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Retail Food Sector

Report

2007

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Report Highlights:

In 2006 Canada's 32.6 million consumers generated overall retail sales totaling CAN \$ 390 billion, representing a six-per-cent increase over 2005. The food sales registered an annual sales increase of 5 per cent over 2005 to reach CAN \$ 67 billion or 17 per cent of total retail sales. This report provides a snapshot of the Canadian retail food sector to assist U.S. food producers who wish to explore the possibilities of exporting to Canada, the biggest market for U.S. agricultural products.

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CANADA'S GROCERY RETAIL MARKETPLACE

MARKET SUMMARY

OVERVIEW

U.S. agricultural exports to Canada reached a record-high of US\$ 12 billion in 2006, registering an average annual growth rate of approximately 8.4 percent in the last four years. Consumer-oriented agricultural products accounted for 77 percent of total U.S. food and agricultural product sales to Canada in 2006, with fresh and processed fruits and vegetables, snack foods, and red meat products as the category leaders. Canada is the largest market for U.S. agricultural exports, and American products accounted for 58 percent of total Canadian agricultural imports in the year 2006.

In 2006, the U.S. grouping of farm, fish and forestry exports to Canada reached \$14.8 billion, more than \$3.0 billion more than to Mexico, the next biggest market for U.S. agricultural products after Canada. Canada accounted for 18 percent of total U.S. food and agricultural product exports of \$81.27 billion during 2006. Of the more than \$30.0 billion in U.S. consumer-oriented agricultural product exports, \$9.3 billion, almost 31 percent was destined for Canada. Almost one in every six dollars of U.S. exports of fish and seafood went to Canada in 2006. Total bilateral agricultural trade between the U.S. and Canada exceeded \$25.3 billion in 2006, almost \$70 million per day.

Retail Food Channel Growing Steady

AVERAGE CANADIAN GROCERY CONSUMER IN 2006

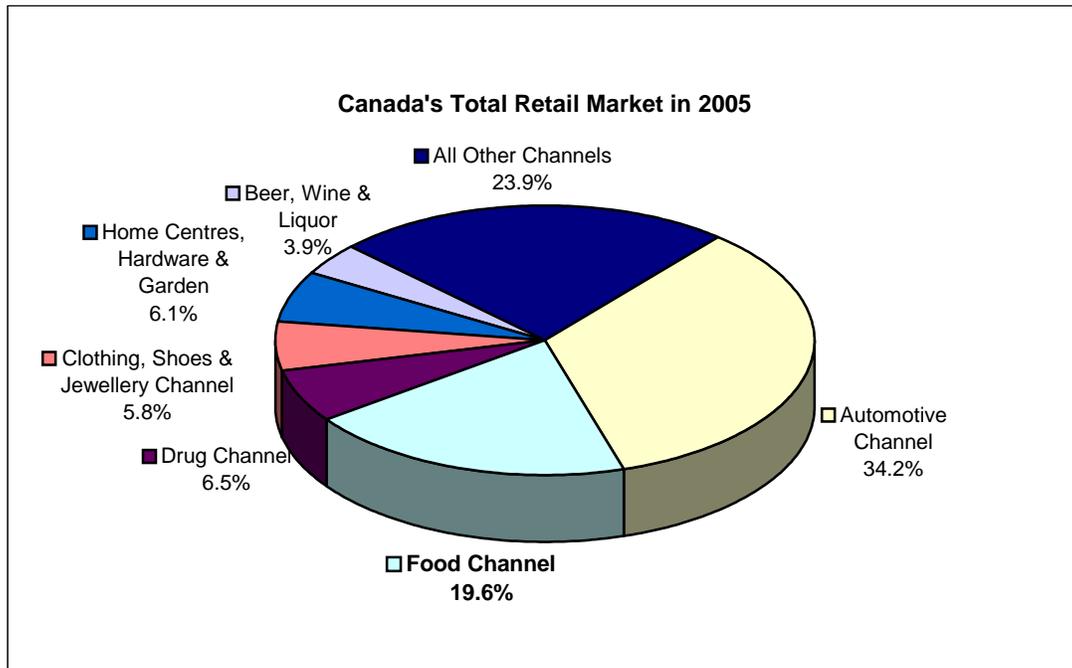
- Has a median age of 39.5 years
- Has one in seven chances of being 65 years or older
- Has an average of 2.5 people per household
- Spends 9.25 % of disposable income on food annually
- Earns an average of CAN\$ 747.08 per week

Statistics Canada

In 2006 Canada's 32.6 million consumers generated overall retail sales totaling CAN \$ 390 billion, representing a six-per-cent increase over 2005. Food sales registered an annual sales increase of 5 per cent over 2005 to reach CAN \$ 67 billion or 17 per cent of total retail sales.

Even though 2006 was a significant growth year for all retail sales, more impressive was the fact that between 2002 and 2006 the increase seen in the overall retail sector was a significant 22 per cent. Food sales also experienced remarkable growth during that same period, growing a total of 20 percent from 2002.

TOTAL RETAIL MARKET BY CHANNEL



Statistic Canada

TOTAL FOOD VERSUS RETAIL GROWTH

	Food Sales CDN \$ Millions	% Growth Over Year Prior	Retail Sales CDN \$ Millions	% Growth Over Year Prior
2002	\$ 55,641.20	-	\$ 320,372.70	-
2003	\$ 58,074.90	4.37%	\$ 332,027.00	3.64%
2004	\$ 61,139.90	5.28%	\$ 347,704.00	4.72%
2005	\$ 64,126.00	4.88%	\$ 367,182.50	5.60%
2006	\$ 67,117.80	4.67%	\$ 390,635.70	6.39%

Statistics Canada

CANADA'S GROCERY SUB-SECTORS

SUPERMARKET:	Any full-line, self-serve grocery store with annual sales volume of CDN\$2 million or more.
SUPERSTORE:	A supermarket of more than 30,000 square feet, offering an expanded selection of nonfood items. Specialty departments and extensive services are offered. Also called "Supercentre."
SUPERCENTRE	A supermarket of more than 30,000 square feet, offering an expanded selection of nonfood items. Specialty departments and extensive services are offered. Also called "superstore."
MASS MERCHANDISER:	A retailer of soft goods and hard goods wherein the selling of grocery products has been an add-on and not traditionally the prime focus of the retail format.
WHOLESALE CLUB STORE:	A membership retail/wholesale hybrid with a limited variety of products presented in warehouse-type atmosphere. These 90,000-plus square-foot stores typically feature a majority of general merchandise, as well as a grocery line dedicated to large size and bulk sales.
CONVENIENCE STORE: (C-Store)	A compact store offering a limited line of high-convenience items. Many sell gasoline and fast food. Usually under 2,400 square feet and open long hours.
INDEPENDENT:	<p><i>An operator with fewer than four retail stores.</i></p> <ul style="list-style-type: none"> ▪ <i>VOLUNTARY GROUPS: Typically franchisees of larger chain banners, these independents operate in major or secondary wholesale-sponsored groups. These units benefit from volume purchases from sponsoring wholesaler.</i> ▪ <i>UNAFFILIATED INDEPENDENTS: Single unaffiliated operating units.</i>
CHAIN:	<i>An operator of four or more retail stores; stores are also called "corporate stores".</i>

Canadian Grocer

CONSOLIDATION AND BLURRING LINES

Consolidation in the grocery sector has been the trend in the retail market over the past few years. This has boosted the sales of large grocery chains and brought the three major chains to the top. These are Loblaw Companies Limited (1,577 stores), Sobeys Inc. (1,709 stores), and Metro Inc. (1,628 stores) – all Canadian-based companies. Metro Inc, which, until recently, was mainly in the Quebec market, acquired the A&P Canada business in 2005, which gave the company a strong presence in Ontario, the largest Canadian market. Both Loblaw and Sobeys have been expanding through new store openings and a shift towards larger store formats. Loblaw has also been increasing the share of retail space allocated to general merchandise, to counteract competition and to maintain its strong positioning against Wal-Mart's expansion. In contrast, Metro Inc, with an average store size below the national average, has also begun pursuing a strategy towards large-size format stores. In 2003, it opened its first superstore under the Metro Plus banner, since then the number has grown to 58 in 2006. This amalgamation of the Canadian retail food sector has increased competition for the consumer's retail food dollar in Canada within the traditional grocery store environment.

LEADING GROCERY GROUPS

NAME	2006 REVENUE (C\$ BILLIONS)	GEOGRAPHICAL REGION	STRATEGY
Loblaw	\$ 29.6	Across Canada	Maintain its leadership position by building superstores and adding non-grocery merchandise, as an attempt to counteract Wal-Mart from expanding in the Canadian grocery business
Sobeys	\$ 13.2	Across Canada	Strengthen its operations with private labels, more attractive and efficiently run stores, and by focusing on food only.
Metro Inc.	\$ 11.8	Quebec, Ontario	Bolster its already strong presence in the Ontario market.

Canadian Grocer

Another trend in the retail food sector is the blurring of the lines between food and non-food retailers. Pharmacies, dollar stores, and gas station C-stores are increasingly selling food items and taking food sales away from the traditional grocery stores. In 2005, the growth of food sales in the traditional non-grocery channels was higher than the growth in the grocery channel. For instance, food sales percentage growth in the drug channel was 2 percent, for convenience stores was 6 percent, for mass merchandisers was 8 percent, and for dollar stores was 9 percent. By comparison, growth of food sales in the traditional grocery channel was only 1 percent during this period.

SUB-SECTOR PENETRATION

Grocery banners remain the most visited of food retailers, averaging 100.3 visits per household each year. Mass merchandisers average only 22.5 visits per household annually, but account for a higher dollar average spent per trip at \$51.63 compared with grocery at \$40.22. There was a 5% increase in average dollars spent per trip to mass merchandisers and convenience stores while grocery banner only increased by 1% in the year 2005.

Grocery banners also remain the highest sector for total dollars per household spent at \$4,034.03. While the warehouse club sector only generated \$1,253.08 per household and the mass merchandiser sector generated \$1,159.89, these two sectors are growing at significantly higher rates [four per cent and three per cent, respectively] than the grocery sector [one per cent].

Household Penetration, 2005

	PERCENTAGE HOUSEHOLD PENETRATION		NUMBER OF TRIPS PER HOUSEHOLD		AVG. DOLLARS SPENT PER TRIP		DOLLARS SPENT PER HOUSEHOLD		CHANNEL SHARE DOLLAR BASIS	
	2005	Pt. CHG.	2005	Pt. CHG.	2005	Pt. CHG.	2005	Pt. CHG.	2005	Pt. CHG.
All Channels	100%		232.4	-3.2%	\$41.07	3%	\$9,545.62	1%	100%	
Grocery Banners	99.9%	0.0%	100.3	-8.0%	\$40.22	1%	\$4,034.03	1%	42.20%	-0.3%
Drug Stores	96.2%	-0.4%	22.2	-0.2%	\$31.24	2%	\$694.54	1%	7.00%	0.0%
Mass Merchandisers	94.0%	0.1%	22.5	-0.4%	\$51.63	5%	\$1,159.89	3%	11.40%	0.1%
Convenience Stores	49.0%	-2.3%	16.1	-0.1%	\$14.52	5%	\$234.32	4%	1.20%	0.0%
Warehouse Clubs	50.7%	0.5%	11.6	0.2%	\$108.53	2%	\$1,253.08	4%	6.70%	0.2%
All Other Food	51.9%	-0.9%	7.2	0.3%	\$26.16	4%	\$186.98	8%	1.00%	0.0%
Dollar Stores	76.3%	-0.8%	9.4	0.0%	\$9.92	5%	\$93.10	4%	0.70%	0.0%
Remaining Channels									29.80%	

Canadian Grocer

The chain share of total food sales decreased 0.7 percentage points between 2002 and 2006, decreasing from 60.7 per cent of total sales to 60 per cent. Total chain sales for 2006, which combine both grocery and convenience store figures, increased 17 percent from 2002, reaching nearly CDN\$ 44 billion.

Share of independent food sales has increased slightly since 2002 from 39.30 percent to a 40.00 percent in 2006. It is forecasted to decrease by 0.05 percent in 2007, while chains are expected to increase their market share by the same amount. Among the independent stores, the unaffiliated had the biggest sales increases in the past two years -- 4.6 and 4.8 percent increases in 2005 and 2006, respectively.

Chain vs. Independent Market Share [Supermarkets/Convenience]

	Chain Stores		Independents		Total Supermarket Sales	
	SUPERMARKETS & CONVENIENCE	% of Total	VOLUNTARY & UNAFFILIATED	% of Total	[000s]	% Change
	[000s]		[000s]			
2002	\$37,712,891	60.70%	\$24,336,809	39.30%	\$62,049,700	5.40%
2003	\$39,695,744	60.50%	\$25,896,456	39.50%	\$65,592,200	5.70%
2004	\$41,425,461	60.70%	\$26,835,439	39.30%	\$68,260,900	4.10%
2005	\$43,815,400	60.70%	\$28,348,400	39.30%	\$72,163,800	5.70%
2006	\$44,025,529	60.00%	\$29,316,084	40.00%	\$73,341,613	1.60%
2007 Forecasted]	\$45,266,678	60.05%	\$29,552,035	39.50%	\$74,818,713	2.00%

Canadian Grocer

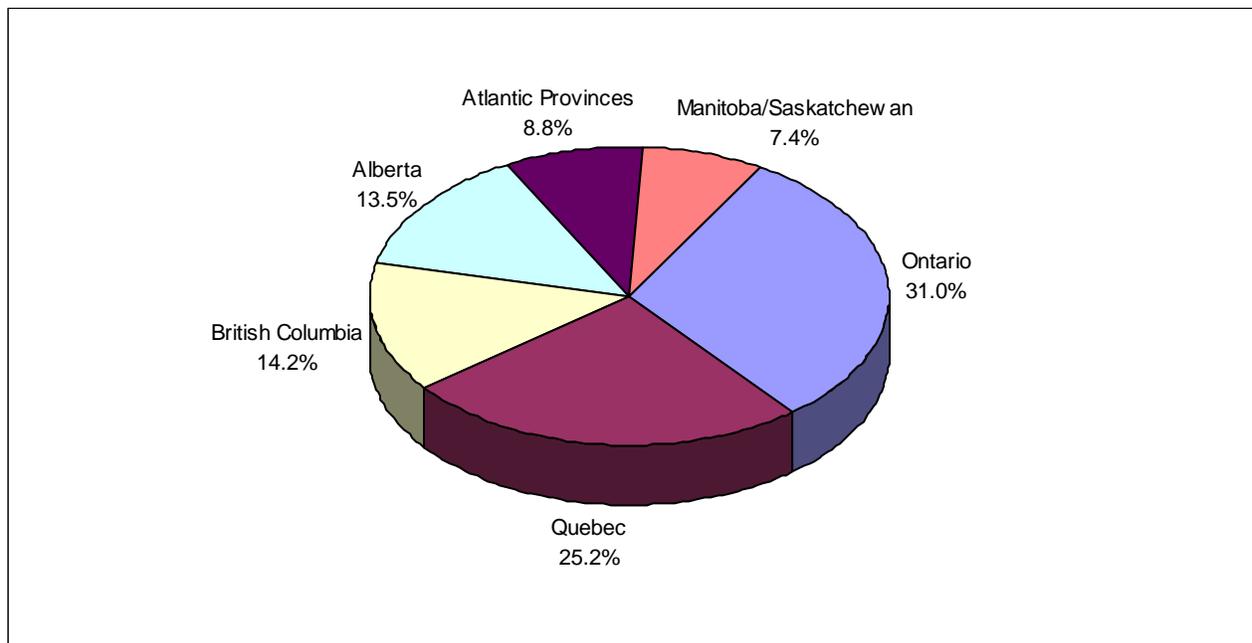
Across the country, Ontario generates the most significant market share of food sales at 31 per cent, consistent with its population base. Quebec is close behind at 25 per cent; these two powerhouse provinces account for more than 55 per cent market share throughout the entire country. Lagging behind are British Columbia and Northern Canada at 13.5 per cent.

Regional Market Share 2006 [Supermarkets/Convenience]

	CHAIN STORES			INDEPENDENTS			TOTAL RETAIL FOOD	
	UNITS		SALES	UNITS		SALES	UNITS	SALES
	GROCERY	CONVENIENCE	COMBINED TOTAL [000s]	VOLUNTARY GROUPS	UNAFFILIATED	COMBINED TOTAL [000s]	REGIONAL TOTAL	REGIONAL TOTAL
Atlantic Provinces	259	1,994	\$5,013,332	179	996	\$1,448,794	3,428	\$6,462,126
Quebec	514	1,774	\$6,908,350	1,926	2,587	\$11,535,028	6,801	\$18,443,378
Ontario	622	2,438	\$13,546,962	852	2,603	\$9,171,645	6,515	\$22,718,607
Manitoba/Saskatchewan	158	568	\$3,621,556	833	892	\$1,781,865	2,451	\$5,403,421
Alberta	258	1,229	\$7,552,826	294	606	\$2,371,867	2,387	\$9,924,693
British Columbia/ North Canada	258	1,229	\$7,552,826	294	606	\$2,371,867	2,387	\$9,924,693
Canada	2,128	8,931	\$44,025,529	4,311	8,442	\$29,316,084	23,812	\$73,341,613
% of Total	8.81%	36.98%	60.03%	17.85%	34.96%	39.97%		

Canadian Grocer

Regional Grocery Sales, 2006



Canadian Grocer

OPPORTUNITIES AND CHALLENGES FACING U.S. EXPORTERS

OPPORTUNITIES	CHALLENGES
Canadian consumers enjoy a high disposable income, coupled with a growing interest in global cuisine.	Private label brands continue to grow in many categories; sometimes taking shelf space from American national brands.
U.S. food products match Canadian tastes and expectations.	Continuing retail consolidation forces competitive pricing.
Fruit and vegetable consumption in Canada is substantially higher than that in the U.S. Except for its greenhouse industry Canada's horticulture production is restricted to a few months a year; Therefore, retailers rely heavily on imports to supply the domestic market.	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.
Proximity: Canada and the U.S. share 3,145 miles of border with virtually all major Canadian cities in close proximity to the border, thereby facilitating 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 American 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 strengthening dollar is an advantage for U.S. exporters.	Retailers and brokers/distributors charge high listing/placement fees.
Canadian ethnically diverse population provides opportunities for specialty products in populated centers.	Food labeling, including bilingual packaging requirement, and nutritional content claims are 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.	Tariff rate quotas for certain products
	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 U.S.

ROAD FOR MARKET ENTRY

OVERVIEW

U.S. food product manufacturers seeking to enter the Canadian marketplace have vast opportunities. Canada is the U.S.'s primary trading partner – more than 64 per cent market of Canada's manufactured food imports originate from the U.S. This is a result of a number of factors, including a convenient shipping corridor and a familiarity between consumer tastes and expectations.

Although Canadians are always on the lookout for new and innovative U.S. product, there are a number of obstacles U.S. exporters must overcome before exporting to Canada. These may include currency, customs procedures and labeling requirements.

Overcoming these obstacles is simple with the right tools. Following are the main steps to take for U.S. exporters entering the Canadian market:

1. Contact your state regional trade office.
2. Research the competitive marketplace
3. Locate a broker/distributor.
4. Understand Canadian government standards and regulations that pertain to your product.

MARKET ENTRY STEPS

1. Contact your state regional trade office.

State Regional Trade organizations are non-profit groups that offer many services to U.S. food/agricultural product exporters. Primarily, they assist with privileged information about the various food sectors. Key distributors, names and contact information buyers, and specifics about important trade and consumer shows are also made available. Through these State Regional Trade Offices, branded food products and agricultural commodities can be promoted with assistance from Market Access Program funds administered by USDA's Foreign Agricultural Service.

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.

U.S. STATE REGIONAL OFFICES

STATE REGIONAL	STATES REPRESENTED	WEB SITE
Food Export USA Northeast	Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont	www.foodexportusa.org
Food Export Association of the Midwest USA	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin	www.foodexport.org
Southern United States Trade Association [SUSTA]	Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia and the Commonwealth of Puerto Rico	www.susta.org
Western U.S. Agricultural Trade Association [WUSATA]	Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, New Mexico, Oregon, Utah, Washington, Nevada and Wyoming	www.wusata.org

2. Research the competitive marketplace

A thorough understanding of consumer trends and needs are required in developing your market strategy. The Internet offers a wealth of information for U.S. exporters interested in researching the many aspects and particularities of the Canadian food sector. Though some consumer data can only be obtained with a fee, there are several industry specific publications that continuously report on specific developments of interest for U.S. exporters. These publications are **Canadian Grocer** (www.canadiangrocer.ca), a magazine that closely follows key developments in the Canadian grocery industry, and **Food Service and Hospitality** (www.foodserviceworld.com), a periodical that continuously offers updated information on the status of the food service industry in Canada.

Sources of information:

ORGANIZATION	FUNCTION/PURPOSE	INFORMATION
Statistics Canada	The official source for Canadian social and economic statistics and products.	www.statcan.ca
Food and Consumer Products of Canada (FCPC)	An industry association representing approximately 130 Canadian-operated member companies that make and market retailer and national brands sold through grocery, drug, convenience, mass merchandise and foodservice distribution channels.	www.fcPMC.com
Canadian Council of Grocery Distributors (CCGD)	Represents Canadian distributors of food and grocery-related products.	http://www.ccgD.ca/
Canadian Restaurant and Foodservices Association	The largest hospitality association in Canada.	www.crfa.ca
Canadian Federation of Independent Grocers (CFIG)	Represents Canada's independently owned and franchised supermarkets.	www.cfig.ca
Consumers' Association of Canada	Represents consumers to all levels of government and to all sectors of society.	www.consumer.ca
Agriculture & Agri-Food Canada, Agri-Trade Food Service	Provides information, research and technology policies and programs. Also provides access to statistics.	www.agr.gc.ca

It is important to understand how the distribution channel operates. In general, many large retail firms such as Loblaw or Sobeys procure foods directly from producers/manufacturers. On the other hand, smaller, regional retailers often purchase products from distributors/importers and from local manufacturers. The services of established food brokers and trading companies are recommended for the introduction of grocery aisle type products. These Canadian firms usually have enough experience to decide the best course of action.

3. Locate a Broker/Distributor

It is recommended that most new entrants to the Canadian market secure the services of a broker and/or distributor.

Local representation provides exporters with a domestic advantage to understanding the local, regional and national markets and opportunities available. Brokers and distributors provide guidance on best business practices, sales contacts, market development, logistics and government regulations. Many also provide merchandising and marketing programs and their volume purchasing power can help reduce retail slotting fees.

The USDA/FAS Office of Agricultural Affairs, U.S. Embassy Canada can provide assistance in locating a broker/distributor. Services available to help exporters locate appropriate brokers/distributors include USDA endorsed pavilions at various Canadian trade shows and a matchmaker program entitled, CANADA CONNECT, (see FAS Report CA5060 on the FAS Web Site: www.fas.usda.gov) for details on this program that provides market information and meetings with potential, pre-screened, buyers.

A partial listing of Canadian food brokers is available on our report CA5068 on the FAS web site.

BROKER/DISTRIBUTOR RESOURCES

ORGANIZATION	SERVICE	CONTACT
Foreign Agricultural Service [FAS]	Designed for U.S.-export-ready companies, the FAS program "Canada Connect" matches prospective exporters with appropriate Canadian brokers/distributors or buyers by accurately expediting entry into Canada through market research, competitive analysis and the scheduling of buyer appointments.	<p>Canada Connect representatives in Canada:</p> <p>Branded food products and agricultural commodities: Faye Clack Communications Inc. 905-206-0577 www.fayeclack.com Email: info@fayeclack.com</p> <p>Wine products: Ketchin Sales & Marketing 705-444-5255 rketchin@ketchin.com</p>
The Grocery Manufacturers of America [GMA]	GMA is a Washington, DC-based voluntary member trade association promoting the interests of approximately 450 sales and marketing agencies and 140 manufacturers in the United States, Canada and abroad. Its web site includes a Canadian database of approximately 30 brokers/distributors.	http://www.gmabrands.com/
The Canadian Importers and Exporters Association	The Toronto, ON-based CAIE is Canada's key source of information on Canadian customs and trade policy. It provides Canadian importers with critical and timely information and effective representation to government agencies.	www.importers.ca

4. Understand Canadian government standards and regulations that pertain to your product.

The Canadian Government has multiple acts that govern importation and sales of foods. Some of the most important ones are:

- Canada Agricultural Products Act and Associated Regulations
- Consumer Packaging and Labeling Act
- Fish Inspection Act
- Food and Drug Act
- Importation of Intoxicating Liquors Act
- Meat Inspection Act
- Weight and Measures Act

The Canadian Food Inspection Agency, Health Canada, and the Department of Foreign Affairs and International Trade are the main government bodies U.S. exporters can contact for specific information when studying regulations with which they need to comply. Though Canada and the U.S. share many consumer trends, cultural similarities and lifestyles; nutritional facts, ingredient declarations and health claim labeling regulations are different.

GOVERNMENT BODIES	FUNCTION	INFORMATION
Canadian Food Inspection Agency (CFIA)	Government of Canada's regulator for food safety [along with Health Canada], animal health and plant protection.	www.inspection.gc.ca
Canada Customs and Revenue Agency (CCRA)	Its mission is to promote compliance with Canada's tax, trade, border legislation and regulations.	www.ccr-aadrc.gc.ca
Canadian Food and Drug Act	A regulatory document provided by Health Canada, which outlines information regarding specific food import restrictions.	www.hc-sc.gc.ca/food-aliment
Health Canada	Administers the Food Safety Assessment Program, which assesses the effectiveness of the Canadian Food Inspection Agency's activities related to food safety.	www.hc-sc.gc.ca
Foreign Affairs and International Trade (DFAIT), Export & Import Controls Bureau	Responsible for allocating tariff rate quotas to importers.	www.dfait-maeci.gc.ca/eicb
Measurement Canada	Administers and enforces the Weights and Measures Act for food labeling purposes.	www.strategis.ic.gc.ca

For more information on these food labeling regulations and other information useful to U.S. food exporters, refer to the Canada 2007 Exporter Guide (CA7066) on the FAS web site:

www.fas.usda.gov. Information exporters need to understand the new labeling regulation can be found in the following sites:

Nutrition Labeling Resource Page:

www.inspection.gc.ca/english/fssa/labeti/nutrition-pagee.shtml

This page includes links to:

- Nutrition Labeling Toolkit
- Questions and Answers
- Information Letters
- E-mail Notification of Food & Nutrition Labeling Updates

The 2003 Guide to Food Labeling and Advertising guide can be found at:

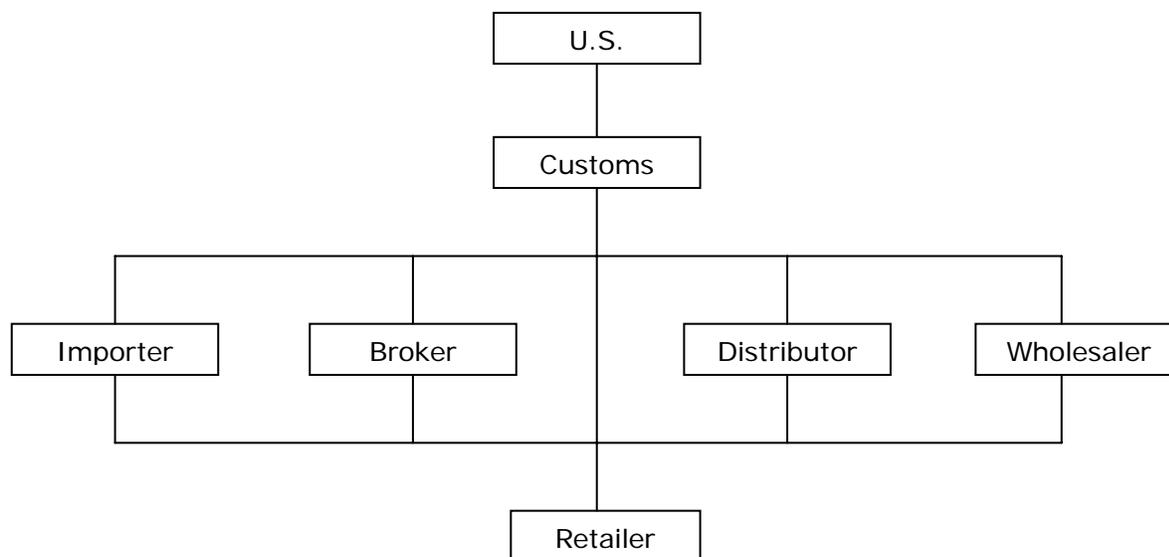
www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml

In order to supply more and better information, several regional **Import Service Centers** function across the country. The staff at these centers can be contacted to obtain pertinent information on specific import requirements and documentation.

IMPORT SERVICE CENTER	OPEN	CONTACT
Eastern ISC	7 a.m. to 11 p.m. [local time]	Telephone: 1-877-493-0468 [within Canada or U.S.] Fax: 1-514-493-4103
Central ISC	7 a.m. to 12 a.m. [local time]	Telephone: 1-800-835-4486 [within Canada or U.S.] Fax: 1-416-661-5767
Western ISC	7 a.m. to 12 a.m. [local time]	Telephone: 1-888-732-6222 [within Canada or U.S.] Fax: 1-604-666-1577

MARKET STRUCTURE

DISTRIBUTION CHANNEL



Imported food product into the Canadian marketplace may route directly to the retailer or filter through importers, brokers, distributors and wholesalers. A significant amount of U.S. agricultural and food products entering Canada is in the form of intra company transfer. In such a case, the importer is normally the related company operating in Canada.

Traditional supermarket outlets are split between chains and independent stores. All major Canadian supermarket chains are involved in wholesaling and retailing operations. Chain owned warehouses supply not only the chain's outlets, but may also supply franchised stores and independent grocers. Some independent grocers are affiliated with a wholesaler through a voluntary buying group.

Convenience stores and smaller grocery retail chains are often supplied by the wholesale and distribution arm of a major grocery retailer.

The larger retailers all approach the decision of when to buy direct and when to use a middleman somewhat differently; however, the decision is often dependent on the sub-category of the product, its volume and the distribution pattern of the item.

Perishable products, such as dairy, produce, meat, poultry and value-added items, are often procured direct by the larger retailers. Some retailers, such as Loblaw Co. Ltd. and Sobeys Inc., employ procurement offices in the U.S. for this purpose. In the grocery aisles, however, retailers also rely heavily on brokers, importers and distributors.

Efficiency is being sought from both sides of the fence. While the retail industry is demanding more products via fewer suppliers, the broker/distributor industry is responding through aggressive consolidation and unique new product entries. Larger firms are purchasing smaller brokers/distributors to offer national coverage, while regional organizations are forming alliances across the country to stay competitive by offering national coverage. Agents/distributors focus on

head office visits, with larger firms offering sales force coverage at store level, while smaller firms often outsource coverage at this level.

Consolidation in the food distribution sector has an important impact on the rest of the agri-food system as fewer buyers control more of the business of suppliers. This may place greater pressure on suppliers to deliver quality products at lower prices as well as continuously updating the product line with new offerings. It may also be a stimulus for supplier consolidation

The food distribution sector is playing an increasingly important role in the Canadian agri-food system by generating significant economic activity and contributing to the provision of one of the world's most affordable food supplies.

Today's growing non-traditional channels are forcing brokers/distributors to focus additional specialized sales teams on drug stores, c-stores, grocery stores (g-stores) clubs and mass merchandisers. This is a recent phenomenon. Previously, while some agencies focused on the non-traditional outlets, others focused solely on the conventional market. Today many of these companies are adding other value-added services, such as marketing programs, merchandising, computerized ordering, logistical support, and data collection services to remain competitive.

To partner with a broker/distributor, food manufacturers pay a percentage of the product sales revenue. These costs vary significantly depending on the type of product line and expected sales volume. For example, fees can range from 3% to 10% depending on the volume and the amount of labor required. Commission rates are usually negotiated along with fees for special services such as the planning of promotions or data collection. Pioneering product lines may have significant monthly fees until the products generate enough sales volume to switch fully to a percentage-of-sales format.

In trying to introduce your product and achieve a listing, a broker may make presentations to the head offices of chains and wholesale groups to get your product on the list from which the store can order. Listing fees on new products are frequently demanded unless the product is considered a "must have" by the retailer. This fee will depend on how unique the product is, the strength of data that demonstrates the demand, and the advertising and promotional spend dedicated to the product launch.

RETAIL SUB-SECTORS

SUPERMARKETS/SUPERSTORES, MASS MERCHANDISERS AND CLUB WAREHOUSE

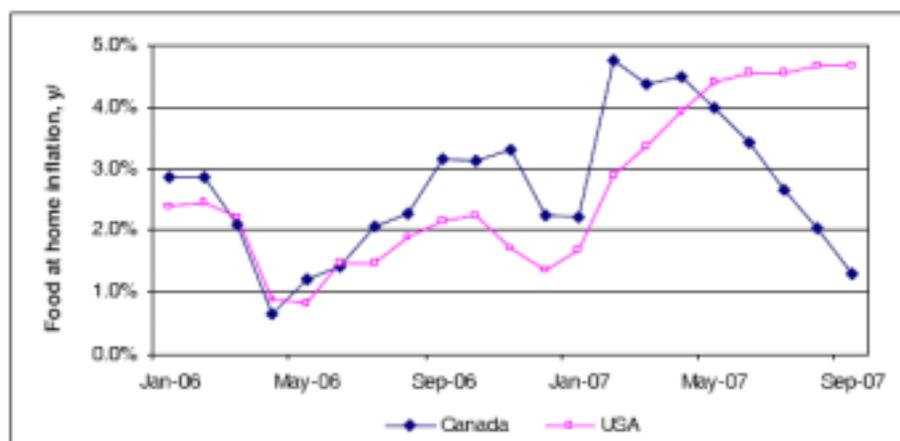
The arrival of Wal-Mart Supercenters has shaken the Canadian grocery retail business to its core. The three major traditional supermarket players (Loblaw Co. Ltd., Sobeys Inc., and Metro Inc.) have developed survival strategies to combat Wal-Mart's stated objective to open 17 new Supercenters in 2007. With the market already at the saturation point in most key Canadian cities, the opening of new Supercenters has seemed to result in sales per store floor area declining at all stores in the competing area.

The initial defensive strategy by the three major Canadian retailers was to strengthen their position, by either increasing store size, number of stores or merchandise in the store, however each took a somewhat different direction. The Loblaw Company adopted a very aggressive strategy by opening more Superstores, larger format stores and expanding its inventory to general merchandise in an attempt to appeal to customers as a one-stop shop. This move was not very successful, as Loblaw found their long time customers unhappy with the change. At the same time, obvious cracks were appearing in Loblaw's ability to manage the expansion, staff the stores and gain the expertise in general merchandise while doing an acceptable job in the important food areas of the store. Sales growth stalled for both Loblaw and its competitors with the new Superstore formats registering a mere 0.9% sales growth in 2006. Canadian food retailers learned that Canadians were less enamored than Americans with buying general merchandise at grocery stores. Loblaw scrambled in 2007 to plot a sounder strategic defense to Wal-Mart. In the short term they are focusing on price cuts, specials and coupons to stay competitive with Wal-Mart. There appears to have been a realization that having attractive efficient stores with good food departments is a better longer-term defense than simply continuing price cuts across all their formats. The new direction involves the repositioning of their stores essentially into two types. These include, "Great Food" conversions, which brings more frozen foods, new produce and cheese displays, and a heavier emphasis on take-out foods and artisan breads. A small number of the current 80,000 sq. ft. stores are being converted to The "Superstore" format but with reduced Stock Keeping Unit (SKU)

Unlike Loblaw, Sobeys and Metro have stayed very focused on the food business. Efforts have been directed at expanding their selection of food products in all price ranges including their own private labels. Canada has a low population density as well as low population growth. Consequently, Canadian Superstores are approaching the saturation point of the market. Both Sobeys and Metro have realized that urban densities are continuing to rise in the large Canadian cities as more condominium apartments are built. Food shopping habits for people in Toronto and Montreal are becoming more European with many people food shopping more than twice a week. For these consumers, fresh foods and convenience foods are very important. This has led Sobeys to take advantage of the demographic change and follow a dual approach by developing bigger format stores for outlets in suburban areas while placing smaller stores in city centers. However in both cases they have stayed strictly focused on food.

The expansion of Wal-Mart in Canada is causing a serious delay in passing the rapidly increasing world commodity prices along to consumers. Much of the food inflation cost push which is now occurring throughout the world is being mitigated in Canada by reduced retail margin and in some cases losses by both suppliers and retailers as companies attempt to hold or grow market share. The magnitude of this price war is fully apparent in the attached slide prepared by C.I.B.C. World Markets.

Exhibit 3. Food Retail Price Inflation, U.S. and Canada



Source: Statistics Canada, U.S. Department of Labor, Bureau Of Labor Statistics and CBC WorldMarkets Inc.

In Western Canada, the picture remains much the same with the Wal-Mart entry holding prices down. Safeway chose to renovate rather than adding new space so its share is falling, but its stores seem to be performing well. Loblaw, Sobey's, Calgary Co-Op, and Overwaitea are all rapidly building and opening stores to compete with the Wal-Mart Supercenters.

Sobey's is also experimenting in Western Canada with a new urban format store in the 15,000 sq. ft. size, which will cater to people living in downtown areas of large cities.

Canadian supermarkets are not only feeling the pressure from Wal-Mart, but also from Warehouse Clubs stores such as Costco and Sam's Club. Today's warehouse clubs stock some smaller sizes and also sell a wider range of services and more luxury products. Clubs undersell other stores by cutting expenses and buying huge quantities directly from manufacturers. In addition, club products carry an average profit margin of about 11 percent, while other retailers mark up goods 25 to 50 percent. Clubs make their profits on membership fees; price markups cover operating expenses and other overhead.

According to AC Nielsen, in 2005, grocery's share of total expenditure in Canada decreased from 42.5 percent in 2004 to 42.2 percent in 2005, while warehouse clubs went up to 6.7 percent in 2005, a total of 0.2 percent higher than in 2004. Furthermore, expenditure in the grocery channel grew by only 1 percent; but the mass merchandisers and the warehouse clubs reached gains of 3 percent and 4 percent respectively. From this growth the grocery composite was 7 percent for warehouse clubs and 8 percent for mass merchandisers.

SUPERMARKETS/SUPERSTORES

RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Loblaw Companies Ltd.	All Banners		29.57 B		Across Canada	Direct, Broker, and Distributor
	Atlantic Superstore	SS		51	ATLANTIC	
	Axep	SM		137	QC	
	Cash & Carry	SM		9	ATLANTIC	
	Dominion (Atlantic Wholesaler)	SM		14	NF	
	Extra Foods	SM		100	WESTERN, ON, NT	
	Fortinos	SS		20	ON	
	Freshmart	SM		35	ATLANTIC	
	IGA	SM		3	MARITIMES	
	L'Intermarché	SM		41	QC	
	Loblaws	SM/SS		95	ON, QC	
	Lucky Dollar	SM		166	BC, YT, NT, NU, PRAIRIES, ON,	
	Maxi	SM		112	QC	
	No Frills	SM		124	ON	
	Provigo	SM/SS		105	QC	
	Real Canadian Superstore	SS		82	ON, WESTERN, YT, NT, NU,	
	Real Canadian Wholesale Club	SS		31	WESTERN, YT, ON,	
	St. Clair Market	SM		1	ON	
	Save Easy	SM		54	ATLANTIC	
	Shop Easy	SM		63	WESTERN	
	Super Stores	SS		53	MARITIMES	
	Super Value	SM		36	WESTERN, ATLANTIC	
	Valu-Mart	SM		70	ON	
	Your Independent Grocer	SM		50	ON	
	Zehrs	SM/SS		59	ON	

RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Sobeys Inc.	All Banners		14.16 B			Direct, Broker, and Distributor
	Boni Choix	SM		83	QC	
	Boni Soir	SM		236	QC	
	Cash and Carry	SM		10	ATLANTIC, WESTERN	
	Clover Farm	SM		3	ATLANTIC	
	Foodland	SM		255	ATLANTIC, ON, QC	
	Food Friends	SM		7	ON	
	Food Town	SM		30	QC	
	Garden Market (IGA)	SM/SS		49	WESTERN	
	Grocery Depot	SM		1	ON	
	Independent Food Town	SM		30	ON	
	IGA	SM		379	QC, ON, WESTERN,	
	IGA Extra	SS		70	QC	
	Kwik -Way	SM		90	ON	
	Lawtons	SM		60	ATLANTIC	
	Le Dépanneur	SM		109	QC	
	Needs	SM		143	ATLANTIC	
	Price Chopper	SM		118	ON, ATLANTIC, WESTERN	
	Sertard	SM		37	QC	
	Sobeys	SM/SS		224	ATLANTIC, ON, WESTERN	
	Sobeys Express	SM		2	ON	
	Sobeys Fast Fuel	SM		6	ATLANTIC	
	Thrifty Foods	SM		2	WESTERN	
	Tradition	SM		29	QC	
	Voisin	SM		13	QC	

RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Metro Inc.	All Banners		11.8 B			Direct, Broker, and Distributor
	A&P	SM/SS		67	ON	
	AMI	SM		97	QC	
	Brunet	SM		112	QC	
	Clini Plus	SM		72	QC	
	Dominion	SM		51	ON	
	Extra	SM		159	QC	
	Food Basics	SM		112	ON	
	Gem	SM		292	QC	
	Les 5 Saisons	SM		2	QC	
	Loeb	SM		39	ON	
	Marché Richelieu	SM		119	QC	
	Metro	SM		176	QC	
	Metro Plus	SS		63	QC	
	Servi Express	SM		51	QC	
	Service	SM		47	QC	
	SOS	SM		103	QC	
	Super C	SM		56	QC	
	The Barn	SM		9	ON	
	Untra Food & Drug	SM		3	ON	
RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Canada Safeway	All Banners		6.08 B			Direct, Broker, and Distributor
	Family Foods	SM		56	BC, TY, NT, NU, PRAIRIES, ON	
	Safeway	SM/SS		215	BC, TY, NT, NU, PRAIRIES, ON	

RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Overwaita Food Group	All Banners		2.4 B			Direct, Broker, and Distributor
	Overwaita Foods	SM			BC	
	Save-On-Foods	SM			BC, AB	
	Cooper's Food	SM			BC	
	Urban Fare	SM			BC	
	PriceSmart Foods	SM			BC	
RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Federated Co-operative Ltd.	All Banners		1.55 B			Direct, Broker, and Distributor
	Federated Co-op	SM		318	PRAIRIES	
	The Grocery People	SM		46	PRAIRIES	
	Bigway Foods	SM		95	PRAIRIES	
	Super "A" Foods	SM		26	PRAIRIES	
	Affiliated Convenience	SM		54	PRAIRIES	
	TAGS	SM		18	PRAIRIES	
	Tempo	SM		23	PRAIRIES	
	Cash & Carry Depots	SM		6	PRAIRIES	
RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Buy-Low Foods	All Banners		N/A			Direct, Broker, and Distributor
	Buy-Low	SM		13	BC, AB	
	Shop'n Save	SM		2	BC, AB, PRAIRIES	
	Budget	SM		1	BC	
	Buy and Save	SM		2	BC	
	AG Stores	SM		53	BC, PRAIRIES	
	Nester's Market	SM		4	BC	

	Kellers Foods	SM		1	PRAIRIES	
RETAILER	PRIMARY BANNER	TYPE	SALES (C\$)	No.	Location	Purchasing Agent Type
AM Foodfare	Foodfare	SM	21 M	7		Direct, Broker, and Distributor
Calgary Co-operative Association Ltd.	Calgary Co-op	SM/SS	750 M	22	PRAIRIES	Direct, Broker, and Distributor
Colemans Food Centre	Colemans Food Centre	SM	N/A	11	ATLANTIC	Direct, Broker, and Distributor
Co-Op Atlantic	Co-Op Atlantic	SM	500 M	116	QC, ATLANTIC	Direct, Broker, and Distributor
Freson Market Ltd.	IGA	SM	N/A	14	AB	Direct, Broker, and Distributor
Highland Farms Inc.	Highland Farms	SM	N/A	5	ON	Direct, Broker, and Distributor
L&M Food Markets Ltd.	L&M Food Markets	SM	N/A	5	ON	Direct, Broker, and Distributor
Longo Brothers Fruit Market Inc.	Longo's	SM	N/A	15	ON	Direct, Broker, and Distributor
M&M Meat Shops	M&M Meat Shops	SM	412 M	419	BC, PRAIRIES, ON, QC, ATLANTIC, YT, NT	Direct, Broker, and Distributor
Quality Foods	Quality Foods	SM	N/A	9	BC	Direct, Broker, and Distributor
Rabba Fine Foods Ltd.	Rabba	SM	N/A	29	ON	Direct, Broker, and Distributor
Shoppers Wholesale Food Co.	Shoppers Wholesale Food Co.	SM	N/A	13	BC	Direct, Broker, and Distributor
T&T Supermarket	T&T Supermarket	SM/SS	N/A	14	BC, PRAIRIES, ON	Direct, Broker, and Distributor
Thrifty Foods	Thrifty Foods	SM	523 M	19	BC	Direct, Broker, and Distributor
R. Denninger Ltd.	Denninger Foods of the World	SM	N/A	6	ON	Direct, Broker, and Distributor

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CLUB WAREHOUSE

RETAILER	PRIMARY BANNERS	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Costco Canada Inc. (Foreign Ownership)	Costco Wholesale	CW	4.65 B	68	ACROSS CANADA	Direct, Broker, and Distributor
Sam's Club of Canada (Foreign Ownership)	Sam's Club	CW	N/A	6	ON	Direct, Broker, and Distributor

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MASS MERCHANDISER

RETAILER	PRIMARY BANNERS	TYPE	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Buck or Two Extreme Retail Inc.	Buck or Two	MM	N/A	160	ACROSS CANADA	Direct, Broker, and Distributor
Canadian Tire Corporation, Limited	Canadian Tire	MM	7.2 B	450	ACROSS CANADA	Direct, Broker, and Distributor
Dollarama Stores	Dollarama	MM	N/A	366	WESTERN, ON, QC, ATLANTIC	Direct, Broker, and Distributor
Everything for a Dollar (Canada) Inc.	Everything for a Dollar	MM	N/A	72	ACROSS CANADA, EXCEPT QC AND SK	Direct, Broker, and Distributor
Giant Tiger Stores Limited	Giant Tiger	MM	1 B	171	PRAIRIES, ON, QC, NB	Direct, Broker, and Distributor
Great Canadian Dollar Store (1939) Ltd.	Great Canadian Dollar Store	MM	N/A	120	WESTERN, ON, NB, NS, PE, NF, YT	Direct, Broker, and Distributor
The North West Company	All Banners	MM	849.6 M	142	WESTERN, ON, QC, NU, NT, YT, NF	Direct, Broker, and Distributor
	Northern	MM		131	WESTERN, ON, QC, NU, NT, YT, NF	
	North Marts	MM		5	MB, SK, NF, NU	
	Quickstop	MM		6	MB, NF, ON, NU	
Wall-Mart Canada Corp.	Wal-Mart Canada	MM/SC	N/A	272	WESTERN, ON, QC, ATLANTIC, NT, YT	Direct, Broker, and Distributor

Zellers Inc. - A Division of Hudson's Bay Company	Zellers	MM	N/A	280	WESTERN, ON, QC, ATLANTIC	Direct, Broker, and Distributor
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CONVENIENCE STORES, GAS MARTS, KIOSK

There are approximately 29,000 convenience stores spread across the country. Some of them are regional players, while others operate at a national level. In 2006 the convenience store industry experienced a remarkable growth of 6 percent, and it is expected to continue performing well for the coming years, although at a slower rate. This growth has attracted newcomers and forced established players to reinvent themselves to keep their position in the market. The selling space of the convenience store is also growing as many stores are expanding their premises in order to accommodate an increasing number of products and services.

The convenience stores industry in Canada is altering its appearance to compete in the present demanding environment. Nowadays, stand-alone convenience stores, as well as, gas station c-stores are pursuing a strategy of co-branding to provide customers with wide variety food products and services. For instance, Alimentation Couche-Tard, the largest convenience store chain in Canada, is redefining the concept of convenience store in the country. They have launched a strategy to redesign their stores to create a more inviting atmosphere. The décor of these stores is determined by the demographics of the neighborhood. These stores offer traditional c-stores products, as well as, fresh and fast foods, bakery, bank machines, internet terminals, and lottery tickets. Other convenience store companies are catching up on this trend and are transforming their outlets by further improving their ambience, as well as, their product and service offerings to stay competitive. This industry is benefiting from the trend towards convenience from the time-strapped young busy professionals, but also from older Canadian who prefer a closer and smaller store set-up in the neighborhood.

CONVENIENCE RETAILERS

RETAILER	PRIMARY BANNERS	SALES (C\$)	No.	LOCATION	PURCHASING AGENT TYPE
Alimentation Couche-Tard Inc.	All Banners	\$ 930 M	2062	WESTERN, QC, ON	Direct, Broker, and Distributor
	Couche-Tard		246	QC	
	Provi-Soir		352	QC	
	Sept-Jours		143	QC	
	Dunkin Donuts		296	QC	
	Mac's		802	WESTERN, ON	
	Winks		32	WESTERN, ON	
	Daisy Market		187	ON	
	Mike's Mart		4	ON	
Avondale Stores Limited	All Banners	N/A	186	ON	Direct, Broker, and Distributor
	Avondale		107	ON	
	Stewart's Farm Market		2	ON	
	Dollar-Mart		9	ON	
	Avon-Mart		3	ON	
	Meatbox		2	ON	
Fas Gas Oil	All Banners	N/A	428	WESTERN, YT, NT, ON	Direct, Broker, and Distributor
	Fas Gas Oil				
	Race Trac Fuels				
	Short Stop				
	Great Northern Oil				
Good Neighbour Stores	Good Neighbour Stores	N/A	120	NF	Direct, Broker, and Distributor
Hasty Market Corp.	All Banners	\$ 300 M	280	ON	Direct, Broker, and Distributor
	Hasty Market		165	ON	
	Farah Foods		5	ON	
	Min-A-Mart		85	ON	
	Associated Stores		25	ON	

Husky Oil Marketing Company	All Banners	\$ 300 M	478	WESTERN, ON, NT, YT,	Direct, Broker, and Distributor
	Husky		313	WESTERN, ON, NT, YT,	
	Mohawk		165	WESTERN, ON	
Imperial Oil C-Stores	All Banners	N/A	589	ACROSS CANADA	Direct, Broker, and Distributor
	On The Run		300	AB, BC, NB, NS, ON, QC, SK	
	Tiger Express		142	BC, NB, NL, NS, ON, QC, SK, MB	
	Tiger Compliance		69	BC, ON, QC,	
	Other		221	ATLANTIC, BC, ON, QC, SK, MB	
Irving Convenience Stores	Irving	N/A	232	QC, ATLANTIC	Direct, Broker, and Distributor
The Kitchen Table	The Kitchen Table	N/A	7	ON	Direct, Broker, and Distributor
Land's Happy Marts Ltd.	Land's Happy Marts Ltd.	N/A	4	AB	Direct, Broker, and Distributor
Little Short Stop Stores Limited	Little Short Stop Stores Ltd.	N/A	36	ON	Direct, Broker, and Distributor
Needs C Store Group - Division of Sobeys Inc.	Needs Convenience Store	N/A	168	ATLANTIC	Direct, Broker, and Distributor
Petro-Canada C-Store Division	SuperStop	N/A	1430	BC, SK, MB, ON, QC, MARITIMES	Direct, Broker, and Distributor
Pronto Food Marts	Pronto Food Marts	N/A	18	ON	Direct, Broker, and Distributor

Quickie Convenience Stores	Quickie Convenience Store	N/A	47	ON, QC	Direct, Broker, and Distributor
Red Circle Limited	Red Circle	\$ 25 M	57	NF	Direct, Broker, and Distributor
7-Eleven Canada, Inc. (Foreign Ownership)	7-Eleven	N/A	476	WESTERN, ON	Direct, Broker, and Distributor
Shell Canada Products Limited	All Banners	N/A	798	WESTERN, ON, QC, NB, NS	Direct, Broker, and Distributor
	Shell		651	WESTERN, ON, QC, NB, NS	
	Turbo		57	WESTERN	
	Payless		32	BC	
	Beaver		58	ON	

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Provinces Abbreviations:

AB: Alberta

BC: British Columbia

MB: Manitoba

NB: New Brunswick

NL: Newfoundland and Labrador

NT: Northwest Territories

NS: Nova Scotia

NU: Nunavut

ON: Ontario

PE: Prince Edward Island

QC: Quebec

SK: Saskatchewan

YT: Yukon

Canadian Regions:

WESTERN: AB, BC, MB, SK

PRAIRIES: AB, MB, SK,

ATLANTIC: NB, NS, PE, NL

MARITIMES: NB, NS, PE

COMPETITION

PRODUCT CATEGORY	MAJOR SUPPLY SOURCES BY VALUE	STRENGTHS OF KEY SUPPLY COUNTRIES	ADVANTAGES/DISADVANTAGES OF LOCAL SUPPLIERS
DAIRY IMPORTS: U.S. \$465 MILLION	<ol style="list-style-type: none"> 1. U.S.: 25% 2. New Zealand: 20% 3. France: 14% 	<ul style="list-style-type: none"> ▪ The U.S.'s close proximity to market, speedy delivery, and significant freight advantage has allowed it to be competitive in an 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. As a result, and despite the significant trade barriers protecting the Canadian dairy industry, the U.S. maintains the number one import position for fluid milk and whey powder, as well as the second largest share for imported cheese. ▪ The E.U. 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). France remains the largest supplier of cheese from the E.U. ▪ 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 as it has been given country specific butter allocation of 1840 tones. This is due to the AoA and represents 61% of Canada's butter import quota. New Zealand has the second largest Canadian market share, after the U.S., of whey powder and non-fat milk solids in various formats. 	<ul style="list-style-type: none"> ▪ 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 TRQ and over quota imports are subject to high tariffs. ▪ American suppliers have taken advantage of Import for Re-export Program (IREP), which allows Canadian processors to import dairy products used in manufacturing provided the product is exported. For example in 2006 Canada issued permits for 8556 MT of fluid milk imports outside the TRQ under the IREP program. The U.S. was the primary beneficiary due to the perishable nature of the product. IREP accounted for 55% of total dairy imports in 2006. ▪ Canadian tariff rate quotas stipulate a 50-per-cent 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. For example milk albumin from whey concentrates destined for dairy manufacturing increased by 8 million U.S. dollars between 2005 and 2006.

<p>SNACK FOODS</p> <p>IMPORTS: U.S. \$ 1,582 MILLION</p> <p>SUB CATEGORY OF: CHIPS, POPPED POPCORN, SIMILAR SNACKS, PEANUT BUTTER, PORK RINDS, AND SALTED AND ROASTED NUTS</p> <p>IMPORTS: U.S. \$249 MILLION)</p>	<ol style="list-style-type: none"> 1. U.S. 62% 2. Belgium 4% 3. U.K. 3% <p>(U.S. share of sub category 82%)</p>	<ul style="list-style-type: none"> ▪ Canada accounts for approximately 30% of total U.S. snack food exports. The U.S. dominates this category but is stronger in the sub category indicated than on confectionary products due to the more perishable and bulky nature of some of these products such as chips, which adds significantly to shipping cost. ▪ Competitors vary by sub category with the main competitor and sub category as follows: Chips, Mexico; Salted & roasted nuts, China; Cookies & crackers, U.K.; confection: non chocolate, Mexico, chocolate, Switzerland, cacao, Brazil; 	<ul style="list-style-type: none"> ▪ Canada's snack food imports have grown by U.S. \$579 million since 2002. The category includes chocolate and non-chocolate confectionary, cookies, crackers, potato chips, corn chips, popped popcorn, pretzels, extruded cheese snacks, seed snacks, mixed nuts, peanuts and peanut butter, as well as pork rinds. ▪ 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 both to the strengthening Canadian dollar and a number of new products in the category, many targeted at specific ethnic groups ▪ 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>BREAKFAST CEREALS</p> <p>IMPORTS: U.S. \$316 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 89% 2. Ireland: 4% 3. Germany: 2% 	<ul style="list-style-type: none"> ▪ Breakfast cereal imports have grown by over US \$100 million since 2002. The U.S. continues to dominate imports although a variety of competitors are all growing small niche positions. ▪ Canada represents the largest market for U.S. Breakfast cereals accounting for approximately half of U.S. exports. 	<ul style="list-style-type: none"> ▪ Sales and manufacturing in Canada is largely controlled by 4 U.S. based companies. ▪ Domestic non-U.S. owned competitors tend to be in the specialty or organic breakfast cereal business. ▪ Three key trends in cereal consumption have driven growth in 2007: reduced sugar, high fiber whole wheat, and hot cereals.
<p>RED MEAT</p> <p>IMPORTS: U.S. \$968 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 73% 2. New Zealand: 14% 3. Australia: 8% 	<ul style="list-style-type: none"> ▪ 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). South America, except for Uruguay, which is beginning to make inroads in the manufacturing market, remains ineligible for entry to Canada (except as a supplier of cooked and canned beef) due to sanitary reasons. ▪ Manufacturing beef referred to in Canada as "oceanic beef" is under Tariff Rate Quota. Imports were affected by large supplies of over thirty month domestic beef in Canada due to BSE access restrictions in key markets. 	<ul style="list-style-type: none"> ▪ Canada and the U.S. are both classified as having a BSE. "Controlled risk" status by the O.I.E. Despite that both countries have suffered from access restrictions. Canada was also significantly impacted by U.S. restrictions on beef and until recently on cattle. These issues combined with the rapidly strengthening Canadian dollar and labour shortages have led to declining slaughter in Canada, plant closures and increased U.S. meat imports in 2007. ▪ There is a significant preference in Western Canada for Canadian beef however the support for local beef is weaker in the large Ontario market. The two large beef processors in Canada are U.S. companies who try to optimize cross border trade. ▪ Canada continues to grow as a key U.S. pork export market. Canadian hog production numbers are in significant decline across the country and U.S. pork imports are increasing as a direct result of the stronger Canadian dollar.

<p>POULTRY</p> <p>IMPORTS: U.S. \$375 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 82% 2. Brazil: 15% 3. Chile: 2% 	<ul style="list-style-type: none"> ▪ 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., 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.A. ▪ U.S poultry has the advantage of being able to be shipped fresh as well as frozen 	<ul style="list-style-type: none"> ▪ 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 labour, Canadian processing plants are among the most highly mechanized sectors in Canadian agriculture and employ the latest in robotics ▪ The Canadian industry has significantly increased surveillance since the A.I. outbreaks in B.C. and has continuously improved bio-security measures.
<p>EGGS & EGG PRODUCTS</p> <p>IMPORTS: U.S. \$42 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 95% 2. China: 4% 	<ul style="list-style-type: none"> ▪ 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. ▪ The U.S. has also become a supplier of organic eggs to Canada. 	<ul style="list-style-type: none"> ▪ 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. ▪ 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 significant premiums. The Canadian Egg Marketing Agency has a sustained media campaign focused on the health benefits of eggs to support retail movement. ▪ Demand for biochemicals from egg proteins are leading to new business opportunities.

<p>FISH & SEAFOOD</p> <p>IMPORTS: U.S. \$1.8 BILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 38% 2. China: 17% 3. Thailand: 13% 4. Chile: 5% 	<ul style="list-style-type: none"> ▪ Two major categories make up approximately half of the imports: Lobster, crab, shrimp and prawn totaling U.S. \$ 453 million (U.S. share 47%, Thailand 16%) and fish fillets \$308 million (U.S. share 24% and China 42%) ▪ Fish filleting is extremely labor intensive, which accounts for the rapid penetration of China and Thailand in this segment. ▪ 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 	<ul style="list-style-type: none"> ▪ In total, the capture fishery accounts for 76 percent of total fish and seafood production in Canada. With declining ocean catches reliance on aqua culture production is increasing. However, despite having ¼ of the world's coastline, climate makes aqua culture less efficient than in some other countries, thereby leaving increasing import opportunities. ▪ At approximately 9.4 kg. per person, Canadian consumption of fish is significantly higher than the U.S. 7.4 kg/person, making Canada an excellent import market.
<p>FRUITS & VEGETABLES</p> <p>VEGETABLES: IMPORTS U.S.\$3 BILLION</p> <p>FRUIT: IMPORTS CDN \$2.5 BILLION</p>	<p>VEGETABLES:</p> <ol style="list-style-type: none"> 1. U.S.: 68% 2. Mexico: 9% 3. China: 4% <p>FRUIT:</p> <ol style="list-style-type: none"> 1. U.S.: 51% 2. Chile: 10% 3. Mexico: 7% 4. Costa Rica: 5% 	<ul style="list-style-type: none"> ▪ 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. ▪ Canadian imports of U.S. fresh apples in the marketing year 2006/07 reached a record 139,643 MT, up 16% from 120,558 MT during the previous year. ▪ Mexico is gaining ground on a number of warm climate fruits and vegetables due to lower prices and its grower's ability to meet Canadian retail needs with respect to packaging and quality. ▪ Concern is growing regarding the safety of imported fruit and vegetables. To the extent U.S. exporters can position their products as leaders in this area, there will be growing market opportunities over other countries. 	<ul style="list-style-type: none"> ▪ Canadians consume approximately 10 kg. more fresh fruit and 8 kg. more fresh vegetables than Americans. Despite that consumption of both continues to rise with the notable exception of potato consumption which has been dropping. ▪ Potatoes, sweet corn, green peas, beans and carrots are the most extensively grown vegetables in Canada. ▪ Demand for vegetables and fruits new to the Canadian market is rising and opening new opportunities for U.S. shippers. For example, oriental vegetables such as pak choy, bok choy, napa and Chinese broccoli are becoming popular. ▪ There are approximately 16,000 fruit growers in Canada. Apples are the largest production item, followed by blueberries, tender fruits, grapes, cranberries, strawberries and raspberries. However, as with vegetables, demand is increasing for new products not produced in Canada. ▪ Canada has a large greenhouse sub sector. In 2006, for the first time, more vegetables were produced in greenhouses than were flowers. The Leamington Ontario area claims to have more production under glass than the entire U.S.A. greenhouse industry. However, the strengthening Canadian dollar is creating increasing opportunity for U.S. suppliers of year round vegetables and fruit. ▪ Seasonality poses a constraint to growers; Canada imports 80 per cent of its fresh vegetables between November and June. ▪ Buy local campaigns are focused on the July to October period

<p>NUTS</p> <p>IMPORTS: U.S. \$468 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 68% 2. China: 6% 3. Vietnam 5% 4. India 4% 	<ul style="list-style-type: none"> ▪ Tree nut and ground nut imports grew by 74% in dollar terms from 2002 to 2006. U.S. shippers increased their share of imports by over 3% during the same period. ▪ The U.S. is the largest exporter of peanuts and Canada is the largest importer of U.S. peanuts including peanuts products. U.S. product is preferred over Chinese and Indian ground nuts by Canadian importers as it meets Canadian sanitary and phytosanitary standards more consistently. ▪ Canada was one of the U.S. larger almond markets with over 27 million pounds of almonds exported to Canada in 2006. 	<ul style="list-style-type: none"> ▪ Canadian per capita consumption of peanuts and tree nuts increased from 2.4 to 2.7 kg and 1.2 to 1.3 kg. Respectively from 2005 to 2006. ▪ 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. ▪ Health Canada announced in Sept. that it is reviewing the “may contain” wording on products with potential allergens. The new label may be more restrictive. U.S. exporters are advised to watch for the change.
<p>BEVERAGES</p> <p>IMPORTS: U.S. \$2.7 BILLION (INCLUDING \$1.05 BILLION OF WINE</p>	<ol style="list-style-type: none"> 1. U.S.: 24% 2. France: 17% 3. Italy: 11% 4. Australia: 10% <p>Wine share</p> <ol style="list-style-type: none"> 1. France 32% 2. Australia 25% 3. Italy 23% 4. U.S. 15% 	<ul style="list-style-type: none"> ▪ Total beverage imports have grown by \$1.4 billion from 2002 to 2006 with \$1 billion of the growth coming from wine. Italy and Australia have grown their share of wine imports marginally against France and the U.S. Canada is the largest export market for California wine. 	<ul style="list-style-type: none"> ▪ Beer consumption, which makes up about 80% of all alcoholic beverages consumed, rose to 77 litres per person (over 15 years of age) in 2006. Wine has continued to increase reaching 13.9 litres, while spirit consumption at 7 litres remained the same as the previous year. ▪ Imported beer is outgrowing domestic beer. With the merger of Molson and Coors there are no Canadian owned large national brewers left. Canadian owned domestic competition continues at the local level. ▪ Imported wines have grown much faster than domestic wines with domestic whites faring significantly better than reds against imports.
<p>FRUIT & VEGETABLE JUICE</p> <p>IMPORTS: U.S. \$569 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 65% 2. Brazil 17% 3. China 5% 	<ul style="list-style-type: none"> ▪ The U.S. leads in the largest and fastest growing juice category, fresh orange juice. The U.S. share is 65% ▪ Brazil is the leader in frozen orange juice concentrate, the second largest imported juice category, with 83% of the import share. The U.S., despite being a net importer of frozen orange juice, is second with 17%. ▪ China has made significant inroads in apple juice capturing 53% of the Canadian imports in 2006 according to Statistics Canada. 	<ul style="list-style-type: none"> ▪ 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. ▪ 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>NURSERY PRODUCTS</p> <p>IMPORTS: U.S. \$317 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 47% 2. Colombia: 17% 3. Netherlands: 15% 	<ul style="list-style-type: none"> ▪ The U.S. is a leader in world production and marketing of flowers, cut foliage, potted plants, bedding plants and turf grass. Total area for floriculture crop production is 911 million square feet. ▪ South America is strong in cut flowers and flower buds. ▪ Europe is strong in bulbs, particularly from the Netherlands. 	<ul style="list-style-type: none"> ▪ Nursery products are a fast growing market segment in Canadian agriculture.
<p>PET FOOD [DOG & CAT]</p> <p>IMPORTS: U.S. \$378 MILLION</p>	<ol style="list-style-type: none"> 1. U.S.: 98% 2. China: 1% 	<ul style="list-style-type: none"> ▪ Total U.S./Canada bilateral trade in dog and cat food exceeded \$500 million during 2006. In 2006, the United States imported 90,406 metric tons (valued at \$120 million) of dog and cat food from Canada. For the same period, the U.S. exported 295,266 metric tons to Canada, valued at a record \$385 million. Canada was the top market for U.S. pet food in 2006 accounting for 37% of total U.S. pet food exports 	<ul style="list-style-type: none"> ▪ Canada has 20 pet food manufacturers with most of the production capacity concentrated in Ontario. However there are number of small players spread across the country. ▪ Canadians own 3.5 million dogs and 4.5 million cats. Pet owners spend an average of U.S. \$296 per year on their pets. ▪ The industry is virtually self-regulated. The Veterinary Medical Association and the Pet Food Association of Canada do not set minimum standards for pet food processing, and the industry has faced open criticism for its lack of quality.

Trade data source: Industry Canada – Statistics from 2006

BEST PRODUCT PROSPECTS

TRENDS DRIVING CANADIAN CONSUMERS

According to a study done by the Government of Alberta Agriculture and Food Department and published on their website on June 28th, 2004, Canadian population is wealthier, older, more educated, and more ethnically diverse than in the past and these changes are likely to become more pronounced in the next 20 years. Consumers demand new food products, new packaging, more convenience, and safer more nutritious foods. Therefore the key to success is to be innovative and on top of the consumer trends.

The key trends driving Canadian consumers when purchasing their food are convenience, health and wellness, pleasure, and value. Following is a more detailed description of these trends.

Convenience

Canadians have more money and less time. Therefore, demand for foods that can be prepared in a short period of time has increased. Consumers' requirements for convenience foods are sophisticated though. Nowadays Canadians expect convenience foods to be easy to purchase and clean up, but nutritious and flavorful, and with perceived value.

The top convenience trends are:

- **Ready to Eat/Heat and Eat Foods:** Women continue to do the majority of food purchasing, preparation and clean up. As a result, the demand for foods that are easy and quick to prepare yet tasty, fresh and nutritiously sound continues to grow.
- **One Dish Meals:** Growth in quick one-dish meal kits such as stir-fries and stew are expected to grow.
- **Custom Quick Food:** Consumers do not spend an extensive amount of time preparing meals; but it still is important to feel that they have contributed something to the preparation. Therefore, there will be an opportunity for ready meals or kits, which allow the person preparing to add their own personal touch.
- **Portability:** Eating in vehicles or "Dashboard Dining" as well as eating at your work desk is becoming common. Portability and single service packaging are on the rise to meet the need "eat-where-you-are."
- **Snacks and Mini Meals:** Canadian eating patterns are changing from eating three main meals a day to eating several smaller meals through out the day. Convenient, nutritious snacks or mini meals will increase in demand (i.e. breakfast bars, wraps, sports drinks).
- **Innovation:** Convenience foods will continue to be popular but the key to success will be innovation.

Health and Wellness

The increased interest in low carbohydrate foods has led many manufactures to introduce a low carbohydrate version of a traditional product and many retailers to set up new sections to compensate for the increased demand. Although, lately people have become more aware that all carbohydrates are not the same and there is more careful when reading the ingredients.

There is indication that low carbohydrates are here to stay - most likely as "reduced carbs

products". But watching carbohydrate consumption is not the only food concern among Canadians.

Other key trends are:

- **Trans Fats and Saturated Fats:** Canadians are continually concerned about fat intake and health concerns associated with trans and saturated fats. As a result, low-fat cereals, dairy products and frozen meals are rising. For background on Health Canada Policies regarding trans fats see Report CA7066 Exporter Guide under Section IV. Best High-Value Product Prospects, on the FAS web site www.fas.usda.gov.
- **Correcting Condition:** Food and food ingredients continue to increase in popularity as a method for self-medication and disease prevention. As a result, the demand for functional and nutraceuticals foods will continue to increase and new products will be developed.
- **Weight Loss Products:** Interest in weight loss products continues to be high. The number of obese Canadians has increased rapidly over the last few years causing vast public concerns.
- **Food Safety:** Consumers are increasingly interested in food products that provide reassurances about food safety.
- **Organics:** Health conscious consumers are also increasing the demand for organic and natural products.
- **Food & Allergies:** Food intolerance and food allergy consumers represent a niche market that is growing.
- **Low Sodium:** Canadian consumers are becoming conscious about the level of sodium in prepackaged processed foods and in restaurant meal foods.

Pleasure

Economic growth and rising disposable income has made Canadians more confident about spending for products and services that make their lives easier or provide pleasure.

The trends listed below are in part a result of this economic factor:

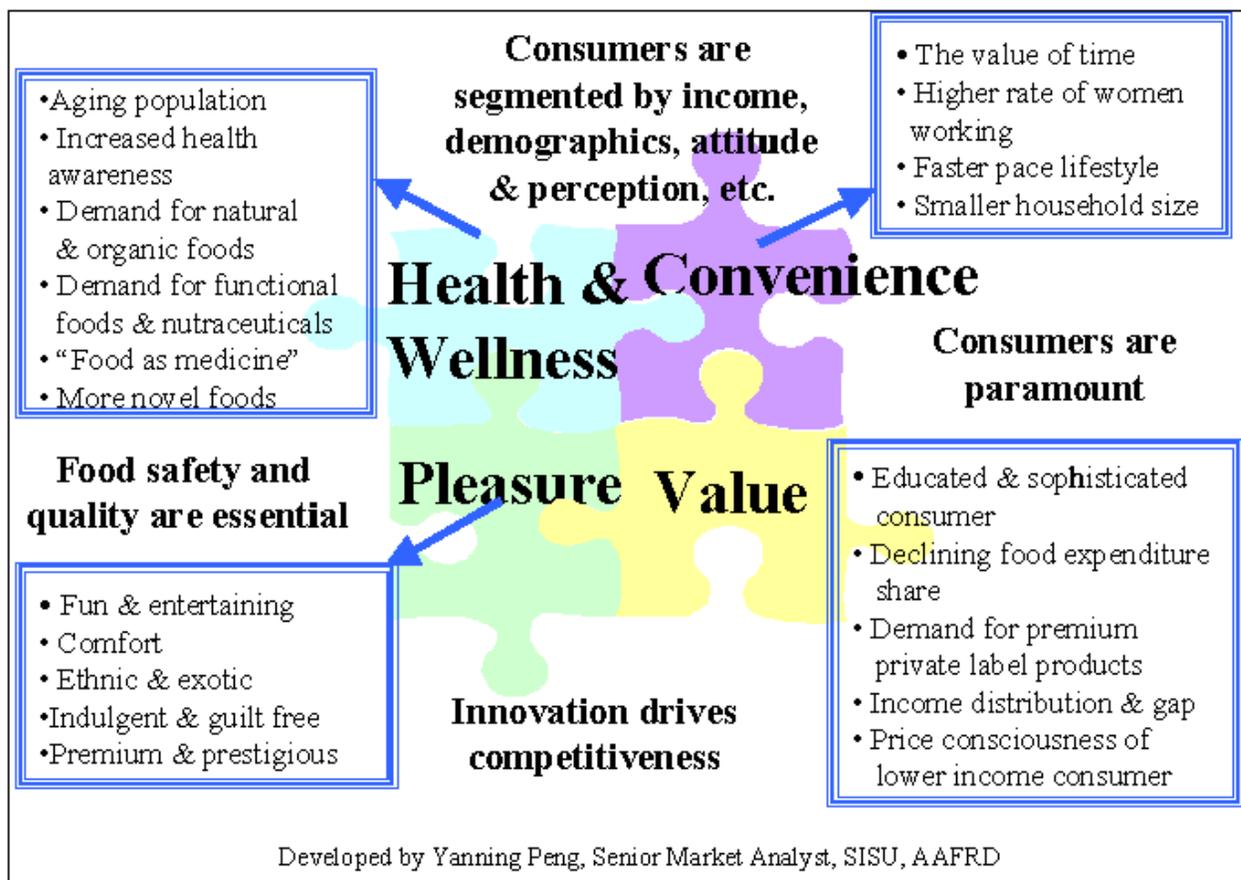
- **Ethnic Foods:** Immigration to Canada and the number of visible minority groups have increased dramatically. Consumers are flocking to healthful and flavorful ethnic cuisines such as Asian and Mediterranean foods where the emphasis is on ingredients such as vegetables, grains and fish.
- **Indulgence or Comfort Foods:** Although Canadians are concerned about nutritional value of food, they still are reaching out for tasty snacks that are high in fat, sugar and salt. The demand for these foods continues to be high for they are often considered a reward for healthy eating or surviving the stresses of everyday life.
- **Gourmet products of Meal Excitement:** New, unique, high quality and expensive products will be small indulgences for consumers who are seeking meal entertainment.
- **Regional Cuisine:** Consumers are becoming more interested in seasonal, regional and high flavor foods.

Value

Canadians are paying some of the lowest prices for foods in the world. The entrance of warehouse retail outlets into the Canadian market place has shown consumers to be even more conscious of price. Today, Canadian consumers are demanding increased variety and high quality at very reasonable prices.

The Value trends are:

- **Fresh Foods:** Consumers are switching to fresh foods for they equate "fresh" with better taste, health and nutrition.
- **Physical and Emotional Energy:** Stressed out consumers that are seeking energy, power and performance from food are turning to sports drinks, energy bars and snacks.
- **Private Label:** Traditionally, private label has been seen as lower quality and generally less desirable than national brands. However, in recent years, private label has changed dramatically. Stores are starting to introduce premium private label products. Store brands lower price attracts customers while the improved packaging and quality is retaining them and developing brand loyalty. This differs from the U.S. where private labels still are generally associated with lower quality.



SISU: Strategic Information Services Unit - AAFRD: Alberta Agriculture Food and Rural Development

PRODUCTS PRESENT IN THE MARKET WITH GOOD SALES POTENTIAL

HIGH PHYSICAL GROWTH – YEAR 2005

CATEGORY	GROWING	
	+4 TO +10 %	OVER 10 %
Beverages	Cordial and Syrups Juices & Drinks – Refrigerated Ready-to-drink Iced Tea Cans Vegetable Juices	Cocktail Mixes Flat Water
Dry Grocery	Baking Mixes – Remaining Baking Nuts Bread Crumbs & Corn Flakes Cake Mixes Sugar Substitutes Tortilla Shells - Fresh	Icing Products
Frozen Foods	Baked Desserts Confections Meat Patties Pizza Snacks Seafood Water Based Freezable Confections	Frozen Food – Remaining Fruits Pizza & Subs – Frozen & Refrigerated Puff Pastry & Dough Yogurt
Perishables		Broad Leaf Vegetables - Bagged Prepared Salads – Bagged Salads – Bagged Salad Mixes – Boxed Sausages
Prepared Foods	Bouillon Products Grated Cheese Products Meat Spreads Mexican Dinner Kits and Shells Mexican Salsa Dips & Garnishes Pancake and Waffle Mixes Peas & Beans Rice – Regular Vegetables	Batters & Batter Mixes Chili con Carne Couscous Retortable Pouches
Refrigerated & Dairy	Meat Pies Pasta Pasta Sauce Soya Drinks Yogurt Products	Entrees Milkshakes & Egnogs Rice Drinks

Canadian Grocer Executive Report 2006 - 2007

A report titled "What's Hot and What's Not: A Look at Canada's Food Market in 2006" published by Agriculture and Agri-Food Canada on their website contained the table shown below. This table shows the food products with the highest sale growth in Canada in 2006.

WHAT PRODUCTS ARE HOT IN 2006

PRODUCT	SALES	% CHANGE 2006 VS. 2005	TYPE PERISHABLE/DRY
Olive oil	\$ 17,996,866.00	69	Dry grocery
Frozen vegetables ¹	\$ 28,817,320.00	34	Perishable
Muffins	\$ 48,165,229.00	27	Perishable
Garlic bread	\$ 12,109,250.00	26	Perishable
Retortable rice	\$ 13,991,740.00	25	Dry grocery
Fresh berries	\$410,560,309.00	25	Perishable
Whole bean coffee	\$ 35,126,354.00	25	Dry grocery
Crispy snacks (marshmallow)	\$ 37,678,207.00	24	Dry grocery
Family-size canned puddings	\$ 3,580,158.00	23	Dry grocery
Frozen unprepared fillets	\$ 82,880,601.00	23	Perishable
Canned & bottled mushrooms	\$ 43,688,497.00	23	Dry grocery
Iced tea mixes	\$ 29,465,621.00	22	Dry grocery
Ready to serve iced tea, not in cans	\$ 40,844,109.00	21	Dry grocery
Bottled water	\$436,960,084.00	21	Dry grocery
Ice cream and related products ²	\$ 2,627,818.00	21	Perishable
Liquid & replacement egg products	\$ 18,398,408.00	20	Perishable
Infant formula ³	\$ 2,406,085.00	20	Dry grocery
Fresh potatoes	\$411,542,752.00	20	Perishable
Grain bread ⁴	\$ 41,469,930.00	19	Perishable
Snacks ⁵	\$ 21,354,430.00	19	Perishable
Rice drinks	\$ 9,710,955.00	19	Perishable
Shelf stable juice ⁶	\$156,517,103.00	18	Dry grocery
Prepackaged natural cheese ⁷	\$352,658,448.00	17	Perishable
Ready-to-eat gelatin	\$ 12,667,377.00	17	Dry grocery
Frozen fruit	\$ 93,027,997.00	17	Perishable

Agriculture and Agri-Food Canada

Notes:

¹ Excluding broccoli, cauliflower, corn, beans, peas, onions, spinach, potatoes, and mixed

² Excluding ice cream, ice milk, sherbet, and dairy desserts

³ Excluding milk-based, soy-based and specialty

⁴ Excluding Bran, Flax, Multigrain, Oatbran, Oatmeal, and Sunflower

⁵ Excluding potato chips, corn chips, tortilla chips, extruded, popcorn, pretzels, party mix, and lunch packs

⁶ Excluding apple, orange, pineapple, and grape

⁷ Excluding cheddar and mozzarella

PRODUCTS FACING SIGNIFICANT BARRIERS

For a full review of Canada's food laws and regulations and how those might present barriers to U.S. food imports, see FAS's 2007 food and Agricultural Import Regulations (FAIRS) (CA7037). Due to the complexity of the legislative requirements, it is recommended to contact a Canadian Food Inspection Agency Import Service Centre to obtain complete and current information regarding your specific product. The Canadian Food Inspection Agency 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, product up to a certain volume is 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 orderly supply management for certain agricultural products.

The method for establishing the allocation of import access quantities is prescribed in the Export and Import Permits Act and administered by the Export and Import Controls Bureau [EICB] of the Department of Foreign Affairs and International Trade [DFAIT]. Documentation on the allocation system and principle of TRQ allocation, together with data on permits issued can be found at: <http://www.dfait-maeci.gc.ca/eicb/>

Issuance and control of import quota is administered by the EICB in collaboration with the customs arm of Revenue Canada.

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

<ul style="list-style-type: none"> ▪ Broiler hatching chicks and eggs ▪ Turkey ▪ Cheese ▪ Milk and Cream ▪ Yoghurt ▪ Ice Goods 	<ul style="list-style-type: none"> ▪ Chicken ▪ Butter ▪ Buttermilk ▪ Dairy Blends ▪ Margarine ▪ Eggs
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Health Canada

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

All foods sold in Canada are subject to the *Food and Drugs Act and Regulations*, which contains health and safety requirements, labeling requirements and provisions preventing deception and fraud. However, many agricultural and fish products are also subject to other legislation. 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, margarine, bottled water and maple syrup.

The *Food and Drug Regulations* outlines 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

Food Additives: In the absence of specifications under the *Food and Drug Regulations*, food additives must conform to specifications in the Food Chemicals Codex (as required by Section B.01.045 of the *Food and Drug Regulations*). There are differences between Canadian and United States rules. For example, potassium bromate, a bread improver is not allowed in Canada but is permitted for use in baked goods in the United States with the exception of the state of California.

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

Diet-Related Health Claims: There are only five permitted food health claims covering:

- Diet low in sodium high in potassium
- Diet adequate in calcium and vitamin D
- Diet low in saturated fat and trans fat
- Diet rich in vegetables and fruits
- Minimal fermentable carbohydrates in gum and candy

For wording see: <http://www.inspection.gc.ca/english/fssa/labeti/guide/ch8e.shtml#8.4>

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. For further information see:

<http://www.pmr-arla.gc.ca/english/legis/maxres-e.html>

Vitamin and Mineral Fortification: Fortification in Canada is under review. Health Canada has signaled that 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 see: http://www.hc-sc.gc.ca/fn-an/nutrition/vitamin/index_e.html

Trans Fats: In July 2007, Health Canada announced that it is adopting the Trans Fat Task Force's recommendation on trans fats, but will ask industry to voluntarily limit the trans fat content of vegetable oils and soft, spreadable margarines to 2 percent of the total fat content, and to limit the trans fat content for all other foods to 5 percent, including ingredients sold to restaurants. Canada also requires that the levels of trans fat in pre-packaged food be included on the mandatory nutrition label. For an electronic copy of the Task Force Report see: http://www.hc-sc.gc.ca/fn-an/nutrition/gras-trans-fats/tf-ge/tf-gt_rep-rap_e.html

Organic Standards:

Currently, about 80% of the demand for organic produce and approximately 90% of the demand for organic grocery products in Canada is met by imports from the United States. Canada has published new organic regulations with Implementation scheduled for December 21 2008. It would be prudent for suppliers to review the Organic Production Standards available from the Canadian General Standards Board's website:

http://www.pwgsc.gc.ca/cgsb/on_the_net/organic/index-e.html

Novel Foods:

Health Canada defines novel foods as: products that have never been used as a 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. The Novel Foods Regulation requires that the company, who wants to sell the product, 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 see:

http://www.hc-sc.gc.ca/fn-an/gmf-agm/index_e.html

CONTACTS AND FURTHER INFORMATION

GOVERNMENT ORGANIZATIONS

Agriculture and Agri-Food Canada	Agriculture and Agri-Food Canada Sir John Carling Building 930 Carling Ave. Ottawa, ON K1A 0C5 Tel.: (613) 759-1000 Fax: (613) 759-6726 Email: info@agr.gc.ca Web: www.agr.gc.ca
Statistics Canada	Statistical Reference Centre (National Capital Region) R.H. Coats Building, Lobby Holland Ave. Ottawa, ON K1A 0T6 Tel: (613) 951-8116 Fax: (613) 951-0581 Email: infostats@statcan.ca Web: www.statcan.ca
Department of Foreign Affairs and International Trade	Department of Foreign Affairs and International Trade 125 Sussex Dr. Ottawa, ON K1A 0G2 Tel: (613) 944-4000 Fax: (613) 996-9709 Email: engserv@dfait-maeci.gc.ca Web: www.dfait-maeci.gc.ca
Canada Customs and Revenue Agency	Commissioner of the CCRA 555 MacKenzie Ave., 6th Floor Ottawa ON K1A 0L5 Tel: (613) 952-3741 Fax: (613) 941-2505 Web: www.ccr-aadrc.gc.ca
Industry Canada	Enquiry Services Communications and Marketing Branch, Industry Canada C.D. Howe Building, Second Floor, West Tower 235 Queen St. Ottawa ON K1A 0H5 Tel: (613) 954-5031 Fax: (613) 954-2340 Email: info@ic.gc.ca Web: www.ic.gc.ca
Canadian Food Inspection Agency	Canadian Food Inspection Agency 59 Camelot Dr. Ottawa, ON K1A 0Y9 Tel: (613) 225-2342 Fax: (613) 228-6125 Email: cfiamaster@inspection.gc.ca Web: www.inspection.gc.ca

Health Canada	Health Canada A.L. 0900C2 Ottawa, ON K1A 0K9 Tel: (613) 957-2991 Fax: (613) 941-5366 Email: info@hc-sc.gc.ca Web: www.hc-sc.gc.ca
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INDUSTRY ASSOCIATIONS

Canadian Federation of Independent Grocers	Canadian Federation of Independent Grocers 2235 Sheppard Ave. East, Suite 902 Willowdale, ON M2J 5B5 Tel: (416) 492-2311 Fax: (416) 492-2347 Email: info@cfg.ca Web: www.cfg.ca
Canadian Council of Grocery Distributors	Canadian Council of Grocery Distributors 6455 Jean-Talon East, Suite 402 Montreal, QC H1S 3E8 Tel: 514-982-0267 Fax: 514-982-0659 Web: www.ccqd.ca
Canadian Produce Marketing Association [CPMA]	Canadian Produce Marketing Association 162 Cleopatra Drive Ottawa, ON K2G 5X2 Tel: (613) 226-4187 Fax: (613) 226-2984 Email: question@cpma.ca Web: www.cpma.ca
Fruit and Vegetable Dispute Resolution Corporation [FVDRC]	Fruit and Vegetable Dispute Resolution Corporation Building 75, Central Experimental Farm 930 Carling Avenue Ottawa, ON K1A 0C6 Tel: 613 234-0982 Fax: 613 234-8036 E-mail: info@fvdrc.com Web: www.fvdrc.com
Food and Consumer Product Manufactures of Canada	Food and Consumer Product Manufactures of Canada 885 Don Mills Rd. Suite. 301 Toronto, ON M3C 1V9 Tel: (416) 510-8024 Fax: (416) 510-8043 Email: info@fcpmc.com Web: www.fcpmc.com

ACNielsen Canada	ACNielsen Canada 160 McNabb Street Markham, ON L3R 4B8 Tel: (905) 475-3344 Fax: (905) 475-8357 Email: webmaster.ca@nielsen.com Web: www.acnielsen.ca
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PUBLICATIONS

Food in Canada	Food in Canada Rogers Media One Mount Pleasant Rd., 7th Floor Toronto, ON M4Y 2Y5 Tel: (416) 764-1502 Fax: (416) 764-1755 Email: seagle@rmpublishing.com Web: www.bizlink.com/food.htm
Canada Grocer	Canadian Grocer Rogers Media One Mount Pleasant Rd. 7 th Floor Toronto, ON M4Y 2Y5 Tel: 1-800-268-9119 Fax: (416) 764-1523 Email: jerry.tutunjian@canadiangrocer.rogers.com Web: www.bizlink.com/cangrocer.htm
Foodservice and Hospitality	Foodservice and Hospitality 101-23 Lesmill Road Toronto, ON M3B 3P6 Tel: (416) 447-0888 Fax: (416) 447-5333 Email: rcaira@foodservice.ca Web: www.foodservice.ca
C-Store Canada	C-Store Canada 1839 Inkster Blvd. Winnipeg, MB R2X 1R3 Tel: (204) 954-2085 Fax: (204) 954-2057 Email: dan_votredepanneur@mercury.mb.ca Web: www.c-storecanada.com
Western Grocer	Western Grocer 1740 Wellington Avenue Winnipeg, MB R3H 0E8 Tel: (204) 954-2085 Fax: (204) 954-2057 Email: mp@mercury.mb.ca Web: www.mercury.mb.ca

USDA/Foreign Agricultural Service endorses and organizes a U.S. pavilion at SIAL Montreal every other year. The next SIAL Montreal show is scheduled for April 23-25, 2008.

Another trade show USDA/FAS endorses is The Canadian Food & Beverage Show and HostEx. This show takes place every year. The next CF&BS will take place March 2-4 2008.

For further information please contact:

Office of Agricultural Affairs

Embassy of the United States of America

P.O. Box 866, Station B

Ottawa, Ontario.

Telephone: 613-688-5267; Fax: 613-688-3124; Email agottawa@usda.gov

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Find Us on the World Wide Web:

Visit FAS home page at <http://www.fas.usda.gov> for a complete listing of FAS' worldwide agricultural reporting. To access these reports, click on "Attaché Reports". If you have the report number, search by Option 3, inserting the AGR # in the appropriate field.

Marketing Reports on Canada available:

AGR REPORT#	TITLE OF REPORT	DATE
CA0174	Pet Food Industry Product Brief	11/06/00
CA1126	Exploring Canada's Food Manufacturing Industry	09/18/01
CA2001	Organic Food Industry Report	01/04/02
CA2002	Convenience & Non-Traditional Grocery Outlets Report	01/04/02
CA2021	Quebec as a Market for U.S. Wines	02/05/02
CA2026	Controversial Quebec Plan for Wine Marketing	03/15/02
CA2037	Quebec Beer Industry Overview	04/15/02
CA2075	An Overview of the Institutional Foodservice Market in Canada	07/10/02
CA2078	Canadian Seafood Industry	07/10/02
CA2100	Exporting U.S. Wine to Ontario	08/20/02
CA2115	Vending Machine Food Distribution in Canada	10/24/02
CA2124	Asian-Style Foods in the Canadian Market	10/23/02
CA2125	An Overview of Selected Segments of the Canadian Frozen Food Industry	10/24/02
CA3001	Canada Introduces Mandatory Nutrition Labeling	01/03/03
CA3006	Snack Food Market In Canada	01/24/03
CA3041	Food & Beverage Shows	07/14/03
CA3075	Packaging & Retailing Trends in Fresh Produce	11/20/03

CA5061	Kosher Report	09/26/05
CA5068	Food Brokers Report	10/06/05
CA6006	HRI Food Service Sector Report	02/14/06
CA6019	Private Label Report	04/28/06
CA6040	Canada Connect Matchmaker Program	09/09/05
CA7004	Organic Regulations	02/06/07
CA7006	Exporting Wine to Canada	02/06/07
CA7037	Food & Agriculture Import Regulations & Standards (FAIRS) Technical Requirements for the Canadian Food Market	01/08/07
CA7051	Food & Agriculture Import Regulations & Standards (FAIRS) Export Certificate Report	10/09/07
CA7054	Canadian Beer Market for U.S. Exporters	10/09/07
CA7066	Exporter Guide	01/07/08