

Submission to the Standing Committee on Industry, Science and Technology

Introduction

This submission provides an industry view of key issues for the dairy manufacturing sector, including recommendations to the Government of Canada on policy measures that could promote innovation in the sector.

Economic Footprint of the Dairy Processing in Canada

Dairy processing has a material presence in every province in Canada, with a revenue exceeding \$17 billion, that supports over 23,000 direct jobs with an aggregate payroll of over \$1 billion¹. When taking into account indirect and induced jobs, in addition to direct jobs, the dairy processing sector created or maintained over 105,000 jobs in Canada in 2015. Our sector has a large economic impact; a recent study by ÉcoRessources Consultants² indicates that it generated a total GDP of \$11.2 billion in 2015 (+3.8% since 2013), as well as \$2.1 billion in tax revenues for the various levels of government (+3.8% since 2013).

The Need for a Food Processing Strategy

Currently, there are a patchwork of programs offered by various government departments and agencies, but there is no unified vision or strategy for the food processing sector. There is therefore a clear need for a food processing strategy in Canada. Such a strategy needs clearly stated objectives and a set of government policy measures to achieve them. Those measures should notably include a dairy processing innovation program devoted to the specific needs of the dairy processing sector. Government programs could still be offered by various government departments and agencies, but they should be part of the same overreaching strategy and should be accessible through a single website. This “one-stop shop” website, specifically devoted to food processing, would indeed go a long way in reducing search costs for Canadian dairy processors seeking government funding for innovative investment projects. Moreover, information sessions or webinars should be offered to help understand some of the more complicated government programs. Streamlining the application process in some of those programs would also be highly helpful.

DPAC-ATLC therefore offers the following recommendation to the government:

That the Government of Canada, in consultation with key stakeholders, develops a food processing strategy that is accompanied with clearly stated objectives. A “one-stop shop” website regrouping all government programs (including a dairy processing innovation program) in which processors can apply, should also be developed as part of this strategy. The government should also offer information sessions to help the industry understand the more complicated funding programs.

¹ Statistics Canada, Table 304-0014, Table 281-0023 and Table 281-0047.

² ÉcoRessources Consultants, *Update on the Economic Impacts of the Canadian Dairy Industry in 2015*, July 2016

Impediments to Innovation in the Dairy Processing Sector in Canada

There are two broad types of innovation in the manufacturing sector: product innovation and process innovation.³

As it applies to the dairy processing sector, product innovation refers to the introduction of a new product or milk component, or a product or milk component that offers significantly improved characteristics or intended uses, ultimately providing better value for Canadian consumers. This approach is a priority for our industry as attested by the upcoming launch of Agropur Dairy Co-operative's "Together, let's rethink dairy" challenge, which is an open invitation to creative thinkers around the world to identify impactful new innovations that expand and reinvigorate the use of dairy ingredients.

Process innovation is the implementation of a new or significantly improved production or delivery method. For example, Gay Lea Foods Co-operative has acquired sophisticated machinery from a Vancouver-based industrial technology company, which has allowed the deployment of Radiant Energy Vacuum ("REV™") as a dehydration technology for the production of cheese snack products. This dehydration technology is faster, cheaper, and provides better end product quality than existing technology.

It is important to note that innovation in processing methods can take the form of improvements in energy efficiency, decreasing waste and reduction in carbon footprint. For example, rather than using tap water, Saputo uses reverse osmosis permeate, a by-product from whey filtration processes, as a pre-rinse for the cleaning of equipment. Further, through a recuperation project, the company also reduced its daily water consumption by 10% at its plant in St-Hyacinthe, Québec, which meant that water usage declines by a total of 55 million litres annually.

Notwithstanding the above, there are currently impediments to both product and process innovation in the dairy processing sector.

- **Product Innovation**

Product innovation is made more difficult as a result of 1) differences in provincial regulations and 2) federal regulations that are too stringent. Regulatory barriers that restrict the use of innovative ingredients or technology by Canadian dairy product manufacturers, reduce the free movement of products between provinces and increases red tape, should be eliminated. Ideally, provincial regulations should be harmonised. To be clear, harmonisation should not be guided by the lowest common denominator, but rather supporting a thriving dairy processing sector, which will ultimately benefit consumers.

DPAC-ATLC therefore offers the following recommendation to the government:

That the Government of Canada proceed to publication of the proposed [Safe Food for Canadians Regulations](#) in *Canada Gazette Part I* in a timely manner with the allowance for fulsome consultation, and in conjunction with this, undertakes to modernise food regulations, including the [Food and Drug Regulations](#), with the objective of reducing barriers to innovation in the food processing sector and eliminating red tape. The Government of Canada should also be a strong

³ The Innovation Policy Platform, [Product and Process Innovation](#).

advocate for the harmonisation of provincial regulations with the goal of reducing interprovincial trade barriers.

- **Process Innovation**

The investment tax credit (ITC) of 20% in the Scientific Research and Experimental Development Tax Incentive (SR&ED) program was reduced to 15% for certain types of corporation in 2012. This change was detrimental to the food processing sector, particularly as it pertains to investments in applied research. Enhancing SR&ED funding rates for eligible salary expenditures could encourage additional spending on applied research in the dairy sector. Furthermore, a review of the program and its administration should be undertaken to ensure a more streamlined process for applicants.

DPAC-ATLC therefore offers the following recommendation to the government:

That the Government of Canada enhances the basic investment tax credit in the SR&ED program, and streamlines the application process.

Some very good research is conducted in Canada's colleges and universities. Unfortunately, it is often very difficult for the private sector to have access to the intellectual property (IP) resulting from this research. One of DPAC-ATLC member described the process of purchasing IP from universities as a "negotiation and communication nightmare". Universities often offer IP transfer on terms that are simply unpalatable to the industry. It is unfortunate that public investments in research and development ends up yielding no benefits to the industry, and Canadians, as a result of convoluted IP transfer policies. It should be remembered that consumers ultimately reap the benefits of industry innovation through lower prices or increased choice as a result of new or improved product offerings. The government should consider setting an arbitration mechanism to assist companies in reaching a workable agreement with universities on the issue of IP transfer.

DPAC-ATLC therefore offer the following recommendation to the government:

That the Government of Canada, in collaboration with provinces, set up an arbitration mechanism to facilitate IP transfer between universities and the industry.

Access to Talent and Skills

Not unlike many other business sectors Canada, access to talent and skills is an on-going issue in the dairy processing sector. DPAC-ATLC therefore offer the following set of recommendations to the government to ensure that the manufacturing sector in Canada has access to the workers it needs:

That the Government of Canada works toward:

- Achieving more flexible immigration rules (for example, changes to the temporary foreign worker program)
- Expanding co-op programs in universities and colleges, and internship programs
- Enhancing funding for food processing programs in colleges and universities (to ensure they have access to state of the art equipment)
- Expanding on-the-job training programs (for example, workplace apprenticeship program)

- Funding an education campaign to attract young Canadians to pursue a career in the agri-food industry, including dairy processing

Conclusion

As the Committee considers important issues affecting the manufacturing sector in Canada, it is important for its members to note that dairy processing plants are commonly located in rural areas and small towns throughout Canada where commercial and employment opportunities are more limited than in larger urban centres. As a result, any government measures that positively impact dairy processing will generate economic benefits that are proportionally much greater in rural areas. Economic spinoff in these communities is therefore a key consideration for the development and implementation of a Canada-wide food processing strategy.

About the Dairy Processors Association of Canada

The Dairy Processors Association of Canada (DPAC-ATLC) is the national industry association representing the public policy and regulatory interests of the Canadian dairy processing industry. DPAC-ATLC's members represent some of the most recognized brands in Canada and provide work to over 23,000 Canadians, contributing more than \$17 billion to the national economy.



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