



Is Nutrition North Canada on Shifting Ground?

A FOOD BANKS CANADA REPORT • APRIL 2016

Summary

The Food Mail program, which was replaced by Nutrition North Canada, helped to create a grocery retailing environment in the north that was markedly different from what exists in the south. One of the most striking differences was the fact that, to participate in Food Mail, retailers and manufacturers were forced to give up control of their product to Canada Post between southern shipping points and northern retail locations. This arrangement was arguably at the root of many of the program's problems, including major issues with food spoilage.

Nutrition North Canada addresses this shortcoming by allowing retailers and manufacturers to maintain control of their product along the retail chain. However, Nutrition North Canada has been unable to address another of the main issues northerners expressed about Food Mail: the inability to know with certainty that the federal government subsidy provided to northern retailers is being passed on to consumers. The Auditor General of Canada demonstrated that this remains unknown, while holding that it is at least knowable – a contention with which the current paper disagrees.

We make the case that Nutrition North Canada is a simple subsidy for northern retailers that has been built on a flawed, overly-ambitious policy rationale. If the program is to continue in its current form, it can and should be grounded in a more realistic and comprehensive policy and program approach to the price of food in the north.

Is Nutrition North Canada on Shifting Ground?

A An Overview of Nutrition North Canada

Nutrition North Canada is a federal government program that spends about \$53 million each year to subsidize the transportation of mostly perishable food to 103 isolated northern communities in Saskatchewan, Manitoba, Ontario, Quebec, Labrador, Yukon, the Northwest Territories and Nunavut that do not have year-round

road, rail, or marine access.¹ Food retailers in 84 of these communities receive a “full subsidy” of between \$1.20 and \$16 per kilogram of eligible food shipped (\$3.30 per kg on average); retailers in the remaining 19 communities receive a “partial subsidy” of \$0.05 per kilogram of eligible food shipped.²

B The High Cost of Food in Northern Canada

Nutrition North Canada (NNC) is meant to “provide Northerners in isolated communities with improved access to perishable nutritious food.”³ According to a federal government statement in early 2015, “the results are clear – Nutrition North Canada has succeeded in reducing prices of eligible food in isolated northern communities, and in increasing the amount of perishable nutritious food available.”⁴

The federal government’s own price data (which is based on a collection of foods known as the Revised Northern Food Basket) offers a more mixed picture.⁵ On the positive side:

- Whereas the price of store-bought food in Canada increased by 3.5% between March 2012 and March 2014,⁶ the average price of the Revised Northern Food Basket (RNFB) in NNC-eligible communities increased by only 1% during the same period.⁷
- In Nunavut, the price of the RNFB decreased by 1.7% between March 2012 and March 2014.

However:

- In communities eligible for only a partial subsidy (\$0.05 per kg), the RNFB increased by 4.7% between 2012 and 2014.
- Communities eligible for a full or partial subsidy in Labrador, Manitoba, Ontario, Yukon (i.e. Old Crow) and the Sahtu region of the Northwest Territories all experienced RNFB increases of 3.5% or more between 2012 and 2014 (see the table below for more detailed information).

Despite the limited success of Nutrition North Canada, the cost of food in northern communities is still extremely high. In communities that receive the full Nutrition North Canada subsidy, the annual cost of the Revised Northern Food Basket for a family of four in March 2013 was \$21,372, or \$411 per week – more than double the cost of a roughly equivalent basket of food purchased in Toronto.^{8,9}



\$21,372

The annual cost of the Revised Northern Food Basket for a family of four in March 2013 was \$21,372, or \$411 per week – more than double the cost of a roughly equivalent basket of food purchased in Toronto.

We do not know how much the Revised Northern Food Basket costs in non-subsidized northern communities. There is little data available on the price of food in communities that do not have year-round road or water access, but which are nevertheless not included in the Nutrition North Canada program (the Auditor General

estimates that there are about 50 such communities).¹⁰ Nor is there data available on the price of food in northern communities that do not meet Nutrition North Canada eligibility requirements (i.e. those that have year-round surface access), but that may face high food costs.

Cost of the Revised Northern Food Basket (RFNB) in Nutrition North Canada-Eligible Communities ¹¹							
Province/Territory	Region	Year-round NNC-eligible communities	NNC-eligible communities with price data for 2014	RFNB cost per week, March 2014	RFNB change, March 2012 - March 2013	RFNB change, March 2013 - March 2014	RFNB change, March 2012 - March 2014
Newfoundland & Labrador		7	4	\$338	6.2%	-2.0%	4.2%
Manitoba		14	13	\$402	5.0%	-0.7%	4.3%
Northwest Territories		14	8	\$421	0.2%	0.1%	0.2%
	Beaufort-Delta	5	4	\$412	1.0%	-5.3%	-4.3%
	Deh Cho	1	0	n/a	n/a	n/a	n/a
	Great Slave Lake	3	0	n/a	n/a	n/a	n/a
	Sahtu	5	4	\$431	-0.6%	5.4%	4.7%
Nunavut		25	21	\$430	0.3%	-1.9%	-1.7%
	Baffin	13	11	\$437	1.9%	-1.6%	0.3%
	Kitikmeot	5	4	\$443	1.1%	-1.2%	-0.2%
	Kivalliq	7	6	\$408	-3.2%	-3.0%	-6.1%
Ontario		15	11	\$440	3.8%	-0.3%	3.5%
Quebec		24	14	\$372	3.3%	-1.4%	1.8%
Saskatchewan		3	3	\$432	0.1%	1.6%	1.7%
Yukon	Old Crow	1	1	\$514	3.5%	1.4%	4.9%
Average		-	-	\$419	2.8%	-0.7%	1.0%



Nutrition North Canada and Northern Food Retailers

Nutrition North Canada rests on the idea that grocery retailers will pass the full amount of the federal subsidy (which varies by food type and location) on to their customers.¹² For example, the federal subsidy for eligible foods in Kimmirut, Nunavut (located on the southern shore of Baffin Island, across the Hudson Strait from Quebec) is \$5.40 per kilogram.¹³ According to the logic of the program, an individual purchasing a one-kilogram bag of apples in the hamlet should be paying at least \$5.40 less for those apples than would have been the case if the subsidy was not in place.

In his 2014 report on Nutrition North Canada, the Auditor General noted that the federal government does not currently have access to information on retailer profit margins, and is therefore unable to verify that the NNC subsidy is being fully passed on to consumers.¹⁴ To rectify this situation, the AG has recommended that the federal government require participating retailers to submit information on “current profit margins and profit margins over time [for both subsidized and unsubsidized foods], to determine whether the retailers are passing on the full subsidy to consumers.”¹⁵

One important point not directly addressed by the Auditor General’s report is the possibility that this key piece of information – i.e. whether or not the subsidy is truly being passed on to consumers – may be actually or virtually unknowable.

The Auditor General’s position that we can only know if the subsidy is being passed on to consumers if retailers provide information on profit margins begs the question – if the federal government had this information, as well as every other piece of information connected to acquiring and selling food in remote locations without year-round surface access, would we then be able to know if the subsidy was being passed on? Or is this a false assumption?



There are several factors at play in this question. First of all, the Nutrition North Canada subsidy is an inseparable part of grocery retailers’ business planning. We cannot reasonably expect retailers to follow an artificial logic wherein they first ask, “how much would product x have cost in community y, and what would our profit have been if Nutrition North Canada didn’t exist,” and then reduce the price of product x by the value of the subsidy. The major retailers will take account of all the interdependent variables involved in acquiring and selling food (including the federal subsidy), and will set their profit margins based on their interpretation of all of those variables.

To get a sense of the complexity involved in this calculation, let’s consider the example of all apples sold by a single grocery retailer over the course of a year. Those apples will be purchased from various suppliers in various regions, generally outside of Canada, at constantly-evolving exchange rates; they will be shipped to Canada via various transportation providers; then shipped north using various other transportation providers. Each destination community has its own subsidy rate; its own particular staffing, warehousing, capital, maintenance, spoilage, and shrinkage cost

trends; its own general and seasonal consumer behaviours. The price of perishable produce can be quite variable, as we have seen with the effects of the recent drought in California and the declining value of the Canadian dollar. Is it possible that the retailer will lose money on apples in the coming six months? Will that loss be offset by higher returns on other goods? Will the retailer increase profit margins on other products to make up for the loss? Will they do so in some or all communities where they have stores?

All of these factors and many more may be considered in a given retailer's profit margin equations, which are set at various levels of the organization, from the head office to local stockrooms. It is not unreasonable to ask: does the federal government have the capacity to sort through, analyze, and understand the extensive and voluminous data related to the profit margins of far-flung grocery stores operating in what may be our most poorly understood regions? A 2013 internal audit of Aboriginal Affairs and Northern Development Canada suggests that it does not:

“While Nutrition North Canada (NNC) has collected a significant amount of data on subsidized food, NNC has outgrown the tools used to gather and analyze the data. As a result, the audit found that NNC is not able to adequately analyze the data and identify any possible trends.”¹⁶

Aboriginal Affairs and Northern Development (AANDC) committed to design and implement a new system by March 2014; it is unclear if this timeline was met. Nor is it clear that adequate analysis would be possible with new tools. If we are optimistic, we can say that the federal government may, at some point in the future, be able to obtain and make sense of this data. Assuming this, we can continue our investigation of what would happen if a retailer made available all information related to acquiring and selling food, including profit margins on every type of food, whether subsidized or unsubsidized by Nutrition North Canada, in eligible communities.

D Parsing Profit Margins

The Auditor General has expressed concern that a retailer could use the Nutrition North Canada subsidy “to reduce the landed cost of an item, but that reduction could be negated if the profit margin is subsequently increased.”¹⁷ The AG seems to imply that retailers must report transportation expenses that are equal to or higher than the Nutrition North subsidy, and that any gains made via transportation expenses below the subsidy rate must be made up by reducing the profit margin.

In 2012, according to Industry Canada, Canadian grocery retailers reported revenues of \$84.1 billion and expenses of \$82.6 billion, with net revenue of \$1.5 billion – resulting in a pre-tax profit margin of 1.8% (down from 4.1% in 2003).¹⁸ If a retailer operating in the north reports a profit margin of 1.8%, can we then say they have passed the subsidy on to the consumer? What if the profit



margin is 2.5%, or 4%, or 7%? What if profit margins are 1.8% on subsidized food and 7% on unsubsidized food, or vice-versa? What if, for some product shipments, transportation costs were lower than the subsidy, but the profit margin was around the industry average?

The problem at the root of these questions is the fact that it is not clear who would decide if a profit margin is too high, or how that decision would be made. It is also unclear how one would conclude that a given profit margin is eating into the subsidy. Nor do we know what actions would follow such decisions.

As Aboriginal Affairs and Northern Development Canada states, Nutrition North Canada is “based on a market-driven model.”¹⁹ In other words, the Government of Canada is partnering with businesses that are generally free to set whatever price the market will bear on the food they sell. The Nutrition North Canada program does not appear to limit profit margins of participating retailers, apart from the prescription that retailers must pass the subsidy on to consumers – a complex and fuzzy idea, as outlined above.

One path out of the woods might be to compare (a) profit margins on subsidized foods in eligible communities to (b) profit margins on those foods in non-eligible communities. This option has limitations however, given significant diversity among northern communities, and the fact that most comparable communities are eligible for the program (e.g. all communities in Nunavut). It also raises the issue of fairness, given the Auditor General’s recommendation that all communities without year-round surface access (including about 50 that are not currently eligible) be brought into the program.

The major option implied by the Auditor General’s report is to compare profit margins on subsidized versus unsubsidized foods. In theory, margins (i.e. all revenues minus all expenses for a given product) would be similar on peanut butter (subsidized) versus canned tuna (unsubsidized), or on tomatoes (subsidized) versus tomato sauce (unsubsidized). However, in practice this

may not be the case, particularly when comparing dissimilar items, e.g. fresh potatoes and canned tomatoes. As AANDC has noted, perishable and non-perishable goods are very different, and Nutrition North Canada itself has contributed to differential treatment of the two broad types of food, roughly separating them into distinct transportation and handling schemes (i.e. regular air shipping versus seasonal surface shipping).

To summarize, even if the federal government is able to access information on the profit margins of subsidized and unsubsidized foods (as the Auditor General recommends), many hurdles remain:

- The Government of Canada does not have the proven capacity to collect, analyse and understand the full range of data related to food retailing in isolated northern communities – and therefore to understand whether or not the Nutrition North Canada subsidy is being passed on to consumers.
- There is currently no policy or process in place to distinguish between “reasonable” and “unreasonable” profit margins, nor is it clear how such a policy would be arrived at.
- It is unclear what actions would follow a Government of Canada judgement that a retailer has “unreasonable” profit margins on subsidized foods; the same is true for retailers who may be judged as having “reasonable” profit margins on subsidized foods and “unreasonable” margins on unsubsidized goods.
- The comparability of subsidized versus unsubsidized foods, and by extension the comparability of related profit margins, is controversial.

Finally, AANDC and the Auditor General’s emphasis on retailer profit margins leaves aside other costs that contain elements of variability, subjectivity, or choice, and which contribute to the price of food in the north. These include but are not limited to the profit margins of northern transportation companies, and the profit margins of southern producers and wholesalers. The overall implication is that northern retailer profit margins matter most, though other variables could be singled out for attention.²⁰



Reassessing the Foundations of Nutrition North Canada

The Food Mail program, which was replaced by Nutrition North Canada, helped create a grocery retailing environment in the north that was markedly different from what exists in the south. One of the most striking differences in the north was the fact that, to participate in Food Mail, retailers and manufacturers were forced to give up control of their product between southern shipping points and northern retail locations. Product was handed over to Canada Post Corporation, which had monopoly control over the subsidized transportation of food to eligible northern communities.

Canada Post did not own the food it shipped via Food Mail, and numerous reports make it clear that the Corporation did not have a *sense of ownership* of the product. Food Mail operated in contravention of the basic tenet that food should be handled as little as possible and kept as stable as possible, and food spoilage was a constant problem.

Nutrition North Canada addressed this problem by allowing retailers and manufacturers to maintain control of their product along the retail chain. However, the new program has been unable to address another of the main issues expressed by northerners about Food Mail: the inability to know if the federal subsidy is being passed on to the consumer.²¹ Aboriginal Affairs and Northern Development Canada has until recently operated as if this was known. The Auditor General found otherwise, though it believes that it is at least *knowable*. This paper presents a different perspective, i.e. that the question of whether or not the Nutrition North Canada subsidy is being passed on to the consumer is *not objectively knowable*.

We would suggest that Nutrition North Canada is in fact a simple northern subsidy that has been built on a flawed, overly ambitious policy rationale. If the program is to continue in its current form, it can and should be grounded in a more realistic and comprehensive policy and program approach to the price of food in the north. This would include the following steps:

- 1** An acknowledgement that Nutrition North Canada is a simple subsidy for northern retailers (akin to tax deductions for northern residents), despite the complicated policies and explanations that have been attached to it. On its own, the subsidy is useful but insufficient to drastically increase the affordability of food.
- 2** An acknowledgement of the knowledge limitations inherent in the Nutrition North Canada subsidy. While the government-retailer partnership must involve intensive information sharing (including information about the landed cost and final sale price of goods, as well as local staffing, infrastructure and other costs), it must move past the distracting singular focus on retailer profit margins.
- 3** The collection and publication, by federal, provincial and territorial governments, of information on the cost of food (including but not limited to the Revised Northern Food Basket) across the north, rather than only in communities that are eligible for the Nutrition North Canada subsidy.

The information that is currently available on the cost of food in the north is limited and not comparable across jurisdictions. We recommend that federal, provincial and territorial governments begin to track and make available information on the cost of food:

- in northern communities that are eligible for Nutrition North Canada, as well as in those that are not eligible;
- from all major retailers participating in Nutrition North Canada;

We would suggest that Nutrition North Canada is in fact a simple northern subsidy that has been built on a flawed, overly ambitious policy rationale. If the program is to continue in its current form, it can and should be grounded in a more realistic and comprehensive policy and program approach to the price of food in the north.

- for all major foods consumed by northerners, rather than only those in the Revised Northern Food Basket (RNFB);
- via third-party groups, to complement retailer-supplied price data;
- in formats that correspond to actual eating patterns of northern households (as with the RNFB);
- via methods that are developed jointly, and that are comparable across jurisdictions.

4 An increase in the federal government’s knowledge of the complex and changing variables that contribute to the price of food.

If Nutrition North Canada is seen as one program within a broad approach to reducing the price of food in the north, the federal government has a responsibility to research and potentially address cost factors that fall partially or completely outside the purview of the program. To our knowledge the federal government has not engaged in multivariate analyses of the range of factors that contribute to northern food costs.

5 Armed with the information provided by (4) above, the federal government can set targets for the cost of food in NNC-eligible communities, as well as in communities that are not eligible for the program. While Nutrition North Canada is meant to “provide Northerners in isolated communities with improved access to perishable nutritious food,”²² the program has no actual food cost targets. There is therefore little basis for evaluating the success or failure of the program in a meaningful way.

These recommendations, which follow from this paper’s analysis of broad Nutrition North Canada policy, do not address other factors that contribute to the unaffordability of adequate, nutritious food in the north (e.g. widespread low household income). They also do not address a range of possible programmatic improvements to Nutrition North Canada, including:

- Increasing the fairness of the program by including the approximately 50 communities that are nominally eligible for the subsidy but do not currently receive it;
- Implementing the full subsidy in communities currently receiving only the partial subsidy;
- Revisiting the assumption that retailers will increase the amount of warehouse space to store non-perishable goods shipped via sealift, particularly as it relates to very small communities.

These and other recommendations are addressed more fully in a companion paper, *What Will it Take to Make Real Progress on Northern Food Security?*

Endnotes

- 1 The federal government recently announced budgeted increases to the subsidy portion of Nutrition North Canada. See <http://news.gc.ca/web/article-en.do?nid=907069>.
- 2 The partial subsidy is available to communities that participated in the Food Mail program and “received between 100 and 14,999 kg (annualized) of perishable food shipments and less than \$4 per month per resident in transportation subsidies” in 2009 -2010. See <http://www.nutritionnorthcanada.gc.ca/eng/1367932314461/1367932387670>.
- 3 Aboriginal Affairs and Northern Development Canada (2015). *Nutrition North Canada*. www.nutritionnorthcanada.gc.ca.
- 4 Aboriginal Affairs and Northern Development Canada (2015). *Results*. <http://www.nutritionnorthcanada.gc.ca/eng/1415649594068/1415649613120>.
- 5 The Revised Northern Food Basket is a group of foods intended to provide a nutritious diet for a family of four. It was designed to take account of the types of food generally consumed by northerners, and to be consistent with Canada’s Food Guide. See http://publications.gc.ca/collections/collection_2008/inac-ainc/R3-56-2007E.pdf.
- 6 Statistics Canada (2015). *Consumer Price Index, all food purchased from stores*. CANSIM table 326-0020.
- 7 For information on the price of the Revised Northern Food Basket, see <http://www.nutritionnorthcanada.gc.ca/eng/1415647255632/1415647437113#tpc3>.
- 8 Average cost of the RNFB in March 2013. See <http://www.nutritionnorthcanada.gc.ca/eng/1429275989528/1429276029787>.
- 9 The Nutritious Food Basket for a family of four in Toronto cost \$183 per week in 2013. See City of Toronto (2013). *Nutritious Food Basket – Toronto 2013*. <http://www.toronto.ca/legdocs/mmis/2013/hl/bgrd/backgroundfile-61671.pdf>.
- 10 The federal NDP recently announced that it believes 46 additional communities should be added to the program.
- 11 Aboriginal Affairs and Northern Development Canada (2015). *Reports on the cost of the Revised Northern Food Basket*. <http://www.nutritionnorthcanada.gc.ca/eng/1415647255632/1415647437113#tpc3>.
- 12 See <http://www.nutritionnorthcanada.gc.ca/eng/1415538638170/1415538670874>.
- 13 For a list of eligible foods, see <http://www.nutritionnorthcanada.gc.ca/eng/1415548276694/1415548329309>.
- 14 In the current document, “profit margin” is defined as the amount by which revenue from sales exceeds all costs. In the majority of cases, pre-tax profit margins are implied.
- 15 Office of the Auditor General of Canada (2014). *Report of the Auditor General of Canada. Chapter 6, Nutrition North Canada – Aboriginal Affairs and Northern Development Canada*. Ottawa: Government of Canada.
- 16 Aboriginal Affairs and Northern Development Canada. *Audit of Nutrition North Canada*. Ottawa: Government of Canada. See <http://www.aadnc-aandc.gc.ca/eng/1375887194752/1375887248731>.
- 17 Office of the Auditor General of Canada (2014), page 6.

-
- 18 Industry Canada (2015). *Canadian Industry Statistics – Grocery stores (NAICS 4451): Retail revenues and expenses*. Ottawa: Government of Canada. See <https://www.ic.gc.ca/app/scr/sbms/sbb/cis/revenues.html?code=4451&lang=eng> .
 - 19 Government of Canada (2014). *How Nutrition North Canada works*. See <http://www.nutritionnorthcanada.gc.ca/eng/1415538638170/1415538670874> .
 - 20 Government of Canada (2015). *Northern food retail data collection & analysis by ENRG Research Group*. See <http://www.nutritionnorthcanada.gc.ca/eng/1424364469057/1424364505951> .
 - 21 G. Dargo (2008). *Food Mail program review. Findings and recommendations of the Minister’s Special Representative*. Available at <http://caid.ca/FoodMailRev123108.pdf> .
 - 22 Government of Canada (2015). *Nutrition North Canada*. See <http://www.nutritionnorthcanada.gc.ca/eng/1415385762263/1415385790537> .

About Food Banks Canada

Food Banks Canada is the only national charitable organization dedicated to helping Canadians who are hungry. We support a network of 10 Provincial Associations and more than 500 food banks. Together, our network assists close to 850,000 Canadians who turn to food banks each month. Our work is focused on three core areas: raising food and funds; delivering programs and services; and influencing policy through research, awareness raising, and advocacy.

**Our vision:
a Canada
where no
one goes
hungry.**

Author: Shawn Pegg

Research team: Diana Stapleton, Philippe Ozga

Copyright 2016 Food Banks Canada.

All rights reserved.

ISBN: 978-0-9921091-6-5



Relieving hunger today.
Preventing hunger tomorrow.

5025 Orbitor Drive
Building 2, Suite 400
Mississauga, ON L4W 4Y5
info@foodbankscanada.ca
www.foodbankscanada.ca

