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Canada

Food Processing Ingredients

Canadian Food and Beverage Processing Overview

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Report Highlights:

The Canadian food and beverage processing sector is an advanced, increasingly export-oriented \$85 billion engine of economic growth. With ambitious Canadian Government targets for food and agricultural export growth by 2025, FAS/Canada anticipates Canadian demand for imported ingredients will continue to grow in 2018. U.S. suppliers are well-positioned to capitalize on increased demand.

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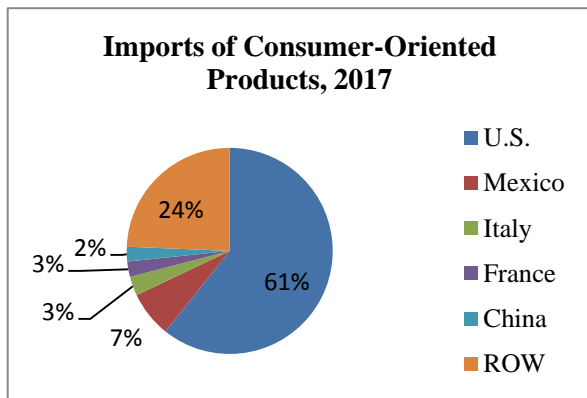
Market Fact Sheet: Canada

Executive Summary

The population of Canada is approximately 37 million and 90 percent of Canadians live within 100 miles of the U.S. border. In 2017, Canada was the leading export destination for U.S. agricultural exports. For new-to-market and new-to-export firms, Canada offers stable financial markets and a sophisticated logistics network that supports \$120 million worth of daily two-way trade in food and agricultural products. In 2017, Canada's food and beverage processing sector was valued at \$85 billion; opportunities exist to expand U.S. food and beverage product sales.

Imports of Consumer-Oriented Products

U.S. exports of consumer-oriented products to Canada exceeded \$16 billion in 2017, nearly double the value of the next largest market. Canadian food and beverage processors utilize both raw and semi-processed ingredients from imported and domestic sources. Though no data exists on the total value of ingredients imported for processing, imported ingredients are vital inputs to Canadian food and beverage manufacturing.



Food Processing Industry

Canada's food and beverage processing sector is sophisticated, diverse and a vital contributor to Canada's economy. In 2017, Canadian food manufacturing sales reached \$80 billion, while

beverage manufacturing sales reached \$5 billion. Food and beverage processing represent one of Canada's leading manufacturing sectors, accounting for two percent of GDP. With sales up 43 percent between 2006 and 2016, food manufacturing has been the strongest and steadiest engine of manufacturing growth, led by grain and oilseed milling. The industry was the largest buyer of agricultural products and supplied 75 percent of the food and beverage products available in Canada. There were 6,500 food processing establishments in Canada, employing approximately 250,000 workers. Meat product manufacturing was the largest segment by value of production (\$20 billion), followed by dairy product

Canada Quick Facts 2017

Imports of Consumer-Oriented Products
\$25.9 billion

List of Top 10 Growth Packaged Food Products in Canada

- 1) Biscuits/Snack bars/Fruit Snacks
- 2) Savory Snacks
- 3) Spreads
- 4) Edible Oils
- 5) Rice/Pasta/Noodles
- 6) Confectionary
- 7) Baked Goods
- 8) Processed Fruits/Veg.
- 9) Sauces/Dressings/Condiments
- 10) Packaged Foods

Food Industry Sales by Channel (\$ billions)

Total Food & Beverage Industry	\$221.5
Retail	\$74.0
Food Service	\$62.5
Food & Beverage Processing Sales	\$85.0
- Processed Food Exports	\$26.1
- Processed Food Imports	\$21.1

Top 10 Canadian Food Processors (by retail sales)

- 1) [Loblaw Cos Ltd.](#)
- 2) [Saputo Inc.](#)
- 3) [Kraft Heinz Co.](#)
- 4) [Nestlé Canada Inc.](#)
- 5) [Agropur Cooperative Ltd.](#)
- 6) [PepsiCo Inc.](#)
- 7) [Parmalat Canada Ltd.](#)
- 8) [Kraft Canada Inc.](#)
- 9) [Lactalis](#)
- 10) [Maple Leaf Foods Inc.](#)

GDP/Population

Population: 36.9 million
GDP: \$1,530 billion USD
GDP per capita: \$44,793 USD

Note: The \$1 USD : \$1.28 CAD exchange rate has been applied for 2017.

Strengths / Weaknesses / Opportunities / Threats

Strengths	Weaknesses
High economic growth rate and disposable income	Stronger U.S. dollar and high levels of household debt
Opportunities	Threats
2017 tariff order removed tariffs on imported food ingredients	Canada negotiating / entering trade deals with agricultural export competitors

Data and Information Sources: Global Trade Atlas, GATS, Statistics Canada, Conference Board of Canada and Euromonitor International, OECD.

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Section I: Market Summary

A. Overview of the Canadian Food Processing Market

The Canadian food and beverage processing sector is sophisticated, has well-established supply chains, and is a vital contributor to Canada's economy. In 2017, Canadian food and beverage manufacturing sales were \$85 billion.¹ The Canadian Government aims for agricultural exports to reach \$75 billion CAD by 2025; total exports in 2017 were \$58 billion CAD. Exports of high-value, consumer-oriented products, manufactured by the Canadian food and beverage processing industry, will be vital to achieving that goal. In 2017, Canadian exports of manufactured food and beverage products reached \$26 billion.

The Canadian government is in the [process of banning partially hydrogenated oils](#) in food; the ban will come into effect in September 2018. In addition, [front-of-package labeling](#) requirements are being developed for foods high in sodium, sugar, and saturated fat. The Canadian government is also in the process of updating the national [Food Guide](#), including recommendations for regular intake of vegetables, fruits, whole grains and plant-based sources of protein. The Canadian government is significantly adjusting its approach to nutritional regulation and communication to promote better health outcomes. U.S. companies need to be aware of these changes, which can reflect and affect consumer preferences as well as create new export opportunities.

B. Advantages and Challenges Facing U.S. Products in Canada

Advantages	Challenges
U.S. geographic proximity lowers transportation costs and results in a high-level of U.S. brand awareness	Sophisticated selection of products already available in the Canadian market
Similar shopping patterns and culinary tastes / preferences support U.S. product appeal	Bilingual (English and French) labeling required for retail products
Duty free tariff treatment for most products	Import restrictions on dairy and poultry products
Consumer confidence in U.S. food safety and food quality help make U.S. products the top choice for imported foods in Canada	Differences in standard package sizes, nutritional labeling, units of measurement and approved ingredients / food additives
High fruit / vegetable consumption and limited Canadian production create opportunities for stable, year-round supplies of U.S. products to Canadian processors	Competitive pricing for U.S. products as Canadian production / operating costs are typically higher than in the United States

¹ All values are expressed in U.S. dollars unless otherwise specified. The \$1 USD : \$1.28 CAD exchange rate has been applied for 2017.

Section II: Road Map for Market Entry

A. Entry Strategy

To facilitate initial export success, FAS/Canada recommends the following steps when entering the Canadian market:

1. Contact an international trade specialist through your state department of agriculture.
2. Thoroughly research the competitive marketplace.
3. Locate a Canadian partner to help identify key Canadian accounts.
4. Learn Canadian government standards and regulations that pertain to your product.

For more information on these steps, please consult the FAS/Canada [Exporter Guide](#). The best entry method depends on the specific food product and the particular sub-sector. FAS/Canada encourages companies to participate in Canadian trade and consumer shows to familiarize themselves with and to evaluate the market. A partial list of Canadian trade shows can be found [here](#). USDA endorses [SIAL Canada](#), the largest food trade show in Canada. The annual event alternates between Montreal and Toronto. The 2019 iteration will be in Toronto on April 30 - May 2. Interested U.S. food companies can contact USDA's show contractor, [Ms. Claire Gros](#) of IMEX Management, at 704-733-7211.

FAS/Canada works with State Regional Trade Groups (SRTG) and the U.S. state departments of agriculture to provide one-on-one export counseling, business trade missions, support for participation in selected tradeshows, and identification of potential Canadian partners.

B. Import Procedures

Start by reviewing the latest FAS/Canada FAIRS Reports ([CA17049](#) and [CA17050](#)) to better understand the Canadian import regulations and standards that apply to your product. The Canadian Food Inspection Agency (CFIA) provides extensive information on the [programs and services](#) it offers for importing commercial foods into Canada, including a [Guide to Importing Food Products Commercially](#). In addition, the CFIA [Automated Import Reference System](#) (AIRS) provides specific import requirements for food items by the Harmonized System (HS) classification, and detailed by place of origin (i.e., a specific U.S. state), destination in Canada (i.e., a specific province) and end use of the food item (e.g., for animal feed, for human consumption, etc.). The CFIA [Contact Us](#) webpage covers a range of issues, including contact information for regional offices and the [National Import Service Centre](#), which can help ensure customs paperwork accuracy and facilitate pre-clearance of some goods.

C. Distribution Channels

FAS/Canada recommends that exporters looking to enter the Canadian market consider appointing a broker or develop a business relationship with a distributor or importer. U.S. firms, particularly small- to medium-sized firms, are recommended to partner with a Canadian food broker / food distributor / importer. Normally, food distributors and importers will import and take title of the shipment. In turn, the shipment is likely to be stored in their warehouse facility and then sold to various Canadian accounts.

Brokers usually do not take title of the goods, but act as sales agents to help pioneer a product, obtain listing of the product, and build a distributor network and establish key accounts. According to the Canadian Society of Customs Brokers, close to 80 percent of Canadian imports are cleared by a customs broker. These companies assist exporters in complying with Canadian import requirements, handling

border transactions, and ensuring the release of goods from Canadian Customs. Brokers typically charge a percentage of the product sales revenue, ranging from 3 percent to 10 percent. The percentage is determined by several factors: the type of product category, market niche potential, expected sales volume, additional services like merchandising or data collection. Initially, a broker may request a monthly retainer fee as they must 'pioneer' the product to prospective accounts and distributors. Once targeted sales volumes are reached, the broker would typically switch to a percentage of the established sales.

U.S. exporters who do not wish to use the services of a customs broker may authorize an agent to represent them. Although, exporters may use an agent to complete transactions on their behalf, the exporter is ultimately responsible for accounting documentation, payment of duties and taxes, and subsequent corrections, such as re-determination of classification, origin and valuation. The shipper remains liable for all duties owed.

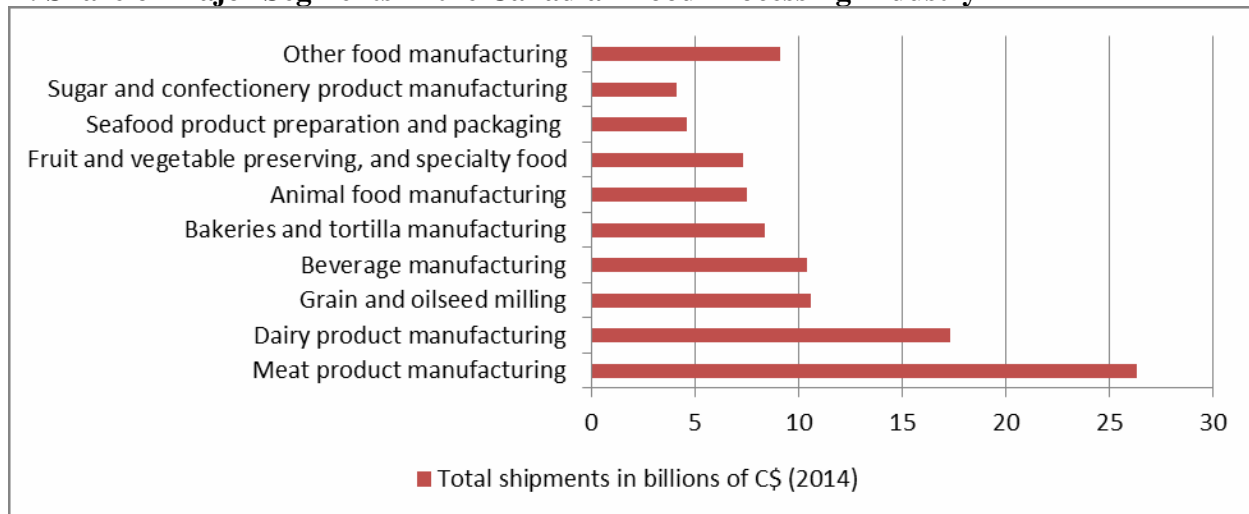
A partial listing of Canadian customs brokers is available in GAIN [CA11025](#). FAS/Canada can assist in identifying a broker, distributor, or importer, but cannot endorse a particular firm. Please consult the FAS/Canada [Exporter Guide](#) for more information on customs brokers and distribution channels.

D. Market Structure

Consolidation of the Canadian food and beverage industry has eliminated numerous intermediary procurement processes. Most food and beverage processing companies now prefer to import directly to reduce handling costs, expedite shipments, and grow margins. Smaller volumes are usually procured locally from a Canadian wholesaler, importer, broker or agent. However, procurement methods vary from company to company and from product to product.

Consolidation in the Canadian retail and food service sectors has meant that U.S. food and beverage processing companies face increasingly demanding buyers with significant market power. Aside from the continuous pressure on margins, processors are being asked to assist retail and food service companies to help them define points of differentiation. For more details on the Canadian market structure and trends, please consult the FAS/Canada [Exporter Guide](#).

E. Share of Major Segments in the Canadian Food Processing Industry



Source:

Agriculture and Agri-Food Canada, [Significance of the Food and Beverage Processing Sector in Canada](#). Note: Beverage processing includes soft drinks and bottled water manufacturing, wineries, breweries and distilleries. 2014 data is the most recent data available.

F. Company Profiles

Innovation, Science and Economic Development Canada maintains a comprehensive directory of companies on [their website](#).

Top 10 Canadian Food Processors

(Share of Total Retail Sales)

- 1) [Loblaw Cos Ltd.](#) (6.4%)
- 2) [Saputo Inc.](#) (5.4%)
- 3) [Nestlé Canada Inc.](#) (4.1%)
- 4) [Agropur Cooperative Ltd.](#) (4.0%)
- 5) [Parmalat Canada Ltd.](#) (3.5%)
- 6) [Kraft Canada Inc.](#) (3.5%)
- 7) [Frito-Lay Canada](#) (3.1%)
- 8) [General Mills Canada Corp](#) (2.6%)
- 9) [Sobeys Inc.](#) (2.4%)
- 10) [Unilever Canada Inc.](#) (2.0%)

Top 10 Int'l Food Processors in Canada (Share

of Total Retail Sales)

- 1) [Saputo Inc.](#) (5.3%)
- 2) [Kraft Heinz Co.](#) (4.7%)
- 3) [PepsiCo Inc.](#) (3.8%)
- 4) [Agropur Co-operative](#) (3.7%)
- 5) [Nestlé SA](#) (3.6%)
- 6) [Lactalis](#) (3.4%)
- 7) [Maple Leaf Foods Inc.](#) (3.2%)
- 8) [Mondelez International Inc.](#) (2.9%)
- 9) [Grupo Bimbo](#) (2.0%)
- 10) [Unilever Group](#) (2.0%)

Source: Euromonitor International 2018

G. Sector Trends

Shifting demographics and socially conscious purchasing are two [developments](#) shaping Canadian consumer preferences and altering the food processing landscape. Canada's population is aging and immigration is driving modest annual population growth. In 2017, one in five Canadians was foreign born, and in the last census, more than 13 different ethnic origins claimed more than 1 million Canadians each; total population is only 37 million. Ethnic food markets in Canada were estimated at \$49 billion in 2015 and are projected to reach \$97 billion by 2020. A less homogeneous consumer population creates opportunities for niche markets and customized products. Ontario's [Bring Home](#)

[the World](#) campaign, which seeks to satisfy the province's demand for 'world foods' with locally produced products, captures the intersection of Canada's growing 'eat local' ethos and an increasingly diverse consumer base.

Canadian consumer interest in health, environmental/cultural sustainability, and social responsibility continues to fuel demand for information on how food is produced, where it comes from and what is in it. There are plenty of opportunities for adding (e.g., functional foods) or substituting (e.g., free-from foods) ingredients to attract new customers. In addition to vegetables, pulses and grains, insects are popping up as a 'greener' protein alternative. Grocery giant Loblaw's recently launched [Canadian-grown, cricket powder](#) under its own private label brand. Consumers seeking out innovative packaging and social cause branding will continue to create new opportunities within the food processing sector.

Mintel, a consultancy, [highlighted four key trends](#) expected to influence the year ahead: full disclosure, self-fulfilling practices, new sensations, and science fare. *Full disclosure* speaks to consumers' increased demand for transparency and traceability. It is increasingly important for companies to earn consumers' trust by providing extensive information on their brands, their products and their supply chains. *Self-fulfilling* practices are up and coming, as consumers are feeling stressed and overwhelmed by modern life and are seeking flexible and practical ways of caring for mental and physical well-being. Flexibility and individualization are key, and innovations like high-protein desserts are one product example. *New sensations* are reflecting consumers' search for new experiences and the unexpected. All senses are to be engaged and texture is increasingly important as suggested by product names such as "Love Crunch Cereal." The trend for *science fare* is motivated by increased awareness of the challenge to feed a growing population with fewer resources. Innovative alternative protein products such as [Beyond Meat](#), [Impossible Foods](#), and [Cowgirl Veggie Steaks](#) are gaining traction in Canada.

Section III: Competition

In 2017, Canada was once again the leading destination for U.S. food and agricultural exports with total export value surpassing \$20 billion. U.S. exports of high-value food and beverage products to Canada (\$16.3 billion) represented 25 percent of total U.S. consumer-oriented agricultural exports globally. The top export categories included: fresh and processed fruits and vegetables, meat, prepared foods, snack foods, and soft drinks. U.S. products represent more than 60 percent of total Canadian food and beverage imports by value.

A strong 'buy local' movement drives Canadian consumers to source locally produced fruits and vegetables when available. However, U.S. produce benefits from seasonal complementarity (capturing increased market share immediately before and after the Canadian growing season) and a strong reputation for food safety. Canada imports 80 percent of its fresh vegetables between November and June. The leading fresh fruits and vegetables closely resemble availability and production in the United States. China is a growing competitor, though U.S. suppliers dominate the imported processed fruits and vegetables market (66 percent of total) with well-established brands and distribution under Canadian retailers' private label brands.

U.S. companies also control commanding shares of the Canadian snack food category, including snack breads, pastry cakes, pretzels, chips, and cookies. Competitors vary by sub-category, but the main competitors are: Mexico for cookies and biscuits; Belgium for chocolate and confections; the United Kingdom Germany and Switzerland for chocolate, confections and non-confections. Canada produces raw materials domestically for grain-based products, but must import chocolate and cacao as well as most sugar and most nuts for snack food production.

Canada is a major per capita consumer of citrus juices, despite not growing citrus fruits. While the United States again dominates the broad category of fruit and vegetable juices, Brazil (frozen orange juice concentrate) and China (88 percent of Canada's imports of apple juice concentrate) are major competitors.

Canadian poultry and egg markets operate under the umbrella of 'supply management,' which restricts imports to control supply and maintain artificially high prices. The United States has a commanding share of the imported poultry meat market (87 percent), much of which is purchased under the Import for Re-Export Program (IREP) and the Duties Relief Program (DRP). Though Brazilian producers can provide frozen products at lower prices than the United States, some Canadian plants are reluctant to source poultry from Brazil as commingling of U.S. and Brazilian origin products could prohibit sales of the processed products to the United States. In 2017, U.S. suppliers provided 95 percent of Canadian imports of egg and egg products, with China and Taiwan sending much of the remainder.

The Canadian dairy industry also operates under the supply management system. Canadian tariff rate quotas stipulate a 50-percent dairy content guideline for imported products, resulting in the creation of ingredients and blend products to circumvent the guideline and high tariffs. The United States is the largest supplier of dairy products under the IREP, due in part to the perishable nature of dairy products. The European Union has a distinct advantage in the cheese trade as a result of provisions of the Uruguay Round (1994) and the Comprehensive and Economic Trade Agreement that entered into force in September 2017. Low cost of production supports New Zealand's dominant position (>60 percent) in Canada's imports of butter.

More information on specific categories and leading competitors is available, beginning on page 17, in the 2017 Food Processing and Ingredients GAIN Report [CA17052](#).

Section IV: Best Product Prospects

'Premium-ization' and the snacking trend will continue to offer the best opportunities for generating and expanding export opportunities in Canada. In 2017, the health-driven segment of premium packaged foods experienced considerable growth, with healthier offerings driving new sales within otherwise stagnant segments of the processed food sector (including sugar confectionary, spreads, breakfast cereal, and gum).

The following table lists products within the packaged food category with the highest forecasted sales growth through 2022.

<i>Sales of Packaged Food by Category: % Value Growth</i>	2017/18	2017/22
Sweet Biscuits, Snack Bars and Fruit Snacks	3.9	19.8
Spreads	2.9	15.8
Edible Oils	3.1	13.8
Dairy	2.2	12.3
Processed Fruit and Vegetables	2.4	11.9
Rice, Pasta and Noodles	2.3	9.5
Baby Food	1.7	9.0
Savory Snacks	1.8	8.8
Sauces, Dressings and Condiments	1.5	8.5

Source: Euromonitor International 2018

Please refer to the 2017 Food Processing and Ingredients GAIN Report [CA17052](#) for more information on best product categories.

Section V: Key Contacts and Further Information

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Please refer to the FAS/Canada [Exporter Guide](#) for links to additional sources of information, including Canadian government agencies, Canadian databases and industry organizations.