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**Report Highlights:**

Despite the challenges COVID-19 posed to the Canadian food and beverage processing sector, it remained one of the largest manufacturing sectors, contributing more than \$91 billion in sales in 2020 (up four percent from 2019). Accounting for 20 percent of total manufacturing sales, the Canadian food and beverage processing sector is mature and stable, offering a steady source of demand for U.S. agricultural raw, semi-raw, and processed ingredients.

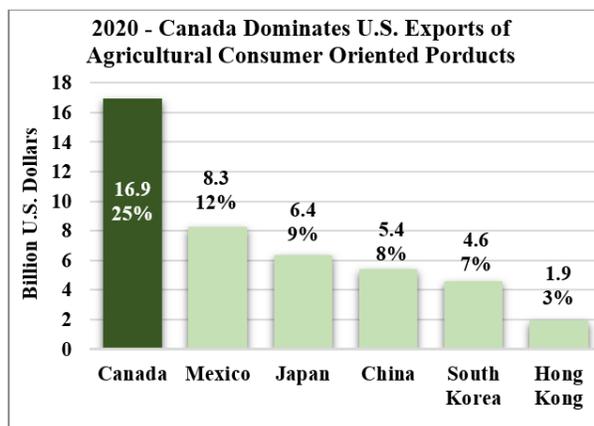
# Market Fact Sheet: Canada

## Executive Summary

The population of Canada is approximately 38 million and 90 percent of Canadians live within 100 miles of the U.S. border. In 2020, Canada was once again a top destination for U.S. food and agricultural exports with total export value of \$22.1 billion. For new-to-market and new-to-export firms, Canada offers stable financial markets and a sophisticated logistics network that supports more than \$900 million of two-way agricultural trade across the U.S.-Canada border each week. In 2020, Canada's food and beverage processing sector was valued at \$91.7 billion, representing an increase of four percent compared to 2019.

## Imports of Consumer-Oriented Products

U.S. exports of consumer-oriented products to Canada neared \$17 billion in 2020, more than doubling the value of the next largest market. Imported ingredients are vital inputs to Canadian food and beverage manufacturers. Canada relies heavily on two-way trade with the United States and depends on it for their raw, semi-processed and processed ingredients. Sophisticated and extensive cross-border logistics between Canada and the United States help to create trade opportunities for both countries.



## Food Processing Industry

Canada's food and beverage processing sector is vital to its economy and ranks as the second largest sector for Canada, accounting for 20 percent of the country's manufacturing. Canada's 2020 agri-food exports exceeded \$51 billion, making it the fifth-largest global exporter of agricultural products.

In 2020, food and beverage processing sales reached \$91.7 billion with food processing accounting for 90 percent of total sales and beverage processing accounting for the remaining 10 percent. The leading food manufacturing sectors were meat processing (\$22.9 billion) and dairy product manufacturing (\$13 billion). There are about 7,800 food and beverage processing establishments in Canada: 91 percent have less than 100 employees, 8 percent have between 100 and 500 employees, while only about one percent of establishments have more than 500 employees.

## Quick Facts CY 2020

### Imports of Consumer-Oriented Products

\$27.5 billion

### Top 10 Packaged Food Products (by sales growth)

- Baked/Bakery Goods
- Cereals/Pasta/Rice
- Processed Fruits/Veg.
- Non-alcoholic Beverages
- Dog & Cat Food
- Beef & Beef Products
- Pork & Pork Products
- Chocolate & Cocoa Products
- Tree Nuts Products
- Sauces/Dressings/Condiments

### Food Industry by Channels (2019, Billion USD)

<b>Total Food &amp; Beverage Industry</b>	<b>\$240</b>
Retail (including alcoholic beverages)	\$106.8
Food Service	\$ 41.3
<b>Food &amp; Beverage Processing Sales</b>	<b>\$ 91.7</b>
- Food Processing	\$ 82.1
- Beverage Processing	\$ 9.6

### Top 10 Food & Beverage Processors (By Company Share)

Food Processors	Beverage Processors
1) Loblaw	1) PepsiCo Beverages
2) Saputo	2) Coca-Cola
3) Kraft Heinz Canada	3) Nestlé Waters
4) Agropur Cooperative Ltd	4) Canada Dry Mott's
5) Nestlé Canada	5) A. Lassonde
6) Lactalis Canada	6) Loblaw
7) Frito-Lay Canada	7) Minute Maid
8) General Mills Canada	8) Red Bull Canada
9) Sobeys	9) Sun-Rype Products
10) Schneider Corporation	10) Sobeys

### GDP/Population

Population: 38 million  
 GDP: \$1,843 billion USD (2019 est.)  
 GDP per capita: \$49,031 USD (2019 est.)

**Note:** The exchange rate \$1 USD : 1.3415 CAD has been applied for 2020.

**Data and Information Sources:** Trade Data Monitor, Global Agricultural Trade System, Statistics Canada, Conference Board of Canada, World Factbook and Euromonitor International.

## Strengths / Weaknesses / Opportunities / Threats

<b>Strengths</b>	<b>Weaknesses</b>
A relatively stronger Canadian dollar entering 2021.	Processors seeking cost reduction through lower input prices due to higher operating costs in pandemic era.
<b>Opportunities</b>	<b>Threats</b>
Perception of quality and safety for U.S. ingredients and other food inputs.	Increasing competition from competitors with Canadian subsidiaries.

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## Section I. Market Summary

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### A. Overview of the Canadian Food Processing Market

The Canadian food and beverage processing sector is sophisticated and among the most competitive in the world. In 2020, food and beverage processing sales reached \$91.7 billion<sup>1</sup> making it the second-largest manufacturing sector in Canada, after the automotive industry. It includes about 7,800 companies employing around 290,000 workers, accounting for approximately 18 percent of total manufacturing employment.

Canada's agri-food exports exceeded \$51 billion in 2020, making it the fifth-largest exporter of agricultural products in the world, after the European Union, the United States, Brazil and China, respectively. Exports of processed food and beverage products exceeded \$22.5 billion, which accounted for 44 percent of Canada's exports of agricultural products. The Canadian Government aims to grow agriculture and food exports to \$75 billion CAD (\$60 billion USD) by 2025 and continues to support the agribusiness sector through [Canadian Agricultural Partnership](#) programs to reach this target.

Canadian food and beverage processors utilize raw, semi-processed, and processed ingredients. Support for the Canadian economy and the strength of Canada's "buy local" movement drives processors to source locally whenever possible. However, Canadian processors continue to rely on a wide range of imported ingredients. For example, commodities such as fresh berries, lettuce and tree nuts have become essential imported ingredients in the food processing industry, and Canada imports about 80 percent of its fresh fruit and vegetables between November and June.

Well-established multinational manufacturers, such as Saputo Inc., PepsiCo, Inc., Kraft and others, contribute to the cross-border trade between Canada and the United States as they leverage global supply chains to create efficiencies and foster innovation.

### B. COVID-19 Update

Throughout COVID-19, food and beverage manufacturers have continued to operate at near pre-pandemic levels to maintain stable food supplies for Canadians and for export. Stockpiling, panic-purchases, and the closure of foodservice outlets increased (and has generally sustained) demand for processed products destined for retail grocery.

In addition to the [COVID-19 Economic Response Plan](#), the Canadian government created the [Emergency Processing Fund](#) for food and beverage processors in May 2020, providing \$58 million to offset the additional costs of retrofitting facilities and procuring personal protective equipment.

Several outbreaks of COVID-19 in Canadian food and beverage processing facilities, particularly meat processing, highlighted the efforts made by the industry as well as the varying degrees of risk across the sector. Industry groups estimate the sector has lost billions in sales and has spent more than \$600 million responding to the pandemic. Industry guidance, updates and responses to frequently asked

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<sup>1</sup> All values are expressed in U.S. dollars unless otherwise specified.

questions are available on [Health Canada](#), [Agriculture and Agri-Food Canada](#) and [Canadian Food Inspection Agency](#) (CFIA) websites.

**Table 1. 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 raw, semi-processed, and processed food inputs already available in the Canadian market.
Similar shopping patterns and culinary tastes / preferences support U.S. products.	Differences in acceptable food enhancers, additives, chemicals and residue tolerances.
Duty free tariff treatment for most products under USMCA.	Tariff rate quotas apply for certain products such as dairy and poultry.
High U.S. quality and safety perceptions among Canadians.	Avid support for sourcing ‘locally’ and supporting local growers and processors.
High fruit vegetable/nut consumption among Canadians creates sales opportunities as selected food inputs do not grow in sufficient quantities in Canada.	As operating costs are generally higher for most Canadian processors than in the United States, buyers are always seeking competitive pricing on inputs.
Canadian consumers have relatively high disposable incomes, which translate into high food and drink spending levels.	Increasing competition from 3 <sup>rd</sup> country competitors with established subsidiaries in Canada.

## 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 help them evaluate the market. USDA endorses [SIAL Canada](#), the largest food trade show in Canada; the annual event alternates between Montreal and Toronto. In addition to industry shows, various trade associations provide excellent networking opportunities and their own trade show formats, such as the [Ontario Independent Meat Processors](#) (OIMP) or the [Canadian Institute of Food Science and Technology](#), and [Food and Beverage Canada](#).

FAS/Canada works with [State Regional Trade Groups](#) and their respective state departments of agriculture to provide one-on-one export counseling and services that include inbound trade missions, support for selected tradeshow, and identification of potential Canadian partners.

FAS/Canada has developed detailed reports providing insight into the different food and beverage sectors (retail, foodservice, food processing) in four major Canadian markets: Toronto, Montreal, Vancouver, and Halifax. For a copy of these reports, please contact FAS/Canada offices in Ottawa, Toronto, or Montreal.

## **B. Import Procedures**

U.S. exporters are urged to review FAS/Canada Food and Agricultural Import Regulations and Standards (FAIRS) Country Report ([CA2020-0081](#)) and Certificate Report ([CA2020-0084](#)) to better understand the Canadian import regulations and standards that apply to their products. 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 organized by the Harmonized System (HS) classification, 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.).

Exporters should be aware the comprehensive [Safe Food for Canadian Regulations](#) (SFCR) came into effect on January 15, 2019, with certain regulatory elements being phased in through July 2021. U.S. food processors are encouraged to understand how SFCR requirements may apply to them and their import partners. [Getting started: Toolkit for food businesses](#) is an online toolkit provided by CFIA to help businesses understand the traceability, labelling, and advertising requirements that apply to their products.

Canadian food processors source raw, semi-processed, and processed ingredients through various avenues. Larger multinationals often maintain a global procurement office at their headquarters office and a regional procurement office in Canada. These global brands leverage vendors along their global supply chain to help them source ingredients for processing in Canada.

Many small- to medium-sized Canadian manufacturers<sup>2</sup> typically source ingredients from a national network of food ingredient brokers and distributors. If the volumes are high enough, then some Canadian manufacturers may import directly from U.S. growers/exporters.

U.S. firms, particularly small- to medium-sized firms, are recommended to partner with a Canadian ingredient broker or distributor. In most instances, food distributors will import and take title of the shipment and warehouse the product. The ingredients will be part of their catalog of offerings. Most distributors are not in the business of pioneering or finding new manufacturing or foodservice accounts. There is a select number of ingredient brokers, and they are prepared to serve as salespeople and will pioneer an ingredient to established industrial and foodservice accounts.

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<sup>2</sup> [Innovation, Science and Economic Development Canada](#) (ISED) defines small- to medium-sized firms in Canada as businesses with less than 500 employees.

All food brokers take a percentage of the product sales revenue, ranging from three percent to six percent. The percentage is determined by several factors: the type of product category, market niche potential, expected sales volume, and any additional services that may be requested by the U.S. exporter. It is not uncommon for a broker to request a monthly retainer fee as they must introduce the product to prospective industrial accounts. Once targeted sales volumes are established, brokers typically transition fee structures to a percentage of sales. All fees are negotiated between the principal and the broker prior to any future transactions.

### C. Market Structure

Ontario, Quebec, Alberta, and British Columbia account for more than 85 percent of food and beverage manufacturing sales in Canada. The country’s leading processing sectors in 2020 were meat products (\$23 billion), dairy products (\$13 billion), bakery and tortilla products (\$9.3 billion), and other food products<sup>3</sup> (\$9.6 billion) – accounting for 60 percent of sales combined.

**Table 2. Food & Beverage Manufacturing Sales (2020, Billion USD)**

Food & Beverage Manufacturing Sub-Sector	Sales	Market Share	Leading Provinces
<b>Food Manufacturing</b>	<b>\$82.1</b>	<b>90%</b>	
Meat products	\$23	25%	Ontario & Alberta
Dairy products	\$13	14%	Ontario & Quebec
Other food	\$9.6	10%	Ontario & Quebec
Bakery and tortilla	\$9.3	10%	Ontario & Quebec
Grain and oilseed milling	\$7.6	8%	Ontario & Saskatchewan
Fruit/vegetable preserving & specialty food	\$6.6	7%	Ontario & Quebec
Animal food	\$6.3	7%	Ontario & Quebec
Seafood product preparation & packaging	\$3.9	4%	Nova Scotia & New Brunswick
Sugar and confectionery product	\$2.9	3%	Ontario & Quebec
<b>Beverage Manufacturing</b>	<b>\$9.60</b>	<b>10%</b>	
Breweries	\$4.7	5%	Ontario & Quebec
Soft drink and ice	\$2.8	3%	Ontario & Quebec
Wineries	\$1.1	1%	British Columbia & Ontario
Distilleries	\$0.9	1%	Ontario & Quebec

Source: Statistics Canada, *Manufacturers by industry and province*

The following issues are among the food and beverage industry’s leading concerns:

**Labor Challenges:** While food and beverage leads all other manufacturing sectors in employment, processors face a labor shortfall equal to nearly 10 percent of its 290,000-strong labor force and are facing increasing rates of attrition due to Canada’s aging workforce. By 2025, the sector will need to employ up to 65,000 more people.

<sup>3</sup> Other food includes product categories such as snack food, coffee and tea, flavoring syrup and concentrate, and seasoning and dressing.

**Profit Squeezed as Costs Rise:** The Canadian retail sector is highly concentrated with 80 percent of the market controlled by just five retail banners. In 2020, leading grocery retailers Walmart and Loblaw increased fees charged to product suppliers in order to recoup ecommerce investments. Combined with COVID-related safety measures, additional costs have been further squeezing food and beverage manufacturers' profit margins.

#### **D. Key Market Drivers & Sector Trends**

**Shifting Demographics:** Healthy eating, convenience, and sustainable lifestyles are among the [patterns](#) shaping consumer preferences and product development in Canada. Immigration is driving modest population growth within Canada's aging population. Processors have diversified their offerings to reach the one in five foreign born Canadians, and selected ethnic foods are now in the mainstream diets of many Canadians. Millennials are increasingly responsive to messages of environmental stewardship, driving the sector to offer more environmentally friendly products such as organic, low carbon footprint, and biodegradable or recyclable packaging.

**Canada's Food Guide:** Canadian consumers are increasingly reflecting the priorities of [Canada's Food Guide](#) in their food purchasing and consumption habits. The food guide places more focus on eating fruits, vegetables, whole grains, and plant-based proteins, while reducing sodium, sugars, fats, and carbohydrates. Food and beverage processors are responding to these trends to keep up with consumer demand for eating healthy, in response to voluntary sodium reduction targets, and in anticipation of forthcoming [front-of-package labeling](#). According to Nielsen, sales of meat alternatives increased by 129 per cent in 2020 compared to the first nine months of 2019, and plant-based substitutes represent a growing range of products.

**Online Shopping:** While food retailers remain open as essential services, a Nielsen e-commerce study stated that 30 per cent of shoppers were new to e-commerce in 2020. Nine percent of Canadians are now shopping for food online, compared to two percent before the pandemic. Manufacturers of consumer packaged goods (CPGs) are required to provide rich, detailed images and descriptions of their products to increase consumer engagement with their products and grow online sales. A growing number of manufacturers are exploring and launching direct-to-consumer platforms to sell directly and avoid retailers' costly fees.

### **Section III. Competition**

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According to [Agriculture and Agri-Food Canada](#), 99 percent of Canada's 7,800 food and beverage processing establishments are small- to medium-sized businesses. Innovation, Science and Economic Development Canada (ISED) maintains a [directory of companies](#) that includes food and beverage processors.

Buying power is consolidated among larger companies, which may put pricing pressure on some U.S. food and beverage companies, while at the same time creating challenges for U.S. exporters working with smaller companies and smaller orders.

**Table 3: Top Packaged Food and Soft Drink Manufacturers** (Million U.S. Dollars)

Company	Retail Value	Company Share
<b>Packaged Food</b>		
Loblaw	2,973	6.1%
Saputo	2,452	5.1%
Kraft Heinz Canada	2,127	4.4%
Agropur Cooperative	1,832	3.8%
Nestlé Canada	1,831	3.8%
Lactalis Canada	1,808	3.7%
Frito-Lay Canada	1,650	3.4%
General Mills Canada Corp	1,144	2.4%
Sobeys	1,036	2.1%
Schneider Corp	856	1.8%
Maple Leaf Foods	753	1.6%
<b>Soft Drinks</b>		
PepsiCo Beverages Canada	1,539	19.2%
Coca-Cola	1,188	14.8%
Nestlé Waters of Canada	605	7.5%
A Lassonde	453	5.6%
Canada Dry Motts	438	5.5%
Loblaw Cos	373	4.6%
Minute Maid Co of Canada	360	4.5%
Minute Maid Co Canada	272	3.4%
Red Bull Canada	193	2.4%
Sun-Rype Products	149	1.9%
Sobeys Inc.	115	1.4%

Source: Euromonitor International

#### Section IV. Best Product Prospects

U.S. companies provided 57 percent of Canada’s total imports of consumer-oriented products in 2020. The top three consumer-oriented agricultural categories included prepared and processed foods, fresh and processed vegetables, and fresh and processed fruit. Although, no data exists on the total value of imported inputs/ingredients destined to the Canadian food processing sector, export data indicate that semi-raw products, selected fresh fruits and vegetables, nuts, and other products and processing inputs not readily grown in Canada are in high demand and continue to be largely imported from the United States. Below are products present in market that have had consistently good sales potential.

**Table 4: Food and Beverage Processing-Related Imports** (2020, Billion USD)

Description	Imports from World	Imports from U.S.	U.S. Market Share	Major Competitors
Fresh fruit	3.8	1.5	39%	Mexico, Guatemala, Costa Rica
Bakery Goods, Cereals, & Pasta	3	2.2	74%	Italy, China, Mexico
Fresh vegetables	2.7	1.6	60%	Mexico, China, Guatemala
Baked Snack Foods (pastries, pretzels, cookies, etc.)	1.7	1.2	74%	Mexico, Italy, France
Chocolate & Cocoa Products	1.4	0.7	54%	Switzerland, Belgium, Germany
Other processed food, ingredients and beverage bases (malt, cane or beet sugar)	1.6	1.3	81%	China, Germany, Switzerland
Processed Fruit	1.2	0.5	44%	Mexico, China, Chile
Processed Vegetables	1.2	0.7	54%	China, Italy, Spain
Beef and Beef Products	1.1	0.7	63%	New Zealand, Australia, Uruguay
Tree Nuts	1	0.7	68%	Vietnam, Turkey, China
Pork & Pork Products	1	0.8	86%	Italy, Germany, Denmark
Dog and Cat Food	0.9	0.8	91%	Thailand, China, Italy
Condiments & Sauces	0.8	0.6	76%	Italy, China, UK
Non-Alcoholic Beverages	1	0.7	72%	Switzerland, France, Italy

Source: Trade Data Monitor

**Baked Goods Sector:** COVID-19 led to stockpiling of perishable baked goods, as consumers spent more time at home in 2020. However, sales are expected to decline in 2021, as demand returns to normal, and consumers return to purchasing and enjoying baked goods from foodservice outlets. Unpackaged and packaged flat breads are expected to drive the growth while dessert mixes are expected to have the weakest growth. Euromonitor International forecasts a compound annual growth rate (CAGR) of four percent through 2025.

**Fruit & Vegetable Processing Sector:** Shelf-stable options continue to suffer from the perception that they are not as healthy as fresh or frozen versions, losing sales despite the convenience they may provide. On the other hand, frozen processed fruit and vegetables are perceived as healthier than shelf stable equivalents, while still representing better value than fresh fruit and vegetables. The overall

trend towards plant-based protein presents strong opportunities for sales growth in processed fruit and vegetables. Euromonitor International forecasts a CAGR of one percent through 2025.

**Meat Sector:** While value growth peaked in 2020 due to increased demand and stockpiling, it is expected to decline in 2021 as demand and shopping patterns return to pre-pandemic levels. Growth is expected to remain stable in the coming years, with meat substitutes leading growth with a 15 percent CAGR, offsetting slower growth products like chilled, processed meat with a forecast 3 percent CAGR during the 2021 – 2025 period.

**Seafood Sector:** In 2019, imports represented 81 percent of Canadian seafood consumption, with the United States accounting for 23 percent. Seafood consumption is on the rise as 65 percent of Canadians eat it at least once a week. Euromonitor International forecasts a CAGR of seven percent for processed seafood through 2025.

**Dairy, Poultry and Egg Sector:** Canadian dairy, poultry and egg markets operate under the umbrella of ‘supply management,’ which restricts imports to control supply and maintain artificially high prices. 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.

The United States has a commanding share of the imported poultry meat market, 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 due to restrictions on Brazilian-origin chicken in processed products destined for the United States.

In 2020, the United States accounted for 55 percent of Canada’s imports of dairy products, 78 percent of poultry meat and products, and 91 percent of eggs and products.

**Sugar & Confectionery Sector:** The United States accounted for approximately 47 percent of Canada’s confectionery imports in 2019. Nutrition bars, plant-based products, chocolate with neither dairy nor sugar, and cannabis infused product categories are attracting more competition and innovation in this sector. (Note: cannabis- and CBD-containing products manufactured in the United States are not eligible for export to Canada.) Euromonitor International forecasts a 3 percent CAGR through 2025 for the category, with chocolate confectionery leading growth at 4 percent over that time.

**Soft Drinks:** Soft drinks such as carbonated, bottled water, and juice benefitted from the pandemic-era pantry-loading in 2020. In the short term, budget-friendly brands are likely to perform better as consumers, financially strained during the pandemic, continue to spend less and seek product deals. In the long-term, health benefits of soft drinks are likely to grow in importance as the health and wellness trend continues to expand. Euromonitor International forecasts a CAGR of 4 percent during the period of 2021 – 2025 with ready-to-drink (RTD) coffee and tea leading the growth at 14 and 9 percent respectively.

## **Section V: Key Contacts and Further Information**

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### **Attachments:**

No Attachments