

USDA Foreign Agricultural Service

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Global Agricultural Information Network

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Canada

Food Processing Ingredients

An Overview of the Food and Beverage Processing Sector in Canada

Approved By:

Jeff Zimmerman – Acting Minister Counselor and Director of Marketing

Prepared By:

Hanna Wernerson – Agricultural Marketing Specialist

Report Highlights:

Opportunities exist to expand U.S. food product sales to Canada's food and beverage processing sector. In this approximately \$85 billion industry, demand is increasing for many U.S. raw and processed horticultural products, other processed ingredients and food flavorings. Canada remains one of the top destinations by value for U.S. agricultural exports and in 2016 total exports reached over \$20 billion. The following report highlights the performance of the various sectors of Canada's food and beverage processing industry.

Post:

Ottawa

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Section 1: Market Summary

Overview of Canadian Market

Opportunities exist to expand U.S. food product sales to Canada's food and beverage processing sector. In this industry, with total sales worth approximately \$84.8 billion (C\$112 billion)¹, demand is increasing for many U.S. raw and processed horticultural products, other processed ingredients and food flavorings. A [customs tariff order](#) published Dec. 28 in the Canada Gazette described how approximately 200 different tariffs on imported food ingredients were going to be repealed or amended. This customs tariff order removes tariffs on imported food ingredients that are used in the agri-food processing industry, including certain fruits and vegetables, cereals and grains, spices, fats and oils, food preparations, and chocolate products. These tariff reductions came into effect on January 16, 2017, and further expand export opportunities for U.S. firms.

At \$20.2 billion, Canada is the second largest export market for U.S. agricultural products, after China and ahead of Mexico. At \$16.1 billion, the consumer oriented category remains the major export category for U.S. agricultural products to Canada, with a share of nearly 80 percent in total exports to Canada. Within the consumer oriented category, Canada's share of global U.S. exports is over 26 percent. Among the consumer oriented products exported to Canada, fresh fruits and vegetables continue to be at top with a combined value of \$3.4 billion, followed by prepared foods at \$1.9 billion, red meats at \$1.8 billion, snack foods at \$1.3 billion, and non-alcoholic beverages (excluding juices) at \$1.2 billion. While the overall exports to Canada in the consumer oriented category saw a 4.2 percent decline in 2016, several subcategories showed some growth: chocolate and cocoa experienced a 2.7 percent growth, and condiments and sauces a 0.6 percent growth.

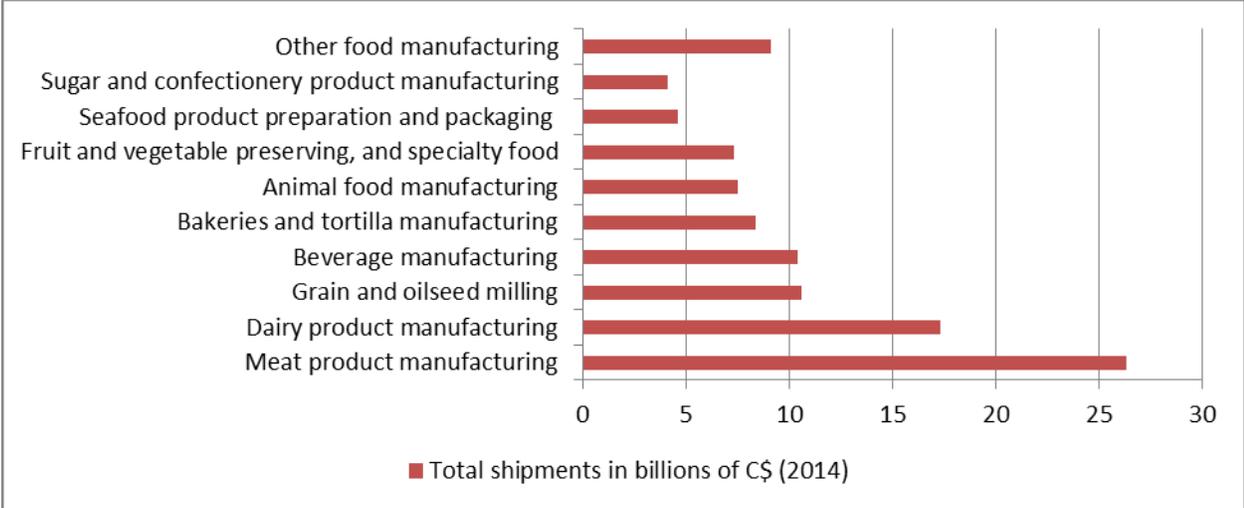
Under the tariff elimination provision of the North American Free Trade Agreement (NAFTA), the majority of U.S. agricultural products have entered Canada duty-free since January 1, 1998. Trade with Canada is facilitated by proximity, similar culture, language, common lifestyle pursuits, and the ease of travel among citizens for business or pleasure. Many American products have gained an increased competitive edge over goods from other countries as the result of the FTA/NAFTA. Canada's grocery product and food service trades have been quick to seize opportunities under FTA/NAFTA, which permitted them to expand their geographical sourcing area to include the United States. Declining import duties under the trade agreements and an easing of Canadian packaging requirements for processed horticultural products for the food service market have resulted in significant gains in the Canadian market for U.S. consumer-ready foods and food service products.

Food and beverage processing in Canada began in the mid-1800's and has successfully evolved into a sophisticated and vital contributor to Canada's food, agriculture and economic sectors. In 2016, the food and beverage manufacturing industry in Canada's sales reached \$84.8 billion (C\$112 billion). In terms of value of production, food and beverage processing is the second largest manufacturing industry and it accounts for 2 percent of GDP. The industry is the largest buyer of agricultural production and supplies 75 percent of the processed food and beverage products available in Canada. In 2016, the Canadian food and beverage manufacturing sector's exports reached \$25.4 million (C\$33.5 million), with 74

¹ Throughout this report, the yearly average exchange rate 1.32 has been applied for CY 2016 data. Source: www.x-rates.com

percent of that total going to the United States. The food and beverage processing is furthermore the largest manufacturing employer and employs approximately 246,000 workers. Within the food and beverage processing industry, meat product manufacturing is the largest segment with approximately one quarter of the market share, followed by dairy product manufacturing.

A further breakdown of the manufacturing industry from 2014, is as follows. Agriculture and Agri-Food Canada has more information on the food and beverage processing industry on their [website](#). Beverage processing includes soft drinks and bottled water manufacturing, wineries, breweries and distilleries.



Source: Agriculture and Agri-Food Canada, [Significance of the Food and Beverage Processing Sector in Canada](#)

The majority of food manufacturers are located in Ontario, the most populous province in Canada. However, the food processing sector is the largest manufacturing industry in most provinces. Ontario and Québec together account for 65 percent of total sales of processed food, British Columbia and Alberta for 21 percent and the remaining provinces together account for 14 percent. Following is a breakdown of the food manufacturing industry by province and territory.

Sales (shipments) of goods manufactured, food manufacturing (excluding beverages), by province and territory. Unadjusted						
NAICS 311						
	2011	2012	2013	2014	2015	2016
C\$ Thousands						
Canada	84,377,099	84,510,971	86,616,597	93,177,692	95,948,507	101,064,346
Newfoundland and Labrador	1,572,436	x	x	x	x	x
Prince Edward Island	711,110	731,031	x	x	x	x
Nova Scotia	2,127,797	2,053,186	x	x	2,407,495	2,407,495
New Brunswick	2,075,323	x	x	x	x	x
Québec	20,317,455	19,530,363	18,951,450	21,338,911	21,853,795	23,077,685
Ontario	32,674,684	32,788,167	35,664,654	38,091,729	38,565,405	40,582,530
Manitoba	4,451,076	4,198,932	4,610,734	4,512,016	4,014,378	4,173,375
Saskatchewan	2,644,081	3,251,525	3,292,994	x	3,347,008	4,215,982
Alberta	11,281,723	11,621,993	11,496,393	12,674,688	13,628,798	13,590,571
British Columbia	6,521,410	6,674,136	6,747,031	7,094,000	7,732,936	8,153,465
Yukon	T	T	T	T	T	T
Northwest Territories	T	T	T	T	T	T
Nunavut	T	T	T	T	T	T

x : suppressed to meet the confidentiality requirements of the *Statistics Act*

T: Series Terminated

Source: Statistics Canada, CANSIM, tables [304-0014](#) and [304-0015](#).

Last modified: 2017-02-14.

In Ontario, Québec, Alberta, and British Columbia meat product manufacturing is the largest industry. Grain and oilseed milling is dominating in Manitoba and Saskatchewan while seafood is the biggest food industry in New Brunswick, Nova Scotia, Prince Edward Island, and Newfoundland.

Sales (shipments) of goods manufactured, beverage manufacturing (excluding food), by province and territory. Unadjusted		
NAICS 3121		
	2015	2016
C\$ Thousands		
Canada	10,763,416	11,206,040
Newfoundland and Labrador	x	x
Prince Edward Island	x	5,508
Nova Scotia	x	x
New Brunswick	x	x
Québec	x	x
Ontario	x	x
Manitoba	x	x
Saskatchewan	x	x
Alberta	x	986,939
British Columbia	1,433,796	1,672,599
Yukon	T	T
Northwest Territories	T	T
Nunavut	T	T

x : suppressed to meet the confidentiality requirements of the *Statistics Act*
T: Series Terminated
Source: Statistics Canada, CANSIM, tables [304-0014](#) and [304-0015](#).

Last modified: 2017-02-14.

Canada's soft drink and ice manufacturing industry (NAICS 31211) is highly concentrated and produces a variety of non-alcoholic carbonated beverages such as colas, ginger-ales, ginger beers, fruit-flavored drinks, soda and tonic waters, ice teas and coffees, and sport and energy drinks. The increasing consumer demand for healthier beverage products and has steered the industry towards innovative ready-to-drink low calorie beverages as well as vitamin and coconut waters. Ontario is the leading province for non-alcoholic beverage manufacturing with the presence of both Coca Cola and PepsiCo.

The Canadian alcoholic beverages sector includes the wine, beer, and spirits sub-sectors. Beer brewing is one of Canada's oldest industries and domestic brewers hold approximately 89 percent of the market share in Canada. A majority of the breweries are found in Ontario, British Columbia and Québec. The beer industry (NAICS 31212) is dominated by three major multinational companies and, in 2012, these companies were reported to control around 90 percent of retail sales. Canada is furthermore a net importer of beer with approximately 25 percent being imported from the U.S. The U.S. is likewise the biggest export market with approximately 96 percent of total exports. Canada's winemaking industry (NAICS 31213) is internationally recognized for its ice-wine production. Ontario and British Columbia are by far the largest wine producing provinces. A smaller amount of establishments are also operating in Québec despite less favorable climate for wine production. Worth noting is that the bulk of wine production in Canada is from bottling and blending operations, rather than products made from 100 percent Canadian grapes. Canada is a net importer of wine; in 2016, the Canadian global import of wine reached nearly \$1.8 billion and the export \$71.7 million. The U.S. is by far the largest export market for Canadian wine (97.4%). The majority of the imports come from the U.S. (21%), France (20.7%), and Italy (20.6%).

Canadian Exports of Processed Food and Beverage Products

Canadian exports of processed food and beverage products stood at \$25.4 million (C\$33.5 million) in 2016, up 6.6 percent over 2015. Canadian processed food and beverage products are exported all over the world; however, a significant portion is focused to a small number of countries. In 2016, 86 percent of processed food and beverage exports went to three major markets; the U.S. (73.9 %), China (6.9 %), and Japan (5.5 %).

Canadian Food and Beverage Manufacturing NAICS 311 & NAICS 3121		2012	2013	2014	2015	2016
Shipments	C\$ Billions	94,571	96,631	103,465	106,712	112,270
	Change (%)	0.7%	2.1%	6.6%	3%	4.95%
Imports	C\$ Millions	24,983	26,342	28,977	31,825	32,600
	Change (%)	7.3%	5.2%	9.1%	8.9%	2.4%
Exports	C\$ Millions	24,605	25,322	27,832	31,258	33,480
	Change (%)	5.1%	2.8%	9%	11%	6.6%
Domestic Market	C\$ Billions	94,571.4	96,632.0	103,466.1	106,712.6	112,269.5
	Change (%)	0.7%	2.1%	6.6%	3%	4.9%

Sources: [Trade Data](#), Statistics Canada, NAICS 311 and 3121 and Statistics Canada, CANSIM, tables [304-0014](#). Last modified: 2017-02-14.

Imports of Ingredients for the Canadian Food and beverage Processing Industry

Canadian food and beverage processors utilize both raw and semi-processed ingredients from imported and domestic sources. No data exists on the total value of imported ingredients destined for the Canadian processed food and beverage industry; however imported ingredients are vital inputs to Canadian manufacturers. Imported ingredients cover virtually all food categories. For example, whole raw products such as strawberries, semi-processed products such as concentrated juices and fully prepared products such as cooked meat products have proven to be essential to processors in Canada. Some ingredients, such as tropical and sub-tropical products, are entirely imported while substantial imports of numerous other products may also be required. These products include spices, food manufacturing aids and flavorings. For example, 90 percent of the Canadian sugar supply is imported and 40 percent of the demand for flour, edible oils and breakfast cereals is supplied by imports.

Advantages and Challenges Facing U.S. Products in Canada

Advantages	Challenges
Canadian consumers enjoy a high disposable income, coupled with a growing interest in global cuisine.	Competitive pricing as the cost of doing business in Canada for retailers and distributors are higher than in the United States pushing food prices up.
U.S. food products closely match Canadian tastes and expectations.	Tariff rate quotas for certain products.
Fruit and vegetable consumption in Canada is substantially higher than that in the United States. Except for its greenhouse industry Canada's horticulture production is limited. This provides opportunities for U.S. producers in the off seasons. Canadian retailers rely heavily on imports to supply the domestic market all year round.	With consolidation, sellers often face one national retail buyer per category; this buyer will often purchase for all banners under the retailer. Buyers are constantly looking to reduce price, improve product quality and extend the product range with new entrants.
Canada and the U.S. share a 3,145-mile of border with 2/3 of the Canadian population living within 200 miles of the U.S. border. This geographical proximity facilitates communication and transportation. There is also significant over flow of U.S. television and print media in most Canadian centers, which can reduce advertising costs for U.S. companies with media campaigns in U.S. cities bordering on Canada.	Canada has a very high ethnic population with specific dietary preferences. [The three largest cities consist of more than 1/3 new Canadians]. This consumer ethnic diversity tends to be a challenge for some large scale mass marketing companies with products and marketing campaigns more targeted at the U.S. market. On the other hand the different ethnic markets in Canada can create niche opportunities for smaller companies.
Canada's strong dollar is an advantage for U.S. exporters.	Retailers and brokers/distributors may charge high listing/placement fees.
Canadian ethnically diverse population provides opportunities for specialty products in	Food labeling, including bilingual packaging requirement, and nutritional content claims are

populated centers.	highly regulated and frequently differ from the United States.
Retail consolidation favors large-scale suppliers and increases sales efficiency with fewer retailers to approach.	Retailers are interested in category extension, not cannibalization. Products entering the market must be innovative; not duplicative.
Duty free tariff treatment for most products under NAFTA	Differences in Food Standards may require special production runs and packaging due to Canadian standard package sizes.
High U.S. quality and safety perceptions.	Differences in approved chemicals and residue tolerances.
Private label presents opportunities for custom packers of high quality products.	Private label brands continue to grow in many categories; sometimes taking shelf space from American national brands.
	The total population of Canada is slightly less than California and much more spread out, making marketing and distribution costs generally higher than in the United States.

Section 2: Road Map for Market Entry

Entry Strategy

Food and beverage companies from the United States seeking to enter the Canadian marketplace have a number of opportunities. The United States is Canada's primary trading partner and the demand for U.S. products can be attributed to many factors, such as; proximity to the market, reliable shipping methods, similar business practices and similar food tastes between Canadians and Americans. Although, Canadians are looking for new and innovative U.S. products, there still are a number of challenges U.S. exporters must prepare for and learn to manage. The main challenges include currency, customs procedures, regulatory compliancy, and labeling requirements. Overcoming these obstacles is possible with the right tools. FAS together with agricultural partners facilitate the exporting process and we recommend the following as first steps when entering the Canadian market:

1. Contact your state regional trade office or the international specialist of your State Department of Agriculture.
2. Thoroughly research the Canadian retail landscape and identify your product's market position.
3. Locate a Canadian partner, such as a broker/distributor/importer to help in identifying key Canadian accounts.
4. Learn Canadian government standards and regulations that pertain to your product.

➤ *Step 1. Contact your State Regional Trade Group/State Regional Office*

State Regional Trade Groups (SRTGs) are non-profit organizations that offer many services to U.S. food/agricultural product exporters. They are comprised of representatives from their region's Department of Agriculture and work together in supporting U.S. food companies. Primarily, they assist in providing privileged information about the various food sectors in a respective global market. Also, key contact information on buyers and specifics about important trade and consumer shows in Canada is available for potential exporters. Through the SRTG, branded food products and agricultural commodities can be promoted with assistance from Market Access Program (MAP) funds administered by USDA's Foreign Agricultural Service.

Packaging and label modifications, product tasting/demonstrations, in-store promotions, point-of-sale materials, advertising, and trade show participation, are some of the activities for which eligible participants can obtain partial reimbursements.

State Regional Trade Groups

State Regional Trade Group	Web Site	States
Food Export USA Northeast	http://www.foodexport.org	Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
Food Export Association of the Midwest USA	http://www.foodexport.org	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
Southern U.S. Trade Association (SUSTA)	http://www.susta.org	Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Puerto Rico, Virginia, West Virginia
Western U.S. Agricultural Trade Association (WUSATA)	http://www.wusata.org	Alaska, Arizona, American Samoa, California, Colorado, Guam, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming
National Association of State Departments of Agriculture (NASDA)	http://www.nasda.org/cms/7195/8617.aspx	State Directory of the State Departments of Agriculture

Additionally, many commodities have their own marketing associations which may be able to provide additional, product specific information. A listing of the groups who are active in Canada be found [here](#).

➤ **Step 2:** Thoroughly research the Canadian market and identify your product's market position.

A thorough understanding of consumer trends and needs are required in developing an effective market strategy in Canada. There are many organizations in Canada with extensive information available to U.S. food manufacturers that will help in understanding the many aspects and particularities of the Canadian food sector.

Organization and Data Sources within Canada

Organization	Function/Purpose	Website
Agriculture and Agri-food Canada, Agri-Trade Food Service	Provides information, research and technology policies and programs. Also provides access to statistics. This department is the counterpart to the U.S. Department of Agriculture.	www.agr.gc.ca
Food & Consumer Products of Canada (FCPC)	FCPC is national, non-profit organization representing the food and consumer products industry in Canada.	www.fcpc.ca
Centre of Food in Canada	A non-profit organization addressing issues related to food and its impact on Canadians.	www.conferenceboard.ca
Canadian Institute of Food Science and Technology	A national association for food industry professionals advocating and promoting the quality, safety and wholesomeness of the food supply through the application of science and technology by linking food science professionals from industry, government and academia.	http://www.cifst.ca/default.asp?id=72
Consumers' Association of Canada	Represents consumers to all levels of government and to all sectors of society.	www.consumer.ca
Industry Canada	Trade databases.	www.ic.gc.ca
Canadian Manufacturers and Exporters	Canada's largest trade and industry association advocating for manufacturers and exporters.	www.cme-mec.ca
Food Processors of Canada	Food Processors of Canada is the business association supporting executives managing food processing companies in Canada	www.foodprocessors.ca/
Statistics Canada	The official source for Canadian social and economic statistics.	www.statcan.gc.ca
I.E. Canada (Canadian Association of Importers and Exporters)	I.E. Canada is a national, non-profit organization committed to providing services to develop and enhance the international trade activity and profitability of importers and exporters.	www.iecanada.com
Food in Canada	Food and Beverage Processing	www.canadianmanufacturing.com/food

Organization	Function/Purpose	Website
	Magazine	

➤ **Step 3: Locate a Canadian Food Partner- Broker/Distributor/Importer**

Although not a necessity for ingredient companies selling to manufacturers, some new entrants to the Canadian market consider appointing a broker or develop a business relationship with a distributor/importer to enter the Canadian market. Some Canadian manufacturers prefer to deal directly with suppliers. As the market is smaller than that of the United States, food companies are urged to closely evaluate their Canadian business partners well before entering into a contractual arrangement. Factors such as work experience, the Canadian firm’s financial stability, product familiarity, account base, sales force, executive team commitment, and other considerations should all be taken into account prior to appointing the Canadian partner and or a entering into a future business transactions.

A partial listing of Canadian food brokers is available on our latest brokers report, Agent/Broker Directory – Central Canada available [online](#). FAS/Canada can provide some assistance in identifying a broker/distributor/importer but is not in a position to endorse any Canadian firm. Furthermore, companies are encouraged to visit and/or participate in specific trade shows in Canada (see [Additional listing of trade shows in Canada](#)) as this will help in evaluating the market and meeting potential Canadian partners.

FAS/USDA endorses one of the largest food shows in Canada, [SIAL Canada](#). The event alternates between Montreal, Québec and Toronto, Ontario. The show takes place in Montreal the even years and in Toronto the odd years. The SIAL Canada 2017 show is scheduled for Tuesday, May 2nd to Thursday, May 4th at the Enercare Centre. Interested U.S. food companies can contact FAS/USDA’s show contractor, IMEX Management: Kelly Wheatley at kellyw@imexmanagement.com or Eric Halsten at erich@imexmanagement.com.

➤ **Step 4: Understand Canadian government standards and regulations that pertain to your product.**

Review the [Exporter Guide](#) for Canadian government standards and regulations that pertain to your product. FAS/Canada recommends contacting the Canadian National Import Service Centre to ensure all customs paperwork is accurate and allow for pre-clearance of exported goods from the U.S. Canadian agents, distributors, brokers, and/or importers are also very adept to assisting exporters through the import regulatory process.

Canadian National Import Service Centre

7:00 a.m. to 3:00 a.m. (Eastern Time)

Telephone and EDI (electronic data interexchange): 1-800-835-4486 (Canada or U.S.A.)

1-289-247-4099 (local calls and all other countries)

Fax: 1-613-773-9999

Mailing Address: 1050 Courtney Park Drive East Mississauga, Ontario L5T 2R4

Canadian agents, distributors, brokers, and/or importers are often the best equipped to assist exporters through the import regulatory process. The best entry method depends on the food product and the sub-sector identified as appropriate for each food product. Government and industry import policies and

trade acts regulate each sub-sector. Each U.S. export opportunity must be thoroughly investigated relative to the legislation that exists for the product requesting entry. For additional information on the broadest Canadian regulations see the Food and Agricultural Import Regulations and Standards (FAIRS) Country Report and the FAIRS Export Certificate Report available [online](#).

It is important to note that Canada is currently in the process of modernizing its food and beverage regulation system. For instance, a number of previously separate acts governing the sale and distribution of food and beverage products are being incorporated into the “Safe Food for Canadian Regulations”. On January 20, 2017 Canadian Food Inspection Agency (CFIA) opened a 90-day comment period for the proposed revised regulations. The draft regulations can be found [here](#).

CFIA is furthermore proposing changes to the food labeling system. Among the proposals are the elimination of standard container sizes for certain products and a discussion on food compositional standards and standardized common names. The ongoing round of consultations ends on February 28, 2017.

On January 13, 2017, Health Canada finished consultations on banning partially hydrogenated oils in food and front-of-package nutrition labeling. The submitted responses to the consultations will be summarized in a report and made publicly available. Visit [Health Canada](#) for up-to-date information.

Canadian Government Organizations Related to Food Regulations

Canada Border Services Agency	http://www.cbsa-asfc.gc.ca/menu-eng.html
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Canadian Food Inspection Agency	
Home Page	http://www.inspection.gc.ca
Automated Import Reference System (AIRS) (obtain tariff classifications)	http://www.inspection.gc.ca/plants/imports/airs/eng/1300127512994/130012762740 2
Acts and Regulations	http://www.cfia-acia.agr.ca/english/reg/rege.shtml
<i>Guide to Food Labelling and</i>	http://www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml

<i>Advertising</i>	
Meat & Poultry Products	http://www.inspection.gc.ca/english/fssa/meavia/meaviae.shtml
Nutrition Labelling Resource Page	http://www.inspection.gc.ca/english/fssa/labeti/quest/gengene.shtml
Fish Import Program Policy	http://www.inspection.gc.ca/food/fish-and-seafood/imports/documents/fish-import-program-policy/eng/1360859473208/1360859694298

The Canadian Food Inspection Agency (CFIA) has prepared a [Guide to Food Labelling and Advertising](#) and is accessible through the internet. The guide details the regulatory requirements for selling packaged foods and beverages in Canada. The CFIA has the authority to refuse entry, detain, return, or remove from retail shelves any imported processed food product that does not meet the federal food labeling requirements.

Health Canada	
Home Page	http://www.hc-sc.gc.ca/index-eng.php
Food and Drugs Act	http://laws.justice.gc.ca/en/F-27/
Nutrition Labeling	http://www.hc-sc.gc.ca/fn-an/label-etiquet/nutrition/index_e.html
Natural and Non-prescription Health Products	http://www.hc-sc.gc.ca/dhp-mps/pubs/natur/index-eng.php
Food Allergen Labeling	http://www.hc-sc.gc.ca/fn-an/label-etiquet/allergen/index-eng.php
Novel Foods	http://www.hc-sc.gc.ca/fn-an/gmf-agm/index-eng.php

Department of Foreign Affairs and International Trade <i>Controlled Products</i>	http://www.international.gc.ca/controls-controles/prod/index.aspx
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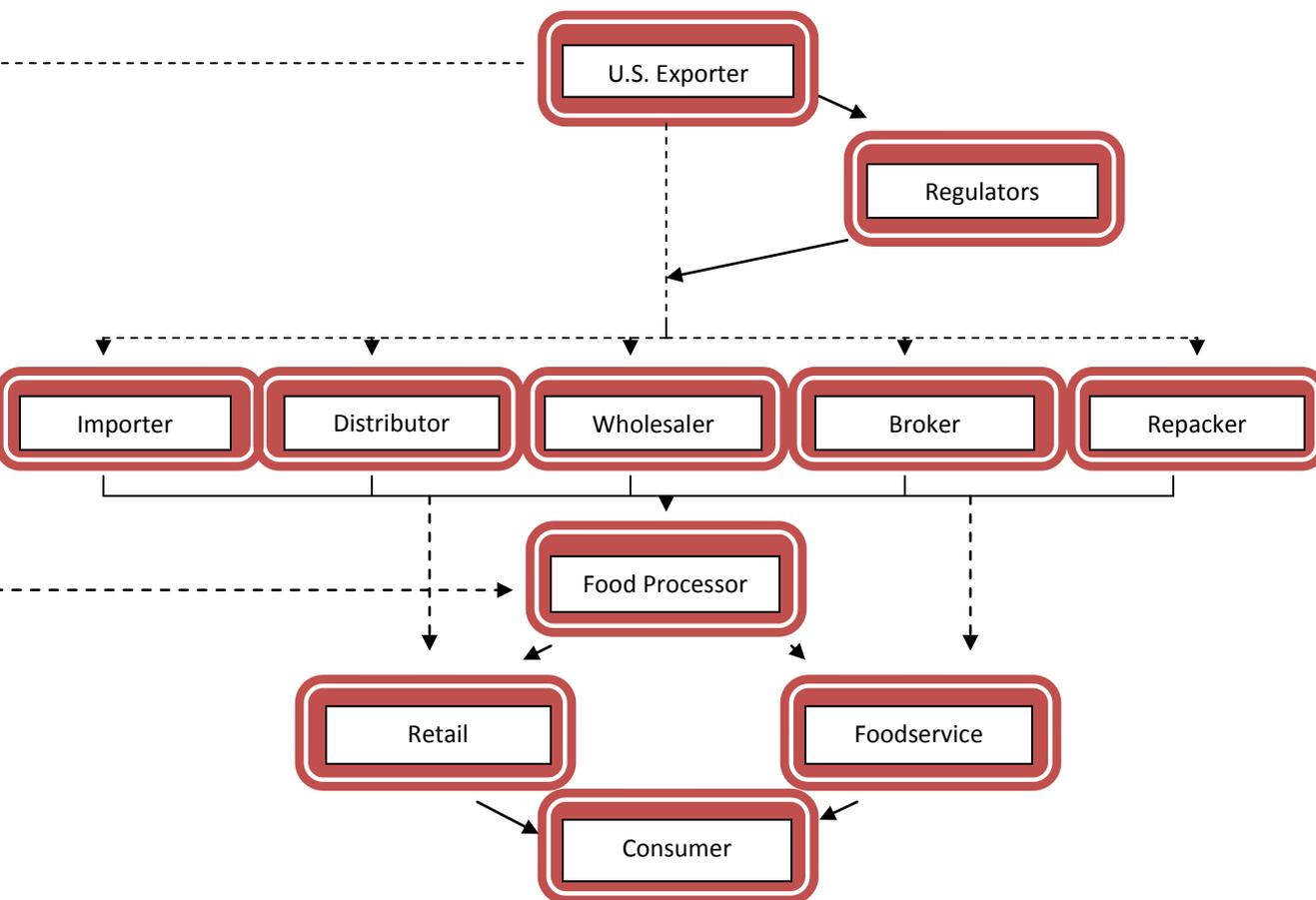
In order to assist exporters to Canada, the Canadian Food Inspection Agency and the Canada Border Services Agency have established two regional *Import Service Centers* in Canada. The staff at these

centers can be contacted to obtain pertinent information on specific import requirements and documentation.

Canadian Import Service Centers

Import Service Center	Open	Contact
Eastern Canada ISC	7 a.m. to 11 p.m. [local time]	Telephone: 1-877-493-0468 or 514-493-0468 Fax: 1-613-773-9999
Central Canada ISC	7 a.m. to 3:00 a.m. [local time]	Telephone: 1-800-835-4486 or 289-247-4099 Fax: 1-613-773-9999

Market Structure



Consolidation of the Canadian food industry has eliminated numerous intermediary procurement processes. Most food and beverage processing companies now prefer to import directly. Buying direct reduces handling, expedites shipments and generally reduces product costs, provided that volumes are large enough to benefit from a full truck load or consolidated shipments. Small volumes (less than a truckload) are usually procured locally from a Canadian wholesaler, importer, broker or agent. Procurement methods do vary from company to company and from product to product. However, regardless of the method of procurement, all products must be in alignment with government import regulation and meet minimum Canadian standards.

Consolidation of the Canadian retail and food service industry 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 define points of differentiation. New products that truly address specific consumer needs are the best means for processors to stave off the inevitable demand to produce private label product for retail and food service operators.

Processors should be aware that there is a heightened interest in food safety and information about ingredients including the origin of major ingredients and processing methods. Food service and retail operators are also seeking longer shelf life to deal with both the consumer trend toward fresh products and the geographic challenges of distribution in Canada. Opportunities are increasing in Canada for export ready processors able to meet the rapidly evolving consumer demands and having strong logistics capabilities.

Company Profiles

Top 10 Canadian Food and Beverage Processors

Company (Product Types)	Revenues (CDN\$ Millions)	End-use channels	Production Location (#)	Procurement Channels
Saputo (dairy products and snack cakes)	9,233	Consumer Processors HRI Sector	Canada (25) USA (25) Argentina (2) Australia (3)	Direct
McCain Foods (potato, snacking, dessert)	7,592	Consumer HRI Sector	Canada (9) USA (10) 41 total globally	Direct
Agropur coopérative (Dairy)	4,662	Consumer	Agropur Canada (22) Ultima Foods Inc. (2) USA (12)	Direct - Producers
PepsiCo (Canada)	3,339	Consumer HRI	Canada (14) Franchise-Owned Bottling/Distributing Operators (13)	Direct
Maple Leaf Foods (Meat products, bread)	3,157	Consumer	Canada (29) Sales offices globally	Direct (Winnipeg)
Nestlé Canada (confectionary, coffee, pet, beverages, frozen dessert)	2,368	Consumer HRI	Canada (21)	Direct
Parmalat Canada (milk, dairy, fruit juice, spreads)	2,234	Consumer HRI	Canada (17)	Direct
Canada Bread Now div. of Grupo	1,401	Consumer HRI	Canada (17)	Direct

Company (Product Types)	Revenues (CDN\$ Millions)	End-use channels	Production Location (#)	Procurement Channels
Bimbo (Bread)				
SunOpta (beverages, snacks, grains, coffee)	1,374	Consumer Processors HRI	Canada (2 admin/distribution only) USA (22) China Ethiopia Bulgaria The Netherlands	Direct
General Mills Canada (snacks, pizza, cereal, yogurt, dessert, ready to eat, Mexican)	1,274	Consumer HRI	Global	Direct

Sources: Conference Board of Canada – Canadian Industrial Outlook Canada’s Food Manufacturing Industry Summer 2015 and Company Corporate Sites

Industry Canada maintains a more complete company directory on their website. A directory of food manufacturing companies can be found [here](#). A listing of beverage manufacturing companies can be found [here](#).

Section 3: Sector Trends

U.S. food exporters face a well-informed and demanding Canadian buyer and consumer. To be successful in the Canadian marketplace, U.S. exporters are urged to study the business channels and food trends as consumer trends have always created opportunities for food manufacturers. However, more recently consumer trends have affected choice and source of ingredients used in food manufacturing. Some of the more important drivers of change influencing consumer trends and manufacturing opportunities include:

- Aging population, high obesity rates, and increasing health concerns are driving the wellness trend.
- Millennials; typically 24-43-year-old consumers, technology-savvy, heavily influenced by social media, and health- and eco-conscious, are fueling a demand for artificial free ingredients and less processed products.
- Increasing reliance on imported foods and growing worries of food contamination raising the organic, natural and local food trend.
- Global warming and other serious environmental challenges driving the ethical eating trends.
- Traceability; consumers increasingly care about where their food comes from
- Ethnic shoppers; Canadian ethnic diversity is different from the United States with less Hispanic influence and more Asian influence.
- Food allergies.

General Health and Wellness

As consumers get older, their desire to lead healthy and active lives is of increasing importance to them. In response to initiatives by governments, health organizations and consumers, 88 percent of manufacturers report that they are planning to release new products with specific nutritional benefits in the next two to three years. Already, 61 percent of manufacturers have reformulated products to make them healthier.

Following is the fastest growing areas under health and wellness:

- **Functional foods:** Functional foods are a \$3 billion (C\$4 billion) market in Canada. Functional foods are conventional foods that have had healthy ingredients added to them that go beyond regular nutritional functions. Examples of functional foods include probiotic yogurts (added bacteria cultures to promote health in the gastrointestinal tract); omega-3 fortified eggs, and beverages with added vitamins and minerals.
- **Correcting Condition:** Food and food ingredients continue to increase in popularity as a method for self-medication and disease prevention. This has led to more functional and nutraceuticals foods on the market.
- **Physical and Emotional Energy:** Sports drinks, energy bars and healthy snacks have catered to a health conscious and even stressed out consumers that look to derive more energy through diet.

- **Healthy Foods for Kids:** Approximately 26 percent of Canadian children ages 2-17 years old are currently obese. As a result, young parents seek healthy products with key nutrients for their children.
- **Food Safety:** Consumers are increasingly interested in food products that provide reassurances about food safety.
- **Gluten-Free:** The demand for these products continue to grow, doubling since 2005.
- **Low Sodium:** Canadian consumers are becoming conscious about the level of sodium in prepackaged processed foods and in restaurant meal foods.
- **Low Sugar:** Canada's Food Guide recommends moderate consumption of sugar, glucose, fructose, and various kinds of syrups as they have been determined as major contributors to weight gain.
- **Low Calorie:** Interest in weight loss products and lower calorie foods continues to be high among Canadians.
- **Trans Fats and Saturated Fats:** Canadians are concerned about fat intake and health concerns associated with trans and saturated fats. Chips and crackers with no trans-fat are ever so popular among consumers.
- **Popular dietary components:** Top dietary components are fiber, whole grains, protein, calcium, omega-3 fats, potassium, probiotics, and omega-6 fats.

The market for functional foods is large and growing as more and more people are beginning to see the benefits of making small changes to their diets. The market is expected to continue to grow rapidly as consumers gain a better understanding of the relationship between diet and health and as the aging population increasingly turns to preventative health initiatives. For more information on functional foods and nutraceuticals in Canada, visit [Agriculture and Agri-Food Canada](#).

Organic and Natural

Canada's organic retail market is the fourth largest in the world with an estimated \$4.3 billion, including fresh and processed foods, and growing at 5 - 10 percent per year. Sales of organic foods continue to increase, and Canada is an important market for U.S. organic food. The U.S. supplies about 74 percent of the total market in Canada for prepackaged organic foods. Although, most organic foods are priced higher, there is a growing segment of consumers willing to pay the premium price for their organic choice. Sales are forecasted to rise, especially as quality and availability matches that of conventionally produced foods. Mutual recognition between the countries' organic certification procedures enables U.S. producers to export to Canada with USDA certification.

Products that claim attributes such as "no antibiotics", "no hormones", and "100% vegetarian feed" do not command the same price premiums as those labeled as certified organic. However, these products

are growing because they serve the store interest of differentiation and still carry a 10% to 20% premium compared to regular products while being generally more affordable than organics.

Ethical/Environmental Eating

Experts are suggesting that the trend is destined to have the most impact on the food processing industry is the growing interest in sustainability. This trend overlaps with the wellness and organic foods, however ethical eating goes beyond taste and health concerns and into the realm of green politics and anti-globalization. It includes concepts of "fair trade" and "sustainable" and also "food miles" which bring together the related concepts of locality and seasonality. Good farming practices in terms of the treatment of livestock are also part of this trend. Recycled and biodegradable food packaging is yet another expression of the ethical buying trend and many Canadian cities have instituted recycling programs for their citizens and businesses.

Multinational food processors are actively involved in the sustainability movement with many seeking sustainability certifications from third party organizations such as Ocean Wise, administered by the Vancouver Aquarium, or the Marine Stewardship Council for seafood products. For other products, organizations like the World Wildlife Federation (WWF) and the Forest Stewardship Council (FSC) can provide certification that products were produced in a sustainable fashion. Large companies such as Loblaw, McDonald's and Wal-Mart are beginning to make sustainability an important part of their business plans throughout their entire supply chains.

Traceability

As seen in the popular "Buy Local" movement in Canada, consumers increasingly care about where their food comes from. Reasons for this include concern for the local economy and environmental concerns regarding how far food must travel before it reaches the consumers. The concern is also being driven by high profile food safety breaches some of which are related to imported foods as well as issues raised under the wellness and ethical eating headings. However, it is also a food trend in its own right as traditionally certain foods from certain areas were considered to be the gold standard in taste or health. This trend can be an opportunity for U.S. producers since Canadian consumers view products from the United States as safer and of better quality than imports from other countries. Consumers in the internet age no longer accept anything less than transparency. As is the case for the ethical food and organic trend, the ability to prosper from this trend will be closely tied to the ability to track, trace and verify product.

This represents more changes for food processors as it requires an ability to know one's supply chain to a far greater degree than is the case today. Significant improvements have been made in technologies to assist with trace back and product verification. For example, Sobey's (major Canadian supermarket chain) has launched an initiative that allows consumers to enter a code found on the packaging of their seafood on the Sobey's website to find out exactly when, where and how their fish was caught, right down to the name of the fisherman who landed the fish.

Ethnic Shoppers

Ethnic food markets in Canada are worth an estimated \$49 billion (C\$65 billion) today and are growing by an approximate 15 to 20 percent annually. They are projected to reach \$96.9 billion (C\$128 billion) by 2020. By 2031, 72 percent of the population growth in Canada will be driven by people who are visible minorities. Consumers of South Asian and Chinese backgrounds make up the largest ethnic groups and are projected to continue growing. Immigration from Europe accounts for a smaller percentage than it traditionally has. Within immigrants from the Americas, origin is shifting from the United States and Caribbean to Mexico and South America.

Food Allergies

In Canada, the priority allergens are: peanuts, tree nuts, sesame seeds, wheat and triticale, milk, eggs, fish, crustaceans, shellfish, soybeans, mustard seeds, grains containing gluten, and added sulphites. Beginning August 4, 2012 these allergens must be listed on a product label, more information on food allergens and labeling can be found [here](#).

To watch 2017

A number of key trends have been identified by the industry and are expected to influence the Canadian food scene in 2017. Plant-based protein is forecasted to continue to take center stage. Vegetables will be at the center of the dining plate as well as being used more in general. Cauliflower is expected to be particularly popular. Canadians are furthermore expected to change how they cook in order to reduce waste. Innovative packaging to tackle food waste problems, including biodegradable materials or carbon compensated packaging, will increasingly be demanded by the consumer. This environmental and sustainability consciousness is expected to increase consumer demand for responsibly sourced food and information on certification. Consumers are furthermore becoming more and more demanding regarding food labeling and the trend of shorter ingredient lists with recognizable ingredients continue to hold influence. Embracing a more holistic approach to food, consumers have also eased up on discriminating against certain nutrients. The case with butter and animal fats are one example; the Heart and Stroke Foundation revised their recommendations on saturated fats last year and a balanced diet rather than specific daily limits is now recommended. There is instead a growing interest among consumers to avoid highly processed foods and, as mentioned previously, Health Canada is in the process of banning partially hydrogenated oils in food and modernizing the rules for front-of-package nutrition labeling.

Section 4: Leading U.S. Products and the Competition

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>FRESH FRUITS, NUTS & VEGETABLES</p> <p>VEGETABLES: (HS 07)</p> <p>CANADIAN GLOBAL IMPORTS (2016): \$3.0 BILLION</p>	<p>U.S.: 61% Mexico: 25% China: 4.6%</p>	<p>Canada is the largest foreign buyer of U.S. fruits and vegetables. The U.S. benefits from relatively unimpeded export access into Canada during Canada's winter or non-growing months.</p> <p>Among imports, U.S. fruits and vegetables are viewed by most Canadians as their number one choice to other imports.</p> <p>Mexico maintained the same level of market share in Canada for the last three years. They remain a major competitor due to lower prices, along with some Canadian produce companies with winter operations in Mexico. Their leading products are tomatoes, cucumbers, asparagus, raspberries/blackberries/strawberries, peppers, avocados, watermelons, papayas, lemons/ limes.</p>	<p>Lettuce, onions, carrots, tomatoes, potatoes, cauliflower, and spinach are the leading vegetables sold in the fresh market.</p> <p>Apples are the largest production item, followed by blueberries, cranberries, grapes and peaches.</p> <p>Seasonality poses a constraint to growers; Canada imports 80% of its fresh vegetables between November and June.</p>
<p>FRUIT AND NUTS: (HS 08)</p> <p>CANADIAN GLOBAL IMPORTS (2016): \$4.5 BILLION</p>	<p>U.S.: 45% Mexico: 13% Chile: 6.8%</p>		<p>The 'Buy Local' campaigns are well supported by grocery retailers starting in June through October.</p>
<p>PROCESSED FRUITS AND VEGETABLES (HS 20)</p> <p>CANADIAN GLOBAL IMPORTS (2016): \$2.2 BILLION</p>	<p>U.S.: 65.7% China: 5.7% Brazil: 5.69%</p>	<p>There is a full range of prepared and frozen products. Major products are prepared potatoes, tomato paste, mixes fruits, and variety of processed vegetables.</p> <p>U.S. is a major player in the market with established process brands in the market. China's products are dried and prepared vegetables and fruits.</p>	<p>Canadian companies process a wide range of canned, chilled, and frozen products.</p> <p>Adoption of advanced technologies in food processing has been fairly extensive among Canadian processors. Statistics Canada reported almost 50% companies adopted more than 5 new technologies in their operations.</p> <p>Higher manufacturing and operation costs than in the U.S.</p>

Product Category (continued)	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>SNACK FOODS</p> <p>Chocolate and Other Food Preparations Containing Cocoa (HS 1806)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$964 MILLION</p> <p>Bread, Pastry, Cakes, Biscuits and Other Baker's Wares (HS 1905)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$1.4 BILLION</p>	<p>1. U.S.: 61.8%</p> <p>2. Switzerland: 6.3%</p> <p>3. Mexico: 5.6%</p> <p>1. U.S. 77.6%</p> <p>2. Mexico: 3.5%</p> <p>3. United Kingdom: 2.4%</p>	<p>The U.S. dominates these categories with snack breads, pastry cakes, pretzels, chips, and cookies.</p> <p>Competitors vary by sub category with the main competitor and sub category as follows: Mexico: cookies and biscuits; Belgium: chocolate and confections. U.K. Germany and Switzerland; chocolate, along with confection and non-confection items.</p>	<p>Canada's snack food market is continuous growing. The category includes chocolate and non-chocolate confectionary, cookies, crackers, potato chips, corn chips, popped popcorn, pretzels, and extruded cheese snacks, seed snacks, mixed nuts, peanuts and peanut butter, as well as pork rinds.</p> <p>The snack food industry is served primarily by domestic manufacturers, however, domestic market share is being lost to imports. The rapid increase in imports is due to the number of new products in the category, such as a variety of crackers and other products targeted at specific ethnic groups.</p> <p>Canada does have domestic raw materials for the grain based products but has to import sugar, chocolate, cacao, and nuts for manufacturing and is not competitive on dairy and egg ingredients used in some of the processing.</p>
<p>RED MEATS</p> <p>Fresh/Chilled/Frozen. (Group 29)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$1.47 BILLION</p> <p>Prepared/Preserved (Group 28):</p> <p>\$989 MILLION</p> <p>PORK</p> <p>Fresh/Chilled/Frozen/Prepared/Preserved (HS 0203)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$875 MILLION</p>	<p>1. U.S.: 65.6%</p> <p>2. Australia: 12.4%</p> <p>3. New Zealand: 9.7%</p> <p>1. U.S.: 91.3%</p> <p>2. Thailand: 3.0%</p> <p>3. Italy: 2.2%</p> <p>1. U.S.: 87%</p> <p>2. Spain: 2.52%</p> <p>3. Germany: 2.51%</p>	<p>Beef imports fall into two distinct categories. The largest portion of imports being chilled cuts traditionally from the U.S. Midwest heavily destined for the Ontario region. The other part is frozen manufacturing meat from Australia (for grinding) and New Zealand (largely for specific manufacturing purposes).</p> <p>Many parts of South America remain ineligible for entry to Canada (except as a supplier of cooked and canned beef) due to sanitary reasons. U.S. competitors are limited by a beef quota.</p>	<p>Canada maintains a narrow acquired feed cost advantage.</p> <p>Canada continues to grow as a key U.S. pork export market. Canadian hog production numbers have been declining across the country and U.S. pork imports are up 16% due to market structures and the Canadian strong dollar.</p> <p>The industry has worked its way out of the inventory surge from the BSE trade disruption.</p> <p>Canadian per capita basis consumption has declined since 2009, falling by .7% to 23.4 kg.</p>

Product Category (<i>continued</i>)	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>FISH & SEAFOOD (HS 03)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$2.1 BILLION</p>	<p>1. U.S.: 41.0%</p> <p>2. China: 16.4%</p> <p>3. Vietnam: 6.6%</p>	<p>Leading U.S. exports to Canada are live lobsters, salmon and prepared and preserved fish.</p> <p>Fish filleting is extremely labor intensive, which accounts for the rapid penetration of China and Thailand in this segment.</p> <p>With ocean catches having peaked, aqua culture is becoming a more important source of product and China is the dominant producer of farmed fish and seafood in the world.</p> <p>A growing concern among consumers and retailers for sustainable production practices may help some U.S. fish processors.</p> <p>More than two-thirds of seafood is sold by retailers.</p>	<p>Declining fish stocks have led to almost zero growth in fish and seafood catch over the last decade.</p> <p>Lobster, crab and shrimp comprise 67% of the landed value of all fish and shellfish harvested in Canada.</p> <p>At approximately 50 lbs. per person, Canadian consumption of fish is significantly higher than in the U.S. 16.5 lbs. per person, making Canada an excellent export market for U.S. exporters.</p> <p>Import of fish and seafood grew by 1.9% in the past year with demand for premium products offering hormone-free and free of antibiotic variants.</p>
<p>BREAKFAST CEREALS (HS 1904)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$520 MILLION</p>	<p>1. U.S.: 87.9%</p> <p>2. Mexico: 6.1%</p> <p>3. United Kingdom: 1.6%</p>	<p>Breakfast cereal imports have decreased with 7.5 % since 2015. The U.S. continues to dominate imports with ready to serve product that are popular. Although, the U.K.'s share of the market is small they have a couple of well-established brands in the market.</p>	<p>Sales and manufacturing in Canada is largely controlled by U.S. based companies. Domestic non-U.S. owned competitors tend to be in the specialty or organic breakfast cereal business.</p> <p>Breakfast cereals are expected to continue to shrink by 1% in volume in the coming years as consumers choose other breakfast options, as yoghurts and protein shakes and bars.</p>

Product Category (<i>continued</i>)	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>FRUIT & VEGETABLE JUICES (HS 2009)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$622 MILLION</p>	<p>1. U.S.: 57.4%</p> <p>2. Brazil: 19.9%</p> <p>3. China: 6.0%</p>	<p>Although Canada's imports in 2016 from both the world and from the U.S. decreased, 6.8 % and 10.9% respectively, fresh orange juice showed a small increase.</p> <p>Brazil is the leader in frozen orange juice concentrate.</p> <p>China's major juice export to Canada is fortified apple juice; China represents 88% of its imports for this category</p>	<p>Canada is a major per capita consumer of citrus juices but is unable to grow these products. It will continue to be an exceptional value added market for the U.S.</p> <p>Both Canada and the U.S. have experienced major penetration by Chinese apple juice due to the major shift of Chinese agriculture toward labor-intensive crops and labor intensive processing.</p>
<p>NUTS</p> <p>Tree Nuts excl. Peanuts (Group 20)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$664 MILLION</p> <p>Peanuts (Group 47)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$122 MILLION</p>	<p>1. U.S. : 54.8%</p> <p>2. Turkey: 15.2%</p> <p>3. Vietnam: 12.5%</p> <p>1. U.S.: 79.7%</p> <p>2. China: 17.1%</p> <p>3. Nicaragua: 1.5%</p>	<p>This category continues to put in a strong showing in Canada, probably helped by the increased interest in healthy snacking.</p> <p>U.S. products lead with peanuts and almonds is preferred by Canadian importers as it meets Canadian sanitary and phytosanitary standards consistently. Turkey is a competitive supplier of Hazelnuts, Vietnam competes in cashew nuts.</p> <p>Growing trend of nut allergies in Canadians caused the Canadian Food Inspection Agency and Health Canada to set specific allergen labeling regulations for all suppliers in 2012.</p>	<p>Canada has areas of Ontario, which can grow peanuts, but it has not done so in commercial quantities as the returns are not competitive with other crop alternatives. Similarly British Columbia and other provinces produce small quantities of a number of tree nuts including hazelnuts. However, in general, Canada is not price competitive.</p>
<p>PET FOOD</p> <p>Dog and Cat (HS 230910)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$624 MILLION</p>	<p>1. U.S.: 93.7%</p> <p>2. Thailand: 2.9%</p> <p>3. China: 1.4%</p>	<p>U.S. exports of dog and cat food to Canada registered at C\$754 million in 2015, a 1% increase from 2014 Canadians regard U.S. pet foods as a trusted and quality product.</p> <p>Demand for premium pet foods is helping drive the growth in this category.</p>	<p>Pet food sector is largely U.S. owned multinationals.</p> <p>Canada has approximately 17 (non-raw) pet food manufacturers.</p> <p>New pet food importation requirements have been in place as of June 2009.</p>

Source: [Global Trade Atlas](#), January 2017

Section 5: Imported Products Facing Significant Barriers

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>POULTRY MEAT Fresh/Chilled/Frozen (Hs 0207)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$403 MILLION</p> <p>Prepared/Preserved (HS 1602)</p> <p>\$171 MILLION</p>	<p>1. U.S.: 87.2%</p> <p>2. Brazil: 8.3%</p> <p>3. Hungary: 2.9 %</p> <p>1. U.S.: 79.2%</p> <p>2. Thailand: 17.6%</p> <p>3. Germany: 2.6%</p>	<p>The U.S. is the world's largest producer of poultry meat. Brazil is the largest exporter of poultry meat and can land product in Canada at a lower cost compared to the U.S.</p> <p>Brazil has rapidly expanded its share of the Canadian broiler market except with Canadian further processing plants that do not want to take the risk of commingling U.S. and Brazilian origin which would result in being unable to sell processed products to the U.S.</p> <p>Many imports of U.S. chicken are due in part to imports under the Canadian Import for Re-Export Program (IREP).</p>	<p>The Canadian poultry industry is a Tariff Regulated Industry with live bird and meat prices well above the world market. The Canadian strategy has been to differentiate the product particularly at retail through air chilling and such additional attributes as 'vegetable grain fed chicken' However the scale of plant operations in Canada remains relatively small due to the supply managed system. In an effort to mitigate this and to offset difficulty obtaining labor, Canadian processing plants are among the most highly mechanized sectors in Canadian agriculture and employ the latest in robotics.</p> <p>The Canadian industry has significantly increased surveillance since the A.I. outbreaks in B.C. in 2004 and has continuously improved bio-security measures.</p>

Product Category (continued)	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
<p>DAIRY (HS 04, 17, 21, 35):</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$608 MILLION</p> <p>Of which Cheese (HS 0406):</p> <p>\$242MILLION</p>	<p>1. U.S.: 51.6%</p> <p>2. New Zealand: 8.4%</p> <p>3. Italy: 8.0%</p> <p>1. U.S.: 27%</p> <p>2. Italy: 20%</p> <p>3. France: 17%</p>	<p>The U.S.'s close proximity to market, speedy delivery, and significant freight advantage has allowed it to be competitive in the Canadian Import for Re-export Program (IREP) which allows U.S. dairy product to be imported into Canada duty free, and used in further processing, provided the product is subsequently exported.</p> <p>The European Union has a distinct advantage in the cheese trade since it has been allocated 66% of Canada's cheese quota as a result of the 1994 Agreement on Agriculture (AoA). The finalized CETA free trade agreement between Canada and the EU consolidates this advantage. A new bilateral quota of 17,700 tonnes of cheese will open for the EU. Moreover, 800 tonnes of high quality cheese will be added through a technical adjustment to the EU portion of an existing WTO TRQ. The effective total will more than double the current export of EU cheese to Canada, corresponding to more than 4% of the Canadian market.</p> <p>New Zealand has a cost leadership advantage. Low costs of production due to the availability of year-round pasturage have helped New Zealand achieve a 30% share of world dairy exports. New Zealand has an additional advantage on butter imports into Canada and hold 61% of Canada's import quota for butter.</p>	<p>The Canadian dairy market operates under a supply management system, which attempts to match domestic supply with domestic demand while paying producers on a cost of production related formula. This system has tended to price dairy products above prevailing world levels. Imports are controlled under Tariff-rate-quota (TRQ) and over quota imports are subject to high tariffs.</p> <p>American suppliers have taken advantage of the Import for Re-export Program (IREP), which allows Canadian processors to import dairy products used in manufacturing provided the product is exported. The U.S. is the largest user of this program due to the perishable nature of the products.</p> <p>Canadian tariff rate quotas stipulate a 50-percent dairy content guideline for imported product, resulting in the creation of ingredients and blend products that are designed to circumvent this guideline. Butter-oil-sugar blends were the first major products to be imported tariff-free, displacing Canadian milk for ice cream. More recently there has been an increase in flavored milks imported as "beverages" and a number of milk proteins which are not captured by the dairy TRQ.</p>

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
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Source: [Global Trade Atlas](#), January 2017

<p>EGGS & EGG PRODUCTS (Group 24)</p> <p>CANADIAN GLOBAL IMPORTS (2016):</p> <p>\$97 MILLION</p>	<p>U.S.: 94.4%</p> <p>China: 3.9%</p> <p>Thailand: 0.9%</p>	<p>The U.S. egg industry traditionally fills Canada's needs when supply is seasonally low. There were significant increases in U.S. imports following the Avian Flu outbreaks in B.C. to both avert shortages in the market and rebuild the hatching egg supply.</p> <p>The U.S. has also become a supplier of organic eggs to Canada.</p>	<p>Canada's egg industry operates under Supply Management, which is designed to encourage production of a sufficient volume of eggs to meet market needs without creating surplus. The market is protected by high tariffs. Today, about 75% of Canada's total egg production is sold for the table market, while the remaining 25% is used in the manufacturing of value-added food and other products (liquid, frozen or dried form). These supplies are supplemented by imports and a Tariff Rate Quota system.</p> <p>The Canadian industry has made considerable inroads at retail with differentiated egg offerings such as "free range", Omega 3, and Organic all of which are sold at a premium.. The Canadian Egg Marketing Agency has a sustained media campaign focused on the health benefits of eggs to support retail movement.</p>
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Section 6: Best Product Prospects

Among the consumer oriented products exported to Canada, fresh fruits and vegetables remain in top with a combined value of US\$3.4 billion, followed by prepared foods at \$1.9 billion, red meats at \$1.8 billion, snack foods at \$1.3 billion, and non-alcoholic beverages (excluding juices) at \$1.2 billion. While the overall exports to Canada in the consumer oriented category saw a 4.2 percent decline in 2016, several subcategories showed some growth: chocolate and cocoa experienced a 2.7 percent growth, and condiments and sauces a 0.6 percent growth. Following is a breakdown of products within the packaged food category with the highest forecasted sales growth for the period of 2016-2021.

High Physical Growth

Category	Growth Change
	+4 % to 10%
Beverages	Premium fruit / vegetable juices (5%)
Confectionery	Chocolate (4%) Candies snacks (31%)
Dry Grocery	Super grains, such as quinoa, chia seeds and buckwheat (4%) Natural High Fibre Bread (4%) Nuts (4%) Dry fruits (6%) Meat sticks (16%) Baked Desserts Vinegar and cooking wines (5%)
Chilled and Frozen Foods	Natural health frozen meat substitutes (6.2%) Meat patties (11% by volume) Frozen seafood (6%)
Produce	Cauliflower (12% by volume) Yams (10% by volume) Zucchini (8% by volume) Asparagus (7% by volume) Bagged salads (7% by volume) Broccoli (6% by volume) Beets (6% by volume) Avocadoes (23% by volume) Nectarines (12%) Limes (8%) Tangerines/clementines/mandarins (6% by volume) Kiwi (4%)

Snack Foods	Naturally healthy fruit and granola bars (16% in retail sales) Chips and other savory snacks (5%)
Non-dairy	Non-dairy milk alternatives, such as soy milk and other milk alternatives (9% in retail sales)

Source: Euromonitor International 2016,

Section 7: Regulatory Environment

For a more in-depth review of Canada's food laws and regulations and how they may affect U.S. food exporters, please see FAS Canada's Food and Agricultural Import Regulations (FAIRS) Report. Due to the complexity of legislative requirements, it is recommended to contact a Canadian Food Inspection Agency (CFIA) Import Service Centre to obtain complete and current information regarding your specific product. The CFIA is responsible for the inspection of food products at all levels of trade. Following are some of the key restrictions that could inhibit certain products from entering the country.

Tariff Rate Quota (TRQ)

Under the General Agreement on Tariffs and Trade (GATT), Canada is permitted to control and limit certain imports under its supply management system. With the signing of the World Trade Organization's (WTO) Agreement on Agriculture in December 1993, Canada converted its existing agricultural quantitative import controls to a system of tariff rate quotas (TRQs) that came into effect in 1995.

Under the TRQ system, applicable products up to a certain volume are imported at the "within access commitment" tariff rate. Over this permitted level, the "over-access commitment" tariff rate escalates. These higher tariffs enable Canada to maintain its system of supply management for certain agricultural products. The method for establishing the allocation of import access quantities is prescribed in the Exports and Import Permits Act and is administered by the Export and Import Controls Bureau (EICB) of Foreign Affairs, Trade and Development Canada (DFATD). Documentation on the allocation system and principle of TRQ allocation, together with data on permits issued can be found at [here](#).

Issuance and control of import quota is administered by the EICB in collaboration with the Canada Border services Agency.

U.S. products that fall into this category include:

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- | | |
|------------------------------------|----------------|
| • Broiler hatching chicks and eggs | • Chicken |
| • Turkey | • Butter |
| • Cheese | • Buttermilk |
| • Milk and Cream | • Dairy Blends |
| • Yogurt | • Margarine |
| • Eggs | |
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In December 2016, the *Order Amending the Schedule to the Customs Tariff* was published in the Canada Gazette. This customs tariff order removes tariffs on approximately 200 different imported food ingredients that are used in the agri-food processing industry, including certain fruits and vegetables, cereals and grains, spices, fats and oils, food preparations, and chocolate products. Based on recent import levels, an estimated \$36 million (C\$48 million) in tariffs are collected on the products subject to this order. The changes came into effect on January 16, 2017. The complete listing of the concerned products can be found on the [Canada Gazette](#).

Other Information Affecting Imports of Food Ingredients

It is important to note that Canada is currently in the process of modernizing its food and beverage regulation system. For instance, a number of previously separate acts governing the sale and distribution of food and beverage products are being incorporated into the “Safe Food for Canadian Regulations”. On January 20, 2017 Canadian Food Inspection Agency (CFIA) opened a 90-day comment period for the proposed revised regulations. The draft regulations can be found [here](#).

Some of the most important acts for companies involved in the food and beverage industry that are made part of the “Safe Food for Canadians Regulations” include:

- [Canada Agricultural Product Act and Associated Regulations](#)
- [Consumer Packaging and Labelling Act](#)
- [Fish Inspection Act](#)
- [Food and Drug Act](#)
- [Food and Drug Regulations](#)
- [Importation of Intoxicating Liquors Act](#)
- [Meat Inspection Act](#)
- [Weight and Measures Act](#)

CFIA is furthermore proposing changes to the food labeling system. Among the proposals are the elimination of standard container sizes for certain products and a discussion on food compositional standards and standardized common names. The ongoing round of consultations ends on February 28, 2017.

Health Canada

Health Canada continues to develop standards and policies for the safety of the food supply, which are applied by the CFIA.

All foods sold in Canada are subject to the Food and Drugs Act and Regulations which contains health and safety requirements, labeling requirements and provision preventing deception and fraud. However, many agricultural and fish products are also subject to other legislations. Consequently, the need for licensing, permits and certificates depends upon the type of food being imported and in some cases on the country or area from which the food is imported. It should be noted that in some provinces, there are additional requirements for certain foods, such as dairy products, bottled water and maple syrup.

The Food and Drug Regulations (FDR) outline the specifications and further requirements for standardized and non-standardized products. The following are just a few examples of regulatory issues, which could pose a barrier for some United States food companies attempting to sell in Canada.

Trans Fats: Canada is one of the few countries of the world to require labelling of products containing trans fats. Reducing the amount of trans fats in food products is currently voluntary, but many manufacturers are looking for ingredients that will help them achieve this goal. On January 13, 2017, Health Canada finished consultations on banning partially hydrogenated oils in food. The submitted

responses to the consultations will be summarized in a report and made publicly available. Health Canada is furthermore proposing mandatory front-of-package labeling for foods high in saturated fats. Visit [Health Canada](#) for up-to-date information, and [here](#) for more information on trans fat regulations.

Sodium: Similar to the action taken with trans fats, Canada has begun efforts to reduce the amount of sodium found in food and beverage products. On January 13, 2017, Health Canada finished consultations on Front-of-Package nutrition labeling. Health Canada is proposing mandatory front-of-package labeling for foods high in nutrients that are a public health concern. These nutrients include sodium but also sugars, and saturated fats. The result of the consultation will eventually be made publicly available in a report. Visit [Health Canada](#) for up-to-date information.

Food Additives: Canadian regulations pertaining to food additives differ from those in the U.S. Please visit Agriculture and Agri-Food Canada's [Food Additives page](#) for more information. Health Canada's list of permitted food additives can be found [here](#).

Food Color: Synthetic food colors are the only additives that must be certified by the Health Products and Food Branch of Health Canada before being used in foods. Regulations concerning food colors are listed in Division 6 and Table III of Division 16 of the FDR.

Diet-Related Health Claims: The Canadian Food Inspection Agency enforces specific regulations regarding health claims that can be made about a product or ingredient. These regulations are in place to ensure accuracy and validity. For exact wording, visit [CFIA's website](#).

Agricultural Pesticide and other contaminants: Some agricultural pesticides approved for use in the United States are not registered for use in Canada. Foods which are found to contain unregistered residues over 0.1 parts per million are deemed to be adulterated. Specific acceptable Maximum Residue Limits (MRLs) exist for registered pesticides. Click [here](#) for further information.

Vitamin and Mineral Fortification: Fortification in Canada is under review. Health Canada has signaled it is looking at expanding discretionary fortification but with restrictions on which vitamins and minerals and what amounts. However, differences remain such as the folic acid exclusion on milled grain and bakery products. For more information on fortification visit their [website](#) on Vitamins and Minerals.

Organic Standards: As of June 30, 2009, the Organic Products Regulations require mandatory certification to the revised National Organic Standard for agricultural products represented as organic in international and inter-provincial trade, or that bear the federal organic agricultural product legend (or federal logo). Due to the equivalency agreement with the United States, the USDA organic certification is fully recognized in Canada and there is no need for further certification in Canada for USDA-certified organic products. The CFIA has more information on regulations for organic products on their [website](#).

Novel Foods: Health Canada defines novel foods as products that have never been used as food, foods which result from a process that has not previously been used for food, or foods that have been modified by genetic manipulation. Novel foods regulations cover a variety of new food processes including the addition or deletion of genes (commonly referred to as genetically modified foods). For example, Health Canada has reviewed food produced by chemical mutagenesis of seed combined with traditional

breeding, the use of new food processing techniques to extend shelf life and improve food quality and the use of natural coloring products introduced to food for purposes other than coloring. Canada's novel foods regulations require that the company, who wants to sell the products, prior to the marketing or advertising of a novel food, make notification to Health Products and Food Branch (HPFB). For more information on the novel food regulations and approval procedure, click [here](#).

APPENDIX A. Post Contact and Further Information

Foreign Agricultural Service (FAS) Ottawa:

From the U.S.: Office of Agricultural Affairs American Embassy P.O. Box 5000 Ogdensburg, NY 13669 USA	From Canada: Office of Agricultural Affairs P.O. Box 866, Station B Ottawa ON K1P 5T1 Canada
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Telephone: (613) 688-5267

Fax: (613) 688-3124

Email: agottawa@usda.gov

Holly Higgins, Agricultural Minister-Counselor

Jeff Zimmerman, Agricultural Attaché

Mihai Lupescu, Senior Agricultural Specialist

Lina Urbisci, Agricultural Specialist

Erin L. Danielson, Agricultural Specialist

Hanna Wernerson, Agricultural Marketing Specialist

Joyce Gagnon, Administrative Assistant

FAS Toronto:

From the U.S.: Foreign Agricultural Service U.S. Consulate General Toronto P.O. Box 135 Lewiston, NY 14092-0135 USA	From Canada: Foreign Agricultural Service U.S. Consulate General Toronto 360 University Avenue Toronto, ON M5G 1S4 Canada
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Telephone: (416) 646-1656

Fax: (416) 646-1389

Email: agtoronto@fas.usda.gov

Maria Arbulu, Senior Agricultural Marketing Specialist

APPENDIX B. Market Sector Reports

Listed below are the food sector and marketing reports published by FAS Canada. For a complete listing of other Post reports and of FAS' worldwide agricultural reporting, visit the [FAS GAIN web page](#).

AGR REPORT#	Title of Report	Date
CA 17001	Canada Opens Comment Period for Proposed Safe Foods for Canadian	1/20/17
CA 16060	Hotel Restaurant Institutional: Market Report	12/22/16
CA 16055	Canada Exporter Guide: A Practical Guide	12/16/16
CA 16058	FAIRS Country Report 2016: Food and Agricultural Import Regulations and Standards - Narrative	12/16/16
CA 16048	Health Canada Consults on Front-of-Page Nutrition Labeling	11/15/16
CA 16046	Quebec Proposes Changes to Various Alcoholic Beverages Regulations	10/28/16
CA 16046	Quebec Proposes Changes to Various Alcoholic Beverage Regulations	10/28/16
CA 16030	Recently Approved Novel Foods in Canada	05/24/16
CA 16023	What's Cooking in Canadian Food Trends for 2016	05/03/16
CA 16012	New Canadian Halal Labeling Requirements Come Into Force	03/23/16
CA 16009	City Scope Report on Montreal Market	03/11/16
CA 16008	City Scope Report on Toronto Market	03/11/16
CA 16007	Canada Number One Market for U.S. Agricultural Exports	03/07/16