POLICY BRIEF
October 2023

THANKSGIVING OR HALLOWE'EN - FOOD PRICE FEAR

For food companies anyways, this October is fashioned more after Halloween than Thanksgiving.

With a permanent semi-election campaign pervading Ottawa the tradition for celebrating the fall season has turned into an annual call to major grocer CEOs to explain the high costs of foodstuffs.

It is self-evident that the affordability crisis endures, with real pain continuing to be felt across a broad basket of everyday essentials from gasoline to housing and of course at the grocery store.

But the recent focus on finding blame for the food affordability crisis seems somewhat forced – some might say manufactured. It is certainly not as acute as say a year ago (see MK&A's policy brief from this time last year).

Food prices continue to outpace the rate of inflation in Canada, with the national inflation rate at about 4% in August 2023 while food prices registered a 6.8% increase over the same month last year. However, those prices have steadily declined since January, suggesting that the fire may be on track towards extinguishing itself – critically, without Ottawa's intervention.

THE POSTURING

The politics around this complex file (like many in this age of the "polycrisis") are not conducive to patience and wisdom.

Both the NDP and the PC have been hammering the federal government for perceived "inactivity". And with the Liberal poll numbers in worrying decline it was perhaps inevitable for the Prime Minister to task major grocery chains to come up with a plan to stabilize food prices – or else the government would take action of its own. Dutifully, executives from Loblaw, Metro, Empire, Walmart

Food Price Increase Percentages in Canada (Sept. 2022 - Aug. 2023)

and Costco[1] met with Industry Minister François-Philippe Champagne and Finance Minister Chrystia Freeland in Ottawa late September, agreeing to work with the federal government on stabilizing food prices by Thanksgiving.

After the meeting Minister Champagne acknowledged that the system leading to high food prices was “complex”. Although purportedly in the works, as yet, no specifics have been released on a coordinated plan of action.

POLICY OPTIONS

High food costs are a global phenomenon, the common culprits being extreme weather, crucial workforce gaps in the aftermath of the pandemic, war in the European heartland – that is to say all the familiar horseman of the post-pandemic apocalypse — each impacting production, sourcing and distribution worldwide. All governments are sifting through their policy utility belts in search of any solution, and ideally, quick.

In France, a country that takes its food more seriously than most, the Macron government has recently implemented three measures to temper food inflation.

First, legislation is being introduced to accelerate set annual price negotiations between manufacturers and retailers, requiring negotiations to take place this Fall instead of early in 2024 as scheduled. This is meant to bring about noticable price reductions at store shelves by January.

The second measure is a cap on the sales prices of some 5,000 products, or about a quarter of retail at an average supermarket. In July, the major grocers agreed to cap some 1,500 products, but the list is to be expanded by decree and monitored by the French General Directorate of Consumption and Anti-Fraud (GDCAF). The French government also plans to make it mandatory that retailers immediately pass price cuts by manufacturers on to consumers, again to be overseen by the GDCAF.

Finally, the French government has employed a strategy of ‘shame and blame”, explicitly accusing some foreign multinationals — such as PepsiCo, Nestlé and Unilever — of not doing enough to fight

1. The five companies make up roughly 80% of Canada’s grocery market.

food inflation, while pointing to pasta brand Barilla and oil producer Avril as better allies.

The French supermarket chain Carrefour has followed suit, alleging that companies like Procter & Gamble, Henkel and Unilever are continuing to increase margins at the consumers' expense. Carrefour has put up signs at its store shelves warning of product "shrinkflation" - the notion that product packaging is reduced in size or lightened in weight while product price remains stagnant or increases. Lipton, Lindt & Sprüngli and Nestle (baby formula) are among the companies being targeted by these consumer warning stickers.

In the wake of these developments, industry experts worry about the unintended consequences of such interventions. In particular are concerns of the long-term impacts of fractured or poisoned relations between food manufacturers and grocery retail with long lasting repercussions.

IMPLICATIONS FOR CANADA

There is no doubt that the Canadian federal government is monitoring developments in Europe and elsewhere closely. However, Canada does not have the same policy tools currently in place to directly regulate product pricing, and there would likely be tricky impediments to attempting to do so.

A multitude of voices have pointed to the usual list of other potential government remedies: restrict the application of the carbon tax, reduce interprovincial trade barriers, diversify trade away from the US. Notwithstanding the merits or challenges of any of these remedies in a broader context, it is clear that none of these options would provide noticeable relief at the cash register anytime soon – even if implementation were to be achieved expeditiously.

Canada's dependence on US food imports merits further comment. One of the greatest impacts on Canadian food pricing is the exchange rate with the US. Canada's proximity to the US, it's almost singular dependence on American food imports (especially in winter), and supply chain efficiencies that have been built up after years of the NAFTA and now CUSMA trade agreements — these are cemented realities on which the government has little influence. The oscillations of the Canada/US exchange rate is the price of doing business in North America.

If talks with food industry representatives do not progress sufficiently, perhaps the best option on the table for the government interested in maximizing political appeal (and limiting unintended consequences) is the strategy of 'shame and blame' — likely a communications effort to coerce food companies to stabilize or reduce certain food costs. It is conceivable that the government would resort to something akin to France's 'shrinkflation' signage at grocery shelves, along the lines of the tax information signs demanded by the Ford government at provincial gas retail.

Forgotten in all this finger pointing: most food manufacturers and retailers are comprised of publicly traded entities that must navigate the competing dynamics of customer, general public, government, and shareholder scrutiny to remain sustainable within a highly competitive (and population limiting) marketplace. There has been no irrefutable finding of egregious profiteering by the food industry[2], but the fact of profitability alone is now suspicion enough.

Food manufacturers and food retail should be very cautious in the coming months, since finding an entity to blame in order to focus the ire of public sentiment away from government is the paramount imperative. Government doesn't have the policy tools to offer a quick fix. That means industry must assume a prominent role in devising a solution to the high cost of food goods, willingly or not.

2. Most studies show no increase in the percentage of profit to sales for the major food retailers. Where there has been a noticeable increase, it has been more a function of increased sales in areas other than food (drugs, cosmetics, gasoline) as these companies diversify their structures.