

The Rising Cost Burden Faced by Canada's Food, Beverage and Consumer Products Industry

The food, beverage and consumer products industry is the largest manufacturing employer in Canada. As the engine that powers the Canadian economy, it provides high-quality jobs in more than 6,500 manufacturing facilities across the country. Our mission is to build an operating environment that fosters competitiveness, innovation and growth across the country by creating jobs, improving the health & well-being of Canadians, and contributing to the sustainability of our environment.

Our industry is facing a number of new regulatory requirements that raise the cost of doing business and limit our ability to grow and innovate.

The Rising Cost of Business

Manufacturers are facing rising costs on a number of fronts, including energy, labour, taxes, ingredients and inputs. These factors can all affect the cost of producing food and consumer products found on grocery store shelves and restaurants. Combined with the uncertainties in the North American market place, these costs have created a perfect storm that serves to discourage investment and innovation at a time when our industry should be focused on growing and feeding the world.

The Impact of Regulations (Old and New)

Outdated regulations make it difficult for manufacturers to innovate and compete. In their current state, regulations governing the food and consumer products industry have not kept pace with advances in technology, modern global practices or new product innovations.

While outdated regulations continue to pile up, our industry faces new regulations and unprecedented government intervention which raise the cost of doing business by impacting the way products are made, packaged and sold. This shifting landscape is transforming the Canadian food sector but not strengthening it.

The Result:

To survive increased regulatory expectations, industry must continue to invest and innovate in a business environment that severely restricts its ability to do so.

The Cost of Regulatory Compliance

Labelling:

The label changes proposed by Health Canada and the Canadian Food Inspection Agency (CFIA) will affect every prepackaged product sold in Canada and will require all food manufacturers and importers to invest in redesigning their packaging to ensure they are in compliance.

Health Canada and the CFIA have responsibility for different aspects of the food label. Each is leading multiple regulatory and policy initiatives. Considering the many regulatory changes and initiatives underway, including revisions to the Nutritional Facts Table and ingredient list, CFIA's Food Labelling Modernization, sodium reduction, trans fat elimination and a revised Food Guide will add significantly to the complexity and cost of Canadian operations for FCPC members.

Cost: The combined cost of all the proposed food labelling changes by the federal government is \$1.8 billion and could reach up to \$8 billion due to costs associated with product reformulation.

Front-of-Package (FOP) Labelling:

All FCPC members will be affected by FOP labelling in some way.

Cost: \$817.4 million (\$23,260/sku) *(assumes one-time compliance costs)

Self-Care Regulatory Modernization:

The introduction of mandatory drugs facts style labels for Natural Health Products will require a package redesign for many everyday consumer products, and increase package sizes between 30% and 100%. This will result in negative environmental and cost implications throughout all phases of the supply chain and result in higher consumer costs.

Product Reformulation:

Reformulated products are more costly to produce. For example, costs associated with the development of and seeking approval for potential substitute ingredients as well as the costs of such substitutes and/or other ingredients to replace sodium and sugar.

Cost: estimated at \$564M - \$752M*

*** (assumes that 20% of impacted industry would reformulate). Reformulation takes, on average, 28 months.**

Environmental Sustainability:

Industry is committed to working together to protect and conserve our resources. That approach commits us to work with all levels of government, municipalities, consumers and industry stakeholders to take collective action against climate change, reduce food and organic waste, and divert packaging from landfill, and reduce waste from plastic.

In 2018, industry will contribute \$393.2 million in provincially mandated recycling fees, and the full economic impact of carbon pricing is not yet known.

Lost Opportunity Costs:

The food processing industry invests about \$2.2 billion annually in capital expenditures, but as a percentage of food manufacturing sales this is trending downward, from about 3% in the 1990s, to about 2% in the last few years. The sector invests less in research and development (as a percentage of GDP) compared to other manufacturing sectors and less than its counterparts in other developed countries.

Industry's ability to invest in equipment, research and development or new product development will be compromised as innovation capital is reassigned to regulatory compliance.

What We Need

1. Modernize existing food and consumer product regulations at Health Canada and the Canadian Food Inspection Agency to address longstanding regulatory irritants and delays in product approvals before introducing new regulations.
2. Develop a mechanism to fast-track regulatory irritants that impede growth and innovation.
3. Conduct a fulsome review of the cumulative and costly impact of the overall regulatory landscape on Canadian food and consumer product manufacturers.
4. A "whole of government" approach to regulations to ensure that one department's objectives are not being undermined by another department. For example, Health Canada's proposals for larger and more comprehensive label information means larger package sizes which undermine environmental objectives.
5. Provide time for the industry to adjust to these new regulations, manage the cost and respond to shifts in market demands.