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Summary

- Farmers and food processors across Canada have been significantly affected by COVID-19, following the closure of a number of major processing plants (due to employees contracting COVID-19), as well as labour shortages, and reduced demand from restaurant closures.
- While meat processing plants are starting to return to operations - albeit at a reduced capacity - the Canadian Cattleman's Association estimates that there is a backlog of 100,000 cattle ready for slaughter. This is costing the sector approximately CAD\$400,000 a day. Processing plants also remain vulnerable to continued COVID-19 outbreaks going forward.
- Over the last couple of weeks, and following sustained pressure from the sector, the federal government has made a number of announcements re financial aid for the agriculture industry. Announcements for the fisheries and seafood, and dairy sectors have been met with enthusiasm from industry bodies. However, this week's announcement around a financial aid package for farmers and food processors has not been met with the same level of praise, with industry groups describing the announcement as: "too little, too late".
- Beef imports to Canada for the month of March 2020 were up 47% from March 2019. The COVID-19 crisis has highlighted a couple of possible opportunities for New Zealand exporters in Canada (subject to the availability and cost of freight and cold storage facilities).

Report/findings

1. Canada is the fifth largest exporter of agricultural and agri-food products in the world, accounting for 11% of the country's goods GDP and almost 10% of Canada's total merchandise trade. Food processing is the largest manufacturing employer in Canada supporting over 250,000 jobs across the country.
2. Like many other countries, the Canadian agriculture sector is grappling with the impacts of COVID-19, heavily affected by the closure of a number of major processing plants across the country due to COVID-19 outbreaks, labour shortages, and reduced demand from restaurant closures (which in turn has created supply chain issues with significant volumes of meat being shifted from wholesale to retail channels).

A snapshot of Canada's agriculture export profile

3. Canada exports half of its beef/cattle and 70% of its pork products. The majority of Canada's agriculture exports go to the US – but Japan, China, Mexico, South Korea and Hong Kong are also significant agriculture export markets. According to the CCA, due to the disruption of COVID-19, beef exports were down 15% in March 2020 (down 50% to China). Due to processing losses and other domestic supply chain constraints, beef imports were up 47% (compared to March 2019).

Noting the decline in Canadian production and exports due to COVID-19, opportunities may exist for New Zealand exporters in Canada and in third country markets.

The agriculture sector is at a "tipping point"...

Meat

4. The Canadian meat sector has been hard hit by the COVID-19 crisis after a number of pork, poultry and beef slaughterhouse and processing lines across the country have had to close or significantly slow operations because employees have tested positive for COVID-19.
5. This includes an outbreak at the major processing plant in Alberta - Cargill Meat Solutions (Cargill processes one-third of Canada's beef). The plant has become the site of the largest COVID-19 outbreak linked to a single facility in North America, with more than 900 of Cargill's 2,000 workers testing positive for the virus. COVID-19 cases have also been recorded at the JBS meatpacking plant in Alberta – together these two facilities make up 70% of Canada's beef processing capacity. While both plants have now reopened following closures they are operating at a reduced capacity. The CCA estimates that between 6,000 and 9,000 heads of cattle a day are still backed up within the Canadian beef supply system. Cargill is only processing 1,500 heads per day and JBS is processing 2,000 heads per day (normal capacity is around 5,000 heads a day). Processing plants remain vulnerable to continued COVID-19 outbreaks going forward.
6. Media reports have estimated that North America's processing capacity for beef is down by at least 10%, but that the slowdown for hog producers has been ever sharper, with 42% of North America's plant capacity reportedly closed last week. In late March the Quebec-based poultry and pork processing plant, Olymel LP, closed its slaughterhouse and processing facility where roughly 120 employees had tested positive for COVID-19. The plant has since reopened but is running at a temporarily reduced capacity processing 3,000 – 4,000 hogs per week instead of the regular 28,000 hogs per week. In Eastern Canada, there are about 140,000 to 150,000 animals that should have gone to slaughter but have not.
7. The Chicken Farmers of Canada (CFC) have announced that it will be reducing the size of the 2020 summer flock amid fears that COVID-19 could cripple the industry's ability to process meat. Under supply management, the CFC Board of Directors controls how many chickens the country will produce every eight weeks. Demand for chicken has dropped following mass closures in the restaurant industry (restaurant sales represents 40% of the demand for chicken in Canada). The COVID-19 outbreaks at Canadian meat processing plants have also created concerns that farmers may raise more chickens than the industry will be able to handle. Farmers may be forced to cull flocks if they can't send chickens to processing plants. To avoid this, the CFC has decided to reduce the total amount of chickens to be grown between May and June by 12.6%.

Dairy

8. When the COVID-19 crisis first erupted in Canada in mid-March, dairy farmers were asked to increase production as Canadians began to panic purchase dairy products. With this panic subsiding, Dairy Farmers of Canada are now reporting that some Canadian dairy farmers have started dumping milk to rid the system of surplus production as demand from restaurants (e.g. for pizza cheese) has dramatically declined. According to media reports in April, some 500 farms were told by Dairy Farmers of Ontario to dump 5 million litres a week (the province produces about 3 billion litres of milk a year, or about 1/3 of Canada's total supply). In April, Dairy Farmers

of Newfoundland and Labrador asked farmers to dump 170,000 litres (the province produces about 50 million litres a year).

Fisheries and Seafood

9. The fisheries and seafood industry employs around 72,000 people in Canada and is a significant export market. Key concerns for the sector have been around the loss of key markets (cruise ships and restaurants) and the need to increase storage capacity so they can continue to buy from fisheries and hold onto their processed products until the market reopens. The demand for shellfish has fallen significantly because of the sector's heavy dependence on restaurants, but there continues to be demand for salmon and trout from the retail sector.

...further exacerbated by labour shortages

10. Many Canadian farmers have also faced labour shortages. Some 60,000 temporary foreign workers come to Canada annually to work on farms and in plants but border closures mean fewer are expected this year. A couple of flights were chartered to bring seasonal workers to Canada (for example the Canadian Honey Council chartered a plane from Nicaragua to bring temporary foreign workers to help Canada's beekeepers during the crisis). Workers are required to quarantine for two weeks upon arrival. The government announced that CAD\$1,500 per worker would be made available to help employers cover salary payments or revamp living quarters to ensure workers can abide by distancing protocols.
11. The federal government also made available CAD\$20million for the Canadian Food Inspection Agency (CFIA) so it can have enough inspectors on hand to carry out its work. The funds are partially designed to guard against the potential for CFIA inspectors to contract the disease and be unable to work, further slowing down an already tampered supply chain.

The federal government's response

12. Following sustained pressure from the sector, the federal government announced on 5 May an initial emergency aid package for **farmers and food processors** hit by COVID-19 to the tune of CAD\$252 million. The announcement includes a CAD\$77.5 million fund for food processors of various sizes, including meat packers, to help businesses retrofit their factories and increase capacity to deal with a backlog of livestock building up in parts of the country. The money can be used to buy PPE, adapt to health protocols, and support other social distancing measures.
13. The government is also adding CAD\$125 to the AgriRecovery fund, a federal-provincial-territorial programme aimed at helping farmers during disasters. This will assist cattle and hog producers who are raising more animals than can currently be processed because of COVID-19 and as a result are seeing their costs increase because they are keeping these animals longer. The government has also pledged CAD\$50 million for a purchase programme for surplus food, similar to what is available for some farmers in the US. The goal is to redistribute the surplus to food banks.
14. The sector, while acknowledging that the pledge is a start, has said that the announcement falls far short of the CAD\$2.6 billion emergency fund requested by the Canadian Federation of Agriculture. This amount was based on estimates of the immediate impacts of the pandemic across Canada, such as the shutdown of much of the food service sector and supply chain disruptions.

15. As part of the announcement on 5 May, the **dairy sector** was told that the government wants to expand the Canadian Dairy Commission Act to allow it to buy and store more surplus dairy products – like cheese and butter – to avoid milk dumping. This announcement has been welcomed by dairy industry groups. We understand that this support will come in the form of storage - it is not meant to provide price support for cheese or butter. Processors will sell product to the Canadian Dairy Commission for a set price and buy it back for the same set price to then distribute to market.
16. On 26 April the government announced an aid package of CAD\$62.5 million for the **fisheries and seafood sector**. The aid has been earmarked for PPE to help the sector adapt their plants to comply with health directives. The Canadian Aquaculture Industry Alliance welcomed the announcement. Processing companies can also use the money to help pay for equipment such as freezers so plants can store food products while adapting factories to ensure workers can practice physical distancing.
17. Financial aid for fishermen in Atlantic Canada is expected in the coming days. The pandemic has delayed the start of the spring lobster fishery, with processors warning about a slump in demand and the ability to safely process the excess that will arrive when catches land after the season opens on 15 May.

Opportunities for New Zealand meat exporters in Canada

18. Opportunities may exist within the Canadian market for New Zealand meat exporters. Canada is New Zealand's fourth largest beef export market, with all tariffs and quotas on New Zealand beef to be eliminated under CPTPP over six years. Nearly all tariffs on sheep meat were eliminated on entry into force of CPTPP, including locking in preferential rates to Canada (New Zealand's 7th largest sheep meat market).
19. Although demand for some items is down due to the continued closure of many restaurants, some niche opportunities do exist. For example McDonald's Corp's Canadian restaurants have said that they will begin sourcing beef from outside the country due to supply chain issues as a result of the pandemic. The challenge for New Zealand exporters will be ensuring sufficient cold storage facilities are available (noting also supply chains issues relating to significant volumes of meat being shifted from wholesale to retail channels).

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