

Section 2

The Canadian Food Processing Sector in Profile

The food and beverage processing industry with its more than 7,600 businesses directly employs over 280,000 people accounting for almost 1 in 5 of all manufacturing jobs in Canada. The COVID-19 global pandemic has also clearly shown the industry's great strategic importance.

The industry is made up of 11 sub-sectors, with Meat Product Processing being the largest and Cannabis Product Manufacturing being the newest. Ontario, Quebec, and BC are home to three-quarters of the industry's businesses.

The industry is dominated by small or medium-sized businesses, with fully 91% of businesses employing less than 100 people.





“ The industry is made up of 11 sub-sectors, with Meat Product Processing being the largest and Cannabis Product Manufacturing being the newest. ”

\$85 billion by 2025.

The growth target the Agri-Food Table has set for Canadian agricultural, agri-food and seafood exports to reach.

22% The increase in exports of Canadian processed food and beverage products between 2016 and 2020.

70% The percentage the global demand for food is expected to rise between 2009 and 2050.



Almost every food or beverage product we consume is processed in some manner.

The food and beverage processing sector is the link between farms, or the sea, and our tables, transforming Canada's agricultural and seafood commodities into a wide array of products for consumers or further processing.

Below, we describe the size and nature of the food and beverage processing sector and delineate its global competitiveness. We also highlight opportunities for domestic and international growth, as well as discuss the labour market implications of sector growth.

Overall, we see that the industry is a major contributor to the Canadian economy. It also has significant growth potential, especially when compared to other sectors of manufacturing. The ambitious targets set for the industry reflect its potential. We also note that the COVID-19 pandemic has illustrated the strategic importance of food and beverage processors, and of the food supply chain more broadly.

However, it is critical to note that optimal industry growth can only happen with the right conditions. The last part of this chapter highlights the actions proposed by the Agri-Food Table for strengthening the Canadian agri-food sector.

The role of trade agreements, including interprovincial trade, are also key to sector growth.

“ The food and beverage processing sector has significant growth potential, especially when compared to other sectors of manufacturing. ”

19.5% of all manufacturing jobs in Canada are in the food and beverage processing industry.

Size of the Sector and Our Contribution to the Canadian Economy

The food and beverage processing industry is a huge contributor to the Canadian economy³, consider the following facts⁴:

- 🍁 Food and beverage processors achieved \$117.8 billion in sales of manufactured goods in 2019.
- 🍁 The industry feeds Canada and the world with approximately 70 per cent of goods sold to Canadians through grocery stores and restaurants, and the remainder is exported to more than 190 countries⁵, making Canada the fifth-largest agricultural exporter in the world³ and the 11th-largest exporter of agri-food⁶.

- 🍁 The industry represents two per cent of Canada's gross domestic product (GDP).
- 🍁 Over 7,600 businesses across Canada, many in rural and remote areas, directly employ over 280,000 people.
- 🍁 A staggering 19.5 per cent of all manufacturing jobs are in the food and beverage processing industry, which makes it Canada's largest manufacturing sector.
- 🍁 The industry is efficient generating 2% of the Canadian GDP but accounting for only 1% of businesses in Canada.
- 🍁 Processor businesses boost other sectors by indirectly supporting hundreds of thousands of jobs in other industries (e.g., transportation, retail, hospitality).

Size matters, but as the COVID-19 global pandemic has revealed - the sector is also of great strategic importance⁷.



11 Sub-Sectors of Food and Beverage Processing

We define the food and beverage processing sector as those businesses engaged in Food Manufacturing (NAICS⁸ Code 311), Beverage Manufacturing (NAICS 3121) and Cannabis Product Manufacturing (NAICS 3123), which includes Cannabis edibles and infused beverages.

Food and beverage processing is the transformation of agricultural products into food or beverages, or of one form of food or beverage into other forms for consumption by humans or animals:

-  Primary processing includes basic cleaning, grading and packaging as in the case of fruits and vegetables.
-  Secondary processing includes alteration of the basic product to a stage just before the final preparation as in the case of milling paddy to rice.
-  Tertiary processing leads to a high value-added ready-to eat food like bakery products, instant foods, health drinks, etc.

The definition of what constitutes a "processed" food or beverage is wide and encompassing.

The sector is divided into 11 sub-sectors, each processing a wide variety of products:



Animal Food Manufacturing
(NAICS 3111)



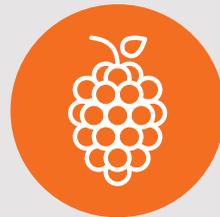
Sugar and Confectionery Product Manufacturing
(NAICS 3113)



Dairy Product Manufacturing
(NAICS 3115)



Grain and Oilseed Milling
(NAICS 3112)



Fruit and Vegetable Preserving and Specialty Food Manufacturing
(NAICS 3111)

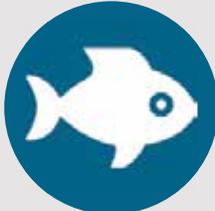


Meat Product Manufacturing
(NAICS 3116)

In 2020, there were over 7,600 food and beverage processing businesses operating in the sector that employed at least one person, which adds up to a total workforce of more than 280,000. The vast majority of these establishments are small or medium-sized businesses⁹, with roughly 91 per cent of food and beverage processors in Canada having fewer than 100 paid employees¹⁰. Although food and beverage processing businesses are significant sources of employment in every province and territory, they are mostly concentrated in Ontario, Quebec and British Columbia. In these provinces, employers have

access to large pools of labour and are close to consumers and their products, both in Canada and the United States (the sector's largest export market).¹¹

Meat Product Manufacturing was the sub-sector with the largest workforce in 2020, employing 65,113 people, followed by Bakeries and Tortilla Manufacturing (46,691), Beverage Manufacturing (42,094) and Other Food Manufacturing (35,543). Cannabis Product Manufacturing had the smallest workforce (2,700), while Grain and Oilseed Milling employed 8,722 people.¹²



Seafood Product Preparation and Packaging
(NAICS 3117)



Other Food Manufacturing
(NAICS 3119)



Cannabis Product Manufacturing
(NAICS 3123)



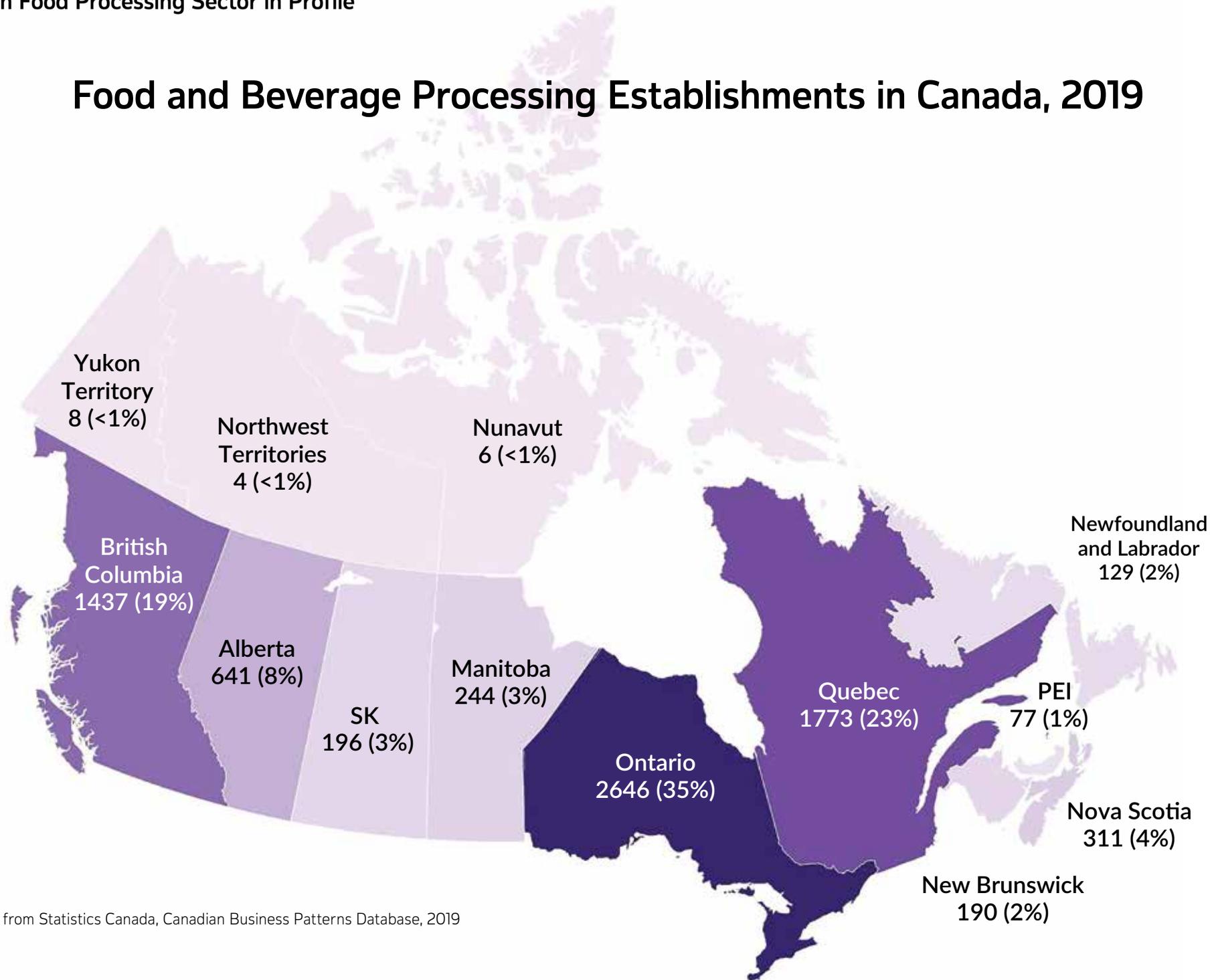
Bakeries and Tortilla Manufacturing
(NAICS 3118)



Beverage Manufacturing
(NAICS 3121)

Meat Product Manufacturing was the sub-sector with the largest workforce in 2020, employing 65,113 people.

Food and Beverage Processing Establishments in Canada, 2019



Source: Industry Canada, from Statistics Canada, Canadian Business Patterns Database, 2019

Other Food Manufacturing

Other Food Manufacturing (NAICS 3119) is an outlier within the food and beverage processing spectrum. This sub-sector represents over 40% of all the industry's indeterminate businesses and covers the widest range of products of any sub-sector, it resembles the kitchen drawer with all of the odds and ends. This is further complicated by the fact many of the processors also manufacture products in one of the other 10 food and beverage processing sub-sectors. This presents a challenge in understanding and accurately partitioning units of analyses such as facilities or employees according to sub-sectors given the potential overlapping sub-sectors as currently defined within the

other foods category. Understanding the structure of the Other Food Manufacturing sub-sector in detail will contribute to improved outcomes and labour market information for the industry. It will limit the risk associated with the potential overlap such as double counting and understanding skills and HR requirements in having employees work across multiple sub-sectors.

Within Other Food Manufacturing there is a catch all subcategory called All Other Food Manufacturing, which is where the majority of new products get placed. As such, it is difficult to get an idea of the real drivers of growth within the sector as there is no effective way to separate out economic and labour information. There are five subcategories within Other Food Manufacturing.

“ Other Food Manufacturing resembles the kitchen drawer with all of the odds and ends, since it covers the widest range of products of any sub-sector. ”



Snack Food Manufacturing (NAICS 31191)

Overview: This subcategory comprises establishments primarily engaged in salting, roasting, drying, cooking or canning nuts; processing grains or seeds into snacks; manufacturing peanut/nut butter; or, manufacturing potato chips, corn chips, popped popcorn, hard pretzels, pork rinds and similar snacks.

Major Products:

- ☞ Potato chips
- ☞ Tortilla and corn chips
- ☞ Peanut butter
- ☞ Nuts and seeds
- ☞ Other snacks

Coffee and Tea Manufacturing (NAICS 31192)

Overview: This subcategory comprises establishments primarily engaged in roasting coffee; manufacturing coffee and tea extracts and concentrates, including instant and freeze dried; blending tea; or, manufacturing herbal tea. Establishments primarily engaged in manufacturing coffee and tea substitutes are included.

Major Products:

- ☞ Espresso beverages
- ☞ Instant coffee
- ☞ Ready-to-drink
- ☞ Single-cup coffee
- ☞ Tea
- ☞ Whole bean roasted and ground coffee (drip coffee)

Flavouring Syrup and Concentrate Manufacturing (NAICS 31193)

Overview: This subcategory comprises establishments primarily engaged in manufacturing soft drink concentrates and syrup, and related products for soda fountain use or for making soft drinks.

Major Products:

- ☞ Fountain soft drink beverage bases
- ☞ Flavouring syrups for desserts and home beverage use
- ☞ Flavouring syrups made from fruit
- ☞ Liquid beverage bases
- ☞ Other flavouring agents

Seasoning and Dressing Manufacturing (NAICS 31194)

Overview: This subcategory comprises establishments primarily engaged in manufacturing dressings and seasonings.

Major Products:

- ☞ Dry mix food preparations
- ☞ Flavouring extracts
- ☞ Mayonnaise, salad dressings and sandwich spreads
- ☞ Prepared sauces, excluding tomato
- ☞ Salt, pepper and other spices



All Other Food Manufacturing (NAICS 31199)

Overview: This subcategory manufactures perishable prepared foods such as sandwiches, prepared meals and peeled or cut vegetables. Companies in the industry also use dried and dehydrated ingredients to manufacture dessert mixes, flavouring powders and processed eggs.

Main activities include:

- ☞ Manufacturing perishable prepared foods sold in bulk or packages, not frozen or canned
- ☞ Manufacturing dessert mixes
- ☞ Manufacturing sweetening syrup and molasses
- ☞ Manufacturing baking powder and yeast
- ☞ Manufacturing liquid, dried and frozen eggs
- ☞ Manufacturing flavouring powders, tablets and paste, including dry mix cocktail
- ☞ Manufacturing macaroni and pasta products that are packaged with other ingredients, not frozen or canned
- ☞ Manufacturing dried and dehydrated products, except pasta, packaged with other ingredients

Major Products:

- ☞ Perishable prepared foods sold in bulk or packages
- ☞ Whole, liquid, dried and frozen eggs
- ☞ Flavouring powders, tablets and pastes, including dry-mix cocktails

In 2018, All Other Food Manufacturing accounted for over 50% of the Other Food Manufacturing workforce, 65% of employers and nearly 70% of indeterminate businesses. This makes it incredibly difficult to determine where the growth in the sector is actually coming from.

Given this sub-sector's size, diversity, and growth indicators, it is likely that many of the main drivers of the overall industry are linked to the issues and characteristics of this sub-sector. As a result, it is crucial to form a comprehensive understanding of the Other Food Manufacturing sub-sector to develop valid and reliable knowledge and predictions for the industry.

“ In 2018, All Other Food Manufacturing accounted for over **50%** of the Other Food Manufacturing workforce, **65%** of employers and nearly **70%** of indeterminate businesses. ”



Our Domestic and Export Growth Potential

As big as the industry is today, there is tremendous potential for it to become much bigger as the world demand for food more than doubles by 2050 and consumers demand new and innovative products.

To ensure that Canada is at the forefront of this rapidly growing sector at home and abroad, Canadian food and beverage processors must be able to recruit tens of thousands of new workers between now and 2025, as well as equip them with an increasingly diverse range of skills and knowledge.



Exports of Canadian food and beverage processed products increased by over **22%** between 2016 and 2020 and recent trade agreements are expected to expand access to several key markets.

Sector Potential: Ambitious Targets

In 2017, the Advisory Council on Economic Growth¹³ identified Canada's agriculture and food sector as one of eight sectors with untapped potential and significant global growth prospects. The Council noted that, although the sector accounts for an impressive share of Canada's GDP and is a major exporter of agricultural and agri-food products, Canada still ranks behind countries such as the Netherlands and Brazil. The Council challenged the government and industry to work together "to unleash the sector's full potential,"¹⁴ and set an ambitious target of increasing Canada's agricultural and agri-food exports by US\$30 billion over the next five to 10 years. The Council proposed that value-added

agri-food exports should account for the bulk of these gains, doubling Canada's share of world agri-food exports (to 5.6 per cent), with agricultural exports increasing to eight per cent of the global total (from the current 5.7 per cent).¹⁵

This call was echoed by the Report of Canada's Economic Strategy Tables: Agri-Food,¹⁶ (referred to in this report as "Agri-Food Table") which identified huge opportunities for Canada to build on its global reputation as a supplier of safe and high-quality products, and in particular, to supply the growing demand around the world for protein.¹⁷ The Agri-Food Table set even more ambitious growth targets than those from the Advisory Council or the federal government,¹⁸ calling for Canadian agricultural, agri-food and seafood exports to reach \$85 billion by 2025, a 32 per cent increase from 2017 levels.¹⁹





Challenges to Our Competitiveness

Since 2002, the food and beverage processing industry has vastly outperformed Canadian manufacturing overall.

Exports of Canadian processed food and beverage products increased by over 22% between 2016 and 2020, and recent trade agreements are expected to expand access to several key markets.

Other Food Manufacturing enjoys the most growth of overall share of the industry's GDP.

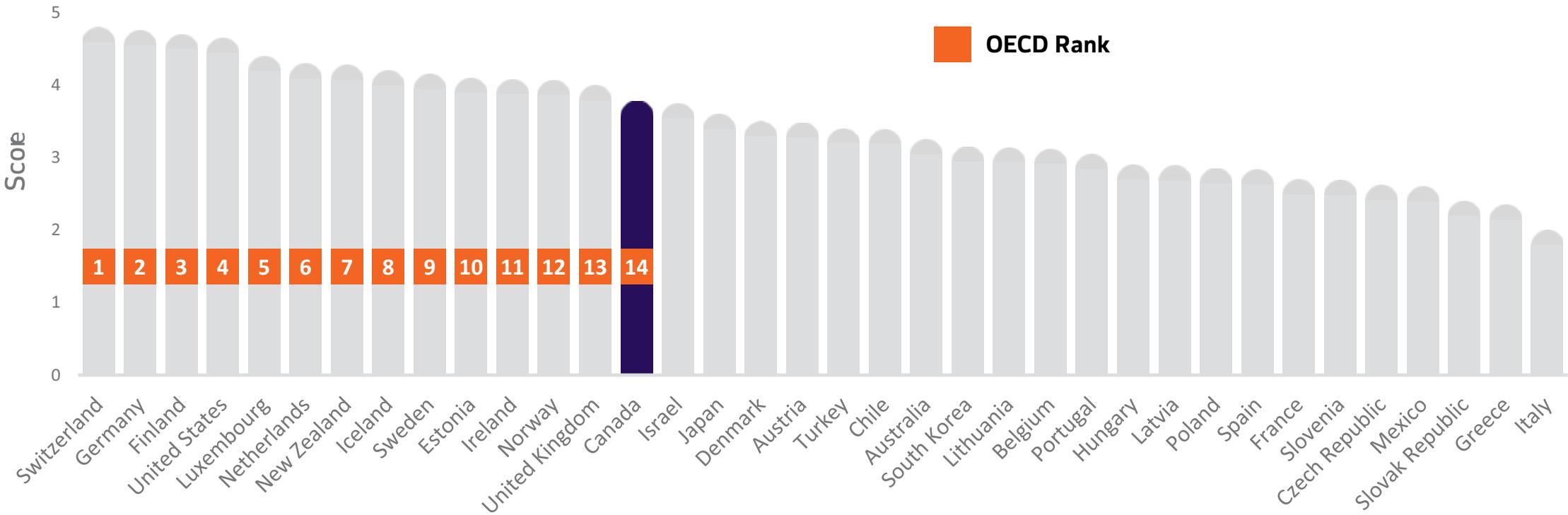
However, there are a number of challenges to industry competitiveness.

Over the past decade, the Canadian manufacturing industry has faced several challenges that have impacted its competitive position, such as fluctuation in the Canadian dollar, slow labour productivity, aging infrastructure and a significant increase in commodity prices.

An added difficulty for food and beverage processing businesses is that most of them are small and medium-sized businesses with fewer than 100 employees.

Typically, research and development (R&D) is carried out by large firms with more than 500 employees. Considering that only 1 per cent of processing establishments in Canada have more than 500 employees, it is likely that a relatively small portion of the industry's effort and workforce is dedicated to R&D activities.

Global Competitiveness Index for OECD Countries, 2017



Source: Report of Canada's Economic Strategy Tables: Agri-Food, Innovation, Science and Economic Development Canada

Competition for scarce labour pools has also been a major challenge for the food and beverage processing sector and its global competitiveness. While the Canadian public may be under the impression that the sector is home to many temporary foreign workers, the fact is that Canada's competitors use much more foreign labour.

Despite these challenges, the food and beverage processing industry has continued to prosper in times of slow overall economic growth. For example, the industry's GDP was nearly 23% higher in 2016 compared to 2004. Conversely, the manufacturing industry in general has been unable to return to pre-recession levels (with GDP remaining 10% lower than its 2004 level).

In terms of proportion of GDP growth at the sub-sector level, analysis reveals that Other Food Manufacturing (including snack foods and coffee and tea) achieved the most growth at 13.0%, followed by Grain and Oilseed Milling (9.9%) and Fruit/Vegetable Manufacturing (6.8%). Sugar and Confectionery Product Manufacturing (-7.7%) was the only sub-sector to see its proportion of GDP decline, while Dairy Products and Baked Goods remained flat.

Photo courtesy of Ocean Choice International



“ Other Food Manufacturing including snack foods and coffee and tea achieved the most GDP growth at 13.0%, followed by Grain and Oilseed Milling at 9.9%. ”

Path to an Expanded and More Competitive Sector

In Budget 2017, the Government of Canada announced a new vision for Canada's economy as a global leader. The Government created six economic strategy tables aimed at increasing the innovation of several sectors, including the agri-food sector. The report produced by the Agri-Food Table proposed action in the following five key areas to strengthen the Canadian agri-food sector.²⁰

1 An agile regulatory system that promotes the competitiveness of the agri-food sector and moves at the speed of commerce: Canada's regulatory system provides globally renowned quality and safety assurance thereby making it a key "Canada Brand" attribute. At the same time, this system is increasingly inhibiting industry's nimbleness by restricting innovative practices and products. It is slow-footed and lacks coordination across federal departments and levels of government. As a remedy, the Table called for "fundamentally transform[ing] regulatory processes to bolster Canada's agri-food competitiveness by reforming regulators' mandates to include innovation, growth and overall sector competitiveness" as a core consideration.

2 Build a state-of-the-art transportation and IT infrastructure network: A well-functioning trade-related transportation system is critical to Canada's reputation as a reliable supplier of high-quality products at home and abroad. Several infrastructure gaps exist, however. Canada's rural areas, for example, are disproportionately affected by a lack of access to reliable broadband service. Included among the Table's recommendations was for Canada to "embrace digitally-enabled infrastructure systems, and coordinate infrastructure and supply chain performance data through a new National Transportation and Logistics Platform."

3 Develop and diversify Canada's agri-food markets: Maintaining and expanding competitiveness in domestic and international markets is essential to sector growth. The Table argued for the creation of "clear and well-informed strategies for where to play and how to win in key geographic and product markets..." Among its recommendations was a call for Canada to "bolster an open and rules-based approach to trade by demonstrating strong international leadership." The Table also called for the removal of interprovincial trade barriers.

4 Invest in innovation and boost competitiveness through increased automation and digitization: In order to reach growth targets set by the Table, Canada needs to increase investment and technology adoption. Later in this report we discuss how the Canadian agri-food sector lags behind the U.S. and other competitors in R&D investment. Among the Table's recommendations was accelerated capital cost allowance for machinery, equipment and digital automation tools, and the creation of a Canada Agri-Food Innovation Centre.

5 Foster a diverse labour force with the right set of skills to help the sector achieve its maximum potential: Noting the shortage of labour that exists at all levels within the sector, from engineering to basic production, the Table saw an opportunity to increase participation of underrepresented groups including young people, women and Indigenous Peoples. Chief among its recommendation was for the Government of Canada to create a "skills and talent collaboration hub empowered to develop a skills and talent roadmap for the future involving the participation of existing bodies and in partnership with educational institutions, industry and labour groups."

There are, and will continue to be, many opportunities for Canadian food and beverage processors to capture a significant share of expanding international markets.

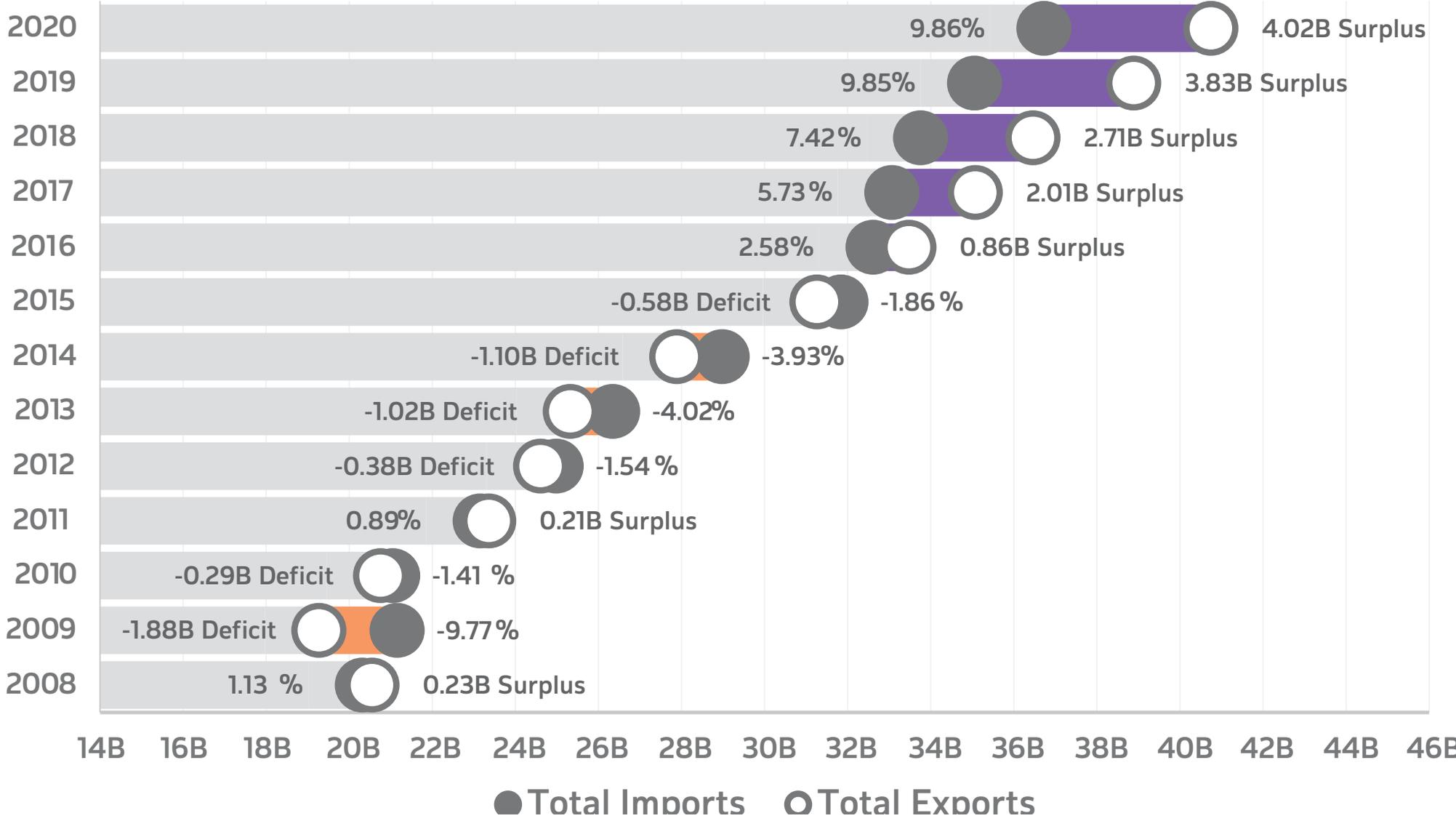
The global demand for food is expected to rise by 70 per cent between 2009 and 2050,²¹ fueled by a growing population and an expanding middle class that will consume considerably more protein than is the case today. Many of these middle-class consumers will want to know their food has been produced in a safe and environmentally sustainable way and are likely to favour agricultural products from countries such as Canada where environmental, labour and food safety and quality standards are considered to be world-leading.²²

Canada's processed food and beverage products are already exported to more than 190 countries, although the majority of these exports are concentrated in six major markets: the United States, China, Japan, Mexico, Russia and South Korea. The United States is Canada's top export market, accounting for more than 70 per cent of total food and beverage exports, while Canada remains the largest export market for U.S. agricultural products.

Exports of Canadian processed food and beverage products increased by 22% between 2016 and 2020, while imports grew by about half that rate (13%). As a result, Canada moved from a trade deficit in processed food and beverage products in 2012-2015 to a trade surplus from 2016 onwards. The industry had an overall trade surplus of \$4 billion in 2020.²³

The majority of the industry's exports are concentrated in 6 major markets: the United States, China, Japan, Mexico, Russia and South Korea.

Canada's Trade in Processed Food and Beverage Products, 2008-2020



Source: Industry Canada, Trade Data Online



Recent international trade agreements, such as the Canada-European Union Comprehensive Trade Agreement (CETA)²⁴, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)²⁵ and the Canada-United States-Mexico Agreement (CUSMA)²⁶ are increasing access for Canadian exporters in three of the largest trading regions in the world. This puts Canada in a strong position to capture a significant share of the growing global demand for food and beverage products.

Furthermore, as of the beginning of 2017, a customs tariff order repealed or amended approximately 200 different tariffs on imported food ingredients used in the agri-food processing industry, including certain fruits and vegetables, cereals and grains, spices, fats and oils, food preparations, and chocolate products. Reducing tariffs on manufacturing inputs helps lower production costs for Canadian businesses to enhance their overall competitiveness, both domestically and abroad.

“ Reducing tariffs on manufacturing inputs helps lower production costs for Canadian businesses. ”



“ Breaking down barriers interprovincially will also further enable companies to reach international markets. ”

Domestic Opportunities

Both the Advisory Council and the Agri-Food Table clearly identified significant opportunities for growth in Canada's domestic market as well, with the Council noting that Canada processes only half of its own agricultural output.²⁷ The Agri-Food Table cited the rising share of imports in the growing Canadian processed food market – up from 22 per cent in 2007 to nearly 30 per cent in just 10 years – as a lost opportunity for Canada's food processing sector²⁸ and recommended a 27 per cent increase in the domestic sale of Canadian agricultural and food processing products by 2025, rising to \$140 billion from \$110 billion in 2017.²⁹

Domestic market growth should be made easier by the Canadian Free Trade Agreement (CFTA), which was put into place in the summer of 2017. It focused on eliminating barriers that restrict the movements of goods and services within Canada, providing the opportunity to capture a greater share of the domestic market. Breaking down barriers interprovincially will also further enable companies to reach international markets, by increasing their production domestically (i.e., attaining a critical mass of production volume for exporting to become financially viable).