Nurturing Fruit and Vegetable Processing in Ontario

Metcalf Food Solutions

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The Metcalf Foundation helps Canadians imagine and build a just, healthy, and creative society by supporting dynamic leaders who are strengthening their communities, nurturing innovative approaches to persistent problems, and encouraging dialogue and learning to inform action.

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Contents

Foreword

Food — how and where we grow, process, distribute, sell, and eat it — is a fundamental human concern and central to the health of our communities, economy, environment, and bodies. Food is elemental, yet the system we have built around it is complex, rigid, and opaque.

There is growing concern that our current food system is not working well — some would say it is broken. In Ontario, many farmers are facing an income crisis. Too many people lack access to healthy food. And, despite growing demand for local food, our centralized, large-scale food processors, distributors, and retailers are unable to provide it.

Efforts to rebuild the local food supply chain and restructure Ontario's food and agriculture system have been building momentum in the last few years. Ontario's residents are expressing a burgeoning desire to create a food system that is more sustainable, equitable, and economically viable.

For the past eight years, the Metcalf Foundation has been seeding and supporting food- and agriculture-related initiatives across the province, from agricultural land trusts to sustainable food certification, from new farm incubators to low-income neighbourhood farmers' markets, from diversified forms of street food to new models for community food hubs.

Starting in 2007, we convened our funding partners who were working on the supply and equitable distribution of local, sustainable food. We wanted to explore the possibilities for cooperative, integrated efforts to transform Ontario's food and agriculture system. These gatherings led to the creation of Sustain Ontario – the Alliance for Healthy Food and Farming which, after only one year of operation, is already playing a central role in supporting the efforts of its growing membership. The discussions also led to our publishing the paper *Food Connects Us All: Sustainable Local Food in Southern* Ontario in February 2008, which identified some of the barriers to a local, sustainable food system and the many roads to change.

Building on that first paper, in 2009 we decided to focus on solutions, rather than just the obstacles to progress. We have learned about innovators and activists, academics and growers who are engaged in new ways of understanding and engaging with food systems. Yet too little of this experimentation and innovation has been entering the policy conversation. We issued a call for proposals seeking tangible ways to advance a local, sustainable food system agenda in Ontario over the next five to ten years.

The call inspired a strong response — and difficult choices for the Foundation. We commissioned five papers, each authored collaboratively by NGOs,

academics, practitioners, and others representing a range of sectors and perspectives. The papers are intended to be at once pragmatic and inspiring — looking to craft responses that more meaningfully connect food to critical societal issues such as like health, urban sprawl, poverty and hunger, declining farm incomes, and communities at risk.

We hope these papers will provide a platform for a more robust discussion of the possibilities for food system reform in Ontario. But we also want to move beyond discussion. Public interest, civil society engagement, academic focus, and government awareness has never been higher on this issue. We want to stimulate multi-sectoral cooperation in advancing credible, grounded solutions that can be brought into action.

We recognize that there are multiple paths to change, and that innovation often comes from bridging issues and sharing visions for the future. The Foundation thanks the innovators whose ideas and actions are sowing a new vision for food and farming in Ontario.

Sandy Houston, President
Metcalf Foundation

Executive Summary

This paper examines the structural, legislative, economic, and regulatory frameworks that have led to an Ontario food-processing sector that is inadequate for many small and medium-scale farmers. We review the missed economic opportunities and loss of economic activity of our food-processing sector as it is currently structured. Finally, we explore potential solutions to these problems that would stimulate the "agricultural middle" and help restore economic health to agricultural and food enterprises at every scale. We offer recommendations based on extensive interviews and research with key actors in Ontario's food-processing industry.

The paper addresses the following questions:

- How did economic and historical trends and pressures lead to the current problems in Ontario's food-processing sector?
- What new trends, opportunities, technologies, and markets offer solutions and strategies to create sustainable food processing?
- What positive supports and networks already exist for local food processing?
- What challenges and barriers exist to rebuilding the middle?
- What structures and models can help to catalyze a sustainable food economy?

The research identifies the need for a shift in scale and methods for efficient and economically beneficial food processing in Ontario. This shift would mean moving from large-scale, centralized food processing towards flexible and regionally based processing. Regional food clusters have been identified throughout North America as a way to support local food systems. A flexible, regionally based food economy reduces economic inefficiencies, environmental pollution and waste, creates more jobs and community capacity, and retains the positive benefits of economic activity in Ontario's communities.

A simple shift in technologies, or the installation of a new facility that builds on whatever infrastructure exists, may not be sufficient for a strong regional food sector. Many experts are beginning to advocate the creation of regional food clusters across the province. This vision requires not only a new model but a shift in goals and values, away from a dependence on centralization and consolidation and towards scale-appropriate, sustainable enterprises that are close to the markets, geared to the regional production volume or potential, and built with existing local labour and expertise.

Various initiatives in Ontario (such as Foodlink in Waterloo, Food Down the Road in Kingston) support regionally based food production and distribution.

Regional food clusters were enthusiastically endorsed at the 2009 *Building the Infrastructure for Local Food Conference* in Ontario. Betsy Donald and others refer to this approach as a different way of thinking about the problem: "The new 'Craft' economy has profound implications for sustainable economic development as place and [provenance] become central to quality food making, marketing and lifestyle."[1] She distinguishes the new "Craft" economy from the standard model that emphasizes centralization, consolidation, and globalization (the "Kraft" economy).

Although numerous barriers obstruct this shift, there are opportunities for policy-makers, legislators, and actors at every level of food production to consider effective methods of catalyzing this promising sector — the small and medium-sized enterprises (SMEs) that are crucial to regional food clusters and that still constitute more than 50% of Ontario food-processing activity. Barriers include difficulties in mobilizing capital for SMEs; lack of communication networks among potential allies and actors; tax, legislative and regulatory regimes that tend to be responsive to large-scale centralized models of food production; lack of basic development resources and training geared to SMEs; and an inadequate system of appropriately scaled distribution and storage facilities.

Research has identified the impacts of non-regional ownership of food enterprises on regional food systems and the creation of structures that remove benefits from Ontario's communities in favour of transnationals or corporations located outside the communities where they operate. The paper explores ways to restore ownership and decision-making power to the key stakeholders in a regional food system. This model, based on democracy and equity, is essential to sustainable food economies; it links interests to actions directly and clearly.

We make the following recommendations to stimulate regionally structured food processing:

1. Establish and expand knowledge networks for producers (through farmer organizations, clubs, and extension programs).
2. Establish an alliance of small and medium-sized food processors.
3. Establish support and stimulus for regional food clusters through funding, favourable legislation, regulations, and policy development.
4. Mobilize capitalization and support for organizational development as well as research and development.
5. Mobilize economic development funding that stimulates regional food clusters.
6. Strengthen co-operative legislation and support for investment in co-operatives.

[1] Donald 2009, 9.

7. Identify marketing strategies and planning appropriate to regional food production.
8. Support the creation of marketing research, development, and strategies developed and owned across a coalition of small and medium-sized enterprises.
9. Establish food safety regulations appropriate to scale of processing enterprises, and support for compliance.
10. Stimulate agricultural processing enterprise zones to extend tax relief and credits to food processors.
11. Create support for food processors in paying employment costs.

Simultaneous action is required on all of these recommendations to rebuild small and medium-sized food processing in Ontario.

Introduction

"Food is an incredible agent—it binds us to each other, and to the land."[2]

Across Ontario, facilities for food processing have reduced in size or closed, including the only facility that processed frozen organic vegetables. Farmers' options for value-added processing have become extremely limited. The closures of small and medium-sized food-processing facilities have occurred at the same time that there has been growing demand for local food from consumers who are concerned about the provenance and safety of their food. Consumers cannot find the local products they seek, while farmers have lost processing facilities for some of the local ingredients they produce. A review of the entire supply chain reveals a chaotic landscape of piecemeal solutions and missed opportunities.

The impact of food-processing plant closures may not seem immediate. After all, the stores still have food — how does this closure really affect us? But the sound of one more employer shutting down, the rumble of trucks bringing food from ever farther away, the farmers turning to other employment to make ends meet — these are the indicators of deeper problems in our food system, problems that have a profound impact on us all, and that need immediate and focused action to remedy.

The Metcalf Foundation's 2008 report, *Food Connects Us All: Sustainable Local Food in Southern Ontario*, noted that agricultural infrastructure, such as small-scale processing plants, has been disappearing from rural areas. However, the report found that it was unclear how provincial policy could be amended to better support small and medium-scale food processors, and rebuild local food-processing capacity in Ontario. *Food Connects Us All* suggested that research was "needed to determine how to restore this lost piece of Ontario's local food system."

In 2009, the Canadian Institute for Environmental Law and Policy (CIELAP) and the Fruit and Vegetable Processing Working Group came together to address this need for research. CIELAP is an independent environmental policy research organization that had previously written on legal barriers to local food access and production. The Fruit and Vegetable Processing Working Group was formed in order to rebuild food processing in a way that ensures the financial sustainability of local producers in Ontario, both organic and conventional. The Working Group includes a range of stakeholders, including farmers, processors, wholesalers, and representatives of community food programs.

[2] Personal communication, Jenn and Ekkehard Pfenning, Pfenning's Organic Vegetables, July 22, 2009.

What would a thriving regional food-processing economy look like in Ontario? How can the production and processing of food in Ontario be shifted to capitalize on the tremendous climate, energy, and human resource opportunities in the province? What is the potential for reducing the need for dependence on processed products from abroad? How would it change the vibrancy and sustainability of Ontario's food processing to refocus it on filling local needs? The need for concrete answers and actions on these questions is becoming urgent. In this paper, we provide an overview of the problem, describe some promising strategies to address the challenges, and present solutions based on interviews and research with participants in all parts of the food system.

A sustainable regional food economy in Ontario cannot exist without appropriately scaled food processing. Ontario can boast of highly experienced and knowledgeable farmers, excellent agricultural land, and a population increasingly committed to regional food markets. Between production and consumption, however, the collapse of regional food processing has left a hole where opportunity drains away. Farmers need food processing that is flexible, can be subject to regional and sustainable labelling and certification, and can access good marketing strategies that build regional food economies rather than export and transnational economies. This middle must be rebuilt through the concerted effort at every level and in every aspect of the food economy, from policy to legislation to marketing to agricultural training and support. The recommendations in this paper take the first steps towards rebuilding Ontario's food-processing sector, and towards creating an integrated and equitable sustainable food economy in our province.

Definitions

A review of the literature reveals inconsistencies in certain key definitions, including "local food," "regional food," and "sustainable food economy."

The definition of local food ranges from food produced within a 50-km radius of the eater (the definition used by the Canadian Food Inspection Agency) to any food produced in Canada (the definition used by the Loblaw grocery chain).[3] In general, "local food" in this paper refers to sources of production and processing as close to the eater as possible, within several hundred miles and not across a national border.[4]

Regional food and sustainable food economies imply a much wider area of production and processing, with a focus nonetheless on sourcing locally where possible. A regionally based food economy can be a sustainable food economy that includes mutually beneficial trade between producing regions (in the cases of absence of a product rather than just unfavourable pricing). Such an economy

[3] Canadian Food Inspection Agency 2007.
[4] McBay and Grinvalds 2007.

can survive over decades, benefiting people and the planet without depleting resources.

Ontario's Food Processing Sector: An Overview

Food manufacturing is the third-largest manufacturing sector in Ontario and continues to grow while other sectors shrink. According to the Alliance of Ontario Food Processors, Ontario's food and beverage processing sector represents a $33 billion industry. It accounts for 110,000 direct jobs and 100,000 indirect jobs (in support and secondary work), and 70% of the production occurs on Ontario farms.[5]

There are currently about 3,000 to 3,500 food-processing facilities in Ontario, operated by 1,500 firms.[6,7] About 170 of these have certified organic capability, and 43 certified organic processors were in operation in 2003. About 2% of all processing is organic.[8] Food processing in Ontario accounts for more than half of Canada's food-processing capacity. The types of food being processed as of 2007 in Ontario included: fruit and vegetables (8.3%); dairy products (13%); grain and oilseeds (10.9%); and meat products (23.2%).[9]

Exports from the sector exceed imports by 30%. The balance-of-trade numbers obscure the potential for local food processing to provide for local markets (as well as export where appropriate). A significant portion of processing goes to "redundant trade," in which a product is imported to an area from which it is also exported. "Canada is, at the same time, the fifth largest importer and the fourth largest exporter of agriculture and agri-food products in the world.[10] This is an inefficient system as far as the environment and the quality of food is concerned, and does not encourage the processing of local food.

Many farmers, especially organic and small-scale producers, struggle to find options for value-added processing for their surplus products (created by the nature of the harvest cycles). They have difficulty gaining access to new or existing markets for local or regional food as well. If the sector successfully addressed missed market and production opportunities, the sector might grow much larger, and be oriented more to providing healthy and sustainable food to Ontarians. As Ted Zettel of Organic Meadow notes, we purchase so much food from outside the province that could easily be sourced here — why are we willing to forgo all that economic activity simply to support our trading partners?[11]

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[5] Alliance of Ontario Food Processors 2008.
[6] Christianson and Morgan 2007, 5.
[7] Alliance of Ontario Food Processors 2008.
[8] MacRae et al. 2006, 11.
[9] Alliance of Ontario Food Processors 2010. "About the Industry." (date accessed: March 2010) http://www.aofp.ca/Industry/Default.aspx
[10] MacRae et al. 2006, 24.
[11] Personal communication, Ted Zettel, Chair of the Board, Organic Meadow Inc., September 16, 2009.

Consolidation, Closure, and Opportunity: A Brief History

Food processing in Ontario began in the 19th century and continued to thrive well into the 20th century. The oldest active processor was founded in 1858. From then until the 1950s the sector was profitable and labour-intensive. Considerable economic activity was created in the province through the food-processing sector, which at that time was regionally based, owned, and managed.[12]

A process of consolidation and centralization in all parts of the food system began in the 1950s and has continued into the present. In 1968 the last sugar beet processing plant closed. In the 1960s, consolidation was accompanied by increasing mechanization. Globalization and restructuring in the 1980s was only the natural progression of an earlier process.[13] Meanwhile, retail moved to centralized warehousing and consolidated purchasing. This change has created a significant obstacle for relocalization efforts, as supply moved towards a similar consolidation in order to provide consistent and uniform products to the retail giants. It is now very difficult for large retailers to buy from small (including local) processors, even if they want to. This situation has created challenges for national chains seeking to respond to the demand for local food.

Small-scale processors have continued to go out of business in the past two decades. In 2006 the CanGro plant in Niagara closed, one of the last major tender fruit processing facilities. Fruit trees were removed as part of the plant closure, actively reducing Ontario's ability to produce food. In 2007, Heinz reduced contract growing of tomatoes, a significant and important sector. The reduction occurred in response to increased prices that had been approved for growers.

The Ontario government recognizes the need to support food processing in Ontario. In 2009, the provincial government made numerous announcements of financial support for a variety of food-processing initiatives that include fruit and vegetable slicing, freezing and freeze-drying;[14] fruit juices;[15] peeled carrots;[16] cheese;[17] and other dairy products.[18]

Others are exploring ways to build food processing. In March 2010, the Vineland Research and Innovation Centre released its fifteen-year comprehensive strategic plan for the Ontario Apple, Tender Fruit and Fresh Grape Industry. This report advances a number of strategies, including improving industry innovation by developing a robust processing sector.[19]

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[12] Blay-Palmer and Donald 2006.
[13] Ibid.
[14] Ontario Ministry of Agriculture, Food and Rural Affairs (OMAFRA). November 24, 2009.
[15] OMAFRA. November 26, 2009.
[16] OMAFRA. November 27, 2009.
[17] OMAFRA. March 12, 2010.
[18] OMAFRA. November 10, 2009.
[19] Vineland Research and Innovation Centre 2010.

The Elements of a Regional Food Processing Economy: Opportunities and Potential

The philosophy of market development, sustained over decades, which emphasizes centralized and consolidated food production, has created a market gap or opportunity for small and medium-scale enterprises (SMEs). The SME sector can capitalize on advantages of flexibility, community support, and branding as consumers begin to seek out locally grown and produced food. "Local processing locations include small abattoirs, canneries, washing and packaging facilities, cheese-making facilities and even bakeries. Local processors do not reflect a single model, but a plethora of related models which flourished from the beginning of city life until quite recently."[20]

An important distinction must be drawn between chaotic infrastructure, characterized by redundant and counterproductive operations, and diversity, which builds on synergies across various operations that respond to local needs, opportunities, and economic contexts. Entrepreneurs and leaders in local food production and development are looking for solutions to manage today's chaotic and inefficient food system. The following sections review various considerations for a strong regional food economy.

The Creation of an Opportunity

Blay-Palmer argues that the effects of globalization, including consolidation and rationalization, limited jobs in the processing sector, and distant head offices (often transnational) have created market gaps that new actors are moving to fill. "The dissociation between these traditional large firms and the local consumer base… has actually created a growing space for newer, regionally embedded food-processing firms."[21] Some regions and groups continue to look for ways to entice multinationals to set up shop or reopen operations.[22] Others have begun to focus on a different kind of development. "Since the mid-1990s, the most dynamic component of the Toronto urban food economy has been the small and medium-sized enterprises comprised mainly of specialty, local, ethnic, and organic food-processing firms that are thriving in response to consumers' demands for high-quality, local, fresh, ethnic, and fusion cuisine."[23]

The growth and success of SMEs reflect a new approach to food provision, characterized by shorter supply chains between the source of production and the

[20] McBay and Grinvalds 2007, 37.
[21] Blay-Palmer and Donald 2006, 389–90.
[22] Ontario East Economic Development Commission. 2004.
[23] Blay-Palmer and Donald 2006.

market and smaller, more flexible firms that can respond quickly to changing consumer demand. These shorter supply chains ensure greater communication between producers, processors, and consumers. They reflect the recognition that efficient and effective food systems may be networks of actors and producers rather than systems based on centralization and mass-produced goods.

Why Rebuild the Middle: The Economic, Environmental, and Social Impacts

Blay-Palmer points out that because the SME sector is dispersed and not well organized, people working in these enterprises do not realize what a significant part of the economy they collectively represent. Of 1,500 food firms operating in Ontario, 61% posted sales of less than $5 million a year. At the same time, only three of the food companies with sales over $50 million are Canadian-owned.

Many jurisdictions have set out to assess the effects of relocalization of food, including the economic, environmental and social benefits. In Northern Ireland, for example, Stopes identifies local food economies as a point of convergence between "economic development and regeneration, environment, social cohesion and community health, and health."[24]

Local food processing also has important multiplier effects in the economy. In a food system that emphasizes consolidation and centralization, money leaves the community, generating jobs, sales and economic activity elsewhere. A study in British Columbia reported that a "buy local" campaign (*Buy BC)* was estimated to have created "1,900 jobs in the agri-food sector over a three year period."[25] MacRae reports that food processing has the highest economic multiplier of any industrial sector, and also confirms the prediction that new capacity will come from small firms.[26] Stopes reports a 2.5 multiplier in Cornwall (United Kingdom).[27]

A cost-benefit analysis in Iowa first analysed the economic effects of replacing 8 imported items with local products, and then the effects of replacing 22 items. "For fruit and vegetable production, the eight-item scenario would add 5.3 jobs [total] and $215,350 in labor income to the regional economy after considering reductions to soybean and corn farming from which the acres for this production were obtained. For the 22-item scenario, the impacts would be 11.6 jobs with $475,870 in total labor incomes… In all, given the scenarios discussed in this study, local food production, retailing and enhanced processing could create from 50 to 75 jobs divided between rural areas and communities."[28] A study in Kingston reported that 70% of fruit and vegetable needs could be met within the city — a truly local source. This is not a utopia; in Cuba, Havana's food needs

[24] Stopes et al. 2002, 5.
[25] Ference Weicker & Company Ltd. No date, 7.
[26] MacRae et al. 2006, 3.
[27] Stopes et al. 2002, 6.
[28] Swenson 2009, 1.

have been largely met within the city boundaries, chiefly as a response to the absence of trading partners.

Beyond the economic advantages of keeping food production and processing close to market, there are also environmental benefits. A FoodShare Toronto study shows, "Supermarket ingredients travelled 81 times further than those from the farmers' market, and by buying from the farmers' market, they estimated one could save a half tonne of GHG a year per household."[29] A report from Waterloo Region Public Health shows that 51,709 tonnes of GHG emissions are generated annually by the consumption of imported foods.[30]

Most meals are estimated to have travelled an average of 1,500 miles to an Ontario consumer's plate.[31] "An average of eight calories of fossil fuel are used to produce, process, transport and store each calorie North Americans eat — an unsustainable practice as we look into the future."[32] A full environmental scan would provide useful and detailed information on the complex impacts of the food processing and trade sector.

A relocalized food-processing sector provides significant social benefits by sustaining communities through increased capacity in local regions. It creates new networks of production and processing, markets for new farmers and new links between local farmers, processors, consumers, chefs, retailers and wholesalers. Sustainable food economies mean stronger and healthier communities with stable populations living in a healthier environment.

Structures to Catalyze Regional Food Economies

What models are most likely to make regional food clusters sustainable in the long-term? What factors will retain new initiatives in the communities where they are needed and where they can retain the original mandate to build local capacity for food production? Our interviewees offered suggestions for the organizational structure of new initiatives.

The Pfennings emphasized the importance of creating organizational structures that are value-based and value-driven, citing high-profile plant closures that have occurred when ownership and interests moved out of the province and removed firms from local control.[33]

The food business incubator model has met with success in Toronto and in Alberta. Participation in the Toronto Food Business Incubator program is reported to more than triple the survival rate of new businesses. Incubators typically provide commercial test kitchen facilities, management infrastructure, and training through shared services and facilities.[34]

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[29] McBay and Grinvalds 2007.
[30] Xuereb 2005, 12.
[31] Pirog et al. quoted in Donald 2009, 4.
[32] McCann and Perkins. No date.
[33] Personal interview with Jenn and Ekk Pfenning, Pfenning's Organic Farm, July 22, 2009.
[34] Bitti 2009.

Other potential structures for a regional food cluster include a rejuvenated food terminal model expanded to include processing facilities or produce auction venues run on a collective basis that link farmers (who bring the products) directly with people who will use them (local supermarkets, stores, chefs, consumers). The produce auction (which can be a co-operative, such as the one in Elmira, Ontario) consolidates product from many small farms in order to reach larger markets that individual farmers could not reach on their own.[35]

A further option is the Field Gate Organics model, which has built a federally inspected abattoir that is privately owned but draws product from many local organic meat producers. Pfennings is also a loosely defined collective; although it is a family-run business, it retains many elements of democracy and stakeholder representation through producer planning meetings and strong communication practices with suppliers. "This is the bone in the bottom of the cauldron — how to produce the links without giving away the destiny."[36]

Co-operatives are a formal version of these collective structures and networks. There are currently about 150 agriculture marketing co-ops in Canada, and 221 farm supply co-ops. "When market failures are present, a role for co-operatives emerges."[37] Co-ops tend to be more successful, have longer survival rates than conventional businesses, and are therefore ideal for a sector like Ontario's local food processing, as it is rebuilt and perhaps restructured. Co-operatives "allow large numbers of farmers to leverage their bargaining power for the benefit of agriculture, and to maintain the size of their own farm while benefiting from bulk sales and economies of scale."[38] In Ontario, however, the high-profile failure of some producer co-ops has led to a suspicion of the model. Even though co-ops are twice as likely to succeed as their conventional counterparts, the failure of a single co-op in a region can often turn future stakeholders against the model.

New generation co-operatives (NGCs) have been used with great success in a number of areas outside Ontario, including the Midwestern United States.[39] NGCs tend to be producer-owned, and depend on the one-member/one-vote democracy of co-ops. They are capitalized by the investment of the member-owners at levels corresponding to their expected use; members invest in the co-op to the extent that they plan to make use of the facility.[40] This arrangement allows differently scaled farmers to work together and provides a model for capitalization. To protect the co-op from aggressive underbidding by private brokers, farmers are also contracted to deliver a certain amount of product for harvesting. In this way, members have both delivery rights and obligations.

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[35] Personal communication, Art Corbett, Coneco, 2009.
[36] Personal communication, Ted Zettel, Chair of the Board, Organic Meadow Inc., September 16, 2009.
[37] Fulton and Stefanson 2001, 6.
[38] McBay and Grinvalds 2007, 41.
[39] Fulton and Stefanson 2001, 1.
[40] Personal communication, George Alkalay, Northfield Ventures Ltd., September 2, 2009.

Although current co-op legislation makes outside investment challenging (one of the main drawbacks to the co-op form in Ontario), co-ops can create for-profit subsidiaries to process and manage conventional capital (such as Organic Meadow's recent capitalization through this model).

Dakota Growers Pasta Company: A successful new generation co-operative

DGPC in North Dakota processes members' wheat into flour and pasta products. The co-op was formed partly in response to depressed grain prices and integrates milling and pasta production. It was formally incorporated in 1991, and operating by 1994. Co-op participation means delivery rights as well as obligations: growers know they have a buyer for their product, are committed to fulfil the contracts they have arranged with the Co-op, and accrue financial benefits from value-added processing.

Initial funding for feasibility and development came from the North Dakota Wheat Commission, the Central Power Co-operative, Baker Electric, the North Dakota Agricultural Products Utilization Commission (APUC), and other agricultural organizations. Development money ($150,000) was eventually provided by APUC as well. In 1992, a seed money drive attracted 1,200 farmers who contributed $0.05/bushel based on their expected level of use of the co-operative's facilities. Through a share equity offering, the co-op raised $12.5 million from farmer-owners. Debt financing came from the St. Paul Bank for Co-operatives.

The plant became fully operational on January 1, 1994. It has the capacity to grind 3,200,000 bushels of grain and process 120 million pounds of pasta annually. The co-op began with 180 employees. After one deficit year (seven months of operation), the co-op has reported annual profits. The co-op continues to grow (an average of 38% annually), and by 1998 was one of the three largest pasta producers in the U.S. In 2002, the co-op converted to a common stock corporation. Sympathetic legislation made this move a good business choice for many Midwestern co-ops.

Despite the potential role for co-operatives in building food-processing capacity, there are weaknesses in Ontario's legislative regime for co-ops. A 2005 white paper on co-operative development in Ontario, prepared by the Ontario Co-operative Association and the Conseil de la coopération de l'Ontario, recommended that the provincial government review and revise the legislative framework for co-operatives. In particular, the report suggested that Ontario's *Co-operative Corporations Act*[41] be harmonized with other legislation, and that the government revisit the "50-percent rule": the law's requirement that

[41] R.S.O. 1990, c. C.35.

provincially incorporated co-operatives conduct at least 50% of their business with their members. The report also urged the Ontario government to create a more supportive investment regime that would assist co-operatives in raising capital and make their tax treatment more attractive.[42]

Other provinces have established incentives to promote co-operatives. Québec has put in place a tax incentive to support co-operatives through the *Cooperative Investment Plan Act*.[43] The tax incentive is intended "to increase the permanent capitalization of certain cooperatives and federations of cooperatives needing equity capital for their development."[44] Nova Scotia has also introduced a tax credit to encourage investment in co-operatives, as well as small businesses and community economic development initiatives. The *Equity Tax Credit* program provides a personal income tax credit to individuals who invest in co-operatives, to assist them in attracting equity financing. The tax credit is calculated at 30% of the amount of the investment up to a maximum of $50,000 annually, capping the maximum annual credit at $15,000.[45]

Since the publication of the Ontario Co-operative Association's 2005 white paper on co-operative development in Ontario, there have been ongoing discussions with the provincial government but no specific action on most recommendations. As of 2009 there had been no progress on reviewing and overhauling the *Co-operative Corporations Act*,[46] or on the recommendation that the government revisit and or reconsider the "50-percent rule." However, a recent change under another piece of legislation may prove to be a precedent on this issue. The *Green Energy and Green Economy Act*, 2009,[47] included amendments to the *Co-operative Corporations Act* that permitted the development of renewable energy co-operatives without requiring them to be subject to the 50-percent rule.[48]

Processing Capacity: Co-Packing vs. New Facilities

New processing capacity can be created in two ways for sustainable agriculture and local producers: co-packing or new plants. Many larger facilities offer co-packing arrangements that allow segregation and processing for a small brand (for instance, a locally certified product). Generally the co-packer holds any certifications, and negotiations and contracts must be completed in detail to ensure smooth operations.

This solution offers many advantages in ease, convenience, rapidity, and affordability of start-up. But it can also limit growth rates as well as capabilities

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[42] Ontario Co-operative Association 2005, 6-9.
[43] R.S.Q. c. R-8.1.1.
[44] *Cooperative Investment Plan Act*, R.S.Q. c. R-8.1.1, s. 1.
[45] Nova Scotia Dept. of Finance. Equity Tax Credit.(date accessed: Nov. 2009) http://www.gov.ns.ca/finance/en/home/taxation/personalincometax/equitytaxcredit/default.aspx
[46] Ontario Co-operative Association 2009, 2.
[47] S.O. 2009, c. 12.
[48] Ontario Co-operative Association 2009, 2.

as a line expands, and reduce an owner's control over the product. It may be merely a stepping stone for the processor's own product and brand.

In the case of sustainable and local processing, the market may also be new and different enough to create challenges in finding an appropriate partner to get the product that fits the new markets. Mike Schreiner, co-founder of the local food certification organization Local Food Plus, points out the importance of traceability and the need for separate facilities or clear segregation to protect the claim of "local."[49]

Appropriate Location of Sustainable Food Processing

MacRae predicts that new local processing will emerge in the areas where an intensity of processing industries already exists: Windsor, Grand River, Toronto, Niagara, and Quinte.[50] Other important agricultural areas are the Waterloo, Chatham-Kent, and Norfolk regions. The wide distribution of Ontario's farmlands creates challenges for the centralized models and technologies of processing and post-harvest handling. Post-harvest handling ensures both flavour and shelf stability, and is a basic requirement for building a local market. "It's time, temperature, humidity, atmosphere…that maintain flavour quality."[51] But there is a shortage in Ontario, especially for small producers, of facilities for post-harvest handling. The lack of facilities, infrastructure, and knowledge prevents primary producers from gaining access to the processing sector or even the fresh markets.

Given some of the new mobile technologies and the wide distribution of sustainable agriculture, mobile post-harvest units could be used. If the focus is on fresh, or primary processing, then access to imported ingredients (spices, etc.) and proximity to the border and to major highways become less important. If the main markets are regional rather than export, distribution and storage needs will also change.

Interviewees from producers to staff of Ontario's Ministry of Agriculture, Food and Rural Affairs (OMAFRA) applaud the notion of mobile post-harvest technology. An experienced grower in several sectors suggests Norfolk, Waterloo, and Chatham-Kent as ideal centres for the unit.[52] Co-op ownership of the unit could combine shared marketing and distribution with processing. This would reduce the necessity of farm-based storage and the proliferation of arrangements and contracts to deal with processing, marketing, and distribution separately. Without accessible, ample, and affordable post-harvest handling, other processing options will remain out of reach for local producers.

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[49] Personal communication, Michael Schreiner, August 4, 2009.
[50] MacRae et al. 2006, 12.
[51] DeEll (OMAFRA) 2009.
[52] Personal communication, Bob Kerr, October 2009; Personal communication, Hugh Martin, Organic Crop Production Program Lead, OMAFRA, August 19, 2009; Personal communication, Michael Schreiner, August 4, 2009.

Many interviewees also cited the urgent need for freezing capability for local producers. The only plant in Ontario that provided co-packing for organic vegetables has closed — first its organic line, and then the whole plant. The Organic Council of Ontario completed an extensive study of the potential and opportunities for new frozen processing (forthcoming).

Naturally Norfolk has received grants to open an individual quick-freeze facility in Delhi, Ontario, that has processing capacity for 8 million pounds of raw fruit and vegetables, and will create 48 new jobs.

Mobile freezer units present a useful technology solution. They are relatively inexpensive, and can be shared among a number of farmers. The unit is mounted on a trailer that can be hooked up to any truck (including an alternative fuel vehicle). The United States Department of Agriculture claims that mobile units reduce the overall fuel costs of food processing. A unit built in Rutland, Vermont, with state and local grants, is currently available for rent by farmers. The unit can process a variety of fruits and vegetables, and provides excellent flexibility.

Challenges remain, however, including knowledge about using the technology. Also, after post-harvest processing, the farmer still needs to store the frozen product, so the unit solves only one in a series of supply-chain problems. Technologies are only a small part of the solution. Marketing strategies, staffing, and long-term plans for management, ownership, and maintenance, are equally important in rebuilding the processing sector.

Market Potential

Indications from studies on local food-processing sectors elsewhere suggest a rapid growth in demand for locally processed products. The challenge is to match the market opportunity with reasonably scaled operations. Market opportunities should be carefully assessed for the options most likely to meet with short- and longer-term success. This section provides a brief review of possibilities, examining the various strategies for their match to Ontario's agricultural context.

Local Food Movement and Markets

The local food wave has changed the face of food provision at every level, from farmers' markets to shifts at the corporate retail level. "Those retailers that have jumped on the local farm bandwagon early are tapping into a very powerful consumer sentiment that is rooted not only in the good taste of local produce, but also in a wave of nostalgia and sentiment as consumers find modern corporate food increasingly difficult and worrisome to navigate."[53]

[53] Templeton 2009, 6.

Blay-Palmer's study in eastern Ontario reports that "81% of consumers are interested in eating local food."[54] In 2006, an Ipsos Reid poll found that the majority of Canadians believe that locally grown food is preferable to non-local food for a range of reasons, from support for the local economy to nutritional benefits. At least 25% of respondents report that they have read or heard "a lot" about locally grown food. This percentage was equivalent to the amount reported for organic, and much higher than either fair trade or sustainable food. Close to 50% of consumers report buying local food regularly.[55]

Quality Counts

"The single most consistent trend occurring at the intersection of health, wellness and food is the redefinition of quality."[56] Donald defines "quality" as "the characteristics of being tasty, fresh, traceable, authentic and locally produced or sourced." The notion of quality can be embodied in other qualities — "fresh" and "local." It presents a value-added attribute that can command stronger pricing and may extend beyond a niche market in the years to come. The consumer search for "quality" has driven food trends in the European Union for many years.[57]

Convenience

A trend towards convenience contradicts some of the findings on local food; the consumer demand for "ready-to-eat" and convenience foods is often met through overpackaged products with additives and artificial ingredients, but it can be addressed through a shift in distribution, towards a proliferation of stores that are convenient to consumers' homes and that offer a quick and pleasant shopping experience. Independent retailers like Toronto's Fresh and Wild, as well as chains such as Sobeys with its Urban Fresh stores, have begun to open convenience store–style operations in urban centres to address these demands.

Terroir

Terroir is a more complex term than "local"; it describes the unique qualities of food produced in a specific area, such as Roquefort cheese, which comes only from a certain region of France. Consumers are searching for traceable products, with a known provenance that is local and rooted in a particular community or region. This trend has driven an increase in local butchers, bakers, and artisanal cheesemakers. The notion of terroir reinforces other trends such as the slow food movement, domestic fair trade, and increased tendencies to cook at home (both an economic and socio-cultural trend).

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[54] Blay-Palmer et al. 2006, 5.
[55] Ipsos Reid 2006.
[56] Hartman Group 2009, 5.
[57] Hartman Group 2009; Kretzschmar 2009.

The Development of New Products for New Markets

Studies of specific products and their potential markets should be conducted before new lines are launched. For example, the Ontario Natural Food Co-op completed a review of local food-processing capability with a complex scorecard that rated local co-packers on numerous criteria, including demand, sales potential, risk levels, perishability, reliability and past performance, logistics, and profitability. This feasibility work is essential to the reduction of risk as well as the solicitation of capital as a project goes forward. The Pfennings identify criteria such as taxes, other possible uses of the land, scale, level of interest, the potential items for processing, level of renovation required, and location with respect to participating farms.[58]

The development of new products must also address the following issues: branding (if necessary), type of packaging (price and consumer acceptance), strategies for launch and promotion, and price positioning. Although price is a significant factor for consumers in most wage sectors, a study by the Canadian Agri-Food Policy Institute shows that nutrition and quality are rated as higher priorities.[59]

Despite the growing numbers of consumers who read labels, aesthetic criteria and packaging appearance also remain important in many markets. What kinds of packaging innovation or elimination will be acceptable? For years, one organic milk supplier in Ontario struggled to educate customers and establish a market for glass bottles that met their environmental standards. After many years, the market is sufficiently established for other players to enter with similar packaging. In Toronto, a new chocolate processing firm (ChocoSol) is aiming for zero waste and is engaged in the design and dissemination of retail delivery systems to attain its environmental goals.[60]

[58] Personal communication, Jenn and Ekk Pfenning, Pfenning's Organic Farm. July 22, 2009.
[59] Dubé et al. 2009, 9.
[60] See http://www.chocosoltraders.com/ (date accessed: Dec. 2009)

Challenges and Solutions for Local and Regional Food Processing in Ontario

Various regulations and trends are barriers to the revitalization of small and medium-scale enterprises. Necessary infrastructure must be rebuilt for a fully operational food-processing sector. As Blay-Palmer writes, "The SMEs lack the ability to represent themselves, and there are no coherent avenues through which they can make their needs known. In contrast, the large food manufacturers are well placed to influence the policy and regulations of the day."[61] Rebuilding the middle will require dismantling these barriers.

Food Safety Regulation

Challenges

In response to public concerns about food safety, the federal and provincial governments have enacted increasingly rigorous food safety laws and regulations. It can be expensive for smaller facilities to comply with these regulations, compared to larger companies that can spread these costs across their operations.[62] For example, the many regulatory requirements related to food safety and handling, including the certification of the kitchen and equipment used for processing, are often more relevant to large-scale food processing and present financial barriers.[63] It was observed that because there are no allowances for small production, some entrepreneurs are being driven out of Ontario.[64]

Food must meet adequate health and food safety standards in order to be sold to the public.[65] One individual noted that while it may be costly to comply with food safety regulations, it is necessary to meet certain levels of sterilization, and facilities should be scaled so that they are able to meet these standards.[66]

Given the complex maze of food safety regulations, another concern raised was a lack of clarity about the regulations. A farmer commented that some customers had been requesting unpasteurized juice and dried apples, but that he

[61] Blay-Palmer and Donald 2006, 392.
[62] Personal communication, Hugh Martin, Organic Crop Production Program Lead, OMAFRA, August 19, 2009.
[63] Email correspondence from Paula Vopni, General Manager, Mycosource Inc., August 19, 2009.
[64] Personal communication, Matt LeBeau, National Director of Business Development, Sunopta, July 31, 2009.
[65] Personal communication,John Weninger, Weninger Farms/Canadian Drying Technologies, August 31, 2009.
[66] Personal communication,Bruno Pretto, Fun Guy Farms/Mycosource Inc., September 4, 2009.

was unsure whether the regulations would allow him to sell these products unpasteurized.[67]

Concerns about food safety regulations are also evident in the literature on developing smaller scale food and agriculture enterprises. A 2002 strategic plan for the Canadian organic food and farming sector summarized a number of the challenges for small and medium-sized food-processing facilities in meeting food safety standards designed for large facilities:

> SMEs also suffer for having to comply with health and food safety regulations and requirements usually designed for large firms. For small operators, it is expensive to meet food safety regulations and design and implement Hazard Analysis Critical Control Point (HACCP) plans. Health inspectors often do not provide technical assistance and expect operators to have sophisticated knowledge (and the associated formal education) to implement such plans and regulations. They often do not see themselves as problem solvers. For start-ups, it is difficult to test market products until a fully approved facility is in place. Yet, small operators cannot afford to put everything in place before developing a test market for their product. Facilities like food technology centres and incubator kitchens that can address this problem are only available in a limited number of places. Organic processors often suffer additionally because the food safety rules require they use synthetic chemicals not permitted in organic processing standards. They often have to convince inspectors that their sanitation systems provide equivalent protection. Some organic processors, unable to comply with changing regulations, have gone out of business.[68]

The regulation of food processing in Canada involves a complex regulatory regime designed and enforced by all three levels of government — federal, provincial, and municipal. At the federal level, Health Canada is responsible for ensuring the safety and quality of food and monitoring for outbreaks of food-borne illness.[69] The primary statutes governing fruit and vegetable processing at the Federal level are the *Food and Drugs Act*[70] and the *Canadian Agricultural Products Act*.[71]

The *Food and Drugs Act* prohibits the sale of food in Canada that is poisonous or harmful, unfit for human consumption, rotten, or adulterated; it also prohibits the sale of food "manufactured, prepared, preserved, packaged or stored under unsanitary conditions."[72] The act gives the Federal Cabinet authority to regulate food standards in order to safeguard consumer health,[73] and provides inspection and enforcement powers.[74] The Food and Drug

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[67] Personal communication, Shaun Becker, Filsinger Organic Foods, September 29, 2009.
[68] MacRae et al. 2002, 25-26.
[69] Ontario Ministry of Agriculture, Food and Rurual Affairs (OMAFRA). "Government Roles and Responsibilities for Food Safety in Ontario: Federal." (date accessed: Oct. 2009) http://www.omafra.gov.on.ca/english/infores/foodsafe/rolesfed.html
[70] R.S.C. 1985, c. F-27.
[71] R.S.C. 1985, c. 20 (4th Supp.).
[72] *Food and Drugs Act*, R.S.C. 1985, c. F-27, s. 4.
[73] Ibid., c. F-27, s. 6.1.
[74] *Ibid.*, R.S.C. 1985, c. F-27, Part II.

Regulations[75] under the act specifically address requirements for processed fruits and vegetables.[76]

The *Canadian Agricultural Products Act* regulates the marketing of processed fruits and vegetables imported, exported, or traded interprovincially, and sets out a regime for federally registered establishments where agricultural products are prepared.[77] The Processed Products Regulations[78] under this act detail further requirements for food products destined for import, export, or interprovincial trade.

The Canadian Food Inspection Agency (CFIA) administers and enforces federal laws relating to food inspection and agricultural inputs, including the *Food and Drugs Act* and the *Canadian Agricultural Products Act*. The CFIA is also responsible for inspecting federally registered food-processing facilities that prepare products for interprovincial trade or international export.[79] The CFIA has developed guidance documents that include a Code of Practice for Minimally Processed Ready-to-Eat Vegetables.[80]

Provincially, Ontario's Ministry of Agriculture, Food and Rural Affairs has primary responsibility for laws and regulations governing food safety and marketing. OMAFRA administers and enforces legal standards governing the "production, quality, composition, safety, grading, packaging, labelling, advertising and sale of a product, as well as facility and operating standards."[81] The Ministry of Health and Long-Term Care oversees food safety standards and policies that apply to food premises. However, its food safety inspection role has been delegated to public health units that operate at the municipal level. Municipal public health inspectors have the powers to inspect Ontario food premises, including food-processing facilities that are not federally registered.[82]

A central provincial food safety law is the *Health Protection and Promotion Act*[83] *(HPPA)* and the Food Premises Regulation[84] made under its authority. The overall purpose of the HPPA is to govern the organization and delivery of public health programs and services, ensure the prevention of the spread of disease, and promote and protect the health of Ontarians.[85]

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[75] C.R.C., c. 870.
[76] Food and Drug Regulations, C.R.C., c. 870, Part B, Division 11.
[77] *Canadian Agricultural Products Act*, 1985, c. 20 (4th Supp.), s. 2,13,32.
[78] C.R.C., c. 291.
[79] OMAFRA. "Government Roles and Responsibilities for Food Safety in Ontario: Federal."
[80] Canadian Food Inspection Agency 2009.
[81] OMAFRA. "Government Roles and Responsibilities for Food Safety in Ontario: Provincial." (date accessed: October 2009) http://www.omafra.gov.on.ca/english/infores/foodsafe/rolesprov.html
[82] OMAFRA. "Government Roles and Responsibilities for Food Safety in Ontario: Municipal." (date accessed: October 2009) http://www.omafra.gov.on.ca/english/infores/foodsafe/rolesmun.html
[83] R.S.O. 1990, c. H.7.
[84] Ibid., Reg. 562.
[85] *Health Protection and Promotion Act*, R.S.O. 1990, c. H.7, s. 2.

The *HPPA* establishes municipal boards of health that have responsibility for the health programs and services required under the Act;[86] the medical officer of health of each board of health is given inspection powers and responsibilities to prevent, eliminate, and decrease the effects of health hazards. Each medical officer of health is required to ensure the inspection of food premises, as well as any food and equipment in these premises.[87] The definition of a food premise includes premises where food is manufactured, processed, and prepared.[88]

Also, the *HPPA* provides a medical officer of health or public health inspector with the power to make an order requiring that specific actions be taken or not taken where there is a health hazard. Such an order may prohibit or regulate the manufacturing, processing, or preparation of any food. To make such an order, the medical officer of health or public health inspector must have reasonable and probable grounds to form the opinion that a health hazard exists in their health unit, and that the requirements set out in the order are necessary to decrease or eliminate the health hazard.[89] Anyone who operates food premises must provide the medical officer of health with any information requested in relation to the manufacturing, processing, or preparation of food, and must keep records according to the form and detail prescribed by regulation.[90]

The Food Premises Regulation under the *HPPA* applies generally to food premises, but does not apply to farmers' market food vendors. The regulation governs food premises buildings and processing equipment, including their maintenance, lighting and ventilation, food handling, personnel, and sanitary facilities.[91]

Another provincial food safety law, the *Food Safety and Quality Act*, 2001,[92] is intended to govern the quality and safety of food and agricultural commodities and inputs; the management of food safety risks; and the control and regulation of specific activities designated under the act, including the processing, manufacturing, or other preparation of food for consumption.[93] When the act was introduced, it was described as enabling legislation that would help the government maintain high food safety standards, protect consumer health, and make Ontario food more marketable. The *Food Safety and Quality Act*, 2001 amended existing food-related laws to ensure they include:

- consistent standards and requirements to protect the public from food-borne hazards
- enhanced enforcement actions to ensure compliance with legislation

[86] Ibid., c. H.7, s. 4.
[87] Ibid., c. H.7, s. 10.
[88] Ibid., c. H.7, s. 1.
[89] Ibid., c. H.7, s. 13.
[90] Ibid., c. H.7, s. 16.
[91] Food Premises Regulation, R.R.O. 1990, Reg. 562.
[92] S.O. 2001, c. 20.
[93] *Food Safety and Quality Act*, 2001, S.O. 2001, c. 20, s. 1, 2.

- tools to assist with a timely and effective response to a food safety crisis, such as the ability to trace back to find a contaminated food source and to trace forward to determine where food has been distributed[94]

The *Food Safety and Quality Act*, 2001 sets out broad authority to make regulations in a large number of areas, and these regulations are expected to harmonize Ontario's food safety standards with federal standards as necessary.[95] For the most part, the regulations made under the act apply to producers and processors of meat and poultry.[96] However, fruit and vegetable processors are also subject to inspections and seizures under the act. Inspectors have powers to enter a food-processing premises without a warrant if they have reasonable grounds to believe there is a food safety risk that constitutes a significant risk to public health or safety.[97]

The *Farm Products Grades and Sales Act*[98] regulates fruit and vegetable processing. The Act provides the power to make regulations on the cleanliness and sanitation of premises where farm products are processed,[99] and allows inspectors to enter and inspect premises used for processing farm products.[100] The Grades – Fruit and Vegetables Regulation[101] under the Act details the grade standards applicable to various fruits and vegetables used for processing, specifically apples, asparagus, beans, beets, cabbages, carrots, cherries, peaches, pears, plums and fresh prunes, and tomatoes.[102]

Beyond these regulatory requirements, processors are encouraged to implement a Hazard Analysis and Critical Control Points (HACCP) system to guard against potential hazards to food safety. HACCP systems identify potential hazards, implement control measures at different points in the process, and verify that the control measures are working properly.[103] OMAFRA has developed the food safety programs based on HACCP principles. These programs are designed for smaller processing enterprises and intended to be user-friendly and accessible.[104] The programs offer different levels of rigour in

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[94] OMAFRA. "Food Safety and Quality Act, 2001 Questions and Answers." (date accessed: Oct. 2009) http://www.omafra.gov.on.ca/english/infores/foodsafe/bill87q&a.html
[95] OMAFRA 2008, 21.
[96] See: Disposal of Deadstock Regulation, O. Reg. 105/09; Fees Regulation, O. Reg. 223/05; Livestock and Poultry Carcasses Regulation, O. Reg. 266/09; and Meat Regulation, O. Reg. 31/05.
[97] *Food Safety and Quality Act*, 2001, S.O. 2001, c. 20, s. 15, 21, 28; see also General Regulation, O. Reg. 222/05.
[98] R.S.O. 1990, c. F.8.
[99] *Farm Products Grades and Sales Act*, R.S.O. 1990, c. F.8, s. 2.
[100] Ibid., s. 6.
[101] R.R.O. 1990, Reg. 378.
[102] Grades – Fruit and Vegetables Regulation, R.R.O. 1990, Reg. 378, Part IX.
[103] OMAFRA. "Understanding Hazard Analysis Critical Control Points (HACCP)." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/food/foodsafety/processors/haccp.htm
[104] OMAFRA. "About Ontario's Advantage program." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/food/foodsafety/advantageprogram.htm

addressing food safety hazards, and all facilities that adopt one of the programs are certified through the Canadian General Standards Board.[105]

The complex web of food safety laws, regulations and programs described above can be overwhelming for those wishing to establish food-processing enterprises. However, Ontario is not alone in having developed a complicated regulatory regime to govern food processing. Governments and stakeholders in other jurisdictions have recognized that support is needed to nurture innovation to assist small and medium-sized food processors in meeting food safety requirements and standards.

In British Columbia, the Small Scale Food Processor Association (SSFPA) exists to represent and assist small-scale food and beverage processors in creating and developing their businesses. In addition to providing information about food-processing business development and product distribution, the SSFPA offers education and funding to food processors to implement food safety systems based on Good Manufacturing Practices and HACCP through the *Food Safety Systems Implementation Program*.[106] The *Food Safety Systems Implementation (Processor) Program* is part of Canada's *Growing Forward* program, and funded by Agriculture and Agri-Food Canada and the BC Ministry of Agriculture and Lands. The education and support provided includes food safety planning workshops, on-site consultations and implementation grants.[107]

The British Columbia government has created an "InfoBasket" webpage that brings together agri-food information links for many agricultural products, including grapes, tree fruits, and field and greenhouse vegetables. For each product, the website provides an extensive number of links to information about topics that include processing and food safety regulations and legislation.[108]

[105] OMAFRA. "Advantage Certified Facilities." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/food/foodsafety/processors/advantagecertified.htm

[106] Small Scale Food Processor Association. "Assistance with Food Safety: Education and Funding." (date accessed: Nov. 2009) http://ssfpa.net/

[107] Small Scale Food Processor Association. "Food Safety Systems Implementation (Processor) Program – Program Overview." (date accessed: Nov. 2009) http://www.ssfpa.net/index.php?index.php?option=com_content&vie w=article&id=38

[108] Government of British Columbia. "InfoBasket." (date accessed: Nov. 2009) http://infobasket.gov.bc.ca/portal/server.pt

The state of Maryland has recognized the importance of farmer-controlled processing and the associated challenges of complying with food safety regulations. A 2006 strategic plan document noted that there was confusion about health regulations and that action was needed to simplify compliance.

In particular, the plan noted the importance of value-added enterprises to increasing farmer incomes, and suggested that health regulations required revision to adapt them to different scales of agricultural businesses.[109] The strategic plan included the following recommendation to encourage on-farm and small-scale processing for Maryland products:

> Reform current policies and enact new policies that encourage on-farm and small-scale processing for Maryland products.
>
> Actions/strategies:
>
> - Enact a state food policy that encourages on-farm processing, training, and certification of farmers in on-farm food-processing safety. This policy should encourage certification of food safety inspectors who specialize in on-farm and small-scale processes and innovation in small batch food processing.
> - Reform policies to vertically "harmonize" federal, state, and local inspections and other standards-based regulations at the legislative and departmental levels, particularly with regard to on-farm processing and meat products.
> - Expedite value-added permitting and outline an easy process "roadmap."
> - Change state regulations so they honor the intent of existing regulations while developing alternative approaches that scale to farm-based and community-based processing systems.[110]

Solution: Food safety regulations appropriate to scale of processing enterprises

Federal and provincial governments should review existing food safety regulations to evaluate whether they are appropriate in scale for small and medium-sized processing facilities. Following the lead of the initiative in Maryland, governments should consider modifying food safety regulations as necessary so that they "honor the intent of existing regulations while developing alternative approaches that scale to farm-based and community-based processing systems."[111]

While it is critical to maintain high standards of food safety, it may be possible to amend certain regulations to be more appropriate in scale for SMEs while still ensuring high standards in food safety. Also, SMEs may face specific food safety issues that are not adequately addressed by current regulations, and research may be needed to identify these concerns.

Furthermore, the federal government has recognized that some harmonization of food safety inspection standards is needed. A Canadian Food Inspection System Implementation Group is currently developing a new system of

[109] Maryland Agricultural Commission 2006, 16.
[110] Ibid., 18.
[111] Ibid., 18.

inspection standards to be applied on a national basis.[112] This project has a number of goals, including the reduction of processors' regulatory burden. It appears that this group has developed Model Regulations and Codes, although these documents are not available online.[113] It may be possible to streamline and harmonize the complicated array of federal and provincial food safety regulations that exist at present, to alleviate the regulatory burden. However, it is also important that a national standardization exercise not create standards that are even more onerous for small and medium-scale processors.

Solution: Support for compliance with food safety regulations

Food processors in Ontario are subject to a complex set of regulations developed and administered by different levels of government. This situation can lead to confusion and uncertainty about which laws and regulations apply to processing facilities. The Ontario government should ensure better communication of the food safety regulatory regime.

OMAFRA has already made efforts to clarify the laws and regulations that apply to food processing. The Ministry has published a comprehensive guide to starting a food-processing business in Ontario, which addresses food safety and other regulations related to such issues as zoning and labelling.[114] On a related webpage — succinctly addressing issues of zoning, facilities, provincial food safety regulations, insurance, and labelling — OMAFRA provides information about the first steps in starting a food business in Ontario.[115] Another webpage features specific information related to minimally processed fruit and vegetables.[116] Other webpages on OMAFRA's site address other aspects of food safety regulation. One, titled "Regulations for the Food Industry," provides links to the texts of specific laws and regulations, but no further explanation or background information.[117] Other webpages deal with inspections,[118] sanitation,[119] and information about traceability, compliance, and financial help.[120] In other words, many different pages must be located and visited to amass all the relevant information. More could be done to provide coordinated and organized information about food safety regulation for fruit and vegetable

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[112] OMAFRA 2008, 16.
[113] Health Canada. "Interagency Program." (date accessed: Nov. 2009) http://www.hc-sc.gc.ca/ahc-asc/branch-dirgen/hpfb-dgpsa/fd-da/bfriia-braaii/interagenc-eng.php
[114] OMAFRA 2008.
[115] OMAFRA. "First Steps." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/food/industry/bdb-start/firststeps.htm
[116] OMAFRA. "Minimally Processed Fruit and Vegetables Business Information Bundle." (date accessed: Nov. 2009) http://www.ontario.ca/en/information_bundle/fruitveg/STEL01_034200
[117] OMAFRA. "Regulations for the Food Industry." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/food/fid_regulations.htm
[118] OMAFRA. "Fruits and Vegetables." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/food/inspection/fruitveg/intro.htm
[119] OMAFRA 2006.
[120] OMAFRA. "Ontario is Committed to Food Safety and Traceability." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/food/foodsafety/foodsafetyprograms.htm

processors. OMAFRA should create a central webpage that brings together links to all the related information that concerns processing-and-food-safety regulations and legislation.

As well as providing access to the relevant legislation and regulations that govern food safety, OMAFRA should clearly explain these requirements in plain language. It is important that this information be concise, understandable and kept up to date.

Governments should also establish or expand programs to help processors comply with food safety regulations. For example, access to incubator kitchens can greatly assist the development of new food-processing businesses by offering facilities that have already been certified to meet food safety regulations. Since 2007, the Toronto Food Business Incubator has provided this opportunity for processors in the Toronto region. The facility offers a commercially certified kitchen fully equipped with industry-standard equipment.[121] Similar incubators are needed throughout the province.

Another way to support small and medium-scale processing enterprises in meeting food safety requirements would be through the formation of an association to represent their concerns, provide information, and assist in compliance. A recent article on food processing in Toronto noted that small and medium-sized processors currently do not have any representation through an industry association to liaise with government.[122] BC's Small Scale Food Processor Association provides one model for such an organization.

Property Tax Assessment Policy

Challenges

Ontario's property tax assessment policy represents a barrier to food processing,[123] in that once farmers undertake value-added activities on their farms, their farm property taxes increase.[124] One farmer noted that farmers who venture into processing may be taxed out of existence if the Municipal Property Assessment Corporation (MPAC) assesses their operations at an industrial tax rate, and cited examples of tax costs rising from $2,000 to $15,000. Farmers do not have recourse once their properties have been assessed at a higher rate.[125] (The government established MPAC to administer the tax assessment system.[126])

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[121] City of Toronto. "Toronto Food Business Incubator." (date accessed: Nov. 2009) http://www.toronto.ca/tfbi/
[122] Biggs 2009, 36-37.
[123] Personal communication, Bruno Pretto, Fun Guy Farms/Mycosource Inc., September 4, 2009.
[124] Personal communication, Art Smith, Ontario Fruit and Vegetable Growers Association, October 13, 2009.
[125] Personal communication, John Weninger, Weninger Farms/Canadian Drying Technologies, August 31, 2009.
[126] *Assessment Act*, R.S.O. 1990, c. A.31, s. 1; Municipal Property Assessment Corporation Act, 1997, S.O. 1997, c. 43, Sched. G.

It is a paradox that farmers are being urged to venture into on-farm processing in order to add value to their produce, but doing so will make them more vulnerable to reassessment of some of their farmland as commercial for property tax purposes. Organizations such as the Ontario Federation of Agriculture (OFA) and the Christian Farmers Federation of Ontario (CFFO) have highlighted the increased taxation of value-added activities on farms and advocated for more appropriate assessment and taxation of these activities.[127] The CFFO has raised concerns that MPAC assesses value-added activities on farms to be industrial or commercial without regard for how they connect to the agricultural activities on the farm. This means that the

> net-benefit of on-farm value-added activities are often marginalized or, in some circumstances, negated by an adjustment in taxation levels that results in a ten-fold increase in taxation on the building in which the activity takes place.[128]

Property tax assessment in Ontario is conducted under the authority of the *Assessment Act*.[129] The act sets out the following classes of property that must be used in assessment (although the Minister of Finance has the power to prescribe further property classes): residential; multi-residential; commercial; industrial; pipe line; farm; and managed forests.[130] Additional property classes have been added by regulation.[131]

In a 2008 report prepared for the Alliance of Ontario Food Processors, the George Morris Centre highlighted property assessment taxation as an example of inconsistent regulatory interpretation that creates a barrier to food processors. The report observed that the Ontario's *Assessment Act*

> has not clearly defined agriculture and its value-added activities for property tax assessment purposes. This has resulted in inconsistent classifications around the province. This inconsistency can have an effect on decisions to innovate on small operations because the difference in tax between agriculture and industrial is greater than the early profits.[132]

The Ontario government has granted farm properties a certain degree of tax relief through its *Farm Property Taxation Policy*. Under this policy, eligible farms are taxed at the Farm Property Class Tax Rate, which is 25% of the municipal residential tax rate. Farmers who wish to receive the discounted tax

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[127] Correspondence from the Ontario Federation of Agriculture to The Honourable Greg Sorbara, Minister of Finance, July 4, 2007. (date accessed: Nov. 2009) http://www.ofa.on.ca/uploads/File/Lobby Activities/2007/July/Letter to Minister Sorbara regarding property tax treatment of on-farm value-added activities.pdf; Correspondence from the Ontario Federation of Agriculture to The Honourable Greg Sorbara, Minister of Finance, August 2, 2007. (date accessed: Nov. 2009) http://www.ofa.on.ca/uploads/File/Lobby Activities/2007/August/Letter to Minister Sorbara regarding farm taxation issues.pdf; Christian Farmers Federation of Ontario 2008, 2.

[128] Christian Farmers Federation of Ontario 2008, 2.

[129] R.S.O. 1990, c. A.31.

[130] *Assessment Act*, R.S.O. 1990, c. A.31, s. 7.

[131] General Regulation, O. Reg. 282/98, s. 2.

[132] Stiefelmeyer and Martin 2008, 17.

rate must apply to OMAFRA and meet specified criteria. Among these criteria is a requirement that MPAC must have assessed the property as farmland.[133]

To determine a farm property's value, MPAC assesses the productivity of the farmland and the value of the residence, farm outbuildings, and any other buildings on the property not used in the farm operation. The Farm Property Class Tax Rate applies to farmland and to outbuildings associated with farming. Once MPAC has assessed a property as farmland, OMAFRA must put it into the Farm Property Class or it will be taxed at higher rates.[134]

A recent amendment to the General Regulation under the *Assessment Act* made a specific change to the assessment of farm properties where minimal processing of sour cherries takes place:

> For 2009 and subsequent taxation years, land that is used to process sour cherries is included in the farm property class if the following conditions are satisfied:
>
> 1. The land would be included in the farm property class if it were not used to process sour cherries.
> 2. The processing activities that occur on the land include cleaning, de-stemming, pitting, preserving or packing the sour cherries, but not the manufacture of products from sour cherries.
> 3. At least 50 per cent of sour cherries processed on the land had been harvested from trees on land owned or leased by the processor, or where the processor is a co-operative, on land owned or leased by its members.[135]

This amendment was a response by the Ministry of Finance to arguments from sour cherry farmers that "they must pit and pack sour cherries in pails before they are delivered, sometimes months later, to pie and tart makers. A canning company used to do [so] but closed its doors."[136] While sour cherry growers considered the amendment to be a partial victory, one farmer noted that it "highlights the bigger picture in agriculture of a grey area surrounding how farming operations are being defined for property tax treatment."[137] The Ministry of Finance had previously amended the regulation to include the processing, bottling, and packaging of maple sap in the farm property class in 2004.[138]

Rather than address the broader policy issue of whether all agricultural processing activities should be subject to the Farm Property Class Tax Rate, the Ministry of Finance has chosen to take a piecemeal approach by amending the regulation to include the processing of individual commodities in the farm

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[133] OMAFRA. "The Farm Property Class Tax Rate Program Questions and Answers." (date accessed: Nov. 2009) http://www.omafra.gov.on.ca/english/policy/ftaxbac.htm

[134] Municipal Property Assessment Corporation. "Assessment Procedures for Farmland Properties in Ontario." (date accessed: Nov. 2009) http://www.mpac.ca/pages_english/procedures/procedure_for_farmland_property_assessment.asp - 8

[135] General Regulation, O. Reg. 282/98, s. 8(5.4).

[136] Stoneman 2007.

[137] Mann 2009.

[138] General Regulation, O. Reg. 282/98, s. 8(5.1)-(5.2).

property class. Instead of this piecemeal approach, the Ontario government should undertake broad tax reform of the agricultural processing sector.

Michigan has found that "[a]gricultural processing renaissance zones are one tool the State can use to help retain and attract businesses and encourage them to expand."[139] The Michigan state government established Agricultural Processing Renaissance Zones under the *Michigan Renaissance Zone Act*[140] in order to encourage the presence of agricultural processing businesses in the state. Agricultural processing facilities eligible for this program are defined as

> facilities or operations that transform, packaging, sort or grade livestock or livestock products, agricultural commodities, or plants or plant products, excluding forest products, into goods that are used for intermediate or final consumption including goods for nonfood use, and surrounding property.[141]

The Agricultural Processing Renaissance Zones (APRZ) program was introduced in 2000 and originally allowed for a maximum of 10 zones throughout the state. As of 2009, that maximum number had been increased to 30 zones and a bill had been introduced in the state legislature that, if passed, would increase the number of zones to 40. This amendment was proposed to ensure that enough zone designations are available to promote growth in Michigan's agricultural industry. As of September 2009, the state has designated 23 APRZs and applications for additional zones were pending.[142]

To designate a new APRZ, a county or distressed community must apply to the Michigan Economic Development Corporation. The city, village, or township where the APRZ is proposed is required to approve a resolution for abatement of taxes. To be successful, applicants must show that establishing processing facilities will have positive economic impacts on both the local and state governments. Applicants also need to indicate how these facilities will strengthen the overall agricultural community in Michigan.

The Michigan State Administrative Board has the power to approve APRZ designations and, once a zone has been designated, taxes within it may be abated for up to 15 years. When a zone designation comes to an end, tax relief is phased out over the last three years of the designation in increments of 25%.[143]

Once an APRZ is designated, processing facilities within that zone are not required to pay a variety of taxes, including state education tax, personal and real property taxes, and applicable local income taxes. Facilities must still pay federal taxes and a state government sales and use tax. The Michigan state

[139] Michigan Senate Fiscal Agency 2009, 1.
[140] Act 376 of 1996. (date accessed: Nov. 2009) http://www.legislature.mi.gov/documents/mcl/pdf/mcl-Act-376-of-1996.pdf.
[141] Michigan Economic Development Corporation 2009.
[142] Michigan Senate Fiscal Agency 2009, 1.
[143] Michigan Economic Development Corporation 2009.

government must reimburse some of this lost revenue from taxes. The government reimburses school districts, community college districts, and public libraries for abated taxes. However, the state government does not reimburse local or regional governments for their lost tax revenues.[144]

In recent years, the provincial government has consistently received advice urging it to recognize the importance to agriculture of value-added activities. In 2004, a government-appointed Agricultural Advisory Team advised the province to apply the reduced farm tax rate to auxiliary on-farm businesses secondary to the agricultural operation that meet set criteria.[145] The Ontario Federation of Agriculture has specifically recommended with respect to processing that

> if historically at least 51% of the product is grown and value-added to by the same farmer or farmers and at least 90% of the product is grown in Ontario, then the facilities should be subject only to the farm class property tax rate.[146]

Most recently the province's Greenbelt Council noted these past recommendations, stating:

> Given the urgency of stimulating and sustaining agriculture in the Greenbelt, and the opportunities for on-farm value-added of farm-grown products in the Greenbelt, the Greenbelt Council is concerned that no action has been taken on this issue.
>
> The Government and some municipalities may be tempted to confuse this issue with the much larger Provincial-municipal irritant caused by the elimination of the farm property tax rebate program by a previous government in 1998. There should be no confusion.
>
> Ministry of Finance staff were unable to provide us with reliable information about the financial impact on municipalities if on-farm value-added facilities were assessed at the farmland tax rate instead of industrial or commercial rates. It is obvious, however, that this impact pales in comparison with the 1998 loss of revenue to municipalities from Ontario's millions of acres of farmland. Furthermore, issues related to on-farm commercial and industrial activities pre-date the 1998 change.
>
> The encouragement for value-added agriculture thus provided to Greenbelt farmers would be significant. The impact on municipal revenue would be small. On-farm processing…can be an important source of rural economic development in the Greenbelt and elsewhere.[147]

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[144] Ibid.
[145] Vanclief et al. 2004, 9.
[146] Ontario Federation of Agriculture. "Ontario Property Tax Assessment Issues." (date accessed: Nov. 2009) http://www.ofa.on.ca/index.php?p=77&a=1879
[147] Correspondence from Dr. Robert Elgie, Greenbelt Council, to Honourable Jim Watson, Minister of Municipal Affairs and Housing, July 6, 2009. (date accessed: Nov. 2009) http://www.mah.gov.on.ca/Page6624.aspx

In response to the Council's advice, the Minister of Agriculture, Food and Rural Affairs replied as follows:

> The Ontario government supports agriculture as a major activity within the Greenbelt. As farming changes and diversifies, assessment issues become more important to the competitiveness of the agri-food industry. It is important to recognize the needs of the agri-food industry while maintaining the principle of fair property tax treatment of all property owners (both farm and non-farm) and municipalities that depend on property tax revenues. As property taxes are an important operating cost for all businesses, we must be careful to treat on-farm and off-farm innovators equitably.
>
> My position is that farm assessment should apply to things that farmers must do to get their own primary agricultural commodities or products to a marketable state until they are sold. This definition separates value-retention practices performed by the grower on a primary agricultural commodity from practices that involve either further processing or value-adding to a commodity by the grower or a buyer.[148]

This exchange highlights the complexity of the tax assessment issue and its context in Ontario. Past political decisions, such as the 1998 elimination of the farm property tax rebate program, have had negative impacts on municipal revenues. While these historic problems still need to be addressed, there is an urgent need to build processing capacity in the province. Better tax assessment policies and tax incentive programs could encourage and promote a local processing economy both on and off farms.

Solution: Agricultural Processing Enterprise Zones to Extend Tax Relief to Food Processors

The Ontario government should establish agricultural processing enterprise zones to provide some degree of relief from a range of different taxes, including property taxes, to encourage the development of food-processing infrastructure. This would introduce a strong incentive, similar to that in place in Michigan, for the development of processing by both farmers and other processors. This broad approach would address OMAFRA's concern that both on-farm and off-farm innovators are treated fairly.

While the provincial government has the power to create enterprise zones and provide preferential tax treatment, it would need to confront the problem of reduced municipal tax revenues resulting from the implementation of such a change. Many municipalities would likely oppose the loss of significant property tax funding. The provincial government should work with municipalities in setting up these zones, consider compensating municipalities for the loss of property tax revenues, and ensure that the municipalities receive some financial benefit from building processing infrastructure in these enterprise zones.

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[148] Correspondence from Honourable Leona Dombrowsky, Minister of Agriculture, Food and Rural Affairs, to Dr. Robert Elgie, Greenbelt Council, September 16, 2009. (date accessed: Nov. 2009) http://www.mah.gov.on.ca/Page6782.aspx

Municipal governments could also act independently to use property tax relief to promote food processing within their municipalities, effectively creating their own processing enterprise zones. The City of Toronto has already introduced the pilot *Imagination, Manufacturing, Innovation, Technology (IMIT) Grants* program for new food-processing businesses that allows for the phase-in of taxes.[149]

Minimum Wage Regulation

Challenges

Ontario is increasing the minimum wage, phasing in the increases over several years; the minimum wage will rise by 28% over that period. This increase will affect food processors, because labour is a large part of their input cost.[150]

One interviewee estimated that labour amounts to approximately one-third of expenses for processors.[151] Another noted that the minimum wage increase will be particularly challenging for smaller processing facilities, and predicted that it would force many producers out of business.[152] These stakeholders note that Ontario farmers and processors compete with producers from other international jurisdictions where wages are much lower.[153] One stated that the Ontario government has not recognized and addressed processors' concerns that it is more expensive to produce food in Ontario, and that consumers do not want to pay a great deal more for Ontario products.[154]

The *Employment Standards Act*[155] governs minimum wage rates in Ontario, requiring employers to pay their employees at least the prescribed minimum wage.[156] A regulation under the act provides details of the basic minimum wage requirement, and specified exemptions and rules.[157] In 2007 the regulation was amended to provide for increases in the minimum wage over several years. For most employees in the province, the minimum wage rose from $8.00 per hour to $8.75 per hour on March 31, 2008, and then to $9.50 per hour on March 31, 2009. On March 31, 2010, the final planned increase to $10.25 came into effect.[158]

In addition to the minimum wage provision, a special rule in the regulation applies to seasonal workers engaged in canning, processing, and packing fresh fruits or vegetables, or their distribution by the canner, processor, or packer. A

[149] Biggs 2009, 37. See also: City of Toronto. "Invest in Toronto Business Incentives." http://www.toronto.ca/invest-in-toronto/incentives-imit.htm
[150] Personal communication, Art Smith, Ontario Fruit and Vegetable Growers Association, Oct. 13, 2009.
[151] Personal communication, Morris Gervais, Barrie Hill Farms, Aug.31, 2009.
[152] Personal communication, Art Smith, Ontario Fruit and Vegetable Growers Association, Oct.13, 2009.
[153] Personal communication, Morris Gervais, Barrie Hill Farms, Aug.31, 2009.
[154] Personal communication, Art Smith, Ontario Fruit and Vegetable Growers Association, Oct.13, 2009.
[155] S.O. 2000, c. 41.
[156] *Employment Standards Act*, S.O. 2000, c. 41, s. 23.
[157] Exemptions, Special Rules and Establishment of Minimum Wage Regulation, O. Reg. 285/01.
[158] O. Reg. 285/01, s. 5.

"seasonal employee" is an employee who works no more than 16 weeks in a calendar year for an employer. If a seasonal employee working in fresh fruit and vegetable processing works more than 50 hours in a workweek, his or her employer must provide overtime pay of at least 1.5 times the employee's regular rate.[159]

Colorado provides a tax credit tied to new job creation through its New Business Facility Agricultural Processing Employee Credit. The credit is available to any new business facility established in a designated State Enterprise Zone beginning January 1, 1989, which is engaged in a business that adds value to agricultural commodities through some form of processing or manufacturing.[160] The program was introduced to encourage and support value-added agricultural processing and manufacturing in the state.[161]

The New Business Facility Agricultural Processing Employee Credit program provides a $500 tax credit per new employee in addition to the $500 credit per employee available under the related New Business Facility Employee Credit, to a total of a $1,000 credit per employee. The credit is available for all employees at an agricultural processing facility, even if they do not work directly in the processing operation.

As of January 2003, an additional $2,000 became available for each new business facility employee in businesses located in a designated Enhanced Rural Enterprise Zone, as well as an extra $500 tax credit for every new business facility agricultural processing employee in a processing facility within an Enhanced Rural Enterprise Zone. Colorado's Department of Local Affairs gave this designation to 32 counties that met specified criteria for the 2007 and 2008 tax years. The department reviews the designation every two years.[162]

Solution: Support for food processors in paying employment costs

The Ontario government should provide assistance to food-processing businesses to alleviate the burden of the increasing minimum wage and help them remain competitive. The government should consider the example in Colorado of providing tax credits that are linked to the number of employees hired, to acknowledge job-creation benefits and help. Such a tax credit system could be tied to the establishment of agricultural processing enterprise zones recommended above.

The increased minimum wage is a laudable initiative on the part of the provincial government to ensure an adequate standard of living for employees.

[159] Ibid., s. 15.
[160] Colorado Department of Revenue, Taxpayer Service Division. 2009, 1–2.
[161] Secretary of Agriculture and Forestry (State of Virginia) 2005, 10.
[162] Colorado Department of Revenue, Taxpayer Service Division. 2009, 1–2, 7.

However, the government must also acknowledge the additional burden placed on agricultural processing businesses in paying higher wages when it is already extremely difficult for them to compete against other jurisdictions where employment costs are lower.

Other Challenges: Time, Resources, Communication, and Distribution

Challenges in Ontario include lack of sufficient volume, inefficient distribution and communications among stakeholders, and lack of adequate training for managers and directors of operations. Many farmers cited the lack of time and energy to devote to a new enterprise, as well as the lack of capital for the marketing and distribution, for their inability to do more value-added processing.

Many interviewees, from farmers to business developers, cite the breakdown of links in Ontario's food system as a crucial problem. Although many associations maintain networks and communications, this recurring reference to a need for better links indicates perhaps that a new kind of network is needed, as the existing ones do not seem to be responding to economic needs.

Inefficient distribution was raised over and over again in interviews. No matter how much the farmers expand production, and consumers demand their products, the lack of affordable and efficient transportation between the two cripples local food economies. Several interviewees cite Pfennings or Field Gate Organics as best practices. These are producer-owned corporations that consolidate product from small and medium-sized producer-owned enterprises and provide marketing and distribution services. The absence of a similar distribution centre in eastern Ontario is a significant gap in the local food infrastructure.

In the next section, we will turn to some solutions that may help address these challenges.

Key Factors to Catalyze Regional Food Processing: Recommendations and Conclusions

The municipal and county goals of increased economic activity, healthier and safer environments, cleaner regional air and water quality, generational stability, highly active social networks, and a clear sense of community identity can be achieved more quickly and effectively with regional food cluster development than with standard economic development.

The following recommendations combine market considerations as well as the other factors reviewed here to stimulate the development of regionally structured food-processing sector. Simultaneous action is required on all the recommendations to rebuild small and medium-sized food processing in Ontario.

Create the alliances needed to create a plan to catalyze and build a regionally structured food-processing sector.

Food cluster analysis is urgently needed for Ontario to explore synergies in production, existing facilities, available capability, distribution capacity, and the potential for expansion in key areas of Ontario. Analysis should include identifying goals and indicators for success, including the economic multiplier potential, the reduction of greenhouse gas emissions as a result of more efficient distribution and greener processing practices, and the number of local, stable jobs created by the initiative.

For instance, Fifth Town Artisan Cheese Co. in Picton, Ontario has combined many of these attributes for success. The company has benefited from a surge in interest in local artisanal cheeses, coupled with beneficial shifts in regulations to ease market entry for these enterprises. Capitalizing on this rapidly growing market, the company was able to build a new facility that represents the first Platinum LEED-certified facility in Ontario (the highest standard for green commercial building).

The regionally based and alliance-based model of development, with recognized interdependence and shared resources, has been successful in many jurisdictions and sectors, but requires active stimulation and support. The model shifts the economic culture of a region away from one in which all enterprises are seen as being in competition with each other, with all flows (labour, material, and financial) managed without regard for regional effects and inter-relations.

Regional food clusters build on existing relations in urban and rural economic areas. Local enterprises already have complex, informal interrelationships with other small businesses. These relationships tend to operate without outside funding and support. Regional food cluster development would capitalize on these existing trends and knowledge, to build strong, sustainable local economies based on networking, the regional exchange of goods, regional marketing, cross-enterprise integration of administrative needs, and peer-to-peer training, mutual support, and co-operation.

Chris Hiemstra of Clovermead suggests that the government "could create the spark to help make it fly" by creating distribution zones of about 150 to 200 kilometres in size, and then working with farmers within those zones to establish efficient distribution systems. Food business incubators are another effective tool for this development, both in terms of cost and longevity of participating businesses. Some support services exist, but generally the budgets are insufficient (and often under threat). Hugh Martin cites Quebec, Prince Edward Island, and British Columbia as best-practice examples of sector development programs and support for sustainable agriculture.[163] Blay-Palmer, in addition to these support programs, recommends public procurement to stimulate the sector, a national food policy strategy such as those in New Zealand and Denmark, and traceability for sourcing to certify local and regional goods.[164]

How do we catalyze this kind of economic development? Regional food clusters depend on a range of factors that can be stimulated by policy, local capital priorities, communications and infrastructure changes. SMEs are not yet well organized in Ontario; a coherent voice and representation can allow more rapid and efficient development (as best practices and innovations can be shared within and across networks). Communications through new technologies are promising for organizing, including Internet-based conferencing technologies.

Regions can also minimize costs by consolidating some efforts through business incubator–style facilities that provide shared office space, shared accounting and financial expertise, shared marketing research and development, and affordable meeting and networking space. In urban centres, the model has given rise to organizational hubs like the Centre for Social Innovation (CSI) that provides space and networking opportunities for many small non-profits and green organizations that would otherwise be required to devote a disproportionate amount of resources to administration. The CSI model has been widely copied in other sectors, both in Toronto and elsewhere. Joint financial planning also reduces costs and leads to opportunistic uses of co-products; waste for one company may turn out to be essential raw material for

[163] Personal communication, Hugh Martin, Organic Crop Production Program Lead, OMAFRA, August 19, 2009.

[164] Blay-Palmer and Donald 2006, 394; Christianson and Morgan 2007; McBay and Grinvalds 2007.

another. These synergies require ongoing and rich communications, networking, and the integration of efforts, creating a fertile interdependence.

Ontario needs to expand and restore agricultural extension services for producers. As Zettel put it, you can't just say, "Grow peas." He reports that much of the early activity in Organic Meadow's co-op development was as much about dairy and cow management as organizational development.[165] These networks, like the farmer-to-farmer field schools developing around the world, are strongest if they build on existing expertise and allow the agricultural community to develop its own networks. Alliances across the sector need to be formed or re-established, both between producers and across the supply chain.[166]

Producers would also benefit from technical extension support on post-harvest handling and value-chain development, using a farmer-to-farmer model in which farmers who have been successful at implementing post-harvest handling and building effective value chains are contracted to assist other farmers.

An alliance should be created specifically for small and medium-sized food processors that use local ingredients or are interested in using local products. Such an alliance would serve a number of important purposes, including lobbying for scale-appropriate policy and regulations; supporting start-ups in negotiating regulatory processes; linking start-ups to needed capital; undertaking local food market research; and forming a marketing network. The alliance could guide its work through an industry roundtable that would define priorities and coordinate lobbying and research. A staff person could be put in place to support new businesses through the start-up process and liaise with potential investors.

Recommendations

1. Establish and expand knowledge networks for producers (through farmer organizations, clubs, and extension programs).
2. Establish an alliance of small and medium-sized food processors.
3. Establish support and stimulus for regional food clusters through funding, favourable legislation, regulations, and policy development.

Ensure capital for organizational development as well as research and development.

Capital for small and medium-scale enterprises is not readily available in Ontario. A shift in subsidies, tax structures, and economic development support is needed. Given the importance of a strong regional food economy in ensuring that local dollars circulate and recirculate, and in creating local jobs, it seems like an investment that is fairly certain to pay off.

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[165] Blay-Palmer et al. 2006.
[166] Christianson and Morgan 2007, 15.

New processing capability can be created in two ways for sustainable agriculture and local producers: co-packing or new plants. Many facilities offer co-packing arrangements that allow a small brand (for instance, a locally certified product) to be segregated and processed.

Support is also needed to assist new small and medium-sized local enterprises to determine where and how to engage in food processing. These businesses will need to decide whether to proceed through co-packing arrangements or by building a new plant. They may also need advice in considering whether to locate where an intensity of processing industries already exists, or pursue a more regional approach.

Recommendations

4. Mobilize capitalization and support for organizational development as well as research and development.
5. Mobilize economic development funding that stimulates regional food clusters.
6. Strengthen co-operative legislation and support for investment in co-operatives.

Develop marketing strategies and planning appropriate to regional food production.

Many advocates point to the importance of relationship marketing, in which the supply chain is balanced by real communication, knowledge, and interdependence among the actors.[167] "Local food economies emphasize the importance of shorter, less centralized food chains involving much closer and greater contact between farmers and the consumers, processors, retailers, caterers, etc. that they serve."[168] There is a growing recognition that the informal, relationship-based structures — which are formalized and nurtured in the NGC model — ensure a greater chance of success through interdependence, commitment, and greater power equitably distributed among all the stakeholders.[169]

Some experts distinguish between a value chain, based on alliances and relations, and a supply chain, which focuses on logistical management. Careful attention should be given to economic development based on alliances and inter-relations; one danger is exclusivity. A system based on existing relations may reinforce the lack of diversity and exclusions of the existing system, since relationships are more likely to exist within homogeneous groups. The focus on local food production and processing can mitigate the problem by shortening the

[167] Fulton and Stefanson 2001.
[168] Stopes et al. 2002, 5.
[169] Fulton and Stefanson 2001, 21.

chains and allowing a greater diversity of actors based on locale rather than on existing relationships.

Brown argues that relationship-based food economies are particularly well suited to co-operative forms of development, and derive marketing and development approaches from the "values and principles… products, actions, and commitments" of the enterprise.[170] Opportunities to shift the emphasis and approach of marketing derive from an organization's choice of structure. The possible new marketing approaches include issues of health, local food, terroir, or place-based planning and marketing, "quality," and even ethnic market opportunities (emphasizing food that is culturally appropriate, rather than cheap or convenient). Careful market assessment is necessary to identify real opportunities and to distinguish fashions of the moment from long-term trends.

Regional food-processing economies would also benefit from marketing research and strategies that are developed by a coalition of SMEs, within and across sectors. Market research funding tends to go to single enterprises, and results in redundant work. "Buy local" campaigns and other regional purchasing strategies tend to work best across a network of allied enterprises and sectors; market research strategies should capitalize on this model of marketing.

Recommendations

7. Identify marketing strategies and planning appropriate to regional food production.
8. Support the creation of marketing research, development, and strategies developed by a coalition of small and medium-sized enterprises.

Catalyze a favourable regulatory, legislative, taxation, and funding environment for regional food processing.

The collapse of Ontario's food infrastructure middle — local manufacturing and local markets for local people — can be addressed only with a long-term plan for rebuilding that requires a reverse of many of the subsidy, policy, and regulation trends that created the current system. "Our food safety system has a complex relation with scale, one that appears to disfavour small and medium-size operations, including many organic operations."[171]

Interviewees were unanimous in feeling that the changes desperately needed to rebuild Ontario food infrastructure could not happen without government support. Only a widespread effort across multiple sectors can create more equitable and community-friendly systems. A variety of support mechanisms can tackle the problem from a number of different directions at once and is likely to constitute the most effective approach. These supports would include both funding (grants and low-interest loans to catalyse the sector) and policy

[170] Brown 2006, 12.
[171] MacRae 2006.

and regulatory shifts to assist the development of small and medium-scale enterprises, while maintaining due diligence on food safety issues.

Support should include regional and provincial regulations that recognize the specific challenges and scale of SME operations. Regulatory frameworks should catalyze these organizations in addition to providing support, tax breaks, and subsidies to large Canadian and transnational corporations. This change would mean offering support and resources for cash-strapped small organizations to participate in policy and regulatory development, but also (or because of the participation) to develop multi-tiered regulations so that the SMEs are not adversely affected by laws and regulations designed to monitor and attract large-scale organizations to the region.

Shifts in wage requirements would also allow SMEs to provide more sustainable and stable employment situations. The higher intensity of labour at the level of SMEs can stimulate regional economies. Due to current employment legislation, most SMEs resist bringing in new labour and are forced to exploit their existing labour (often family members). Without large workforces, they cannot meet the requirements for the Workplace Safety and Insurance Board, employment insurance, and other requirements. Employment regulations at all levels discourage the distribution of jobs among as many people as possible, providing disincentives for expanding the labour force.

Recommendations

9. Establish food safety regulations appropriate to the scale of processing enterprises and support for compliance.
10. Stimulate agricultural processing enterprise zones to extend tax relief and credits to food processors.
11. Create support for food processors in paying employment costs.

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