

**FCPC**

Food & Consumer  
Products of Canada

**PACC**

Produits alimentaires et de  
consommation du Canada

885 Don Mills Road, Ste. 301

Toronto, ON M3C 1V9

T: 416 510.8024

F: 416 510.8043

E: [info@fcpc.ca](mailto:info@fcpc.ca)

[www.fcpc.ca](http://www.fcpc.ca)

# **Submission to the House of Commons Standing Committee on Industry, Science and Technology**

## **Challenges Facing the Canadian Food and Consumer Products Manufacturing Sector**

**Gemma Zecchini**  
**Senior Vice President, Public Policy**  
**Food & Consumer Products of Canada**  
**(416) 510-8024 ex 2281**  
**[gemmaz@fcpc.ca](mailto:gemmaz@fcpc.ca)**

**October 17<sup>th</sup>, 2006**

**M**r. Chairman and Honourable Members of the Committee, it is a great pleasure to be here today to participate in your study on the challenges facing the Canadian manufacturing sector. Let me start by thanking you for exploring these issues, as they are of great importance to the food and consumer products sector.

By way of introduction, Food & Consumer Products of Canada (FCPC) is the largest trade association representing the Canadian food and consumer products industry. In 2005, our industry employed 325,000 Canadians making it the largest employer in the Canadian manufacturing sector. We also contributed over 12% of Canada's manufacturing GDP.

The Committee's study is timely for our member companies as our industry's economic performance has been demonstrating some troubling trends for a number of years. According to the Conference Board of Canada's most recent food industry industrial outlook:

- Investment in this sector lags behind manufacturing as a whole and has been trending downward in recent years – 1.9 per cent v. 2.7 per cent.
- Capital intensity is also lagging -- \$54K of capital stock for every food industry employee v. \$85K for employees in manufacturing as a whole -- and is declining.
- Labour productivity is also down (not surprisingly since capital intensity is a measure of productivity).
- Profits are projected to climb back by only 2.6 per cent this year, after dropping by 20 per cent last year.<sup>1</sup>

The food and consumer products industry is operating in an environment where investment, capital intensity, productivity and profits are all trending downward and the future of the sector is by no means secure.

This Committee has heard testimony from numerous witnesses, including the Governor of the Bank of Canada, David Dodge, that many of the challenges facing Canadian manufacturers are the result of international macroeconomic factors such as currency appreciation, competition from growing low-cost jurisdictions and markedly higher input costs, particularly energy costs. It has also been suggested by a number of expert witnesses that many of these challenges are largely beyond the control of domestic governments, and therefore of this Committee.

However, there are certain important levers of productivity and competitiveness that domestic governments do retain and that this Committee can influence. A key lever such as fiscal policy is important. Equally important is a flexible and responsive regulatory system as a powerful instrument of government that will put Canadian manufacturers in a better position to innovate and grow. When Governor Dodge was asked what the federal government could do to help the manufacturing sector he answered that "flexible regulatory regimes" would be critical going forward. We couldn't agree more.

While our recommendations will include support for such measures as a two year Capital Cost Appreciation program and lower business taxes, *our first and most urgent recommendation is that the Government of Canada make regulatory modernization a key component of its economic and competitiveness agenda and that it pursue a long-term, focused government-wide initiative on improving and developing regulatory frameworks that foster innovation and growth for all manufacturing sectors in Canada.*

Mr. Chairman, I am here today to tell you that the most significant barrier to innovation and growth facing our manufacturing sector is Canada's outdated and poorly functioning regulatory

---

<sup>1</sup> The Conference Board of Canada: *Canada's Food Industry-Industrial Outlook, Winter 2006*

system. We are by no means alone in this regard. Complex and lengthy product approval procedures, unresponsive regulatory departments, lack of jurisdictional and departmental cooperation and regulatory voids slow down innovation, frustrate new product launches, and create a drag on competitiveness, productivity, investment, and growth. The new global economy requires a need for flexible governance wherein tyrannies of small regulatory differences between trading partners, and an inability to adopt international standards and scientific evidence when they meet Canadian policy objectives must be overcome. At the same time, regulatory multi-jurisdictional and multi-departmental processes must be streamlined to better keep pace with rapid product innovation. In the agri-food sector alone, significant advances in food technologies are creating unprecedented opportunities for product innovation that Canada's current regulatory system is ill-prepared to meet --forcing manufacturers to develop, produce and market new products elsewhere. One of our CEOs commented recently that had he been able to anticipate the state Canada's regulatory approval system for foods would be in today, he would not have invested in Canada twenty years ago.,

If government is interested in fostering an economically viable manufacturing sector in Canada, a modernized results-focused and transparent regulatory system that minimizes regulatory differences between trading partners, and eliminates costly delays is absolutely essential. Without it, manufacturing sectors will languish -- leaving Canadians without access to new products, manufacturing jobs and economic prosperity.

Sadly, while consumer's expectations of our industry have evolved in step with product innovation elsewhere in the world, the Canadian regulatory system that governs food manufacturing hasn't. Despite government's preoccupation with rising health care costs, the desire to embrace prevention as well as the need to help our farmers grow higher value crops, our industry's ability to commercialize food innovation is being hindered by under-resourced regulatory departments that are incapable of keeping pace with innovation. When the *Food and Drugs Act* and its corresponding regulations were first promulgated in the 1960s, product launches measured into the low hundreds in Canada. Most were fairly traditional products that have long since peaked from a growth perspective. Today, well informed consumers from an increasingly aging population are demanding functional and novel foods with specific health attributes to fit their busy lifestyles and to maintain their health. The innovation pipelines in many global food manufacturers contain thousands of products—many of which cannot get to market in Canada because our current regulatory system effectively deters their introduction.

I will now take this opportunity to provide you with some sector-specific examples of lost opportunities directly caused by costly delays and the absence of a regulatory framework that facilitates commercialization:

***Food Fortification:***

Canada currently lacks a discretionary food fortification policy, despite the fact that the government announced its intention to publish draft regulations in 2003. Our industry has been waiting patiently as deadline after deadline is missed by Health Canada officials. Recently a spring 2006 deadline was extended to Fall 2006 and we continue to wait.

All of our major trading partners have regulatory frameworks for the discretionary fortification of foods. It is estimated that Canada's inability to bring fortified products to market costs our beverage industry members alone about \$400 million annually in lost sales.

***Health Claims:***

Canada is also lagging the rest of our competitors in approving diet-related health claims. In Canada, manufacturers are permitted to use only five health claims on the

food products they produce. Health claims allow manufacturers to communicate the health benefits of certain foods to consumers, for example the relationship between calcium and osteoporosis. No food company will invest significant resources in an innovative product with health benefits for consumers without being able to recoup the investment. And in order to recoup the investment they need to be able to tell consumers about those benefits.

Our largest competitor in the race to commercialize functional food innovation is the United States. They currently have 18 health claims approved and another 12 in the pipeline expected to be announced imminently. And the US is investing heavily in the Food and Drug Administration (FDA) to build an even more responsive regulatory approval system for health claims. In Canada, we are still waiting for a process with consultations expected later this year.

### ***Approvals of Novel Foods and Food Additives:***

Inefficiencies and the inability to use international science mean that approval times to commercialize an innovative food product or additive routinely take longer in Canada than in other jurisdictions. For example, a Canadian company developed a process to microencapsulate omega 3 fish oils in a powder with no fishy odor or taste. In 2003, Health Canada ruled that the powdered fish oil was a ‘Novel Food’ meaning a separate food additive approval was needed, even though the same product was not considered novel by regulators in the UK or Australia. The product was also easily sold in the U.S. because the American GRAS (Generally Recognized as Safe) system facilitated its rapid introduction. The additional Canadian hurdles added over a year to the timeline required to commercialize the product in Canada costing the company \$5 million in lost revenue. Why is this level of regulation necessary in Canada when other countries with sophisticated regulatory systems took a very simple approach?

As a result of these and other regulatory problems, many multinational and even Canadian owned companies don’t bother to invest in innovation in Canada and we lose jobs and capital investments. Those companies that do operate in Canada often cannot compete for North American product manufacturing mandates, or if they do, are often forced to face higher costs associated with the shutdown/clean-up/changeovers required for different product formulations.

***How can we reverse the burden of our regulatory framework and create opportunity both economically for food manufacturers, for value added agriculture and as well as for consumers who are looking to food for disease prevention and as an alternative health therapy?***

## **Recommendations**

On behalf of Canada's manufacturing sector which today employs 2.2 million Canadians we ask the Committee's Report to recommend that:

1. The Government of Canada make regulatory modernization a key component of its economic and competitiveness agenda and pursue a long-term, focused government-wide initiative on improving and developing regulatory frameworks that foster innovation and growth. While the details differ among sub-sectors, the fundamental problems with slow, unresponsive, uncoordinated and out-of-date regulatory frameworks are the same throughout the manufacturing sector as a whole.
2. The government maintain its commitment to lower the federal corporate tax rate to 19% by 2010, and reduce it by a further two percentage points, to 17%, by 2012;

3. The government implement a two year Capital Cost Appreciation (CCA) program for investments in new manufacturing, processing and associated information and communication, energy and environmental technologies

Specific to the food manufacturing sector which employs 325,000 Canadian men and women and provides products to every Canadian from coast to coast, we ask the Committee's Report to recommend that:

4. Health Canada meet its oft-delayed commitment to publish regulations for the discretionary fortification of foods in Canada Gazette I and commit to finalizing Canada Gazette II expeditiously;
5. Health Canada make it a priority to develop a responsive regulatory approval framework for health claims and improve the existing approval process for novel foods and food additives; and that the Government allocate sufficient resources to Health Canada to deliver against this priority.

On behalf of Food & Consumer Products of Canada I would like to thank this Committee for the opportunity of appearing before you today.