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Canada

Food Processing Ingredients

Food and Processing Sector in Canada

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Report Highlights:

In 2018, Canada's total food and beverage industry sector sales reached \$87 billion. The Government of Canada aims to increase agri-food exports 26 percent by 2025 (up to C\$85 billion) and expects the food processing sector to lead the way. As the Canadian food manufacturing sector continues to grow, demand for U.S. raw, semi-processed, and processed ingredients should remain high.

Keywords: Canada, CA19007, Processing, Ingredients, Canadian Food Processors

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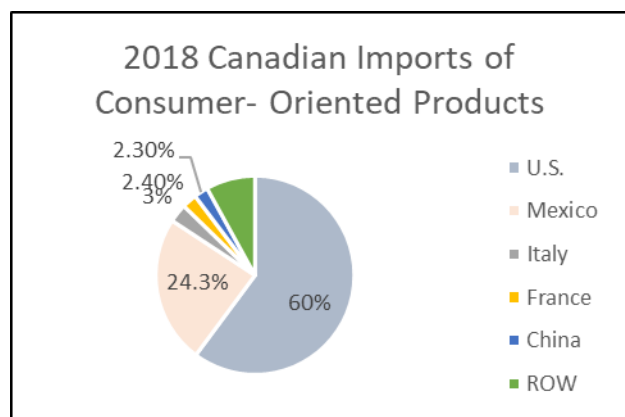
Market Fact Sheet: Canada

Executive Summary

The population of Canada is approximately 37 million and 90 percent of Canadians live within 100 miles of the U.S. border. In 2018, Canada was the number one export destination for U.S. agricultural exports. For new-to-market and new-to-export firms, Canada offers stable financial markets and a sophisticated logistics network that supports \$120 million worth of daily two-way trade in food and agricultural products. In 2018, Canada's food and beverage processing sector was valued at close to \$87 billion; opportunities exist to expand U.S. food and beverage product sales.

Imports of Consumer-Oriented Products

U.S. exports of consumer-oriented products to Canada were \$16.1 billion in 2018, nearly double the value of the next largest export market. Though specific data on the total value of ingredients imported for processing is not available, imported raw, semi-processed, and processed ingredients are vital inputs for Canadian food and beverage manufacturers. Closely integrated cross-border logistics between Canada and the United States create an advantage for U.S. exporters in the Canadian market and opportunities for export.



Food Processing Industry

The food and beverage processing industry is vital to the Canadian economy and ranks as the second largest economic sector, accounting for 17 percent of Canadian manufacturing. In 2018, food-manufacturing shipments reached \$87 billion, with non-alcoholic and alcoholic beverage shipments in Canada totaling \$9 billion. Agricultural production and food manufacturing comprised 6.7 percent of Canadian GDP in 2018. Across Canada there are 6,500 food and beverage processing establishments, 94 percent of which have fewer than 99 employees. The leading food manufacturing sectors are meat processing (\$22 billion), dairy

product manufacturing (\$12 billion), grains and oilseeds processing (\$9 billion).

Total Food & Beverage Industry	\$226.0
Retail	\$75.0
Food Service	\$65.0
Food & Beverage Processing Sales	\$87.0
- Processed Food Exports	\$28.0
- Processed Food Imports	\$24.8

- 1) [Saputo Inc](#)
- 2) [McCain Foods Ltd.](#)
- 3) [Agropur Cooperative](#)
- 4) [Maple Leaf Foods](#)
- 5) [Cott Corporation](#)
- 6) [Kraft Canada Inc.](#)
- 7) [PepsiCo Inc.](#)
- 8) [Nestlé Canada Inc.](#)
- 9) [Parmalat Canada Ltd](#)
- 10) [Weston Foods](#)

Strengths / Weaknesses / Opportunities / Threats

Strengths	Weaknesses
Sophisticated supply chains integrated across the U.S.-Canada border	Stronger U.S. dollar; smaller, consolidated Canadian sector.
Opportunities	Threats
U.S. ingredient and other food input reputation for quality and safety.	3 rd -country competitors with established subsidiaries in Canada.

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Section I: Market Summary

A. Overview of the Canadian Food Processing Market

The Canadian food and beverage processing sector is among the most sophisticated in the world. 2018 total Canadian food and beverage manufacturing shipments were \$87 billion, of which export shipments comprised one-third, making Canada the fifth largest global exporter of processed food and beverage products.¹ A relatively weak Canadian dollar as well as the entry into force of two large free trade agreements since September 2017 (the Comprehensive Economic and Trade Agreement with the European Union and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership) have bolstered Canadian food and beverage exports, with the Conference Board of Canada reporting that the Canadian food-manufacturing sector is operating at 90 percent capacity. The Canadian Government goal to increase food and agricultural exports to \$75 billion CAD (approximately \$58 billion USD) by 2025 is built in large part on projected strong growth of processed food and beverage exports.

Canadian food processors rely on imported raw, semi-processed, and processed ingredients to grow their operations, though a strong ‘buy local’ ethos drives Canadian companies to source locally whenever possible. For example, certain baking ingredients, such as nuts, that have become essential to the food processing and baking industries are largely imported, with many products sourced from the United States.

Multi-national manufacturers that are well-established in Canada – including Saputo, PepsiCo, Kraft and others – contribute to the cross-border trade between Canada and the United States as these companies leverage supplier networks on both sides of the border to optimize global supply chain operations. Sourcing from the North American market creates efficiencies and fosters innovation between the United States and Canada. Canada’s leading processing sectors are: meat and poultry processing (\$22 billion); dairy product manufacturing (\$12 billion); beverage manufacturing (\$9 billion); grain and oilseed processing (\$9 billion); and baking (\$8 billion).²

Among the leading trends motivating Canadian food and beverage manufacturers are:

- Consumer demand for healthy eating;
- Reducing waste in operations and packaging; and
- Ethical manufacturing reputation.

Canada’s recently revised consumer [Food Guide](#) – similar to [My Plate](#) in the United States – is expected to reinforce these trends, supporting growth in products like plant-protein-based meat alternatives, sales of which grew by 8 percent in 2018. A strong sense of environmental stewardship and acute awareness of the impact of climate change on fragile ecosystems like those in Canada’s arctic region are fueling greater demand for companies to reduce waste and environmental impact. Recent studies, including a [January 2019 report](#), have captured Canadian consumers’ attention, raising awareness that more than half of all food produced in Canada is lost or wasted. Key Canadian manufacturers including Kraft Heinz, Maple Leaf Foods, and Unilever have committed to reducing waste in their operations by 50 percent by 2025.³ At the 2019 Canadian Produce Marketing Association (CPMA) tradeshow, fruit and vegetable industry leaders identified the reduction of plastic packaging as

¹ All values are expressed in U.S. dollars unless otherwise specified. The \$1 USD : \$1.2957 CAD exchange rate has been applied for 2018.

² Beverages include both non-alcoholic and alcoholic.

³ [Food in Canada](#) (January 18, 2019)

key challenge for their industry going forward. Canadian initiatives to enhance animal welfare, to reduce utilization of antibiotics and hormones in animal agriculture, and to highlight the environmental sustainability of agricultural production have been responses to Canadian consumer expectations that food and agricultural companies strive towards more ethically conscious operations.

In addition to the trends mentioned above, Canada has proposed a regulatory initiative that would require consumer-packaged foods high in sodium, sugar, and/or saturated fats to carry [front-of-package labels](#). U.S. food processors are encouraged to review Canada’s [Healthy Eating Strategy](#) as these trends are impacting consumer choices and product development. For more information, please refer to the most recent FAS/Canada [Food and Agricultural Import Regulations and Standards \(FAIRS\) Report](#).

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

Advantages	Challenges
Geographic proximity lowers transportation costs and increases U.S. brand awareness.	Wide selection of ingredients already available in the Canadian market.
Similar shopping patterns and culinary tastes / preferences support U.S. products.	Differences in approved chemicals and residue tolerances.
Duty free tariff treatment for most products under NAFTA.	Tariff rate quotas apply for certain products.
High U.S. quality and safety perceptions.	Support for sourcing ‘locally,’ and supporting local growers and processors.
Short Canadian growing season for fresh produce and climatic limits on crop options.	Relatively higher operating costs and price-conscious consumers constrain food and beverage manufacturer flexibility.

Section II: Road Map for Market Entry

A. Entry Strategy

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

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

For more information on these steps, please consult the FAS/Canada [Exporter Guide](#). The best entry method depends on the specific food product and the particular sub-sector. FAS/Canada encourages companies to participate in Canadian trade and consumer shows, to help them evaluate the market. A partial list of Canadian trade shows can be found under [Local Trade Events in Canada](#). USDA endorses [SIAL Canada](#), the largest food trade show in Canada. This annual event alternates between Montreal and Toronto. The 2019 edition took place in Toronto from April 30 to May 2. In addition to industry shows, various trade associations provide excellent networking opportunities and their own trade show formats, such as the [Ontario Independent Meat Processors](#) (OIMP) or the [Canadian Institute of Food Science and Technology](#).

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

Import Procedures

U.S. exporters are urged to review FAS/Canada FAIRS Reports ([CA18069](#) and [CA18070](#)) to better understand the Canadian import regulations and standards that apply to your product. The Canadian Food Inspection Agency (CFIA) provides extensive information on the [programs and services](#) it offers for importing commercial foods into Canada, including a [Guide to Importing Food Products Commercially](#). In addition, the CFIA [Automated Import Reference System](#) (AIRS) provides specific import requirements for food items by the Harmonized System (HS) classification, and detailed by place of origin (i.e., a specific U.S. state), destination in Canada (i.e., a specific province) and end use of the food item (e.g., for animal feed, for human consumption, etc.).

U.S. exporters should be aware that the [Safe Food for Canadian Regulations](#) (SFCR) came into effect on January 15, 2019 whereby 14 sets of existing regulations were consolidated. Certain parts of the regulations are being phased in over 12 to 30 months. Much of the regulations will directly impact the Canadian importers that U.S. exporters are working with however, U.S. food processors are encouraged to understand how the SFCR may apply to them as new requirements may be required in doing business in Canada at [Getting started: Toolkit for businesses](#).

C. Distribution Channels

There are various avenues that food manufacturers source their ingredients. The larger multinationals with operations on both sides of the border usually maintain a global procurement office at their

headquarters office, as well as a regional procurement office in Canada. These global brands leverage their vendors that are part of their global supply chain logistics to help them supply ingredients in Canada.

For small- to medium-sized Canadian manufacturers,⁴ many will source their ingredients from specialized Canadian food ingredient brokers or distributors. If their production volumes are high enough, some Canadian manufacturers may be able to import directly from U.S. growers or exporters.

U.S. firms, particularly small- to medium-sized firms, are recommended to partner with a Canadian ingredient broker or distributor. In most instances, a food distributor would import, take title of, and warehouse the product. The ingredients would be part of the distributor's catalog of offerings. Most distributors are not in the business of pioneering products or finding new manufacturing or industrial accounts for U.S. firms. There are a select number of ingredient brokers that are prepared to serve as a sales force for ingredient products and to pioneer ingredient products to established manufacturers and industrial accounts.

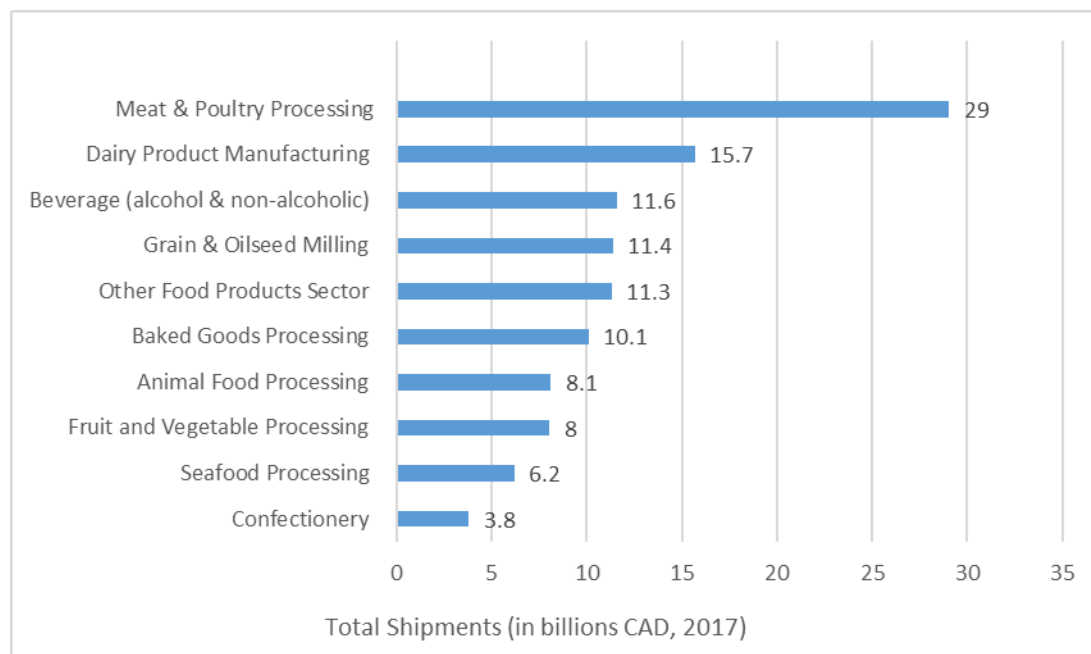
Ingredient brokers generally take a percentage of the ingredient product sales revenue, ranging from three to six percent. The 'commission' rate is determined by several factors: the type of product, the product category, market niche potential, expected sales volume, and any additional services that may be requested by the U.S. firm. It is not uncommon for a broker to request a monthly retainer fee, at least initially, as the broker must 'pioneer' or pitch the product to prospective industrial accounts. Once targeted sales volumes are established, the broker fee structure typically transitions to a commission at a percentage of established sales. All fees should be negotiated between the U.S. firm and the broker prior to any future transactions.

D. Market Structure

Although, there are 6,500 food and beverage processing establishments in Canada, less than one percent of the firms are larger companies with over 500 employees or more. An estimated 94 percent of Canadian food processors maintain fewer than 99 employees. U.S. firms evaluating the market may face a tradeoff between working with larger food processors (that have significant pricing power within the consolidated market landscape) and with smaller food processors (that may require U.S. businesses to cobble together relationships with multiple companies to reach the same sales volume / value). Aside from these challenges, processors must be prepared to distinguish their product and their company from their competition in order to establish long term sales in Canada. For more details on the Canadian market structure and trends, please consult the FAS/Canada [Exporter Guide](#).

⁴ Agriculture and Agri-Food Canada defines small to medium-sized firms in Canada to be businesses with up to 250 employees and annual revenues not exceeding \$50 million CAD in sales. This definition differs from the U.S. Small Business Administration, which sets maximum values for annual receipts for primary producers (usually \$750,000) and maximum employee sizes for food manufacturers of between 500 and 1,000 employees.

E. Canadian Food Processing Industry Sector Sales



Source: 2018, *Canadian Food Industry Report*

F. Company Profiles

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

Top 10 Canadian Food and Beverage Manufacturers

Company	Annual Revenues (CAD)	Number of Employees in Canada	Product Category
Saputo Inc.	\$11.6 B	12,800	Dairy products
McCain Foods Ltd.	\$8.5 B	19,000	Packaged goods
Agropur Cooperative	\$6.4 B	8,300	Dairy products
Maple Leaf Foods	\$3.4 B	11,200	Packaged & Meat
Cott Corporation	\$3.0 B	200	Beverage
Kraft Canada Inc	\$3.0 B	500	Packaged
Pepsico Canada	\$2.7 B	10,699	Packaged and Beverage
Nestle Canada	\$2.6 B	3,700	Packaged
Parmalat Canada	\$2.5 B	2,900	Dairy products
Weston Foods	\$2.0 B	5,000	Baked goods

G. Sector Trends

Shifting demographics, healthy eating, and sustainable life styles are among the [developments](#) shaping consumer preferences and product development in Canada. Canada's population is aging and immigration is driving modest population growth. In 2017, one in five Canadians was foreign born, and in the last census, more than 13 different ethnic origins claimed more than 1 million Canadians each. The ethnic foods market in Canada is estimated to be worth over \$5 billion, grew at a 14 percent annual rate in 2018, and is forecast to reach \$14 billion in five years. A number of 'ethnic' flavors have broken into the mainstream of the Canadian diet. For example, [garam masala seasoning](#), commonly used in South Asian cuisine, and [Thai chicken broth](#) are readily available on grocery store shelves across Canada. The previous Ontario Government's 2018 [Bring Home the World](#) report focused on world foods in Ontario, combining the ethnic diversity of Ontario's population with local produce in a campaign that encouraged consumers to 'eat globally and buy locally.'

Canadian consumers and trade buyers are looking for healthy choices that are fresh and have 'clean' labels, free from artificial ingredients. Some larger companies, such as [Maple Leaf](#), have responded with processed meat products with no artificial preservatives, colors, or sweeteners to maintain market share. A smaller population segment actively seeks products fortified with supplements and other ingredients, following the perception that so-called functional foods augment diets and promote healthy outcomes. However, food manufacturers must ensure all food products in the Canadian market comply with Canada's rigorous regulatory frameworks on [fortification](#) and [health claims](#) on product labels.

The recently published [Canada's Food Guide](#) placed greater emphasis on plant-based proteins, reinforcing growing investments in plant-based protein innovation. In the United States and in Canada, a small but growing number of consumers are switching from dairy-based beverages to soy, rice, almond and other non-dairy alternatives. Nielsen Canada reported that the dairy alternative category grew four percent in value and six percent in volume in 2017. Millennials are among the population segment driving new product development and consumption patterns. [Food in Canada](#) noted 23 percent of millennials consume meat alternatives several times a week, versus only 3 percent of boomers and 2 percent of seniors. The strength of this trend can be seen in major Canadian food processor Maple Leaf Foods' 2017 acquisition of U.S. based meat-free innovator [Lightlife](#) and 2019 announcement of a \$310 million plant-based protein food processing facility in Shelbyville, Indiana.

'Ethical' shoppers are another influential consumer segment, driving Canadian food processors to develop healthy, safe and sustainable products in response to their preferences. The [Provision Coalition](#) of Canada estimates 40 percent of all food produced in Canada ends up in landfills, with 20 percent of the waste derived from the processing sector. Canadian food manufacturers are under increasing pressure to reduce waste in their operations, including through innovative packaging and ingredient sourcing strategies, not just to improve their bottom line, but to burnish their environmental credentials. While minimizing the use of plastic and elimination of single-use plastics is an emerging trend in the retail sector, the same pressures have not yet been transmitted upstream to processing facilities.

Section III: Competition

In 2018, Canada was once again the leading destination for U.S. food and agricultural exports, with total U.S. export sales valued at \$21 billion. U.S. exports of high-value food and beverage products to Canada (\$16.1 billion) represented 24 percent of total U.S. consumer-oriented agricultural exports globally. The top export categories included: fresh and processed fruits and vegetables, meats, prepared foods, snack foods, and soft drinks. U.S. products represent 60 percent of total Canadian food and beverage imports by value.

As mentioned earlier, a strong ‘buy local’ movement drives Canadian consumers and even food processors to source locally produced ingredients when available. However, U.S. products benefit from seasonal complementarity (capturing increased market share immediately before and after the Canadian growing season) and a strong reputation for food safety. Given its geographic orientation, there are certain products that Canada cannot produce (e.g., citrus, tree nuts, rice, etc.) and long stretches when Canadian production is limited to greenhouses; between November and June, Canada imports 80 percent of its fresh vegetables. The leading fresh fruits and vegetables consumed in Canada closely resemble the availability and production of products in the United States. While China is a growing competitor, U.S. suppliers command a 45 percent market share for imported processed fruits and 59 percent share for processed vegetables, with well-established U.S. brands and broad distribution under Canadian retailers’ private label brands.

U.S. companies also maintain a dominant market position, with 76 percent of the Canadian market for imported food preparations; China, France, and India follow, each supplying less than 7 percent of the market. Food preparations include products such as baking mixes and doughs for bread, pastry, cakes, and biscuits. While, Canada produces raw materials domestically for grain-based products, the United States supplies 62 percent of imported sugar confectionary, chocolate and cacao products, representing a large portion of total consumption.

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

Canadian poultry and egg markets operate under the “supply management” system, which restricts imports to control supply and maintain artificially high prices. The United States has a commanding share of the imported poultry meat market (about 85 percent), much of which is purchased under Tariff Rate Quotas (TRQs). Poultry is also imported under the Import for Re-Export Program (IREP) and the Duties Relief Program (DRP), provided that the final products are re-exported. Though Brazilian producers can provide frozen products at lower prices than the United States, some Canadian plants are reluctant to source poultry from Brazil as commingling of U.S. and Brazilian origin products could prohibit sales of the processed products to the United States. In 2018, U.S. suppliers provided 93 percent of Canadian imports of eggs and egg products, with China, Thailand, Taiwan, Vietnam, and the Netherlands sending the remainder.

The Canadian dairy industry also operates under the supply management system. Similar to poultry, various TRQs effectively limit the amounts and types of dairy products imported into Canada. Canadian

food manufacturers make extensive use of the IREP and DRP, sourcing dairy products and ingredients abroad and incorporating them into further processed products destined for export markets (principally the United States). The United States is the largest supplier of dairy products (including butter) under IREP and DRP, given geographical proximity and long-standing trading relationships. The European Union (EU) has a distinct advantage in the cheese trade, as a result of Canada’s international commitments at the World Trade Organization (WTO) and subsequent commitments under the Comprehensive Economic and Trade Agreement (CETA) that entered into force in September 2017. In 2018, nearly 65 percent of the volume cheese imported into Canada originated in EU countries.

Section IV: Best Product Prospects

Although no data exists on the total value of imported inputs / ingredients destined to the Canadian food processing sector, exports indicate that both semi-raw products, selected fresh fruits and vegetables, nuts, and other products and processing inputs not readily grown in Canada are in high demand and continue to be largely imported from the United States.

Below are products present in market that have had consistently good sales potential.

Description	Imports from World	Imports from United States	U.S. Share of Market
Food Preparations & Misc. Bev. *	\$4.1 B	\$3.3 B	82%
Misc. edible preparations	\$2.8 B	\$2.3 B	81%
Other processed food, ingredients & beverage bases	\$1.4 B	\$1.1 B	82%
Baking Inputs, mixes and doughs	\$656 m	\$495 m	76%
Pasta, cooked or not cooked or stuffed	\$377 m	\$233 m	62%
Mixes and doughs for preparation	\$222 m	\$194 m	88%
Fresh fruit	\$3.6 B	\$1.4 B	40%
Fresh vegetables	\$2.6 B	\$1.6 B	62%
Preparations of vegetables, fruit, nuts, and other parts of plants	\$2.3 B.	\$1.4 B	61%
Vegetable oils	\$724 m	\$262 m	36%
Essential oils	\$587 m	\$442 m	75%
* Includes food preparations, food concentrates, fruit syrups, extracts, flavoring powders, cocktail mixes, etc. Source: GATS 2018			

Canada will remain a leading export destination for U.S. ingredient exports, as the [Canadian Government](#) remains committed to increasing their Canada’s agri-food exports to C\$85 billion by 2025, with value-added consumer products leading the way.

Section V: Key Contacts and Further Information

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