

Summary

Canada's Food Processing Sector

The food processing industry is Canada's third largest manufacturing industry. The largest food processing sector, measured by shipments and value added, is meat processing. The sugar and confectionery sector was the smallest in terms of shipments, and seafood product processing was the smallest in terms of value-added.

Meat processing leads the food industry in exports and accounted for one-third of the value of total food exports prior to the impact of the embargo on meat exports in mid-2003, as a result of the identification of a single cow with BSE. A further 20% of total food exports are accounted for by the seafood product sector, followed by grain and oilseed milling (10%), and fruit and vegetable processing (9%).

Meat processing employs the largest number of workers accounting for 28% of all food industry employment. The bakery and seafood sectors are tied for second place with 15% each, followed by the fruit and vegetable processing sector with 10% of the workforce. The grain and oilseed millers employ the fewest people with about 3% of all food industry employees.

The largest numbers of establishments are found in the bakery and tortilla sector, mainly due to the many small ethnic and specialty bakeries in the sector. Meat processing reported the second highest number of establishments, largely because of the many small specialty producers of smoked meats and sausages.

Demand for high quality prepared foods and foods prepared outside the home are experiencing rapid growth. Many consumers want ready-made convenience food and are becoming more aware of the production processes that go into their food. They are influenced by the origins of their food, how it is grown, processed and prepared.

Canada's Food Processing and Packaging Equipment Sector

The 2004 market value for food processing and packaging equipment in Canada reached \$811 million. Industry analysts expect this sector to grow at an annual rate of 4% through 2007. This growth can be attributed to the continued development of new facilities to handle new age crops, as well as an increase in food and commodity exports to meet growing worldwide demand.

The United States continues to be the dominant supplier of food processing and packaging equipment imported into Canada, accounting for 45% of the total import market. U.S. penetration of the Canadian food processing and packaging equipment sector will continue to be substantial, but will adhere to stiff competition from the European market.

Market Overview and Trends

Canada is a wealthy country and one of the world's most developed countries. The economy is vibrant and consumer spending remains strong. Over three-quarters of the world's leading food and beverage firms have chosen to invest in processing facilities in Canada. The country's many advantages, such as R&D investment tax credits,

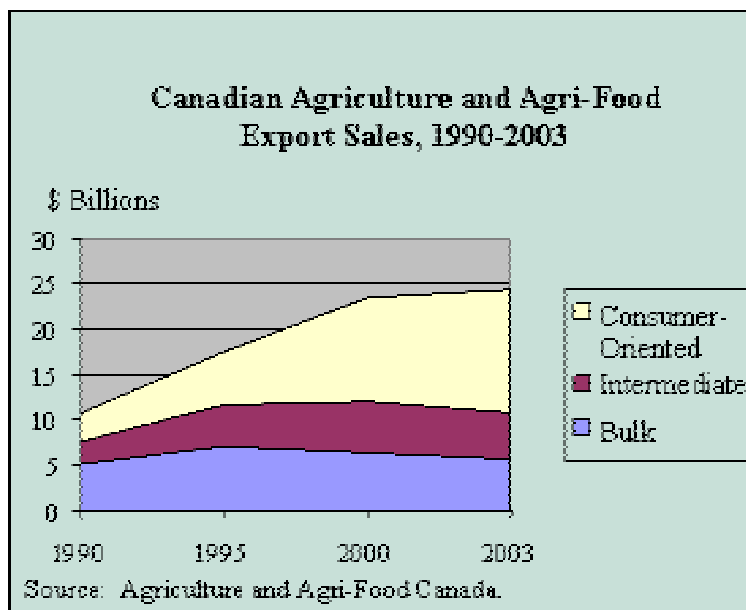
provincial incentives, low cost energy, excellent infrastructure, abundant primary products, stable business and social environment, along with the high quality of life in urban centers make it a desirable location for investment.

The influence of world trade in processed food and beverage products varies significantly by region. Export orientation is greatest for the Prairie Provinces and lowest in Quebec. Plant locations are varied with red meat and fruit and vegetable processing plants located near sources of farm production, while fluid milk and bakery product plants clustered near large centers of population. Activity in the major sub-sectors occurs in every region. Meat processing is generally the most important activity in each region, particularly in the Prairie Provinces. Dairy and meat products are the major products in Quebec, with the share of total shipments of dairy products being significantly higher than in most other regions.

In recent years, firms in the food processing and packaging sector have undergone a process of consolidation while plant size has increased. More capital has been invested, while the number of jobs has decreased. As a result, sizeable gains in productivity have been observed, which place Canadian food products in a very competitive position to capitalize on growing international markets.

Demographics continue to drive the health and wellness trend, with older Canadians and increasing numbers of young consumers ranking nutrition as an important factor when choosing food. Consumers are more closely scrutinizing the food they eat, and although they want it to be fast and fresh, they also are concerned about its safety.

Because of the health and wellness trend, considerable industry interest is being directed toward growing national and export markets for nutraceuticals and functional foods. Industry efforts to respond to market opportunities are complemented by research conducted at the National Center for Agri-Food Research in Medicine, investigating the linkages between agricultural products and health.



In 2002, Canada was the fourth-largest agriculture and agri-food exporter in the world, and the fifth-largest agriculture and agri-food importer. The export value of Canada's bulk commodities in 2003 was roughly the same as 1990. The growth in export sales of consumer-oriented products, however, has more than quadrupled since 1990. This indicates that Canada is moving away from immediately exporting bulk goods and instead refining and processing the product domestically. Consumer-oriented products now account for half of Canadian agriculture and agri-food exports.

Import Market and Competition

The author used the following HS codes to prepare this report:

- 8438 Other industrial machinery for preparation of food and drink (excl. for fats and oils)
- 842220 Machinery for cleaning/drying bottles or other containers nes
- 842230 Machinery for filling, closing, sealing or labeling bottles, cans and other containers
- 842240 Packing or wrapping machinery nes (incl hear shrink wrapping type)
- 842290 Parts of dishwashers or machinery for cleaning or otherwise packaging containers

Canadian producers of food processing and packaging equipment import approximately 70% of its machinery to satisfy market demand. The U.S. is the major supplier of this equipment, currently holding 45% of import market share. The next two countries in the top ten for imports are Germany and Italy. Currently Germany (20%) and Italy (1%) together supply approximately 21% of total market demand for food processing and packaging equipment. Countries also supplying this sector are the Netherlands, France and Japan.

End Users and Sales Prospects

The food processing and packaging sector is composed of relatively large Canadian-owned multinational enterprises, foreign-owned multi-national enterprises, large and small cooperatives, and small and medium sized enterprises, both Canadian and foreign owned. Industry sources suggest recent consolidation has reduced the number of food processing companies, however, sales have increased steadily with fewer players in the marketplace. McCain Foods is the number one food processing company in Canada.

Major Food Processing & Packaging Firms in Canada

Company Name	Type of Product	Food Sales \$US Billions
McCain Foods (Canada)	Frozen Foods	\$4.8
Groupe Saputo	Cheese, Dairy products	\$2.8
Maple Leaf Foods Meat	Poultry, Bread	\$3.0
George Weston Ltd.	Baked Goods	\$2.2
Kraft Canada	Cheese, Coffee, Cereals	\$1.8
Co-op Federee du Quebec	Dairy products	\$1.5
Nestle Canada	Chocolate, Coffee, Frozens	\$1.4
Unilever Canada	Many Grocery Products	\$1.3
Agropur Co-operative	Dairy products	\$1.3

Cott Corporation	Soft drinks	\$1.2
Nabisco Ltd.	Baked goods	\$1.0
Pepsi-Cola Canada	Soft drinks	\$1.0
Schneider Corp.	Meat products	\$1.0

Meat Processing

Due to the BSE scare, Canada's meat processing sector started to shift its focus to building more and expanding existing processing facilities. Even though the ban has been lifted, increased processing capacity in Canada will remain.

Prior to the ban of live cattle exports because of Canada's BSE, approximately one million cattle were sent to the U.S. for processing. Since 2003, beef producers have had to review strategies on ways to handle the large increase needed in processing capacity. Alberta alone, is dealing with a surplus of about 600,000 cattle. Several processing plants and producer co-ops are in the works including: Ranchers Own Meat Processors, a \$21-million beef slaughter and processing plant at Spruce Grove, Alberta; a \$11-million Rancher's Beef packing plant near Calgary, Alberta; and a \$30 million packing plant at Pincher Creek, Alberta. As well, Lakeside Packers in Brooks, Alberta will undergo a \$14 million expansion, increasing its slaughter capacity by 1,000 head per day. Some facilities will handle cull cattle, while others will target specialty markets. By November 2005, processing capacity is expected to be up 20% over 2003, with an additional 24% added by 2006.

Value-added meat processing machinery has good potential in Canada. More companies are moving toward market innovations like branded, case-ready cuts of meat. Increase in demand for products like microwaveable, single portion convenience meals, will provide opportunities for equipment manufacturers to supply these niche markets, especially for machinery that can yield box-ready beef and pork.

Grain Based Products

Processed grain products include flour, hot and cold breakfast cereals, many types of pasta and bakery products (ie. white, specialty and whole grain breads and rolls, cookies, crackers and biscuits). The flour milling sector comprises firms that primarily mill wheat and other cereal grains into flour, mill feed (used for animal feed) and other products (rolled, flaked or de-hulled). Some firms also blend flour into bakery mixes. The sector is closely linked with the baking, biscuit and breakfast cereal manufacturing sectors, which collectively use more than 50% of all milled cereal products consumed in Canada. There are approximately 50 mills operating in Canada.

The biscuit and cracker sector in Canada manufactures plain and fancy biscuits which include mallows, and sandwich type biscuits, snaps, soda biscuits, packaged cookies, crackers, fruit bars, graham wafers, ice cream cones and sugar wafers. There are approximately 35 biscuit manufacturing establishments in Canada, with more than 85% located near major markets and near supply of soft wheat flour in Ontario and Quebec.

The bakery sector includes two distinct sub-sectors classed as "wholesale bakers" and "retail bakers". Wholesale bakers manufacture all types of bread, rolls (sweet and unsweetened), pizza dough, cakes, pies, fruit pies, frozen dessert pies, doughnuts, muffins, pastries (uncooked, refrigerated and frozen), ice cream cones, wafers and

matzo. There are approximately 480 wholesale bakery establishments in Canada. Retail bakers produce and sell on the premises and cater to the demand for fresh baked goods. The retail bakeries subsector is comprised of more than 3,000 firms.

The breakfast cereal sector manufactures breakfast cereals, either uncooked or ready-to-eat. The Canadian breakfast cereal and baking mix industry is relatively small.

Canada has a large supply of durum wheat, which when milled into semolina flour is the primary ingredient in pasta. Canada's pasta industry is developing slowly and is dominated by four processors, two each in Ontario and Quebec.

Grains Oilseeds

Wheat, corn, oats, barley and rye (grains) are used to make a variety of consumer products such as breads, pasta and breakfast cereals. Canola, soybean, flaxseed, safflower and sunflower seeds are oilseeds and are used in the production of cooking oils and other food products.

The two major oilseeds processed in Canada are canola and soybeans, with small amounts of flaxseed also being crushed. In 2003, canola crushings accounted for 60% of total oilseed crushings, with soybean crushings accounting for 38%.

The oilseed processing industry in Canada currently consists of nine plants owned by four companies that receive and crush oilseeds to obtain crude and crude degummed vegoils (from canola, soybeans, and flaxseed) as well as protein meals for animal feed. Annual crush capacities are 4.0 Mt of canola, 2.0 Mt of soybeans, and 1.0 Mt of flaxseed.

Canada has a productive capacity to produce about 2 Mt of vegoil annually, of which 1.7 Mt is canola oil and 0.3 Mt is soy oil. Most of the canola oil is produced in western Canada and all of the soy oil is extracted in eastern Canada. Since 1990-1991, the production of soy oil and canola oil has increased by over 175% and 200%, respectively, due to increased crushing capacity and seed supplies.

Dairy

Total net farm cash receipts from the dairy sector are over \$3.5 billion. This puts the industry in fourth place within the Canadian agriculture sector, behind grains, red meats and horticulture.

Canada exports high value dairy products such as aged cheddar cheese, specialty cheeses, ice cream and dairy beverages to traditional and new markets. As well, Canada exports butter, milk powders, and condensed and evaporated milk to developing countries. Canadian exports of dairy products are approximately \$307 million.

Through development over recent years, the Canadian dairy sector has a cattle population of the highest genetic level in the world. This is based on strong milk recording and genetic evaluation programs that have been in place in Canada since 1905. Canadian dairy cattle are exported to more than 50 countries and are recognized for their ability to produce high quantities of milk over many lactations.

The industry has excellent research and development capabilities at both the production and processing levels. Impressive research facilities (government, universities and private-sector) contribute to the long-term competitiveness of the sector as well as the safety and quality of dairy products through the development and transfer of innovative technologies.

Canada's dairy sector functions under a supply management policy framework. This orderly marketing system is designed to encourage the production of sufficient volumes of industrial milk and cream to meet domestic demand for dairy products as well as certain planned exports. The Canadian Dairy Commission and Agriculture and Agri-Food Canada, along with producer associations such as the Dairy Farmers of Canada and dairy processors' organizations play a key role in helping ensure the Canadian dairy industry remains strong and dynamic.

Fruits and Vegetables

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.

Three provinces account for the majority of the fruit production in Canada. Apple production is concentrated mostly in Ontario, British Columbia and Quebec; the berry and grape production is in Ontario and British Columbia, and, the tree fruit production in Ontario and British Columbia.

The Canadian fruit industry has adapted to the country's cool climate and short growing season. It has become a world leader in improving farm management and storage techniques. Some fruits can be supplied year-round using controlled atmosphere storage.

There are about 15,000 vegetable growers in Canada producing over 7 million tones of vegetables annually. Potatoes, sweet corn and green peas are the most extensively grown vegetables. Over 4.6 million tones of potatoes are grown annually, with more than half processed into french fries.

Other crops grown are fiddleheads, wild garlic, rutabagas, lettuce, onions, carrots, tomatoes and cabbage. Broccoli, cauliflower, Brussels sprouts and kale also grow well in Canada and new types of oriental vegetables are becoming more popular like pak choi, bok choi, nappa and Chinese broccoli.

The processed fruit and vegetable industry in Canada produces canned, preserved and frozen fruit and vegetables, as well as fruit juices. The industry is also increasingly developing and marketing a wide range of value-added products.

There are over 200 establishments in the fruit and vegetable processing and frozen food industry in Canada that shipped over \$5 billion worth of products.

Pulse Crops

Canada is a large producer of pulse crops (dry seeds of legumes used as food or feed). Crops include peas, beans, lentils and chickpeas. Pulse producers can grow high

quality crops at relatively low costs because of the favorable climate and farmers alternate high scale production of pulses with that of cereals using modern agricultural technology in reasonably priced farmland.

The pulse seeded area in Canada increased 3,500% between 1980 and 2001. The majority of the growth in this sector over the last 25 years can be attributed to international demand, as more than 70% of output is exported. Canada is now the world's largest exporter of lentils and peas, the third largest exporter of chickpeas and the fifth largest dry bean exporter.

Canada is a leader in innovative research and development in the pulse sector. Ongoing research and careful crop management have contributed to the high quality of Canadian crops. Canada has also taken the lead in the development of terminology, protocols and standard evaluation methods for the worldwide pulse industry. Within Canada, the Canadian Grain Commission sets quality standards for pulse crops and its programs result in shipments that consistently meet contract specifications for quality, safety and quantity.

Fish and Seafood

Canada's commercial fishing industry is worth more than \$4 billion annually. Canada exports over 75% of its fish and seafood production. Both the capture fishing industry and the aquaculture industry are active in the Atlantic, Pacific and freshwater regions of the country.

The capture fishing industry has total landings of more than one million tonnes. By volume the Atlantic fishery accounts for 82% of total landings, the Pacific fishery for 14%, and the freshwater fishery for 4%.

Top catches in the Atlantic fishery are herring (harvested for its roe), shrimp, snow crab, scallops, cod and lobster. In the Pacific fishery, top catches are hake, Pacific herring (harvested for roe), rockfish and salmon. Top freshwater catches are pickerel, yellow perch, whitefish, northern pike and lake trout.

Fisheries and Oceans Canada regulates and manages the Canadian fish and seafood industry, while Agriculture and Agri-Food Canada is responsible for marketing and trade development.

Organic

Canada is an ideal country for producing organic food because of its large and varied land base and its cooler climate, which reduces pest and disease problems. According to Census of Agriculture, Canada has over 2200 organic farms working on approximately 340,000 hectares of land.

There are 46 certifying bodies and approximately 150 processors and distributors in Canada. Organic grain production is the fastest growing sector and also represents the largest export commodity.

The Standards Council of Canada is an internationally recognized accreditation body that accredits organic certification bodies in Canada in accordance with International Standards Organization guidelines.

Saskatchewan, Ontario, Quebec and British Columbia are the main producing and exporting provinces of organic products.

Canada is among the top five world producers of organic grains and oilseeds, with an estimated retail/food service value around \$750 million, including processed and non-processed products.

Health and Wellness

Because of the health and wellness trend, food processing and packaging firms are assessing and/or developing methods of processing, storing, packaging and distributing food that preserves nutrients and other bioactive components. New packaging technologies that can extend the shelf life of food and/or be recycled to minimize waste will have good potential.

As well, there is substantial custom fabrication done in Canada for food processing and packaging equipment. This would indicate that parts used for custom fabrication equipment used for specific processing would also have good potential in Canada.

Environmental

Canada's industries, cities, provinces, federal departments and consumer and environmental groups have pledged to drastically cut packaging waste. The 3Rs (reduce, reuse and recycle) are very important to the packaging industry. Every business sector and every product uses packaging at some point in the distribution chain. Efforts continue with new technologies enabling industry to increase efforts in reusing, reducing and recycling materials used.

Market Access

There are no significant Canadian trade barriers impeding imports of U.S. manufactured food processing and packaging equipment. The Canadian Goods and Services Tax (GST) nets out at 7% on a value-added basis at each resale level. Canadian importers remit 7% of the duty-paid value on imported merchandise to Revenue Canada. Importers apply the tax they pay to any accrued tax liability resulting from their resale of the imported goods, and remit the balance of the value-added tax liability at that time.

Machinery imports must receive official approval from the Canadian Standards Association (CSA). Information pertaining to standards and pre-import requirements can be obtained by contacting the CSA directly. A reciprocal agreement on product certification between the CSA and Underwriter's Laboratories (UL) has made it much easier for manufacturers on both sides of the border to attain product certification required in both countries. The national accreditation body, the Standards Council of Canada, is the focal point for standardization and conformity assessment in Canada. They serve as the best source for standards information. Websites for both the CSA and SCC are below.

Canadian manufacturers of food processing and packaging equipment link to end-users through a distribution system capable of delivering equipment across Canada using an extensive network of agents and distributors.

The preferred channel for selling replacement parts is through distributors of compatible products that provide after-sales repair and service to end users. OEM representatives need to deliver replacement parts within two-days, and respond to calls within 24 hours. Several foreign equipment manufacturers have established a permanent presence throughout the country to directly service, repair and replace parts to their customers.

Important Websites

Food Processors of Canada - www.foodprocessors.ca

Health Canada - www.hc-sc.gc.ca/

Standards Council of Canada - www.scc.ca

Canadian Standards Association - www.csa.ca

Canadian Food Inspection Agency - www.inspection.gc.ca

Agriculture and Agri-food Canada - www.agr.gc.ca

Packaging Association of Canada - www.pac.ca

Key Contacts

The U.S. Commercial Service in Calgary can be reached for up-to-date meat processing equipment industry contact lists for manufacturers, distributors, and other industry contacts, including ministerial and association. Visit the U.S. Commercial Service in Canada on the worldwide web at www.buyusa.gov/canada.

U.S. Commercial Service, 1000, 615 Macleod Trail SE, Calgary, AB T2G 4T8
Tel: (403) 265-2116, Fax: (403) 266-4743 Email: Calgary.office.box@mail.doc.gov

The U.S. Commercial Service offers the GOLD KEY SERVICE to assist U.S. companies in their efforts to establish commercial relationships with prospective agents, distributors, or joint venture partners. We will consult with the Gold Key client to discuss qualifications sought in prospective business partners, contact and pre-screen before scheduling individual business meetings, and develop an appointment schedule.

Upcoming Trade Shows

PACex International 2007

Canada's national packaging, Food Process, Material Handling & Logistics Show – May 8-10, 2007, National Trade Center, Toronto, Ontario, Canada

Website: www.pacexinternational.com

This is the only Canadian international trade show suitable in scope for the food processing and packaging equipment industry. Most Canadian manufacturers and distributors of food processing and packaging equipment, as well as Canadian processors and packers attend the industry's events in the U.S. Some prominent shows are:

NAFEM 2005

Anaheim Convention Center, Anaheim, CA, September 23 – 25, 2005

PACK EXPO

Las Vegas Convention Center, Las Vegas, NV, September 26 – 28, 2005

2006 Northwest Food Manufacturing & Packaging Exposition

Oregon Convention Center, Portland, Oregon, January 15-18, 2006