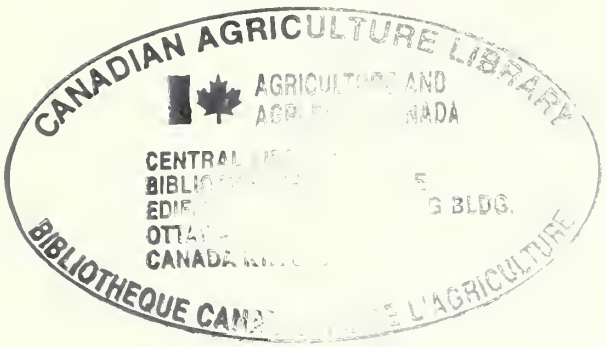
THE FOOD AND BEVERAGE PROCESSING SECTOR

The Case for Investing in Canada



The Case for Investing in Canada:

Food and Beverage Processing

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international
Agriculture and Agri-Food Canada
Agriculture et Agroalimentaire Canada

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SUMMARY

Canada has a long history of being a successful trading nation and the agri-food industry has played an important role in that history. As a continuation of this role, the Canadian government has set a minimum target of $20 billion worth of agri-food exports by the year 2000, a 33% increase over the $15 billion worth of exports recorded in 1994, or better, a 3.5% share of the global agri-food market. To meet either of these targets, Canada's agri-food businesses will need additional external investment. Canada has long recognized that external investment has a vital role to play in developing the country's vast potential and it welcomes international partnerships.

The Canadian agri-food sector offers investors an opportunity to develop and test new food products in an environment characterized by technological excellence, abundant natural inputs as well as sophisticated and demanding consumers.

As one of the world's leading producers of food commodities, Canada enjoys a plentiful and secure supply of raw materials for food processing.

Canadian consumers have shown themselves to be highly receptive to new products.

The North American Free Trade Agreement gives agri-food businesses located in Canada preferential access to the entire North American market of 370 million consumers — the richest and most innovative in the world.

And international investors are free to develop whatever arrangements best suit their requirements. For example, foreign investors may wish to license technologies, form joint ventures to expand processing capabilities, or enter into co-marketing agreements. Alternatively, they may wish to create entirely new facilities for product research, development and testing.

This is an ideal combination for any investor looking to take advantage of emerging opportunities in the global agri-food business.

Note: Unless otherwise stated, currency used is Canadian dollars.

Access to the North American Market

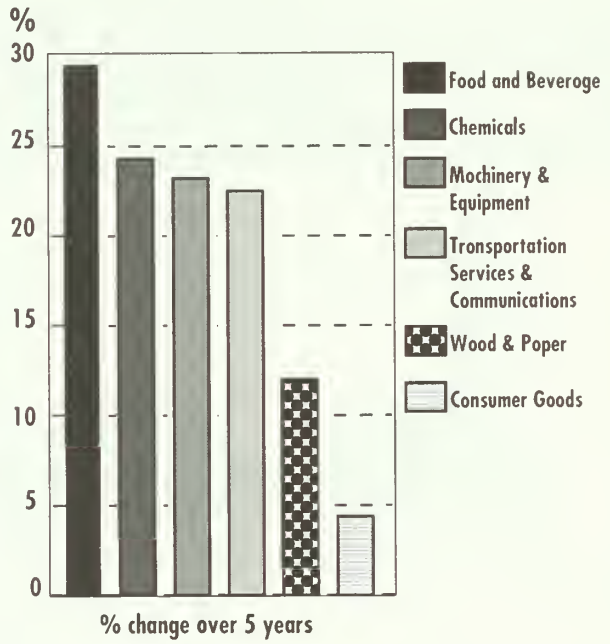
** Each concentric circle represents 1 day trucking distance from food or beverage processing centre*

Food and Beverage Processing
Canada's Advantages

Building on its abundance of high quality agricultural commodities and fresh water, Canada is one of the world's leading producers of food. It is a trading nation with a long history of success in international business. It is a significant source of innovation and expertise in agricultural research, biotechnology, and food processing. It has a well-educated and productive labour force supported by world-class transportation and one of the most advanced telecommunications networks in the world. It is within easy reach of the large and lucrative markets of the United States and Mexico.

Because of these advantages, international investment in Canada's food and beverage industry is growing. In fact, over the past five years, foreign investment in food and beverage processing has grown by almost 30 percent, much faster than in any other part of the manufacturing sector (see Figure 1). As far as international investors are concerned, Canada continues to be a choice location for future investment in food and beverage processing.

Figure 1.
Foreign Investment Growth, 1990-1994



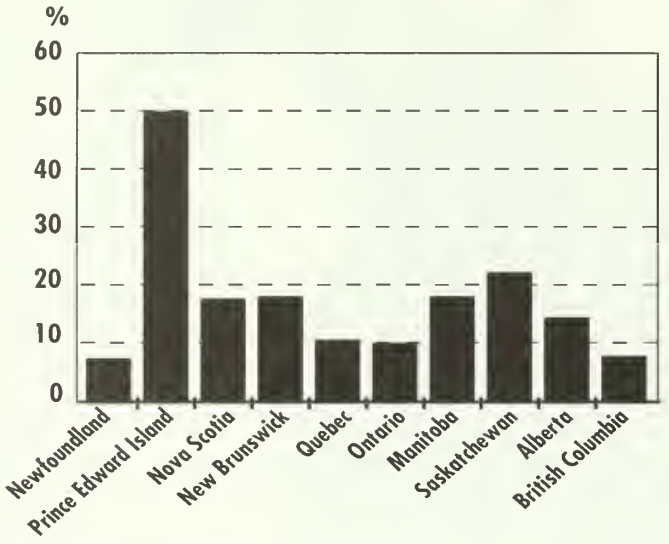
Source: Statistics Canada, 1994.

An inexhaustible source of inputs

Canada's agricultural and fisheries resource base is immense. It is characterized by vast areas devoted to the production of grains, oilseeds, fruit, vegetables and other field crops. It has large dairy and livestock herds, highly sophisticated poultry production and a wide range of both wild and cultured fish and seafood. At the same time, a developed research infrastructure has emerged within a tradition of close cooperation between the public and private sectors. As a result, Canada offers an ideal environment in which to develop and promote new food products.

The food and beverage processing industry is diverse and well distributed across Canada. These industries make up a significant part of the economy of every one of Canada's provinces (see Figure 2). As a result, all regions of Canada offer attractive opportunities to international investors interested in agriculture or food and beverage processing.

Figure 2.
Food Processing as a Percent of Manufacturing GDP, by Province, 1994



Source: Statistics Canada, National Accounts.

A RECEPTIVE MARKET

Canadian consumers, like those in the United States, are affluent by world standards, accustomed to a wide selection of processed foods and eager to try new food and beverage products. They expect quality, convenience and variety. In fact, these characteristics make Canadian consumers an exacting testing ground for new food and beverage products. What is more, the Canadian market is an excellent indicator of trends and preferences in the neighbouring U.S. market. Most Canadian retailers feature the same brands that lead in food and beverage sales in the United States. This makes Canada the ideal test market for products destined for all of North America.

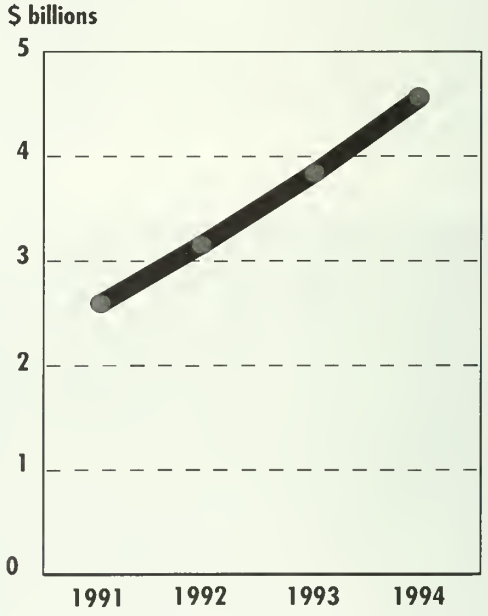
MARKET ACCESS

The North American market of 370 million people is the world's richest market. Food and beverage processors located in Canada have preferential access to the entire region through the market access guarantees of the North American Free Trade Agreement (NAFTA).

The United States has long been Canada's largest single trading partner and this relationship has been strengthened first, with the implementation of the Canada-U.S. Free Trade Agreement in 1989 and then, with its extension under the terms of NAFTA to include Mexico. As a result, Canada's processed food exports to the United States have been growing steadily (see Figure 3).

At the same time, Canada's export markets have diversified, with a number of new countries taking on added importance in recent years. Growth in exports of agri-food

Figure 3.
Canadian Food and Beverage Exports to the United States, 1991-1994 ($ billions)



Source: Agriculture and Agri-Food Canada, International Markets Bureau.

products is a Canadian national priority. The government has set a target of $20 billion in agri-food exports by the year 2000 and ultimately, Canada wants to capture 3.5 percent of the world's trade in food and agricultural products.

Infrastructure

Canadian food and beverage manufacturers benefit from highly sophisticated marketing channels in Canada, the U.S. and Mexico. All three countries have established highly efficient food wholesale and distribution industries. These channels, in turn, offer growing markets for the private label brands that account for an increasing portion of processed food shipments.

The other major marketing channel for Canadian food processors is the food service industry which accounts for approximately 38 percent of all retail food and beverage sales in North America. Meeting food service industry requirements offers processors opportunities to develop a diversity of high-volume product lines while incurring lower packaging and promotional costs.

Technological sophistication

Canadians have long been among the world's leaders in agricultural and food research. From the development of hardier strains of wheat in the 19th century to the recent development of canola, they have created grains that can take advantage of the unique characteristics of the Canadian environment. They have earned a global reputation in livestock breeding. More recently, Canadians have demonstrated leadership in several key branches of biotechnology.

This technological sophistication is sustained and enhanced by a national network of food research and development centres concentrated in several clusters around the country. Moreover, international investors interested in accessing Canadian capabilities

can benefit from R&D tax incentives that are among the most generous of any in the advanced industrial countries.

Government support

Federal government departments in Canada provide a wide range of services to the food and beverage sector and to potential international investors in these industries. These include the provision of comprehensive information, referrals and contacts and the delivery of programs designed to encourage and support various parts of the industry. Similarly, provincial governments are also taking steps to foster growth and encourage investment in the food industries under their jurisdiction. Municipalities are also involved in supporting new investments.

Investors do not have to deal with 3 totally different bureaucracies, the federal government often acts as an initial point of contact and works very closely with provinces to service investors. Provinces are well positioned to provide comprehensive site location evaluations on individual projects.

Finally, governments at all levels are working aggressively to open up new international markets for Canadian food products.

Sectoral Overview

The processed food and beverage sector enjoys a prominent place among Canada's manufacturing and resource-processing industries. For example, it ranks ahead of important sectors such as automotive industries, pulp and paper, electronics, or textiles and apparel. The food sector is, in fact, the leading consumer products sector in Canada and across North America.

Sectoral composition

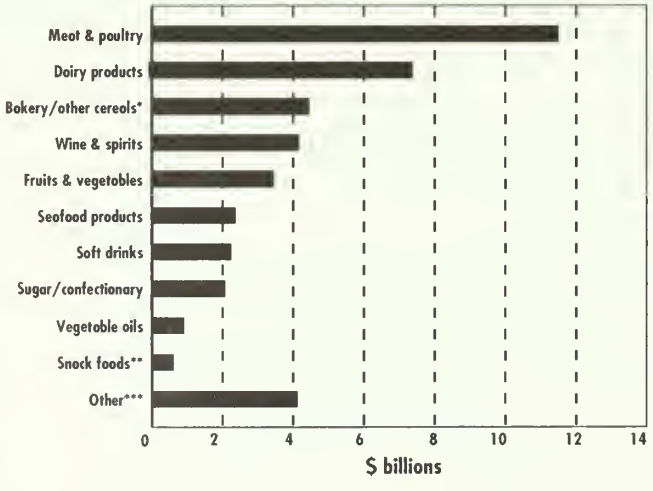
The food processing sector is composed of many distinct industries. They can be grouped into major categories, reflecting their relationship with primary agricultural industries and their respective positioning as primary or secondary processors. (See Figure 4)

Primary processors such as meat and poultry, seafood and marine products, dairy products and crop-based products are closely linked to the primary agriculture and fisheries sectors. Having the benefit of abundant supplies of Canadian-produced food commodities as inputs, these industries are characterized by a large percentage of firms acting as producers of both finished products destined directly for consumers or, semi-finished products that are intended for further processing. This group of industries accounts for roughly half of all shipments by the food and beverage sector.

The other categories of industries within the sector are beverage manufacturers as well as those that produce what are generally described as "further processed" products, ready for consumer tables or food service establishments. These industries account for roughly 50 percent of total shipments and about 60 percent of the total value-added created through the processing activity of the entire sector.

The food and beverage processing sector collectively represents the major market for Canada's 280,000 farmers and 80,000 fishermen and seafood harvesters. Every year, it purchases more than $20 billion in unprocessed food inputs from Canadian producers in addition to another $7 to $8 billion in imported food commodities. These inputs are then processed into shipments that are valued at nearly $50 billion every year.

Figure 4.
Shipments by Major Processing Industries in Canada's Food and Beverage Sector, 1993 ($ billions)



* Includes flour, bakery, breakfast cereals, feeds and pasta industries
** Snack foods represent chips, popcorn, and pretzel industries
*** Other includes tea, coffee, malt and miscellaneous food items

Source: Statistics Canada, Survey of Manufacturers.

Competitiveness through flexibility

When measured in terms of employment and value of shipments, many of Canada's food and beverage processors would be classified as small and medium-sized enterprises (SMEs) by international standards. Despite this, many of these Canadian firms are highly competitive because they use flexible pro-

cessing equipment and production facilities that enable them to produce a greater variety of products. Rather than investing in very high-volume, single-product facilities, Canadian processors have opted for plant and processing designs capable of achieving acceptable economies of scale even for shorter production runs while retaining the flexibility to produce a diversity of products with the same equipment. This adaptability also allows Canadian-based firms to process private label brands for retailers and other manufacturers under co-packing agreements and to respond more quickly to niche product and market opportunities.

Ownership characteristics

Ownership varies widely from one sub-sector to another in the food and beverage processing industry. In some sub-sectors, 95 percent of the firms are Canadian-owned; in others, foreign owners control more than half of all companies.

Roughly half of the value of shipments in the processed food and beverage sector is accounted for by Canadian-controlled firms, a few of which are relatively large while the remainder are small and medium-sized companies. The majority of these firms are privately owned: relatively few Canadian firms in the sector have publicly traded equity. The other half of shipments is accounted for by Canadian-based subsidiaries and affiliates of major multinationals which have long recognized the advantages of investing in Canada.

Strategic Regional Clusters

The processed food and beverage sector is important in all regions of the country, but it is important in different ways. Distinct, regionally based food processing industries are found in a number of industrial clusters across Canada. These represent different capabilities that have evolved as a result of unique local competitive advantages.

Seafood

The seafood processing complexes on the Atlantic and Pacific coasts represent significant industrial clusters. The processing of fish harvested from both marine and inland waters is being complemented by a rapidly expanding aquaculture industry, specialized in the production of salmon species and shellfish, largely dedicated to fresh market and food services demand.

Fruits & vegetables

Fruit and vegetable processing industries are clustered in several regions of Canada. Potato primary research, plant breeding, production and processing are concentrated in New Brunswick, Prince Edward Island, Ontario, Manitoba and Alberta. Other fruit and vegetable production processing is centred in Nova Scotia, Quebec, Ontario and British Columbia.

In each of these regions, processors have strategic research and development linkages with university and government research centres. Specialized fruit and vegetable processors engaged in the manufacture of preserves, sauces and condiments have accounted for the emergence of many new, high-growth products and of many new small and medium-sized food companies in Canada in recent years.

Wines

Ontario and British Columbia are also known for their wine industries. They have become increasingly successful in developing and marketing varietal wines under a Vintner's Quality Assurance program, adopted by many new independent firms which have emerged to meet increasingly sophisticated tastes of consumers.

Meat & poultry

Canada's meat and poultry industries are concentrated in Alberta, Ontario and Quebec. The sector has gone through a period of restructuring and consolidation over the past decade and this has led to the development of important meat and poultry trading centres in these regions. It has also allowed Canada to secure a reliable source of raw materials for meat processing operations.

The meat industry produces more than Canada requires for its domestic consumption and this guarantees an ongoing and dependable supply of products for export markets. As a result of careful efforts over time, Canada has built a solid international reputation as a high quality supplier to world markets. The know-how of Canadian livestock producers and meat processors and the application of state-of-the-art technology have both contributed to this reputation for excellence.

The poultry industry is largely domestically oriented and has become a highly sophisticated part of the agri-food sector. It has been growing in recent years in response to stronger domestic demand for poultry products.

Diversification of retail and food service meat products and growing exports of fresh and frozen meats and of further processed meats have increased the critical mass of investment and production in recent years.

Dairy products

Quebec is Canada's leading province in dairy production, processing and dairy food science. It alone accounts for nearly half of the country's dairy production and processing. Other major dairy production and processing regions are to be found in Ontario, Nova Scotia, Alberta and British Columbia. The city of St. Hyacinthe, Quebec is the centre of an important industrial cluster specializing in the dairy industry and food science. More than a centre for dairy, meat and food ingredient research and development, the region is also an incubator for new advanced food technology firms and producers of bio-ingredients. More than 50 food processing firms and research organizations are now located in this region. These, in turn, are linked to other institutions and firms in the Quebec City and Montreal regions.

Cereals

Cereal grain and oilseeds production and processing are concentrated in the Prairie provinces of Alberta, Saskatchewan and Manitoba and in Eastern Canada in Ontario. The processing industries include wheat, corn and oat milling; malting; and biscuit, breakfast cereal, pasta, gluten, starch and

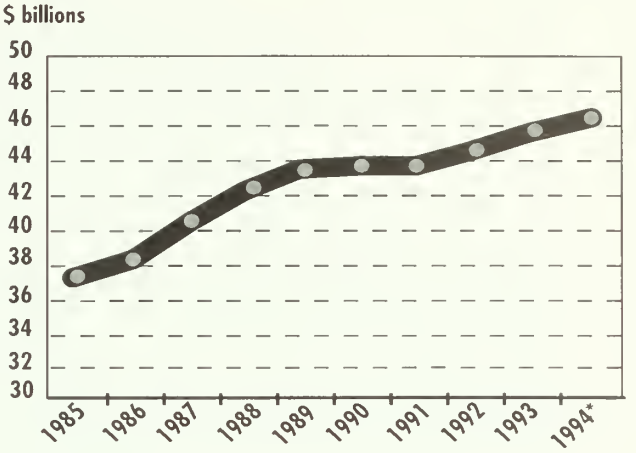
Canada and the United States: A Unique Market Relationship

vegetable oil manufacturing. Major bakery products firms are located near major urban markets in all regions. Significant large independent bakery products firms are found throughout Canada.

Secondary food processing

Most secondary food processing industries making prepared, ready-to-cook and ready-to-serve foods for retail and food service markets are clustered in or near urban regions. Nearly 40 percent of all Canadian value-added food and beverage processing is centred in Ontario and another 25 percent is in Quebec, Canada's two most heavily populated provinces.

Figure 5.
Canadian Processed Food Shipments, 1985-1994 ($ billions)



Source: Statistics Canada, Census of Manufacturers.

*Agriculture and Agri-Food Canada estimate

Growth and Diversification

The Canadian processed food and beverage sector has experienced very significant growth in the first half of the decade. Between 1990 and 1994, the value of annual industry shipments increased by an estimated $3 billion (see Figure 5).

At the same time as it has been growing, the sector has witnessed a great deal of diversification. This process has been stimulated by two different consumer groups: one which is eager to try new food products and an increasingly more diverse collection of ethnic groups for whom these foods represent their traditional diet.

Canadian food and beverage processors have responded to shifting consumer preferences by producing Canadian products that compete directly with the imports that have found widespread consumer acceptance and stimulated new market demand. Nowhere is this more in evidence than in dairy products, which were second only to frozen foods in terms of retail grocery sales volume growth in 1994. Canadian consumers now can buy Canadian-made dairy products such as variety cheeses, yoghurts and spreads that were previously available only as imported foods.

Similar examples of diversification are to be found in the manufacture of sauces, preserves and condiments. Leading the way have been Mexican-style tomato-based sauces and salsas, joined by prepared mustards, steak sauces, marinades and salad dressings. These kinds of products, plus sweet sauces and fruit preserves, have been instrumental in allowing many new Canadian-based food firms to break into both regional and national markets.

Even some industries previously considered to be "mature" have witnessed dramatic growth in the number of new entrants and new products. For example, small, independent brewing companies, such as: Algonquin Breweries; and the Whistler Brewing Company, have been launched in Ontario, Quebec, British Columbia and other regions of the country. The Canadian wine industry has experienced a comparable

phenomenon, largely because of increased specialization in the production of high quality wines from varietal grapes that are more successful in competing with imported varieties and vintages. Overall, the quality of Canada's domestic production of blended and table wines has improved vis-à-vis internationally recognized wine production regions. Small firms in both the brewing and wine industries are now moving beyond local and regional markets into inter-provincial and international niche markets.Diversification is also being encouraged by a very well developed food wholesale and distribution sector. Local brands of processed foods and beverages can now be distributed more widely to retail grocers and specialty food stores outside the region in which the products originate. Similarly, Canadian food service establishments continue to diversify their menus by featuring new products and experimenting with food preparation methods. This, in turn, creates new consumer tastes and stimulates demand for comparable products in retail outlets.

Technological Excellence

Canada has a strong research and development capability in food and beverage processing. Much of that capability can be found in the country's universities, industry-funded centres of excellence, and government research institutions, all of which have a long tradition of close and fruitful collaboration with researchers in individual firms. As a consequence of being able to access this broad range of expertise and facilities, the cost of conducting R&D in Canada can be very competitive.

Canada's academic and government research institutions possess an impressive critical mass of research professionals in food sciences and related disciplines. These institutions are linked through the *Food Network* of 12 universities and 18 federal and provincial government food research facilities with the objective of creating inter-agency, multidisciplinary research teams.

For example, the University of British Columbia (UBC) campus in Vancouver serves as the nucleus of a food research and technology cluster with strong capabilities in applied molecular biology. In addition to the university's own research programs, research is conducted in collaboration with Agriculture and Agri-Food Canada and the British Columbia Research Corporation. This complex is being further strengthened by the creation of a more formal linkage of research organizations in the region under the umbrella of the UBC Food Research Centre, launched in 1994.

There are similar university-government-industry complexes in association with the University of Alberta in Edmonton, the University of Manitoba in Winnipeg, and the University of Toronto and the University of Guelph in Ontario. For example, the Guelph Food Technology Centre was developed by a group of food industry representatives and researchers at the University of Guelph. It was created in response to the need to commercialize food technologies developed by the research community. It now operates as a partnership

involving food industry representatives, the Ontario government, labour unions and the University of Guelph.

The efficiency of R&D spending in agricultural and food research is further enhanced through the Canadian Agricultural Research Council (CARC), a national body of research and development professionals organized into expert committees that advise public and private sector R&D organizations and investors. CARC also maintains an inventory of Canadian agricultural and food research projects to assist researchers in partnering and obtaining maximum value from complementary research activities.

> ***"The future for the Canadian food industry lies in value-added products, and the challenge in developing value-added is to look for both food and non-food applications of our products and technologies."***
>
> Don Murray
> President and CEO
> Guelph Food and Technology Centre

Fermentation

These R&D linkages and alliances among the major nodes of scientific expertise and technology have been a strong contributing factor in the development of leading food products and technologies in Canada. For example, Canada enjoys a strong position of leadership in fermentation technologies and products used in the manufacture of brewery products, wines and spirits, bakery products, dairy products and a range of other fermented food products. Much of the research and development in this field is centred in and around Agriculture and Agri-Food Canada's St. Hyacinthe Food Research and Development Centre in Quebec.

Canadian-based food and beverage manufacturers are taking advantage of this expertise to compete against international producers. Canada's leadership in dairy food science and fermentation technologies is allowing Canadian dairy processors to develop made-in-Canada products that compete successfully against an ever-growing array of imported cheeses and other dairy products. A Canadian firm is the leading global supplier of yeasts and related products. Canada's malting industry also leads the world as a preferred supplier of the highest quality barley malt for brewers and distillers.

Food irradiation

Canada offers unique capabilities in food irradiation technologies. Nordion International Inc., a Canadian company, is the primary supplier of food irradiation equipment and has installed more than 170 industrial irradiators in more than 40 countries. Through its Whiteshell Research Facility in Manitoba, Atomic Energy of Canada Limited offers a unique expertise in radiation processing of foods and other agriculture products. The facility is equipped with an accelerated-electron beam irradiator to meet either research or pilot scale needs. The Food Research and Development Centre in St. Hyacinthe, Quebec has a pilot scale cobalt-60 irradiation for research and development purposes.

Commercially, food irradiation is still used in a limited number of food and agriculture products in Canada and around the world. But with the continued technological advancements, food irradiation will play a more important role in the industry. For example, in 1991, the United States approved the irradiation of chicken meat to eliminate salmonella.

Biotechnology

This collaborative approach is highly in evidence in the case of biotechnological research and development related to agriculture and food. This activity is being conducted at three major clusters located in Saskatchewan, Ontario and Quebec. For example, Canadian research scientists are

applying molecular biology to achieve a wide range of objectives in the areas of disease resistance, herbicide tolerance, agricultural yields and nutritional profiles for plants as well as experimenting with the functionality of primary foods and food commodities.

Vegetable oils

Canada's vegetable oil industry has excelled in the development and international marketing of new products, the most important of which are Canola and products based on it. Canola oil is becoming a preferred vegetable oil for direct consumption, and as an ingredient in many traditional and new processed food products. Research and development now in progress in Canada will lead to additional new edible oils with superior nutritional properties as well as a new array of non-edible vegetable oil products for industrial use.

Cereal grains

Investment continues in Canada's cereal grains technologies through a national network of research organizations. A number of nutritionally and functionally superior grain varieties will emerge from this research and development stream to give Canadian processors long-term competitive advantages in terms of world-class quality and input costs. These include cereal grains with superior protein composition and processing characteristics, as well as new food ingredients and functional foods being derived from traditional and genetically modified cereal grains. Continuing to benefit from Canada's long history and enviable reputation as a grain producing and exporting country, Canadian processors are increasingly taking advantage of North American market opportunities for cereal grain products. Saskatoon, located in Saskatchewan, is the heart of Canada's largest grains and oilseeds research and development complex, encompassing the University of Saskatchewan research labs, the National Research Council Plant Biotechnology Institute, the Protein, Oil and Starch (POS) Pilot Plant facility and a host of Canadian and multinational private sector firms. The latter have been attracted to Saskatoon by the strong base of expertise and infrastructure nurtured through favourable R&D policies and programs, plus direct investment by federal and provincial departments and agencies.

In Winnipeg, Manitoba, the Grain Research Laboratory division of the Canadian Grain Commission has developed and maintained an international reputation for expertise in grain quality analysis.

Seafood

Canada's seafood processing industry is also being transformed by new processing technologies and product innovations. Canada is assuming a position of world leadership in the utilization of what used to be regarded as lower-value seafood such as gooseneck barnacles, rockfish and several Pacific groundfish species. It also leads in terms of processing by-products for new food ingredients and industrial products. Canadian marine and freshwater aquaculture production are rapidly becoming more sophisticated and science-based. Centres of seafood research and development include the Technical University of Nova Scotia, Laval University in Quebec and Memorial University in Newfoundland.

Red meat

As a leading producer and exporter of red meat, Canada continues to develop new processing technologies, including finished product handling, preservation and packaging. Much research and development in these areas is being conducted through pre-competitive, collaborative programs, some of which are supported through the direct participation of industry associations in support of industry-wide objectives.

Because of the importance of the red meat industry, the federal government has established several specialized meat research centres. As an example, the Lacombe Research Centre in Alberta is active in developing new cattle feeding regimes and new methods of carcass grading to improve processing yields, new preservation methods and new packaging technologies. This work is complemented by research in pork production and processing, including detection of genetic factors affecting production of quality meat.

A Reputation for Quality

Canada has an international reputation for high quality foods, beverages and food commodities. The regulatory system which governs food and beverage manufacturing and distribution is one of the cornerstones upon which this reputation has been built. It provides consumers in both Canada and other countries with the assurance that Canadian-processed foods are of high quality, safe and fully in compliance with the ingredient and nutritional profiles indicated on product packaging and labelling.

> ***"Agropur's plant in Notre-Dame-du-Bon-Conseil, Quebec, has obtained ISO-9002 certification. Agropur becomes the first dairy processor in North America to obtain ISO 9002 registration from the International Organization for Standardization, whose members include Canada and about 100 other countries"***
>
> Food in Canada
> September 1994

The benefit of this national system of food safety and quality assurance is reflected in the high level of consumer confidence shown toward the foods sold in Canada. Canada's National Institute of Nutrition surveyed Canadian consumers and found that a majority of them believes that food sold in retail supermarkets is safe. Moreover, the level of consumer confidence displayed in Canada is actually higher than it is in either the United States or Mexico.

Canada's federal government fully recognizes that regulations governing industry behaviour must serve the public interest at the same time as they foster international competitiveness. Although this quality assurance system is stringent, it is not an impediment to manufacturers of processed foods in Canada. Rather, it is an underlying reason for the international success of Canada's food industry and serves to ensure global market access for Canadian food and beverage products in the future.

Most importantly, Canadian processed food and beverage products are winning international recognition by consumers and food service industries in other countries. Canadian food and beverage products are frequently accorded the highest awards at international food trade fairs such as SIAL. In recent years, Canadian wines, beers, processed vegetables, biscuits and prepared vegetarian foods have all taken top prizes. Five Canadian food processors won a SIAL d'OR at the 1994 SIAL event. Supreme Produce Inc. of Calgary won a SIAL d'OR for its prepackaged fresh vegetables for a stir fry, General Mills Canada of Toronto for its dried fruit snacks, Yves Veggie Cuisine of Vancouver for its "meatless" vegetarian pepperoni, Loblaws International Brands of

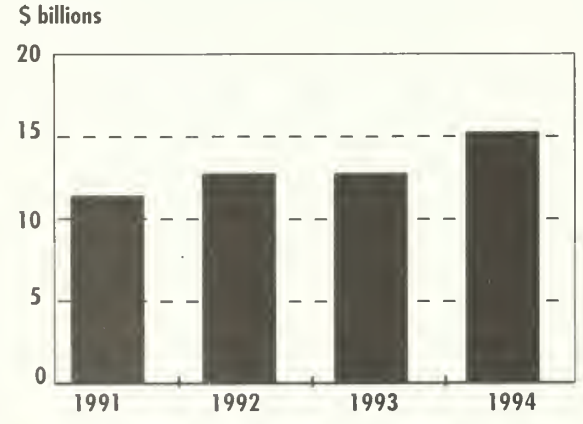
Toronto for its "snails in a pastry" dish and Culinar Food Inc. of Montreal for its crackers. Algonquin Breweries was an international prize winner in 1993. Sogelco's "Lobsterine" was awarded the Gold Medal in 1995 from the Chefs of America Foundation.

Agri-Food Exports: A National Priority

Canada enjoys a long history as a trading nation. It is therefore not surprising that the processed food and beverage sector that is so important in Canada's domestic economy should also feature prominently in the country's international trade. On a per capita basis, Canada's agri-food exports are nearly double those of the United States. As a percentage of GDP, Canada's agri-food trade is more than twice that of the U.S. and Mexico and it continues to grow. Canada's agri-food exports rose by more than 40 percent between 1991 and 1994 (see Figure 6).

Much of this growth is directly attributable to the preferred access Canadian producers began to enjoy to the markets of the United States once the Free Trade Agreement between the two countries came into force in 1989. There are many cases of food and beverage categories where trade has increased significantly in both directions.

Figure 6.
Canadian Agri-food Exports to All Countries, 1991-1994 ($ billions)



Source: Agriculture and Agri-Food Canada, International Markets Bureau.

Figure 7.
Canadian Agri-Food Exports to the United States ($ millions)

	1991	1992	1993	1994
Live animals	872.9	1,245.0	1,363.9	1,309.8
Meats and offal	698.6	817.8	1,024.9	1,118.2
Beverages and spirits	660.4	735.2	797.9	915.5
Bulk grains	219.4	418.6	560.3	902.1
Processed grain-based products	302.1	382.5	499.9	642.6
Other	1,783.4	2,334.0	3,111.3	3,210.2

Source: Agriculture and Agri-Food Canada, International Markets Bureau.

One such example is wheat-based products, including flour, bakery mixes, pasta and baked goods. Canada-U.S. trade in these products has increased dramatically, taking advantage of rapid market growth in both countries (see Figure 7).

The advent of free trade with Mexico under the terms of the NAFTA will further stimulate agri-food exports to that large and growing market. At the same time, one of the factors that will contribute to even stronger future trade performance is the elimination of internal barriers to trade which were inherent in Canada's supply management and orderly marketing regimes for the dairy and poultry industries. Coupled with enhanced access to imported raw materials under the NAFTA, this will allow Canadian-based processors freer access to supplies of these commodities produced throughout Canada, the U.S. and Mexico.

The World's Richest Market

Market Access Under the NAFTA

The North American market of 370 million consumers is the richest single market in the world. Combined retail food, beverage and food service sales in this market reach and estimated $850 billion annually (see Figure 8).

Under the terms of the Canada-U.S. Free Trade Agreement, international companies investing in Canada gain tariff-free access to the U.S. market. The North American Free Trade Agreement (NAFTA) extends this access further by including most goods and services as well as by including Mexico.

Most Canadian food and beverage exports already enter the U.S. duty-free. Duties on the remainder will be eliminated under the schedule set out in the Canada-U.S. agreement, the provisions of which continue to govern bilateral trade in food and agriculture under the NAFTA.

Within the NAFTA, Canada negotiated separate bilateral provisions with Mexico to govern food and agriculture. This gives Canadian-based companies assured and preferential access to the Mexican market. In fact, Canadian food exporters are already benefiting from Mexico's elimination of both tariff and non-tariff barriers.

Because trade within North America is complex, the NAFTA also provides for an impartial trade dispute settlement mechanism. This has already been appealed to in order to remove trade barriers for a number of Canadian-made products. Canada also enjoys a special exemption from U.S. tariffs imposed under the General Agreement on Tariffs and Trade (GATT).

Demand for food and beverage products will continue to grow in North America. The combined populations of Canada, the United States and Mexico are increasing at a modest, yet steady rate of approximately 2 percent per annum. With this rate of growth, there will be nearly 400 million consumers in North America by the year 2000. To put this into perspective, the increase of 30 million over the coming five years is slightly larger than the size of the entire Canadian market in 1995.

Figure 8.
The World's Richest Market, 1994

Source: Agriculture and Agri-Food Canada, USDA.

Canada

Canada has the seventh largest economy and the second highest standard of living in the world. According to the Central Intelligence Agency's World Factbook, per capita income in 1993 was estimated at $28,638, second only to the United States. Consumer spending power continues to grow. Between 1990 and 1994, the average weekly earnings of persons in the labour force increased by approximately 13.5 percent. What is more, Canada's economic growth is expected to be among the strongest of all the industrial countries in the coming five years.

Canadian (and U.S.) households spend an average of about 12 percent of their disposable family income on food. Though this proportion is the lowest in the industrialized world, the fact that incomes in the country are high translates into a large absolute market for food and beverage products. In 1994, Canada's retail food market (supermarket and grocery) was estimated at $49.6 billion and was growing at an average rate of approximately 4 percent annually following the 1991 recession period.

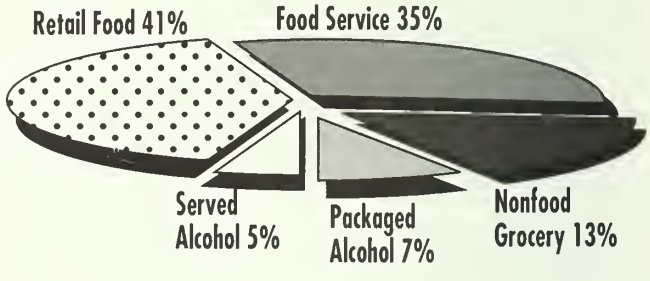
Healthy spending on food products reflects the fact that Canadians tend to be early adopters of new consumer products. They are well aware of international brand names and are familiar with the same product brands that lead in sales in the U.S. market. This makes Canada a good base from which to launch an entry into the other markets of North America.

United States

In 1994, U.S. consumers purchased an estimated $400 billion in processed food and beverage products, including packaged alcoholic beverages through retail establishments. Food service expenditures accounted for an additional estimated $275 billion, including alcoholic beverages served in restaurants and other food service establishments. See Figure 9 for a sectoral breakdown of the U.S. food and beverage market.

The U.S. market is important to Canadian food and beverage products not only because of its size but also because it is easily accessible from all major processing and manufacturing centres in Canada. Roughly 90 percent of the Canadian population and most of Canada's major manufacturing centres lie within 200 kilometres of the Canada-U.S. border. And the highly integrated North American transportation system means that major U.S. markets can be quickly and efficiently reached from Canada by truck, rail, air and both inland water and marine transport. For example, more than 110 million U.S. consumers can be reached within a single day by a truck travelling from southern Ontario. Canada's Atlantic provinces and Quebec have ready access to the New England market. New York City is a single day's truck journey from either southern Ontario or from Nova Scotia and New Brunswick. And the affluent California market is a two-day journey by truck from southern Alberta and British Columbia.

Figure 9.
U.S. Food and Beverage Market, 1994*



Source: USDA, Food Marketing Review.

*estimate

Mexico

With a population of more than 90 million, Mexico is another large potential market for Canadian food and beverage products. Several factors suggest that Mexican demand for processed food products will be very strong in coming years. Approximately 70 percent of the country's population lives in cities and towns. The three largest urban regions, Mexico City, Guadalajara and Monterrey account for one third of the country's population, almost 70 percent of which is under the age of 30.

For international investors, the key target market in Mexico is composed of upper and middle income households which account for 17 percent of the population, an estimated 16 million people. This group also accounts for a disproportionately large share of processed food sales through supermarkets, import stores and specialty food retailers. These more affluent Mexican consumers are also acquiring appliances such as microwave and convection ovens for which many new convenience foods are being designed. Well educated and exposed to international travel, foreign cuisine and imported products, this relatively narrow segment of the Mexican consumer market holds the most promise for Canadian food products in the near term.

Market research has shown Mexican consumers to generally regard imported packaged foods as being of higher quality than many domestic products. Emerging consumer preferences due to lifestyle and health considerations are serving to reinforce this perception. Market research suggests that Mexican consumers view food and beverages processed in Canada as being of high quality and offering good value.

Major Market Trends

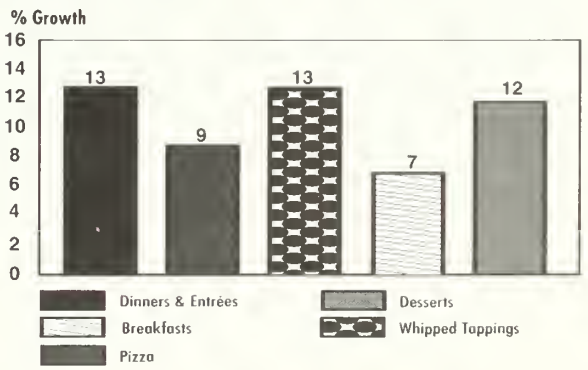
Changing Lifestyles

For the foreseeable future, the North American market will be characterized by sustained growth driven by an expansion of the population, increasing sophistication and greater diversity in consumer tastes. Consumer demands are being heavily influenced by changing lifestyles. An ageing population, the growing prevalence of dual income and single-parent households and growing ethnic populations are all factors leading to an increased demand for a diversity of prepared and convenience foods.

Per capita consumption of processed, value-added foods is increasing more quickly than that of fresh foods. This is contributing to growth in food, beverage and food service sales volumes that exceed general rates of population growth. As a result, Canadian retail grocery volumes grew by more than 5 percent in 1994.

One illustration of these growth patterns is offered by the steadily increasing consumption of frozen foods (see Figure 10).

Figure 10.
Growth in Sales of Frozen Foods in Canada, 1994



Source: Nielsen Marketing Research.

These items include a wide range of pre-cooked/prepared desserts, breakfasts, appetizers, complete dinners and entrées. The North American market continues to see new products being introduced in this category to enhance the traditional lines of frozen vegetables, seafoods and bakery goods. As a result, frozen food products lead growth in retail grocery sales throughout Canada and the United States.

Food service expenditures are accounting for a stable proportion - between 38 and 40 percent - of total North American consumer spending on food, growing in step with food sales for at-home consumption. Because of the rate of innovation in menus, the wide range of specialty ethnic restaurants, and the need for food service operations to provide consistent flavours, quality and serving portions, food service demand is creating added opportunities for processors to supply a widening range of ready-to-cook, portion-controlled foods.

Strong Growth in Exports to the U.S.

Growth in exports of food and beverage products into the United States by all countries has been very strong, increasing by more than 5 percent, or a billion dollars annually, in recent years. As the largest trading partner of the United States, Canada has accounted for a strong share of this growth in U.S. imports. Among the fastest growing Canadian exports to the U.S. are fats and oilseed products, processed grain products, processed fruits and vegetables, sauces and condiments, snack foods and confectionery products, bakery products and alcoholic beverages. This has involved a wide range of products and presented numerous opportunities to Canadian-based processors.

Ethnic Foods

North American consumers are becoming increasingly accustomed to sampling imported specialty foods. Consumers are likewise more receptive to trying new domestic products modelled after imported foods and beverages. As evidence, one need only note that more than 12,000 new domestic and imported food products are introduced in North America every year.

North Americans want more flavour and more variety in what they consume. This has lead to a dramatic growth in sales of specialty sauces, spreads and condiments. Between 1991 and 1994, Canadian sales of these types of products grew by more than 30 percent.

New Food Ingredients

The evolution of processed foods has also created the need and opportunity for many new food additives and ingredients, derived from primary processing activities as well as applied biotechnological research. Food ingredients and functional foods from natural sources are increasingly in demand. As a result, biotechnological research is intensifying in both Canada and the United States in pursuit of these more valued processed food inputs.

Health Conscious Consumers

Food consumption patterns have changed dramatically in North America in the last 10 years, gradually shifting towards healthier diets as consumer awareness of nutrition increases. This consumption shift is creating many new opportunities for food and beverage processors. Many of the new products successfully introduced in recent years are lower in fat and higher in carbohydrates and dietary fibre.

Others are emerging as "functional" foods which are those foods that have recognised benefits to health and physiology which extend beyond their basic nutritional value. These new food products have started to appear mainly in drugstores and specialized health food retail outlets. These products contains health-enhancing food ingredients and represent for consumers a new source of dietary fibre, low caloric food ingredients, sugar substitute or fat-replacer.

Canadian and U.S. consumers have demonstrated a preference for lower alcohol content in beverages as well as a demand for an increasing variety of alcoholic beverages. This has created opportunities for many new wines and brewery products and many new companies and brands have emerged to respond to these niche market opportunities.

Growth in non-alcoholic beverages is even more dramatic. Many of the fastest growing food products have been bottled waters, fruit juices and other ready-to-serve beverages such as iced tea.

Convenience Foods

North American consumers also demand convenience in many of the foods they buy. This has led to the emergence of many new products described as "portable nutritious foods" such as granola bars; and dehydrated fruit and nut snacks; and individually packaged cheese fingers designed for workplace and school lunches. Both this product category and ready-to-eat desserts grew in sales volume in Canada by more than 40 percent between 1991 and 1994.

There are also many new products and opportunities for dry food mixes which are prepared through the addition of water and/or microwave cooking. One example of these products is instant "oriental noodles" the sales of which grew by more than 50 percent between 1991 and 1994. Shelf-stable, microwaveable prepared foods are also enjoying strong growth in Canada and throughout the North American market.

Opportunities in Canada's Food Industries

Investment in the Canadian Food Industry

Investment is critical if Canada is to remain internationally competitive, to develop new consumer products and to increase its exports of processed foods and beverages. International investment has long played a major role in Canada's economic development and it continues to support expansion of the country's manufacturing and high technology bases. Indeed, the need for investment is all the greater in an environment characterized by the globalization of markets, corporate restructuring and the need to adjust to the North American Free Trade Agreement.

Canada's food and beverage processing industry is keenly looking to attract new capital and new technology. Foreign subsidiaries, already located in Canada, are working harder than ever to secure world or North American product mandates for their divisions.

> ***"We are the supplier for Wal-Mart's controlled label brand. We are convinced that we can compete in a North American market and our association with Wal-Mart is one example of that. They solicited from the top four pickle producers in North America. Bick's was invited, competed with U.S.-based companies and passed all the hurdles — the biggest one being quality."***
>
> Don Twiner
> President, Consumer Products
> Robin-Hood Multifoods Inc.

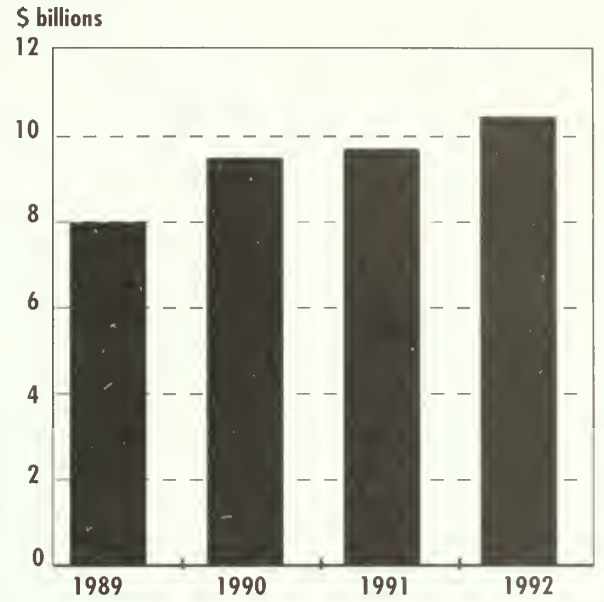
Capital investment in Canada's processed food and beverage sector has increased dramatically since the implementation of the Canada-U.S. Free Trade Agreement. This investment was made not only by the many new entrants, including small and medium-sized companies, but by long-established firms in what were previously considered to be "mature" industries such as grains and oilseeds processing, brewing, distilling and dairy processing.

The restructuring of Canada's "traditional" food and beverage sector is substantially completed. The pace of mergers and consolidation in that segment of the industry has slowed. Today, capital investment is increasingly flowing into new firms, products and processes and now exceeds $2.0 billion annually, much of which is directed toward meeting volume and quality demands of export markets. This rate of new investment compares very favourably with that of the U.S. food and beverage sector.

Canada's food and beverage sector has a long history of attracting international investors. There is substantial investment in Canada on the part of multinational food and beverage firms. Many of the world's largest food and beverage processors, including U.S. food

multinationals, have long had a significant presence in Canada. Of the largest 20 food manufacturers in North America, 16 have processing facilities in Canada. These include firms such as Nestlé, Campbell Soup, Cargill, Nabisco, Heinz and Kraft. Similarly, 16 of the top 25 North American restaurant chains are prominent in the Canadian food service industry: names such as McDonald's, KFC and Pizza Hut as familiar to Canadians as they are to U.S. consumers. International investment in Canada's food and beverage sector has been increasing at the average rate of 8 percent annually (see Figure 11).

Figure 11.
Foreign Investment in Canadian Food and Beverage Processing, 1989-1992 (cumulative)



Source: Statistics Canada.

Sectoral Opportunities

As an important North American food centre, Canada has a vast potential and it welcomes international partnerships in any segment of the processed food and beverage sector. The industries identified below are those in which market trends point to investment opportunities or they are industries for which provincial governments are actively seeking new investment.

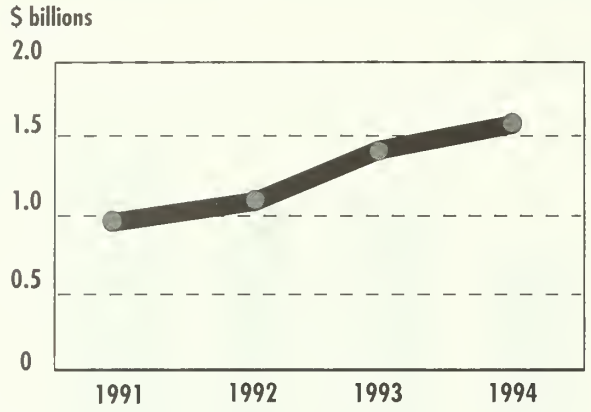
Frozen Foods

Consumer preference for frozen foods is leading to rapid growth in Canada, the rest of North America and elsewhere in the world. Combined, frozen foods represent the fastest growing product category measured in retail grocery sales volume in Canada. At the same time, Canadian exports of frozen foods have increased rapidly in recent years. Although the U.S. is Canada's largest export market, Japan and a growing list of Caribbean and Central and South American countries are increasing in importance.

Meat Processing

Generally, exports of Canadian meat and meat products have been rising (see Figure 12 on following page). Demand for processed, ready-to-eat delicatessen meats has increased significantly in recent years. Retail sales of prepared foods such as frozen entrées, meat pies and other ready-to-cook foods containing meat have also increased demand for processed red meats and poultry as ingredients in further-processed foods. Exports of red meats have also increased dramatically. In addition to investment in processing, overall demand has created investment opportunities in swine production.

Figure 12.
Growth in Canadian Meat Exports, 1991-1994 (total exports in $billions)



Source: Agriculture and Agri-Food Canada, International Markets Bureau.

Cereal Grain Products

Canadian-based processors already produce a wide range of cereal grain-based products. These include wheat flour and bakery mixes, pasta, biscuits, bakery products and breakfast cereals. Per capita consumption of cereal grain products is increasing in Canada and the United States, driven by increased recognition of the nutritional benefits of grains, especially in terms of dietary fibre. In addition to these traditional products for which additional manufacturing capacity will be required to meet market growth, current research is leading the way to new investment opportunities in high-value food ingredients. It is also acknowledging the contribution of functional foods to improved nutrition and health. These new products will have immediate international markets and will offer joint venture opportunities between established and newly emerging Canadian-based firms.

Bio-Ingredients

Canada is a world leader in food-related biotechnologies, including those derived from genetically modified crops and cultured plants. Food bio-ingredients are already widely in use in Canada, the United States, Japan and Europe, particularly in the manufacture of dairy and fermented food products and beverages. Bio-engineered yeasts, enzymes, natural flavours and colours, natural preservatives and emulsifiers are under development at research institutions across Canada. Canadian-based food biotechnology firms are actively seeking investment partners to become better positioned to serve world markets.

Snack Foods

Canadians, like their counterparts in the United States, are enjoying increasing quantities of snack foods. These are available in traditional forms such as potato chips and pretzels as well as an increasing number of new varieties. Moreover, given the current emphasis on health and fitness, a new generation of nutritious snack crackers, nut products, nut mixes and grain-based snack foods are finding favour with North American consumers. This is an area of food processing where new firms and new products have been able to enter the Canadian market successfully.

Sauces and Condiments

Sauces, salad dressings, condiments, marinades and fruit preserves are products which have experienced large sales volume growth in Canada and the United States in recent years. As part of this trend, many new small and medium-sized, Canadian-based firms, are emerging to serve not only local but also regional markets. Many of these companies are poised for expansion which will require substantial new investment. It should be added that this further-processing activity is of interest to governments because it can be conducted in a wide range of geographic regions throughout Canada and need not be confined to traditional growing regions for fruits and vegetables.

> ***"We saw the need and invested $35 million in our frozen french fry plant in Manitoba. Today we are the premier supplier of McDonald's in Canada and, as a result of our excellent quality and cost competitiveness, now supply other key USA markets as well."***
>
> Frank Cella
> Chairman and CEO
> Nestlé Canada Inc.

Fish and Seafood Products

The Canadian fisheries and seafood sectors are undergoing an extensive restructuring, accompanied by the development of new processing methods, new types of fish products and even industrial by-products. With the decline in wild stocks of traditional seafood species, Canadian firms, like those in other countries, have been intensifying R&D efforts to develop new products from alternative species previously regarded as commercially unviable. To this end, Canadian government departments have been actively encouraging new investment in the form of international joint ventures and other types of strategic alliances.

Beverages

Within the last ten years, North American consumers have responded enthusiastically to a wide range of new beverage products. Among the products that continue to experience significant market growth are flat and carbonated bottled waters, flavoured mineral waters, fruit juices and juice-based soft drinks, concentrates, dietary supplements, crystalline drink mixes as well as ready-to-serve canned and bottled iced tea. In 1994, ready-to-serve iced tea products were the fastest growing food product category in Canada when measured as a percentage of the previous year's sales.

Although many of these products are dominated by the brand name products of multinational corporations, several Canadian-based beverage manufacturers have established facilities to serve regional markets and are now seeking to reposition themselves to better serve markets in various Canadian regions as well as the United States. New investment will be essential to their success.

Specialty and Ethnic Foods

Both Canada and the United States are experiencing rapid growth in ethnic groups within the general population, accelerated by the shift in immigration from traditional European sources to African, Asian and Latin American countries. These distinct ethnic groups have created many niche opportunities for food and beverage products to displace products now being imported from offshore to satisfy ethnic tastes and dietary habits.

Canada - A choice location for Investment

Canada's Welcoming Investment Climate

Canada welcomes foreign investment and has taken tangible steps to create a more favourable climate for international business. Canadian laws governing foreign ownership have been extensively revised over the past decade. For example, there are no restrictions on foreign ownership of Canadian agri-food businesses. Nor are there any restrictions on an international investor's ability to repatriate investments or profits.

Under Canada's rules on the acquisition of Canadian companies, only transactions above a certain threshold are subject to review by the federal government. These thresholds are adjusted regularly to offset the effects of inflation or fluctuating exchange rates and they are applied equally to all members of the new World Trade Organization (WTO). Indirect acquisitions, through acquisition of a parent company outside of Canada, are no longer subject to federal government review.

Canada has no foreign exchange controls and the Canadian currency is freely convertible to U.S. or other currencies. Canada collects withholding taxes (at a statutory rate of 25 percent) on certain dividends, interest, salaries, bonuses, commissions or other sums of money paid out to non-residents for services rendered. These taxes, however, can be reduced to 15, 10, 5 or 0 percent under the terms of bilateral tax treaties entered into with other countries.

Sectoral Linkages - World-Class Support

Food and beverage processors in Canada have the benefit of established and competitive input and support industries. These include the major service industries such as rail, air and truck transportation which are becoming increasingly cost-competitive through deregulation and trade liberalization. Transportation companies in Canada are accustomed to dealing with the food and beverage sector and have specialized services and equipment to meet Canadian food industry needs in reaching all of North America.

Canada leads the industrialized world in transportation infrastructure. Flights from Canadian airports serve all major North American and global destinations and Canadian air cargo services provide overnight delivery throughout North America. A new Canada-U.S. "Open Skies Agreement" concluded in 1995 will benefit Canadian businesses through a dramatic expansion of air links. Under the agreement, Canadian carriers will have unlimited rights to fly from anywhere in Canada to any point in the United States. U.S. airlines will enjoy similar rights to destinations in Canada other than Toronto, Montreal and Vancouver.

Truck transportation is served by year-round access to a highly developed road network and efficient border crossing points and customs services. Canada's coast-to-coast rail network is an integral part of the North American continental system, linking the

three partners in the North American Free Trade Agreement. Canada maintains excellent marine shipping facilities on both the Pacific and Atlantic coasts to serve all types of vessels and cargoes; altogether, the country has a total of 15 major international marine and inland ports.

For international investors comparing the bottom-line advantages of different country locations, telecommunications infrastructure and services have become critical and sometimes decisive factors. In this area, Canada offers a telecommunications network and a breadth of services that are second to none in the world. Canadian businesses already enjoy the best access to telecommunications services among the G7 countries. Continuing deregulation of the telecommunications sector is lowering costs dramatically. And major private sector investment in the Information Highway will stretch Canada's lead in infrastructure still further.

Canada has abundant supplies of fossil fuels, hydroelectric power and nuclear energy for manufacturing and processing. It also maintains the distribution infrastructure needed to deliver these energy supplies to all major processing centres. In addition to energy inputs, Canadian food processors have access to the world's largest supply of fresh water, an essential ingredient in most food and beverage manufacturing.

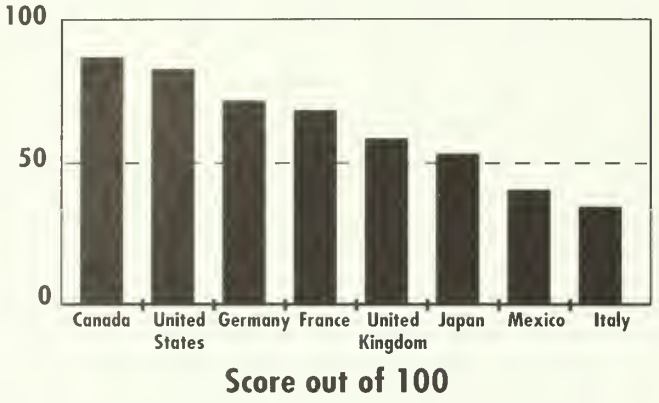
Canada has an abundant supply of packaging materials, complemented by world class packaging and labelling design houses and equipment manufacturers serving food industries. It is one of the top five suppliers of packaging machinery to the United States and a leading supplier of paper, plastic, metal and glass packages and composite packaging materials to the U.S. food and beverage sector.

The long-time importance of the food and beverage sector has fostered the development of other important supplier industries, such as food processing equipment as well as facility design and engineering. In addition, Canadian microelectronics and information technology firms have become world leaders in applying their technologies to food and beverage processing, storage and distribution. Not all leading food and beverage process technologies and equipment are of Canadian origin. However, all of the leading technologies and equipment are readily available to Canadian food and beverage processors.

Canada ranks third among all industrial countries in the performance of capital markets and the quality of its financial services. Canadian banks, which provide both lending and investment banking services, rank among the largest in North America. Trust companies, co-operative financial institutions and insurance companies provide additional financial services. In addition, many leading international banks, investment dealers and insurance companies have offices in Canada. Most financial institutions, many business associations and professional firms (information technology and management, accounting, engineering, legal, communications) can also be helpful to international investors.

Taken together, Canada's industrial infrastructure is one of the most comprehensive in the world. As Figure 13 suggests, the World Competitiveness Report for 1994 ranked Canada first in terms of the availability of business-related resources.

Figure 13.
Availability of Business-Related Resources, 1994



Note: Scare (0=low, 100=high) measures the quality and availability of energy resources, raads, railraads, air transport, ports, telecammunicatians and camputers.

Source: World Competitiveness Repart, 1994.

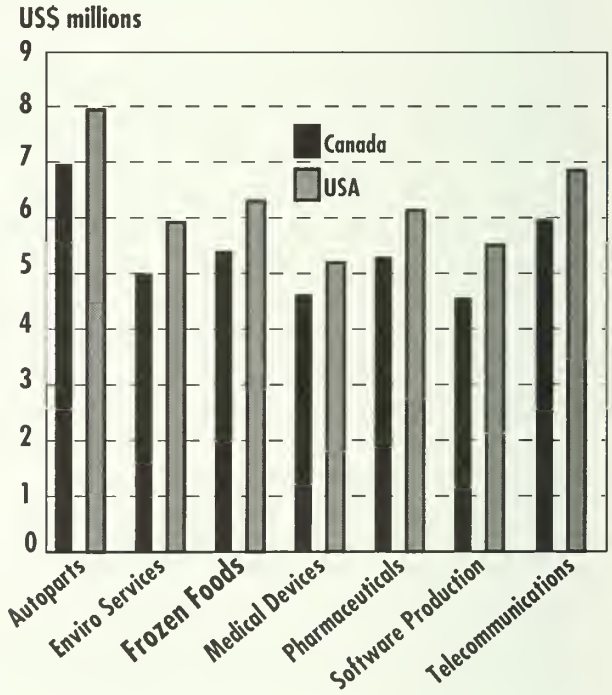
A Cost Advantage

Canada's rich infrastructure is accompanied by significant cost advantages. A recent study completed by KPMG Management Consulting compared various industries in Canada and the United States in terms of their cost structures (see Figure 14). Similarly, the study compared costs associated with investing in sample sites in the two countries. The study found that overall, locational costs are lower in Canada. In comparing eight Canadian and seven U.S. cities, the report ranked the Canadian cities one through six for the lowest overall costs. These cities were compared on the basis of:

- initial facility investment, including land acquisition and construction;
- labour costs, including wages, statutory payroll benefits and taxes, and employer-sponsored benefits;
- electricity costs;
- transportation costs;
- interest costs; and,
- taxation costs, including income taxes and research tax credits.

For example, KPMG Management Consultants confirmed that total employer costs of labour (direct wages plus benefits and social program support) are lower in major manufacturing centres in Canada as compared with major U.S. centres. Due to a history of low inflation since 1990, Canadian wage rates have experienced the second slowest growth among G7 countries (see Figure 15 on following page). Other costs associated with labour such as employer-paid social security taxes and health insurance, are significantly lower for Canadian firms than for their American counterparts.

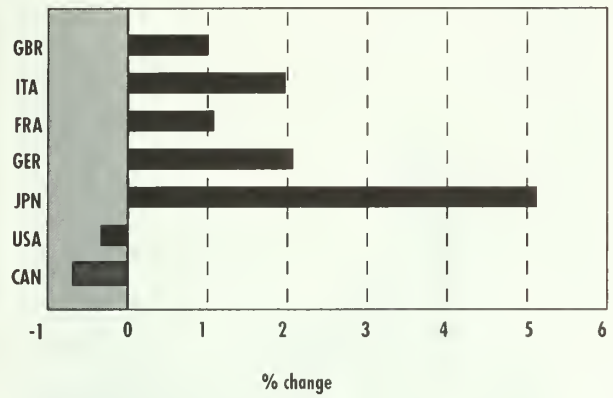
Figure 14.
Location-Sensitive Costs, by Industry* (10-year annual average of location-specific costs)



* Based on annual average U.S. dollar costs in millians.

Source: KPMG, A Comparison of Business Costs in Canada and the United States, March 1995.

Figure 15.
Growth in Manufacturing Unit Labour Costs, 1992-1994*
(average annual change in percent)



* 1994 estimate

Source: IMF, World Economic Outlook, October, 1994.

Professional and administrative personnel costs in major Canadian cities compare favourably with other countries. The human resources costs of conducting research and development in Canada are likewise very competitive.

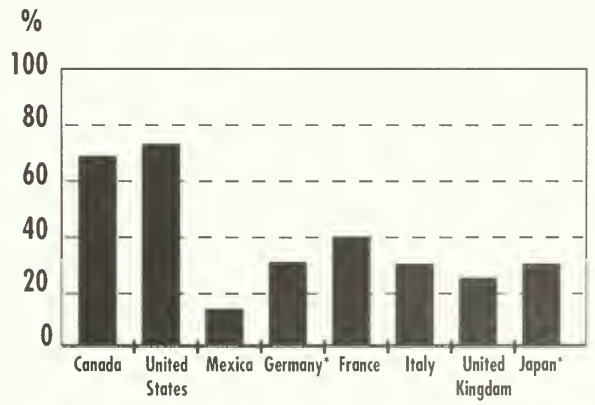
Skilled Human Resources

A recent survey of Canadian food and beverage firms and industry associations revealed that a wide array of appropriately skilled people are available in virtually all regions of Canada. This rich skill base arises from the fact that, according to the OECD, Canada is among the top four countries in terms of the share of gross domestic product devoted to public-sector funding of education. Almost two-third of Canadians aged 20 to 24 are enrolled in post-secondary education programs, one of the highest rates in the world (see Figure 16).

In order to maintain the match between the supply of and demand for human resources, Canada's universities and community colleges are adapting their programs in food science and technology and related management and technical disciplines to adapt to changing industry demands. Canada's post-secondary educational institutions are also devoting additional resources to continuing education programs for adults. This reflects a general recognition of the need for targeted education and training and lifetime learning if employees and employers are to adapt successfully to changing technologies and skills needs.

The same imperative has led Canadian employers to spend $1.4 billion annually on formal training programs. Similarly, the government spends $2 billion a year on worker training programs. Federal programs offer significant financial assistance for companies wishing to train their workers. Developed in consultation with both the private sector and provincial governments, these programs mean that private sector employees can receive the financial support necessary for both classroom and on the job training and retraining.

Figure 16.
Percentage of 20-24 Year-olds Enrolled in Higher Education



*Data for Germany and Japan is from 1989; remaining data from 1990

Source: World Competitiveness Report, 1994.

In Canada's private sector, a number of manufacturing industries have established *Sectoral Skills Councils* to address industry-specific needs. Supported by the federal Department of Human Resources Development Canada, formative work is already under way to address the sectoral needs of the Canadian seafood, meat and dairy processing industries through this model, with other food and beverage sectors to follow.

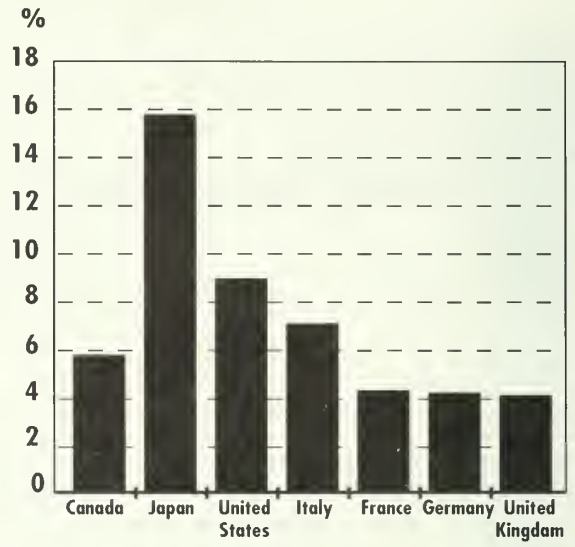
As part of these initiatives, industry organizations are identifying the leading training and education facilities throughout the world which offer specialized apprenticeship and professional training for food and beverage workers. Skill requirements which are not being met by the existing human resource base in Canada are being addressed through the recruitment of graduates of these international schools and through advanced training of Canadian workers and professionals at these institutions.

Competitive Taxation and Social Programs

Canada's corporate taxation regime is internationally competitive among developed countries (see Figure 17). With Canada's economy so closely linked to that of the United States, Canadian governments are sensitive to the need to ensure that taxation does not impair competitiveness.

Canada has phased out many tariffs on production inputs from the United States and on manufacturing and processing equipment from other countries. It has also abolished a tax on manufactured goods (levied at 25%) and replaced it with a Goods and Services Tax (GST) of 7 percent. The GST, however, does not apply to most foods and beverages sold in retail grocery establishments in Canada. Canadian exports, including all processed foods and beverages, are exempt from the GST thereby enhancing the competitiveness of these products in international markets.

Figure 17.
International Comparison of Corporate Tax as a Percent of Total Government Revenues, 1993



Source: Department of Finance, Economic and Fiscal Reference Table, 1994.

Studies have found that Canada's overall effective corporate tax rates are comparable to those of the United States and in some instances are even slightly lower (see Figure 18 on the following page). When combined with taxes on labour, worker health insurance premiums and refundable tax credits for training, the tax and social program cost of doing business in Canada compares favourably with that in the United States, which is both Canada's leading competitor and its leading export market.

In order to help Canadian-based processors gain access to those leading food processing technologies and equipment lines which are not of Canadian origin, the government of Canada has created a tariff structure that encourages technology transfer and adaptation from other countries. As a consequence, Canadian food processors employ the best available equipment, processes and quality assurance methods available anywhere in the world.

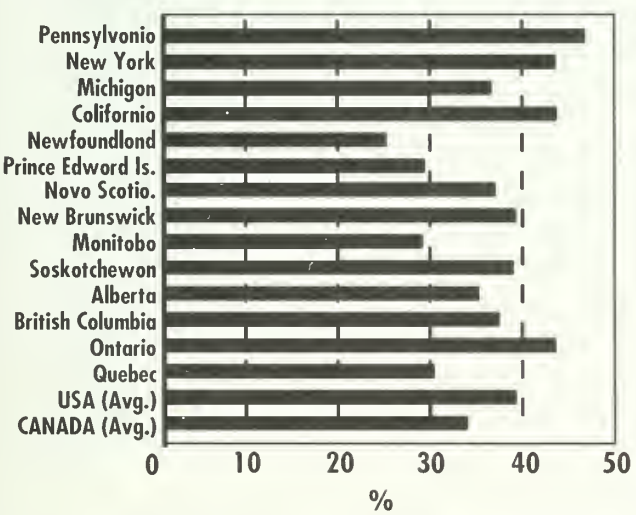
Generous R&D Incentives

Recent studies have also shown that Canada's tax treatment of corporate R&D expenditures is the most favourable among major industrialized nations. Tax incentives for R&D spending are provided by the federal government as well as several provincial governments. According to a recent study by the Conference Board of Canada, the Canadian corporate tax system offers greater overall incentives to R&D when compared to nine other countries (see Figure 19).

A High Quality of Life

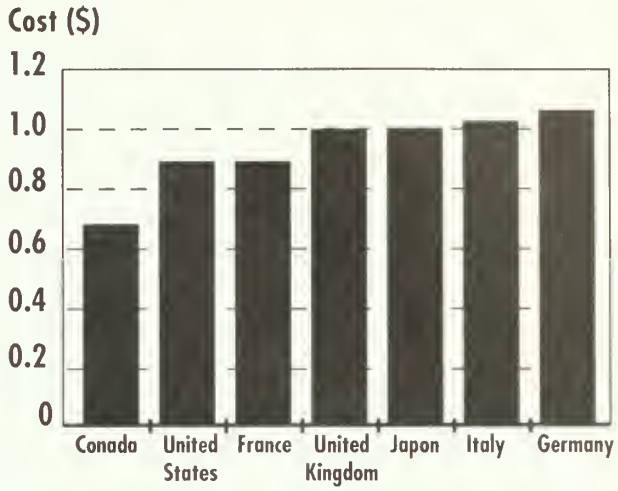
Major Canadian cities get top marks for quality of life. In its 1995 survey of locational advantages of 118 cities around the world, the Corporate Resources Group (CRG) of Geneva rated five Canadian cities among the top thirteen in the world. Vancouver placed second after Geneva; Toronto was fourth after Vienna; Ottawa was sixth after Luxembourg; and Montreal placed eighth ahead of Dusseldorf, Singapore, Auckland and Oslo; and, Calgary was thirteenth, ahead of Munich. CRG's system rates cities on the basis of 42 factors, including political and social environment, personal safety, public infrastructure, health and education.

Figure 18.
Competitive Manufacturing Tax Rates, 1995 (combined federal/provincial or federal/state rates)



Source: Department of Finance, Government of Canada, 1995.

Figure 19.
Most Favourable Tax Treatment for R&D (before tax income required to do $1 worth of research)



Source: Canference Baard af Canada, Internatianal Competitiveness af Canadian R&D Tax Incentives: An update, June 1994.

Notes: 1) Canadian figure based an Quebec tax regime, U.S. figure based an Califarnia tax regime

2) The B-ratia is the ratia af the present value af the before tax praject returns ta the present value af the praject cast at which a praject becames prafitable

Government Support for Business

Government departments and agencies in Canada continue to provide important support for the establishment and growth of businesses in Canada. A broad range of assistance is offered by federal, provincial and municipal governments, each of which provide tax and other incentives for projects involving expansion or start-up, R&D, export marketing, job creation and training.

Federal Government Support

At the federal government level, government departments assist industry in:

- securing practical and targeted market information;
- acquiring and adapting technology;
- developing new products and processes;
- upgrading the human resources base;
- building strategic alliances and partnerships; and
- developing export markets.

As the lead federal department responsible for support of the food and beverage processing sector, Agriculture and Agri-Food Canada (AAFC) is highly active in the area of research and development, in partnership with industry. The Agri-Food R&D Matching Investment Initiative is a way to increase collaborative research activity with the private sector. Under the initiative, the department will contribute equally with private sector partners to fund joint agri-food research, ensuring that the research meets industry priorities and that the process of transferring technology is accelerated. It is expected that the combined total of private and public money available for R&D because of this program will triple from about $20 million in 1995 to about $60 million in 1999. AAFC is also very active in ensuring the production of safe and high quality food products for Canadian consumers and international markets.

Access to these services and programs is provided in all regions of Canada through Canada Business Service Centres and other government offices situated in major Canadian cities from Vancouver to Halifax.

In addition to the programs that apply across Canada, investors should be aware that further investment assistance may be available through federal regional development agencies such as Western Economic Diversification Canada; the Federal Economic Development Initiative for Northern Ontario (FEDNOR); Atlantic Canada Opportunities Agency (ACOA); and, Canada-Quebec Subsidiary Agreement on Regional Development (FORD-Q). These agencies can provide financial assistance for start-up activities, market research and promotion, feasibility studies and new product development and process innovation.

Provincial & Municipal Government Support

Canadian provinces and large municipalities are active in promoting their own jurisdictions and competitive advantages and, in most cases, offer various services to prospective international investors. These services are often complementary to those available from federal agencies and departments. There is also the flexibility to assemble customized packages of company-specific assistance from more than one level of government.

Provincial agriculture, fisheries, food, and economic development departments are also active partners in Canada's food research and development network. Provincially funded R&D is conducted at universities, research institutes and food technology development centres. Some provinces also support and manage food processing "incubators" to assist in the commercialization of new products and processes and to assist new food processing enterprises in getting established.

Most of Canada's provincial governments have identified priority areas for investment in the processed food and beverage sector according to regional market opportunities and comparative advantages and have developed investment strategies accordingly. They are prepared to assist potential investors by providing detailed information on regional markets, cost and availability of manufacturing inputs, transportation infrastructure, provincial taxation regimes and investment incentives.

Sources of Additional Information

For more information about investing in Canada's food and beverage processing sector and how the federal and provincial governments in Canada can assist international business, please contact the nearest Canadian Embassy, High Commission or Consulate, or in Canada:

Federal Government Contacts

1) Department of Foreign Affairs and International Trade
Investment and Technology Bureau
Lester B. Pearson Building
125 Sussex Drive
Ottawa, Ontario K1A 0C5
Canada
Tel.: (613) 992-4916
Fax: (613) 996-1370

The Department of Foreign Affairs and International Trade (DFAIT) is the Canadian federal government department most directly responsible for trade development. The InfoCentre is the department's public information resource centre and acts as the entry point to DFAIT's trade information network.

InfoCentre
Tel.: 1-800-267-8376 or (613) 944-4000
Fax: (613) 996-9709
FaxLink*: (613) 944-6500

**FaxLink is a faxback system which provides fact sheets on investment related topics and market sectors. It must be contacted through your fax machine. Dial from your fax phone and follow the voice prompt instructions.*

2) Agriculture and Agri-Food Canada
Food Bureau
Market and Industry Services Branch
Sir John Carling Building
930 Carling Avenue
Ottawa, Ontario K1A 0C5
Canada
Tel.: (613) 759-1000
Fax: (613) 759-7480

The Food Bureau works very closely with industry associations and can provide additional insight to Canadian agri-food markets and business conditions.

3) Department of Industry
Bio-Industries
Chemicals and Bio-Industries Branch
235 Queen Street, 9th Floor East
Ottawa, Ontario K1A 0H5
Canada
Tel.: (613) 954-4715
Fax: (613) 952-4209

Industry Canada works closely with the Department of Foreign Affairs and International Trade and with Agriculture and Agri-Food Canada in enhancing the international competitiveness of Canadian bio-industries that contribute to the agriculture, aquaculture and food beverage processing sectors.

Provincial Government Contacts

1) British Columbia
British Columbia Investment Office
2nd Floor, 712 Yates Street
Victoria, British Columbia V8B 1X4
Canada
Tel.: (604) 356-2246
Fax: (604) 356-8212

2) Alberta
Alberta Agriculture, Food and Rural Development
Processing Services Division
Industry Development Branch
304 J.G. O'Donoghue Building
7000 -113 Street
Edmonton, Alberta T6H 5T6
Canada
Tel.: (403) 427-7325
Fax: (403) 422-3655

3) Saskatchewan
Saskatchewan Economic Development
Sector Development Diversification Branch
6th Floor, 1919 Saskatchewan Drive
Regina, Saskatchewan S4P 3V7
Canada
Tel.: (306) 787-2197
Fax: (306) 787-3989

4) Manitoba
Agri-Food Industries Development Initiative
Manitoba Industry Trade and Tourism
410-155 Carlton Street
Winnipeg, Manitoba R3C 3H8
Canada
Tel.: (204) 945-2012/6668
Fax: (204) 957-1793

5) Ontario
Ontario Ministry of Agriculture, Food and Rural Affairs
Food Industry Division
801 Bay Street, 10th Floor
Toronto, Ontario M7A 2B2
Canada
Tel.: (416) 326-3050 or 326-2846
Fax: (416) 326-3094

6) Quebec
Ministère des Affaires internationales,
de l'Immigration et des Communautés culturelles du Québec
Bureau des investissements étrangers
380, rue St-Antoine ouest
5e étage
Montréal, Québec H2Y 3X7
Canada
Tel.: (514) 499-2186
Fax: (514) 499-2196

7) New Brunswick
New Brunswick Department of Economic Development and Tourism
P.O. Box 6000
Fredericton, New Brunswick E3B 5H1
Canada
Tel.: (506) 457-7268
Fax: (506) 453-7170

8) Nova Scotia
Executive Director
Trade and Investment Division
Nova Scotia Economic Renewal Agency
World Trade and Convention Centre
P.O. Box 519
Halifax, Nova Scotia B3J 2R7
Canada
Tel.: (902) 424-3656
Fax: (902) 424-5739

9) Prince Edward Island
Enterprise PEI
Annex 2
West Royalty Industrial Park
Charlottetown, PEI C1E 1B0
Canada
Tel.: (902) 368-5800
Fax: (902) 368-6300

10) Newfoundland
Department of Industry, Trade and Technology
Government of Newfoundland and Labrador
P.O. Box 8700
St. John's, Newfoundland A1C 4J6
Canada
Tel.: (709) 729-2791
Fax: (709) 729-2828

Sectoral Investment Opportunities

Available Fact Sheets:
Agriculture, Aquaculture and Food Biotechnology
Beverages
Cereal Grain Products
Frozen Food
Red Meat Industries
Seafood and Marine Products
Snack Foods
Specialty and Ethnic Foods

These fact sheets are available by contacting:
InfoCentre: (613) 944-4000
FaxLink*: (613) 944-6500

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Department of Foreign Affairs and International Trade

Agriculture and Agri-Food Canada