

BC Tree Fruits Industry Competitiveness Fund

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Final Report



globalwise inc. Submitted by Globalwise Inc.

in Association with Belrose Inc.



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BC Tree Fruits Competitiveness Fund

FINAL REPORT

Executive Summary

The key findings on strategic analysis for Competitiveness Fund projects are:

Strategic Analysis

- ▶ Achieving grower profit is a key goal for improving overall competitiveness of the BC tree fruit industry. With profitable operations, growers will re-invest and increase productivity, which will extend to the packing and marketing levels.
- ▶ Industry modernization is lagging in BC.
- ▶ The Replant Program is a major initiative that is reshaping the industry.
- ▶ Many additional strategic actions are in-process and the Competitiveness Fund will boost priorities that are under re-consideration.
- ▶ The industry should consider how Competitiveness Fund projects support broader benefits and greater industry cohesion.
- ▶ It is important to pay close attention to sequencing projects, so that later projects build on and benefit from results of earlier projects.

Competitive Landscape

- ▶ Tracking industry trends is a key for monitoring and refining a visionary long-term strategy.
- ▶ Consumers are likely to remain “on the go” and seek convenience food, but per capita consumption has proven to be very flat. The eroding middle class is a challenge that is driving premium fruit sales toward the upper 20% of consumers who have the highest income.
- ▶ Retailers have challenges with overcapacity in retail space and constant competition among surviving retailers for customers and profits. Produce aisle space is not growing and data analytics increasingly determine if a variety remains on the shelf or not.
- ▶ A continual flow of new or improved apple and sweet cherry varieties are coming to market. Many are managed to keep supply in check and induce higher prices. Marketing budgets are used to draw both consumer and retailer attention away from other varieties and marketers.
- ▶ Sweet cherries have not had nearly as much individual variety attention at retail as apples. This might change as some large marketers are attempting to establish premium cherry brands.
- ▶ International marketing alliances are commonly accepted business model for new varieties. New BC apple varieties should consider joining a successful international alliance.

Risk Factors

- ▶ New and higher levels of competition are faced by BC and every other tree fruit production area.
- ▶ Besides weather uncertainties, the strategic future of the BC industry is shaped by many factors coming from outside the province. Main factors are listed in the report to emphasize the need for the industry to take decisive actions with the Competitiveness Fund.

Priority Industry Initiatives and Project Evaluations

- ▶ Seven high priority initiatives for Competitiveness Fund support are identified in this report. They are:
 - Test Shipment of New Varieties to Key Export Markets
 - Understand the Key Markets in Western Canada
 - Enter Canadian Partnership for New Variety Development
 - Expand BC Growers Horticultural Knowledge
 - Share Best Practices of Top Performing BC Growers
 - Strengthen Social Media Presence of BC Packers and Marketers
 - Support Packer Infrastructure Improvements
- ▶ A set of criteria and a scoring scheme that weights each criterion is presented. The greatest weight is given to projects which enhance BC competitiveness and clearly articulate the expected benefits that are worthy of funding.
- ▶ Our recommendation is that in years one and two of the competitiveness grant, 50% should be allocated to research, and 25% each to marketing and infrastructure. After two years, the allocation percentages should be revisited with consideration of results attained and industry needs at that time.

Other Provincial and Federal Grant Programs

- ▶ The BC and the Federal governments have initiatives and programs that complement or extend suitable projects for the Competitiveness Program. For many of the seven initiatives recommended here there are distinct advantages for using the Competitiveness Program. However, in some cases projects could be proposed in more than one initiative or program area.
- ▶ Brief descriptions and points of contact are given for five other programs that are most often accessed by BC tree fruit industry members.

Introduction

The BC Ministry of Agriculture recently announced a new \$5.0 million Tree Fruit Competitiveness Fund for apple, cherry and other tree fruit growers throughout the province. This multi-year fund is managed by the BC Fruit Growers' Association (BCFGA) with support from the Investment Agriculture Foundation of British Columbia (AIFBC). After setting aside earmarked funding for growers who are waitlisted to receive Replant Program funds, approximately \$3.0 million is available over a four to five-year period for three key areas of priority:

- ▶ Research: cultivar, disease, pest and other topics as identified.
- ▶ Marketing: export market opportunities and market development research.
- ▶ Infrastructure: sector-based infrastructure modernization such as new equipment.

This report reviews the goals and actions identified in recent strategic plans, summarizes the competitive landscape and presents seven initiatives that address the major challenges and opportunities for the tree fruit industries in BC. The report also gives a set of criteria and a weighting scheme to evaluate project proposals. The recommended allocation of funds for the first two years of the Competitiveness Fund are also presented. Another recommendation is that close attention should be given to the sequencing of projects so later projects can build on the findings of earlier projects.

Strategic Analysis

Recent Analysis

To help guide effective use of the competitiveness funds, the starting point is an update of recent strategic assessments of the BC tree fruit sectors. Three recent strategic assessments are primary.

The most recent assessment was presented by Svan Lembke and Lee Cartier in a 2016 seminar presentation titled [British Columbia Tree Fruit Industry: The Road Ahead?](#) They presented industry participants with both quantitative and qualitative information on conventional apples, organic apples, sweet cherries and cider. They looked at both internal cluster dynamics and external drivers of change. They noted that the fruit production industries were critical to both supply and marketing service firms (the multiplier effect).

The area of apples, pears and most soft fruits had been falling, with most of that area moving to sweet cherries or grapes. In apples, sales had been declining and prices volatile, with only the expansion of Ambrosia keeping up prices. Margins were low for conventional apples but rising for organic apples. However, the latter received less marketing support. Margins in both conventional and organic apples could be dramatically increased if average yields were to increase. Yield increases would also improve the profitability of packinghouses.

Sales and revenues for sweet cherries had been growing rapidly, fueled by increased emphasis on the more lucrative export markets. However, prices and revenues were quite volatile. A yield increase from 6 tons to 10 tons per acre could increase sweet cherry margins by 140 percent.

Lambke and Cartier suggested four potential strategic opportunities for conventional apple production:

1. Increase yields with replanting of new varieties.
2. Focus on high quality fruit by removing any lower quality BC apples.
3. Follow sweet cherries and develop export markets.

4. Follow the organic apple producers and build a “low pesticide” brand.

Lambke and Cartier stressed the need for fruit firms, related industries, industry associations and government agencies to work together for the good of the industry.

The other two strategic studies were conducted in 2012 and 2015, respectively. The 2012 report by Globalwise and Belrose is titled British Columbia Apple Industry: Strategic Choices and Directions for the Next Decade. An internal, updated assessment by the BCGFA dated May 11, 2015 is titled A Growing Industry – Tree Fruit Industry Strategy 2015-2020 (Version 5.0). Readers who wish to review these two reports can find them at the BCFGFA website at www.bcfga.com.

STRATEGIC GOALS AND ATTAINMENT

The strategies emphasize the goal of grower profits, which lead to growth and higher productivity for all levels of the industry. A companion goal is industry modernization to ensure that growers, packers and marketers are maintaining their position against competitors. Industry discussion at the workshop held on May 9, 2018 affirmed that profit at the grower level is indeed critical. Data on grower prices unfortunately shows that apple prices (and net returns) have been stagnant in recent years. For sweet cherries, recent prices have been trending upward and plantings are up. This is a positive trend and the focus will center on continuing to realize higher prices as supplies increase.

The latest grower survey in 2010 revealed that growers were shifting from apples to cherries and other fruits. Since then Replant Program efforts have further boosted productive orchard development and added to sweet cherry acreage. Data for the Replant Program for 2015-2017 shows that nearly 1,100 acres of BC tree fruits have been replanted. About 700 acres of this total has been replanted to apples and about 400 acres to cherries. In apples, Ambrosia dominates, accounting for about 63 percent of all new apple plantings in the last three years in the replant program. For sweet cherries, varieties are much more widely dispersed a function of the many newer well accepted varieties that fit marketing windows and unique orchard sites.

Other pressures on the resource base in BC are also factors in orchard acreage and production trends. High land prices for non-agricultural land uses, especially housing, are limits for agriculture; however, long-term agricultural leases are an affordable though limited alternative to land ownership. Access to adequate supply of irrigation water, suitable site characteristics of soils, sun exposure and other micro-climate factors are also considerations.

Providing the industry with suitable equipment, processes and technology has been challenging. One reason is that much of the farm equipment available is capital-intensive and therefore most easily procured by larger farm operations that are beyond the typical size tree fruit farms in BC. At the packing house level, and especially for the BC Tree Fruits Cooperative (BCTFC) their aging facilities are very costly to upgrade or replace. Yet most of their main global competitors are making these investments. Newer, small scale packers in BC are building



BC has a strong program of new sweet cherry variety development. Stardust™ is a relatively new commercial variety available from nurseries licensed by Summerland Varieties Corp.

Photo of Stardust™ sweet cherries courtesy of Summerland Varieties Corp.

facilities and are expanding cold storage, which shows entrepreneurial spirit but appears to be fractionalizing the industry.

STRATEGIC ACTIONS

In the last five to ten years many initiatives to support the industry have been started or completed. A cataloging of these is instructive to indicate what has been done or can be built upon to further the effort with Competitiveness Fund actions. In the following tables these actions are listed with their status.

Table 1. Recent Strategic Actions for Quality Production

Action	Status - 2018
Extend the Replant Program	Yes – current program ends 2021 and renewal efforts have started
Form Tree Fruit Innovation Council	Partial – a committee oversaw an AgriFlex program and an Innovation Fund. A more permanent organization could be considered; however, extension was a focus at a May 9, 2018 planning session
Establish a strategic innovation fund	Yes – a committee oversaw an AgriFlex program and a Tree Fruit Innovation Fund. The new Tree Fruit Competitiveness Program may provide matching funds for applications to other innovation programs.
Introduce a revised grading system for maturity	Yes – the co-op revised its pooling process to better track apple maturity using cut-off dates
Upgrade packing equipment and technology	Partial – a large deficit continues to exist
Increase on-farm automation	Partial – a need was identified for demonstration and pilot projects, for relevant technology that is proven and exists in other apple growing regions
Strengthen and coordinate extension services	Partial – no ongoing, consistent process is in place to improve extension services and capacity

Source: A Growing Industry – Tree Fruit Industry Strategy 2015-2020 (Version 5.0), dated May 11, 2015 and updated with industry responses from May 9, 2018 workshop and individual interviews during May 2018.

Table 2. Recent Strategic Actions for Markets

Action	Status - 2018
Form Tree Fruits Marketing Council	Partial – New Variety Development Council exists for Ambrosia, but new varieties are not organized. The BC Cherry Association focuses on export market access.
Implement industry-wide generic marketing program	Partial – New Variety Development Council exists for Ambrosia; BC Cherry Association focuses effort on export market access.
Encourage value-added enterprises	Partial – more could be achieved in the Hotel-Restaurant-Institutional market, if viable.
Implement food safety programs on-farm	Yes
Implement food safety programs in packinghouses	Yes
Research organic opportunities	No
Research organic/SIR quarantine area	Yes – New objective would be to establish a standard to measure environmental achievement.

Source: A Growing Industry – Tree Fruit Industry Strategy 2015-2020 (Version 5.0), dated May 11, 2015 and updated with industry responses from May 9, 2018 workshop and individual interviews during May 2018.

Table 3. Recent Strategic Actions for Human Resource Needs

Action	Status - 2018
Revise housing bylaws	Yes
Initiate worker-housing program	No
Allow transfers in Seasonal Agricultural Worker Program	Yes – limited and must apply prior to transfer
Encourage participation of domestic farm workers	Yes
Undertake a labor market analysis	Underway – a national review is taking place
Develop education and training programs	Partial – lacking a long-term approach

Source: A Growing Industry – Tree Fruit Industry Strategy 2015-2020 (Version 5.0), dated May 11, 2015 and updated with industry responses from May 9, 2018 workshop and individual interviews during May 2018.

Table 4. Recent Strategic Actions for New Varieties

Action	Status - 2018
Establish coordinating body for commercialization	Yes – Summerland Varieties Corporation
Develop strategic approach to new varieties	Partial – Canadian Apple Breeders Network is formed but limited in scope to Canadian varieties
Joint ventures to access other varieties	No
Expand acreage for new variety trials	Yes

Source: A Growing Industry – Tree Fruit Industry Strategy 2015-2020 (Version 5.0), dated May 11, 2015 and updated with industry responses from May 9, 2018 workshop and individual interviews during May 2018.

ADDRESSING INTERNAL INDUSTRY COHESIVENESS

Past strategic assessment identified mistrust and lack of common purposes within the tree fruit industry as constraints to overall growth and prosperity. This still exists and to a certain extent cannot be avoided since BC growers, packers and marketers often compete for the same customers and markets. However, the industry can find common objectives that can lead to improved performance for the entire industry. The Competitiveness Fund projects need to be structured in ways that provide these broad, positive outcomes.

Changes in the Competitive Landscape

To be effective, any long-term strategy for the fruit industry in BC must consider the changes that have occurred, are occurring, and are likely to occur, in the competitive landscape at the international, national and local level. This summary focuses on four main areas of change: consumers, retailers, products and marketing alliances. The general backdrop is of steadily increasing world supplies of apples and sweet cherries that will create competition for the BC fruit industry for at least the next decade.

How Consumers are Changing

The rate of growth of the populations of Canada, the United States and many developed countries continues to slow. In general, populations are becoming older. There are fewer children and youth, and more senior citizens. Because of immigration, populations are becoming more ethnically diverse. The baby boomer generation that set so many trends over the last four decades is now outnumbered by the millennials that will dominate trends for the foreseeable future. The millennials are marrying later, having fewer children, and adopting different attitudes and lifestyles that influence their food consumption and preferences. They are less susceptible to influences from centralized mass media, and more sensitive to diffused social media.

Some consumer influences will remain the same. Consumers are still time-stressed. Convenience remains important. More food is eaten away from home or as snacks, rather than formal meals. Quality generally trumps price in purchasing decisions, especially for the consumer strata that has higher discretionary income. That has favored increased interest in organic foods, and in “buy local” movements.

Many influences have led to a “hollowing out” of the middle classes. The demise of many traditional industries has been hastened by the shocks of the Great Recession that began in 2008. One result has been wider income divisions in society. In general, the 40% in the lowest income group in North America have lost ground in assets and incomes. The middle 40% have made limited gains. In contrast, the top 20% have enjoyed large increases in assets and incomes. The higher a consumer’s income, the more likely they are to buy premium apples and sweet cherries, including club varieties and organic offerings.

Per capita consumption of fresh apples has been static in Canada, the United States, and many developed countries, while that of sweet cherries has been rising. This outcome is to be expected. As societies get older and richer, they tend to diversify consumption into less traditional fruits, nuts and berries, and into newer varieties of apples and sweet cherries. This diversification offers both challenges and opportunities for growers, packers and marketers of traditional fruits.

In contrast to the developed world, many developing countries have either youthful and growing populations and rapidly rising per capita incomes, or both elements, so potential demand for fresh apples and sweet cherries is growing. However, the BC fruit industry faces challenges in developing countries, including legal market access, both open and concealed protectionism, difficulty in ensuring continuous, sufficient supplies, and erratic funding for market promotions. Until these problems are comprehensively addressed, the BC fruit industry will continue to be dependent on an opportunistic approach to the most promising markets.

How Retailers are Changing

In the developed world, growth of total consumer spending, including spending on food, remains far below past rates of growth. This has led to overcapacity in retail space and intense competition. Relatively new formats, such as barebones discounters like Aldi, club warehouses like Costco, and specialty chains like Trader Joe’s, have gained substantial market share. Numerous established chains have been desperately redeploying their assets to avoid erosion of their businesses. Surviving chains have both consolidated and added diversified formats.

Each of these retail structures and formats place their own unique demands on suppliers. While retail food chains still demand competitive prices, they have also become more specific in the quality attributes they want. Many want assistance, not just in moving produce items onto their shelves, but in moving them rapidly off their shelves to consumers. Shelf space for produce is not growing, and many alternative fruits are vying for that shelf space. Retailers are increasingly able to use data analytics to measure what each item contributes to produce sales, store traffic, or store profitability. An apple variety will only be retained if its contribution to the retailer is deemed large enough.

Fresh Apple Products are Changing

Breeders around the world are offering a steady stream of new or improved apple and sweet cherry varieties. Many are being introduced as managed varieties where supply is deliberately kept in controlled shortage to induce higher prices. Big marketers are bidding against each other for the regional or national franchises for the most desirable new varieties. A number of new varieties, such as SnapDragon in New York, or Cosmic Crisp in Washington State, are restricted to in-state producers. Thus, the BC industry is at risk of being excluded from many of the most promising new apple varieties. This is not true in sweet cherries, where BC has been a leading developer of new or improved varieties.

The era of the apple as a commodity is coming to an end. In the future, new apple varieties will be tightly controlled. They will have a catchy name, a unique story, and a unique label that reinforce a single image.

New varieties will be presented in expensive packaging, have strong promotional backing and an active presence in social media. While it is difficult to predict which individual apple varieties will be most successful in winning over retailers and consumers, the newer varieties, as a group, are likely to displace many traditional apple varieties, especially among more affluent consumers. In the case of sweet cherries, individual varieties have not been able to carve out unique niches with retailers and consumers. However, that could change rapidly as several large marketers are already attempting to establish premium sweet cherry brands.

International Alliances the New Norm

Commercialization of many new apple and sweet cherry varieties already involve cooperation among breeders, nurseries, growers, packers and marketers from many countries in both the Northern and Southern Hemispheres. One of the oldest consortiums is the Associated Group of Independent Nurseries (AIGN) that supported the global roll-out of Pink Lady. One of the newest is IFORED which is promoting adoption of red flesh varieties like Kissabel. Marketing alliances have also been formed for varieties like Jazz, Kiku Fuji, Kanzi, Koru, etc., to increase clout with major retailers.

The BC tree fruit industry needs to take the initiative to ensure that it is included in key international marketing alliances for new varieties developed outside of BC. The industry needs to demonstrate to foreign sponsors of new varieties that it is willing to undertake the burdens of membership in their alliances. The industry can also exercise leverage through the valuable intellectual property it has generated in apples and sweet cherries through the Summerland breeding program and the Summerland Varieties Corporation to win acceptance as a desirable partner in current or future alliances.

Risk Factors

Tree fruit growers, packers and marketers located in BC compete against each other, as well as against others in Canada and from the rest of the world. Competition is very intense.

Agriculture always deals with the potential risk of adverse weather that can reduce crop size or quality. In addition, future risks for the BC industry can come from many factors. These include:

1. Consumer preferences could shift to varieties that are not currently produced in BC.
2. BC apple producers could become unduly dependent on a single variety, Ambrosia, that could be faced with falling prices.
3. Large increases in tree fruit production in Canada or globally could significantly alter the supply-demand balance, sending all fruit prices to lower levels for an extended period.
4. The quality reputation of BC fruit could be diminished by the performance of the weaker growers.
5. Global economic conditions or trade disruptions may influence the behavior of BC competitors in a manner that could disrupt the sales of BC fruit.
6. Further consolidation of the retail food industry could lead remaining major retailers to demand supplier concessions that are unfavorable to smaller industry participants like those in BC.
7. Labor strife or shortages could disrupt timely orchard or packing operations, and lead to product loss due to perishable condition of tree fruits.
8. The Canadian dollar could revert to par with the U.S. dollar. If the Canadian dollar exchange rate strengthens, there would be a loss of the Canadian advantage in both its domestic market and in the U.S. market.

The probability of these risk factors occurring is largely unknown. However, they are potential factors that could ultimately affect the outcome of any actions taken with the Competitiveness Fund.

Industry Readiness

The dramatic changes taking place in the competitive situation for fresh apples and fresh sweet cherries among retailers, consumers, competitors and product offerings means that the BC fruit industry will have to make major changes to stay competitive. Accordingly, the relevance of any projects and the success from application of Competitive Fund project findings will be heavily affected by the readiness of different parts of the industry to react strongly and coherently.

Our summary of the present state of readiness of the industry is derived from what we have learned from (a) previous BC studies by Globalwise Inc. and Belrose, Inc., (b) previous strategic analyses by other consultants, (c) evaluation of existing industry data, (d) a symposium of industry leaders held in Kelowna on May 9, 2018, and (e) subsequent one on one discussions with industry leaders in early June 2018.

Growers

Many growers have small acreage and depend on off-farm work for a substantial part of their income. Many are difficult to attract to training sessions, and do not recognize the critical importance of fruit quality, greater yield and effective marketing for grower profit. These characteristics have also contributed to a lack of discipline in the BC grower community and made foreign owners of new varieties reluctant to franchise their new varieties in the province.

This contrasts sharply with the experience of grower members of the Scotia Gold cooperative in Nova Scotia where growers are more homogeneous in size and ambition and have been able to use the relatively high returns from Honeycrisp to attract new foreign apple varieties. In Australia, the Australian Apple and Pear industry has succeeded in upgrading the performance of its growers by so-called “orchard walks” in major producing areas, where outside experts have been brought in to demonstrate improved techniques under different growing conditions. That program has been funded by the Australian Apple and Pear Association (APAL) and lead by the New Zealand consulting company, AgFirst, for over a decade.

Packers

A decade ago, British Columbia apple growers were served by four separate cooperative packers, and a small number of independent packers. The four cooperatives were consolidated into a single cooperative entity, BC Tree Fruits Cooperative, in 2008. The main benefits initially achieved were efficiency from eliminating redundancy of several executive positions, better management of fruit marketing from CA storage and more consistent supply of quality fruit.

However, continuing attrition in the total BC apple crop, financial stress in the national and provincial governments and in banking, and continuing increases in the costs of labor and other inputs, have made it difficult to maintain these goals. Dissatisfaction with returns from BCTF has led to a new wave of fractionation in the packing sector. Some larger growers, who believe that the cooperative system protects the weaker growers and penalizes the stronger growers, have set up their own packing operations, but these new businesses will continue to lack the economies of scale that can be achieved by competing producing districts like Washington State.

The BC Tree Fruits Cooperative has several possible options in getting back to the original goals that drove consolidation. One is a sequence of profitable years that could generate the surplus revenues needed for modernization, perhaps in combination with selling surplus properties. Another is funding from government, either as direct grants or loans, or as guarantor for commercial loans taken out by BCTFC. However, coop

revenues tend to run counter to crop size, unless there is a major crop failure among competitors, such as occurred in Ontario in 2012. In addition, getting government help will also be difficult. It will require demonstrating the critical role of the fruit industry in the economies of the Okanagan.

Summerland Varieties Corporation (SVC)

SVC has been in existence for two decades. Its primary goal has been to commercialize new varieties of apples, sweet cherries or other fruits developed by breeders at the Summerland Research Centre or elsewhere in BC, such as the chance seedling, Ambrosia. Following its first five years of establishment, SVC has been a self-sustaining entity primarily based on royalties and other fees collected from licensed varieties along with government grants. SVC can commercialize new varieties developed elsewhere in Canada or in other countries. However, SVC's mission has been obscured by frequent changes in leadership.

The Summerland Research and Development Centre cherry varieties, and the privately held Ambrosia apple variety are successes for SVC. The cherry varieties have succeeded due to their late-season maturity, high quality fruit, and split resistance, among other desirable traits. If these traits can continue to be refined and new desirable traits added, the cherry line at Summerland Research and Development Centre will continue to be successful.

For Ambrosia, a grower levy in support of development and marketing of this new apple led to government matching investments. The cooperative packinghouse supported the introduction of Ambrosia, encouraged by the investments from growers and governments. However, current conditions of increased competition from the entry of many more new apple varieties force backers of a new variety to deploy greater market development effort and expense to achieve success.

SVC has not released and supported a new apple variety since Salish in 2013, perhaps waiting for the best strategic opportunity. The introduction of Salish through the "Born In BC" program is an example of a previous early-stage BC packer/marketing program, but BCTF's commercial launch failed and the variety was abandoned prematurely in the view of many growers. Others point to the lack of funds to properly test market Salish or launch it commercially in all Canadian markets.

The innovative SVC agreement with Algoma Orchard's Ontario apple packing business demonstrates what is possible. SVC must seek a way of engaging BC packers in generating the unique, Canadian opportunity for exciting, new apple varieties under license from Summerland Research and Development Centre.

Summerland Research and Development Centre (SuRDC)

A division of Agriculture and Agri-Food Canada, SuRDC has been one of the world's primary breeders of new sweet cherry varieties. It has introduced several new apple varieties, but none of these has had the commercial success of the sweet cherry varieties. SuRDC claims to have several promising new apple varieties in the pipeline. However, SuRDC must compete with other divisions of Agriculture and Agri-Food Canada for the funds needed to carry each new variety through the various stages from original crosses to commercial product. It takes significant funding for the multiple test plots, sensory tests, focus groups and other market tests needed to commercialize a viable new apple variety. SVC provides industry investment, matched with federal innovation funds, to achieve the early stages of development of a new apple variety. However, in an increasingly competitive marketplace for new varieties, SVC should consider increasing the early-stage support for promising, strategic varieties.

Need for Industry Cohesion

Because the BC fruit industry is relatively small, it needs the support of all segments of the industry. This includes growers, packers, marketers, researchers, field representatives and intellectual property managers to generate the maximum possible revenues from existing varieties and to successfully bring new varieties to market. Growers appear to widely disagree in visioning the best path forward for the industry.

An example of such industry cohesion already exists in the form of the New Tree Fruit Varieties Development Council (NTFVDC) which collects assessments from growers and allocates those funds for the promotion of the Ambrosia apple variety. The NTFVDC is empowered to carry out that role for other new apple varieties. It would also be possible to set up a similar organization for each new variety. However, the success of any new variety will continue to be heavily dependent on the commitment from growers, packers, marketers, SVC, SuRDC, field representatives, industry associations and related government agencies.

Improving the readiness of the BC fruit industry will require time and patience. It will require setting benchmarks for progress for each sector over the next few years. However, other producing districts have shown that such progress is possible if the fruit industry makes the necessary commitment and is persistent in its efforts. An essential need is strong, unifying leadership to bring disparate parties toward a much more common vision for the future.

Priority Competitiveness Fund Initiatives

From ideas generated at the industry workshop on May 9, 2018 and in follow-up discussion with industry members, over 20 potential initiatives were identified in the categories of research, markets and infrastructure. This has been narrowed to a “short list” recommended for Competitiveness Project funding. This is important because funding is limited, and focus is needed on those with the greatest industry payoff. These also include features from other projects discussed in the workshop. The remaining initiatives that have been identified are listed in Appendix B.

These initiatives are described with reference to logical sequencing, i.e. which should be funded prior to others that might follow later. Examples are discussed below.

- D **Test Shipment of New Varieties** – Evaluate sweet cherries and apples that are in late-stage testing at the SuRDC and SVC for arrival quality at key export markets. This testing is needed under actual shipping conditions to determine if these varieties stand up to the rigors of long distance shipping and meet consumer preferences in the export markets.
- D **Understanding the Key Markets** – Assess tree fruit preferences and consumption at the retail level in Western Canada. Emphasize determining characteristics and the purchase decisions of the highest per capita apple consumer groups. Marketing research should also “map the retail market space” for retailers that attract consumers with the highest preference for local, high quality BC apples and sweet cherries. Analysis can include whether sustainability-themed branding and / or BC regional identity will increase consumer loyalty. Analysis of market demand for organic tree fruit would also be useful. In sequencing projects, understanding key markets must precede development and testing of new market strategies.
- D **Enter Canadian Partnership for New Variety Development** – Fast-track and secure new apple and sweet cherry varieties. This includes faster development of varieties in the SVC portfolio, or varieties SVC may wish to develop with Eastern Canada and Nova Scotia producer organizations. If other

Canadian production organizations will not join, the project should move forward to secure at least one new suitable club variety for BC. This initiative may also include global searches such as the current assessment by BCTF. The industry also needs to address how to fund the research needed for optimal growing, harvest and storage of the new varieties as well as promotion needed for successful market introduction. This may include investigation of best approaches to assess levies to support successful launch of new varieties. In sequencing projects, identifying a new variety candidate must precede detailed testing of that variety.

- ▶ **Expand BC Growers Horticultural Knowledge** – Provide grants to expand printed/digital grower guides, training seminars and/or other education to growers to improve apple and sweet cherry quality. Support the creation of educational materials that most effectively deliver information that cover best grower practices. Delivery methods should explore innovation in the latest, easy-to-understand approaches and may include social media, YouTube-type videos, and multi-language presentations. Harnessing greater knowledge can include partnering and sharing horticultural research with Washington State University and other tree fruit research institutions.
- ▶ **Share Best Practices of Top Performing Growers** – Conduct analysis of the horticultural practices of selected growers from among the top 5 percent of growers measured by gross returns for apples. Selected high-return growers should represent the main BC growing regions, varieties, planting systems, and other characteristics that are achievable by others. Costs would be calculated for the identified practices to show economic viability. Names of growers who are benchmarked would not be revealed. Project proposals can include funding for “Orchard Walks” where horticultural experts are brought to BC to give talks and demonstrations. Speakers should be chosen that are best qualified to address the specific needs of BC orchardists that lag in producing high quality and high yielding apple crops.
- ▶ **Strengthen Social Media Presence of BC Packers and Marketers** – Retain a firm that specializes in social media to review existing and planned social media used by the BC packers and marketers; or help devise a social media plan if one is not currently utilized. Provide recommendations for improvement including media placement and consumer exposure.
- ▶ **Support Packer Infrastructure Improvements** – Analyze packer views on the major infrastructure deficits in BC. It may be helpful to prepare a white paper to identify the largest barriers to increasing competitiveness emphasizing packinghouse level labor savings and improved fruit quality. Other activities may include 1) funding engineering studies, and blueprints, 2) investigating and observing equipment operating in existing modern facilities, 3) bringing well qualified consultants to BC to make equipment recommendations, and 4) preparing finance or grant applications. For some activities, the knowledge gained would be widely applicable in the industry and should be shared among packers and marketers. Some of these activities may be done simultaneously. Others may need to be in sequence as more information is acquired.

See Appendix B for additional initiatives that were discussed in the May 2018 workshop and other meetings.

Criteria for Project Selection

The following criteria are recommended for evaluation and final selection of projects.

1. Will the project enhance the competitiveness of the BC fruit industry with the rationale transparent to all industry members?

2. Are the expected benefits for the industry clearly stated and worthy of Competitive Fund expenditure?
3. Is the total project budget reasonable and sufficient to effectively carry out the project work plan in the proposed time frame?
4. Are matching funds from current industry resources available and included in the proposal? (Cost sharing should be in the range of 30% to 50%, with more weight given to higher match by proposers.)
5. Is provision made for industry-wide dissemination of project results?
6. Do the project leaders have demonstrated experience and other competencies to carry out the project?
7. Will the project advance social cohesion in the BC fruit industry?
8. Does the project address critical industry need that is not currently eligible for other federal or provincial funds?

For an object assessment of proposals, each member of the Competitiveness Fund selection committee should rate each application for funding to determine projects with the greatest importance and value to the industry. Table 5 displays the scoring approach recommended. Each project would be scored, and the combined ratings tabulated. Final project selections would be announced after selection committee discussion.

Table 5. Recommended Weighted Scoring for Project Selection

Criteria	Score (Descriptive Scale) *	Weighting Factor	Weighted Score (Score multiplied by Weighting Factor)
Project's Enhancement of Competitiveness & Rationale Transparency		30%	
Expected Benefits & Worthiness of Expenditure		15%	
Experience & Competencies of Project Leaders		15%	
Reasonableness and Sufficient of Total Budget		10%	
Amount & Availability of Matching Funds		10%	

Table 5. Recommended Weighted Scoring for Project Selection (Continued)

Criteria	Score (Descriptive Scale) *	Weighting Factor	Weighted Score (Score multiplied by Weighting Factor)
Dissemination to Rest of Industry **		10%	
Advancement of Social Cohesion in Industry		5%	
Need Addressed by Other Available Programs & Funds		5%	
		100%	(Total score is sum of this column)

* The descriptive score can range from 0 (lowest) to 5 (highest) as follows: Does Not Address Criterion = 0; Slightly Meets Criterion = 1; Effectively Meets Criterion = 3; Outstanding in Meeting Criterion = 5. Can also score with the intermediate values of 2 or 4.

** In the case of a proposal that is not relevant to others in the industry such as infrastructure drawings for a packing facility, this criterion should be scored by determining how significant the project is to the proposer. In this case the proposer will need to explain the importance of the project to their business.

It is appropriate to disclose the weighting criteria in the call for proposals. Proposers should specifically address how their project meets each criterion.

Allocation of Competitiveness Funds

After reserving funds for pending replant applications, there is \$3.0 available over four to five years for projects in the categories of marketing, research and infrastructure. Priorities dictate how much emphasis and funding is needed to address the most pressing needs.

In our view, the first priority is market research to guide the industry toward greater competitiveness. As indicated in the first two initiatives listed on page 12, this particularly pertains to apples marketed in western Canada and sweet cherry exports. Until BC marketers have a much clearer understanding of the most compelling wants of main consumer groups that purchase BC tree fruits, it will be a guess as to what varieties and characteristics (size, quality, packaging etc.) can be sold at favorable prices.

The second most pressing priority is targeted research that addresses specific needs to propel the industry forward. Research can be hard to distinguish from infrastructure, but research includes variety development and introduction, better horticultural production techniques, sharing of best production practices within the industry and even best methods for participating in social media.

Better infrastructure at the handling, packing, and storage levels is also vital. However, infrastructure gets a slightly lower priority in the early years of the Competitiveness Fund because it includes investigation that can be done at relatively low cost by talking to manufacturers of plant facilities and equipment. These vendors

share ideas and knowledge as part of their normal business practice. Preliminary services for conceptual design by consultants might also be acquired for modest funding as a precursor to further services in the future.

Our recommendation is that in years one and two of the competitiveness grant, 50% should be allocated to research, and 25% each to marketing and infrastructure. These percentages are based on the relative cost of projects in each of the three categories. Before the year three round of project funding, the allocations should be revisited after gaining the experience of operating the program in the previous funding cycles.

Regarding annual funding levels, it is recommended that flexibility be maintained to determine maximum funding limits. One reason is that the quality of projects in review is always a consideration. There is also an advantage to allow for variation in the annual expenditures from the Competitiveness Fund. For example, if the annual average funding is \$750,000 (the result at the total Competitiveness Fund reserve of \$3.0 million if disbursed over four years) it would be reasonable to allow for \$1.0 million of project funding for well-qualified projects in year one. This would bring a faster return of downstream benefits.

We recommend that projects be accepted for a maximum of two years of funding. Proposers can be encouraged to indicate their ideas for later, related projects in their initial submissions so potential sequencing is better understood, but funding would only be committed for the first two years. Any later funding would await the review of initial completed project results.

Finally, we recommend that if an approved project is delayed beyond its original scheduled completion, the Competitiveness Fund project evaluators could terminate the project at their discretion and withhold unexpended funds to free financial resources for timely use for other priority projects.

Other Provincial and Federal Grant Programs

The Competitive Fund is additive and complementary to existing BC and Federal grant programs for agri-food firms and organizations. In this section we review alternative programs that the BC tree fruit industry may consider for applications that complement and extend the resources available via the Competitiveness Fund.

BC Program Funding Opportunities

Each of the four provincial programs described below are administered by the Investment Agriculture Foundation of BC (IAF). For further information to apply for any of the provincial funding opportunities given below, contact the relevant program manager at IAF. To reach a Program Manager send an email to funding@iafbc.ca or telephone 250.356.1662. For further web information go to <http://iafbc.ca/funding-opportunities/>.

CANADA-BC AGRI-INNOVATION PROGRAM (CAP)

The Canada-BC Agri-Innovation Program (full acronym is CBCAIP) is complementary to the Competitiveness Fund. CBCAIP is a provincially funded cost share program to assist tree fruit and other BC agribusinesses with innovation in late stage research and pilot projects that lead to commercialization and/or adoption of innovative products, technologies and practices.

Some BC tree fruit firms and organizations have already received CBCAIP funding. The program requires up to 50 percent applicant cost sharing. However, if the project benefits appear to be tangible and widely realized, lower cost sharing is possible.

Applicant eligibility is very broad. The applicants can be: BC agri-foods sector producers and processors, other private sector businesses, industry associations/organizations, retail and foodservice businesses, input, technology and support services providers, academic institutions and/or other organizations.

Projects must be completed within approximately one year and there are no time extensions granted. There are no specified funding limits. Applications are accepted throughout the year if funding has not been fully committed.

CBCAIP does not normally fund capital expenditures so infrastructure projects are best suited to the Competitiveness Fund. Several other high priority initiatives identified in this report could be funded by either CAP or the Competitiveness Fund.

BC FOOD AND BEVERAGE PROCESSING INITIATIVE

The Food and Beverage Processing Initiative supports expansion of the food, beverage and nutraceutical processing industries. The strategic focus is collaborative marketing within a food sector such as tree fruits, to build consumer impressions of BC products regarding health and lifestyle benefits. This initiative also focuses on business partnerships in the value chain and improving communication among stakeholders.

Projects in this initiative cannot serve only a single business, but rather must address broad industry needs and improvements for the benefit of multiple firms. Examples of eligible activities include collaborative marketing, needs assessments and gap analysis. The types of projects anticipated for the Competitiveness Fund are less restrictive in coverage and scope. For example, market research for Competitiveness funding is not restricted to exploring the health benefits of tree fruits or how tree fruits fit consumption patterns for those with active lifestyles. The broader assessment of consumer demand is important to fully expand market opportunities for the BC tree fruits industry.

As with all IAF agri-foods projects, cost sharing is required and is generally at the 50 percent level.

BC BUY LOCAL PROGRAM

The Buy Local Program offers funding for BC's agriculture, food and seafood sectors to enhance local marketing efforts and increase consumer demand and sales of BC agri-foods within the province. Primary agricultural products like tree fruits as well as processed foods and beverages are eligible.

This program is directed toward advertising and promotion activities. However, domestic market research is not allowed in the Buy Local Program. Also, one of the initiatives recommended for the Competitiveness Fund, social media development, is specifically excluded as stand-alone activity in the Buy Local Program. Another restriction of the Buy Local Program is that awareness building activities are only approved for "new" products. Firms that might have a new tree fruit variety should inquire with IAF if this will meet the new product requirement of the Buy Local Program.

Buy Local also is a cost-share program. The company applying to IAF would need to match the government funds they request.

Given the above caveats, the Buy Local Program is quite distinct from the initiatives recommended for funding in the Competitiveness Fund program. It is likely most tree fruit markets would opt for accessing the Competitiveness Fund to advertise and promote their products relative to Buy Local.

BC AGRICULTURE AND FOOD CLIMATE ACTION INITIATIVE

The BC Agriculture and Food Climate Action Initiative develops tools and resources to enhance the ability of the BC agriculture sector to adapt to climate change. This program has partially funded the Sterile Insect Release Program in the Okanagan-Kootenay region. The initiative also has developed and delivered several projects that assist BC fruit orchardists adapt their water management practices to suit changing conditions. Impacts result from increasing frequency and intensity of extreme precipitation events, site-specific flooding, and erosion and run-off management challenges. Most of these projects provide tools for farmers to utilize as best management practices. These projects usually define general farm management practices independent of the specific objectives to increase yields or improve fruit quality, although these can be corollary benefits.

The seven initiatives for Competitiveness funding presented in this report do not explicitly address changing climate/weather conditions. If growers want to meet climate challenges and share their findings with the industry, they can apply for a project under the Agriculture and Climate Action Initiative. At least one project which assessed vented orchard covers to protect cherries against rain and hail, has been awarded to an individual tree fruit grower. The results of that project have been shared publicly.

More typically Agriculture and Climate Action Initiative projects are awarded to research groups that develop tools that businesses in the tree fruit industry use to make their on-farm accommodations to changes in climate and weather conditions. In this way the Climate Initiative can be quite complementary to the Competitiveness Fund program.

Federal Funding Opportunities

The large federal-provincial partnership program to assist with commercialization of food products is called Agrilnnovate. It has unique features that could suit businesses and cooperatives in the BC tree fruit industry.

AGROINNOVATE

BC's Agrilnnovate program is open to for-profit businesses and/or corporations and co-operatives. This program provides repayable contributions (loans) for projects. Applicants must cost share a minimum of 50 percent of the funding. Total Agriculture and Agri-Food Canada funding requested cannot exceed \$10 million. The repayable share of funding is paid over 10 years at zero interest. Projects must accelerate the commercialization, adoption and/or demonstration of innovative products, technologies, processes or services that increase agri-sector competitiveness and sustainability. Projects must be completed by March 31, 2023.

Eligible activities fall into three broad categories:

- Commercialization of innovative agricultural, agri-food or agri-based products, technologies, processes or services where the innovations will be introduced to the market when the project is completed.
- Adoption of innovative agricultural, agri-food or agri-based products, technologies, processes or services where recent innovations are adopted and adapted to existing operations.
- Demonstration of innovative agricultural, agri-food or agri-based products, technologies, processes or services, where all necessary testing and piloting has been completed, and which involve one or more of the following: 1) demonstrations to a targeted user, 2) production of samples for market validation and 3) establishing a showcase site for pre-commercial demonstration.

Applications will be taken on a continuous basis from the launch of the program until March 31, 2023, or until funding has been fully committed or otherwise announced by the program. Application information is on the web at <http://www.agr.gc.ca/eng/programs-and-services/agriinnovate-program/?id=1515682916298>.

AgriInnovate is well suited to BC companies and co-operatives that have products which are not yet in markets and may require some form of modification to meet customer demand. Innovative storage, handling and/or packaging of tree fruits could fit the requirements of this program and be worthy of further investigation. Such applications to the AgriInnovate program would complement efforts in the Competitiveness Fund program.

AGRIMARKETING PROGRAM FOR SMALL AND MEDIUM-SIZED ENTERPRISE

The AgriMarketing Program for small and medium-sized enterprises (SME) to develop initiatives is a federally funded effort for international initiatives. Funding is used to implement international export plans, which include promotional and market development activities. Applicants must provide 50 percent of the funding toward eligible costs. Total Agriculture and Agri-Food Canada (AAFC) funding for a project will normally not exceed: \$50,000 per fiscal year; and \$100,000 over two consecutive fiscal years. An applicant can apply more than once but funding will not exceed \$250,000 over five years.

Eligible applicants are profit organizations operating in the agriculture, agri-food and agri-products industries. This includes businesses and corporations, co-operatives and indigenous groups. The following groups are generally not eligible: third-party representatives such as trading houses, export brokers, agents, or promoters; individuals and sole proprietors; not-for-profit organizations; marketing boards and governments and their agencies.

Applications are accepted at any time until September 30, 2022, or until funding has been fully committed unless otherwise announced by the program. The program ends March 31, 2023.

The applicant must meet these criteria:

- Have direct involvement in growing, harvesting, processing or otherwise transforming or consolidating their products
- Have a maximum of 250 employees
- Have annual revenues less than \$50 million
- Be independently incorporated (priority may be given to entities that are not subsidiaries of a larger group of companies)
- Have completed market research and
- Be export and market ready (such as having existing market access or modified product for the target market).

Detailed are given in the Applicant Guide. This can be viewed at: <http://www.agr.gc.ca/eng/programs-and-services/agrimarketing-program-small-and-medium-sized-enterprise-component/applicant-guide/?id=1515094865394>. Further information on the AgriMarketing Program can be obtained by email at amp-pam@agr.gc.ca or telephone 1-877-246-4682.

Summary and Conclusions

The Competitiveness Fund program comes at a critical time for the BC tree fruit industry. This analysis considers past strategic plans, goals and accomplishments. It also anticipates current and likely future competitive conditions facing the BC tree fruit industry. We utilize industry stakeholder input to ensure the most significant current challenges and needs are targeted.

An initial set of seven high priority initiatives are identified here. Criteria for selection of projects from among these initiatives are presented. The potential for the tree fruit industry to also utilize other provincial and federal program is also reviewed. The tree fruit industry can avail itself of other government programs as well as the Competitiveness Fund to maximize access to financial resources to meet the challenges and opportunities ahead.

Appendix A – Workshop Participants

A workshop was held in Kelowna on May 9, 2018 with participation from a broad spectrum of the BC tree fruit industry. The following participants attended the workshop and their contributions are greatly appreciated.

Sam DiMaria, President, BC Tree Fruit Cooperative (BCTF)
 Hank Markgraf, Grower Services Manager, BCTF
 Chris Pollock, Marketing Manager, BCTF
 Lance McGinn, Director of Sales, BCTF
 Stan Swales, Chief Executive Officer, BCTF
 Michelle Koski, Executive Director, Investment Agriculture Foundation BC (IAFBC)
 Kenna MacKenzie, Director of Operations, Agriculture and AgriFood Canada (AAFC) Research Branch
 Nirmal Dhaliwal, President, Summerland Varieties Corporation (SVC)
 Ranbir Kambo, Director, SVC
 Sean Beirnes, General Manager, SVC
 Erin Wallich, Research and Development Manager, SVC
 Nick Ibuki, Operations Manager, SVC
 Jim Campbell, Administrator, New Tree Fruit Varieties Development Council (NTFVDC)
 Bruce Currie, Chair, NVDC
 Melissa Teche, Acting General Manager, Okanagan-Kootenay Sterile Insect Release Program (SIR)
 Evan Esch, Entomology Technician, SIR
 Amarjit Lalli, Director, SIR
 Gary Schieck, Director of Operations, Sandher Fruit Packers Ltd.
 Kelly Shabatowski, Export Sales, Consolidated Fruit Packers (CFP) Ltd.
 Aliasha Braich, Export Sales, CFP
 Carl Withler, Provincial Tree Fruit and Grape Specialist, BC Ministry of Agriculture
 Pinder Dhaliwal, President, BC Fruit Growers' Association (BCFGA)
 Peter Simonsen, Vice-President, BCFG
 David Dobernig, Director, BCFG
 David Machial, Director, BCFG
 Glen Lucas, General Manager, BCFG
 Bunvir Nijjer, Corporate Secretary and Labour Manager, BCFG
 Brenda Jorde, Member Services Coordinator, BCFG
 Tom MacDonald, Chief Financial Officer, Coral Beach Farms / Jealous Fruits Ltd
 Erin Carlson, Administrator, BC Cherry Association (BCCA)
 Beth Cavers, Secretary, BCCA

Appendix B – Additional Project Ideas

In addition to the seven initiatives described in the main report, the following project ideas were discussed during this project among members of the BC tree fruit industry.

1. Assess tree fruit preferences and consumption at the retail level in Eastern Canada with emphasis on identifying characteristics of the highest per capital apple consumer groups. Marketing research should also consider “mapping the retail market space” for retailers that attract the consumers with the highest preference for local, high quality BC apples and sweet cherries.
2. Conduct research and development with one or more bio-science companies that can quickly scale up production of new apple varieties developed by SVC that are virus free and vigorous plants for grower trials and new commercial production.
3. Provide grants to packers for their field staff to expand printed/digital grower guides, training seminars and/or other education to growers to improve apple and sweet cherry quality.
4. Take growers to meet retail producer managers and observe the tree fruit displays of major retailers. Include main metropolitan markets in BC, Calgary and the west coast U.S.
5. Hold a tree fruit industry summit/roundtable with BC tree fruit field staff from all BC packing companies, independent orchard consultants and leading growers to identify the most pressing grower needs to improve fruit quality in the orchard.
6. In coordination with #7 above, fund quick scans of existing tree fruit research conducted outside the province that can be adopted or implemented for BC farms. Provide this information to growers through field staff and other planned extension efforts.
7. Enter agreements with research institutions such as Washington State University and others to exchange key research findings and work to increase interaction and exchanges among researcher and extension staff.
8. Call for the Canadian government to increase research to prevent the introduction or spread of invasive species. Consider the sterile insect release approach as a potential method when possible.
9. Create and fund a 3-year Western Canada generic apple retail marketing plan created with an industry advisory board made up of BC packers and marketing agencies. As part of this project, identify the interest of packers and direct marketing growers to use a sustainable/environmental label for BC. Also determine cost of the program and its potential value for long-term market support.
10. Prepare a BC “niche” marketing plan that would be suited to marketing fruit from smaller volume producers of high quality fruit to targeted consumers.
11. Survey packing and storage equipment manufacturers and suppliers to prepare “white papers” on the latest technology and costs of equipment, software and other technologies that are available or in late-stage R&D. Disseminate this information through digital media to all BC packers.
12. Prepare a strategy and action steps to increase BC organic apple production by 10 percent in 5 years.
13. Generate a public relations strategy for broad communication within Western Canada telling the BC tree fruit industry “story” to inform the public of the value of orchardists and packers as integral to the social and economic make-up of BC and Canada.
14. Monitor the development of blockchain data systems as a tool to meet retailer, consumer and government emphasis on quality monitoring and food safety management.
15. Invite packers to submit proposals to fund new or updated facility engineering or other planning to increase operational efficiency and quality control for grading, packing, and/or storing BC tree fruits.
16. Analyze major fresh fruits packaging trends such as flexible pouches or new packs designed for convenience and freshness (emphasis on apples and sweet cherries). Consider the cost of innovative packaging. Report findings to all BC packers and marketers.
17. Determine growth prospects and consumer preferences for value added BC tree fruits including ciders, sliced fruit, cold-preserved fruits, freeze-dried fruits or other processed products.



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