GEORGE MORRIS CENTRE

# Government "Help" to the Food Industry

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Governments have always been active in providing businesses with incentives toward investment. Going back to the Trudeau years, for example, there was the well-known Department of Regional Industrial Expansion (DRIE). In Ontario during the 1980's, there was the Board of Industrial Leadership and Development (BILD) program. During this most recent recession, governments have taken the position that spending in the form of grants or loans to businesses will help to stimulate the economy. At the federal level, these efforts tend to be grouped under Canada's Economic Action Plan (CEAP).

All sectors of the economy tend to be targets, but particularly manufacturing. Within the manufacturing subset, the food industry is often a strong focal point. The usual rationales for the expenditures, historically from DRIE through to today's CEAP, are goals like job creation, import replacement, export enhancement or competitiveness. In light of the global competition now in industrial incentives, and the site-specific nature of food processing investment, regional economic groups or corporations in turn do often seek such government incentives.

Over the past few months, it appears that governments at both the federal and provincial levels have been much more active in providing financial assistance to the food and meat processing industry. The plethora of media releases and spending announcements has prompted this paper's assessment of the objectives and challenges associated with government "help" to the food industry.

Generally, the current funding thrust is framed by governments as helping firms or industries to succeed in varying ways. Absent from these government efforts, however, are formal requests or demands by industry, particularly the Canadian food industry, for grants or loans or any other form of financial assistance from government. The food industry has never put forward proposals to government saying, "What we need is a financial assistance program to help us accomplish…"

The basic premise of this paper is to argue that the Canadian food and meat processing industries do not need the government's financial assistance to succeed. In fact, this paper will argue that financial assistance can be counterproductive. This does not mean, however, that the government does not have a role in the success or failure of industry. What industry, and in particular the food industry, needs most is for government to create a favorable business climate. In many cases, this means removing barriers, many of which government has imposed on the industry.

This paper begins with an examination of the purpose or objectives of these programs and then looks at some of the actual spending initiatives. The paper then concludes with an argument about the areas where government could really play a productive role, and ideas for further analysis. It is also important to note that this commentary is not meant to disparage good faith efforts of firms seeking these incentives, or the public servants administering the same.

## Program Objective: Competitiveness

Back in the 90's, Bill Clinton was the first to use the term "investment" when describing government spending. The premise, of course, is that if it is an investment, then there is something in return instead of just typical government spending. It appears that federal and provincial governments have recently latched onto that Clinton-speak misnomer in a robust way. In fact, it sometimes seems that all government spending is now re-glossed as an "investment."

Further, it is fair to ask what is behind all this "investment" in the food and meat industry. What is the return from this "investment"? In order to try to answer the question, Ontario, Alberta and Agriculture and Agri-Food Canada programs are explored. These programs were chosen largely because they have been in the news lately, but other provinces or programs could also have been selected as they all tend to be similar. These examples provide some perspective on how governments view their roll in industrial and food industry policy.

In the case of Ontario, the funding has typically funneled through a 2001 program called the Rural Economic Development Program (RED). The program is supposed to assist with the costs of projects that benefit rural Ontario. The government website says that it is necessary because "in today's economic climate, we can no longer rely on our traditional strengths and advantages to stay competitive in the global market." Why we cannot rely on our "traditional strengths" is left unsaid, but we must assume that it is a given in "today's economic climate." It is sort of a circular way of making a case.

The priorities of the RED program are:

- Supporting the Food Processing Sector
- Community Revitalization
- Improving Access to Skills Training and Enhancement

Based on the flurry of grants for this program and a couple of others, it seems like food processing is a current top priority. Companies could receive up to a 50% grant to reimburse costs that are actual cash outlays to third parties. Since 2003, the RED has invested $91 million in 266 projects. The Ontario government says this has generated more than $737 million in new economic activity.

For its part, Agriculture and Agri-Food Canada is getting involved in the meat industry through its $50-million Slaughter Improvement Program (SIP), which apparently is part of Canada's Economic Action Plan. The program makes federal loans available to support sound business plans aimed at reducing costs, increasing revenues and improving operations of red meat packing and processing operations in Canada. SIP's objective is to strengthen the competitiveness of the red meat industry by providing interest-free, conditionally repayable contributions. These "contributions" are aimed at supporting investments to make operational improvements and modernizations, and will support investments to enhance slaughter capacity in regions that have a demonstrated regional gap that is constraining sector growth. Nobody in the meat industry is too sure what "conditionally repayable contributions" actually means but they are beginning to learn.

Of course the Alberta government is very busy providing funding to its meat industry through its Alberta Livestock and Meat Agency (ALMA), which is a new and larger version of the former Alberta Livestock Industry Development Fund. ALMA is a five year, $40 million per year government program that was announced in the spring of 2008. It is involved in providing grants to industry. ALMA describes itself as an organization that drives transformational change. It says that it has a leadership role in defining and leading a strategic approach to position the livestock and meat industry for success. Its responsibilities include stimulating new thinking, new ideas, and new approaches to enhance the reputation, competitiveness and profitability of Alberta's livestock and meat industry, and to positively influence the national direction of the industry.

These programs, and likely others across Canada, ultimately say they are about promoting competitiveness. ALMA takes a little longer to get there, given its propensity for self-aggrandizement, but each program seeks to enhance competitiveness in one way or another.

## **Spending Initiatives**

Within the competitiveness context, it is interesting to see where the money is actually going.

The Ontario government has been active lately in providing grants to small food processors. For example, there was the recent grant for "New Artisan Cheese Production in Stratford." In fact, for some reason, cheese suddenly seems to be a big priority in Ontario. There are cheese makers in Bruce County, Madoc, Plainfield, Milford, Northumberland, and Prescott-Russell (if you want to count cream cheese) who have been awarded funding in the last two months alone. Then there was the recent announcement of the "Sweet Expansion Opportunity for Ontario Cookie Company." In this case, the Ontario government cheekily noted that "The sweet smell of expansion is in the air for Hollandia Bakeries, thanks in part to provincial funding."

This type of spending is not new for Ontario. It brings to mind the 1980's program, the "Ontario Small Food Processors Assistance Program." That program was also meant to help smaller companies increase their competitiveness.

With regard to ALMA in Alberta, their website provides a listing of approved projects. For example, ALMA is providing Cargill $237,666 for the operation of a case-ready processing plant in Alberta. ALMA's website says that "Service will initially be to Loblaw's banners and then expand service to other retail chains in Western Canada." No doubt the $238K was appreciated, but Cargill recently reported net earnings of US$898M for its fiscal 2010 third quarter ended February 28, versus $326M a year earlier. On the other end of the corporate size spectrum, there was the $960,278 to Sturgeon Valley Pork to establish an expanded "gate to plate" business model that includes value-added pork processing.  Another unique grant is the one in which Western Feedlots, the largest cattle feeder in Canada, is receiving $14,900 in order to "review each department and operating sector to ensure that each area is operating at peak efficiency with maximum capacity."  It's not much money but if it is there, why not…?

Meanwhile, the federal government recently announced an "investment" of $1.6 million to help Cambridge Meat Packers through the Slaughter Improvement Program. This loan will allow the company to construct a water-treatment facility and finance the purchase and installation of new equipment to make sure that pork producers can get their high-quality product to consumers.  In addition, there is the recent "investment" of $70,000 which will help Antigonish Abattoir upgrade their plant equipment and data tracking software and improve their traceability system. There is also the 2010 "investment" of $567,500 in Country Meat and Sausage, of Blumenort, Manitoba.  "This investment will allow Country Meat and Sausage to expand their production and pursue niche markets, giving livestock farmers more opportunities to boost their bottom line."

On May 1st, Canada's Minister of Agriculture and Agri-Food, Gerry Ritz, and Member of Parliament Gary Schellenberger (Perth-Wellington) announced an investment of nearly $4.5 million to help Great Lakes Specialty Meats of Canada Inc. improve and expand its facility, allowing the company to pursue new niche markets.  This funding will be used by Great Lakes to improve plant capabilities to produce high quality value-added products, using modern and efficient equipment and technology such as leading traceability systems for improved food safety.  These improvements will position Great Lakes Specialty Meats of Canada Inc. to increase sales of its high quality Canadian pork products and be competitive in the marketplace. This will create more jobs in the Mitchell area and keep hog processing in Southern Ontario.

Of course, there are other examples in other provinces as well.  For example, Manitoba's Agriculture, Food and Rural Initiatives Minister, Stan Struthers, presented a cheque for $1.2 million to the Food Development Centre in Portage La Prairie for the expansion of the centre and development of the Food Centre of Excellence.  "This expansion will enhance the ability of the Food Development Centre to provide producers and entrepreneurs with more opportunities to take advantage of new food-related business ventures in today's rapidly expanding value-added agri-food market," said Struthers.  "It will also further support the training programs offered by the FDC to customers and clients locally, nationally and internationally."

These are simply examples of the colourful, if not confusing, types of spending that governments have been undertaking in the food industry in 2010 alone.  The programs are supposed to be about competitiveness and growth.  The fact is, however, that any spending or "investment" can be argued as an aid to competitiveness.  The next section looks at some of the deeper issues of competitiveness and what governments might actually do in this area to make a real difference.

## **The Real Challenge**

The competitiveness angle is particularly ironic given that government is often a key culprit in why the Canadian food industry, and in particular the meat industry, is struggling competitively. This is an industry that is saddled with higher taxes, regulations, and inspection fees compared to key competitors, particularly the United States. It is also an industry that suffers from a lack of access to crucial export markets. The net result is lagging productivity in the industry, which in turn means reduced ability to compete domestically or internationally.

To make matters worse, this is an industry that faces reduced livestock supplies or higher ingredient costs because of federal and provincial subsidies and mandates that support an unsustainable ethanol industry. It seems odd that governments cannot find or apply resources to resolve these issues, but can spend millions of the same taxpayer dollars to subsidize private sector investments.

In addition to the fact that government policy is the root of some competitiveness problems, grant programs in themselves are problematic. For example, the 2006 George Morris Centre Canadian Agri-Products Policy Project noted that grant programs have several shortcomings:

- They depend on arbitrary criteria established by bureaucrats for decisions about what will be invested in, not the market place. Sometimes they will be right, sometimes they will be embarrassingly wrong.
- Grants are inherently unfair; they are only available to those who are chosen.
- They often lead to unfair competition; unsubsidized investors find themselves competing with the subsidized.
- These programs do influence/distort decisions on timing, scale, location. If not, then why would such initiatives be undertaken?

The first point, regarding arbitrary criteria being embarrassingly wrong, is particularly applicable to the federal government's SIP program. Note again that SIP "will support investments to enhance slaughter capacity in regions that have a demonstrated regional gap that is constraining sector growth." While livestock producers typically like to have plenty of extra slaughter capacity, the fact is that the last thing this industry needs is added capacity. Pork packers in Ontario and on the prairies are struggling to keep their plants running at capacity. With tighter restrictions on Quebec's ASRA program, it is likely that there will be overcapacity in Quebec within a couple of years. In the beef industry, the main structural change in the past three years has been packer rationalization and downsizing due to overcapacity once the US border opened to live cattle in 2005. That downsizing came after packer capacity expansions that were encouraged by governments.

If governments are to be taken seriously in their stated aims at improving competitiveness, then they need to address the key areas where they are part of the competitiveness problem. At the very least, there need to be links between the grants/loans and other public policy objectives in the sector. In that regard, it is worth revisiting some of the recommendations of the 2006 George Morris Centre Policy project.

As a starting point, the 2006 policy paper suggested changes to Canada's tax structure such as increasing CCA (capital cost allowance) for investment in plants and equipment. Reducing tax burdens in the early years of an investment often makes the difference between investing and not investing. Another tax recommendation was to reduce capital gains tax. For most businesses, the value of assets increases because of profitability in the business. Since business and labour income is already taxed, capital gains tax amounts to multiple taxation.

Regarding the policy recommendation, the federal government has taken steps in this area and as such they deserve credit.

Another George Morris policy paper recommendation was to reform the regulatory system. The paper argues that no amount of tax relief will encourage investment when the regulatory system offsets any tax advantages. The paper also strongly notes that "no one is arguing for low regulatory standards. The overwhelming perception by most people in the agri-products sector is that high standards assist in differentiation. However, with Canada's relatively small market, regulations that are slow and unwieldy have the following results:

- Companies are reluctant to register animal and plant health products in Canada because the cost is too high.
- Farmers and food companies are unable to use inputs and/or develop products that can be the basis for successful differentiation.
- Companies are reluctant to undertake research and development in Canada because the lag times are too long.
- Farmers and others in the value chain do not have access to products that are environmentally superior.
- Farmers and others in the value chain do not have access to drugs that assist in improving efficiency and lowering costs. Often, competitors in other countries do have access and their products can be sold in Canada without restriction.
- There is currently no regulatory framework for fortification of foods, health claims and novel foods."

These are just two of many areas that need to be addressed if governments are really interested in improving competitiveness. Other areas include the need to refocus and redirect the federal government's export market access structure. Reform and reallocation of resources at the Canadian Food Inspection Agency is an area that the meat industry strongly needs from the federal Agriculture Ministry. Again, it is noted that there are millions committed to these incentive initiatives such as SIP, but not to the improvement of the CFIA. These and other areas are deemed by the George Morris Centre to be important research priorities in the coming year.

The areas where government really needs to act often require difficult choices or upsetting the status quo. These real actions that can actually improve competitiveness are not as enjoyable as having a minister hand out a cheque or cut a ribbon. Often times there are not even media releases noting the accomplishments. Nevertheless, they are far more useful and constructive.

During 2010 the federal and provincial governments have been very busy issuing media releases showing how they are helping industries, particularly the food industry. This brings to mind a quote from Ronald Reagan: "The nine most terrifying words in the English language are: 'I'm from the government and I'm here to help.'"