

Supporting a Stronger, More Secure, and Sustainable Canadian Fruits and Vegetables Market

DESCRIPTION

The Canadian fruits and vegetables fresh produce market is highly dependent on imports from the USA, Mexico and other international markets. The problem is that because of this dependence Canadians are vulnerable in terms of access to and the cost of fresh produce. Price volatility and the impact of increased border restrictions have already proven to be an issue and due to the COVID-19 pandemic the situation has become more precarious. This policy proposal recommends options on how to strengthen the Canadian market and consumer environment.

BACKGROUND

Canada's fruit and vegetable market and pricing is largely dependent on its trading relationship with the United States and Mexico. Much of the produce sold in Canada is imported, in 2018 total retail sales of fresh fruits and vegetables produced domestically averaged about \$125 million (CDN) per month, while imports averaged approximately seven times that amount. Canada imports approximately \$2 billion in fruits and vegetables from Mexico and approximately 25% of all fresh fruits and vegetable imports into Canada come from Mexico. There is a strong integration between horticultural supply chains in Mexico, the United States and Canada, through the flow of Mexican food products from Mexico to Canada through the United States (Somogyi, Nixon and Thomas-Francois 2019). This makes the Canadian market susceptible to the impacts of related dynamics in each trading partner's markets.

Import Dependency

Price volatility of fruits and vegetables in Canada has been at risk in the past due to trade dependencies and factors such as the availability of temporary foreign workers which implicate supply and demand. Traditionally food production at its source, a strong logistics chain and demand have not been issues. The United States however, has over recent years been strengthening protectionist measures and moving to undermine trade deals with both Canada and Mexico, including inhibiting labour market mobility and immigration as well as cross border movements. The further tightening of the US-Mexico border would have a major impact on our fruit and vegetable prices. Some estimates from the US suggest for fruit and vegetables prices would increase by 20 to 40 percent in the US and the impact in Canada worse with less supply from US retailers absorbing American fruit production that would otherwise be bound for Canada (Somogyi et al. 2019). It may seem as if the family-controlled grocery and retail stores have the advantage but there is a looming threat in our food-retail sector related to US policy vulnerability (Somogy et al. 2019) and this includes the fruits and vegetables fresh produce sector.

Borders have remained open to commercial traffic well into the COVID-19 crisis however, further restrictions on cross-border movement (including truck crossing delays) will dramatically affect trade dependent firms, like those in the fruit and vegetable industries (Richards and Rickard 2020). Losing access to US imports will clearly limit Canadian retail sales, impact pricing and a reduction of the variety of fresh items that Canadian consumers have become accustomed to (Richards and Rickard 2020). Due to our import dependency, availability will be determined by conditions in the US fresh fruit and vegetable supply chain (Richards and Rickard 2020). Also, changes in consumption patterns will be felt by importers, wholesalers, distributors, and retailers (Richards and Rickard 2020).

Strained Retail Distribution Chain

Further implications for pricing have been brought on by COVID-19 for businesses in foodservice and retailers and ultimately for consumers of fresh produce. In the short-term, closing restaurants and schools has resulted in the near complete loss of an entire distribution channel (Richards and Rickard 2020). "By March 24 volumes of fresh produce in the retail channel were up 23.2% over the previous year. Unit prices in the food service sector tend to be higher than retail but expenditure in each channel is roughly the same, so this means a roughly 25% shift in volume across supply chains that differ in fundamental ways" (Richards and Rickard 2020:2). Wholesale distributors for the foodservice sector is not always the same as the set that services retail accounts, and many retail accounts are served directly by grower-shippers (Richards and Rickard 2020). Food service distributors will clearly see an almost complete loss of demand, retail distributors need to be more efficient in packing, have more trucks in place, and move greater volumes (Richards and Rickard 2020). For the short-term distribution infrastructure specific to retail will remain strained through the spread of the disease and will test supply-chain relationships for some time (Richards and Rickard 2020).

Non-perishable fruits and vegetables - Stock piling; potential retailer and consumer response impacts on pricing

Non-perishable fruits and vegetables (representing \$7 billion in Canadian production) further undermines the fresh produce sector. There are many reasons why fresh produce shelves remain relatively well stocked while non-perishables (frozen and canned) disappear quickly reflecting differences in both supply and demand:

Although, most notably in recent months non-perishable fruits and vegetables have been stockpiled due to consumer behavior response to COVID-19. This has the potential to dampen current and future sales of fresh produce and impact demand and pricing (Richards and Rickard 2020).

Although there are no reports of retailer's price gouging hoarded-item categories, it is conceivable that higher retail prices for these items could, in turn, generate higher demand for fresh produce as the spread of the virus worsens or if the situation deteriorates (Richards and Rickard 2020). An outcome not favouring the consumer.

Moreover, if households substitute between nonperishable products that were stockpiled and stored during late winter and the spring of 2020, this could have considerable effects in the fruit and vegetable markets and lead to a range of market responses in mid to late 2020 (Richards and Rickard 2020). For example, the consumption of stockpiled items could be to occur at the same time that harvest seasons begin for many Canadian-produced fruits and vegetables and this would place downward pressure on the prices of fresh produce markets (Richards and Rickard 2020). This scenario would be particularly difficult for small and medium sized fruit and vegetable producers who rely more heavily on local and regional markets for their products (Richards and Rickard 2020). An outcome not favouring the SME producers.

Increased online sales impact for local independent fresh produce retailers

The movement to online food sales has surged as the pandemic spread. Prior to the spread only 1.5% of groceries were sold online in Canada, that number had grown to over 9.0% by the third week of March. Grocery chains were reporting online orders of up to 300%. For fresh produce retailers this could be a transformational point that moves fresh food delivery beyond regular online purchasers that are tech savvy to the mass food buying public. Small independent neighborhood stores may not be able to compete in a world in which consumers demand online grocery options and compete with Grocery chains bought by large firms such as Amazon's purchase of Whole Foods (Richards and Rickard 2020). The growth of small business in the produce sector during the 2009-2020 recovery and boom period was fueled by debt so they were vulnerable to begin with (Richards and Rickard 2020). In periods of financial instability only large stable firms with the ability to service interest payments and sustain business relationships through cash shortages survive (Richards and Rickard 2020). It is undeniable that the potential for margin expansion by large retailers on the consumer side, powerful packers and distributors on the wholesale-buying side, and exporters selling into the Canadian market will be much greater in the absence of a strong, competitive fringe of small firms (Richards and Rickard 2020).

The case for intensifying domestic and local fresh produce market development

There is a strong case for Canada to invest in opportunities and supports to enable domestic and local production in fresh produce to meet consumer demand gaps and put downward pressure on potential pricing and access issues. For example, the development of related technology and R&D will address supply and pricing as well as serve the additional benefit of helping re-build the Canadian economy on the road to recover post pandemic. The impact of an unsecure food source chain on modest and middle class earning Canadians during a time of economic turmoil from a pandemic and the economic ripple effects cannot be forgotten.

Food policy experts are recommending the transformation of Canada's food production system into a more sustainable model. Food Secure Canada Executive Director Gisele Yasmeen said that governments should invest in local infrastructures to help Canada meet social and environmental goals while boosting the economy, post-coronavirus. "...The are things happening on the ground that are putting more control into the hands of people, small producers, processors," said Yasmeen. "That's what we need to build on for the kind of resilience that we need" (Emmanuel 2020). Simon Somogyi, Chair in the Business of Food at the Arrell Food Institute at the University of Guelph recommends that the Canadian government should encourage more people to grow fruits and vegetables at home by incentivizing greenhouse production.

He says that fruit and vegetable prices fluctuate the most each year and that the current downturn in cannabis production provides opportunity for empty greenhouses to be repurposed (Emmanuel 2020b).

RECOMMENDATIONS

That the Government of Canada:

1. Incentivize local SME and independent retailers of fresh produce through financial tax breaks for small businesses in the produce sector;
2. Support farmers markets and "food hubs" through working with industry stakeholders like Food Secure Canada to develop focused policy to support business growth, infrastructure and logistic chains needed
3. Explore a framework to support and enable capacity building for the food supply chain, including retail distribution chain
4. Invest in technology and research and development to make local production more efficient, competitive, and attractive to the workforce;
5. Support skills and training development for local food production employment;
6. Ensure trade agreements are supportive of our fresh produce sector; and
7. Work with the greenhouse and indoor farming sector to determine what further supports may be required to enhance local food production.

NOTES

⁷⁵, ⁷⁶, ⁷⁷, ⁷⁸, ⁷⁹, ⁸⁰, ⁸¹

⁷⁵ iPolitics. Emmanuel, Rachel. 2020b. "WTO's agri-food commitment will help safeguard Canada's food security, says expert." Retrieved June. 10, 2020 (<https://ipolitics.ca/2020/04/24/wtos-agri-food-commitment-will-help-safeguard-canadas-food-security-says-expert/>)

⁷⁶ iPolitics. Emmanuel, Rachel. 2020. "Opportunity to re-think food production in Canada amid COVID-19: report." Retrieved June. 10, 2020 (<https://ipolitics.ca/2020/05/15/opportunity-to-re-think-food-production-in-canada-amid-covid-19-report/>).

⁷⁷ Richards, Timothy J., and Rickard, Bradley. COVID-19 impact on fruit and vegetable markets. *Can J Agr Econ.* 2020; 1-6. <https://doi.org/10.1111/cjag.12231>

⁷⁸ Richards, Timothy J., and Rickard, Bradley. COVID-19 impact on fruit and vegetable markets. *Can J Agr Econ.* 2020; 1-6. <https://doi.org/10.1111/cjag.12231>

⁷⁹ Richards, Timothy J., and Rickard, Bradley. COVID-19 impact on fruit and vegetable markets. *Can J Agr Econ.* 2020; 1-6. <https://doi.org/10.1111/cjag.12231>

⁸⁰ Globe and Mail Opinion Editorial. Somogi, Simon, Nixon, Andrew, and Thomas-Francois, Kimberly. 2019. "US-Mexico border dispute threatens Canadian food supply, grocery prices." Retrieved June. 10, 2020 (<https://www.theglobeandmail.com/business/commentary/article-us-mexico-border-dispute-threatens-canadian-food-supply-grocery/>).

⁸¹ Richards, Timothy J., and Rickard, Bradley. COVID-19 impact on fruit and vegetable markets. *Can J Agr Econ.* 2020; 1-6. <https://doi.org/10.1111/cjag.12231>