

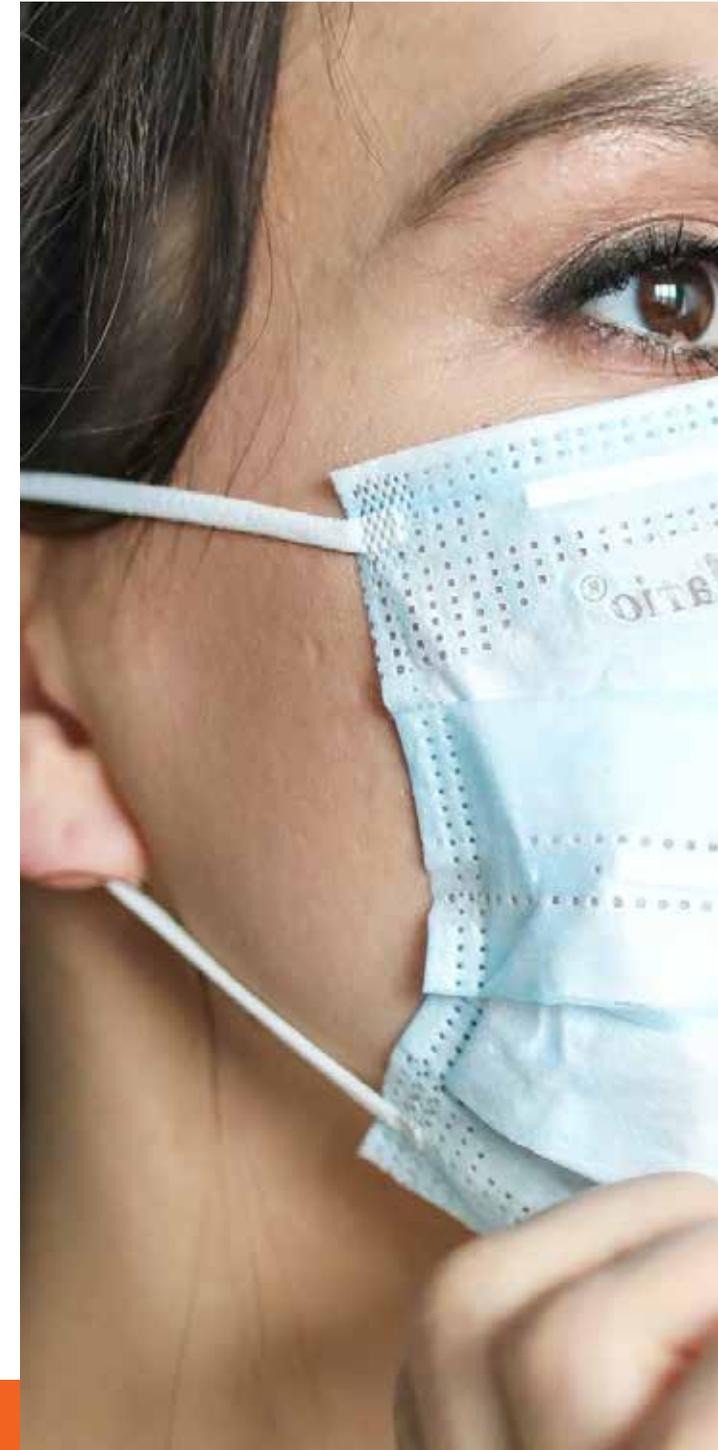
# 3 Section

## COVID-19 Impacts

To May 2020, and with few exceptions, the research suggests that the impacts of COVID-19 on the Canadian food and beverage processing industry have been **very negative**,<sup>30</sup> to the point that close to half of surveyed companies (43%) were feeling under threat. The situation appears to be most dire in Quebec and relatively less severe in the Meat Product Processing sub-sector.

A startling 59% of surveyed businesses reported a decline in customer orders. In the face of such a shock and some abrupt shifts in consumer consumption habits, the industry has had to reconfigure workplaces to protect the health of employees, increase production in some areas and shift production in others.

More than seven-in-ten (71%) surveyed companies reported that they have taken at least some form of action in response to COVID-19. The most common responses were to reduce workers' hours (43%) or conduct layoffs (41%). However, a comparison of similar data for Canadian businesses as a whole suggests that the food and beverage processing sector has been better able to weather the initial stage of the pandemic, than most other sectors of the economy.





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**43%**

**REDUCED  
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**41%**

**CONDUCTED  
LAYOFFS**

**The immediate economic and financial consequences of the COVID-19 global pandemic are starting to be understood.** The medium and longer-term impacts of COVID-19 on Canadian businesses, however, cannot be estimated given the high levels of epidemiological and economic uncertainty that persists around the world. The Canadian food and beverage processing industry is a global industry with heavy reliance on both exports and imports. Until full implementation of an effective COVID-19 vaccine strategy is realized, deep uncertainty will remain. Even short-term predictions are challenging to make. To illustrate this, consider that in April and May 2020 more than one in four surveyed food and beverage food processors (26%) were unable to predict their production capacity for the upcoming month.

The results of a survey of Canadian food and beverage processors suggests that the initial impacts of COVID-19 on the sector have been very negative. The nature of these impacts, and of how companies have coped, are discussed following.



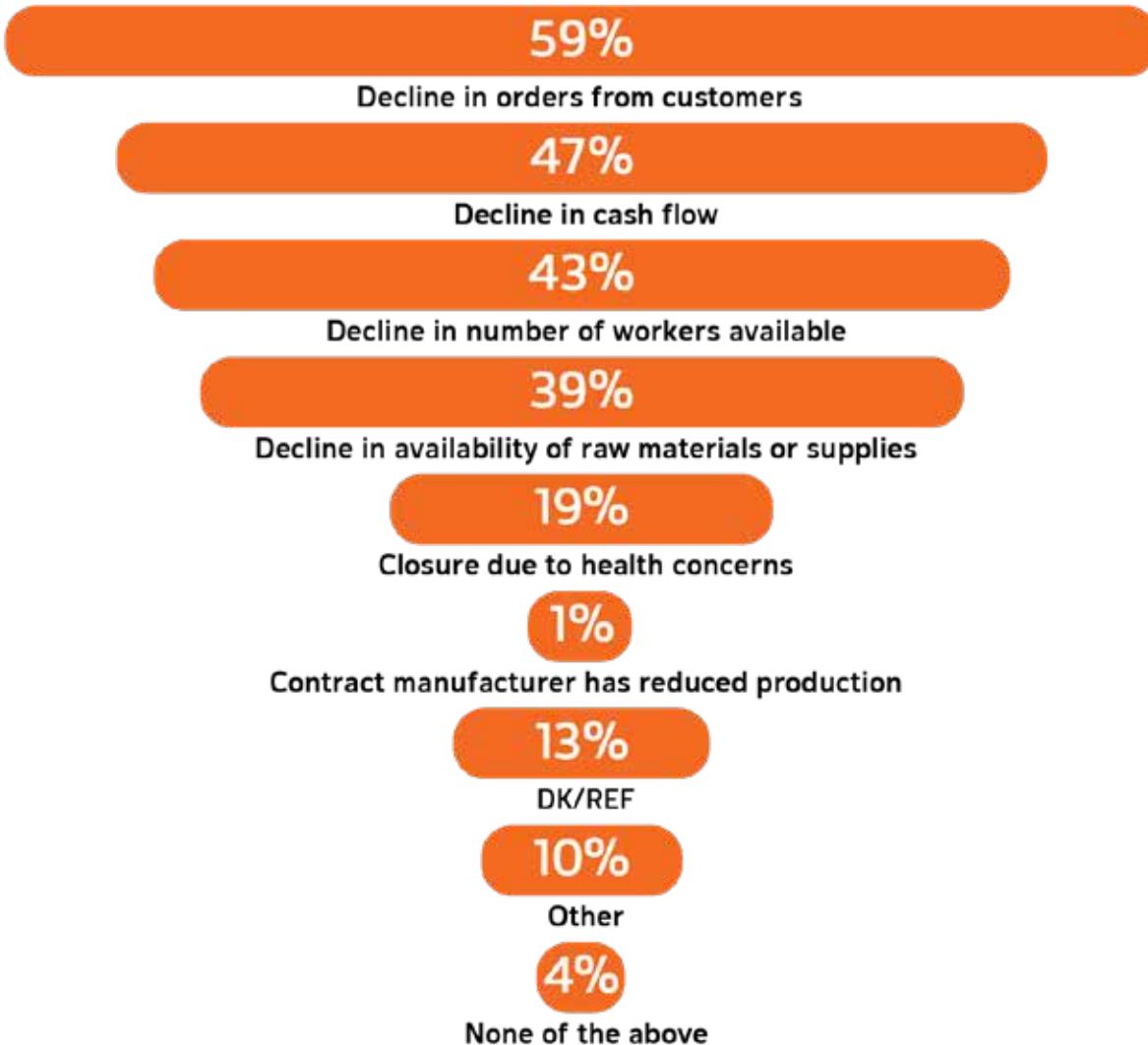
**“ Until full implementation of an effective COVID-19 vaccine strategy is realized, deep uncertainty will remain. ”**

## Overview

Various chains of events have impacted the industry resulting in improvised responses and adaptations. Immediate, large shifts in consumer demand for food and beverage products have focused on grocery retailers and away from restaurants and hospitality outlets. This has required rapid adjustments: sudden changes in packaging (e.g., wholesale to retail types of packaging in dairy), types of products in demand at the retail level (e.g., yeast, flour), and "panic buying" of certain food items. At the same time, significant declines in customer orders have occurred in many sub-sectors as the restaurant, tourism and hospitality industries have largely shut down. In response, the industry has had to reconfigure workplaces to protect the health of employees, increase production in some areas and shift production in others.

It is also important to appreciate that the demands placed upon this industry are unique in many ways, particularly given that businesses are operating as an "essential service" to maintain the food supply chain for Canada and the world.

Following is an analysis of immediate and short-term impacts that COVID-19 is having on the industry. Because the pandemic can exert such deep and abrupt impacts from one day to the next, it is important to understand that the information and data we collected was during the period of April to June 2020, with the main source being a combined phone/online survey of 470 companies. Other sources included media reports, Statistics Canada data, and government and industry websites.



# Initial Challenges

According to the survey, most employers in the sector have experienced a decline in customer orders (59%), while close to half (47%) reported a reduction in cash flow. Quebec had the largest number of companies report a decline in customer orders (70%), followed closely by Atlantic Canada (67%). In contrast, just 37% of companies in the Prairie provinces (Alberta, Saskatchewan, Manitoba) reported a similar decline. Consistent with production declines, more than 70% of companies across sugar and confectionery, seafood and beverage sub-sectors reported experiencing declines in customer orders. In addition, the beverage industry (41%) was twice as likely to report closures due to health concerns. Declines in cash flows were also reported by a majority of beverage manufacturers and seafood processors.

The survey also found that 43% of businesses reported a decline in the number of workers available, thus exacerbating what had already been a tight labour market.



**As we discussed earlier, both meat processing and Atlantic seafood processing rely considerably on temporary foreign workers** to fill positions where there are shortages of Canadians with the proper skills and willingness to work in processing plants. While the meat processing sector tends to hire temporary foreign workers year-round, the Atlantic seafood processing sector is largely seasonal with many of the positions starting in April-May and running through until mid-autumn or later. As a result, the closure of international and provincial borders, requirements for quarantine, and challenges with international travel due to COVID-19 were occurring at the same time as many of the temporary seasonal foreign workers assisting with Atlantic seafood processing were planning to arrive in Canada.<sup>33</sup> It is not surprising then, that the survey found that Atlantic Canada experienced the most significant decline in the number of available workers, including 70% of companies in the seafood sector experiencing a decline in available workers.

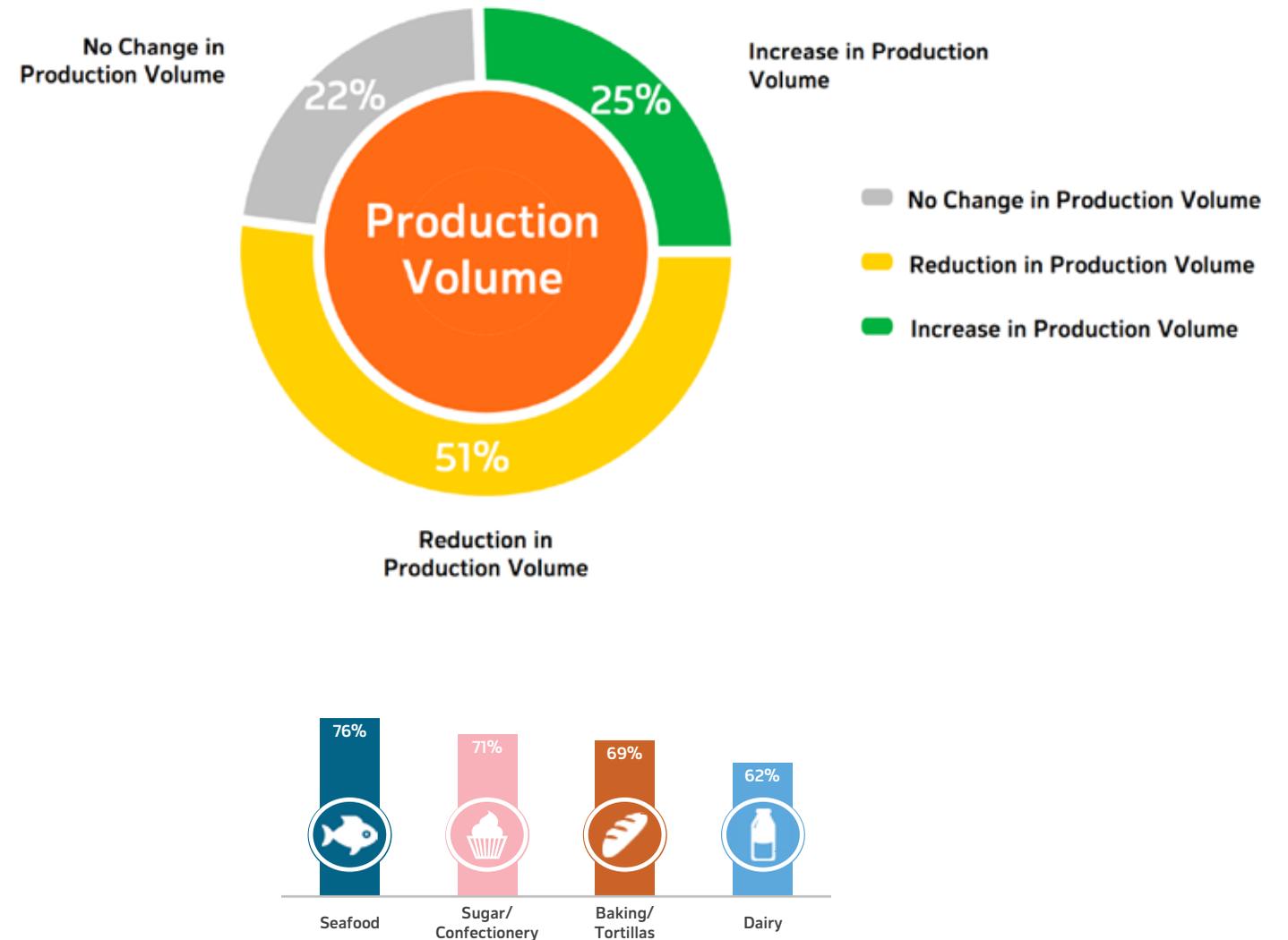
All of this impacted production inputs as well. The survey found that **39%** reported a decline in the availability of raw materials or supplies they need. In some cases, this may be packaging materials (e.g., flour mills needing smaller packages for grocery retail), but in other cases, it may be getting adequate first level processed product (e.g., ground beef, chicken breasts) for secondary levels of processing, or relying on various types of imported products (e.g., fruit not grown in Canada).



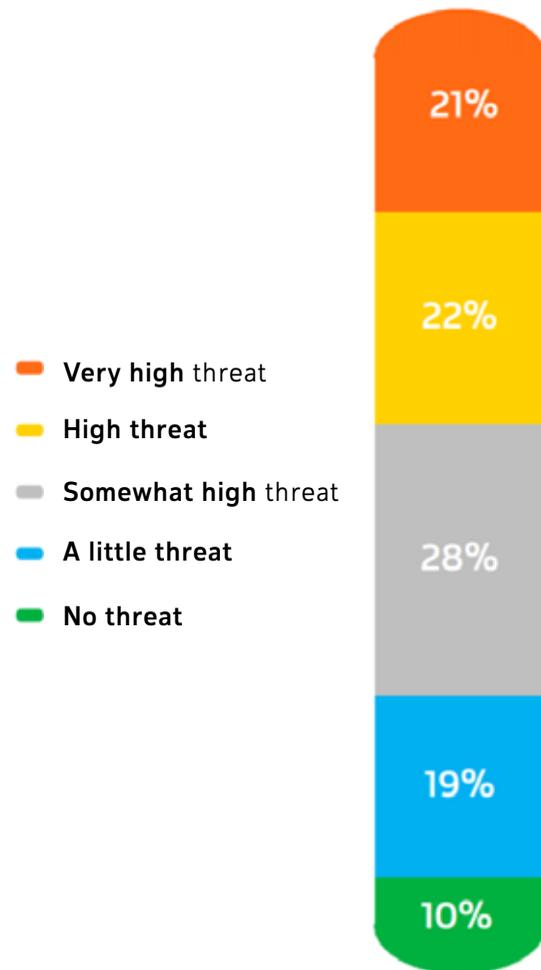
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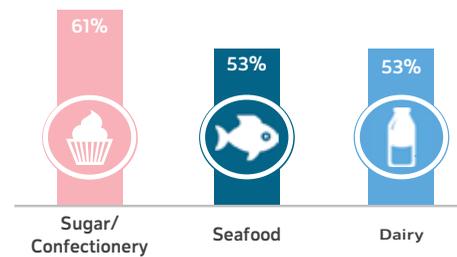
Given that close to 6 in 10 surveyed companies have experienced a decline in orders, it is not surprising to see that fully half of respondents (51%) reported that production volumes had declined, with the average declined estimated to have been a staggering 49% since the outbreak of the COVID-19 global pandemic. In contrast, only 25% of companies increased their production volume, notably in meat processing where 46% reported a production increase compared to only 36% that noted a decrease.



Seafood, sugar/confectionery, baking/tortillas, and dairy sectors had the highest proportions of businesses reporting reductions in production volume:



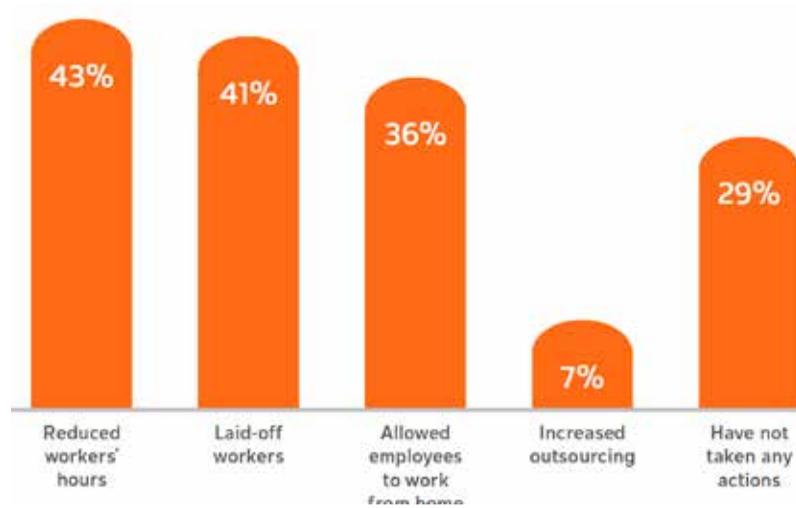
Companies who perceive the highest levels of threat are in sub-sectors that have already experienced significant declines in production volume:



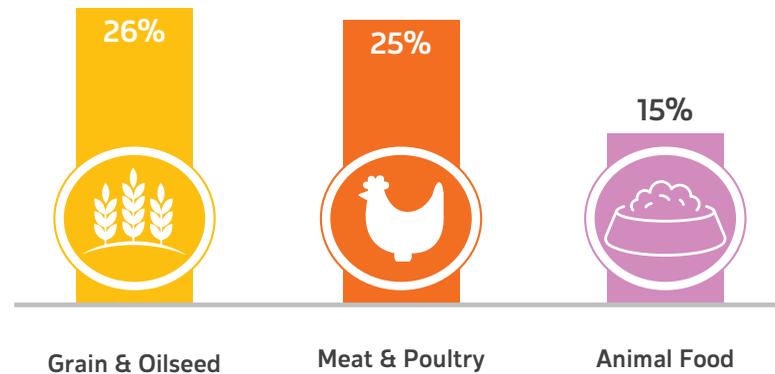
- Sugar/Confectionery: 61% report high levels of perceived threat
- Dairy: 53% report high levels of perceived threat
- Seafood: 53% report high levels of perceived threat

Regionally, companies in the Prairies were more likely to report an increase in production volume, partially attributable to the strong presence of the meat processing industry, and a lower incidence of COVID-19 at the time compared to Ontario and Quebec.

The broadest question in the survey pertained to the general threat posed by COVID-19. The vast majority of companies (90%) perceive at least some level of threat from COVID-19, including significant proportions perceiving the threat to their businesses as "high" or "very high."



Looking at a sub-sector analysis, nearly three-quarters of sugar and confectionery companies reported laying-off workers (73%), while 60% reported reducing workers' hours. Companies in the animal food (15%), meat (25%), and grain and oilseed milling (26%) sub-sectors were the least likely to report lay-offs.



More than seven-in-ten (71%) surveyed companies reported that they have taken at least some form of action in response to COVID-19. The most common responses were to reduce workers' hours (43%) or conduct layoffs (41%). Both of these actions, however, were taken somewhat less frequently than the average across all Canadian manufacturers (47% and 50% respectively) as reported in the Canadian Survey on Business Conditions. Similarly, a higher proportion of food and beverage processors reported not taking any action (29%) compared to 18% of Canadian manufacturers. Taken together, these results suggest that the industry has been better able to weather the initial stage of the pandemic than the broader manufacturing sector.

## Learning to Adapt and Cooperate

**In terms of other responses, many companies in the food and beverage processing industry have adapted to some significant shifts in consumer consumption patterns,** in areas such as baking, fruit and vegetables, and particularly dairy. For example, demand for small 250ml cartons of milk, individual coffee creamers, and large 20-litre bags of milk for cafeteria/restaurant machines essentially disappeared within days, as restaurants, schools and workplaces closed. At the same time, demand for 1-litre and 2-litre milk cartons sold through grocery retailers increased significantly as consumers were buying more groceries and eating at home. Dairy production lines were nimble and switched packaging lines quickly in order to match demand changes.<sup>34</sup>

“ Consumers are buying more groceries and eating at home. ”





Considerable levels of effort have been made in many sub-sectors to coordinate the rate of production of raw products (e.g., milk, seafood, vegetables) by farmers and harvesters. Employers were able to meet the slow down among various processors while adjustments to lines were made, products adapted, and productivity and plant closures addressed. For example, dairy processors worked with dairy farmers to lessen the volume of production of raw product. Farmers were able to reduce volumes by changing cows' diets while increasing cows' rest periods between calves.<sup>35, 35</sup> Dairy manufacturers converted extra raw product into products with longer shelf-lives (e.g., cheese, butter, condensed milk) to avoid wastage, while also providing additional donations to foodbanks.<sup>36, 37</sup>

In seafood processing, Atlantic seasons opened later for lobster and crab and some daily quotas were placed on harvesters to accommodate the challenges being faced by seafood processors who had to react to changes in consumer demand and acute labour shortages. Potato farmers reduced crop sizes to accommodate the backlog of raw product that existed with producers who experienced large drops in demand for french fries caused by bar and restaurant shutdowns.<sup>38</sup>



**Food and beverage processing companies will need to keep adapting quickly** as the impacts of COVID-19 continue. All Canadian employers are adjusting work environments to protect employees' health and reduce the risks of transmitting COVID-19. This is challenging for many given adjustments in food and beverage processing plants often require innovation and significant investment. In addition to procuring appropriate personal protective equipment (PPE), production lines have been redesigned for

optimal productivity while considering human ergonomic and safety factors. The requirements of establishing physical distancing, constructing barriers, and adjusting ventilation systems can be challenging in an office environment. A dynamic, moving production line complicates these challenges even further.<sup>39</sup> It is important to note that processor businesses have shared best practices and exchanged ideas to quickly and successfully adapt.



## Reflections and Current Situation

**It has been over a year since the COVID-19 global pandemic was declared.**

The situation has been difficult for all businesses with many layoffs and closures across the country. That said, the 2020 employment level for food and beverage processors was at 98% of the 2019 level. For comparison purposes, manufacturing without food and beverage processing was at 91% of its 2019 level and the Canadian economy as a whole at 92% of 2019 employment level. Food and beverage processing has outperformed manufacturing and the economy, in addition to this, wages have risen across the food sector (NAICS 311) by \$2.65/hour from 2019.

Being designated as essential workers and providing stable employment in a turbulent time has helped the industry retain people, however there will be a new challenge on the horizon as the rest of the economy opens back up. Increased competition for workers from other sectors that were hit harder by the pandemic, is to be expected.

The industry will also need to continue to build on its successes and highlight the important role it plays in the economy and the lives of all Canadians.



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