



Report of the Can-Trace Small and Medium Enterprises (SME) Working Group



Agriculture and
Agri-Food Canada

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Executive summary

Canada is a country with generally much smaller businesses in the agriculture and food sector compared to our major trading partners. In order to support the potential of these micro, very small, small and medium enterprises (SME) for the Canadian economy, it is important to pay attention to their special needs.

During consultations with industry across Canada on the White Paper, and then on a proposed Roadmap for an industry-led development of a national capacity for traceability in the food supply chain, there were repeated recommendations that a special effort be made to consider the needs of the micro, very small, small and medium sized businesses. In support of those recommendations, the Can-Trace Steering Committee established and mandated a SME Working Group to:

“Examine the special requirements of SMEs and to provide a series of recommendations to the Steering Committee on the programs and services that could be established to facilitate implementation of the traceability standards by small and medium sized businesses.”

For its report to the Steering Committee, the Working Group considered the special needs of SMEs throughout the supply chain. It recommends that in the process of developing all the general information, standards, training and tools etc. to assist companies implement traceability solutions, Can-Trace – and in particular its Working Groups – build in or develop additional tools to address the needs of SMEs. The Working Group report highlights areas of special concern.

The Working Group also recommends that the Steering Committee extend the mandate of the Working Group to bring forward the needs of SMEs to the attention of other Can-Trace Working Groups.

A review of what is Can-Trace

Can-Trace is a collaborative industry-led effort by national food supply chain associations to design and test national, voluntary industry standards and tools to facilitate whole-chain food product traceability for Canada. Representatives of federal and provincial governments also participate in Can-Trace and bring their public sector perspectives of markets and regulatory requirements.

Can-Trace is directed by a national Steering Committee composed of representatives of national industry associations and government observers. The Electronic Commerce Council of Canada (ECCC) provides the Secretariat function for the Can-Trace initiative.

Once the various standards and supporting implementation guidelines, etc. are developed, Can-Trace is committed to promote, educate, and train food supply chain stakeholders about the standards and how to implement them.

As a collaborative process, Can-Trace sought the input and support of industry for its work. From that feedback the following general principles were developed to guide the initiative:

- Any standards created for food product traceability in Canada must be internationally compatible, whole-chain in scope, accommodate all foods whether single commodity or multi-ingredient, and based – where applicable – on EAN.UCC standards.
- Standards must facilitate relatively cost-efficient tracing for the products they apply to and – where appropriate – should leverage existing infrastructure, data capture and management solutions.

- Any unique requirements identified for the Canadian traceability standards will be promoted for incorporation into international standards.
- The effectiveness of proposed standards will be evaluated through pilot testing.
- All work on the Can-Trace initiative will be conducted in an open and transparent manner where all who wish to participate are welcome.

Why the need for Can-Trace ... and an SME Working Group

At the time of the launch of Can-Trace in the late summer of 2003, the capacity for full supply chain traceability in Canada was spotty at best. Where it did exist, it was mostly as part of HACCP recall requirements, or was limited to collaboration between several trading partners. Unless the product chain-of-possession was vertically integrated, it seldom included complete traceability from farm to retail. Further, the timeframe to produce product traceability information and documentation tended to be slow. Increasingly, domestic and international market and regulatory requirements for whole-chain traceability pointed to the need for universally accepted national and international standards on how to collect keep and share data on the traceability of all products.

Canada has no national standards for traceability in terms of data requirements, communications protocols, system performance, product traceability certification, etc. Individual businesses have been developing their own internal systems to meet regulatory requirements for traceability of specific foods, or groups of trading partners were assembling proprietary traceability systems in response to growing buyer requirements.

Traceability of the food supply quickly became a top priority for buyers in response to rapidly increasing public concerns about food safety - following a variety of high profile food recalls around the world (as a result of foot and mouth disease, BSE, etc.). Then came the urgency of an additional focus – food security – following the events of 9/11 in the U.S.

In the confusion of the sudden new demands for traceability, Canadian SMEs were increasingly being disadvantaged by having to consider investing in multiple traceability systems involving different regulatory and customers requirements in both domestic and export markets.

In the summer of 2003, the notion of a single set of voluntary national standards for whole-supply chain traceability from farm-to-retail began to coalesce across Canada. Previously, the federal, provincial and territorial governments had jointly stated, in their Agriculture Policy Framework agreement of 2003, that they wanted a capacity for traceability of 80% of the food supply to be in place in Canada by 2008. They offered to partner with industry to co-fund the development of this capacity for national traceability. And they linked this objective to overall efforts to brand Canada as a world-leading supplier of safe foods – and to be able to prove it – with traceability!

To meet these objectives will require the support and participation of all participants in the supply chain – big and small. Hence the establishment of the SME Working Group to help facilitate that.



Composition of the SME Working Group

The SME Working Group is composed of companies, industry associations and federal and provincial governments.

Agriculture and Agri-Food Canada
Aquaculture Association of Nova Scotia
British Columbia Shellfish Growers
Bulmer Consulting
Canadian Federation of Independent Grocers -- Chair
Canadian Health Food Association
Canadian Honey Council
eBiz Professionals Inc.
Electronic Commerce Council of Canada
Faxinating Solutions
Government of Alberta
House of Pure Maple Syrup
Ontario Ministry of Agriculture and Food
PGCTI
Provigo
RCM Technologies
Saskatchewan Herb & Spice Association/National Herb & Spice Coalition

What is an SME?

The Working Group noted that for the purposes of its work, the term SME (Small and Medium Enterprise) did not adequately describe the scale of businesses needing special consideration. In the Canadian context, many 'small' supply chain businesses would be more appropriately referred to as 'micro' enterprises. Typical 'micro' enterprises would be those with as few as one or a handful of employees.

For the purpose of Can-Trace, the Working Group used the following definition: A "SME business" is understood to be any enterprise with fewer than 50 employees – or fewer than 100 employees in the case of the manufacturing sector. Regardless of sector, small businesses have sales volumes of less than \$5 million/year.

A "Medium-sized business" is an enterprise with more than 50 (100 for manufacturing) and less than 500 employees, with sales volume between \$5M and \$20 M.¹

Whatever the technical definition of a SME, the SME Working Group feels it is useful to recall the following typical characteristics when considering whether a Can-Trace standard, activity or tool is SME-friendly:

- SMEs are usually owner-operated and privately held, and are often family-based enterprises. Decisions are therefore concentrated, and personally motivated.
- SMEs are understood to be the employment and revenue growth engine of Western economies. Participants are proud of this accomplishment and see the differences in their modes of operation, compared to their corporate cousins, to be the reasons for this success.
- SMEs exist in most economic sectors and are therefore as disparate as farmers, small retail operations, processors and service providers. They also differ greatly by size within the technical definition, and do not see themselves, correctly, as a homogenous group. Their individuality, combined with their limited availability

¹ Canadian Report to APEC Survey on Small and Medium Sized Enterprises

of time, requires simple and easy-to-implement solutions.

- SME owner-operators work longer hours and are paid less than their corporate counterparts. This may be due to the requirement that they continually reinvest in their growing businesses and may make them particularly resistant to non-core spending.
- Most SMEs target a niche industry sector, defined either by product or service differentiation. This may be an advantage, if traceability is seen to support their differentiation strategy.
- SMEs may have a proportionately limited number of suppliers and customers. This may simplify implementation among participants.
- SMEs understand the success factors for their business and perceive considerable risk in external pressures that might impact them. This may result in individual resistance to implement traceability programs.
- SMEs rely on a network of individual confidants/counselors who are familiar with the SME reality, and probably with the particulars of their specific business. Industry associations are favoured for cooperative effort; market building is supported.
- SMEs are often suspicious of and resistant to government programs.
- SMEs traditionally confine their operations to a regional or country basis.

To illustrate the magnitude of the outreach task facing Can-Trace and its supporting associations, according to the Statistics Canada 2001 Census of Agriculture, there were more than 230,000 farms with gross farm receipts of \$2500 or more. Producers of cattle (beef) accounted for 67,814, dairy 18,574, hog 7,148, poultry and eggs 4,394, fruit 6,560 and vegetable 2,890². Of the total, over 85% of farms would qualify as SMEs.

In the seafood sector, according to Fisheries and Oceans Canada, in 2002 there were almost 60,000 fishermen of which the overwhelming majority of these are SMEs.

While farmers and fishermen comprise the bulk of SME numbers, other SME participants in the food supply chain can be found in the following areas for which rough numbers are provided:

Food processors 6,000

Grocery stores 24,000

Restaurants 64,000

Non-commercial foodservice locations 6,000

Distributors 6,000

(The above figures do not include input suppliers or truckers).

This equates to more than 400,000 individual locations.

SME issues as highlighted by the SME Working Group

The following issues were distilled from the Can-Trace cross-country consultations and the Working Group's own deliberations:

- **Is traceability necessary for all products?**
 - It is apparent at the SME level, that some primary producers in some commodities are having difficulty understanding the need for a traceability solution for their products. This tends to be in commodities that have not been negatively impacted by recent events such as BSE and avian flu, where there has been no

² Statistics Canada Agricultural Census 2001



industry-wide recalls and their historical good safety record has not been compromised. In particular, smaller businesses wonder if their small volumes warrant additional traceability requirements.

- **Concerns about privacy and liability**

- Traceability is often linked to concerns about increased liability. As a result, issues surrounding sharing of information, deemed confidential in nature, are of concern to SMEs. While businesses are only being asked to share basic information that they most likely already currently provide to supply chain partners and governments, this is not well understood by the smaller businesses. This needs to be communicated.

- **The confusion of new federal, provincial and international regulatory requirements**

- Few SMEs are aware of, or conversant with, the impact that current and impending domestic and international traceability legislation and regulations will have on their sector and individual businesses. As participants in a major food trading nation that is heavily involved in the import/export of food, Canadian SMEs need to be aware of all legislation that has the potential to limit their market access, such as:

Canada

- The federal, provincial and territorial governments of Canada jointly declared that they want at least 80% of the food supply to be traceable by 2008.
- Quebec requires whole-chain traceability for beef by early 2005, and has indicated it expects to extend this requirement to other foods.

European Union

- Regulation No.178/2002 (General Food Law) established the general requirement for traceability at all stages of the production and distribution chain in the food and feed sectors by 2005. Its objective is to facilitate targeted individual product withdrawals and/or to provide appropriate information to consumers or regulatory officials.

United States of America

- The 2002 Bioterrorism Act directs the Secretary of Health and Human Services to take steps to protect the public from a terrorist attack on the United States (US) food supply. To carry out its provisions, the Food and Drug Administration (FDA) published regulations to enable targeted efforts to monitor and inspect imported foods and to allow quick identification and notification of food processors and other establishments involved in any deliberate or accidental contamination of food. That focus is traceability for food security.

Codex Alimentarius Commission – Traceability Framework

- The Food and Agriculture Organisation (FAO) and World Health Organisation (WHO) established the Codex Alimentarius Commission (Codex) to develop food standards and guidelines under a joint food standards program. Its main purpose is to protect consumer health, ensure fair trade practices in the food trade and co-ordinate all food standards work undertaken by international governmental and non-governmental organisations. The Commission is currently developing a "Preliminary Set of Principles on Traceability/Product Tracing."

- **What is the cost?**

- The most frequently asked question about traceability on behalf of SMEs during the cross-Canada consultation sessions was "What is the cost?" The SME Working Group noted this question would best be

addressed by the Can-Trace Business Working Group as part of its development of business cases and cost/benefit templates for a variety of business sizes – with a special reference to the information needs of SMEs.

- **Relationship between food safety, food security and traceability**

- There is ongoing confusion among many SMEs regarding the relationship between food safety, food security and traceability. The intent of Can-Trace is to develop traceability standards, guidelines, tools, etc. to facilitate the identification, isolation and recall of food for a variety reasons. While food safety is the main reason given for the need for food traceability – and more recently food security in the case of exports to the US, the capacity for traceability could also be used to track and trace products for quality related characteristics such as Organic, Genetically Modified Organisms (GMO) and other quality attributes. Information materials are required to assist SMEs to understand the differences and how traceability – using Can-Trace standards – can help even in smaller businesses.

- **The need to improve record keeping**

- Can-Trace involves exchanges of information. Commodity-specific guidelines will be developed to identify – in a standardized way – the minimum data and communications requirements necessary to collect, keep and share data in a one up/one down traceability model. This means that accurate record keeping is essential for an effective traceability solution. Many SMEs will need to improve their record keeping practices.

- **Technology solutions**

- Incorporating information technology into a small business is challenging. Although at the primary producer level traceability is as much about basic information sharing as it is about technology, the incorporation of technology can streamline the business practices of small enterprises. The major obstacle to using new technology has always been the cost of entry. For traceability, there are now much more cost-effective technologies available to assist SMEs in data capture, record keeping and communication. However, companies consumed with the day-to-day activities of running a small business on tight budgets and limited human resources will need assistance in finding access to and then justifying those technology investments. SMEs will need information about what is available.

- **Communications**

- One of the biggest challenges facing Can-Trace – with its mandate to account for traceability standards for the entire farm-to-retail food supply chain – is to involve several hundred thousand SMEs. It is communicating all the information that chain participants will need in order to make decisions about implementation. Much of the responsibility for communications will fall on the respective industry associations to “get the message out” to their members. However, even if every association communicated the message to all their members, it was felt this likely represents less than 10% of all SMEs in the agri-food and seafood industries. This is because many SMEs don’t belong to associations or belong to associations with very limited resources. On the other hand, some sectors have very large numbers of businesses – for example 15,000+ lobster fishermen or 50,000+ dairy farmers, etc. There needs to be a well thought out multi level communication / education / training strategy that will generate the documents Can-Trace and industry associations can use to reach individual SMEs.



Recommendations to the Steering Committee

The Working Group recognizes all businesses – regardless of size – will need the following information, activities, tools, etc. However the limitations of resources for small enterprises such as time and funding will require solutions targeted/customized with these limitations in mind. For example, where numbers warrant, solutions specific to a SME business could be developed. This might be small-scale software designed for small numbers of products as compared to more costly software for large volume companies.

The Working Group recommends that the Steering Committee:

1. Develop introductory information materials for SMEs such as "Can-Trace: Easy Steps To Traceability". This document should elaborate on the steps involved for whole-chain traceability in order to ensure that companies understand the concept of a one up/one down model, identify commodity-specific data they are required to collect, keep and share, options for data communication, recall scenarios, etc.
2. Develop a short, concise briefing document that highlights current and pending domestic legislation regarding food safety and traceability at a commodity level. This document should also address import/export legislation.
3. Develop a range of education materials targeted to SMEs. These materials would be utilized by Can-Trace and individual associations and accessible through the Can-Trace website. Instead of requiring travel and time to distant workshops, for smaller companies requiring a narrower focus, various media options should be available such as web-based self-learning modules, CDs, etc. Topics could include:
 - a. identifying business needs for traceability for food safety, food security, supply chain management, etc.,
 - b. gathering the required business data,
 - c. integrating the new traceability standards into food recall procedures,
 - d. integrating traceability with quality programs,
 - e. provide technology options for traceability,
 - f. costs of traceability programs,
 - g. reducing liability through improved traceability, etc.
4. Develop a database of service providers/consultants across Canada that offers expertise in implementing Can-Trace standards. (the last sentence was removed with the "accredited" in it).
5. Encourage the development of an inventory listing technologies suitable for use by a range of SMEs.
6. Prepare a list of possible sources of funding/assistance for traceability initiatives by SMEs. The list should include federal, provincial, municipal agencies and other commercial lending and incentive organizations and could include possible tax implications relative to expenditures where appropriate.
7. Request Can-Trace member organizations to each identify a SME champion within their organization to co-ordinate the promotion of SME information to their members.
8. Request Can-Trace member organizations to openly support the SME programs and services at national and regional meetings and conferences, newsletters, etc. through the pro-active promotion of the Can-Trace website, printed materials, workshops, reference library, speakers, etc.
9. Include consideration of SME importers and exporters in all Can-Trace activities.

10. Encourage Can-Trace participants to leverage the use of the Can-Trace brand to indicate their participation in the national traceability initiative, and to help raise the food safety profile of the Canada brand image among SMEs as well as larger enterprises.
11. Encourage broader industry awareness and participation by making materials for SMEs available not only in both official languages, but possibly also in some other languages – where numbers warrant.
12. Can-Trace should seek to partner with those government agencies and funding programs designed specifically for SMEs in order to properly develop and deliver the suggested programs.
13. Identify and communicate success stories of SMEs implementing Can-Trace traceability solutions throughout the supply chain.
14. Develop quick reference tools for SMEs such as a 1-800 SME hotline.
15. Consider the limitations on industry associations to assist Can-Trace. While they are logical information-dissemination channels for many participants in the agriculture and agri-food sector, the traceability initiative will have to compete with other current and anticipated priorities of each associations.
16. Extend and enlarge the mandate of the SME Working Group beyond this initial mandate to produce recommendations on the needs of SMEs. The Can-Trace SME Working Group wishes to continue its activities beyond the presentation of this report. It intends to complete a gap analysis of the SME sector(s) in order to further define their particular requirements, and to undertake a Risk Assessment of implementation among SMEs, including recommendations.

Respectfully submitted,



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SME Working Group

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