

Canadian Opportunities in the EU

Market Assessment of Opportunities and Challenges – 2016

The Impact of CETA on Agri-Food and Seafood Exports

The Largest Market in the World

The European Union (EU) is Canada's second-largest trading partner, and continues to maintain approximately 20% of the world's gross domestic product (GDP); with a market of over 500 million consumers, and imports of over \$115 billion (\$694 billion if you include intra trade). The EU market is diverse, expanding, and full of opportunities for Canadian businesses.

Although it can be considered as a single economic unit in many regards, the EU is by no means homogeneous. A variety of cultural, linguistic, market and demographic differences exist and marketing efforts need to be geared to specific countries or segments within the region. A regional approach is necessary to target specific opportunities for Canada to compete and supply. The business culture in the EU values relationships and is driven by trade fairness and loyalty. It is essential that Canada expand its market presence in the largest market in the world, especially with the advantages now offered by the European Union Comprehensive Economic and Trade Agreement (CETA). Europe attracts the world and is often the trend setter for food products. It also attracts a wide array of products from staple for very premium categories of products.

Before the implementation of CETA, Canada was the EU's 20th largest non-EU supplier of agri-food and seafood products in 2015, with a 2.1% share. Canadian exports varied from bulk products (conventional and organic) such as wheat, linseed, and canary seed, to value-added products such as pet food, processed pulses, frozen fruits, spirits, and maple products.

The largest importers of Canadian food products in the EU are Italy, the UK, Belgium, the Netherlands, France and Germany. Belgium and the Netherlands are important ports-of-entry for transshipments to other EU Member States and also act as conduits to many other markets around the world because of the large number of international brokers working in these countries.



Objectives and Approach

- The objective of this Opportunity Assessment Reports series (OAR) is to summarize the results from a Sector Prioritization Tool (SPT) that serves to identify a list of most promising products for Canadians to increase their competitiveness abroad.
- Each assessment is based on both historical trade patterns and tariff reductions as well as input from internal and external stakeholders to leverage their expertise.
- The consultation process used to achieve these results allowed to make connections between the data and the realities of Canadian capacity, innovation requirements, market access issues, etc., ultimately leading to more informed decisions as to what is required to have an impact on competitiveness in a given market for a particular sector.
- The tool used by AAFC for this analysis is proprietary and the raw data was provided through the Global Trade Tracker.

Strengths, Opportunities and Challenges for Canada

Using a quantitative and qualitative modeling approach Global Analysis ranked all agri-food and seafood products imported by the EU of which Canada has an ability to produce and supply internationally. The analysis focused on over 100 products representing 62% of EU imports and nearly 89% of Canada's current exports to the region. These products were further aligned into 19 super sectors and presented to various experts from within Agriculture and Agri-Food Canada (AAFC) as well as within all 10 Canadian provinces to further assess the opportunities and identify the challenges that may remain despite the presence of the CETA. This extensive analysis has led to the design of a roadmap for these highly strategic sectors to achieving success in the EU as a result of CETA.

While not all the products and sectors were further analyzed, all agri-food and seafood products went through the quantitative model, which allows us to rank each product based on a series of quantitative measures or criteria, such as size of market, market growth, Canada's trade intensity, and [tariff reductions](#). Any information on sectors not covered in this section can therefore be obtained by consulting the ["Doing Business in Europe"](#) web portal or by contacting the AAFC's Global Analysis staff at infoservice@agr.gc.ca.

The analysis below will focus on assessing the opportunities from a strengths and challenges perspective:

1) Canada's strengths defined by high performance in the largest EU import sectors with high growth and other sectors where Canada is expecting to make important gains due to the lowering of tariffs as a result of CETA 2) The challenges that industry still face while trying to take full advantage of the large and growing opportunities offered by the market. These are not new issues, but are ongoing problems that now warrant more attention, given the temporary advantageous market access conditions. Various market development activities are being coordinated through our Federal-Provincial International Market Engagement Teams (IMET), which will guide the promotional work and the efforts to better support industry in resolving some identified impediments to trade.

Largest and Fastest Growing Opportunities

The largest opportunities representing imports over C\$100 million identified through our process include:

1. [Fresh/Chilled Atlantic salmon](#)
The fresh salmon market in the EU had a 21% increase over the past three years thanks to a number of factors, such as health claims and consumer confidence in the salmon products they are buying and eating. EU's fresh/chilled Atlantic and Danube salmon had a large market size of C\$8.4 billion in 2015. Strong competition within this market mainly came from northern European countries such as Norway, Sweden and Denmark. Among non-EU suppliers, Canada was the 12th largest supplier in 2015, facing competition from Norway, Faroe Islands, and Iceland. Canadian exporters should be aware of price sensitivity within this sector.
2. [Dog or cat food](#) with imports of C\$7.9 billion in 2015 and a compound annual growth rate (CAGR) of 11.7% over the past 3 years, most products entered through Germany, Austria and Italy. Companies interested in taking advantage of this opportunity need to also consider the presence of non-tariff barriers and specific labelling requirements. Canadian companies also need to take into account their price sensitivity. Canada is presently ranked 6th as a non EU supplier, with the largest imports coming from Thailand.
3. [Durum wheat](#) is also significant with imports of C\$2.1 billion in 2015, mostly into Italy, Belgium and Germany, with a CAGR of nearly 18% over the past three years. Canada is the top supplier and its main competition has come from the US over that same period. Considerations include

EU labelling requirements for processed wheat based products that are difficult to adapt to, as well as competition from within the EU.

4. [Shrimp products](#), whether they are frozen cold water shrimp, canned, or processed shrimp, the EU imported C\$1.8 billion from non-EU suppliers in 2015. The top three EU importers of shrimp include Spain, France, and the United Kingdom, and the top suppliers outside the EU were Ecuador, India, and Argentina. Canada is currently ranked 6th as a supplier. Exporters should be aware of non-tariff barriers and other considerations such as the need to set up a supply chain that will make Canadian products more competitive against local EU suppliers.
5. [Lobster products](#) also represent a very significant opportunity, with EU imports of over C\$500 million in 2015. Once again, price sensitivity and internal competition are a challenge, but frozen lobster imports have been growing at a compound annual growth rate of over 21% from 2012 to 2015. France, Spain and Belgium are the largest importers and Canada's non EU competition mainly comes from the US, Nicaragua, and the Bahamas.
6. [Fresh, frozen and processed berries](#) Sales of berries such as cranberries, blueberries, and raspberries are growing at a rapid compound annual growth rate of 20% in the EU reaching C\$2.2 billion in 2015. Considerations for this segment include regulatory issues, price sensitivity and internal competition from within the EU. Individual EU buyers include Germany, the United Kingdom, and the Netherlands. Canada is ranked 10th among non EU suppliers where, Serbia, Chile, and Morocco lead all non EU suppliers.
7. [Frozen scallops](#) are also a very large market in the EU with imports nearly C\$604 million in 2015 and a high compound annual growth rate of over 12% during the past three years. There are specific labelling requirements for frozen scallops in the EU and there is also internal competition and a high sensitivity to price. Frozen scallops enter mostly through France, the Netherlands and Belgium and are mostly supplied by the US, Peru, and Argentina.
8. [Lentils](#) showed imports of nearly C\$333 million in 2015 and a compound annual growth rate of 14.6% over the past three years. Labelling requirements are important and the price sensitivity is also considerable especially in bulk form. There are lots of opportunities for lentils as ingredients in various prepared meals and pasta as well baked goods products. Canada is the top supplier of lentils to the EU, and Spain, Italy and France are the major importers for the region.
9. [Maple products](#) showed more imports of C\$111 million in 2015 and continued to be the hallmark of Canadian supply in the processed food sector. There exist specific labelling requirements for these products and price sensitivity can also be a factor depending on the markets within the EU. Canada is the lead supplier to Germany, the United Kingdom and France.

The following chart outlines the major opportunities identified from the modeled quantitative and qualitative results, which have been positioned with the best opportunities in the upper two quadrants. The sectors with the least amount of challenges are located on the right. The goal of this product positioning is to offer a road map to both industry and government institutions as to where they have the maximum impact and what areas need to be further developed from either a market access or a market development point of view. The results of the analysis allow us to better focus on the sectors that are most likely to have a large impact on Canada's exports and documenting the issues raised by the experts provides a clearer path as to what additional requirements are needed for easier exporting of identified promising sectors. As a result of these efforts, content pieces are being developed to raise awareness about these opportunities and how to favorably take advantage of them. Content reports have been developed for several of the sectors identified, and links are provided within the table below and other areas within the report pointing to these reports within the [AAFC web portal](#).

POSITIONING CHART – OPPORTUNITIES IDENTIFIED & THEIR TOP 3 EU MARKETS



Growth through Value-Added Exports

While the EU is an important market for commodity exports, it is one of the few markets in the world that Canada can grow exports of value-added products, given its wealth and relatively stable economy, post 2008 global economic crisis. Canada currently supplies C\$831 million in processed foods to the EU, a figure that has been growing steadily since 2012. Value-added exports provide an income multiplier and exports tend to be less volatile as commodities. Exporters can compete in an environment of growth, less sensitive to market share and prices as margins are usually higher for value added products.

Better paying and higher-skilled employment is often created in Canada from exports of value-added products. It is in Canada's interest to position differentiated, high-value, unique, niche products, such as ethnic products. For example, the EU market provides an opportunity to position products that consumers identify with Canada, such as bison meat, cranberries, ice wine, wild rice, lobster, maple products, and others. Given the market size, the diversity and the openness of consumers and buyers to experience Canadian food and beverage products, the target markets for value-added products are: France, the UK, the Netherlands, and Belgium. In 2015, Canadian processed food exports to the EU

Processed foods currently represent 25% of all Canadian agri-food and seafood exports shipped to the EU.

came mostly from sales of dog or cat food (12.7%), frozen fruits such as cranberries and blueberries (12%), frozen lobster (11%), frozen scallops (7%) and naturally healthy product ingredients (6.3%). Other important processed products included baked goods and ingredients for bakery products, canned salmon, whiskies, meats, canola meal as well as processed lobster and crab.

Canada's main competition in the EU for processed food comes typically from Brazil (11%), mostly from imports of meat and offal products, soybean oil, and orange juice; the US (7.7%), mostly from imports of whiskies, wine, soybean oil, naturally healthy product ingredients, fresh beef and tomatoes; Argentina (7.1%) mostly from soybean oil, beef products, lemons, chestnuts, wine, sunflower seed oil, scallops and other mollusks, horse meat and honey; Switzerland (6.1%), mostly roasted coffee, naturally healthy product ingredients, cheese, chocolates and dog or cat food; and China (5%), mostly coming from imports of animal stomachs and bladders, honey, naturally healthy product ingredients and canned vegetables.

Products where Canada has a strong presence in the processed food sector have been able to maintain strong market share in these products because other non EU countries are more focused on some key products where Canada has less interest. There is, however, strong competition in beef products, naturally healthy product ingredients, honey and various oilseed products.

Canada's Competition

Canada currently has 2.1% of the EU agri-food and seafood market, before the implementation of the CETA. The reduction in tariffs should provide a comparative advantage to Canadian producers in some key sectors. In 2015, Canada's non-EU competition came from [Brazil](#), but mostly from strong supply in soybeans which Canada would unlikely make large gains due to its more limited production capacity. The

[US](#) comes second, but with a more serious range of products from commodities such as soybeans as well, but also with many other products from the food processing industry such as dried almonds, whisky, Rum, fish and seafood and many other sectors. Other top suppliers include China (fish and seafood), Norway and Argentina (animal meal) and Turkey (hazelnuts and other nuts).

OPPORTUNITIES IDENTIFIED & TOP 3 COMPETITORS TO CANADA IN THE EU MARKET

Sector	Canada's Rank	Top Three Non-EU Competitors to Canada in the EU Market		
		1	2	3
1. Durum wheat	1	US	Australia	Mexico
2. Lobster products	2	US	Nicaragua	Bahamas
3. Shrimp products	6	Ecuador	India	Argentina
4. Lentils	1	US	Turkey	China
5. Maple products	1	US	China	Japan
6. Berries	10	Serbia	Chile	Morocco
7. Kidney Beans	2	China	US	Argentina
8. Linseed	3	Russia	Kazakhstan	India
9. Scallops	3	US	Peru	Argentina
10. Dog or cat food	6	Thailand	Liechtenstein	Switzerland
11. Mustard Seed	1	Ukraine	Russia	Serbia
12. Bakery Products	6	China	US	Switzerland
13. Canola seed	3	Australia	Ukraine	Argentina
14. Livestock Feed	12	US	Argentina	Brazil
15. Salmon products	6	Norway	Faroe Island	Chile
16. Frozen cod	9	Russia	China	Norway
17. Naturally Healthy Products	9	US	Switzerland	Turkey
18. Barley	13	Ukraine	Moldova	Russia
19. Oat Products	2	Chile	US	Ukraine

Gaining a Competitive Advantage by Connecting to Industry

Focusing on [strategic sectors](#) to maximize Canada's initial performance as CETA comes into full force will allow Canadian exporters to build relationships, establish supply chains, and allow the Canadian industry to take advantage of more developed and efficient distribution routes making it possible for other less strategic sectors to benefit from the inroads made by the key supported sectors. The competitive advantage achieved through developing these close relationships with export customers is twofold:

- 1) A better understanding of the needs of consumers in the export country makes it possible for businesses to provide products and services that are better suited for that market's market demands.

- 2) Once importers come to depend on mutual commitments and a growing understanding of needs, it is the proven ability of industry and those who support them to solve problems that will make price become less of a competitive threat. Buyers will focus more on the 'value in use' of products and services and less on small differences in price.

Developing a competitive advantage means producing something that Canadian producers do better than their competitors. This implies uniqueness, something that differentiates Canadian products from those of its competitors. In order to differentiate Canadian competitors, the unique attributes of the products provided must also be important to the targeted buyers. This sort of matchmaking requires support mechanisms such as [Trade Commissioner knowledge of buyer requirements](#) and product specs combined with a strong Canadian understanding of industry supply, product attributes and capacity to develop new lines of products that can take advantage of these unique buyer requirements.

For businesses trying to take advantage of a time sensitive advantage such as CETA, the competitive advantage is [more temporary and changing](#). A number of factors impact exporters ability to sustain a competitive advantage, including:

- 1) Rising expectations for higher product quality combined with lower prices.
- 2) New competitors from an increasingly globalized economy and other trade agreements such as bilateral agreements, including a possible deal between the US and the EU in a few years.
- 3) [Rapidly shifting technology](#), such as the World Wide Web and E-Commerce, which has lowered barriers to entry, and made access to information more simple.

Sustaining a competitive advantage is a challenge in today's fast-changing global marketplace. If a Canadian exporter has a cost advantage through the use of proprietary technology to improve yields in commodity products, or benefits from lower labor rates; or has new products that meet specific customer needs then it has a structural advantage, but when experiencing temporary advantages tied to the lowering of tariffs or taking advantage of environmental issues such as serious droughts suffered by competitors it becomes more important to be well informed and to take full advantage of the various information resources available, such as those provided through federal and provincial government programs.

Regional Considerations

While the regulatory considerations are mostly national considerations, not all of these sectors have the same interest or the same level of priority for Canadian provinces. Their vast diversity of sectors make it important for federal and provincial resources to work together in order to support industry efforts in taking advantage of the strategic opportunities resulting from CETA. The following chart outlines the main provinces involved in the supply of the products identified as the [strategic opportunities for Canada](#) in the EU. The provinces have also provided expert input in terms of industry capacity and interest in meeting EU product and labelling requirements and demand. The provinces also weighed in on which products were high priorities for the provinces and which might have benefited from announcements for specific support.

Very few negative "show stopper" issues were raised by the provinces and colleagues in AAFC's regional offices, except for some really specific issues such as the difficulties to adapt to EU regulations and labelling requirements as raised by Alberta for lentils, durum wheat, kidney beans, berries, mustard seed, canola, and forage products. Oats, barley and naturally healthy product ingredients were also identified as problematic from an industry interest and challenge perspective. Most of the other comments regarding a few of the [identified strategic priorities](#) for the EU were limited to a lack of provincial support, and lack of awareness and interest on the part of industry.

POSITIONING CHART – OPPORTUNITIES TOP 3 PROVINCES SUPPLYING THE EU



FOR MORE INFORMATION

International Trade Commissioners can provide Canadian industry with on-the-ground expertise regarding market potential, current conditions and local business contacts, and are an excellent point of contact for export advice.

Find a Trade Commissioner

www.tradecommissioner.gc.ca/eng/find-trade-contacts.jsp

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