



COVID-19 and Canadian Agriculture - Update

April 15, 2020

On March 25th, Bonnefield released our initial assessment of how the COVID-19 pandemic was affecting Canadian agriculture. Our analysis was the summary of numerous conversations with those involved throughout the supply chain within the agricultural community. Overall, most expressed a degree of cautious optimism, understanding that there was likely to be some unique challenges for this growing season as a result of government restrictions and the economic slowdown, but also, that their businesses were better suited than many others to handle some of this market turbulence. They were still planning to execute on their 2020 crop plans with seeding just around the corner. As we have continued to monitor the situation, we believe that this general sentiment continues to apply to most of the growers we work with.

That being said, as the situation has continued to unfold there have been some unique developments in certain parts of the supply chain which warrant further discussion. Some of these, in hindsight, were likely predictable, while others have been more surprising.

Food Demand

In March, we explored how total food demand has remained relatively level but that there has been a massive shift in how consumers are purchasing as a result of government enforced business restrictions. We've effectively seen a complete shutdown of the food service industry, with that corresponding demand being met by the retail sector. For perspective, in 2018 approximately 41% of Canada's \$213B in food and beverage sales were from the food service sector¹. This is a sizable shock to the system, which has both significantly increased demand for certain products and been quite challenging for others.

Initially, consumers were confronted by stockouts on many items. Some of the most popular "quarantine items" have included non-perishables such as pasta, rice and canned goods, as well as fresh fruits and vegetables. It's important to point out that these stockouts are primarily the result of demand-based and not supply-based shortages. Consumers are stockpiling various items, either for fear of future store closures as a result of the pandemic or with the goal of shopping less frequently to avoid unnecessary exposure². Most food retail outlets in Canada tend to

operate within a just-in-time food system, meaning store owners receive food products just before they are put on the shelf. This system is more cost effective as perishable items can spoil and non-perishables tie up storage space. Thus, it can be a challenge for this system to quickly adjust to the massive change in consumer buyer patterns. There is ultimately a limit to the amount of stockpiling consumers can pursue and it is expected that this trend will start to decrease as more time passes.

One area that we have monitored closely are developments within the potato sector. In Canada, approximately 65% of potatoes are used for processing (French fries, potato chips, etc.), 21% are for fresh table consumption and 14% are for seed³. Certain parts of the processed potato market have been amongst the products that have been hardest hit by the shutdown of the food service industry. A large amount of French fry sales are made to restaurants and the hospitality industry, leading to a significant decrease in total demand. At the same time, demand for fresh fruits and vegetables (Figure 1) has been growing. US potato sales saw an even greater demand for the week ending March 15th and March 22nd, increasing by 71.6% and 114.7%⁴, respectively. Some potato varieties that are used in the processed industry are also suitable for fresh consumption, creating a new market for many growers. These are the types of supply chain distortions that producers and processors are having to adapt to in real-time. These impact all growers differently and are testing the resiliency of the entire supply chain.

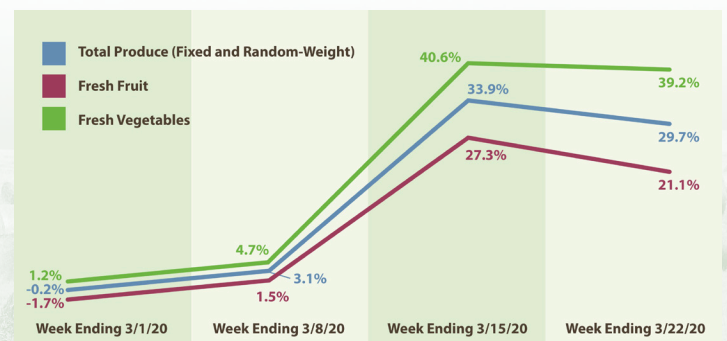


Figure 1: US Week-by-Week Sales Growth – March 1, 8, 15, and 22, 2020
Source: Produce Marketing Association

Supply Chain

The agricultural supply chain is integrated and global, and this is true for most items from inputs through equipment and onto the sale of grains and livestock. This integration has a potentially cascading effect if problems start to occur at points along the way. We highlighted in March that the possibility of some part of the supply chain experiencing a hiccup was top of mind for most farmers and probably the greatest cause of worry. It is understood that the longer the pandemic runs on and economic restrictions are imposed, the greater the likelihood of prolonged interruptions to the supply chain. Overall, most operators we speak with have managed pretty well as we enter the second month of self-isolation in Canada. However, there have been some instances of interruption caused by government restrictions and labour disruptions.

Some processors and traders have reported delays in accessing containers to fill for overseas buyers. Container traffic is heavily dependent on in-bound containers that originate from China and other parts of Southeast Asia. Disruptions in those markets as a result of COVID-19 and government-imposed shutdowns have caused delays in these containers being available for North American use⁵. Some of these Asian markets appear to be opening back up just as the wave of COVID-19 is hitting many Western countries which will likely cause delays at our ports. Additional planning and flexibility will be required to navigate this situation.

Over the last couple of weeks, we've also seen COVID-19 directly impact a number of processing facilities across Canada. Harmony Beef, located north of Calgary⁶, Olymel's pork slaughterhouse and cutting plant in Yamachiche, Quebec⁷, and Maple Leaf Foods Brampton, Ontario poultry plant⁸ have all been temporarily shut down as a result of employees testing positive for COVID-19. Extended closures of these, or other, processing facilities have an obvious trickle-down effect on the rest of the supply chain. These companies and the government are committed to limiting the length and severity of these disruptions to meet the continued food demand.

Energy Prices

One of the interesting developments during this crisis has been the collapse in global crude oil prices resulting from the combination of the Saudi Arabia-Russia oil price war and COVID-19 related economic activity restrictions. While there are some positives to lower oil prices in the agriculture sector, including lower input costs for fuel, one of the main casualties of this change has been the price of corn (Figure 2).

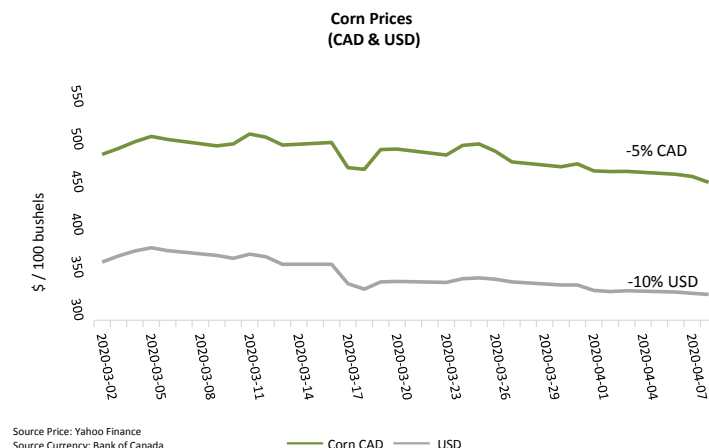


Figure 2: Corn Price Trends

Between Canada and the US, 30-40% of corn consumption is used for ethanol production. Ethanol's primary use is for blending with gasoline. Ethanol margins are highest when corn is cheap and oil prices are high. In the current environment, with extremely low oil prices, the demand for ethanol has taken a large hit. Some ethanol plants have closed while others have scaled back or temporarily halted production⁹. Planting expectations for corn are also expected to be significantly higher this year, with an estimated 97M acres in the US¹⁰ and 2.38M acres in Ontario¹¹, potentially putting further pressure on corn prices. Most expect that the longer the crisis plays out and oil prices remain depressed, the more compressed margins will be for corn growers.

Labour

On March 21st, the Canadian government announced that it had lifted travel restrictions on temporary foreign workers, including migrant farm labourers¹². This was seen as crucial as the Canadian agricultural sectors employs approximately 60,000 workers annually. These workers are primarily involved in the produce sector where more manual labour is required. While the announcement was welcomed by all in the industry, there does appear to be some delays in getting these workers into the country from a combination of domestic and home country issues processing applications and more limited travel options. Furthermore, these workers also have to adhere to the two-week self isolation period up on arrival. The federal government, understanding some of the delays and added expense of their

imposed measures, announced on April 13th that they are making up to \$50 million available to farm and agrifood employers bringing temporary foreign workers into Canada. These funds are to be used to help support and ensure that the self-isolation requirements are fully met¹³. Farmers remain optimistic that workers will arrive in time and the obstacles can be overcome in short order.

Summary

The COVID-19 situation is having an impact on all businesses and agriculture is not immune from these effects. To date, agriculture has experienced less volatility than many other industries and we still believe farmers are well positioned for the upcoming season. We will continue to monitor the situation as it unfolds.

1 - OMAFRA (<http://www.omafra.gov.on.ca/english/stats/food/index.html>)

2 - Supply Professional (<https://www.supplypro.ca/why-empty-shelves-dont-mean-were-out-of-food-how-canadas-supply-chain-works/>)

3 - Canadian Horticultural Council (<https://www.hortcouncil.ca/en/about-us/horticulture-stats/potato-production-in-canada/>)

4 - Product Marketing Association (<https://www.pma.com/-/media/pma-files/covid19/producesales330week2final.pdf?la=en>)

5 - Real Agriculture (<https://www.realagriculture.com/2020/03/container-traffic-supply-chain-interrupted-for-the-foreseeable-future/>)

6 - CBC (<https://www.cbc.ca/news/canada/calgary/covid-19-harmony-beef-deena-hinshaw-alberta-1.5513408>)

7 - CTV News (<https://montreal.ctvnews.ca/olympic-plant-shuts-doors-to-1-000-employees-after-9-test-positive-for-covid-19-1.4873182>)

8 - Financial Post (<https://business.financialpost.com/news/retail-marketing/maple-leaf-suspends-operations-at-brampton-poultry-plant-after-three-workers-contrast-coronavirus>)

9 - Farmtario (<https://farmtario.com/crops/ontario-ethanol-production-drops-with-low-prices-and-demand/?module=carousel&pgtype=section&i=3>)

10 - Syngenta Canada (<https://www.syngenta.ca/market-news/u-s--corn-intentions-up-sharply>)

11 - Farms.com (<https://www.farms.com/ag-industry-news/ontario-farmers-to-plant-a-record-number-of-corn-acres-in-2020-027.aspx>)

12 - CBC (<https://www.cbc.ca/news/canada/london/canada-lifts-travel-restrictions-for-foreign-workers-1.5505579>)

13 - AgCanada.com (<https://www.agcanada.com/daily/federal-government-to-backstop-tfw-isolation-with-funding>)