



POLICY BRIEF

April 2021

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1. QUICK HITS

LOCKDOWN? SHUTDOWN? EMERGENCY BRAKE... STAY-AT-HOME.

After instituting a provincial [emergency break](#) on the Easter long-weekend, less strict than had been [recommended](#), Ontario's medical community, led by [Regional medical officers of health](#), went toe-to-toe with the Ford government. At issue was the severity of restrictions necessary to stem a rising tide of VOC COVID-19 infection rates. Medical experts warn of [imminent threat](#) to the health-care system and rising incidents of severe cases in younger cohorts. Anger, frustration and partisan factionalism are on the rise as the complexity of the pandemic and the political blame game catch fire. The situation from the outside looks chaotic - with regional medical officers of health flexing their [section 22](#) muscles, [parents scrambling](#) to deal with unanticipated school closures and the vaccine fueled hope of a couple weeks ago turns to bewilderment and raw emotions. The chaos culminated with the province enacting an [Emergency and Stay-at-Home Order](#) on April 7th. Of particular note is the expansion of vaccination eligibility for anyone over the age of 18 in provincial hotspots.

To add to the province's political challenges are the ongoing tit-for-tat with the federal government over vaccination supply - with [each](#) blaming the [other](#) for a failure to meet public expectations. It is fascinating to watch the classic Canadian federalism game of political tag play out in the midst of the pandemic. If ever there was evidence that such dynamics are implicit to our constitutional make-up this would seem to be it.

Regardless, of where you land on the myriad decisions of the past few weeks (or months) governments, and citizens, will undoubtedly want to look at how the pandemic ecosystem functioned or didn't.

1. QUICK HITS

To some extent a pandemic emergency of this magnitude will inevitably bring on mistakes, confusion and second-guessing. However, some of the current chaos is the direct result of the structure of the provincial response, such as ceding significant decision-making powers to the regional medical officers of health, along with a political culture that has invited antagonism. There will no doubt be many opinions on what went right and [wrong](#) and what can be [learned](#). For us, there are important questions on emergency decision-making, disaster management infrastructure and perhaps most importantly how to put transparency, accountability and trust at the core of structural reform. This of course will have to wait for some kind of conclusion to the ongoing crisis.

ONTARIO PROVINCIAL BUDGET

Ontario's spring [budget](#), "Protecting People's Health and Our Economy", delivered on March 24th, was the first for Peter Bethlenfalvy in the Finance portfolio. The Minister's speech indicated that the budget is about "finishing the job" of navigating the province through the COVID-19 pandemic and starting to set the stage for post-pandemic recovery. This will be important with a \$33.1B deficit and forecasting a return to balanced books, based on various scenarios, between 2027-28 and 2031-32. Prudently, the forecasts recognize continued uncertainty and future unknowns realistically indicating that these amount to a best guess based on a range of assumptions.

COVID-19 STILL DOMINATES

Managing the multifaceted elements of the pandemic continues to be the primary (by far) imperative for the government: continued personal and business restrictions, vaccination roll-out and the myriad support policies and programs. This means continued uncertainty inside government.

SHIFT TO ELECTION PARADIGM ALIGNS WITH REBUILD IMPERATIVE

While deficits have been identified as unsustainable, the taps are unlikely to be turning off any time soon and we can expect significant spending on core fundamentals like infrastructure,

health and education. However, this government has given strong signals that it is looking for high impact investments and ideas on creating better macro-economic conditions that will better enable private sector growth and competitiveness. The Finance Minister described the approach to rebuilding economic prosperity as being built "on a strong foundation for growth, not painful tax hikes or cuts."

With the federal government unveiling that the budget will be delivered on April 19 (the first for Deputy Prime Minister and Finance Minister Chrystia Freeland) and recognizing the increasing expectations for a federal election in the near future, it will be interesting to observe the federal-provincial political dynamics between Queen's Park and Ottawa - already strained with the vaccination ping-pong - over the coming weeks and months.

AGRI-FOOD

AGRISTABILITY MINI-REFORM

On March 25th the Federal Minister of AAFC indicated that [agreement](#) was reached by FPT Ministers to remove the Reference Margin Limit (RML) from AgriStability. The change will be retroactive to 2020. The Minister indicated this would amount to an additional \$95M/year. However, no agreement was reached on increasing the compensation rate from 70%-80% - a second element to the [proposal](#) tabled in late November. This is a small but important victory for the sector with expectations for further reform perhaps heightened (incremental in the short-term and significant in the longer-term).

CLIMATE POLITICS

Nearly simultaneously, the Supreme Court of Canada [ruled the carbon backstop constitutional](#) in 6-3 decision. While many in the agri-food sector will see the ruling as a [further risk to their business model](#) by [increasing production and input costs](#), others are contemplating the opportunities inherent in a federal policy environment that is anticipated to provide even greater incentives for [climate friendly initiatives and practices](#).

2. COMMENTARY: DISRUPTION

All-in-all, you couldn't make half this stuff up a year and a bit ago. Looking ahead, the future -- or what we have started to call the "next normal" -- is going to be quite different from the past; that is to say, forget about a return to pre-pandemic normal. The future of work; the future economy; the future of community; all in the face of housing insanity, significant fiscal pressures, and a polarizing political environment makes the disruptive forces pre-pandemic look rather tame in comparison. As we collectively move forward and try to sort out what this place we call Canada is, we would point to the agri-food sector as something to be optimistic and confident about - not because there are easy answers but because through the pandemic it has once again proven itself to be relatively resilient and stable through good times and bad. As we continue to talk to a broader array of stakeholders and businesses (this month Dunya Habitats - see below) in the agri-food space, it is heartwarming to witness the enduring passion, innovation and new ideas that will fuel another generation of global leadership and prosperity in the sector.

BUILDING BRIDGES

We recently spoke with [Sumi Shanmuganathan](#), the Chief Strategy Officer of [Dunya Habitats](#). We discussed the company's journey, the trials and tribulations of entrepreneurialism in agri-food and food policy in Canada. Sumi's insights into the challenges and future trajectory of entrepreneurialism in agri-food in Canada are particularly compelling. Sumi spoke with Michael Keegan on April 6th; the following is an edited transcript of their conversation.

MK: *Tell me a little bit about Dunya Habitats and your team.*

SS: Our aim is to decentralize the food system and really put power back into the hands of smallholder farmers and vulnerable communities - and to move the needle on that we want to scale our business and support one million growers around the world over the next few years.

We all believe passionately in our mission and the opportunity for us to be able to tie our family heritage of farming with the vision of decentralizing the food system to support local farmers and communities around the world. Dunya Habitats brings our family history together with this core mission.

In addition to myself the core leadership team includes my brother Sugeevan Shanmuganathan who is the Founder & CEO; Dr Shiv Sivapalan our Chief Operating Officer -- we're supported by a passionate team of social doers and advisors.

MK: *That is a significant challenge! How do you do that?*

SS: We know that smallholder farmers and vulnerable communities - over 800 million people around the world face starvation - struggle with accessibility, costs, and other social and economic challenges around food security. And those challenges will be made worse by climate change, pandemics, a myriad of disruptive technologies and persistent challenges from international inequity. The Dunya Habitat system is designed to address these challenges and strengthen local food systems.

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The Dunya tinyFarm system is IoT and AI enabled, creating efficient, sustainable low-cost healthy produce. Our climate controlled hydroponic system allows farmers to mitigate challenges, whether it be climate issues in sub-Saharan Africa, land and capital costs in India or accessibility and production capacity here in Canada's vulnerable urban communities or rural & remote communities - where we know some people are paying 3x times the national average.

What differentiates us from other controlled environment systems is that we provide a midsize, turn-key and automated system for folks who are not yet comfortable with this kind of production. The modular nature of the system allows you to grow or customize your production to your market needs. If you don't want to put in a big investment out of the gate, our design allows you to use multiple units and increase your square footage to match the stage you are at.

MK: You mentioned IOT and AI enabled data-driven systems - can you say more about that?

SS: Our system is enabled by an IOT Precision farming sensor interface - there are sensors within the unit that allows us to monitor your pH, level of humidity, water temperature, lighting and such. We are also able to manage and control remotely and to know what's going on in each module. Moving forward, our data collection capacity and AI platform will get better over time - and be able to predict and control when your harvest is going to be ready, what kind of nutrients are needed and to optimize what you produce.

MK: Entrepreneurship and innovation commercialization are being talked about as one of the key imperatives coming out of the pandemic for a return to prosperity. What have you learned and what advice would you offer people thinking about how to create the right conditions for entrepreneurship here in Canada?

SS: We've been at this for a couple of years and previous to that we started a number of other businesses so we have our share of scars and bruises. My advice is to be mindful of how much time and effort it takes to bring a start up business to a successful stage. You will need a strong support system, personally. For us as we bootstrapped the company, the support from our friends, family, advisors and a network of business contacts, the support was invaluable - from funding, to advice to moral support - it was all critical to making it through the rough days and inevitable challenges. Ultimately you have to believe in your product - we believe in what we're doing and I think that's what has kept us going.

MK: What's been your biggest headache?

SS: Funding. Starting a business in Canada is not the easiest thing. There is money available but it is often difficult to access and it comes with very prescriptive conditions. Compared to the US - the Canadian investment culture is very conservative. I think there is much more scope to take bigger calculated risks. And if we as a country or a province want bigger and better things, we are going to have to take bigger risks.

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There is still a gap in the seed funding stage as well - this is not a new problem. I think we need to develop better capacity for making connections - the start-up world is difficult to manage and having the right connections to, for example, an angel investor at the right time can be a game changer. But making those connections is one of the hardest things to navigate. On top of all that, there is not a lot of experience with agriculture and food start-ups in the investment community - it's not sexy (at least not yet) and it's difficult for many to understand the opportunities to then accurately balance against the inherent risks.

On the government side there is a lot more that can be done. While there is support for start-ups, it is often prescriptive or has onerous conditions that don't really recognize the bootstrapping nature of a start-up. I think they fail to recognize and accept the risks associated with investing and supporting new companies.

MK: I want to pick up on your comment about challenges in the investment space in regards to agriculture and food - I think you're right, but I also think that is changing. The Federal government has recently constituted a [food policy advisory council](#) looking at the food system - what would you tell them?

SS: Wow that's a big question. I guess I would start with "don't be too risk-averse". In my experience talking with funders in the US, I realized that we as Canadians are very conservative in terms of risk. Sometimes you just have to take the risk, to take that chance on a company or an idea and do what it takes to make it work.

In the private sector, we need to take on the cultural reluctance to invest in agri-food and the opportunities inherent in the 4.0 revolution; recognize that the returns in this space may take longer to realize, but the returns can be significant. And perhaps most importantly the ability to have an impact on the social, economic and environmental well-being of our local and global communities are substantial.

On the government side of things, we need to get to a place in policy and decision-making where there is a new mindset that if we don't take smart risks we are going to lose out on great companies and great ideas. The world is changing and decision-making and policy making haven't kept up. If we want to be a big player in agri-food - and we should - we need to start taking bigger and better risks.

For us at Dunya, that continues to be the core of our business and our passion.

MK: Amazing. Thank you.

3. BIG TROUBLE IN (NOT SO) LITTLE CHINA

Global politics in the foreseeable future will be dominated by a tightly contested power struggle between the United States and China. Canada has been caught squarely in the middle of this formidable superpower rivalry. The Trudeau government has been forced to balance relations with Canada's closest ally, neighbor, and the world's largest economy, the US, against commercial interests and relations with the second largest (and rising) global economy, China.

To put China's economic weight in perspective, it was the sole trillion dollar economy to see positive growth in 2020. China's economy is projected to grow another 8.1% in 2021 (the second fastest in the world, behind India), and is estimated to overtake the US as the world's largest economy by 2028 (5 years sooner than originally speculated).

So it does not bode well that Canada-China relations have deteriorated significantly since the arrest and extradition proceedings (by US request) of Huawei executive Meng Wanzhou. China followed that 2018 incident by arresting two Canadian CEOs in China. Four other Canadians received life sentences for drug trafficking (one case involving a "re-sentencing" after the Meng Wanzhou arrest). And more germane to ag folks here, China also (arbitrarily) suspended imports of canola oil, beef and pork from Canada.

Gone are the days of the special diplomatic relations with China forged in the early '70s by then-PM Pierre Elliott Trudeau. To China, the Meng Wanzhou arrest is seen as an arbitrary extension of US judicial jurisdiction by proxy, and a direct attack against a company of Chinese national pride. To China, Canada's actions demand response...not only to send a message to the Canadian government, but also to other countries around the globe -- particularly the US.

CHINA'S 'WOLF WARRIOR' DIPLOMACY

China's past foreign policy mantra of "hide your capacities; bide your time" has been supplanted under President Xi Jinping's leadership. China is now far more direct in asserting its influence, either by muscle (e.g., sovereignty confrontations in the South China Sea, Hong Kong, Taiwan, the Himalayas) or persuasion (e.g., China's Belt and Road Initiative, investments and loans in Africa, the Regional Comprehensive Economic Partnership Agreement).

This aggressive global engagement strategy has included exacting retribution against countries taking unfavourable positions regarding Chinese policy. The tactic of economic coercion is best exemplified by recent China-Australia relations. China took issue with a number of Australian government actions, including: hosting multilateral forums on the situations in Taiwan, Hong Kong and Xinjiang; calling for an independent investigation into the origins of COVID-19; banning Huawei from the 5G network; and blocking Chinese foreign investments in infrastructure and agriculture.¹

In response, China applied sanctions last year against thirteen Australian sectors, including coal, education, tourism and agriculture. Eight ag commodities have been the subject of formal or informal trade barriers. The highest profile amongst these is wine, with China applying over 200% anti-dumping duties on Australian wine imports last November. China is Australia's top destination

¹ Given Canada's affinity with Australia on human rights, security and foreign ownership matters, China's list of "grievances" is an instructive warning.

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for wine shipments (accounting for 40% of exports). The recent AD duties have tripled costs, with big players like Australia's Treasury Wine Estates (Penfolds and Wolf Blass) announcing a 43% drop in profits to start 2021 as a result.

CHINA'S VACCINE DIPLOMACY

It's not all "stick", however. China has extended its soft power globally by jumping far ahead of any other country in exercising 'vaccine diplomacy' during the COVID pandemic. Vaccine aid has reportedly been provided to 53 countries², mostly in the developing world. China produces about 33% of all the vaccine doses in the world, exporting about 62% of those. The second biggest global producer, the US (representing 27% of global production) has contributed 0% beyond its borders.³

With western vaccines seen as being reserved for western (rich) countries, China has effectively seized a PR opportunity by filling a critical need.

US POLICY TOWARDS CHINA

The Biden Administration has rightly looked upon China as its top foreign policy priority. Given the hostile narrative concerning China in Washington DC over the last four years, it could hardly do otherwise.

Astutely, the new US Administration nominated Katherine Tai to the role of US Trade Representative, confirmed by unanimous consent of the Senate. She is the first Biden nominee to receive full bipartisan approval -- not surprising given Tai's reputation in Washington DC corridors as a trade specialist and adept consensus builder. She is former chief trade counsel to the powerful House Ways and Means Committee, and hailed as the architect to securing labour union (and Democratic) support in conclusion of the USMCA. Ms. Tai led several successful prosecutions of WTO cases against China, speaks fluent Mandarin and previously worked in China as a teaching fellow.

The Biden Administration got to work early on a China policy, sending the new US Secretary of State, Anthony Blinken, on tour in the Asia Pacific in mid-March to reassure alliances. The Administration then hosted a high profile bilateral meeting in Alaska between top US and Chinese officials, led by the Secretary of State. The best short-hand description of the meeting would be a rutting clash between two bighorn sheep -- intensity from both sides, and no backing down.

As much as China has grown in confidence and international presence recently, so has US domestic politics left its mark on the country's international stature. Pronounced episodes involving internal social and political divisions over the last four years, combined with the previous US Administration's 'America First' approach to international relations, has tarnished the US mantle of leader of the free world. The impact on the US' global moral authority remains to be seen.

² Recipient countries are located in the Asia-Pacific, Middle East, Africa, Caribbean, South America, and Eastern Europe.

³ Although on March 22nd, the US did offer to send around 4 million total doses of the Oxford/AstraZeneca vaccine (not yet authorized in the US) to Canada and Mexico. The US also committed to partner with Australia, India and Japan -- the so-called Quad -- to produce 1 billion vaccine doses for countries in the Indo-Pacific.

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The severe policy actions by China affecting democratic human rights, but also (and perhaps more importantly) US commercial interests, have locked in hardened positions in Washington DC. The Biden Administration's commitment to host a Summit of Democracies is likely to further polarize relations, with its overtones of an exclusive club created specifically to counter China.

The power struggle between China and the US was sparked by the policies of the last Administration, but are likely to continue and dominate in the near future.

CANADA BETWEEN A ROCK AND A HARD PLACE

Canada's course in the midst of this stark geopolitical contest is set. Certainly, Canada must weigh how best to engage China in the context of expanding political, economic and technological clout. But its deep historical ties and affinity with western principles form the overriding default position. Is it possible to navigate both considerations?

In 2016, the Federal Government devoted significant resources to the prospects of a Canada-China trade agreement, including an early country visit by the Prime Minister. By 2020, however, the Federal Government announced that what was once a priority of the Prime Minister now needed to be shelved. China's mass incarceration of Muslim Uyghurs, continued militarization in the South China Sea, tightened autocratic grip on Hong Kong, arbitrary arrest of the two Canadian CEOs, and chaotic trade disruptions involving canola, soybeans and beef/pork exports -- all have made normalized commercial ties with China impossible.

This has implications for Canada's future trade aspirations, certainly. China remains Canada's second-largest trading partner after the US, followed by Britain, Japan and Mexico. The 2016 Barton Report fired the imagination of Canada's ag world by audaciously suggesting that Canada should aim to boost its agricultural exports to \$75 billion by 2025, a 36% jump from 2015 levels. With four years still to go, Canadian agri-food exports have topped \$70 billion.

Canadian capacity clearly exists, however untapped, as does international demand as identified in the Barton Report. What the report's ambitious assessment of growth potential didn't adequately factor in were the unknowns related to global political interference. The report is very realpolitik, assuming moral blinders can be affixed to demarcate commercial pursuits from political positioning.

The reality is that Canada's moral compass on such matters as equality, due process, democratic rights and principles will always point in favour of the US over an autocratic China. This tension is unavoidable.

It means a high degree of risk attached to any future attempts by Canadian exporters pursuing commercial interests in China. The current Chinese government has made it clear that in the face of unwelcome policies or criticism by foreign governments, retaliation in some form is a surety. And the Chinese government has many levers at its disposal.

For those with the fortitude to pursue commercial opportunities presented by the vast Chinese market, it means proceeding in an environment of limited predictability, where resort to Plan B or C is more probable than not.

4. SELECTED READING LIST

[The trillion-dollar woman.](#)

A conversation with the economist Stephanie Kelton about the “deficit myth,” Modern Monetary Theory for dummies, and why the age of capital may finally be ending.

By Anand Giridharadas. Substack. March 30, 2021

[New round of inflation fears as investors demand higher rates.](#)

Spring home-buying binge adds risk to worries overcoming rise in borrowing costs.

By Don Pittis. CBC News. March 31, 2021

[How to make a social safety-net for the post-covid world.](#)

Governments must remake the social contract for the 21st century.

The Economist. March 6, 2021

[Want More Housing? Ending Single-Family Zoning Won't Do It.](#)

To add more affordable “missing middle” homes, cities need to change parking requirements and limits on building and lot size, too.

By Emily Hamilton. Bloomberg. July 29, 2020

[Scarcity and Ethics.](#)

The pandemic is offering a crash course to wealthy countries on dealing with problems they can't buy their way out of.

By Malka Older. Foreign Policy. March 12, 2021

[Budget 2021 Recommendations.](#) A Down Payment for a Resilient and Low-GHG Farm Future \$300 million to reduce agricultural GHGs by 10 Megatonnes and lay the groundwork for widespread adoption of climate-friendly farming in APF 2023.

Farmers For Climate Solutions. 2021

[The Power of Soil.](#)

An Agenda for Change to Benefit Farmers and Climate Resilience.

By Groupe Ageco in collaboration with Équiterre and The Greenbelt. February 2021

[The Farming Lobby's Cunning Plan to Fight Climate Change—and Regulation.](#)

The American Farm Bureau Federation has recast itself as a climate warrior, pushing for private offset markets relying on the fraught science of soil sequestration.

By Charlie Mitchell. The New Republic. April 2, 2021

[The Innovation Imperative:](#) Why Canada needs to prioritize scale-ups in the face of Big Tech's dominance.

Scale-ups are well positioned to advance through the recovery and be a main source of net job growth.

By Steven Denney and David Wolfe. The Financial Post. March 24, 2021