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# 2016

## CANADIAN FOOD INDUSTRY REPORT

A comprehensive sector-by-sector  
snapshot of food & beverage  
processing and manufacturing  
industry performance & innovation

Prepared by

**FOOD in CANADA**  
Canada's food & beverage processing magazine

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## CANADIAN FOOD INDUSTRY REPORT

# FOOD in CANADA

Canada's food & beverage processing magazine

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# EXECUTIVE SUMMARY

In 2015, the value of food and beverage shipments grew by three per cent to \$107 billion led by exports which rose \$3.3 billion (12 per cent). The value of the domestic market grew by 2.4 per cent, indicating no growth or slightly negative growth after adjusting for price increases. Our \$1.2 billion trade deficit of 2014 was reduced to \$700 million as export gains more than offset the \$2.8-billion (10-per-cent) growth in imports.



Four sectors stood out for growth: grain and oilseed milling (5.4 per cent); seafood preparation and packaging (6.8 per cent); bakeries and baked goods (4.6 per cent); and Other Food Product (OFP) manufacturing (5.9 per cent). Three sectors reported export gains of 20 per cent or more: sugar and confectionery (25 per cent); bakeries and baked goods (23 per cent); and OFP manufacturing (23 per cent). Real value added grew at a healthy rate (2.2 per cent) in 2015 but at just half the pace of 2014, which was a record-setting year.

## LESS IS MORE

The trend to free-from foods dominated new product developments and reformulations. Kraft Heinz made headlines in March this year with “the world’s largest blind taste test” – it reformulated its iconic Mac & Cheese to eliminate artificial flavours, preservatives and dyes and no one noticed. CPG companies, however, made a point of publicizing their commitments to removing artificial ingredients from breakfast cereal, soups and other foods.

## A SOCIAL CONSCIENCE

Producer groups, food manufacturers, grocers and restaurant chains made many commitments in 2015 to goals beyond food quality, including cage-free eggs, red meats raised without antibiotics, and sustainably harvested seafood. The demand for local food prompted producer groups to adopt or emphasize that their crops are grown and livestock and poultry are raised in Canada. The maple leaf logo has been

particularly valued by American and overseas customers for its implicit guarantee of high standards.

## FAT IS BACK

A trickle of consumer interest in butter and other edible fats turned into a flood with *Time* magazine’s June 2014 cover story “Ending the War on Fat.” In 2015, the Canadian Dairy Commission reported, “as soon as butter imports arrive they leave inventory just as quickly to meet further processor demands.” Reduced-fat cheeses, yogurts, baked goods and ice creams lost share to full-fat alternatives, while consumption of skim and one-per-cent milk shifted to two per cent. Tree nut consumption, a growing category for over a decade despite its fat content, soared with 2015 imports up a third over 2014.

## SUGAR & SWEETENERS

The flip side of fat’s newfound acceptance was a further reduction in the use of sugar and artificial sweeteners, which were often used as ingredients to compensate for fat reductions. The long-term decline in fruit juice consumption was related in part to consumer avoidance of their sugar content and calories. This year, bottled water is expected to replace carbonated soft drinks as the leading bottled beverage in the U.S. due to the absence of sugar and artificial sweeteners.

## FIBRE & PROTEIN

The Natural Marketing Institute reported in December that a third of Americans felt they were deficient in fibre, compared to a quarter three years earlier. A Mintel survey earlier this year found that among consumers who said they were eating less cereal than the previous year, 33 per cent said they were eating breakfast items with more protein, and 23 per cent said they were eating items with more fibre. Joel Gregoire of Mintel notes that “consumers seem to understand fibre. They link it to heart health and digestion and those are very important to them.”

## STICKER SHOCK & PORTION SIZES

The sharp rise in food inflation in 2015 benefited frozen fruit and vegetables, seafood, plant-based proteins such as lentils, as well as spices and seasonings designed to better utilize leftovers. This, in combination with the elimination of artificial preservatives, gave an edge to smaller package sizes of preservative-free baked goods such as rolls and cupcakes that could be consumed before staling. The success of calorie-limited smaller bottles of soft drinks in 2014 was repeated in 2015 and early 2016 with smaller single portions of chocolate bars and salty snacks. ●



# ECONOMIC OVERVIEW

## CANADIAN DOLLAR OFFSETS COMMODITY DECLINE

The price of wheat declined by 80 cents (-14 per cent) a bushel to US\$5.08 in 2015 according to BMO Nesbitt Burns, but Canadian millers did not see much relief as the loonie dropped 12 cents (-16 per cent) to US\$0.78. A further six-cent (-8 per cent) drop in the dollar is forecast for the remainder of 2016. The World Bank's first quarter *Commodity Markets Outlook* report forecasts price declines of five to 10 per cent in most agricultural commodities, from tea leaves and coffee beans to soybean oils and wheat, with world sugar the notable exception as it rebounds by a third to 2014 levels. Converted into Canadian currency, commodity prices will plateau rather than actually fall.

Last year was good for the top line but not for the bottom line as the falling dollar benefited exports but drove ingredient costs higher. This year manufacturers are expected to restore their margins as the 2015 cost increases are fully passed on and commodity price increases begin to ease.

The food and beverage industry accounts for nine per cent of Canada's manufacturing shipments, six per cent of its manufactured exports and 17.5 per cent of its manufacturing employees. Inputs include agricultural commodities ranging from Canadian wheat, cattle and potatoes, to sugar from Thailand, cocoa beans from Côte-d'Ivoire, and rice from Thailand.

## THE CONSUMER

Consumers began 2015 with confidence and despite good growth in incomes, low overall inflation and moderate unemployment, ended the year less confident. The sharp rise (4.1 per cent) in retail food prices added about \$240 to the average household's \$5,900 in annual grocery spending, but this was more than offset by the \$410 they saved in gasoline and other fuel purchases on falling energy prices. However, confidence in the first two months of 2016 was 20 per cent below the year earlier period as bad news accumulated. In July the Bank of Canada reduced interest rates for the second time in six months as Ottawa, the major banks and the IMF downgraded their forecasts for Canada's economy.

was growing by 2.25 per cent in 2013 and 2.5 per cent in 2014, Temporary Price Reductions (TPRs) were steep and frequent. Retail space, however, increased by just one per cent in 2015 following Cerberus Capital Management's 2014 acquisition of Safeway and closure of unneeded stores, and Target's exit from the Canadian market in January 2015.

## EXPORTS

Export markets, which account for about 30 per cent of Canadian food and beverage shipments, were particularly good for the confectionery, seafood, grain and oilseed milling sectors in 2015. Export Development Canada (EDC) forecasts strong growth in 2016 but not at the unsustainable 12-per-cent pace of last year. EDC senior economist Richard Schuster explained that the three- to five-per-cent growth in exports for 2016 is stronger than it might appear because commodity prices have eased.

## RETAIL COMPETITION SUBSIDIES

The intense competition among grocers seen in past years was subdued in 2015. When the retail floor space devoted to food

## SHIPMENTS, IMPORTS, EXPORTS & DOMESTIC MARKET FOR THE CANADIAN FOOD & BEVERAGE INDUSTRY, 2009 TO 2015, PLUS LATEST DATA FOR 2016

		2009	2010	2011	2012	2013	2014	2015	LATEST*
SHIPMENTS	\$ BILLION	\$90.11	\$91.61	\$94	\$94.6	\$96.6	\$103.4	\$106.5	\$26.2
	CHANGE (%)	5%	1.7%	2.6%	0.7%	2.1%	7.5%	3.0%	4%
IMPORTS	\$ BILLION	\$10.1	\$10.5	\$10.8	\$11.1	\$11.4	\$11.7	\$12.0	\$8
	CHANGE (%)	10%	4%	3%	3%	3%	3%	3%	0%
EXPORTS	\$ BILLION	\$18.5	\$18.5	\$18.5	\$18.5	\$18.5	\$18.5	\$18.5	\$8
	CHANGE (%)	10%	0%	0%	0%	0%	0%	0%	3%
DOMESTIC MARKET	\$ BILLION	\$72.0	\$73.1	\$73.2	\$73.5	\$73.2	\$73.7	\$73.5	\$18.2
	CHANGE (%)	0%	1%	0%	0%	0%	0%	0%	4%
PRICE INFLATION <sup>(1)</sup>	CHANGE (%)	1%	1%	1%	1%	1%	1%	1%	2%
EXPORT INTENSITY <sup>(2)</sup>	PER CENT	20%	20%	20%	20%	20%	20%	20%	31%
DOMESTIC MARKET SHARE <sup>(3)</sup>	PER CENT	77%	77%	75%	74%	73%	72%	70%	70%

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\* Latest three months to January 2016 vs three months to January 15, 2015. **1.** Price Inflation (Industrial Product Price Index, CANSIM Table 329-0077). **2.** Export Intensity = Exports/Shipments. **3.** Domestic Market Share = (Shipments – Exports)/Domestic Market. Industry Canada, Trade Data Online (North American Industry Classifications) supplemented with shipment data from Statistics Canada, CANSIM Table 304-0014 Manufacturers' sales, inventories, orders, by North American Industry Classification System (NAICS) Canada.

ECONOMIC VARIABLES RELEVANT TO FOOD & BEVERAGE SHIPMENTS, TRADE & CONSUMPTION 2009 TO 2015

	UNITS	2009	2010	2011	2012	2013	2014	2015
<b>F&amp;B EMPLOYMENT (1)</b>	<b>PERSONS</b>	248,189	250,224	252,942	250,836	247,997	246,414	251,009
	<b>CHANGE %</b>	-1%	1%	1%	-1%	-1%	-1%	2%
<b>F&amp;B AVERAGE WEEKLY HOURS (2)</b>	<b>\$/HOUR</b>	35	35.2	35.4	35.1	35.5	36.2	36.4
	<b>CHANGE %</b>	-1%	1%	1%	-1%	1%	2%	1%
<b>F&amp;B GDP (3)</b>	<b>\$ BILLION</b>	\$28.4	\$28.4	\$28.4	\$28.4	\$28.4	\$28.4	\$28.4
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>CAPACITY UTILIZATION FOOD (4)</b>	<b>%</b>	1.2	1.2	1.2	1.2	1.2	1.2	1.2
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>CAPACITY UTILIZATION BEVERAGE (4)</b>	<b>%</b>	2.8	2.8	2.8	2.8	2.8	2.8	2.8
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>F&amp;B CAPITAL EXPENDITURES (5)</b>	<b>\$ BILLION</b>	91	91	91	91	91	91	91
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>FOOD IPPJ (6)</b>	<b>%</b>	9	9	9	9	9	9	9
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>CPI FOOD (7)</b>	<b>%</b>	5	5	5	5	5	5	5
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>F&amp;B SPENDING IN STORES (8)</b>	<b>\$ BILLION</b>	1	1	1	1	1	1	1
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>F&amp;B SPENDING AWAY-FROM-HOME (9)</b>	<b>\$ BILLION</b>	1	1	1	1	1	1	1
	<b>CHANGE %</b>	0%	0%	0%	0%	0%	0%	0%
<b>CANADIAN GDP (10)</b>	<b>\$ BILLION</b>	\$1,595	\$1,634	\$1,649	\$1,634	\$1,634	\$1,634	\$1,649
	<b>CHANGE %</b>	2.5%	2.5%	0.9%	1.9%	2.2%	2.5%	0.9%
<b>UNEMPLOYMENT RATE (11)</b>	<b>RATE</b>	8.4%	8.1%	7.5%	7.3%	7.1%	6.9%	6.9%
<b>HOUSEHOLD NET SAVINGS RATE (12)</b>	<b>% OF DISPOSABLE INCOME</b>	4.6%	4.2%	4.3%	5%	5.4%	4.2%	4%
<b>HOUSEHOLD NET BORROWING (12)</b>	<b>\$ BILLION</b>	-\$37	-\$48.6	-\$47.6	-\$44.2	-\$44.5	-\$59.9	-\$66.4
	<b>CHANGE %</b>	41%	-31%	2%	7%	-1%	-35%	-11%

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1. CANSIM Table 281-0023 Employment (SEPH), unadjusted for seasonal variation, by type of employees for selected industries. 2. CANSIM Table 281-0032 Average weekly hours worked for employees paid by the hour (EPH) for selected industries. 3. CANSIM Table 379-0031 Gross Domestic Product (GDP) at basic prices, North American Industry Classification System. 4. CANSIM Table 028-0002 Industrial capacity utilization rates, by North American Industry Classification System. 5. CANSIM Table 029-0046 Capital and repair expenditures, industry sectors 31-33, manufacturing, annual. 6. CANSIM Table 329-0077 Industry price indexes, by North American Industry Classification System (NAICS). 7. CANSIM Table 326-0020 Consumer Price Index (CPI), 2011 basket. 8. CANSIM Table 080-0022 Retail commodity survey based on North American Industry Classification System (NAICS). 9. CANSIM Table 355-0006 Monthly survey of foodservices and drinking places, by North American Industry Classification System (NAICS). 10. CANSIM Table 379-0031 Gross Domestic Product at 2007 constant prices, by North American Industry Classification System (NAICS) All Industries [T001]. 11. CANSIM Table 282-0001 Labour force survey estimates (LFS) unadjusted for seasonality, monthly. 12. CANSIM Table 380-0072 Current and capital accounts – Households, quarterly.

### The Outlook

Elliott forecasts foodservice sales to increase by 3.5 per cent in 2016 or 0.5 per cent after adjusting for menu inflation. Strong growth in Ontario and B.C. will offset weak to negative growth in Alberta and other provinces hit by low energy prices.

Michael Burt, director, industrial economic trends, Conference Board of Canada, forecasts food and beverage manufacturers’ sales to grow by 4.2 per cent in 2016 or 2.7 per cent after price changes. Profits, which had been hard hit by cost increases in 2015, should recover in 2016 and increase by about eight per cent.

The outlook for exports is much better in the longer term as Free Trade Agreements are signed, ratified and implemented. The final text for implementing the 2014 Comprehensive Economic and Trade Agreement (CETA) with the European Union became available in February. CETA will affect our \$1.1-billion food and beverage exports to the EU, including \$500 million in seafood. Negotiations for the Trans Pacific Partnership with a dozen countries, including the U.S., Japan, Chile, Mexico, Australia and Vietnam, concluded in October but have not yet been ratified by the trading partners. The deal would account for \$26.9 billion of our food and beverage exports, including more than \$5.3 billion in flour and edible oils, \$5.3 billion in meat and poultry and \$2.6 billion in seafood. ●



# BAKED GOODS SECTOR [sector snapshot]

The baked goods sector includes most grain-based foods with the exception of snack foods, which fall into the Other Food Products sector, and breakfast cereals, covered in the Grain and Oilseed Milling sector. There are four sub-sectors: bread and bakery products, including fresh and frozen breads, rolls, cakes and pastries; cookies and crackers; flour mixes and dough;

and dry pasta. Commercial bakeries account for 85 to 90 per cent of bread and bakery product shipments and retail bakeries for the remainder.

In 2015 the value of baked goods shipments rose by \$600 million (seven per cent) to \$8.8 billion. Adjusted for price increases, volume was up four per cent. Real value added rose by 4.6 per cent. Almost all of the increased shipments flowed into export

markets. Exports of fresh and frozen bread, rolls, cakes and pastries rose by \$300 million (31 per cent) and exports of cookies and crackers rose \$150 million (18 per cent). Overall, exports increased by \$500 million (23 per cent) to \$2.8 billion, while the value of imports rose \$200 million (14 per cent) to \$1.8 billion. As a result Canada's trade surplus in the baked goods sector increased by \$300 million (45 per cent) to \$1 billion.

## INTERNATIONAL TRADE

The sub-sectors vary considerably in their reliance on export markets. In 2010, 15 per cent of commercial bakery shipments and 14 per cent of dry pasta shipments were exported, while 55 per cent of cookies and cracker shipments and 56 per cent of flour mixes and dough shipments were exported (there is current data for sub-sector imports and exports but not for shipments).

In 2015 the United States accounted for \$2.7 billion of our \$2.9 billion in exports of baked goods, and the United Kingdom, Australia, Saudi Arabia and Japan for just under \$100 million. Exports to the U.S. were up 25 per cent, while those to the rest of the world were down nine per cent.

Imports accounted for 24 per cent of the domestic market for baked goods in 2015. Imports, however, have more significance in categories such as cookies and crackers, which have sufficient shelf life and value to merit shipping long distances. In 2015 the U.S. accounted for 73 per cent of our baked goods imports overall, as much as 84 per cent for fresh and frozen breads, rolls, cakes and pastries, and as little as 55 per cent for imports of dry pasta. Other major sources of imports are Italy and China for dry pasta (including noodles), and Mexico and the U.K. for cookies and crackers. In 2015, China increased the value of its baked goods exports by \$10 million (26 per cent) to \$50 million.

## MERGERS & ACQUISITIONS

In October, New York-based private equity firm Swander Pace Capital acquired a majority stake in Burlington, Ont.-based Voortman Cookies. Andrew Richards, managing

director at Swander, said at the time, "We see a huge opportunity to help the company expand through increased investment in product innovation, distribution and marketing. Harry Voortman will be succeeded by Douglas MacFarlane as CEO but remain a shareholder, director and advisor.

In November, TreeHouse Foods of Oakbrook, Ill. acquired the private-label brands business of ConAgra Foods for US\$2.7 billion. The acquisitions will double TreeHouse's annual revenues to US\$7 billion in sales of dry and refrigerated foods including cookies, crackers, pasta, cereals and spreads. In a statement Sam K. Reed, CEO of TreeHouse, noted: "Since our founding 10 years ago, our strategy has been to drive shareholder value by consolidating supply of private-label brands."

## BEYOND WHEAT

Bread, rolls and buns account for half of the projected \$8 billion in retail sales in the baked goods sector, according

## BAKERIES & TORTILLA MANUFACTURING

	UNITS	2012	2013 VS 2012	2014 VS 2013	2015 VS 2014
SHIPMENTS (1)	\$ MILLION	\$7,713	-1% (2)	1%	3%
IMPORTS (1)	\$ MILLION	\$1,800	1%	1%	3%
EXPORTS (1)	\$ MILLION	\$5,913	-2%	1%	3%
REAL GDP (6)	\$ MILLION	\$2,448	-1%	7%	5%

1. Trade Data Online – Canadian Manufacturing Shipments 2012, Total Imports, 2012 to 2015, and Total Exports, 2012 to 2015. 2. Change in shipments 2013 to 2015 derived from Sales of goods manufactured (shipments), CANSIM Table 304-0014 Manufacturers' sales, inventories and orders by North American Industry Classification System (NAICS), Canada. 3. Domestic Market calculated from shipments, imports and exports. 4. Trade Balance calculated from imports and exports. 5. Industry Price Indexes, CANSIM Table 329-0077. 6. Real GDP at basic prices, volume measures, seasonally adjusted at annual rates, chained (2007) dollars, CANSIM Table 379-0031, Gross domestic product (GDP) at basic prices.

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