

Opportunities for Ontario's Agri-Food Sector:

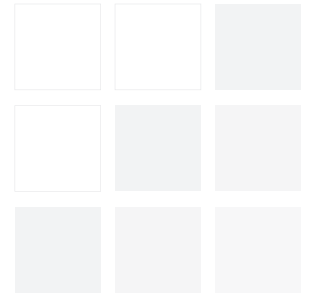
THE MINISTER'S STRATEGIC ADVISORY COMMITTEE REPORT

Report to the Ontario Minister of Agriculture, Food and Rural Affairs

MINISTER'S STRATEGIC ADVISORY COMMITTEE

March 8, 2007

Message from the Chair



I am proud to present this report on behalf of the Minister's Strategic Advisory Committee (MSAC).

Each of the 16 MSAC members understood that Ontario's agri-food sector was undergoing a profound transformation. Each member also recognized the fundamental importance of developing a strategy that addresses the rapid and significant change happening in global agri-food. Accordingly, the recommendations that follow are intended to enhance the Ontario agri-food sector's ability to innovate, while also ensuring that citizens continue to be provided with the high-quality products that they have come to expect.

The Committee was dedicated to continuing the catalyzing work started at the previous two Premier's Summits on Agri-food. Working within a stringent timeline, the Committee focused its attention on future opportunities and challenges related to the bioeconomy, branding and marketing, the regulatory environment, institutional purchasing of agri-food products and organics/niche markets. Subcommittees were formed to focus the considerable expertise of the committee members on these topics. As a result, each subcommittee was able to quickly arrive at a list of pragmatic recommendations that will provide immediate, tangible benefits to provincial agri-food stakeholders.

I must express my gratitude to my colleagues on the Minister's Strategic Advisory Committee who gave generously of their time, energy and wisdom. I would also like to acknowledge the support of the staff at the Ministry of Agriculture, Food and Rural Affairs. Their efforts allowed the Committee to realize its objectives.

The members of the Minister's Strategic Advisory Committee hope that their efforts will lay the groundwork for the future success of Ontario's agri-food sector.

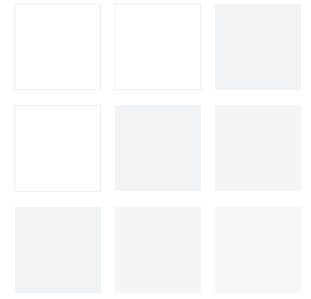
Rita Burak

Rita Burak
Chair
Minister's Strategic Advisory Committee

Table of Contents

Message from the Chair	1
Table of Contents	2
Committee Background	3
Bioeconomy	7
Background	7
Recommendations	8
Organics/Niche Markets	11
Background	11
Recommendations	12
Branding/Marketing	15
Background	15
Recommendations	17
Regulations	18
Background	18
Recommendations	19
Other: 'Buy Ontario' Procurement Policy	22
Background	22
Recommendations	23
Appendices	25
Appendix I: Minister's Strategic Advisory Committee.....	25
Appendix II: Terms of Reference for Minister's Strategic Advisory Committee	26
1. Background	26
2. Mandate	26
3. Roles and Membership	27
4. Meetings and Timelines	27
5. Secretarial Support	28
6. Remuneration	28
7. Procedures.....	28

Committee Background



This report represents the culmination of a process that began in 2004.

During the past decade, the agri-food sector has been faced with unique and serious challenges that resulted in declining farm incomes for certain commodities. These challenges include increased global competition, trade barriers and higher expectations on the part of the general public. Combined with the agri-food sector's traditional risks, such as managing plant and animal diseases and climate, these challenges have caused the sector to re-evaluate its traditional markets and business strategies so that sustainability and viability can be increased. Recognizing the seriousness and complexity of this situation, the government committed to consulting stakeholders to help identify strategies that would bolster the long-term prosperity of Ontario's agri-food sector.

In July 2004, the Ontario Ministry of Agriculture and Food tabled a new vision for the agri-food sector. *Providing Solutions* was a consultation document designed to compel stakeholders to consider the integral role that a robust agri-food sector plays in Ontario's economy. Moreover, *Providing Solutions* launched a discussion of the sector's potential to provide innovative solutions that bolster environmental protection, ensure safe, nutritious food, promote the bioeconomy and support the health and well-being of Ontarians. During the consultations that took place throughout that summer, it became clear that leadership from 'farm gate to dinner plate' needed to assemble if meaningful progress was to be realized.

The inaugural Premier's Summit on Agri-food was held on December 9th, 2004 in Toronto. Three critical issues emerged during this meeting. First was the need to recognize the financial challenges facing primary producers in Ontario. However, it was also agreed that success would stem from the shared ability to look beyond the immediacy of today's issues and instead focus on identifying future challenges and opportunities. Second, there was a desire to re-assert the Ministry's commitment to leading the sector through a process of transformation. Third, there was widespread acknowledgement that the government had a crucial role to play in facilitating the development of an industry vision. At the culmination of the inaugural Summit, the Premier asked the advisory committee that had overseen the design and execution of this event to turn their efforts towards crafting an industry vision.

Throughout 2005, the Premier's Summit Advisory Committee was committed to creating a vision for Ontario's agri-food sector. A strategy was identified and extensive stakeholder consultations took place through the summer. The Premier's Summit Advisory Committee unveiled its vision at the Second Premier's Summit on Agri-food, which was held at Queen's Park on February 8th, 2006. The vision stated:

Ontario's agri-food sector will be innovative, sustainable and provide opportunity for profit for all participants. We will be globally competitive and the supplier of choice in Ontario by responding to consumer needs and contributing to provincial prosperity, the environment and the health of citizens.

Supporting Statements

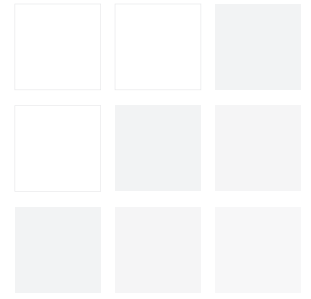
- Making innovation a competitive cornerstone;
- Maximizing our market position;
- Fostering dynamic strategic alliances across the value chain;
- Successfully managing economy and ecology;
- Conserving Ontario's rural heritage and landscape; and,
- Winning the full appreciation and understanding of Ontario society.

During the morning session of the second Summit, industry leaders addressed the opportunities available to the sector related to innovation, strategic alliances across the value chain and winning the full appreciation and understanding of Ontario society. Participants identified a number of vision-supporting actions that required further analysis and prioritization.

At the conclusion of the second Summit, the Honourable Leona Dombrowsky, Minister of Agriculture, Food and Rural Affairs, announced her intention to convene a Minister's Strategic Advisory Committee. Recognized leaders, representing the scope and diversity of the sector, would comprise the membership of this committee. Their primary task was to recommend implementation strategies for the action items identified at the second Summit.

In the time since the second Summit, the Minister's Strategic Advisory Committee has made remarkable progress. The ideas and recommendations captured in this report will ensure that Ontario's agri-food sector remains at the forefront of innovation and continues to provide answers to the most pressing concerns facing Ontarians.

Description of the MSAC Approach



From the Committee's inception, members of the Minister's Strategic Advisory Committee understood that their work would be governed by three factors. First, the Committee was operating within the constraints of a delineated mandate. Rather than devoting their efforts to immediate concerns, the members of MSAC were directed to consider future opportunities and challenges as they related to:

- the province's emergent bioeconomy;
- Ontario's organic/niche markets; and
- the branding and marketing of Ontario foods.

Each of these topics was initially discussed at the second Premier's Summit on Agri-food in February 2006. Beyond these three areas of interest, the Committee also wanted to consider the regulatory issues affecting the competitiveness of Ontario's agri-food sector and the institutional purchasing of food by the Government of Ontario.

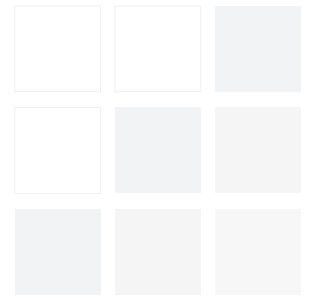
In addition to the topics identified above, MSAC provided guidance on the implementation of a Verified Health Quality (VHQ) strategy, the 2006 OMAFRA Outlook Conference and the Premier's Awards for Agri-food Innovation Excellence.

The tight timelines provided the second constraining factor for the Committee. Accordingly, an agreement was reached to create sub-committees to analyze and report back on the topics outlined above. This afforded MSAC the chance to align the considerable capability of its members with the expertise required to comprehensively analyze issues in an efficient and expeditious manner. This organizational structure provided an opportunity for MSAC to identify impediments, potential partners and alternative approaches. The Committee also provided sub-committees the opportunity to consult relevant stakeholders where appropriate. The Organics/Niche Market sub-committee held a roundtable discussion with the Ontario Organic Council, and Chair Rita Burak solicited industry groups to provide feedback on pertinent regulatory issues.

Thirdly and most importantly, the Committee was expected to provide practical and tangible deliverables.

In addition to the recommendations contained in this document, MSAC would like to recommend that the government implement a means of tracking the progress that has been made towards realizing the goals and objectives identified in this report. The Committee also recognizes that some of these recommendations have fiscal implications for the provincial government. MSAC therefore suggests that, if these recommendations are accepted, consideration should be given to financing these initiatives through an incremental increase to OMAFRA's budget.

The following pages constitute the recommendations of the Minister's Strategic Advisory Committee.



BACKGROUND

In an era when Ontario's agri-food sector is committed to transformation, few opportunities possess as much exciting potential as the emerging bioeconomy. Primary producers are eager to wed their high-quality products to the cutting edge innovations being developed in the fields of biochemicals, bioenergy, biomaterials and biopharmaceuticals.

Green Power: The Swedish Example

By 2020, Sweden intends to have broken its dependence on oil and other fossil raw materials. The impact of oil on Sweden's economy, global security and climate change motivated the government to implement a plan to become the world's first oil-free country. The immense potential of the country's untapped renewable energy resources means that the bioeconomy will figure prominently in this plan.

Sweden is already Europe's leader in the field of renewable energy with fully 28 per cent of its energy derived from green sources. This total will be increased by promoting energy efficiency and managing energy demands.

Accordingly, significant investments have been made in the bioeconomy. For example, Göteborg Energi AB recently unveiled a process to gasify local low-grade biomass with the capacity to produce enough biogas for 75,000 cars. Furthermore, the government also set aside 300,000-500,000 hectares of disused, non-afforested farmland for the production of energy crops.

Investments were also made in the bioeconomy-specific infrastructure. This included creating the logistics and technology needed for handling and transporting waste products and different types of plant/animal material.

To further entice the participation of companies looking to produce biofuels, energy taxes were set on a long-term basis, making them predictable.

If realized, the bioeconomy promises to satisfy a number of important commercial, social and environmental objectives. A mature bioeconomy would anchor the economies of Ontario's rural and northern communities. Moreover, at a time when society is increasingly concerned with environmentalism, the prospect of replacing non-renewable petroleum-based inputs with renewable non-food biobased inputs is highly desirable. New markets would be created for plant and animal-based materials.

Perhaps most importantly, a robust bioeconomy would see the province's agri-food and forestry sectors converge with the traditional manufacturing sector. For producers, the bioeconomy has the potential to be a mechanism for increasing on-farm revenues.

Ontario has the necessary conditions to see the bioeconomy come to fruition. There is an abundance of raw agricultural commodities and forestry biomass ready to be converted to renewable feedstocks. Most of this material is within one day's drive of manufacturers. Moreover, key manufacturing industries have also seen their markets soften. They are now actively seeking cost-effective, environmentally, friendly alternatives to bolster their fortunes.

To ensure that Ontario's bioeconomy continues to develop, MSAC is making five recommendations that have the potential to attract private investment and make the sector more responsive to market indicators. It should be noted that these recommendations are starting points for further in-depth analysis of options, stakeholder roles and costs.

RECOMMENDATIONS

With regard to the future of Ontario's bioeconomy, the Minister's Strategic Advisory Committee recommends the following:

1. OMAFRA should seek targeted funding for a bioeconomy institute specifically dedicated to the agri-food sector

Although the Government of Ontario has recognized the potential of the bioeconomy and has committed considerable resources to its general development, MSAC has identified a specific opportunity to further ensure that the agri-food sector is positioned to capitalize on ongoing developments.

Recently, the province dedicated \$160 million to funding research and innovation projects. However, this is a generic fund, and not specifically targeted at bioeconomic or agri-food projects, although projects may become eligible on a case-by-case basis. There is little doubt that competition for these funds will be fierce. Many agricultural and rural stakeholders are concerned that some of the criteria needed to secure funding (e.g. the ability to quickly access the global marketplace) will preclude their eligibility. It therefore may be prudent to create an agri-food focused bioeconomic research centre that is funded outside of existing government programs. Although such an establishment would require a physical home, the examples of the Advanced Food and Materials Network and MaRS Landing illustrate that it is possible for such agri-food research institutions to function effectively in a 'virtual' environment.

Charged with a mandate to investigate new plant varieties and bioproducts, this institution would have the potential to increase interaction between researchers and industry. New relationships between producers, processors, manufacturers, rural communities, researchers and investors would be fostered. Moreover, a single entry point for navigating the regulatory pathway would be created.

2. Remove the regulatory hurdles that foil the implementation of innovative bioeconomic projects

MSAC believes that regulatory barriers are compromising Ontario's competitive advantage in the bioeconomy. Unless efforts are made to redress these regulatory issues, the province runs the risk that investors will pursue opportunities to implement innovative projects in other jurisdictions.

Promising ventures that use biomass are being discouraged by the inability of regulations to keep pace with technological progress. For example, Regulation 347 of the Environmental

Protection Act, 1990 classifies as waste all by-products and/or residual materials that would normally be sent to landfill. Therefore companies that use off-site by-products as inputs for bioeconomic activities are regulated as waste disposal sites. It is prohibitively expensive to satisfy this regulation and many stakeholders are pursuing options in alternative jurisdictions.

To effectively identify regulatory impediments that discourage the growth of bioeconomic activity, a multi-ministry, multi-stakeholder working group should convene to analyze this issue. This horizontal approach will allow the group to spot the barriers that can be quickly addressed. There are secondary benefits to be realized from pursuing this strategy. These include increased understanding between stakeholders and the creation of a forum that offers a regular opportunity to find common ground between decision-makers and stakeholders.

3. Raise the stakeholders' awareness of opportunities being created by the bioeconomy

Ontario's bioeconomy is still in its relative infancy. In order for the bioeconomy to increase its capacity, the free and abundant exchange of pertinent information must be made paramount. This dialogue must include members of the farm sector, leaders of rural communities and other potential players, in addition to the current roster of bioeconomic proponents. When the range of economic possibilities posed by the bioeconomy is fully realized, future stakeholders will include Chambers of Commerce, financial institutions and the manufacturing sector as well as the agri-food sector.

However, MSAC recognizes that this will only be achieved by disseminating reliable information. To this end, it is recommended that the Government of Ontario collaborate with existing government-funded organizations to promote the exchange of information. By harnessing the collective wisdom of provincial organizations, such as Ontario Agri-Food Technologies, BioEnterprise, MaRS Landing, Soy 20/20, Regional Innovation Networks (RINs) and Ontario's post-secondary institutions, it will be possible to identify gaps in the current understanding of the bioeconomy. Similarly, a roster of speakers and experts on bioeconomic issues can be assembled.

4. The Government of Ontario should facilitate innovation with improved investment and taxation policies

If the development of the bioeconomy in Ontario is to keep pace with advancements taking place in the European Union and the United States, it is crucial that the Ontario government provide targeted support which enhances the province's competitiveness and attractiveness to investors.

A comprehensive environmental scan/literature review of the policies and programs that leading jurisdictions have implemented to support the bioeconomy is an obvious starting point. This analysis would afford decision-makers the opportunity to develop the strategies that would be most applicable to fostering bioeconomic activities in Ontario.

On the one hand, stakeholders are yearning to understand the correlation between financial incentives, procurement policies and bioeconomic growth. Other jurisdictions offer tax credits for bioeconomic production, processing and research. It may be possible to modify government

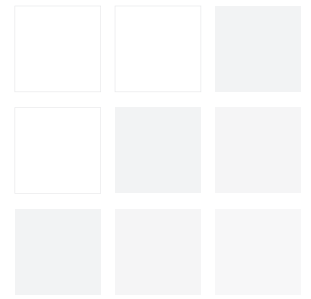
procurement policies to promote biobased purchasing. Possible transition funding for primary producers who switch to bioeconomic crops also merits consideration. On the other hand, government must mitigate the regulatory hurdles that stymie the implementation of innovative projects. New regulatory recommendations could include streamlined policy, procurement directives, taxation policy and research credits.

5. Government should encourage the generation of green energy among agri-food stakeholders

The generation of green energy holds significant promise for Ontario's agri-food sector. Whether it is using renewable energy to offset costs or generating green energy from current waste, there is considerable appetite among stakeholders for the government to implement a green energy plan. To realize the full possibilities of such a plan, the government needs to ensure that green energy knowledge (e.g. information about biodigestion) and OMAFRA's technical and engineering expertise is easily accessible to stakeholders.

To create business conditions that encourage stakeholders to implement green energy plans, MSAC also wants to see the mitigation or removal of regulatory barriers that currently prevent farmers from producing green energy on-site. Similar actions are also required for the regulations that govern connecting generation devices with transmission lines. MSAC also sees value in the government examining the impact of financial incentives for producers and processors who pursue green energy options.

Organics/Niche Markets



BACKGROUND

Although organic products represent a small percentage of total agricultural sales, there remains notable growth in this area. The United States Department of Agriculture has noted that since 1990 this sector has grown between 15-20 per cent annually. Most importantly, the premiums being paid for organic products are attracting a growing number of participants to this sector. To fully understand the opportunities and challenges facing burgeoning niche markets, the Minister's Strategic Advisory Committee analyzed the maturation of organics. In the process, MSAC formulated a number of recommendations that will

enhance organic production in Ontario and assist other niche markets as they develop. It should also be noted that the potential to replace millions of dollars worth of imports with domestically produced goods underlies each of these recommendations.

Fuelled by consumer lifestyle and concern for the environment, the demand for organic products is increasing throughout the world. Today, organic food is a \$14 billion a year industry in North America. Global organic food sales totalled approximately \$30 billion (USD) in 2005 or approximately eight per cent of all global food commodity sales. Most predictions forecast an average annual sales growth rate of between 15-20 per cent that will continue through 2010. Although the majority of these sales are concentrated in Europe and North America, numerous indicators point to surging demand across the globe. Using data from ACNielsen, the Canadian Food Inspection Agency estimates Canada's organic food market to be worth approximately \$974 million (CAD). Only 6.5 per cent of this total is exported, primarily to the United States and Europe.

During the 1990s, the number of organic farms in Ontario tripled, as producers were lured by market

Halal: From Niche Market to Next Major Trend

Once a niche market, organics has evolved into a component of the mainstream. Halal is one of a number of other niche markets that are poised to follow a similar transition.

McDonald's, Nestlé, Tesco and Wal-Mart are among the growing list of corporations looking to provide halal-certified food to a rapidly growing Muslim population in North America and Europe. With a global supply chain estimated to be worth \$581-billion (USD) and incorporating a quarter of the world's population, it is safe to say that halal food has not yet reached its potential. Recent estimates indicate that Muslims account for approximately 16 per cent of the North America's annual \$100-billion (USD) kosher market.

According to Islamic Services of America, the market for halal products for North America's eight million Muslims is projected to grow 25-30 per cent annually over the next seven years.

Al Safa Halal in Cambridge has become a leader in the production of halal meats and frozen entrees. As North America's largest producer of halal products, Al Safa Halal products are available in each province in Canada and each state in the U.S..

growth and the premiums paid for organic inputs. For example, gross margins for organic soybeans are \$340/ac compared to \$70/ac for conventional soybeans. Organic corn pays \$262/ac compared to a loss of \$19/ac for conventional corn. As of 2003, the 487 certified organic farms in Ontario comprised the fourth largest organic sector in Canada.

During the discussions of MSAC's organics/niche markets sub-committee, consideration was given to the emerging niche markets that are poised for significant growth in the near future. There was recognition that today's social movements (i.e. local/sustainable agriculture) and emerging ethnic markets have the potential to enter the mainstream just as organics did.

To ensure that Ontario's organics sector and niche markets continue to grow, MSAC is making seven recommendations that will promote ongoing development. It should be noted that these recommendations are starting points for further in-depth analysis of options, stakeholder roles and costs.

RECOMMENDATIONS

With regard to the future of Ontario's organics and niche markets, the Minister's Strategic Advisory Committee recommends the following:

1. OMAFRA should support, adopt and champion the implementation of the federal organics standard

With the passage of the Canadian organics standard on December 21st, 2006, MSAC believes that the ministry must now advocate for implementation of the federal organics standard. Each province will be required to analyze the impact of intra-provincial trade of organic products on its producers and the associated resource implications. In order to assess the possible implications for Ontario producers, the province, in cooperation with relevant stakeholders, should conduct a thorough review of the new federal standard.

The Minister should ensure that the concerns of organics producers are heard during federal/provincial negotiations.

2. The Government of Ontario should undertake a comprehensive analysis of the organics sector and other niche markets to identify opportunities for continued growth

The organics sector in Ontario is currently limited in its ability to identify and capitalize on opportunities because of the lack of a comprehensive sector profile. Although organics has shifted into the mainstream, many viable organic markets have remained outside of the conventional retail sector. With an accurate sector profile, OMAFRA can improve the allocation of its resources (e.g. research, technology transfer and marketing) when and where the marketplace will reward organic practices.

A comprehensive sector profile will arm producers and processors with the knowledge needed to better inform their business decisions. This profile could also provide the impetus to engage stakeholders in the development of a long-term “organics strategy.” Moreover, the process of producing this profile will allow the government to glean the knowledge and experience needed to identify other embryonic niche markets.

3. OMAFRA should develop knowledge transfer programs that address organics-specific production challenges

Noting the success of similar initiatives in Québec, MSAC believes that there is merit in facilitating the creation of organics study groups across Ontario. These study groups are valuable instruments for sharing production information and transferring technology. By ensuring that these study groups also have a mandate that includes exchanging organics-specific marketing strategies, benefits will be realized across the value chain. Since a number of stakeholder groups are already engaged in knowledge transfer initiatives in Ontario, any potential OMAFRA program will ideally need to complement and build upon this work. Options for funding and resource development will also have to be considered.

4. OMAFRA should enhance its organics research

A renewed incremental commitment by OMAFRA to enhance its research in organics must accompany the development of knowledge transfer programs identified in the above recommendation. The organics research undertaken by competing jurisdictions has the potential to offer instructive lessons for Ontario stakeholders. A review of this research should be undertaken with the objective of highlighting practices that can complement Ontario’s organics sector. A commitment to collaborate with stakeholders to develop a strategy for encouraging more Ontario-based organics research should complement the review of research being conducted abroad. MSAC also recommends providing a grant to the Organic Agriculture Centre of Canada. Alberta, Prince Edward Island, New Brunswick and Nova Scotia currently contribute \$50,000 per year to the Centre.

5. The Government of Ontario should explore extending Business Risk Management (BRM) tools (i.e. crop insurance coverage) to organic producers

The current lack of Business Risk Management coverage for organic producers is hindering the organics sector. Without crop insurance, organic producers have precarious risk management options and limited access to financing from commercial institutions. For example, the Government of Ontario should collaborate with Agricorp to ensure that crop insurance is extended to the full complement of organic producers. When the rest of the organic sector enjoys the same assurances currently afforded to organic soybean growers, a significant step will have been made toward helping the organics sector realize its full potential.

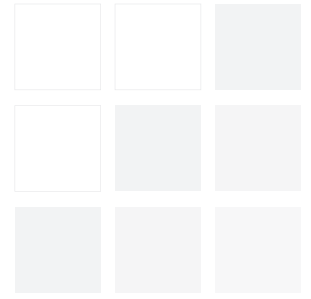


6. Identify supports needed to capitalize on market diversification

To satisfy the objective of further developing niche markets, an analysis of current and emerging niche markets needs to be undertaken. Although there is abundant anecdotal evidence that suggests local/sustainable agriculture, roadside/farmers' markets and culinary/agri-tourism are increasing in popularity, a thorough analysis is required to confirm the full implications of these niche markets.

7. OMAFRA, in concert with other appropriate ministries, should develop a comprehensive domestic demographic profile

The changing composition of Ontario society is creating demand for products that satisfy diverse cultural and religious needs (e.g. halal products). A demographic analysis that grants producers, processors and retailers the ability to quickly identify critical masses of consumers who are not serviced by other agents will better position Ontario's agri-food stakeholders to respond to these emerging needs.



BACKGROUND

At the inaugural Premier's Summit on Agri-food in December 2004, stakeholders recognized an opportunity to increase the domestic consumption of Ontario food. Summit attendees argued that a branding and marketing strategy that capitalized on the inherent qualities of Ontario-produced foods was required. The 2005 Speech from the Throne committed the government to pursuing such a strategy.

Aliments du Québec: The Good Products of Québec

Launched in January 1996 as a joint venture between the Quebec Ministry of Agriculture, Fisheries, and Food (MAPAQ), the Union des producteurs agricoles (UPA) and the Conseil de l'alimentation au Québec (CAQ), Aliments du Québec has demonstrated the benefits to be realized through successful marketing initiatives.

Aliments du Québec is dedicated to promoting and raising domestic consumer awareness of Québec's agri-food industry. The program uses a logo to denote the origin of Québec foodstuffs. All sub-sectors of the sector are eligible to participate in this program. Food that is produced entirely in Québec, has its principle ingredients from Québec, or is packed and processed in the province is eligible for this program. Fully 88 per cent of retailers participate in the Aliment program.

The program's initial goal was to replace \$20 of each consumer's foreign groceries with an equivalent of Québec goods. According to research done by Leger Marketing, seven out of ten consumers in Québec actively look for Québec products when grocery shopping. For 81 per cent of consumers, the Aliments du Québec logo was a sufficient enticement to purchase a branded item rather than a competing product.

A comprehensive research study conducted by the Strategic Counsel on behalf of OMAFRA, exposed a latent desire for 'Ontario identified' food, particularly fresh products and regional specialties. The experiences offered by other promotional programs in North America suggest that a broadened Ontario branding and marketing strategy warrants the government's attention. New Jersey, Washington and Québec have each implemented noteworthy promotion programs to market home-grown products.

The research study highlighted three factors which generally fuelled consumer preference for Ontario foods. First, there was a widespread understanding that purchasing Ontario foods positively impacted on the economy. Second, consumers identified with Ontario and had formed a relationship to the food produced and processed here. Lastly, consumers preferred the freshness of Ontario foods, which is the primary attribute sought by consumers.

Research conducted in retail and foodservice locations also confirmed that the further branding and marketing of Ontario foods has the potential to satisfy this consumer preference. In-store research confirmed the success of the Foodland Ontario brand. Fully 84 per cent of respondents recognized the Foodland logo.

This is important since most shoppers tend to only look for brand markers and best-before dates when shopping. In-restaurant consumer research also pointed to opportunity. Although fast food and casual dining customers favoured convenience above all else, fine dining patrons indicated a preference for Ontario-sourced foods. This trend was even more pronounced when the dining experience was a component of a vacation or touring experience. Consultations with Ontario food industry representatives reaffirmed these key findings. Food industry stakeholders welcomed any additional promotions that were supportive of Ontario's agri-food sector.

To ensure that MSAC had an in-depth understanding of the branding and marketing possibilities, presentations were received from OMAFRA, proponents of the Verified Health Quality project and the Presidents' Council. Overviews of each proposal are as follows:

- OMAFRA has developed a strategy to leverage the success of its Foodland Ontario brand. With the benefit of the insights gained from research conducted by the Strategic Counsel, OMAFRA had a proposal to raise the awareness of Ontario foods among Ontario consumers. Public awareness campaigns and innovative branding built around the Foodland Ontario brand and a new Savour Ontario brand would target the province's foodservice and retail sectors. Partners in this initiative would include government (i.e., OMAFRA, the Ministry of Tourism), Ontario's producers and processors, retailers and foodservices.
- The Verified Health Quality (VHQ) proposal is based on the notion that nutrition plays a fundamental role in health and well-being. Rather than endorsing specific products, this project intends to promote the healthiness of fresh fruits and vegetables, albeit not specifically Ontario-sourced products. Like Foodland Ontario, this VHQ would use point-of-sale signs. A web-based database would also be launched to complement this program. Potential identifiers include 'VHQ' and www.vhqfood.ca. The participation of a scientific review committee, retailers and government would be required to ensure the success of this initiative.
- The Presidents' Council, a committee comprising 26 farm and commodity leaders, also presented a proposal. Using the banner "Good Food from Good People", this initiative strives to secure consumer confidence and trust in Ontario agriculture. This proposal is based on the success of other public relations campaigns that have featured people standing behind their products. The Council sees itself as the primary participant in this program which will reinforce the reliability, safety record, cost-effectiveness and environmental stewardship of Ontario's farmers. Although primarily a communications tool, the Council also sees an opportunity to implement marketing materials for a general audience.

To increase consumer awareness of the advantages of Ontario-produced food, MSAC is making two recommendations. It should be noted that these recommendations are put forward with the intention to: positively influence consumer purchasing; foster strong, dynamic partnerships between retailers and foodservice stakeholders; and, provide the province's producers, processors and trade channels with the market intelligence and skills needed to leverage sales.

RECOMMENDATIONS

With regard to the marketing and branding of Ontario foods, the Minister's Strategic Advisory Committee recommends the following:



1. The Government of Ontario should immediately implement a branding and marketing strategy for the Ontario agri-food sector

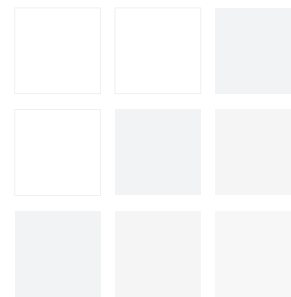
As evidenced in other jurisdictions, branding and marketing strategies can effectively promote the benefits of local foods. The success of these types of promotional strategies is dependent on long-term, continual funding that allows the brand time to gain its marketplace footing and flourish. Accordingly, the Ontario government should begin implementing its branding and marketing strategy for Ontario's agri-food sector. To realize this recommendation, budget allocations to brand Ontario foods will have to be made for this fiscal year.

MSAC believes that the ultimate success of this program will be directly linked to the relative participation of stakeholders. However, the Committee is convinced that with the appropriate performance measures in place, consumer awareness of the value of Ontario foods will be realized. Focusing the attention and efforts of this branding strategy on a particular commodity will allow the impact of this strategy to be readily measured.

The culinary tourism-focused *Savour Ontario* component of the strategy should be developed as a secondary program. The Presidents' Council initiative should be pursued as a complementary initiative to the OMAFRA strategy. To support this work, OMAFRA should provide the Presidents' Council with relevant sections of the Strategic Counsel research.

2. Industry, in collaboration with OMAFRA, the Ministry of Health Promotion and other federal/provincial partners, should undertake greater analysis of the Verified Health Quality (VHQ) initiative

There is an opportunity to build a marketing strategy that capitalizes on the broader health and wellness trend increasingly favoured by consumers. However, it must be noted that, as with all food product claims, such strategies are fraught with a host of regulatory challenges. MSAC believes that priority should be given to branding and marketing initiatives that promote Ontario products exclusively. However, MSAC also sees merit in pursuing the Verified Health Quality strategy. Accordingly, the industry and OMAFRA should collaborate with the Ministry of Health Promotion to identify the regulatory obstacles that might prevent VHQ from being implemented. It will also be necessary for Ontario Agri-Food Technologies and industry actors to engage other government partners – including the Ontario Ministry of Health and Long-Term Care, the Canadian Food Inspection Agency and Health Canada – to more fully understand any other provincial and federal regulatory barriers associated with the implementation of the VHQ proposal.



BACKGROUND

No agri-food issue is more contentious than the regulations governing the sector. Nonetheless, MSAC sees Ontario's sound regulatory foundation as the groundwork upon which the Government of Ontario can align its

regulatory system with the changing demands of the 21st century. MSAC believes that by implementing a more accountable, responsive, cost-efficient and transparent regulatory environment, agri-food stakeholders will be able to innovatively and effectively meet rising marketplace expectations such as consumer protection and environmental preservation.

There should be little doubt about the sector's appetite for this type of change. Consider that at the 2006 OMAFRA Outlook Conference, attendees representing the entire scope of the province's agri-food sector endorsed a resolution to remove unnecessary federal and provincial regulatory barriers related to the development and approval of nutraceuticals and functional foods.

Using the document *Smart Regulation: A Regulatory Strategy for Canada*, which was written by the federal government's External Advisory Committee on Smart Regulation in 2004, as a starting point, MSAC set about identifying the systematic regulatory concerns that currently confront Ontario agri-food stakeholders. Inefficiency, inter-governmental conflicts, outdated legislation and regulations, a lack of harmonization and consumer demands

British Columbia's Regulatory Reform Initiative

British Columbia's Ministry of Small Business and Revenue recently undertook a comprehensive examination of the province's regulatory environment. This exercise has resulted in a more cost-effective, results-based regulatory environment that encourages prosperity, innovation and opportunity without compromising those regulations that are effective in protecting public health, safety and the environment.

There are five components to this approach to regulatory reform. They are:

- 1. Baseline Measure of Regulatory Burden:** Regulatory requirement count that identifies the scope of regulation imposed by provincial law.
- 2. Review of Existing Regulation:** Three-year regulatory reform plans that set out when existing regulation will be reviewed.
- 3. Control of New Regulation:** Regulatory reform policy applies to all proposed legislation and regulations and sets out the 10 criteria that must be used to develop and assess proposed regulation.
- 4. Regulatory Reform Performance:** Reform targets and reporting furthers the government's commitment to accountability and transparency by providing monthly progress reports to Cabinet and posting quarterly reports on a Web site.
- 5. Regulatory Reform Office** is responsible for leading the regulatory reform initiative and executing the reform strategy.

Combined with a philosophical shift from prescriptive to results-based regulation and client-centred service, this approach has established British Columbia as a North American leader in regulatory reform.

are some of the many hurdles that make navigating the approvals process in Ontario daunting.

To improve the regulations governing Ontario's agri-food sector, MSAC is making eight recommendations. The following recommendations assume that the regulatory system in Ontario will be science-based and will take into account the cost/benefit analysis of any regulation. It should also be noted that these recommendations have been crafted with the intention of ensuring regulations are more strategic and that the approach to regulatory development is more transparent and efficient. Coupled with a shift to an approach that establishes clear performance-based outcomes, MSAC believes that innovation will be encouraged, sustainability and investment in Ontario's agri-food sector will flourish and, most importantly, that the interests of Ontarians will be significantly advanced.

These recommendations will likely carry the greatest currency with stakeholders.

RECOMMENDATIONS

With regard to the future of Ontario's regulatory environment, the Minister's Strategic Advisory Committee recommends the following:

1. OMAFRA should analyze how the regulatory approval and development process in Ontario impacts the agri-food sector

Given the limited timeline and mandate surrounding MSAC's deliberations, it was recognized that it would be difficult to provide a comprehensive list of outdated or inefficient regulations that require reviewing. However, members also acknowledged a number of areas where existing provincial regulations serve as an irritant and barrier to economic growth and where regulations have been unsuccessful in achieving their original purpose. As a result, the committee recommends that the Government of Ontario undertake a thorough review of provincial regulations impacting the agri-food sector. Potential regulatory reform could be tabled within 12-18 months and would include a comprehensive implementation plan to ensure that reforms occur. Areas of particular concern relate to property tax and environmental protection.

2. The Government of Ontario needs to ensure greater efficiency of decision-making in relation to regulatory action

The current approvals process for new products has created a backlog that needs to be addressed. The elimination of duplicate approvals processes would enhance innovation and competitiveness, particularly when time sensitivity is a consideration. For instance, the swift approval and adoption of innovative pesticides and veterinary drugs will allow the sector to further promote public and environmental health. Backed by the size and diversity of

the Ontario agri-food sector, the Minister should champion modifying the current regulatory system with counterparts in other governments to ensure that it is more efficient and timely.

3. The government should be consistent when applying and enforcing regulations

Regulations need to be applied more consistently so that Ontario's agri-food sector remains competitive. There is a wide range of discrepancy in the application and enforcement of regulations within regions, across sectors and particularly pertaining to imports. The degree of inspection and enforcement by agencies (e.g. Ministry of the Environment or the Canadian Food Inspection Agency) should be uniformly applied.

By championing the harmonization of regulations, the standardization of inspector and enforcement officer training and the adoption of universal regulatory performance measures across all three levels of government, Ontario could become a champion of regulatory consistency.

4. Government should undertake a cost-benefit analysis of all regulatory proposals before bringing them forward to decision-makers

There is a sense that the provincial government is not adequately assessing the cost-benefit analysis of its regulatory decisions. Extensive cost-benefit analysis provides government and stakeholders the knowledge needed to accurately forecast the cumulative impact of regulations and costs. By ensuring that any such analysis also captures the cumulative impact of the regulations under consideration, the sector can better understand how proposals will fit into the overall regulatory environment. It is then also possible to determine if new regulations are truly necessary or whether an alternative approach should be considered (e.g. compliance incentives or voluntary standards). The sector would also benefit from an analysis of alternatives to regulation as well as incentives that could encourage compliance. A requirement to undertake this analysis should become a formal component of the Cabinet decision-making process. The federal government's mandatory Regulatory Impact Analysis Statement, which is a requirement for all regulatory proposals, could serve as a potential model.

5. To ensure that regulations are practical and capable of being implemented in a timely and efficient manner, government should seek stakeholder input during the development of regulations

A number of stakeholders pinpointed the lack of transparency in the development of regulations as an impediment to the creation of regulations that foster economic sustainability. After regulations are enacted, smaller organizations have not always been able to gain information and easy or ready access to the regulations that are applicable to their businesses. Sudden changes to longstanding regulations are also problematic, since there are limited appeal mechanisms in place. Stakeholders should be provided an opportunity to participate in a structured and transparent process that allows for their input to be considered when regulations are developed. A commitment by the Government of Ontario to ensure that it has a transparent regulatory approach will alleviate many of these stakeholder concerns.

6. Ensure better coordination, integration, harmonization, and resource sharing to overcome the problem of regulatory overlap between federal and provincial governments

The province should make a concerted effort to eliminate minor variances that exist between federal and provincial regulations. These regulatory discrepancies can prove to be a significant obstacle to trade, which is something that Ontario's export driven agri-food sector can ill afford. To this end, OMAFRA should push to have regulatory reform made a standing item at all Federal/Provincial/Territorial (FPT) Ministers of Agriculture meetings.

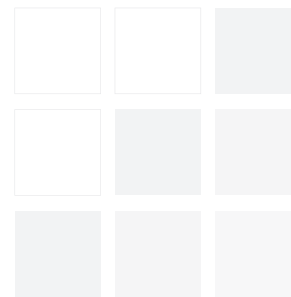
7. The Government of Ontario should ensure that taxpayer resources are efficiently and appropriately used in providing regulatory enforcement

The enforcement of regulations has traditionally been a double source of contention for stakeholders. When enforcement agencies are inadequately funded, the lag in determining compliance can result in missed marketplace opportunities and/or financial losses. It is therefore necessary to ensure that enforcement agencies are adequately resourced. To ensure an even more proactive approach, government should craft regulations that strike a balance between enforcement and other compliance incentives so that additional funding is not directed at unnecessary enforcement. Such an approach also acknowledges the desire of the vast majority of stakeholders to be compliant with industry standards.

8. The Government of Ontario should establish a 'one-window' access point so that the agri-food sector can navigate the regulatory approval process

Recognizing the success of similar initiatives in other jurisdictions, the government should establish an office, agent or champion to assist proponents seeking to cut through regulatory red tape and increase regulatory compliance. The mandate of this office would be to assist companies looking to navigate municipal, provincial and federal regulations. The reduction of time and expense needed to achieve compliance are ancillary benefits of a 'one-window' approach.

Other: 'Buy Ontario' Procurement Policy



BACKGROUND

At the second Premier's Summit on Agri-food in February 2006, OMAFRA agreed to study the implications of implementing an 'Ontario food' purchasing policy for the provincial government. MSAC was subsequently mandated to look at this topic. Having now considered the implications of this policy, MSAC sees a clear opportunity for the Government of Ontario to lead by example and promote Ontario food purchasing in its own facilities.

The United Kingdom's Sustainable Procurement National Action Plan

The Secretary of State for the Environment, Food and Rural Affairs and the Chief Secretary to the Treasury established a business-led Task Force to devise a National Action Plan to make the United Kingdom a leader in the EU in sustainable procurement by 2009. This plan marries the considerable purchasing power of the public sector (13 per cent of GDP in the UK) to government leadership in purchasing. Among the many environmental and social benefits identified by the task force were: better stewardship of taxpayers' money; public sector support for innovation and 'green' technologies; and, enhanced risk management.

The six steps to this plan are as follows:

1. Government leading by example;
2. Establish clear priorities to balance economic, social and environmental returns;
3. Raise the bar to clarify which standards are mandatory while preparing to impose sanctions for non-compliance;
4. Build capacity to ensure ongoing delivery of sustainable procurement;
5. Remove both actual and perceived barriers; and,
6. Capture opportunities for innovation and social benefits.

To drive this transition the task force created a series of milestones to ensure the UK public sector stay on track to improve its performance in sustainable procurement by 2009.

Although this is a complex topic with multiple implications, a number of possible courses of action are at the government's disposal. First, however, it is imperative that institutional purchasing is placed in the broader economic and political atmosphere. This means clarifying many of the uncertainties and ambiguities facing the development of a 'Buy Ontario' procurement policy.

The absence of a commonly agreed upon definition of what constitutes 'Ontario food' is the overarching challenge facing the development of an institutional procurement policy. It is also necessary to delineate between the immediate Ontario Public Service (i.e. provincial ministries and agencies) and a broader public sector (e.g. schools, hospitals). Trade agreements could prove to be another potential impasse. Canada's participation in the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA) includes procurement stipulations. However, the responsibilities assumed by these agreements fall to the federal government and do not implicate sub-federal jurisdictions. Domestically, Ontario is party to the

Agreement on Internal Trade (AIT) and a bilateral agreement with Quebec, both of which prohibit discriminatory practices that promote local preferences in public procurement. Lastly, Ontario consumers demand a spectrum of foods that Ontario producers cannot provide year round.

In spite of the above uncertainties, there are jurisdictions that have implemented effective institutional purchasing programs. The largest such program is run by the United States' National School Lunch Program. Under this program, American school boards are mandated to the maximum extent possible to purchase foods produced or processed from domestically grown commodities. The mandated purchase policy in Woodbury County in Iowa directs the municipal government where possible to buy locally grown organic produce that is marketed through a cooperative. The United Kingdom administers similar policy guidelines under its Public Sector Food Procurement Initiative.

To ensure that Ontario mitigates its risk yet captures the opportunities inherent in implementing a domestic institutional purchasing policy, MSAC is making the following two recommendations.

RECOMMENDATIONS

With regard to a potential Ontario institutional procurement policy, the Minister's Strategic Advisory Committee recommends the following:

1. The Government of Ontario should pursue a policy guideline requesting that institutional buyers within the immediate public service increase their procurement of Ontario food products

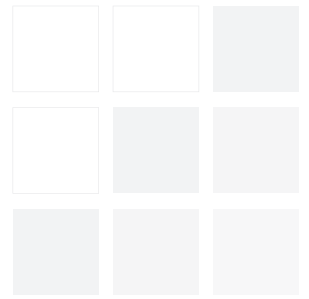
Recognizing the many challenges that face the design and implementation of a 'Buy Ontario' procurement policy for the Ontario public service, MSAC is recommending pursuing an incremental approach that would culminate with the incorporation of a policy guideline. This guideline would be applicable to the immediate Ontario public service facilities rather than the broader public sector. Coordination between impacted ministries, including Government Services, Public Infrastructure and Renewal and Finance, would also be required.

Moral suasion would be used as the initial step in the creation of this guideline. The government should produce an official statement articulating the importance of Ontario-based products in government purchasing. In conjunction with the branding strategy outlined above, MSAC sees great potential to influence government procurement practices. This strategy would conclude with the implementation of a policy guideline that would identify 'Ontario foods' as a determinant in government procurement agreements. All new contracts with suppliers could incorporate this guideline. Moreover, such a guideline would be of greater significance than an exclusively moral suasive strategy.



2. The Government of Ontario should develop policy options and recommendations on how Ontario food should be defined

The Government of Ontario will have to develop a series of criteria that allow food to be defined as Ontario food. It will be incumbent upon the government to develop metrics that capture the broadest segment of the provincial agri-food sector's activities. Although a draft definition would be subject to a regulatory review with the federal government, MSAC also wants to ensure that stakeholders are given adequate time to provide input.



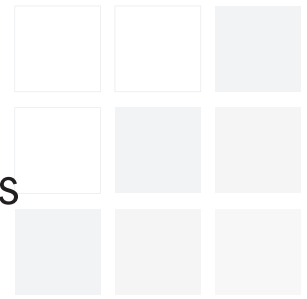
APPENDIX I:

MINISTER'S STRATEGIC ADVISORY COMMITTEE

The Minister's Strategic Advisory Committee was composed of the following agri-food leaders:

- **Ron Bonnett**, Ontario Federation of Agriculture
- **Rita Burak**, Hydro One
- **Joe Cartaginese**, Loblaw Companies Limited
- **Keith Chen**, Culinary Destinations
- **Jim Clark**, Ontario Cattle Feeders' Association
- **Alison Connell**, Bank of Montreal/Monsanto Canada Ltd.
- **Greg DeVries**, Ontario Soybean Growers
- **John Kelly**, MaRS Landing
- **John Kikkert**, Christian Farmers Federation of Ontario
- **Yves Leroux**, Parmalat Dairy & Bakery Inc.
- **Rory McAlpine**, Maple Leaf Foods Inc.
- **Don Mills**, National Farmers Union
- **John Scott**, Canadian Federation of Independent Grocers
- **Larry Skinner**, Ontario Pork
- **Art Smith**, Ontario Fruit and Vegetable Growers' Association
- **Lori Stahlbrand**, Local Flavour Plus

APPENDIX II: Terms of Reference for Minister's Strategic Advisory Committee



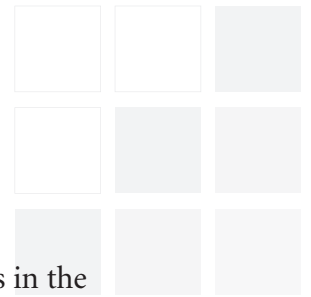
1. BACKGROUND

At the second Premier's Summit on Agri-food held in February 2006, sector leaders identified a number of key strategic areas for action/further development leading to the next Summit, expected in the winter of 2007. At that time, it was announced that the Minister of Agriculture, Food and Rural Affairs would be naming a Strategic Advisory Committee to provide advice to her in addressing the identified priorities.

2. MANDATE

The mandate of the Minister's Strategic Advisory Committee will be to provide strategic advice to the Minister of Agriculture, Food and Rural Affairs on identified initiatives and priorities arising from the Premier's Summit on Agri-food. The Strategic Advisory Committee (SAC) will be tasked with providing strategic advice in the following areas:

- Strategic guidance to the Innovation Outlook conference being organized by the Ministry of Agriculture, Food and Rural Affairs for November. Members would provide input on design, themes, speakers and potentially act as moderators at the conference.
- Advise on how best to implement a Verified Health Quality Strategy/branding initiative.
- Consideration of a niche market strategy (e.g. organics) including identification of barriers, strategy components, potential partners and alternative approaches.
- Comment on what improvements are required to the current regulatory framework in place to support the sector: how the regulatory process can be improved (more transparent), identification of specific regulations that impede innovations, areas of federal/provincial overlap.



- Advise on how the sector can capture opportunities in the bioproducts markets.
- Suggest selection criteria and review submissions to the Premier's Award for Agri-food Innovation Excellence.
- Other areas that may be identified e.g. development of strategic alliances.

The Committee's mandate would also include the identification of two or three specific action items and supporting implementation plans that would be accomplished within the next six-seven months, with a report to the third Premier's Summit on Agri-food in early 2007.

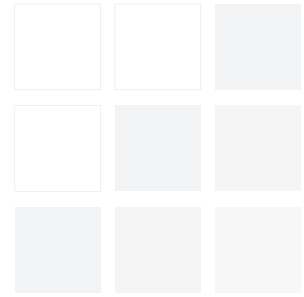
3. ROLES AND MEMBERSHIP

The role of the Minister's Strategic Advisory Committee is to provide strategic advice and input to the Minister of Agriculture, Food and Rural Affairs. The Committee will report to the Minister. Membership of the Committee will be drawn from across the breadth of the agri-food sector and will represent the diversity of the sector. If desired, the Committee, with the agreement of the Chair, may invite other industry representatives of the sector (including government representatives) to make presentations or provide comment as necessary.

The Chair of the Committee will be an industry member, appointed by the Minister of Agriculture, Food and Rural Affairs.

4. MEETINGS AND TIMELINES

It is expected that the Minister's Strategic Advisory Committee will meet two to three times from the inaugural meeting in June 2006. Meetings will be a half-day in length and/or an afternoon and evening with the exception of the first meeting, which may be one full day. Members would also be expected to devote some time in preparation for the meetings. Meetings would be held in the Toronto-Guelph corridor



5. SECRETARIAL SUPPORT

The Minister's Strategic Advisory Committee will be supported by staff in the Strategic Policy Branch of the Ministry.

6. REMUNERATION

Members would be eligible to have their associated expenses covered: travel, meals and lodging (if required). Per diems will not be paid.

7. PROCEDURES

The Committee is advisory in nature and any recommendations will be forwarded to the Minister of Agriculture, Food and Rural Affairs.

- At meetings, 50% of members will constitute a quorum.
- Meetings will be closed unless agreement of the chair is provided for guests to attend a meeting/portion of a meeting.
- Consensus of the committee should be sought on items brought forward to the Committee for consideration, but dissenting views will be noted.
- Any member having a proprietary interest in a subject under discussion would be asked to identify said interest to the committee.
- A final report of the deliberations of the Committee will be prepared and provided to the Minister of Agriculture, Food and Rural Affairs.

