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HRI Food Service Sector

Report

2008

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Report Highlights:

Preliminary Canadian foodservice sales for 2007 are estimated at C\$57.5 billion, a 3.4% increase over 2006. Slower economic growth in many regions, rising gasoline prices, and fewer international visitors to Canada are the reasons for this declining growth. The forecast for 2008 is estimated to reach \$59.1 billion. This is only an increase of 2.9% over 2007, since weak economic growth and a further decline in international visitors are expected to limit foodservice sales.

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SECTION I. MARKET SUMMARY

The foodservice industry is a dynamic, innovative and very large sector of the Canadian economy. Every day, millions of consumers, tourists and business travelers enjoy the hospitality provided by Canada's 87,000 restaurant, cafeteria, snack bar, pub or caterer locations – most of which are locally owned and operated by independent entrepreneurs in communities across the country.

Due to economic weakness in Central and Atlantic Canada, the foodservice industry's share of the total food dollar¹ dipped to 39.4% in 2007 from 39.7% in 2006. In 2007, combined commercial and non-commercial foodservice sales in Canada rose 3.4% to \$57.5 billion², marking the industry's weakest growth since 2003. In contrast, sales of food and alcohol from retail stores grew 5.0% to \$88.6 billion. Retail food and alcohol sales have outpaced foodservice sales in five of the past seven years.

Slower economic growth in many regions, rising gasoline prices and fewer international visitors to Canada have caused the foodservice industry's market share of the total food dollar to slowly erode from its high point of 40.5% in 2000.

Preliminary Canadian foodservice sales for 2007 are an estimated C\$57.5 billion, a 3.4% increase over 2006. This is a much lower growth rate than the 5.9% seen in the sales of 2006 over the year 2005, marking 2007 as the industry's weakest growth since 2003.

Total Foodservice Industry Sales for 2007 and Forecast for 2008

	2007 Preliminary (Millions of Dollars)	% Change '07/'06	2008 Forecast (Millions of Dollars)	% Change '08/'07
Full-service restaurants	\$20,776.6	3.6%	\$21,337.8	2.7%
Limited-service restaurants	\$18,592.1	2.8%	\$19,150.9	3.0%
Contract and social caterers	\$3,799.0	5.1%	\$3,952.6	4.0%
Drinking places	\$2,377.1	-3.6%	\$2,306.9	-3.0%
TOTAL COMMERCIAL	\$45,544.8	3.0%	\$46,748.3	2.6%
Accommodation foodservice	\$5,451.0	5.3%	\$5,643.0	3.5%
Institutional foodservice ¹	\$3,262.6	5.1%	\$3,423.2	4.9%
Retail foodservice ²	\$1,119.4	6.6%	\$1,164.2	4.0%
Other foodservice ³	\$2,150.4	3.1%	\$2,217.7	3.1%
TOTAL NON-COMMERCIAL	\$11,983.4	5.0%	\$12,448.0	3.9%
TOTAL FOODSERVICE	\$57,528.2	3.4%	\$59,196.4	2.9%
Menu inflation		2.7%		2.5%
REAL GROWTH		0.7%		0.4%

Source: CRFA's InfoStats, Statistics Canada, Geoff Wilson & Associates Inc. and Pannell Kerr Forster

¹ Includes education, transportation, health care, correctional, remote, private & public sector dining and military foodservice

² Includes foodservice operated by department stores, convenience stores and other retail establishments

³ Includes vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.

¹ Total food dollar includes spending by consumers, tourists, businesses institutions and government at foodservice operations, grocery, liquor and convenience stores.

² Based on Statistics Canada's new methodology, commercial foodservice sales now include non-employer establishments. Non-employer establishments are small mom and pop operations with no paid staff. As a result, commercial foodservice sales are \$4.3 billion higher than previously reported.

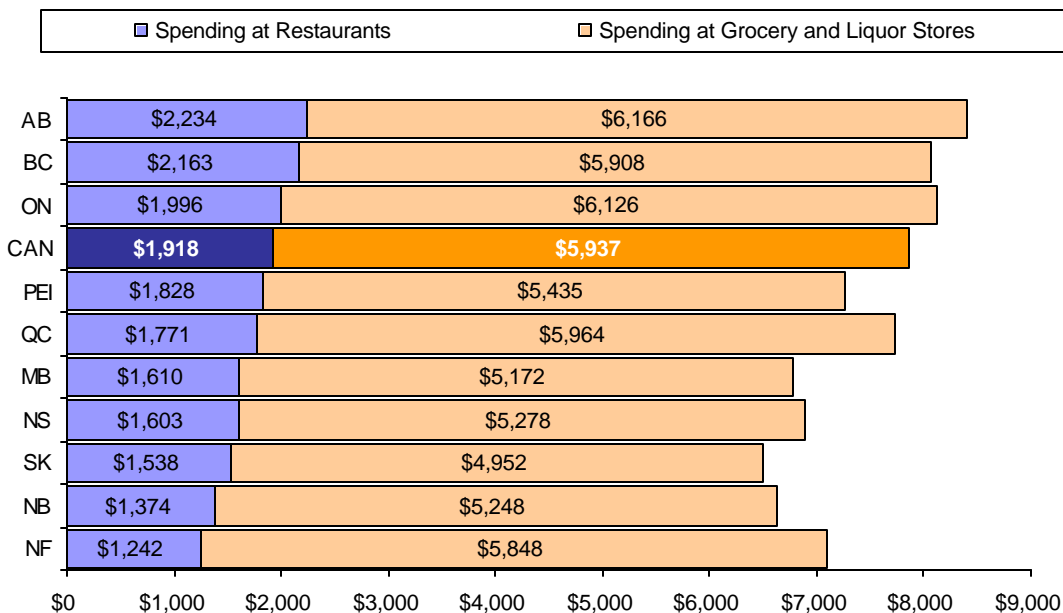
In 2007, combined commercial and non-commercial foodservice sales in Canada rose 3.6% to \$57.7 billion, marking the industry's weakest growth since 2003. In contrast, sales of food and alcohol from retail stores grew 5.0% to \$88.6 billion. Retail food and alcohol sales have outpaced foodservice sales in five of the past seven years.

In 2008, weak economic growth and a further decline in international visitors are expected to limit foodservice sales growth to 3.3%, while retail food and alcohol sales are forecast to grow by 4.0%. With retail foodservice sales growth outpacing foodservice sales growth, total foodservice industry market share is expected to decline marginally in 2008 to 39.3% – its lowest level since 1998.

The average Canada household spent \$1,918 at restaurants and bars in 2006, up \$19, or 1%, from foodservice spending in 2005. Of the total amount spent by Canadian households on foodservice, \$1,634 was spent on food from restaurants and \$284 on beverage alcohol from licensed establishments. At the provincial level, Alberta led the country for top foodservice spenders. In 2006, an average household in Alberta spent C\$2,234 at bars and restaurants. This province is Canada's fastest-growing foodservice market due to the strong growth in population and disposable income. Over the past eight years, Alberta has led the country with average annual foodservice sales growth of 7.4%.

Ontario accounts for nearly 40% of all foodservice sales in Canada. But the average household spending on foodservice in Ontario was flat in 2006 at \$1,996. Consumers spent less on food from restaurants, but this was offset by higher spending on beverage alcohol from licensed establishments.

Average Household Spending on Food and Beverage Alcohol by Province - 2006



Source: 2006 Survey of Household Spending, Statistics Canada

Full-service restaurants lead in total sales but Contract and Social Caterers saw the greatest real growth over the previous year.

Facts & Figures:

- The average restaurant check size per person in Canada climbed from \$6.43 to \$6.73 from 2006 to 2007. This was an increase of 4.7%
- The total number of commercial foodservice units reached 86,915
- The foodservice industry employs more than 1,086,300 people. This represents 6.4% of total employment in Canada
- The average profit margin for the foodservice industry in 2006 was 4.3%.
- The number of commercial foodservice bankruptcies in Canada fell 3.1% in 2007 to 683, the fewest since 1980.
- The top 50 foodservice chains in Canada have grown steadily in recent years. In 2006 they accounted for 48.5% of commercial foodservice sales and 25.0% of commercial foodservice units in the industry. While in 1999 these figures were 41.4% of sales and 21.4% of units.
- The greatest problems facing the Canadian foodservice industry currently include:
Rising energy cost which is reducing Canadians' disposable income;
- The high value of the Canadian dollar which is discouraging international visitors
- Increasing commodity prices worldwide inflating food costs

Source: CRFA's Website

Sales Trends by Segment

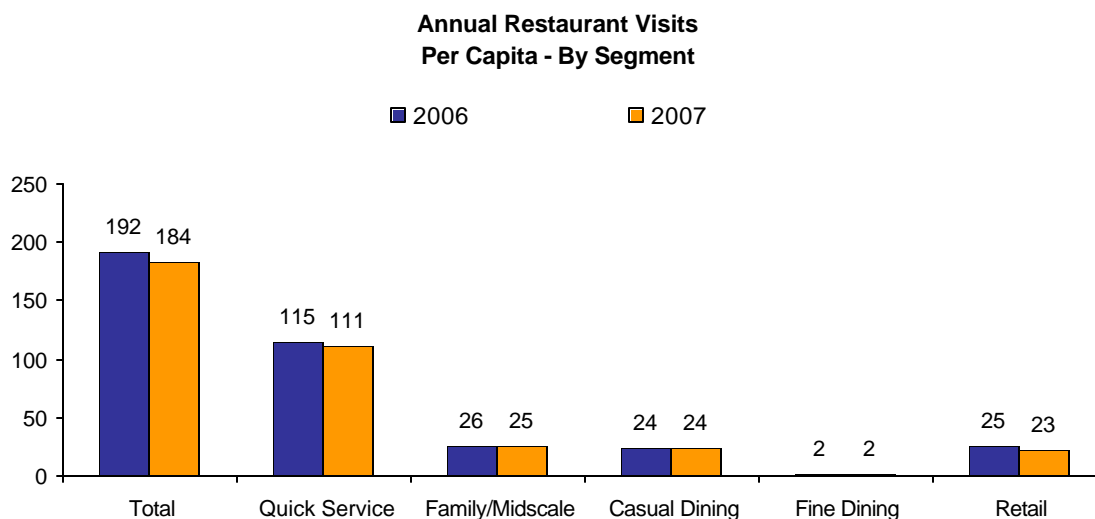
	2005 Final (Millions of Dollars)	% Chg '05/'04	2006 Final (Millions of Dollars)	% Chg '06/'05	2007 Preliminary (Millions of Dollars)	% Chg '07/'06	2008 Forecast (Millions of Dollars)	% Chg '08/'07
Full-service restaurants	\$19,316.4	4.0%	\$20,060.2	3.9%	\$20,787.8	3.6%	\$21,349.4	2.7%
Limited-service restaurants	\$16,563.2	2.5%	\$18,078.4	9.1%	\$18,592.6	2.8%	\$19,151.4	3.0%
Contract and social caterers	\$3,360.9	9.1%	\$3,615.1	7.6%	\$3,799.9	5.1%	\$3,953.6	4.0%
Drinking places	\$2,577.3	-0.7%	\$2,464.6	-4.4%	\$2,379.5	-3.5%	\$2,309.2	-3.0%
TOTAL COMMERCIAL	\$41,817.7	3.5%	\$44,218.3	5.7%	\$45,559.8	3.0%	\$46,763.6	2.6%
Accommodation foodservice	\$4,822.0	5.7%	\$5,177.0	7.4%	\$5,451.0	5.3%	\$5,643.0	3.5%
Institutional foodservice¹	\$2,951.8	7.4%	\$3,104.4	5.2%	\$3,262.6	5.1%	\$3,423.2	4.9%
Retail foodservice²	\$927.8	4.3%	\$1,050.1	13.2%	\$1,119.4	6.6%	\$1,164.2	4.0%
TOTAL NON-COMMERCIAL	\$10,711.0	5.3%	\$11,416.6	6.6%	\$11,983.4	5.0%	\$12,448.0	3.9%
TOTAL FOODSERVICE	\$52,528.7	3.8%	\$55,635.0	5.9%	\$57,543.2	3.4%	\$59,211.7	2.9%
Menu inflation		2.9%		2.6%		2.7%		2.5%
REAL GROWTH		0.9%		3.3%		0.7%		0.4%

Source: CRFA's InfoStats, Statistics Canada, fsSTRATEGY and Pannell Kerr Forster

¹ Includes education, transportation, health care, correctional, remote, private & public sector dining and military foodservice² Includes foodservice operated by department stores, convenience stores and other retail establishments³ Includes vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.

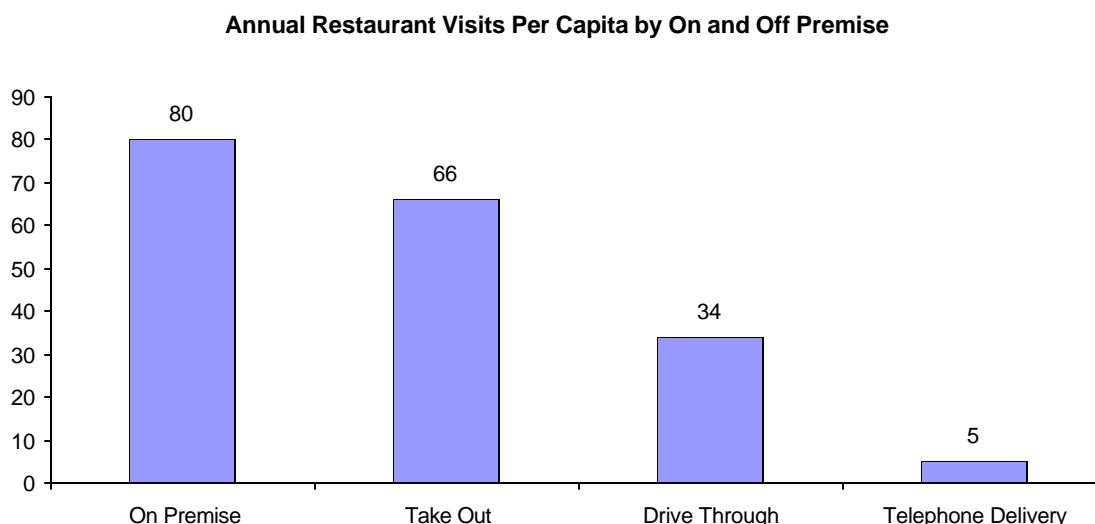
Most Restaurant Meals Eaten off-premises

The average Canadian visited a restaurant 184 times in 2007. This is eight fewer visits than in 2006. Approximately, 60% of these visits were to quick-service restaurants. Diners made 51 visits on average to a full-service restaurant in 2007, down one visit compared to 2006. Foodservice operations in department, grocery and convenience stores also saw traffic decline slightly in 2007 with the average Canadian visiting only 23 times in a year.



Source: CREST/NPD Group, Foodservice Facts 2008, CRFA

Canadians eat 57% of their restaurant meals or snacks off-premise. On average, Canadians ate 105 meals or snacks off-premise, while 80 meals or snacks were eaten on-premise. Take-out is the most popular option for off-premise dining, followed by drive-through and telephone delivery.



Source: CREST/NPD Group, Foodservice Facts 2008, CRFA

Advantages and Challenges Facing U.S. Products in Canada

Advantages	Challenges
U.S. products enter Canada duty free under NAFTA.	Dairy and poultry product imports are controlled and limited by a TRQ system.
High quality, consistency & perception of safety of U.S. product.	Foodservice predisposition to buy Canadian first means a unique competitive advantage is necessary.
Geographical proximity gives U.S. exporters an advantage	Geographical vastness encourages regional production and distribution.
Familiarity & confidence in Cdn. Based U.S. hotel, restaurant and fast food establishments.	Competition from domestic producers and other countries.
Canada's wide ethnic diversity provides broad specialty cuisine opportunities.	Products that benefit by their identification with the U.S. in some foreign markets do not necessarily enjoy the same marketing advantage in Canada.
The Canadian dollar has strengthened to near parity with the U.S. dollar providing a significant competitive boost to U.S. products	Products must be differentiated in new and unique ways to attract Canadian Buyers.
Canadian Consumers enjoy a high disposable income, coupled with a growing interest in global cuisine.	Canadian personal disposable income is less than that of the U.S. Only 3% of dinners eaten at home are sourced from restaurants – less than ½ the U.S. rate.
U.S. foods match Canadian tastes and expectations.	A sophisticated selection of product is already available in the Canadian market.
Canadian organic food demand exceeds current domestic production stimulating significant imports from the U.S.	

SECTION II. ROAD MAP FOR MARKET ENTRY

A. ENTRY STRATEGY

Under the tariff elimination provisions of the North American Free Trade Agreement (NAFTA), the majority of U.S. agricultural products have entered Canada duty-free since January 1, 1998.

U.S. food product manufacturers seeking to enter the Canadian marketplace have vast opportunities. Canada is the U.S.'s primary trading partner. Consumer-oriented agricultural products accounted for 72% of total U.S. food and agricultural product sales to Canada in 2004, with fresh and processed fruits and vegetables, snack foods, processed horticultural products, and red meat products as the category leaders. American products account for more than 60% of total Canadian agricultural imports in 2007. Canada was the second largest export market in value for U.S. fish and seafood during 2007, reaching a record \$707 million.

Although Canadians are always on the lookout for new and innovative U.S. products, 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. The following are key steps for U.S. exporters entering the Canadian market:

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

Step 1. Contact your State Regional

The State Regional Trade Group offices exist to help promote the export of food and agricultural products from specific geographical regions of the country and can in some cases provide financial assistance as well as marketing advice. Contact the office in your area.

State Regional	Web Site	States
Food Export USA	http://www.foodexportusa.org	Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
Mid-American International Agri-Trade Council (MIATCO)	http://www.miatco.org	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
Southern U.S. Trade Association (SUSTA)	http://www.susta.org	Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Puerto Rico
Western U.S. Agricultural Trade Association (WUSATA)	http://www.wusata.org	Alaska, Arizona, American Samoa, California, Colorado, Guam, Hawaii, Idaho, Montana, New Mexico, Oregon, Utah, Washington, Wyoming

Step 2: Research the competitive marketplace

The State Regional Offices will often have market research information available. Additionally, the CANADA CONNECT program provides an element to assist in determining the acceptance of your product in Canada. (See information on CANADA CONNECT program – FAS Report CA5060 on FAS website: www.fas.usda.gov)

Another means of conducting market research in the Canadian foodservice market, as well as aiding in finding a broker/distributor to represent you in this market, is exhibiting in the US Pavilion at the Canadian Food & Beverage Show, the largest foodservice show in Canada, held in February of each year in Toronto. Other trade shows in Canada that may prove beneficial for this purpose is the SIAL Montreal Show, which is held every other year. The next show is April 2009. Information on both of these shows is available on-line. FAS endorses both of these events.

Sample Products for Exhibitors and Trade Shows

Food samples for display at trade shows and food exhibitions are permitted entry, but may not be offered for commercial sale. For meat, poultry, dairy or egg, and fruits and

vegetables samples, it is recommended that exhibitors apply for an import permit and declare on the shipping documents, the name of the food show and that the food is not for resale. Contact: CFIA Permit Office, 59 Camelot Drive, Nepean, Ontario, K1A 0Y9, Fax: 613-228-6605. Entry at the border will be facilitated if U.S. exporters show proof of their food exhibition participation and that the products are of U.S. origin. Up to 10 samples are permitted entry. The weight of each sample may not exceed 100 kilograms (about 220) pounds.

Wine and alcoholic beverages require approval by the provincial liquor board of the province in which the event will take place. For the province of Ontario contact the LCBO, Mr. Bruce Dunston, telephone 416-365-5811, for detailed information.

Step 3: Locate A Broker/Distributor

Since entry on the Canadian scene of U.S. giants Sysco and Gordon Foodservice, the majority of foodservice purchases are made through these large foodservice distributors. However, foodservice buyers still rely on smaller distributors to secure specialty and niche market products. Large foodservice distributors may be interested in U.S. product that can fill a market niche or demonstrate uniqueness. Foodservice establishments with a high volume buying ability often request that their distributor carry particular products of interest. Also, products are often carried on a co-label basis.

The USDA/FAS Office of Agricultural Affairs, U.S. Embassy Canada can provide assistance in locating a broker/distributor. A partial listing of Canadian food brokers and distributors is available on FAS report CA5068 on the FAS web site. Services to help exporters locate appropriate brokers/distributors also include, as mentioned, 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.

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

There are a number of federal acts and regulations that govern the importation of food into Canada. The primary federal agencies involved are the Canadian Food Inspection Agency (CFIA), the Department of Foreign Affairs and International Trade (DFAIT) and Health Canada (HC). For more information on the various regulations, please refer to the agency web sites.

The Canadian Food Inspection Agency (CFIA):

The CFIA provides all federal inspection services related to food safety, economic fraud, trade-related requirements, and animal and plant disease and pest programs. The CFIA administers, among others, the following acts:

- Canada Agricultural Products Act and associated regulations
<http://www.inspection.gc.ca/english/reg/rege.shtml>
- Canadian Food Inspection Agency Act
<http://laws.justice.gc.ca/en/C-16.5/index.html>
- Consumer Packaging and Labeling Act
<http://www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml>
- Customs Act
<http://laws.justice.gc.ca/en/c-52.6/45587.html>
- Export and Import Permits Act
<http://laws.justice.gc.ca/en/e-19/55728.html>
- Food and Drug Act

<http://laws.justice.gc.ca/en/f-27/60010.html>

- Importation of Intoxicating Liquors Act

<http://laws.justice.gc.ca/en/i-3/63962.html>

- Meat Inspection Act

<http://laws.justice.gc.ca/en/m-3.2/81330.html>

- Weight and Measures Act

<http://laws.justice.gc.ca/en/w-6/106103.html>

All federally mandated food inspection and quarantine services for domestic and imported foods are consolidated under the Canadian Food Inspection Agency (CFIA) <http://www.inspection.gc.ca>). They coordinate the requirements of Agriculture and Agri-Food Canada, Health Canada, Industry Canada and the Department of Fisheries and Oceans Canada. The responsibility of food safety policy and risk assessment remains with Health Canada. For information on the regulations that pertain to your product, contact one of the CFIA Import Service Centers across Canada:

Import Service Center	Operational	Contact
Eastern Import Service Center	7:00 a.m. to 11:00 p.m. (local time)	Telephone: 1-877-493-0468 (inside Canada/U.S.) Facsimile: 1-514-493-4103
Central Import Service Center	7:00 a.m. to 12:00 a.m. (local time)	Telephone: 1-800-835-4486 (inside Canada/U.S.) Facsimile: 1-905-612-6280
Western Import Service Center	7:00 a.m. to 12:00 a.m. (local time)	Telephone: 1-888-732-6222 (inside Canada/US) Facsimile: 1-604-270-9247

The Food and Drug Act and Regulations are the primary legislation that applies to all food sold in Canada, whether imported or domestic. This legislation sets out minimum health and safety requirements, as well as provisions preventing fraud or deception (labeling, packaging, treatment, processing, sales and advertising).

<http://www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml>

Food products sold for foodservice must comply with all of the same regulations as other food products; however labeling information is not required in both official languages, English and French. Language regulations are less stringent for food/beverage items intended exclusively for foodservice. If the shipping container and its contents are not for resale as one unit prepackaged product to the consumer at the retail level only one of two official languages is required, depending on its destination. In the province of Quebec, French language labeling is required. In most other areas of Canada English is accepted. See regulation B.01.012 in the Food and Drug Regulations:

<http://www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml>

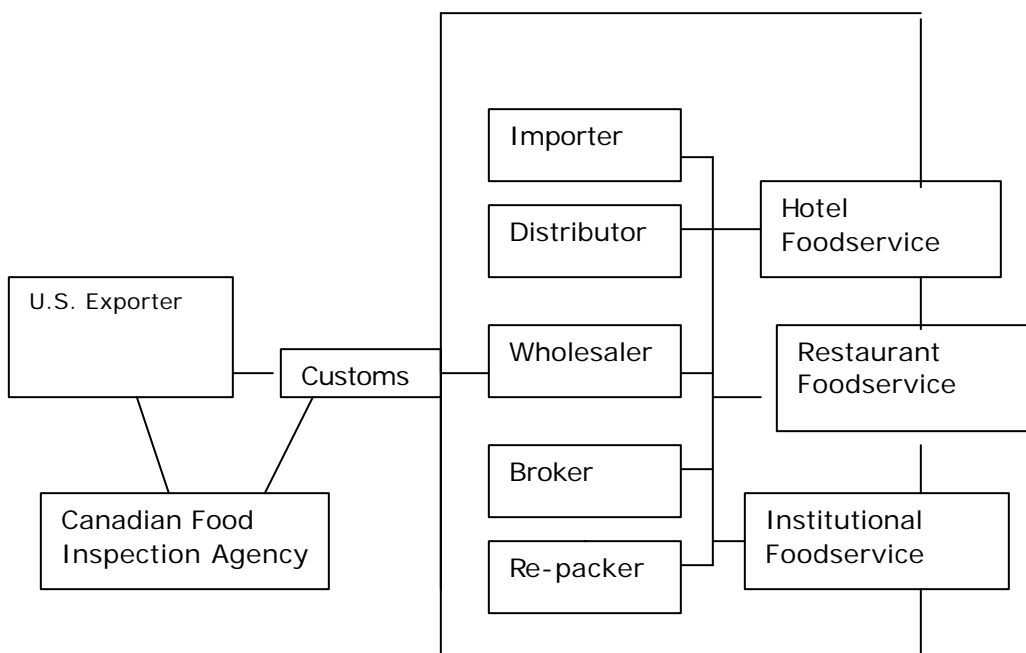
Government Regulatory Organizations	Function	Information
Canadian Food Inspection Agency (CFIA)	Government of Canada's regulator for food safety (as well as Health Canada), animal health and plant protection	www.inspection.gc.ca

Canada Customs and Revenue Agency (CCRA)	Compliance with Canada's tax, trade, border legislation and regulations	www.ccra-adrc.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/fn-an/legislation/acts-lois/fda-lad/index-eng.php
Foreign Affairs and International Trade (DFAIT) Export & Import Controls Bureau	Responsible for allocating tariff rate quotas to importers	www.international.gc.ca/index.aspx
Measurement Canada	Administers and enforces the Weights and Measures Act for food labeling purposes	www.strategis.ic.gc.ca

Canadian agents, distributors, brokers, and/or importers are often the best equipped to assist exporters through the regulatory import process. The best entry method depends on the food product and the sub-sector identified as appropriate for each food product. Government and industry import policies and trade acts regulate each sub-sector. Each U.S. export opportunity must be thoroughly investigated relative to the rules that exist for the product requesting entry.

B. MARKET STRUCTURE

Distribution Channel Flow Chart for Market Entry into Canada



Domestic and imported food products in the Canadian market may route directly to the foodservice establishment but more filter through importers, brokers, distributors, wholesalers and/or re-packers. For smaller restaurants or hotel foodservice establishments most foodservice purchases are made through a wholesaler or distributor, while large chains

may choose to purchase directly, through customized growing agreements, contract purchasing, through a central buying office, or from a chain wide designated distributor. Most foodservice establishments choose to purchase the majority of product through the large foodservice distributors like Gordon Food Service and Sysco. Specialty and niche products are purchased through smaller distributors.

Partial Listing of Foodservice Distributors in Canada:

Gordon Food Service 2999 James Snow Pky MILTON, Ontario, L9T 5G4 Tel: (905) 864-3700 Fax: (905) 864-3844 General Email Inquiries: goncontact@gfscanada.com Web Site: www.gfscanada.com Contact: Charlotte Baptie - Customer Service	SYSCO SERCA Food Services 21 Four Seasons Place Suite 400 Toronto , ON, M9B 6J8 Tel: (416) 234 - 2666 Fax: (416) 234 - 2650 For a list of other Canadian offices: Web Site: www.sysco.com Offices across Canada
C.W. Shasky & Associates 8181 Jane Street, Unit 1 Vaughn, Ontario L4K 5P2 Tel: 905-760-9411 Fax: 905-760-7715 Web Site: www.shasky.com Contact: For General Inquiries Contact Kristina at 905-760-9411.	National Importers Inc. 1376 Cliveden Avenue Annacis Business Park New Westminster, BC V3M 6K2 Tel: 604-520-1555 Fax: 604-520-0827 Website: www.nationalimporters.com
Inform Brokerage 2286 Holdom Avenue Burnaby, BC V5B 4Y5 Tel: (604) 324-0565 Fax: (604) 324-1292 Web Site: www.informbrokerage.com	Flanagan Foodservice 100 Sasage Drive Kitchener, Ontario N2C 2G7 Tel: (519) 748-6878 Fax: (519) 748-1155 Email: cservice@flanagan.ca Website: www.flanagan.ca

C. SUB-SECTOR PROFILES

Commercial Sub Sector

Restaurants

Source: Foodservice & Hospitality Magazine July 2007

Top 5 Family Restaurant Chains of 2007 (ratings are based on 2006 sales revenues)

Restaurant	Revenue in Millions C\$
Keg Restaurants	\$380.1
Prime Restaurants	\$343.6
Northland Properties (Moxie's Restaurant, Denny's Restaurants)	\$280
Kelsey's	\$243.1
White Spot	\$175

Top 5 Pizza Chains of 2007 (ratings are based on 2006 sales revenues)

Restaurant	Revenue in Millions C\$
Boston Pizza	\$647
Pizza Pizza	\$360.9
Pizza Hut	\$335
Dominio's	\$148
Panago Pizza	\$122

Top 5 Chicken Chains of 2007 (Ratings are based on 2006 sales revenues)

Restaurant	Revenue in Millions C\$
KFC	\$730
Swiss Chalet	\$491
St.-Hubert	\$350 *
Dixie Lee	\$40
Mary Brown's	\$38

*Foodservice & Hospitality Magazine estimate

Top 5 Coffee/Doughnut Chains of 2007 (Ratings based on 2006 sales revenues)

Restaurant	Revenue in Millions C\$
Tim Horton's	\$3,800
Starbucks	\$340 *
Second Cup	\$193
Coffee Time	\$124
Country Style	\$100

*Foodservice & Hospitality Magazine estimate

Top 5 Burger Chains of 2007 (Ratings are based on 2006 sales revenues)

Restaurants	Revenue in Millions C\$
McDonald's	\$2,700
Wendy's Restaurants	\$614
A&W	\$613
Burger King	\$321
Harvey's	\$244 *

*Foodservice & Hospitality Magazine estimate

Top 5 Contract Catering of 2007 (Ratings are based on 2006 sales revenues)

Company	Revenue in Millions C\$
Compass Canada	\$908
Aramark	\$675
Sodexo	\$441
Dana Hospitality	\$35.8
Laliberté & Associés	\$30.9

Non-Commercial Sub Sector:

Hotel & Resorts

Source: Hotel Association of Canada

Hotel Industry Fact Sheet

<ul style="list-style-type: none"> 8,287 Properties (2006) 	<ul style="list-style-type: none"> 439,818 rooms (2006)
<ul style="list-style-type: none"> Employs 378,000 people 	<ul style="list-style-type: none"> 66% Occupancy Rate (2006)
<ul style="list-style-type: none"> \$127 Average Daily Rate (2006) 	<ul style="list-style-type: none"> \$84 RevPAR (2006)
<ul style="list-style-type: none"> \$17.9 billion National Accommodation Revenue (2006) 	<ul style="list-style-type: none"> 41.1% of properties with 30 rooms and more in Canada are branded (2006)
<ul style="list-style-type: none"> 55.3% of rooms in properties with 30 rooms and more in Canada are branded (2006) 	<ul style="list-style-type: none"> 66.2% of hotels with 100 rooms or more are branded (2006)

Top 10 Hotel Companies in Canada by Revenue – 2006

Company	Revenue (in Millions C\$)	Company Type
Four Seasons Hotel & Resorts	\$3,379.3	Owning
Fairmont Hotels & Resorts	\$2,913.6	Owning, Management
Starwood Hotels & Resorts Worldwide Inc.	\$666.0	Owning, Management, Franchising
Marriott Hotels of Canada	\$552.0	Owning, Management, Franchising
Best Western International	\$510.0	Non-profit association
Westmont Hospitality Group	\$475.0	Owning, Management
Choice Hotels Canada	\$406.6	Franchising
Hilton Canada Co.	\$393.8	Owning, Management, Franchising
InterContinental Hotels Group Inc.	\$382.9	Franchising
Royal Host Real Estate Investment Trust	\$308.6	Owning, Management, Franchising

SECTION III. COMPETITION

The Canadian foodservice industry generally prefers to use Canadian product whenever possible but it is open to new and innovative products whether local or imported. The foodservice markets in Eastern and Western Canada have different orientations when it comes to import sourcing. In Eastern Canada the orientation is a combination of Europe and the U.S., with a very strong U.S. presence. In the West there is little orientation to Europe and a much closer relationship with U.S. market sourcing.

U.S. dominance in the Canadian market can be attributed to several factors:

- Proximity (90% of the Canadian population lives within 100 miles of the U.S. border)
- Similar culture, eating habits and food trends
- Common restaurant and hotel chains
- Generally higher levels of food production efficiency in the U.S.
- Similar social trends driving food demand, including time challenged consumers
- NAFTA, which resulted in the elimination of import duties for most products

Barriers to Liberalized International Food & Agricultural Trade

Currently, U.S. exports of dairy and poultry products are restricted by tariff rate quotas. Canada protects its dairy and poultry industries with a supply managed program approved under the World Trade Organization (WTO).

With the implementation of the U.S. – Canada FTA (Free Trade Agreement) and later NAFTA (North America Free Trade Agreement) all tariffs between Canada and the U.S. (and Mexico) were removed with the exception of those products for which Canada implemented Tariff Rate Quotas (TRQ). Under the TRQ system, imports that are within quota are subject to low or free rates of duty, until the quota limit has been reached. Once quota limits have been reached, over-quota imports are subject to significantly higher Most-Favored-Nation (MFN) rates of duty. The Canadian importer must be in possession of an import permit to import TRQ commodities. At present over-import duties on dairy and poultry products can amount to as much as 300%.

The Canadian Restaurant and Foodservices Association is one of the largest business associations in Canada. Since it's founding in 1944, CRFA has grown to more than 33,500 members, representing restaurants, bars, cafeterias and social and contract caterers, as well as accommodation, entertainment and institutional foodservice. CRFA has become a member of the Global Alliance for Liberalized Trade in Food and Agriculture, a new alliance of 38 organizations that has called on WTO member countries to commit to achieving a comprehensive agreement on agriculture. Member countries are advocating the removal of barriers to further liberalize international food and agricultural trade and the creation of an international trading environment free from trade distortions and unfair trading practices, including the Canadian practices of supply management, which protects Canada's dairy and poultry sectors and which adversely impacts U.S. exporters of these products. However, the federal government is under domestic pressure from its dairy and poultry sectors, which represent 10% of Canadian farms, to retain its protectionist practices of supply management.

For more information on Canada's Tariff Rate Quotas (TRQ) for Agricultural Products, refer to the Department of Foreign Affairs and International Trade (Export and Import Controls Bureau) web site: www.dfait-maeci.gc.ca/trade/eicb/agric/agric-en.asp

Canada has additional TRQs that affect both the level and tariff rates of imports from non-NAFTA origin of pork, beef and wheat, barley and their products, but they do not apply to imports of U.S. origin. U.S./Canada beef trade has virtually normalized since the first detections of bovine spongiform encephalopathy (BSE) in North America in 2003. Canada accepts U.S. beef and beef products derived from cattle of all ages. An AMS Export Verification (EV) program is no longer required for the export of beef and beef products to Canada, but because U.S. BSE regulations do not apply to bison or buffalo, meat and meat products derived from these species for export to Canada must be produced under an approved AMS EV program. See: [Agricultural Marketing Service - Grading, Certification and Verification](#)

Competition in the Canadian Market for U.S. Product

Product Category (HS Code)	Total Import Market	Major Supply Sources	Advantages & Disadvantages
Fish and Seafood (03)	US \$1.5 Billion	1. US 38% 2. China 18% 3. Thailand 8%	The U.S. continues to hold the dominant share of imports of fresh and frozen whole fish, crustaceans and mollusks largely due to proximity to Canada whereas China and Thailand with their labour advantage are competitive in processed fish fillets and seafood
Meat (02)	US \$1.5 Billion	1. US 75% 2. NZ 10% 3. Australia 6%	The U.S. completely dominates the high value chilled beef and pork imports targeted to the hotel and restaurant industry due to both U.S. industry scale efficiency as well as proximity to market. U.S. imports are continuing to accelerate with declines in Canadian production underway primarily due to currency appreciation. New Zealand and Australia continue to be the main suppliers of frozen manufacturing beef used heavily in the food service hamburger industry.
Prepared Meat, Fish, etc. (16)	US \$871 Million	1. US 62% 2. Thailand 22% 3. China 5%	
Fruits and Nuts (08)	US \$2.9 Billion	1. US 50% 2. Chile 9% 3. Mexico 7% 4. Costa Rico 6%	U.S. imports in this category have grown nearly half a billion dollars just since 2003. Canadians are consuming more nuts, a product not significantly grown in Canada while melon, berries, and citrus products have become popular as breakfast items, light meals and desert in most hotels, restaurants and cafeterias. The strengthening Canadian currency has

Product Category (HS Code)	Total Import Market	Major Supply Sources	Advantages & Disadvantages
			made home grown seasonal items less competitive. The U.S. continues to hold a major logistics advantage on perishable products
Vegetables (07)	US \$2.0 Billion	1. US 69% 2. Mexico 18% 3. China 4%	The U.S. has increased vegetable exports to Canada by 38% or more than \$400 million since 2003 alone. However Canadian imports from Mexico increased by over 100% in the same time frame. One of the major growth areas is lettuce and other salad ingredients which are vital to the HRI industry.
Bakery, cereal and Related Products (19)	US \$1.7 Billion	1. US 80% 2. Italy 3% 3. Germany 2%	The U.S. holds a dominant position in the growing import of bakery products, pasta and cereals. The strengthening Canadian dollar has made imports more competitive and U.S. processing scale combined with the bulkiness of shipments and perishable nature of the goods, gives U.S. product a significant competitive advantage over European competitors.
Dairy, Eggs, Honey (04)	US \$503 Million	1. US 39% 2. NZ 17% 3. France 10% 4. Italy 8%	Marketing Boards and TRQ's control the import of these products
Prepared Foods (20)	US \$1.5 Billion	1. US 62% 2. Brazil 8% 3. China 7%	
Wine (2204)	US \$1.4	1. France 25% 2. Australia 20% 3. Italy 19% 4. US 13% 5. Chile 5%	Cultural and ethnic origin plays a large role in wine preference and cost. U.S. competitors have been running aggressively promoting. Despite this the U.S. grew its share of imports from 11.6% in 2003 to 13.1%

Source: Strategis – Industry Canada

SECTION IV. BEST PRODUCT PROSPECTS/TRENDS

Trends expected to affect the foodservice sector in the year ahead continue to be driven by a desire for healthier food options. This trend, like so many others before it, is being driven largely by aging baby boomers, who are increasingly focusing on healthier eating. Also, as in the U.S., the focus is on healthier food options for school age children. Most schools are stocking snack machines and cafeterias with low fat, low sugar, and high fiber snacks, drinks and lunch food.

Trends on the rise:

- Organic foods
- Low fat foods
- No Trans fats
- High fiber diets
- Vegetarianism
- Lighter meals and less food on the plate
- Increased awareness and demand for higher-quality ingredients with specific origins, prepared authentically, not over-processed
- Convenient foods
- Salads and fruits
- Healthy snacks: juice, bottled water, natural snacks, fruit snacks, whole grain snacks, etc.
- Whole grain products
- Better informed consumers
- Ethnic foods: East Indian and Japanese currently some of the more popular

Top Five Menu Items at Meal Occasions by Daypart

Breakfast/Morning Snack	Lunch	Supper	Afternoon/Evening Snack
1. Hot Coffee	1. Carbonated soft drinks	1. Carbonated soft drinks	1. Hot coffee
2. Breakfast sandwiches	2. French fries	2. French fries	2. Carbonated soft drinks
3. Bagel	3. Burgers	3. Chicken/poultry entrees	3. Donuts
4. Eggs	4. Salads	4. Salads	4. Frozen sweets
5. Bacon/sausage	5. Chicken/poultry entrees	5. Alcoholic beverages	5. Alcoholic beverages
Fastest Growing Item:	Fastest Growing Item:	Fastest Growing Item:	Fastest Growing Item:
Breakfast Sandwich	Hot chicken sandwich	French fries	Hot chicken sandwich

Source: CREST/NPD Group

Top Ten Foods - 2007

	Food Category	Menu Importance	
		2007	2006
1.	French fries	15.8%	15.3%
2.	Chicken/poultry entrees	12.0%	12.2%
3.	Salads	10.9%	10.4%
4.	Burgers	9.6%	9.3%
5.	Donuts	6.3%	6.6%
6.	Pizza	5.6%	5.6%
7.	Seafood/fish	5.6%	5.8%
8.	Vegetables (non-fried) ¹	5.1%	5.3%
9.	Hot chicken sandwich	4.8%	4.1%
10.	Deli meat sandwich	4.8%	4.8%

Source: Crest/NPD Group
¹ Side dishes as part of a main dish, or ordered separately. Includes broccoli, corn, green beans, carrots, mixed vegetables, spinach and other non-fried vegetables.

Top Ten Beverages - 2007

	Beverage Category	Menu Importance	
		2007	2006
1.	Hot Coffee	30.0%	30.8%
2.	Carbonated soft drinks	21.7%	22.0%
3.	Alcoholic beverages	6.7%	6.7%
4.	Juice	5.8%	5.3%
5.	Hot tea	5.5%	5.0%
6.	Bottled water	4.4%	4.4%
7.	Milk	3.6%	3.6%
8.	Iced tea	3.2%	3.1%
9.	Iced/frozen/slush coffee	2.0%	2.2%
10.	Hot chocolate	1.6%	1.4%

Source: Crest/NPD Group

What's Growing and What's Slowing in the Foodservice Sector

Fastest Growing	What's Slowing
The 10 fastest growing menu items in 2007 over 2006	The 10 steepest decline menu items in 2007 over 2006
1. Breakfast sandwich	1. Hot coffee
2. Hot chicken sandwich	2. Chinese/Cantonese/Szechwan
3. Hot tea	3. Carbonated soft drinks
4. Juice	4. Bagels
5. French fries	5. Chips/pretzel/crackers/curls
6. Soup	6. Chicken/poultry entrees
7. Japanese	7. Muffins
8. Salads	8. Cookies
9. Hot chocolate	9. Frozen Sweets
10. Cinnamon rolls	10. Donuts

Source: CREST/NPD Group
 Note: The "growing" list shows the menu items that made the biggest volume gains, while the "slowing" list shows the menu items that saw the most significant declines

SECTION V. POST CONTACT AND FURTHER INFORMATION

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

Market Sector Reports

Listed below are the food sector and marketing reports submitted by the Office of Agricultural Affairs, Ottawa, Canada. For a complete listing of other Post reports and of FAS' worldwide agricultural reporting, visit the FAS home page at <http://www.fas.usda.gov> and click on "Attaché Reports". Insert the Report number in the table below into the appropriate field to access the desired report.

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	01/14/08
CA5080	Retail Sector Report	02/14/08