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Edward Kennedy
President &
Chief Executive Officer

September 28, 2016

Diana Bronson
Executive Director
Food Secure Canada

Dear Ms. Bronson,

I have read your recent report on Food Costing in the North with interest. I am very pleased that your organization has prioritized this important area for research, given the continuing prevalence of food insecurity among low income northerners and our company's longstanding service role within the communities cited in the report in addition to many more locations across the north.

At North West we take our community role seriously and place it on equal footing to serving individual customers. We find that honest and open community engagement is an invaluable approach to understanding different perspectives and the best range of potential solutions. In this context I am disappointed that Food Secure Canada made no attempt to seek information or insights from our organization. Ironically, our lead community relations specialist was in Nunavut during the week your report was released, working as an active participant within the Nunavut Food Security Coalition.

Some of the factual omissions and contextual shortcomings in the report that we could have helped you avoid include:

- 1. Context on the appropriate retail marketplace for food costing.** Our food sales within the three subject communities have decreased in real dollars by 10-20% over the past 10 years. This has occurred despite an estimated population increase of 10- 15%. In other words, a significant and increasing percentage of food shopping does not take place in our stores, largely because of the lower cost option of buying from southern retailers who sell into the north without the attendant remote expenses, including community employment.

This reality conflicts with your "virtual monopoly" characterization. What may superficially look to you like a *physical* retail monopoly is in fact closer to a *virtual* competitive marketplace with highly developed out shopping and country food gathering activities. Along the west James Bay

coast region for example, Wal-Mart is a major competitor that ships significant volumes of food at a nominal, below-cost freight charge. Country food harvesting costs are also different from the cited example of Kassibonika because the protein is different (more goose hunting in James Bay region). There are also numerous home based out shopping clubs and social home based food service businesses which sell meals on Facebook.

Finally, in terms of traditional physical stores like ours, the more typical (meaning in more than 70% of the 125 northern Canada locations we serve) competition scenario is that there is at least one other full service grocery store within or near the community.

With these considerations in mind, the more accurate algorithm for assessing real food costs would weight all of these food sources, including country foods, to create a more realistic and inevitably a lower food cost scenario than portrayed in your report.

As a final data point to help understand this situation, our company's profit margins are less than 4.0% and this is publicly reported, together with the financial challenges we've recently faced retailing in the north. This is not the profit margin of anything approaching monopoly-type returns and is lower than that reported by many urban retailers (Metro Foods, Shoppers Drug Mart and Dollarama) who have significantly lower investment costs compared to a northern retailer.

- 2. Empirical-Based Accuracy on In-Stock Levels.** We understand the inherent limitations of extrapolating from a handful of in-store observations. For this reason we use empirical data to track in-stock rates across all of our stores, including over 800 food items in Attawapiskat, Ft. Albany and Moose Factory. By analyzing sales patterns we are able to estimate that the average daily in-stock rate in 2015 was 94.42 percent for these three communities.

While we do not challenge the food cost surveyors observations on the number of stock-outs they recorded, our verifiable in-stock information could have been made available to you. It would have covered a more complete range of everyday products, across all of our northern stores, and could have easily provided the comprehensive information you needed to reach a more accurate, sound conclusion on the frequency with which certain foods are available locally.

Unfortunately, having not approached us on this, your report extrapolates using anecdotal information that is factually incorrect. For example the statement that "fresh milk, produce, eggs and bread remain out of stock for days, even months" is verifiably untrue. These are all core items that are delivered twice weekly to stores. Even with weather delays or mechanical problems with planes, product would be out of stock infrequently and never for more than a few days. Specific to these four products here are the in-stock rates in 2015:

2015 In-stock rates	Bread (white or whole wheat)	Milk (1%, 2% or skim)	Eggs	Produce (oranges or apples)	Produce (potatoes or lettuce)
Moose Factory	95.32%	98.45%	97.74%	92.41%	95.81%
Attawapiskat	95.70%	99.67%	97.19%	90.77%	96.08%
Albany	95.68%	98.03%	93.86%	94.19%	95.81%

You also report that Ft. Albany “in 2014 went for more than 2 months without receiving fresh meat at the grocery store.” In context, Albany is not a fresh meat production store, like dozens of other small communities across the north. The store does have a very good selection of frozen meat and periodically we will fly in fresh meat from Moosonee.

- 3. Empirical-Based Accuracy on Prices.** We automatically download prices to our stores and can confirm electronically that they have been uploaded into each cash register’s item price file. While we cannot confirm that a shelf price tag has been changed to match, the price at the register is accurately known for all items in all stores and the lower of the shelf price and the cash register price (if there is a discrepancy) is what is paid by the customer.

We point this out as an example of where collaboration with us would have helped to build a more robust food costing data file for your project, across a much wider number of items and stores.

- 4. Insights into Expiry and Best Before Dates.** The issue of best before dates is a major piece to the northern food security puzzle that your report misses completely. First, you mistakenly used the term “expired” to refer to best before dates. This former term relates to meat, infant formula and a select number of other products which are unsafe if consumed after the expiry date. Best before dates are a food industry marketing creation that contributes to billions of dollars of food waste in Canada and that unintentionally but perversely increases the cost of food in remote communities.

Because of the best before date misperception, we and other northern retailers are forced to fly in product that could be brought in by winter road and sealift and sold at an estimated price savings of \$5 million to northern consumers. This product is perfectly safe, without taste or texture degradation for months and even up to a year after the best before date, using Food Banks Canada guidelines.

Food Secure Canada would do a greater service by advocating for the elimination of best before dates on long shelf life food, as done by several member countries of the EU. While the food waste argument is most compelling to all Canadians the ancillary benefit to low-income individuals living in northern Canada is even more significant.

- 5. Insights on Disposable Income.** Your report refers to “the paucity of current, comprehensive data on the cost of living in on-reserve communities.” Over our many years as a remote community retailer in Canada and similar markets in other parts of the world, we have gained expertise and insights into our consumers’ disposable incomes. We understand the information gap challenges that you faced related to, for example, country foods consumption and living expenses generally. On living expenses, we have developed models that estimate net after-tax incomes factoring in the value of subsidized shelter costs, tax exemptions, household sizes and other source of incomes and expenses that are unique to these communities.
- 6. Insights on Food Security Support Programs.** We operate in jurisdictions that provide different levels and types of food security support programs, apart from Nutrition North. These include the Food Mail program in rural Alaska; the Supplemental Nutrition Assistance Program (“SNAP”) and Women Infants and Children Nutrition (“WIC”) in rural Alaska, Guam, the USVI and Hawaii; the KGI food subsidy program in northern Quebec and the Affirm program in northern

Manitoba. We are often consulted on the efficacy of these programs from a community retailer perspective. We offer constructive views on how they can be integrated as part of a total income support model.

7. **Importance of Food Literacy.** There is brief mention in the report of the “trial” costs of new healthier foods to low income families. There is no other mention of food literacy related to understanding meal and recipe efficiencies, the use of best before dates or nutrition education generally. Relative to the other listed factors and recommendations this is a glaring omission.
8. **The Perils of Confirmation Bias.** Given the extensive academic oversight to this project it was surprising to see confirmation biases seep into virtually every aspect of the report:
 - The description of local stores as “virtual monopolies” with no consideration or curiosity into actual shopping behaviours.
 - The comment that because product quality assessments were “generally positive” you were led to think, not that perhaps quality was a lesser issue, but to re-think “the categories and methods of assessing quality in order to more accurately capture this perception.” (that quality is/must be inferior).
 - Perhaps related to the previous point, expiry dates were a data field in the food cost collection form but there is no recap of the expiry findings. Instead there are anecdotal references to product being sold after expiry. Our inference is that because most items you recorded were not expired you chose not to introduce this or any information that conflicted with your confirmation bias.
 - The illogical connection between putting “retailers under local control” and addressing “lack of on-reserve” competition. If the result is still only one local store, then the degree of on-reserve competition remains unchanged.
 - The reference to lack of local retail competition as an “enormous challenge” to reducing the price of healthy food without any research evidence to support this statement. There are dozens of northern communities with two or more food stores and in most cases one is a local co-op. It would not take much effort to compare the prices in these communities with similarly remote one-store communities. You could also easily compare the price, quality and product availability between many similarly remote communities that have a sole local store that is local controlled or a sole local store that is non-locally controlled.
 - The reference to “the colonial implications of these oligarchies” without any explanation or fact-based context. The intent is to be self-evident but the effect is the opposite and belies the lack of empirical objectivity and the ethical research shortcomings of your report. This is 2016. Our company has over 35 store and other major business partnership ventures in place with Indigenous entities, including with the First Nations of Attawapiskat and Moose Factory. These agreements share store sales revenues or profit and cover other commitments like store product selection. In approximately 50% of these communities North West had no prior relationship, colonial or otherwise, and

was invited to become a store operator based on our reputation for running good stores and being a trusted community partner.

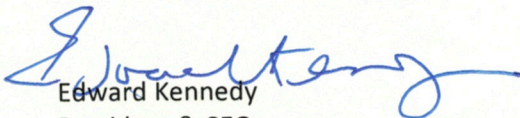
- The report lists eight factors contributing to higher food prices but inexplicably, in the recommendations, only two are directly addressed: the nature of the local retail structure (the proposed solution to which actually exacerbates the first causal factor of low purchasing power) and improved access to traditional food harvesting. This is a very unfortunate lack of rigour because each of the other factors and a few important ones that were missed (high construction and operating costs, food literacy) are deserving of more understanding including the knowledge that they are being mitigated, to varying degrees, through technology, new approaches and other innovations.

9. **The Need For Higher Incomes.** Deep in a sub-bullet point to the recommendations is an acknowledgement that incomes need to be higher to offset the cost of living in the North. More accurately, the incomes of people living below or near poverty levels need to be increased. This is an important clarification because many employed classes in the North already enjoy wages, allowances and benefits, including favourable tax benefits, which more than compensate for higher costs of living in the north.

Low education attainment, high illiteracy rates and commensurate limited opportunities to participate in the already scarce local higher wage economy are serious structural barriers. Combined with inherent high living costs they create a poverty crisis. Cost-of-living indexed guaranteed minimum incomes, with a slant to encouraging working incomes, is the most significant step forward of all recommendations. It offers to economically and socially empower all northerners, affirming their rights as individuals and as community members.

I hope that you will carefully consider these observations in the spirit of pursuing further fact-based and insightful findings that can build on the most constructive elements of your report. I and other members of our company would be pleased to meet with your organization to learn more about your goals and how we can help to facilitate deeper research in this important area.

Sincerely,



Edward Kennedy
President & CEO
The North West Company