



Functional Foods and Healthy Ingredients in the Canadian Market



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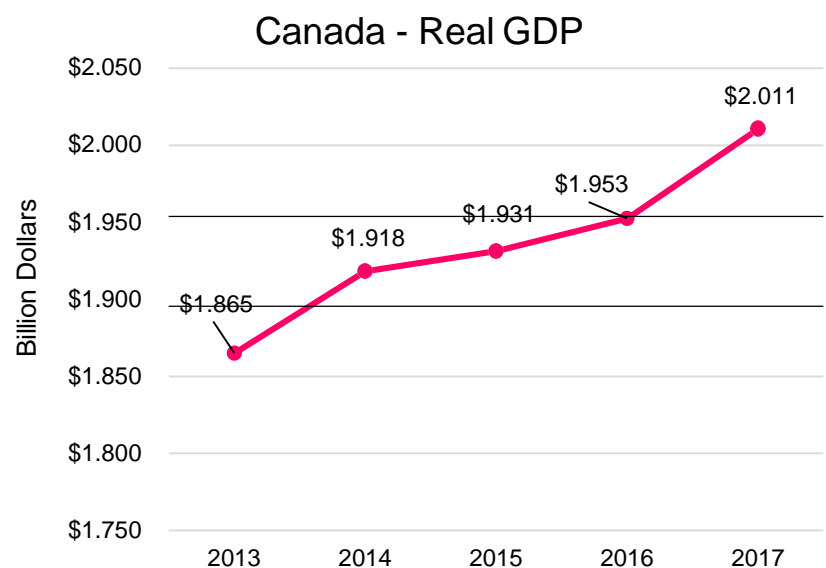
1. Market Overview

1.1 General data

Canada has a surface area of 10 million km², with a population of 37 million inhabitants (Statistics Canada, June 2018), of which approximately 80% live within 150km of the southern border with the USA.

The territorial organization is split into 10 provinces and 3 autonomous territories. It is a fragmented market and unique features in the different provinces force the market to follow a strategy that takes this provincial reality into account. The integration of distribution channels tends to be stronger in the north-south direction with USA than between the Canadian provinces themselves. The most important provinces for business are: Ontario, Quebec, Alberta and British Columbia. These four provinces represent more than 85% of the Canadian population and GDP.

It may be useful to have different importers / distributors for each regional market to distribute a product throughout the Canadian territory, although for some products there are distributors that operate in more than one province. For example the Atlantic provinces (New Brunswick, Nova Scotia, Newfoundland and Labrador, and Prince Edward Island) maintain close trade relations with one another and also the north-eastern United States.



1.2 Economic data

The nominal GDP of Canada in 2017 was 1.65 billion US dollars, ranking the Canadian economy as the 10th strongest in the world (World Bank). In annualized terms, the Canadian GDP increased 2.9% in 2017.

Canadian per capita GDP in 2017 was \$46,705 USD, which is similar to countries such as Belgium, Finland, United Kingdom, France or Japan, lower than the value of the GDP per capita of the United States. (\$59,535 USD) and higher than the EU average (\$41,119 USD).

As is typical of any developed economy, in Canada the tertiary sector has been gaining weight, while the primary and secondary sectors have in decline in recent years.

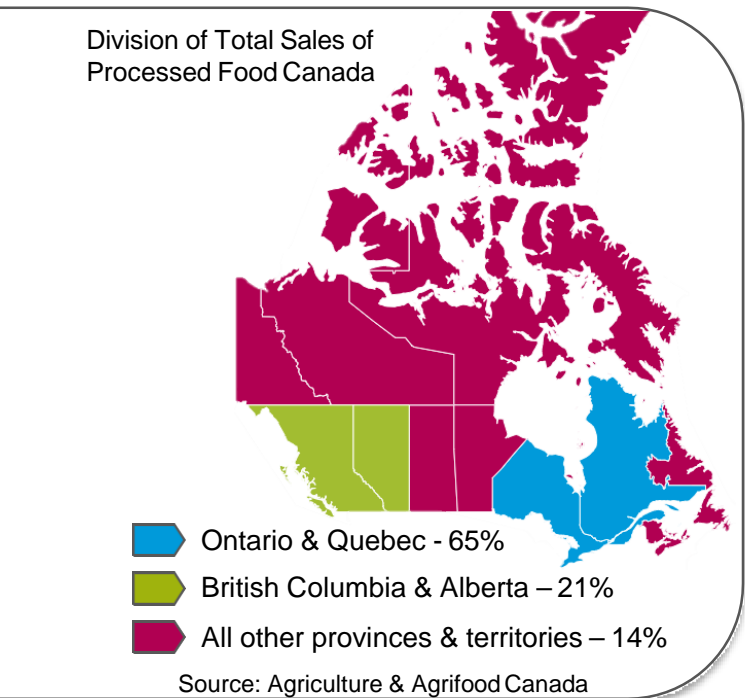
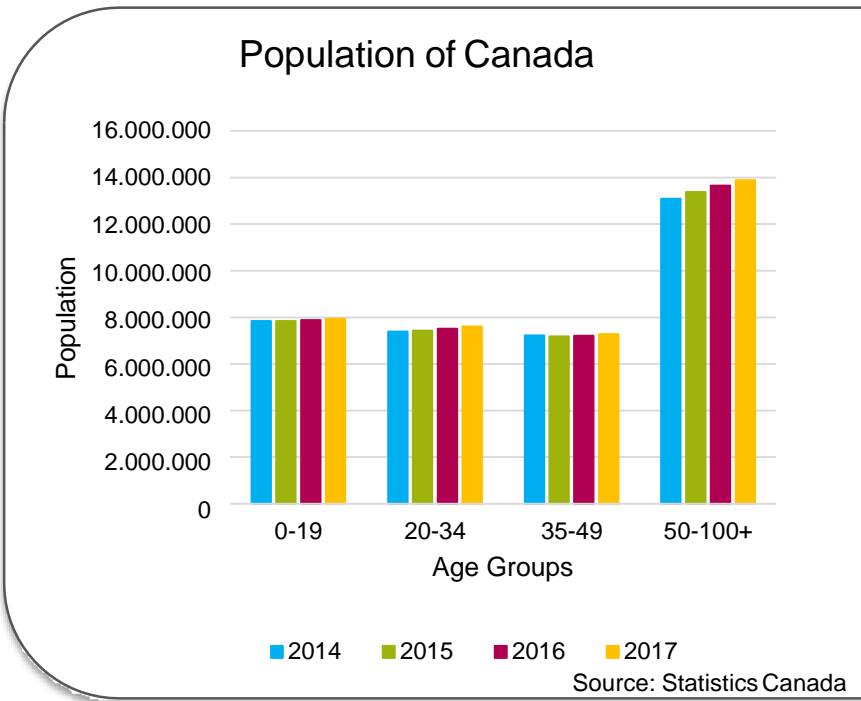
1.3 Canadian demographic changes

In 2017 Canada had a population of 36.62 million people. Despite a falling fertility rate, Canada continues to see population growth which is caused largely due to the increasing life-expectancy of the senior segment population as can be noted in the graph below.

This increasing segment of senior consumers presents a strong opportunity for the Functional and Healthy Food Sector, as this segment is one of the most interesting market niches for this type of products.

1.4 Canada’s food and beverage manufacturing industry

The Canadian food and beverage manufacturing industry sales reached \$84.8 billion in 2016. Food and beverage processing is the country’s second largest manufacturing industry and it accounts for 2 percent of GDP. In 2014, the Canadian food and beverage manufacturing sector’s exports reached \$27.8 billion, with 71 percent of that being exported to the United States.



The food and beverage manufacturing industry is by far the largest manufacturing employer in the country, with approximately 246,000 workers. Most of Canada’s food manufacturers are located in Ontario, the most populous province. Meat product manufacturing is the largest segment with approximately one quarter of the market share, followed by dairy product manufacturing.

Nationally, Ontario and Québec together account for 65 percent of total sales of processed food, British Columbia and Alberta for 21 percent and the remaining provinces together account for 14 percent.

1.5. Opportunities of the Canadian market

Canada is among the richest nations in the world, with low levels of inflation and unemployment, characteristics that contribute to create an environment to stimulate the consumption of goods and services, both domestic and imported.

Opportunities for promoting European exports with added value in various sectors are present, as well as numerous possibilities for deepening relations with innovation entities and the promotion of investments.

In relation to the food sector, the Canadian consumer is characterized by an inclination to a healthy lifestyle, privileging natural, organic and functional products that are friendly to the environment and in accordance with fair trade standards.

Regarding innovation, Canada and Europe share a series of parallel efforts which promote young, disruptive and information technology-focused ventures, with a global view of the market. A relationship with incubators and accelerators in Canada may open many doors for European entrepreneurs, potentially allowing them to join a soft-landing program.

General Market Trends and Opportunities in Canada



Aging population, demanding new and innovative functional products

16.9% of Canada's population is aged 65+, this is projected to rise to nearly 25% by 2031. (Stats Can)

In 2018, 14.9% of products launched in Canada had claims of Organic or Natural. (Mintel)

Millennial consumers demanding less processed foods with more **natural/organic** ingredients



High Obesity Rates and increasing **health concerns** driving the wellness trend

19.6% of new products in Canada in 2018, contained a "minus" claim (includes: low/no fat, low/no carb, low/no sugar, etc). (Mintel)

In 2018, 29.9% of new food products in Canada included some type of ethical or environmental claim. (Mintel)

Social and Environmental consciousness driving ethical eating trends



Food allergies, driving growth and innovation in the free-from sector

Lactose-free products are just one example which have seen strong growth in Canada during recent years (+32.1% from 2016 to 2018). (Mintel)

In January 2019, Canada implemented of the Safe Food for Canadians Regulations (SFCR), placing stronger controls and traceability on all food production. (CFIA)

Traceability, consumers increasingly want to know where their food comes from

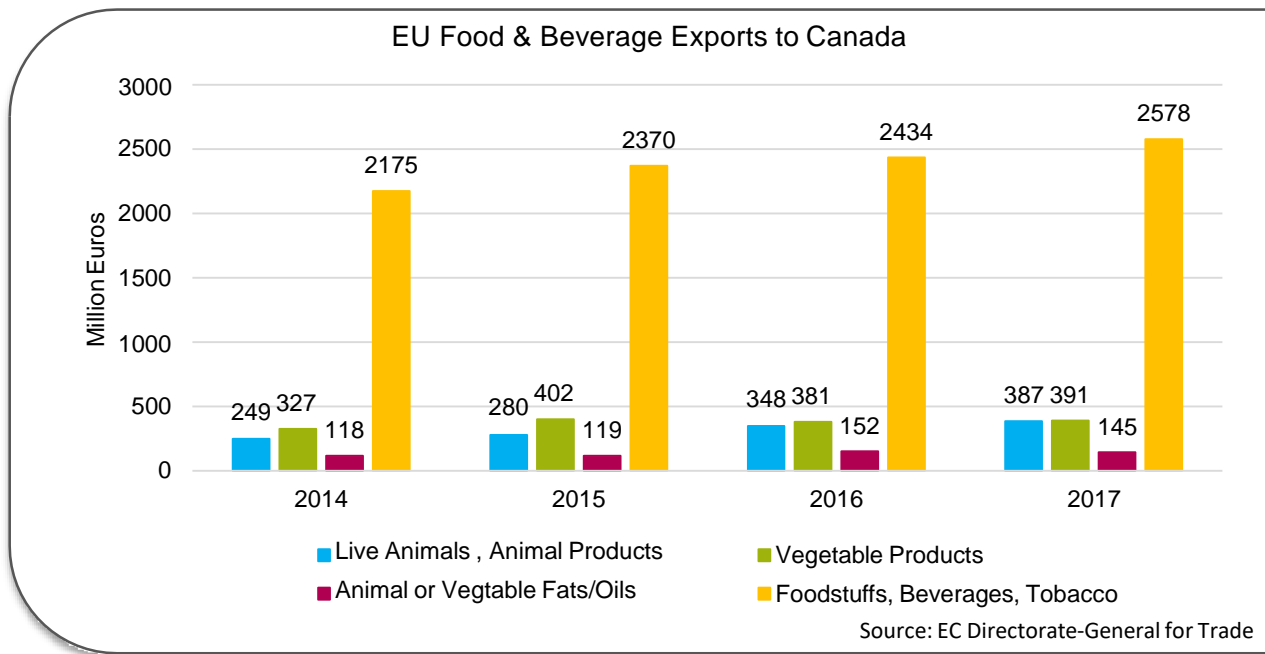


2. Trade Relations – Canada & the EU

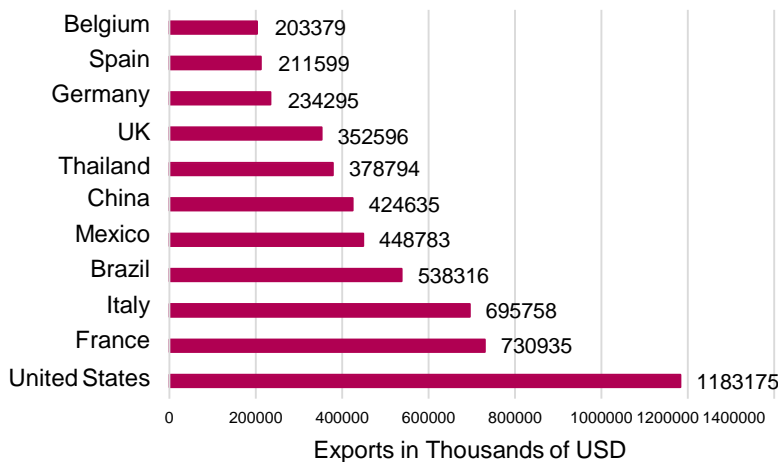
1. General data

The EU and Canada have a strong trading relationship. In 2016, the total trade of goods between the two was €64.3 billion, which accounts for 9.6% of Canada's trade in goods and 2% of the EU's external trade in goods. The EU is Canada's second largest trading partner after the United States.

In regards to the agri-food sector, EU exports to Canada have largely been growing during recent years, and in fact Canada was the EU's 10th largest agri-food export destination in 2017.



**Food Stuffs* Exports to Canada
(US\$ Thousand)**



Source: EC Directorate-General for Trade
(* Excludes Vegetables/Fruit and Meat)

2.2 Main Trade Partners

The Canadian trade market is characterized by its great dependence on its main partner, the USA, who receive 76% of Canadian exports and where 51% of Canada's imports originate (2017), with the EU ranking second as both supplier and client. (Stats-Canada)

3. Commercial Agreements with the EU

In recent years, Canada has signed numerous bilateral free trade agreements with different countries and trading groups. The Canadian European Union Comprehensive Economic and Trade Agreement (CETA) is one of such agreements, which came provisionally into effect in September 2017. Its aim is the elimination of reduction of barriers to trade through a progressive free trade process which covers virtually every sector for each side, eliminating duties (taxes) that European companies formerly paid at Canadian customs.

Under this agreement, Europe will be able to export almost 92% of its agricultural and food products to Canada without paying fees. This will create new export opportunities for European farmers and manufacturers particularly in the following sectors:

- wines and spirits
- fruits and vegetables
- processed products
- cheeses
- traditional European specialties (those with "geographical indications")

Since signing the agreement, both sides have seen increased exports/imports. Europe in particular exported over \$63 billion (CAD) of total goods and services in the first year, representing at 10.3% increase over pre-CETA numbers.

There are several positive examples in the food sector from different EU countries at this early stage. In the three months following CETA's implementation Italy registered a 9% in agri-food exports to Canada, and France noted a 5% increase in exports of GI wine.



Processed Foods

CETA will eliminate tariffs on a number of products of interest to EU exporters. This includes numerous processed food items such as marmalades, sauces, condiments, and salad dressings.



Cheese

Under CETA, Canada has agreed to increase cheese import quotas (duty free imports). The quota quantities will increase gradually over several years for both high-quality artisanal cheese and industrial cheese.



Beverages

CETA means the elimination of Canadian customs duties on the import of certain ciders, wines, spirits and soft drinks originating from the EU into Canada.

Alongside tariff reduction, blending requirements for spirits will be removed. Prior to CETA, companies could only import bulk spirits into Canada if they were to be blended with domestic spirits before bottling.

Source: UK DIT



Geographic Indicators

European Geographic Indicators were historically only applied to certain wines and spirits in the Canadian market, however with the implementation of CET, over 170 new protected indicators for different food categories are now in effect in Canada. These include varieties of cheese, olives, oils, meats, spices, nuts, fruit, hops and beer.

3. Exporting to Canada

3.1 Considerations prior to entering the Canadian market

There are many variables to take into account when exporting your products to Canada, some key highlights are:

- Canada is a price market where the most competitive exporters in the world operate. Canadian buyers are very demanding in terms of meeting delivery deadlines, and value the supply capacity and quality of after-sales service.
- Commercial distribution presents a strong option for market penetration. With regards to consumer goods, it is common for retailers to prefer dealing directly with wholesale importers at the provincial or national level rather than with foreign manufacturers and exporters. When establishing a commercial representation contract or agency, it is highly advisable to seek prior Canadian legal advice
- When considering promoting and marketing a product in Canada, it is important to consider that the decentralization of mass media makes the use of national broadcast media difficult, and furthermore there are two very different markets from a linguistic perspective, Quebec (French) and the rest of the country (English).
- Trade fairs are a good starting point towards exporting to Canada. The most relevant events are held in Toronto, although some major sectorial events take place in Montreal, Calgary and Vancouver. In addition to attending these types of events, having a representative, agent or importer (intermediary) can be useful, as representation by actors already validated and known nationally will help to build a relationship of trust and to achieve market entry.



2. Custom regulation and taxes

All products exported to Canada must be declared before the Canada Border Services Agency - CBSA (www.cbsa-asfc.gc.ca). This procedure is normally carried out by means of customs agents representing the importer, or, by the importer directly. Thus, the importer or agent must present the final customs documents and pay all taxes and charges that apply.

The valuation of products, performed by the CBSA, is governed by the Transaction Value method, based on the information provided to the customs authorities by the Canadian importer regarding the price paid or payable for the goods, generally specified in the invoice. According to this method, all the discounts applicable up to the moment in which the goods enter Canada can be deducted from the value of the transaction before calculating the tariff tax.

There are mainly two types of taxes which will affect goods sold within Canada:

- GST (Goods and Services Tax)** - Federal Tax on Goods and Services: It is a rate of 5% that applies in all provinces over the value of goods and services after canceling any customs duties/taxes. Most basic food products, agricultural products, farm animals and medical products and devices are into the "Zero-Rated Goods and Services" category, which means that they are exempt from GST payment.

- PST (Provincial Sales Tax)** - Provincial Tax on Sales: varies between 0% and 10%, depending on the province. Like the GST, the tax base is the value of goods and services after canceling all customs duties and taxes. However, in the provinces of Quebec and Prince Edward Island the value of the PST is calculated based on prices that already include the GST, so the value of the total tax is significantly higher than in other provinces.

In some provinces, instead of taxing each tax separately, a combined tax, the sum of GST and PST, called HST (Harmonized Sales Tax) is applied.

3. Regulation of export products into Canada

There are two organizations that formulate and set standards and are responsible for the certification of products and services. The first is the Canadian General Standards Board, a public institution recognized as the key agency in the formulation of written standards; and the second is the Canadian Standards Association, an independent private organization that is the most relevant in setting standards in practice, testing and certification of products. The websites of both organizations, respectively, are

www.tpsgc-pwgsc.gc.ca/ongccgsb/index-eng.html and www.csa.ca.

In the food and beverage industry, the Canadian Food Inspection Agency (CFIA) is the agency in charge of ensuring compliance with current regulations regarding these products. In addition, the CFIA is the final entry control prior to the processing of permits as well as the registration of products and labels when they proceed. Their website www.inspection.gc.ca provides all necessary information regarding import and inspection requirements, phytosanitary regulations and regulations for the packaging and labeling of food.

It should be noted that the CFIA introduced a reform to the food legislation through a law called Safe Food for Canadians Act (SFCA), which consolidates several pre-existing food statutes into a single law, with the purpose of increasing the safety of consumers and improve the competitive positioning of Canadian exporters in international markets. This law covers the regulations for agricultural products (Canada Agricultural Products Act - CAPA), fish (Fish Inspection Act - FIA), meat (Meat Inspection Act - MIA) and packaging and labeling regulations (Food-related provisions of the Consumer Packaging and Labelling Act - CPLA).

Canada maintains quantitative restrictions or quotas on the importation of certain products such as certain types of meat, animal fat, dairy products, eggs, etc. These are defined in the Import Control List, under the authority of the Export and Import Permits Act. To import these products into Canada it is necessary to obtain a permit, unless some exception is applicable.

4. Certifications

The authorities require, for the commercialization of certain products, compliance with certain regulations, through the certificates listed below:

- **Natural health products:** all-natural health products (regardless of whether they are of Canadian origin or imported) must undergo a preliminary examination before being allowed to enter the market, to test their safety, efficacy and quality. All necessary documents must be presented to the Ministry of Health of Canada, for which a Product License must be requested (one for each product) and a Facilities License. For more information about the regulations, visit the following link: www.hcsc.gc.ca/dhp-mps/prodnatur/about-apos/index-eng.php.
- **Organic products:** to be able to sell foods labeled as organic, it is necessary to comply with a set of rules established by the Canada Organic Regime (COR), through which the CFIA regulates the production and sale of organic foods. All organic foods sold in Canada must meet their requirements, including those foods produced with raw materials or organic ingredients. For more details, follow the link: www.inspection.gc.ca/english/fssa/orgbio/orgbioe.shtml.

3.5 Labelling regulations

.All packaged products sold in Canada are subject to a series of packaging and labeling regulations. Bilingual labeling in English and French is required for all pre-packaged goods and products sold anywhere in Canada, however, there are exceptions to this rule for some specific products. Products that are introduced as commercial samples can be exempted from the requirements of bilingual labeling and package standardization for up to one year.

Exporters must ensure that the buyer provides all the information required on the labels and approves all designs before printing. In general, the boxes must include with the following information:

- Product name
- Product color (if applicable)
- Weight of the box in kilograms
- Number of items per container
- Box measures
- Country and region of origin
- Name and address of the manufacturer or exporter

In the case of food, the group responsible for ensuring compliance with the labeling regulations is the Canadian Food Inspection Agency (CFIA). Some of the basic requirements which must be displayed on food labels (with the exception of fresh fruits and vegetables) are:

- Name
- Declaration of net quantity
- Name and address of the distributor
- Country of origin
- List of ingredients
- Nutritional table
- Due date

The current regulations for food labeling can be reviewed in its entirety at the following link from the CFIA:
www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml

3.6 Strategies for Market Entry

To find buyers, participation in specialized fairs may be useful, not only for the presentation of new products but also to maintain a continuous presence in the market. If participation in this type of event is not possible, it is recommended to obtain a copy of the directory of companies attending.

Nutrition Facts	
Valeur nutritive	
Per 1 english muffin (57 g) pour 1 muffin anglais (57 g)	
Amount Teneur	% Daily Value % valeur quotidienne
Calories / Calories 130	
Fat / Lipides 2 g	3 %
Saturated / saturés 0.5 g + Trans / trans 0 g	3 %
Cholesterol / Cholestérol 0 mg	
Sodium / Sodium 210 mg	9 %
Carbohydrate / Glucides 22 g	7 %
Fibre / Fibres 3 g	12 %
Sugars / Sucres 1 g	
Protein / Protéines 6 g	
Vitamin A / Vitamine A	0 %
Vitamin C / Vitamine C	0 %
Calcium / Calcium	4 %
Iron / Fer	6 %

INGREDIENTS: WATER*, WHOLE GRAIN WHOLE WHEAT FLOUR INCLUDING THE GERM, WHEAT GLUTEN*, YEAST*, SOYBEAN AND/OR CANOLA OIL, SALT, SUGAR, CALCIUM PROPIONATE, FUMARIC ACID, VEGETABLE MONO- AND DIGLYCERIDES. MAY CONTAIN SORBIC ACID. TOPPING: CORN MEAL, CORN AND/OR RICE FLOUR. *ORDER MAY VARY.

Contains: wheat
May contain: N/A

INGRÉDIENTS : EAU*, FARINE DE BLÉ ENTIER À GRAIN ENTIER INCLUANT LE GERME, GLUTEN DE BLÉ*, LEVURE*, HUILE DE SOYA ET/OU CANOLA, SEL, SUCRE, PROPIONATE DE CALCIUM, ACIDE FUMARIQUE, MONO- ET DIGLYCÉRIDES VÉGÉTAUX. PEUT CONTENIR ACIDE SORBIQUE, GARNITURE : SEMOULE DE MAÏS, FARINE DE MAÏS ET/OU DE RIZ. **SÉQUENCE PEUT CHANGER.

Contient : blé
Peut contenir : N/A

Example of product label with ingredients and nutritional information in French and English per Canadian regulations.

For most Canadian importers, exporters have only one opportunity to make a good impression and it is imperative to use this opportunity to publicize that offer. The initial information of the company must include prices, technical specifications, quality and safety certifications, and photographs of its products (it could also include photos of its production facilities, if desired).

It is recommended for the exporting company to have a website in English and ideally also in French. It should be attractive, easy to navigate and informative, with contact links to the e-mail of the appropriate sales manager.

Likewise, it is advisable to respond on the same day that the information is requested, thus demonstrating to the potential buyer your interest and reaction capacity, standing out from the many offers they receive each week.

Once conversations have advanced with the Canadian importer, it is common to request a shipment of samples of the product before placing an order. If this is the case, it is very important to send the samples per the agreed upon terms, since the importer will interpret this as a measure of export management capacity. Therefore, it is recommended to consider sending samples with due seriousness, professionalism and dedication, even if it means an important investment of time and money.

3.7 Resources

Government of Canada	www.canada.gc.ca
Agriculture and Agri-Food Canada	www.agr.gc.ca
Bank of Canada	www.bankofcanada.ca
Department of Fisheries and Oceans Canada	www.dfo-mpo.gc.ca
Foreign Affairs and International Trade Canada	www.international.gc.ca
Canadian Food Inspection Agency (CFIA)	www.inspection.gc.ca
Canadian Importers and Exporters Association	www.iecanada.com
Canada Border Services Agency	www.cbsa-asfc.gc.ca
Canada Revenue Agency	www.cra-arc.gc.ca
Canadian General Standards Board	www.tpsgc-pwgsc.gc.ca/ongc-cgsb/index-eng.html
Health Canada	www.hc-sc.gc.ca
Industry Canada	www.strategis.ic.gc.ca
Statistics Canada	www.statcan.gc.ca
Trade Facilitation Office Canada (TFO Canada)	www.tfocanada.ca

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www.wagr^{alim}.be

