



**Canadian
Manufacturers &
Exporters**

**Manufacturiers et
Exportateurs du
Canada**



January 21st, 2011

The Honourable Gerry Ritz
Minister of Agriculture and Agri-Food Canada
1341 Baseline Road Tower 7, Floor 9, Room 149
Ottawa, Ontario K1A 0C5

The Honourable James Flaherty
Minister of Finance
140 O'Conner Street
Ottawa, Ontario K1A 0G5

Dear Ministers:

We are writing on behalf of Canada's food industry, and all Canadians who depend on a safe and secure food supply, to ask you to include in the upcoming federal budget provision for a food safety tax credit that businesses could apply to partially offset expenses they incur to meet rising food safety requirements in Canada and in export markets.

As you may be aware, the food industry is the largest employer in Canada's manufacturing sector. Over 225,000 Canadians are employed by food processing companies generating \$100 billion in annual sales and 2% of Canada's GDP. Canada's food industry also purchases more than \$20 billion worth of agricultural and fishery products, creating jobs across the country and sustaining a high quality food supply for all Canadians.

Regulatory compliance is a priority for Canada's food industry. In order to meet the rising expectations of customers, regulators, and consumers, businesses need to invest in new testing and information systems, processing technologies, sanitation equipment, as well as in improved workplace training and certification systems. Yet, in an industry that faces intense competition on top of the negative consequences of a stronger Canadian dollar, many companies lack the cash they require to make these investments, particularly if there is no direct link to improving operating efficiencies, strengthening sales, or developing new products and new markets. In fact, upgrades in buildings, systems, equipment, and staffing are often delayed because significant expenses are involved without offsetting cost reductions.

A time-limited federal food safety tax credit would provide a simple, uniform, national financial incentive for food processors of all sizes, in all commodity sectors and in all regions. It would help stimulate innovation while accelerating regulatory compliance. By targeting cash flow, such a measure would be more effective than the many programs established under the Canadian Integrated Food Safety Initiative. A tax credit would reduce the cost of investments without constraining the choice of technologies or



services. It would also apply regardless of which jurisdiction has regulatory responsibility for the facility being upgraded and would avoid the limiting, bureaucratic, and costly features of grant programs.

We propose that the Food Safety Tax Credit allow companies to earn 35% on the first \$3 million of qualified expenditures for food safety investments and 20% of any excess amount. Companies with a taxable income in the immediately preceding year that does not exceed the small business limit (\$500,000 in taxable income) would receive a portion of the Investment Tax Credits (ITCs) earned as a refund, after applying these tax credits against taxes payable. Other businesses would be allowed to carry unused tax credits back for three years and forward for up to 20 years.

The tax credit would apply to the following eligible expenses:

- Implementation of HACCP (or equivalent) food safety pre-requisite programs and operating systems;
- New product formulation and processing technologies that improve food safety;
- Plant and equipment upgrades focused on sanitary design and GMPs (Good Manufacturing Practices) – such as line separation barriers, improved drainage systems, and air flow systems for condensation management;
- Rapid testing systems for pathogens and chemical residues;
- Product traceability and recall management systems;
- Informatics systems for recording and analyzing micro-biological test data;
- Enhanced sanitation equipment and operating protocols; and,
- Third-party food safety certification and auditing against recognized global standards.

Based on the assumption that around 2,000 companies would apply for the tax credit, we estimate that the cost of the program to be approximately \$170 million. However, the measure would also deliver benefits in the form of reduced operating costs for the Canadian Food Inspection Agency as a result of improved regulatory compliance and reduced health care costs associated with food-borne illness.

Food processors face an unprecedented level of regulatory requirements across Canada. However, as important as regulatory compliance is for Canada's food industry, inspections will only succeed if matched by more investment by businesses to prevent food safety problems rather than to react to problems after the fact. We believe that the Government has an important role to play in encouraging regulatory compliance, and in creating an attractive environment for businesses to employ, invest, and grow.



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Given the significant financial strains affecting the industry, a food safety tax credit would provide a simple, uniform incentive to help firms keep food safety a high priority as critical business decisions are made.

Respectfully,

Jayson Myers
President & CEO
Canadian Manufacturers & Exporters



Jane Graham
Executive Director
Alliance of Ontario Food Processors



James M. Laws, P.Ag.
Executive Director
Canadian Meat Council



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