FCPC appreciates the government's significant efforts to resolve this trade dispute, we are disappointed that Canada's final retaliatory tariff list includes many products that our members make.

Canada's approach disproportionately impacts our industry and hurts consumers on both sides of the border. For example, the impacted imports of food products were valued at C$3.1 billion in 2017. Many of our members operate in both countries and import products on Canada's retaliatory tariff list, while also manufacturing other products domestically. These tariffs impact their entire operations in Canada and will influence how future investment decisions are made.

We are concerned that these tariffs will negatively impact consumers through increased costs and reduced choice on grocery and drug store shelves, compromising the competitiveness of companies operating in Canada and disrupting our highly integrated North American supply chain.

4. **Continue to engage our North American trading partners in modernizing NAFTA and focus on finding new markets for Canada's value-added sector.**

FCPC strongly believes that fair and open trade enabled by NAFTA should continue and should not be encumbered by new tariffs or non-tariff barriers. It is critical to continue negotiations to improve NAFTA and support Canadian exporters.

Our industry in North America is highly integrated and dependent on trade. Our products may cross the borders several times at different stages to produce a finished good. Our members rely on imported ingredients from our NAFTA partners to manufacture in Canada and require predictable access to those markets to sell their final products. Canadian exports of processed food and beverage products stood at $33.5 billion in 2016 and the U.S. market represents 74% of these exports. Access to the U.S. market is therefore critical for our industry.

We encourage government to carefully consider how domestic policies impact a company's ability to operate competitively within Canada and export products that align with global demand. For example, the Healthy Eating Strategy aims to encourage companies to significantly reduce ingredients like sodium, fat and sugar in their products to levels not achieved by our major trading partners. We need to ensure there is an international market for these products and that the targets do not impede a company's ability to compete in Canada and abroad.

There is an opportunity for NAFTA countries to align regulations. For example, we urge the government to take into consideration the sodium targets that will be developed in the U.S. before implementing new targets for Canada.

We would also like to see the incorporation of the trilateral Annex on Pre-Packaged Food and Non-Alcoholic Beverages, and the Cosmetics Annex into NAFTA. Regulatory alignment facilitates trade and increases efficiencies, which allows for cost savings for both businesses and consumers.

5. **Invest in research to explore ingredient alternatives and encourage companies to conduct product reformulation in Canada.**

Significant funding is needed for food manufacturers to manage the costs of the government's ambitious Healthy Eating Strategy (HES). The HES has introduced unprecedented and sweeping changes to how our industry makes, labels and sells its products. To encourage product innovation in Canada, the industry requires research to be conducted on alternative ingredients and support to help cover the cost of reformulation.

With recent business incentives introduced in the U.S. and our relatively small Canadian market, the government urgently needs to create incentives for companies to encourage investments in Canada.

The risk is that the HES drives innovation to other countries, which would seriously impact our country's competitiveness, employment opportunities and export ability. No other manufacturing sector in Canada has been asked to make these types of drastic changes to their entire product life cycle, and the government has a responsibility to help mitigate the fallout stemming from the HES.

6. **Add economic competitiveness and innovation considerations to the mandates of regulators.**

We are concerned that Health Canada has not taken into consideration the impact its regulations have on the ability of companies to compete in Canada or abroad. Driving manufacturers out of Canada will only increase imports and decrease employment opportunities for Canadians. Given the unpredictable trading environment, it's more important than ever that Canada is able to grow and process its own food.

We are aligned with the Canadian Chamber of Commerce's recommendations outlined in their recent report, *Death by 130,000 Cuts, Improving Canada's Regulatory Competitiveness*, on the need for government to add economic competitiveness and innovation considerations to the mandates of regulators.

It's critical that Health Canada's initiatives do not undermine the efforts of other economic departments. The HES should align with the government's agri-food export targets and priority growth initiatives outlined in the Agri-Food Economic Strategy Table.

7. **Rebuild stakeholder confidence in the Cost-Benefit Analysis (CBA) process that informs regulatory proposals, and conduct a revised CBA for Plain Language Labelling and a comprehensive CBA for the entire Healthy Eating Strategy.**

We are increasingly concerned with the quality of analysis examining the costs and benefits of proposed regulations, and examples include Health Canada's Plain Language Labelling regulations and Healthy Eating Strategy. A comprehensive and balanced analysis is critical to understanding the impacts of new regulations on Canadians and the economy, and avoiding unintended consequences.

FCPC supports the Chamber of Commerce's proposal to establish an independent review panel to support Treasury Board officials in evidence evaluation. We support the idea of a forum for stakeholders to make formal appeals to central agencies when they believe departments are not accurate in their analysis or are otherwise not fulfilling their regulatory obligations. As part of this process, departments should share the evidence that contributed to their analysis.

We see an urgent need to conduct a revised CBA for Plain Language Labelling and a comprehensive CBA for the entire Healthy Eating Strategy – including Front of Package labelling, Canada's Food Guide, Marketing to Kids and sodium reduction - that is balanced, comprehensive, evidence-based and equally considers the costs and benefits of all of the proposed policies. The Healthy Eating Strategy CBA should be conducted jointly by Health Canada and Agriculture and Agri-Food Canada and include consideration of the impact on Canadian innovation, growth and exports.

**8. Re-evaluate the parameters of Health Canada's Plain Language Labelling regulations for over-the-counter drugs and those proposed for Natural Health Products.**

FCPC is concerned that the government's self-care proposal would require complex new labels for Natural Health Products (NHPs), similar to those now required by over-the-counter (OTCs) drugs. We cannot currently meet the new label requirements for OTCs without increasing our environmental footprint.

Health Canada's latest proposal to require a product facts table for virtually all NHPs will have major implications. Products like pocket-sized packs of throat lozenges will need to be packed in special large cartons just to accommodate the size of the table. While some NHPs would benefit from easy-to-read labels, there is no significant proven benefit to the health and safety of Canadians for many of the products currently captured under current proposals.

FCPC fully supports the use of plain language labelling requirements, where there will be clear consumer benefit, to ensure the safe use of products. In order to ensure the right labels are changed, understood and used by Canadians, the government should re-define the risk parameters identified for OTCs and NHPs, and launch an education campaign to encourage Canadians to read and understand these new labels.

In conclusion, we look forward to continuing to work in partnership with the government to increase productivity and competitiveness for our industry.

Thank you.

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## FCPC Members

As of May 14, 2018