

Increasing Technology and Productivity in Canadian Food Manufacturing

Issue

Low and stagnating productivity levels are restricting global growth and expansion opportunities across the Canadian food manufacturing sector.

Background

Food processing is the largest manufacturing industry in Canada by employment and GDP, where output is larger than autos and aerospace combined. The industry has a major presence in all areas of Canada and is integral to rural and urban communities.

A Lawrence National Centre for Policy and Management report¹ concluded the key to global competitiveness across the Canadian agri-food sector is increasing productivity. Improvements are being achieved through scale, new technology (robotics and automation) and systems. Discussions with food manufacturing firms indicated the Accelerated Capital Cost Allowance (ACCA) implemented by the federal government in 2007 has significantly assisted in the purchase of productivity enhancing machinery.

Like many other industries in Canada, food manufacturing is now dominated numerically by small companies. Approximately 84 percent of all firms have fewer than 50 employees, however they generate 17 percent of industry revenue. While opportunities continue for new firms to create new products, larger firms are restructuring and consolidating for global competitiveness.

Many Canadian plants are either too old or too small. Achieving global competitiveness requires investments in new facilities, technology and systems. A limited number of government programs apart from the ACCA for upgrading and expanding plants and their relatively small scale could present future challenges. The Alberta government offers the Agri-Business Automation and Lean Manufacturing Fund, which covers 50 percent of costs related to process automation, improvement and technology adaptation. More provinces should examine similar programs. Automation allows Canadian manufacturers to compete with lower-wage jurisdictions by increasing domestic productivity and product quality. Labour comprises 11 percent of total production costs.

In a study of 141 food manufacturing plant closures from 2006-2013, the Lawrence Centre reported that 60 percent resulted from the operation no longer being competitive. The Canadian Agri-Food Policy Institute² (CAPI) indicated that Canada had 143 plants closures from 2004-2014, with 52 percent in Ontario and 19 percent in Quebec. Approximately 90 percent of closures were a component of multi-plant restructuring by multinationals.

Canada requires a supportive regulatory system that protects consumers and ensures food safety, is consistent with major trading partners, and responds in a timely manner to new technologies and environments. Government policy can play a role in innovation and assist industry growth through tax policy, regulatory frameworks and municipal planning.

The 2015 federal Budget extended the Accelerated Capital Costs Allowance for an additional ten years. As noted above this measure, introduced in 2007 and extended through a series of past budgets, provides an incentive for firms to invest in new machinery and equipment for elevating productivity levels. The Food and Consumer Products of Canada, in an April 21, 2015 media release, indicated the extension provides businesses with more planning certainty for larger investment projects and encourages investment in the innovative technologies required to boost productivity. Ultimately it is another tool to help Canadian manufacturers grow here at home and compete for new business globally.

¹ The Future of Canadian Manufacturing: Learning from Leading Firms. Public Policies to Support Advanced Manufacturing. Lawrence National Centre for Policy and Management. Ivey Business School, Western University. October 2014

² Taking the Sector from Trade Deficits to a Competitive Resurgence. The Canadian Agri-Food Policy Institute. June 2014

Recommendations

That the federal government:

1. Continue to support innovation and productivity in food manufacturing through programs such as the Accelerated Capital Cost Allowance;
2. Work collaboratively with all relevant inspection agencies to provide a food safety regulatory system that is consistent with competing jurisdictions.