

THE NEED FOR A NATIONAL SUPPLY CHAIN STRATEGY

Issue

Supply chains have been hit particularly hard due to COVID-19. The realization that Canadian industries are not prepared for global shut down, and do not receive priority shipment of goods has led many to understand the need for domestic and diverse supply chains.

Background

Supply management is the act of identifying, acquiring, and managing resources and suppliers that are essential to the operations of an organization. It includes the purchase of physical goods, information, services, and any other necessary resources that enable a company to continue operating and growing.

Under Canada's supply management system, production and importation of broiler hatching eggs, chicken, table eggs, milk, and turkey are controlled nationally to ensure that:

- Supply matches demand,
- Producers receive a fair return, and
- Consumers are assured a safe and continuous supply of quality product.

Supply managed products are controlled through three mechanisms. These mechanisms are production controls, import controls, and price stability. The Federal Government controls production through a quota system that is determined by establishing how much the national market needs, then allocating quota shares to each of the provinces. The provinces then distribute quotas to individual producers, providing them with the right and obligation to produce the product within a defined period of time. The federal government restricts imports by establishing permits and tariffs, which regulates the amount of product entering the Canadian marketplace. Provinces establish prices for supply-managed products under a national marketing plan to be paid by processors and graders.

Once the pandemic hit, Canadian businesses soon realized how reliant they have been on foreign suppliers. Borders closed, factories shut down, supply chains were crippled due to COVID-19. This resulted in cascading impacts to Canada's economy. It revealed the need for more domestic supply chains, but globalization and competition would not permit this from happening in a normally functioning economy ecosystem.

Personal Protective Equipment Supply Chains

Across Canada, businesses and governments were unable to procure enough personal protective equipment (PPE) to allow for businesses and life in general to continue. The lack of supply available domestically resulted in an international bidding war on PPE. China is where much of the world's supply of PPE is manufactured, and it was being sold to the highest bidder, which at times made it impossible for Canada to secure enough equipment for its citizens.

Various levels of government indicated support for manufacturers to pivot in order to meet the demand for PPE.^{1 2} The swell of government support for PPE manufacturers has resulted in businesses like PRIMED Medical Products to open facilities in Canada. This is a policy that must be extrapolated to other suppliers.

Seafood Supply Chains

For the seafood industry, there is a shortage of demand. With restaurants opened at less than half capacity or not opening at all, there is no one for seafood distributors, producers and wholesalers to sell to, although some are faring better due to increased spending at grocery stores. In May 2020, Prime Minister Justin Trudeau announced nearly \$470 million support package for fish harvesters. This was welcomed however it will be difficult to maintain the level of subsidies required to keep the industry afloat throughout the pandemic, and during recovery.

On top of the lack of domestic demand, international exports were reduced due to restrictions. Additionally, seafood farmed in Canada are shipped abroad for cheap processing, then re-imported to Canada. This complicated system was derailed due to COVID-19, and reveals domestic food insecurity. Support for domestic processing that is competitive internationally will alleviate the risk we face with another global incident.

Agribusiness Supply Chains

Canadian agribusinesses are reliant on international supply chains. With the limited movement of products across borders, and the increased domestic demand, Canadian businesses are left with decreasing input levels. The inability for restaurants to secure adequate supplies is leading to rising costs further eroding the bottom line of small businesses.

Due to supply chain issues, BC farms have been dumping milk because of problems getting their product to the stores.³ Transportation shortages due to shortages in the trucking industry, processing and packaging challenges, and restaurant and bakery closures have impacted the ability of farmers getting their product to market. Processors and packagers that would supply to schools, hotels, and restaurants have had to readjust their packaging sizes in order to remain in business and get the milk to consumers buying at grocery stores.

The potato industry has experienced a large reduction in demand for French fries due to restaurant shut downs and capacity restrictions. Government support for businesses that are able to capitalize on large supply volumes is needed. Targeted investment in start-ups that are providing solutions to supply problems should be a key goal of governments.

¹ <https://www.surrey.ca/news-events/news/10m-mark-surpassed-surrey-makes-ppe-manufacturers>

² <https://www.automationmag.com/manufacturing-companies-pivot-to-produce-ppe-medical-devices-for-covid-19-fight/>

³ <https://vancouver.sun.com/news/local-news/covid-19-b-c-farms-dumping-milk-because-of-problems-getting-it-to-the-store>

International Response

As markets around the world were crippled due to the shutdown of China, they had to react quickly. Now, the United States is securing supply chain partnerships with Taiwan, Japan and South Korea to reduce reliance on China. The US is also setting policy to develop a national supply chain strategy. By working with other countries such as Japan, Taiwan, and Australia, the US is hoping to reduce global reliance on China. This will boost each individual economy and protect valuable supply chains.

Whether a large-scale environmental incident or a pandemic, we are going to be faced with similar shutdowns again. Strengthening the domestic supply chain in seafood, PPE, agribusiness, and other industries will allow for Canadians to continue to work and rely less on subsidies.

We caution against government managing supply chains. At this point, governments are ill-equipped to truly understand the intricacies of supply chains. Without international and domestic coordination, there could be disastrous effects. Government should strengthen domestic supply chains by working with domestic producers, reduce red tape to enter the domestic supply market, and create an ecosystem that allows for domestic supply chains to be competitive with international markets. At the same time, international diversification of supply chains should be championed by governments fostering connections between businesses and bilateral and multilateral trading partners to reduce our reliance on the United States and China.

THE CHAMBER RECOMMENDS

That the Federal and Provincial Governments:

1. Enhance relationships with countries that have Free Trade Agreements with Canada or other multi-lateral and bilateral trade agreements by working with and consulting the private sector for those supply chains that have been exposed as weak or in need of support as a result of the pandemic;
2. Work with the private sector to determine where domestic supply chains can supplement international supply chains by creating a national supply chain strategy that focuses on the supply chains that had issues revealed as a result of the pandemic;
3. Reduce regulatory burdens to enhance the domestic market's ability to compete internationally; and,
4. Support businesses that are providing solutions to large supply issues.

Submitted by the Surrey Board of Trade