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OPINION

Canada's grocery industry needs a code of conduct

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Daniel Hernandez Vargas, right, shops for groceries in Simcoe, Ont., on Sept. 4, 2020.

BRETT GUNDLOCK/THE NEW YORK TIMES NEWS SERVICE

Major Canadian grocers in Canada are at it again.

Loblaw told its suppliers in a letter leaked to the media last week that they will soon face new fees to support a \$6-billion plan to improve its in-store and digital operations. Over the summer, Walmart and Metro announced similar moves, stating similar motivations. Sobeys, the only big chain left, if you exclude Costco, said it will not be following its rivals.

Michael Medline, the chief executive officer of Sobeys parent company Empire, called the moves “repugnant,” adding he’s now in favour of regulation of the industry. It’s about time.

These bully tactics have been in place for years. Grocers’ justifications have ranged from mitigating climate change and implementing new recycling systems to following new packaging rules. This time, the reasons cited largely revolve around e-commerce, given our pandemic-induced appetite for more food deliveries. Indeed, digitizing food retailing will be a priority as we come out of COVID. But simply put, it’s supply-chain bullying.

The tone of Loblaw’s letter, which argued the company is protecting consumers from higher food prices by implementing new fees, was telling. The message has been consistent over the years as grocers have always positioned themselves as the guardians of affordable food for consumers.

But the true cost of these measures is an increasingly weakened food-manufacturing sector and the slow disappearance of independent grocers. Since 2012, the sector has lost more than 40,000 jobs owing to plant closings and lack of investment. Margins have become razor-thin, making it ever more challenging to justify any further investment in Canada, whether it is a multinational company looking at increasing its footprint in Canada, or smaller, family-owned operations trying to build their business.

Maple Leaf Foods – of all companies – just built a \$300-million plant in the United States to support its newly established plant-based products division, and many of the ingredients used at the facility come from Canada.

Food manufacturing is really the centerpiece of our entire agri-food sector and it is slowly eroding because of all of these measures. Without a strong processing sector, farmers must look abroad for opportunities, which in turn increases the chances of seeing more imported products on our grocery shelves.

Typically, manufacturing is where most of the innovation and growth come from in the food sector. Domestic research supported by the private sector to develop groundbreaking ideas has been gutted over the past few years. As a result, more food innovation is being imported into Canada in recent years when it should be the other way around.

Measures by the larger chains are also affecting the ability of independent grocers to offer unique and often locally produced products. Major grocers are offloading costs on to suppliers while smaller, independent grocers must cover such costs themselves.

Independents are typically more receptive and inclined to sell locally grown or locally designed food products.

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Many of our entrepreneurs in the food sector get their only chance by dealing with independents. The dominating oligopoly in Canada in food retail will only further its position and threaten the ability of independents to stay in the game.

According to the Canadian Federation of Independent Grocers, the net profit for each store in Canada before taxes was 1.5 per cent of sales. That percentage is close to what Loblaw is asking its suppliers to pay in addition to existing fees. As such, instead of seeing food prices drop, as some major grocers are claiming, we could see the opposite happening.

Before COVID-19, fewer than 40 per cent of independent grocers were offering e-commerce. That percentage is likely to rise, but unlike the major grocers asking suppliers to foot the bill, independents are on their own.

One solution being presented these days is the creation of a code of practice between suppliers and grocers.

Under such a code, a grocer would be required to deal with its suppliers fairly and lawfully. This is certainly subject to many interpretations, of course. But if such a code existed in Canada, Loblaw's letter would not be compliant, at least in spirit.

Empire's Mr. Medline recently said the company now supports the idea of a code, as long as it imposes fair-dealing rules on both retailers and vendors.

Both Quebec and British Columbia have shown some level of interest in implementing a type of code, as the United Kingdom and Australia have done, but discussions have been informal, at best. The federal government, on the other hand, which could certainly provide some leadership, has so far opted not to look at this complex issue.

But indeed, it is complicated and the risks in implementing such a code are real. An ill-designed code could entice grocers to go south and procure products from the U.S. or elsewhere, making the problem worse. But we have now reached a point where a solution is needed. Otherwise, we will eventually import many more products, hampering the agri-food sector's ability to grow.