

# It's time to transform

As a country, we must champion sectors that are stable, resilient and capable of improving Canada's current economic plight. Ingredient manufacturing and food processing is one of them. By supporting the evolution of the agricultural sector from commodities to ingredients, food and bio-products, we will unlock a \$25 billion opportunity for Canada, supported by 17,000 jobs.

A growing global population, combined with fragile supply chains and unstable weather patterns, is making food insecurity a very real problem for our world. And a hungry world is a volatile world.

For centuries Canada has been a supplier of commodities to countries around the world. Our agriculture and food sector has supported the health and wellbeing of billions of people, while also being the backbone of economies and communities in Canada. But the current realities and shifting dynamics present an opportunity for Canada to transform our agricultural sector from commodities to high-value ingredients.

Canada has a generational opportunity to secure our position as a leading supplier of high-value ingredients and food products made from Canadian crops. By championing value-added processing – the manufacturing, marketing and selling of the components of the seed, like starch, oil, fibre and protein – we can create more economic growth for the country and help reverse current economic trends. By entering global value chains with a high-value product, we can help improve Canada's productivity and stature in the global marketplace. Protein Industries Canada has already begun to address one of the most significant challenges of improving labour productivity in Canada—to increase business-led investments in, and diffusion of, commercialized innovations.

For too long, Canada has taken our agriculture and food sector for granted. We have undervalued the industry and its potential. The reality is that Canada's agriculture and food industry is one of the most sophisticated, reliable, sustainable – and promising – sectors in Canada. Now is the time to champion its potential. By processing vital food, feed and ingredients from Canada's diverse crop base, we can further grow the sector, bringing benefits to Canadians from the farm gate to the grocery store while also helping to address global food insecurity.

This is Canada's opportunity to own the entire value-chain, from crop breeding through to on-farm production through to high-value ingredients and food products. In doing so, we will secure Canada's food supply chain and bring new economic growth, but we will also cement Canada's position on the global stage.

**Now is the time to capture the opportunity.**

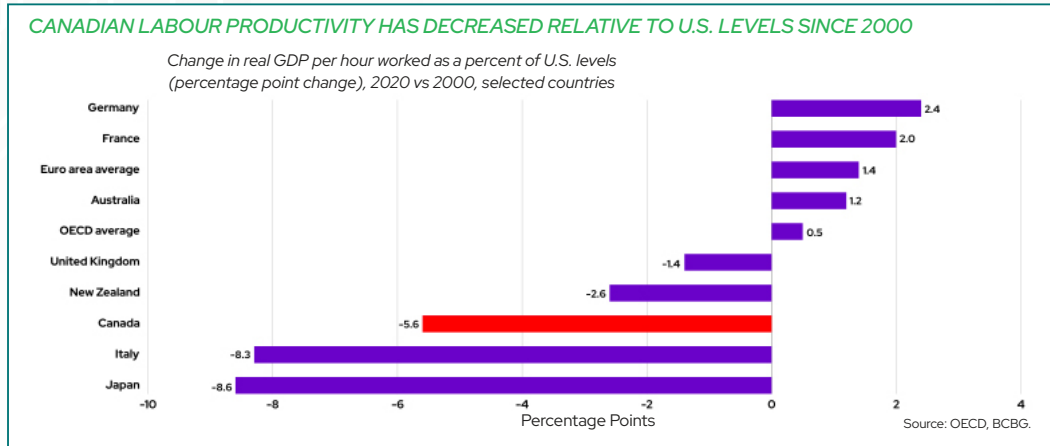


# Canada's Current Economic Reality—Challenges and Opportunities

## GDP, Productivity, Impact on Canada's Standard of Living

- Although declining productivity has been common to most developed countries, the OECD has noted that Canada's structural problems are more acute and could result in it becoming amongst the worst-performing economies out of 38 advanced countries to 2060. (Figure 1)

Figure 1: Canada's Labour Productivity Relative to Other Rich Nations



- Canada's annual GDP growth rate has been declining over the past seven decades—both in terms of its annual rate of GDP growth overall and growth rate of GDP per capita (see Figure 2).
- Between 1960 and 2000, Canada's GDP per capita grew by an average 7.8 per cent annually. Since 2000 Canada's annual rate of change in GDP growth per capita has fallen to 50 per cent of the average Canada achieved during the 40-year period from 1960 to 2000.
- The main source of Canada's challenges is its persistent inability to achieve meaningful gains in labour productivity. Since 2000, the labour productivity growth rate in Canada declined 50 per cent, from 1.74 per cent per year from 1973 to 2000 to an average of 0.86 per cent annually since 2000.
- Canada has lost ground relative to most other OECD countries—slipping from 31st of 37 countries to 28 out of 38 countries post 2000s.
- As shown in Figure 1, Canada's growth rate in labour productivity vs the G7 has surpassed only Japan and Italy.
- Slowing labour productivity growth matters because it has led to slower real wage growth—ultimately to the detriment of living standards and real wage growth.
- Slower wage growth makes life less affordable and erodes wealth relative to countries with higher labour productivity and wage growth.
- Studies by Gu (2019) and others have attributed Canada's declining productivity growth to:
  - slower rates of innovation within Canadian businesses;
  - a decline in the rate of innovation diffusion amongst Canada's firms; and
  - a decline in resource reallocation among Canadian firms and less business dynamism.

Figure 2:

Decade	Average Annual GDP Growth	Change in GDP Growth Rate Per Capita
60's	6%	5.3%
70's	4%	10.5%
80's	3%	7.6%
90's	3%	.8%
2000's	2%	6.6%
2010's	1%	1.6%
2020's	.6%	6.7%

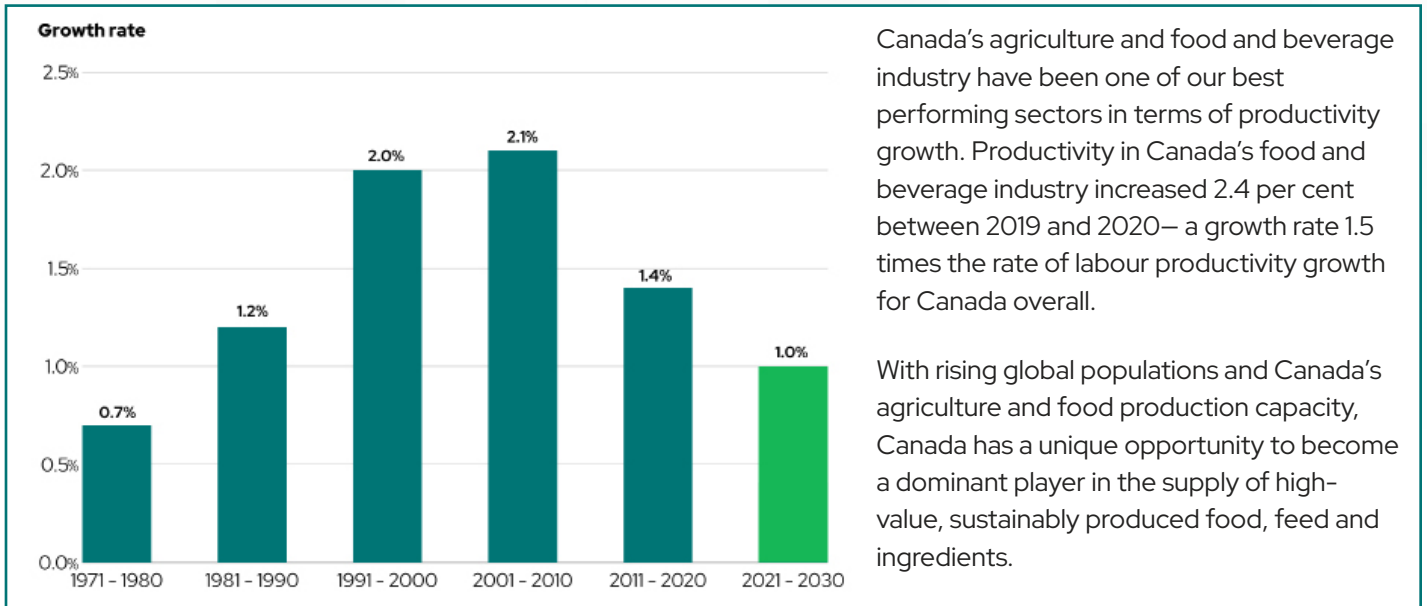
  

Labour Productivity	1961- 2000 Change/yr	2000 - 2019 Change/yr
Canada	1.99	1.06
G7	2.38	1.16

## A part of the Solution: Creating High-Value Agricultural Products

Consistent with overall agricultural productivity trends globally, Canada's agricultural productivity growth has also slowed since 2011 (Figure 3). Once again, matters related to innovation and technology are foundational to reversing this trend in Canada's agrifood industry. If Canada's agriculture industry were to return its productivity growth to 2011 levels, this could add some \$30 billion in net cash income over 10 years (estimates by Farm Credit Canada). In addition to this, Protein Industries Canada asserts that Canada also has opportunity to add a further \$25 billion of GDP by processing more of its commodity crops here in Canada.

**Figure 3: Canada's Growth Rates in Agriculture Productivity**



Canada is currently a top five global producer of agricultural commodities – commodities that are a critical component of the base from which to grow value-added manufacturing and processing businesses in Canada. Canada's food and beverage processing industry is also its largest manufacturing sector, both in terms of GDP and by total employment. The sector is a large buyer of Canada's raw agricultural products. Canada's food processing sector is also becoming increasingly export oriented, with a positive and growing trade surplus. Canada is the world's 11th-largest exporter of value-added food products. (Source: Finance Strategists, Major Economic Indicators).

To improve Canada's productivity, it needs to foster the growth of globally competitive, Canadian companies. To get there, Canada needs to prioritize agriculture and the manufacturing of ingredients from them as one of the top contributors to our economy by developing an all-encompassing policy approach for the sector.

## Capturing the \$25 Billion Opportunity

Much of what is necessary to achieve this has been known for many years. Many, if not most, of the key initiatives identified now by Protein Industries Canada to further grow Canada's value-added industry were also noted by Canada's Economic Strategy Table on AgriFood from 2017. And while the creation of Protein Industries Canada was a positive outcome of that work, other recommendations spoke to the following policy priorities, amongst others, that must be considered:

Policy Initiative	Detail
<b>Improve Access to Capital , Improve Taxation to Incentivize Capital Investment and Make Canada a More Competitive Place to Invest</b>	<ul style="list-style-type: none"> <li>• Canada's capital markets ecosystem for food and agriculture is primarily oriented toward large enterprises and commodity agriculture. It lacks sufficient density of venture capital and private equity focused on scaling high-growth-potential SMEs.</li> <li>• Moreover, Canada has become a high-cost jurisdiction in which to build ingredient manufacturing plants. Many U.S. states offer much richer incentives to attract investments vs Canadian provinces.</li> <li>• Access to capital has been identified as one of the industry's greatest headwinds to expansion of ingredients businesses in Canada—particularly for SMEs.</li> <li>• Canada needs to consider how we improve our business competitiveness to attract capital, while also considering appropriate incentives to encourage private capital investment.</li> </ul>
<b>Enable Market Access and Offtake Agreements to Support Investment of Plants and Equipment in Canada</b>	<ul style="list-style-type: none"> <li>• Canada is not recognized for our ingredient potential. Canada's existing, and emerging, trading partners are increasingly in need of sustainable, reliable and nutritious ingredients and food products.</li> <li>• Canada's unique crop rotation and commitment to sustainability positions Canada as their preferred supplier of choice.</li> <li>• Geopolitical tensions with China and Russia, combined with the impacts of climate change, are pushing global buyers to look for supplies from politically stable, friendly countries with a reliable supply of products. By increasing value-added processing, we can generate new economic growth for Canada and integrate into global supply chains with high-value products, reducing Canada's vulnerability to trade disputes that target Canadian commodities, and capturing the value of manufacturing in Canada.</li> <li>• Canada has built an enviable array of trade agreements with other countries. These agreements have laid the groundwork for market access for Canadian businesses. But Canada's food and feed manufacturing industry is dominated by many SMEs who find it difficult to meet the scale and scope of demand from Canada's trading partners.</li> <li>• Of the 11,500 firms in this sector in Canada, 95 per cent are small firms with less than 100 employees, while less than one per cent are large firms with greater than 500 employees. To achieve our potential, more must be done to help Canada's SMEs scale for success.</li> <li>• This approach also mitigates risks to Canadian farmers by creating consistent demand near their farm. It benefits farmers by reducing the costs of sales as they ship to a local customer at lower cost than shipping for export.</li> </ul>
<b>Modernize Canada's Regulatory System</b>	<ul style="list-style-type: none"> <li>• Canada's regulatory system needs modernizing with an aim toward improving speed to market and aligning regulatory standards with major trading partners.</li> <li>• Canada's regulatory system is not competitive with key countries such as the United States. This is negatively impacting investment in innovation and commercialization in Canada.</li> <li>• The OECD ranks Canada 14th out of 36 countries in terms of its Global Competitiveness Index (Burden of Government Regulation).</li> </ul>
<b>Build Additional Scale-Up Infrastructure</b>	<ul style="list-style-type: none"> <li>• Canada lacks pilot plant and scale-up infrastructure capacity. This is especially important for small- to medium-sized firms working to scale-up and commercialize their products.</li> <li>• Without access to this type of facility, companies are unable to test optimal manufacturing processes and create test samples to build customer demand for their ingredient products.</li> <li>• A public/private approach to attract such facilities is required.</li> </ul>



## Reaching \$25 billion More GDP with Current Resources

---

The answer to improving our productivity and competitiveness is not through the deployment of new resources. Nor, however, will it be achieved without any form of government involvement. A coordinated and thoughtful approach, by government, to champion the fundamental industries of Canada's economy is necessary.

There are numerous existing government programs targeted at supporting Canadian businesses and industries. The challenge is that there is not a comprehensive plan—a plan to grow this high-potential sector for Canada. This is not about new money. This is about improving effectiveness and accountability of existing resources. In addition, there is an opportunity to leverage the strengths of an industry-led approach via organizations that can work at the speed of business and be nimble to better react to market realities. Some immediate priorities are the following:

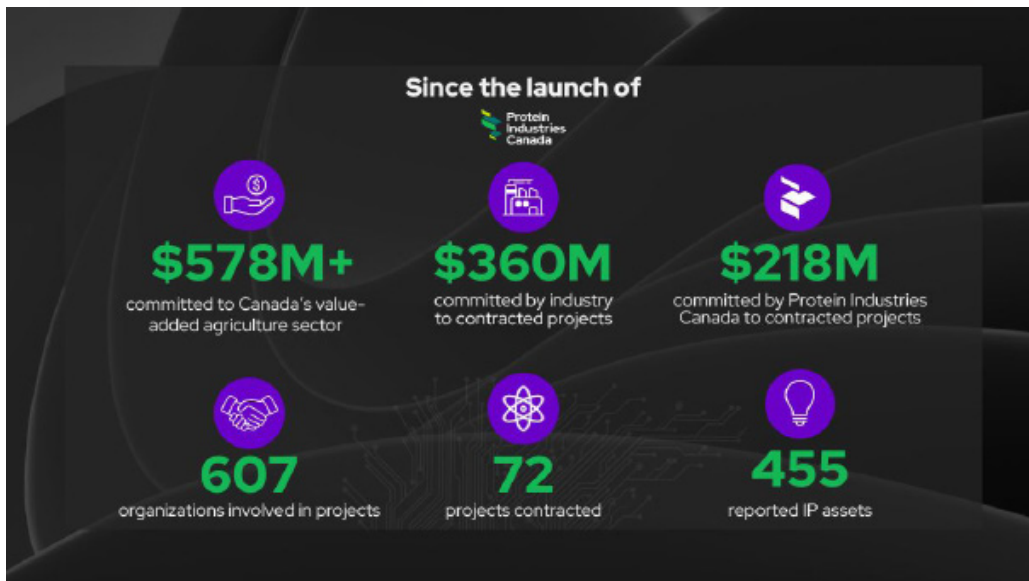
- Evaluate existing federal and provincial programs to understand their application and existing usage by the sector, and determine how to make them more impactful to support the plan to grow Canada's high-potential industries, including ingredient manufacturing and food processing.
- Support the development of capital funds by increasing awareness of ingredient manufacturing with the capital community, securing seed investments into such funds and using this approach to increase the amount of capital and investment knowledge in the capital community.
- Evaluate specific policy tools (i.e. investment tax credits) to incentivize private investment into the sector and other investment incentives to make Canada a more competitive destination for investments into ingredient production.
- Engage key international market collaborators (i.e. Singapore and The Netherlands) to further Canada's recognition and develop deep understanding of ingredient needs and seek foreign direct investment in both dedicated value-added agriculture funds as well as specific private sector projects.
- Build relationships with organizations such as Buhler and other global equipment suppliers to better understand the potential of them investing into pilot-scale facilities in Canada.
- Produce a comprehensive plan to modernize Canada's regulatory system to make Canada the preferred global destination from which to design, build and launch competitive and innovative food and feed products from Canada's field crops.

# About Protein Industries Canada

Protein Industries Canada is an industry-led organization designed to accelerate innovation and growth in Canada's ingredient manufacturing and food processing sectors. Since formed in 2018 as part of the Global Innovation Cluster program, Protein Industries Canada has invested some \$200 million into such innovations, and has catalyzed a further \$360 million of private investment into Canada's agriculture and food industry. Through these investments, 455 IP assets have been created. This work has enabled small to medium sized Canadian firms to register patents at 1.5 times the Canadian average.

Protein Industries Canada has clearly demonstrated it can successfully stimulate private sector-led innovation to facilitate business driven research and development through collaborative R&D projects. Working alongside industry, Protein Industries Canada has developed deep sector expertise and market knowledge and is well-positioned to support the growth of Canada's ingredient manufacturing and food processing ecosystem. Guided by a board of directors that represent both the domestic and international ecosystem, Protein Industries Canada has demonstrated their ability to operate efficiently, effectively and adhere to high governance standards, while reaching objectives to support the growth of Canada's economy.

However, Protein Industries Canada has also learned that innovation alone is insufficient to capture the full scope of Canada's opportunities. Over the coming months, Protein Industries Canada will continue to champion this important sector, while developing a plan to help accelerate investment and opportunities for our members.



## How to Learn More

For more information, please contact:



**Tiffany Stephenson**  
tiffany@proteinsupercluster.ca  
proteinindustriescanada.ca  
200-1965 Broad Street  
Regina, SK S4P 1Y1



**THE ROAD TO  
\$25 BILLION**

**Canada** 