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Approved by:

Lisa Anderson
U.S. Embassy

Prepared by:

Marilyn Bailey

Report Highlights:

Preliminary Canadian foodservice sales for 2005 are estimated at C\$48.6 billion, a 3.9% increase over 2004. This less-than-hoped-for increase was due to lower than normal tourist trade in Ontario and the Maritimes and poor weather conditions across the country. The forecast for 2006 is estimated to reach \$51 billion, a 4.4% jump over 2005, as the accommodation and foodservice sector recover under an improved Canadian economy.

Includes PSD Changes: No
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Table of Contents

SECTION I. MARKET SUMMARY 3
SECTION II. ROAD MAP FOR MARKET ENTRY 7
A. ENTRY STRATEGY 7
B. MARKET STRUCTURE 12
C. SUB-SECTOR PROFILES 13
SECTION III. COMPETITION 15
SECTION IV. BEST PRODUCT PROSPECTS/TRENDS 17
SECTION V. POST CONTACT AND FURTHER INFORMATION 17

SECTION I. MARKET SUMMARY

The Canadian foodservice industry is a dynamic, innovative and huge sector of the Canadian economy. Every day, millions of consumers, tourists and business travelers enjoy the hospitality provided by Canada's 63,300 restaurants, cafeteria, snack bar, pub or caterer locations.

Following three years of unexpected challenges, both global and domestic, including weak economic growth in the U.S., a drop in airline traffic because of a SARS outbreak in Canada, the rising Canadian dollar, poor weather conditions, widespread power outages and mad cow disease, the Canadian foodservice sector grew 5% to \$46.8 billion in 2004 - a much needed relief to Canada's foodservice operators.

Preliminary Canadian foodservice sales for 2005 are an estimated C\$48.6 billion¹, a 3.9% increase over 2004, but lower than the 5% growth seen in 2004. This was due to lower than normal tourist trade in Ontario and the Maritimes as well as poor weather conditions and a rise in foodservice salaries. The forecast for 2006 is estimated to reach \$51 billion, a 4.4% jump over 2005. The 2006 figures are estimated due to solid gains in the accommodation and full-service restaurant sectors and an overall improvement in the Canadian economy. After accounting for menu inflation, foodservice sales will grow 2.1%, a slight improvement over the 1.9% real growth forecast for 2005.

Total Foodservice Industry Sales (forecast as of October 2005) – 2005-2006

	2005 Preliminary (Millions of Dollars)	% Change '05/'04	2006 Forecast (Millions of Dollars)	% Change '06/'05
Full-service restaurants	\$18,104.8	4.5%	\$18,955.7	4.7%
Limited-service restaurants	\$14,593.2	4.0%	\$15,191.5	4.1%
Contract and social caterers	\$2,832.4	8.7%	\$2,954.2	4.3%
Pubs, taverns and nightclubs	\$2,739.8	1.2%	\$2,844.0	3.8%
TOTAL COMMERCIAL	\$38,270.2	4.4%	\$39,945.4	4.4%
Accommodation foodservice	\$4,838.0	6.0%	\$5,134.0	6.1%
Institutional foodservice (1)	\$2,921.0	8.3%	\$2,989.8	2.4%
Retail foodservice (2)	\$938.0	5.5%	\$968.0	3.2%
Other foodservice (3)	\$2,009.4	1.7%	\$2,085.2	3.8%
TOTAL NON-COMMERCIAL	\$10,706.4	5.7%	\$11,177.0	4.4%
TOTAL FOODSERVICE	\$48,976.6	4.7%	\$51,122.4	4.4%
Menu inflation		2.8%		2.3%
REAL GROWTH		1.9%		2.1%

Source: CRFA's InfoStats, Statistics Canada, Geoff Wilson & Associates Inc. and Pannell Kerr Forster
 (1) Includes education, transportation, health care, correctional, remote, private & public sector dining and military foodservice (2) Includes foodservice operated by department stores, convenience stores and other retail establishments (3) Includes vending, sports and private clubs, movie theatres, stadiums and other seasonal or entertainment operations.

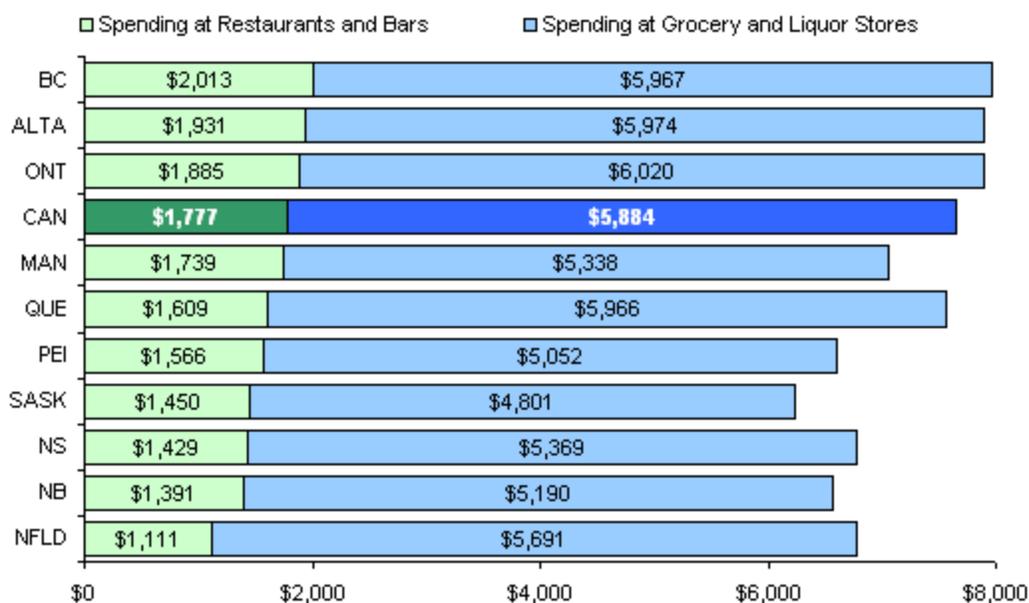
¹ Canadian Restaurant & Foodservices Association (CRFA)

The average Canada household spent \$1,777 at restaurants and bars in 2004, up \$49 from foodservice spending in 2003. At the provincial level, British Columbia led the country for top foodservice spenders. In 2004, an average household in BC spent C\$2,013 at bars and restaurants – a 7.2% increase from the previous year -- due to rising disposable income and a growing labor market. BC now has the highest foodservice share of the total food dollar at 25.2%. BC is followed by Alberta where foodservice spending grew only 2.6%. Despite this comparatively low growth, the average Alberta household still spends \$1,931 at restaurants and bars each year, \$154 more than the national average. In Ontario, weak disposable income growth and lackluster economic activity restrained household spending at restaurants and bars, which grew a modest 1.9%.

On a per capita basis, restaurant sales are highest in the provinces where consumers have above-average levels of disposable income and where there is no provincial sales tax on meals. Alberta leads the country in annual per capita foodservice sales with \$1,295.39, while Newfoundland and Labrador trail at \$820.08. Alberta is the only Canadian province with no provincial sales tax.

Although spending at restaurants is on the rise, most food purchases (76.8%) still take place at grocery stores and retail alcohol outlets.

Average Household Spending on Food and Alcohol - 2004



Source: 2004 Survey of Household Spending, Statistics Canada

Full-service restaurants lead in total sales but Contract and Social Caterers saw the greatest real growth over the previous year.

Facts & Figures: In 2005 –

- The foodservice share of GDP was 3.9%
- The average check size per person in Canada climbed from \$6.05 to \$6.22 in the 12 month ending May 2005, a 2.8% increase over the same period in 2004
- The total number of commercial foodservice units reached 62,546 (preliminary figure)
- The total number of foodservice employees totaled 1,009,000
- The average profit margin for the foodservice industry (based on 2003 data) is 3.3%.

- The number of commercial foodservice bankruptcies in 2005 – totaled 777, down from 881 in 2004.
- Canada's top 50 foodservice chains totaled \$19.3 billion in sales in 2004 and accounted for 52.5% of commercial foodservices sales in Canada.
- The top 50 chains outpaced the commercial foodservice industry average of 4.6% growth, reaching a 5.8% increase over 2003. These top 50 also lead in unit growth.
- The greatest problems facing the Canadian foodservice industry currently include skyrocketing energy prices--increasing costs for operators and reducing discretionary spending by consumers and reduced travel to Canada from the U.S.

Sales Trends by Segment

Sales Trends by Segment					
2005 COMMERCIAL FOODSERVICE INDUSTRY SALES (not seasonally adjusted) 2005: Jul-Sep					
THIRD QUARTER (JUL - SEP)	Amount	Nominal Growth		Real Growth	
		This period over year ago (%)	Year-to-date (%)	This period over year ago (%)	Year-to- date (%)
Total Sales (in \$millions)					
Actual	\$10,206.5	2.7%	3.7%	-0.3%	0.7%
Sales by Sector (in \$millions)					
Full-service Restaurants	\$4,951.9	2.3%	3.9%	-0.9%	0.8%
Limited- service Restaurants	\$3,890.9	3.7%	2.7%	1.2%	0.0%
Contract and Social Caterers	\$695.7	6.0%	10.8%	2.9%	7.7%
Taverns, Bars and Night Clubs	\$667.9	-3.2%	0.5%	-6.0%	-2.3%
Source: Statistics Canada Real growth is adjusted for menu inflation					

Menu Trends: Chains vs. Independents

From menu trends to customer traffic, chains and independents differ in many ways. For example, independents – operations with one or two units – account for 63.5% of restaurant units in Canada, but just 31% of customer visits. Because of the high concentration of independent full-service restaurants, the average check size per person at independent restaurants is \$8.66 compared to only \$4.96 at chain restaurants.

Menu trends also set chains apart from independents. According to CREST/NPD Foodservice Information Group, croissants are the fastest growing breakfast/morning snack at chain restaurants in 2004 compared to pancakes/waffles at independent restaurants. For lunch, doughnuts are growing in popularity at chain restaurants, while hamburgers are experiencing the strongest growth at independent restaurants. Supper accounts for the largest share of meal occasions at both chain and independent restaurants. In this day part, rolls/other bread is the fastest growing menu item at chains, reflecting a reversal of the low-carb trend. Japanese food is the fastest growing item at independent restaurants.

At both chains and independents, muffins and ice cream/yogurt are the two menu categories that registered the largest declines.

What's Hot and What's Not

	Breakfast/AM snack	Lunch	Supper
Chains			
Hot	Croissants	Doughnuts	Rolls/Other Bread
Not	Muffins	Ice Cream/Yogurt ¹	Baked/Stuffed Potato
Independents			
Hot	Pancakes/Waffles	Hamburger	Japanese
Not	Muffins	Pizza	Ice Cream/Yogurt ¹

Source: CREST/NPD Foodservice Information Group

Note: Items shown registered the greatest change (increase or decrease) in total volume of customer orders for the 12 months ending Nov. 2004, compared to 2003.

1. Includes both frozen and non-frozen yogurt

Advantages and Challenges Facing U.S. Products in Canada

Advantages	Challenges
U.S. products enter Canada duty free under NAFTA.	Most dairy and poultry product imports are controlled and limited under a TRQ system.
High quality, consistency & perception of safety of U.S. product.	Foodservice predisposition to buy Canadian first means a unique competitive advantage is necessary.
Geographical proximity gives U.S. exporters an advantage	Geographical vastness encourages regional distribution.
Familiarity & confidence in Cdn. Based U.S. hotel, restaurant and fast food establishments.	Competition from domestic producers and other countries.
Canada's wide ethnic diversity provides broad specialty cuisine opportunities.	Products that benefit by their identification with the U.S. in some foreign markets do not necessarily enjoy the same marketing advantage in Canada.
The C\$ is strengthening against the U.S. dollar.	Products must be differentiated in new and unique ways to attract Canadian Buyers.
Canadian Consumers enjoy a high disposable income, coupled with a growing interest in global cuisine.	Canadian personal disposable income is less than that of the U.S. Only 3% of dinners eaten at home are sourced from restaurants – less than ½ the U.S. rate.
U.S. foods match Canadian tastes and expectations.	A sophisticated selection of product already available in the Canadian market.
To meet current Canadian demand, the U.S. is the main supplier of organic food to Canada.	

SECTION II. ROAD MAP FOR MARKET ENTRY**A. ENTRY STRATEGY**

Under the tariff elimination provisions of the North American Free Trade Agreement (NAFTA), the majority of U.S. agricultural products have entered Canada duty-free since January 1, 1998.

U.S. food product manufacturers seeking to enter the Canadian marketplace have vast opportunities. Canada is the U.S.'s primary trading partner. Consumer-oriented agricultural products accounted for 72% of total U.S. food and agricultural product sales to Canada in 2004, with fresh and processed fruits and vegetables, snack foods, processed horticultural products, and red meat products as the category leaders. American products account for more than 60% of total Canadian agricultural imports in 2004. Canada was the second largest export market in value for U.S. fish and seafood during 2004, reaching a record \$647 million.

Although Canadians are always on the lookout for new and innovative U.S. products, there are a number of obstacles U.S. exporters must overcome before exporting to Canada. These may include currency, customs procedures and labeling requirements.

Overcoming these obstacles is simple with the right tools. Following are the main steps for U.S. exporters entering the Canadian market:

- Contact your state regional trade office.
- Research the competitive marketplace
- Locate a broker/distributor
- Understand Canadian government standards and regulations that pertain to your product.

Step 1. Contact your State Regional

The State Regional Trade Group offices exist to help promote the export of food and agricultural products from specific geographical regions of the country and can in some cases provide financial assistance as well as marketing advice. Contact the office in your area.

State Regional	Web Site	States
Food Export USA	http://www.foodexportusa.org	Connecticut, Delaware, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont
Mid-American International Agri-Trade Council (MIATCO)	http://www.miatco.org	Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin
Southern U.S. Trade Association (SUSTA)	http://www.susta.org	Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Puerto Rico
Western U.S. Agricultural Trade Association (WUSATA)	http://www.wusata.org	Alaska, Arizona, American Samoa, California, Colorado, Guam, Hawaii, Idaho, Montana, New Mexico, Oregon, Utah, Washington, Wyoming

Step 2: Research the competitive marketplace

The State Regional Offices will often have market research information available. Additionally, the CANADA CONNECT program provides an element to assist in determining the acceptance of your product in Canada. (See information on CANADA CONNECT program – FAS Report CA5060 on FAS website: www.fas.usda.gov)

Another means of conducting market research in the Canadian foodservice market, as well as aiding in finding a broker/distributor to represent you in this market, is exhibiting in the US Pavilion at the Canadian Food & Beverage Show, the largest foodservice show in Canada, held in February of each year in Toronto. Other trade shows in Canada that may prove beneficial for this purpose is the SIAL Montreal Show, which is held every other year. The next show is March 2007. Information on both of these shows is available on-line. FAS endorses both of these events.

Sample Products for Exhibitors and Trade Shows

Food samples for display at trade shows and food exhibitions are permitted entry, but may not be offered for commercial sale. For meat, poultry, dairy or egg, and fruits and

vegetables samples, it is recommended that exhibitors apply for an import permit and declare on the shipping documents, the name of the food show and that the food is not for resale. Contact: CFIA Permit Office, 59 Camelot Drive, Nepean, Ontario, K1A 0Y9, Fax: 613-228-6605. Entry at the border will be facilitated if U.S. exporters show proof of their food exhibition participation and that the products are of U.S. origin. Up to 10 samples are permitted entry. The weight of each sample may not exceed 100 kilograms (about 220) pounds.

Wine and alcoholic beverages require approval by the provincial liquor board of the province in which the event will take place. For the province of Ontario contact the LCBO, Mr. Bruce Dunston, telephone 416-365-5811, for detailed information.

Step 3: Locate A Broker/Distributor

Since entry on the Canadian scene of U.S. giants Sysco and Gordon Foodservice, the majority of foodservice purchases are made through these large foodservice distributors. However, foodservice buyers still rely on smaller distributors to secure specialty and niche market products. Large foodservice distributors may be interested in U.S. product that can demonstrate a market or uniqueness. Foodservice establishments with a high volume buying ability often request that their distributor carry particular products of interest. Also, products are often carried on a co-label basis.

The USDA/FAS Office of Agricultural Affairs, U.S. Embassy Canada can provide assistance in locating a broker/distributor. A partial listing of Canadian food brokers and distributors is available on FAS report CA5068 on the FAS web site. Services to help exporters locate appropriate brokers/distributors also include, as mentioned, USDA endorsed pavilions at various Canadian trade shows and a matchmaker program entitled, CANADA CONNECT. See FAS Report CA5060 on the FAS Web Site: www.fas.usda.gov for details on this program.

Step 4: Understand Canadian government standards and regulations that pertain to your product

There are a number of federal acts and regulations that govern the importation of food into Canada. The primary federal agencies involved are the Canadian Food Inspection Agency (CFIA), the Department of Foreign Affairs and International Trade (DFAIT) and Health Canada (HC). For more information on the various regulations, please refer to the agency web sites.

The Canadian Food Inspection Agency (CFIA):

The CFIA provides all federal inspection services related to food safety, economic fraud, trade-related requirements, and animal and plant disease and pest programs. The CFIA administers, among others, the following acts:

- Canada Agricultural Products Act and associated regulations
<http://www.inspection.gc.ca/english/reg/rege.shtml>
- Canadian Food Inspection Agency Act
<http://laws.justice.gc.ca/en/C-16.5/index.html>
- Consumer Packaging and Labeling Act
<http://www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml>
- Customs Act
<http://laws.justice.gc.ca/en/c-52.6/45587.html>
- Export and Import Permits Act
<http://laws.justice.gc.ca/en/e-19/55728.html>
- Food and Drug Act

<http://laws.justice.gc.ca/en/f-27/60010.html>

- Importation of Intoxicating Liquors Act

<http://laws.justice.gc.ca/en/i-3/63962.html>

- Meat Inspection Act

<http://laws.justice.gc.ca/en/m-3.2/81330.html>

- Weight and Measures Act

<http://laws.justice.gc.ca/en/w-6/106103.html>

All federally mandated food inspection and quarantine services for domestic and imported foods are consolidated under the Canadian Food Inspection Agency (CFIA) <http://www.inspection.gc.ca>). They coordinate the requirements of Agriculture and Agri-Food Canada, Health Canada, Industry Canada and the Department of Fisheries and Oceans Canada. The responsibility of food safety policy and risk assessment remains with Health Canada. For information on the regulations that pertain to your product, contact one of the CFIA Import Service Centers across Canada:

Import Service Center	Operational	Contact
Eastern Import Service Center	7:00 a.m. to 11:00 p.m. (local time)	Telephone: 1-877-493-0468 (inside Canada/U.S.) Facsimile: 1-514-493-4103
Central Import Service Center	7:00 a.m. to 12:00 a.m. (local time)	Telephone: 1-800-835-4486 (inside Canada/U.S.) Facsimile: 1-905-612-6280
Western Import Service Center	7:00 a.m. to 12:00 a.m. (local time)	Telephone: 1-888-732-6222 (inside Canada/US) Facsimile: 1-604-270-9247

The Food and Drug Act and Regulations are the primary legislation that applies to all food sold in Canada, whether imported or domestic. This legislation sets out minimum health and safety requirements, as well as provisions preventing fraud or deception (labeling, packaging, treatment, processing, sales and advertising).

<http://www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml>

Food products sold for foodservice must comply with all of the same regulations as other food products; however labeling information is not required in both official languages, English and French. Language regulations are less stringent for food/beverage items intended exclusively for foodservice. If the shipping container and its contents are not for resale as one unit prepackaged product to the consumer at the retail level only one of two official languages is required, depending on its destination. In the province of Quebec, French language labeling is required. In most other areas of Canada English is accepted. See regulation B.01.012 in the Food and Drug Regulations:

<http://www.inspection.gc.ca/english/fssa/labeti/guide/toce.shtml>

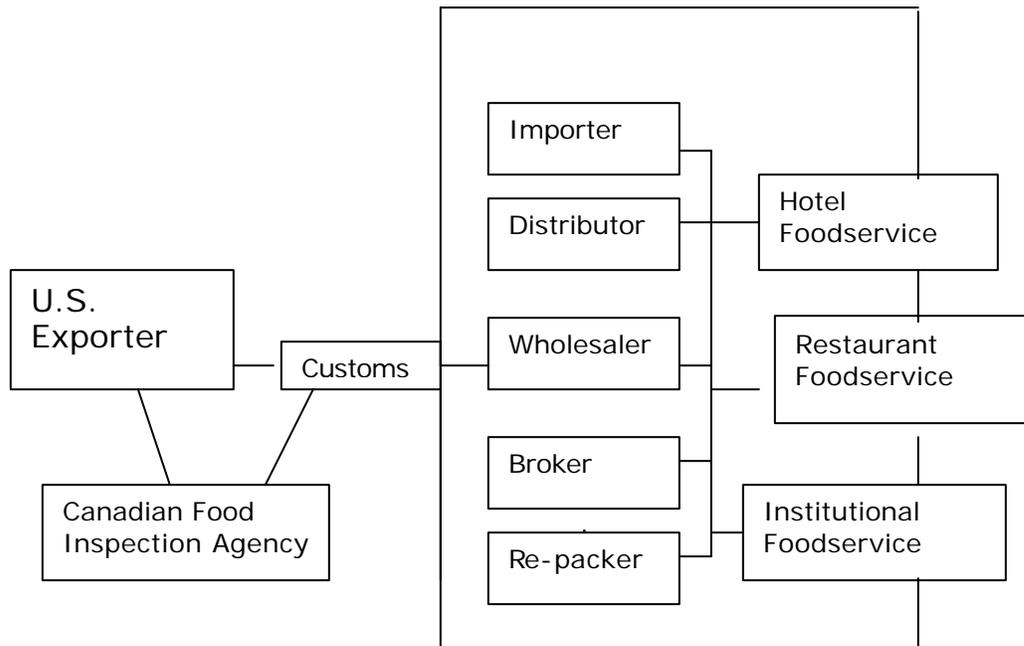
Government Regulatory Organizations	Function	Information
Canadian Food Inspection Agency (CFIA)	Government of Canada's regulator for food safety (as well as Health Canada), animal health and plant protection	www.inspection.gc.ca
Canada Customs and	Compliance with Canada's tax,	www.ccr-a-adrc.gc.ca

Revenue Agency (CCRA)	trade, border legislation and regulations	
Canadian Food and Drug Act	A regulatory document provided by Health Canada which outlines information regarding specific food import restrictions	www.hc-sc.gc.ca/food-aliment/
Foreign Affairs and International Trade (DFAIT) Export & Import Controls Bureau	Responsible for allocating tariff rate quotas to importers	www.dfait-maeci.gc.ca/eiccb
Measurement Canada	Administers and enforces the Weights and Measures Act for food labeling purposes	www.strategis.ic.gc.ca

Canadian agents, distributors, brokers, and/or importers are often the best equipped to assist exporters through the regulatory import process. The best entry method depends on the food product and the sub-sector identified as appropriate for each food product. Government and industry import policies and trade acts regulate each sub-sector. Each U.S. export opportunity must be thoroughly investigated relative to the legislation that exists for the product requesting entry.

B. MARKET STRUCTURE

Distribution Channel Flow Chart for Market Entry into Canada



Domestic and imported food products in the Canadian market may route directly to the foodservice establishment but more often it filters through importers, brokers, distributors, wholesalers and/or re-packers. For smaller restaurants or hotel foodservice establishments most foodservice purchases are made through a wholesaler or distributor, while large chains may choose to purchase directly, through customized growing agreements, contract purchasing, through a central buying office, or from a chain wide designated distributor. Most foodservice establishments choose to purchase the majority of product through the large foodservice distributors like Gordon Food Service and Sysco. Specialty and niche products are purchased through smaller distributors.

Partial Listing of Foodservice Distributors in Canada:

Gordon Food Service 12411 Horseshoe Way Richmond, BC V7A 4X6 Tel: 604-233-5581 Fax: 604-277-7760 General Email Inquiries: Canada@gfs.com Web Site: www.gfs.com Contact: Tim Sinclair, V.P. Marketing	SYSCO SERCA Food Services 302 The East Mall, Suite 102 Toronto, Ontario L5S 1Y7 Tel: (416)234-2666 Fax: (416)234-2650 For a list of other Canadian offices: Web Site: www.sysco.com Offices across Canada
C.W. Shasky & Associates 8181 Jane Street, Unit 1 Vaughn, Ontario L4K 5P2 Tel: 905-760-9411 Fax: 905-760-7715 Contact: Mike Shasky, President mike@shasky.com	National Importers Inc. 1376 Cliveden Avenue Annacis Business Park New Westminster, BC V3M 6K2 Tel: 604-520-1555 Fax: 604-520-0827 Ron Hodgkinson, Market Development Email: ronhodgkinson@nationalimporters.com
Inform Brokerage 1230 West 7 th Avenue Vancouver, BC V6P 3G3 Tel: 604-324-0565 Fax: 604-324-4424 Web Site: www.informbrokerage.com Contact: Randy Kahlon, Product Manager	Flanagan Foodservice 100 Sasage Drive Kitchener, Ontario N2C 2G7 Tel: 519-748-6878 Fax: 519-748-1155 Contact: Jim Grieb, V.P. Purchasing www.flanagan.ca

C. SUB-SECTOR PROFILES

Commercial Sub Sector

Restaurants

Source: Foodservice & Hospitality Magazine July 2005

Top 5 Family Restaurant Chains of 2004 (ratings are based on 2004 sales revenues)

Restaurant	Revenue in Millions C\$
Kelsey's (Montana's, Outback)	\$435.0
Prime Restaurants	\$345.0
Keg Restaurants	\$322.0
Northland Properties (Moxie's Restaurant, Denny's Restaurants)	\$197.0
SIR Corp	\$179.6 *

*Foodservice & Hospitality Magazine estimate

Top 5 Pizza Chains of 2004 (ratings are based on 2004 sales revenues)

Restaurant	Revenue in Millions C\$
Boston Pizza	\$435.0
Pizza Pizza	\$330.0
Pizza Hut	\$327.0
Dominio's	\$122.8
Panago Pizza	\$106.9

Top 5 Chicken Chains of 2004 (Ratings are based on 2004 sales revenues)

Restaurant	Revenue in Millions C\$
KFC	\$681.0
Swiss Chalet	\$435.0
St.-Hubert	\$316.1
Dixie Lee	\$40.0
Mary Brown's	\$33.6

Top 5 Coffee/Doughnut Chains of 2004 (Ratings based on 2004 sales revenues)

Restaurant	Revenue in Millions C\$
Tim Horton's	\$3,165.0
Starbucks	\$224.5 *
Second Cup	\$185.0
Coffee Time	\$124.0
Timothy's	\$90.2

*Foodservice & Hospitality Magazine estimate

Top 5 Burger Chains of 2004 (Ratings are based on 2004 sales revenues)

Restaurants	Revenue in Millions C\$
McDonald's	\$2,540.0
Wendy's Restaurants	\$610.0
A&W	\$512.0
Burger King	\$374.5
Harvey's	\$260.0

Non-Commercial Sub Sector:

Hotel & Resorts

Source: Hotel Association of Canada

Hotel Industry Fact Sheet

<ul style="list-style-type: none"> 6,581 Properties (2004) 	<ul style="list-style-type: none"> 377,771 rooms (2004)
<ul style="list-style-type: none"> Employs 227,000 people 	<ul style="list-style-type: none"> 61.1% Occupancy Rate (2004)
<ul style="list-style-type: none"> \$117.49 Average Daily Rate (2004) 	<ul style="list-style-type: none"> \$72.96 RevPAR (2004)
<ul style="list-style-type: none"> \$11.0 billion National Accommodation Revenue (2003) 	<ul style="list-style-type: none"> 41.1% of properties with 30 rooms and more in Canada are branded (2004)
<ul style="list-style-type: none"> 55.2% of rooms in properties with 30 rooms and more in Canada are branded (2004) 	<ul style="list-style-type: none"> 66.2% of hotels with 100 rooms or more are branded (2004)

Top 10 Hotel Companies in Canada by Revenue – 2003

Company	Revenue (in Millions C\$)	Company Type
Four Seasons Hotel & Resorts	\$2,600.0	Management, Owning
Fairmont Hotels & Resorts	\$12,270.1	Management, Owning
Starwood Hotels & Resorts Worldwide Inc.	\$667.8	Franchising, Management, Owning
Legacy Hotels Real Estate Investment Trust	\$663.9	Owning
Best Western International	\$591.5	Non-profit association
Westmont Hospitality Group	\$525.0	Franchising, Management, Owning
Choice Hotels Canada	\$405.0	Franchising
Marriott Hotels of Canada	\$342.6	Management, Owning, Franchising
InterContinental Hotels Group Inc.	\$362.5	Franchising
Royal Host Real Estate Investment Trust	\$308.6	Owner, Franchising, Management

See Report CA2074, An Overview of the Institutional Foodservice Market in Canada, 2002, for a complete look at the Institutional foodservice industry in Canada.

SECTION III. COMPETITION

The Canadian foodservice industry generally prefers to use Canadian product whenever possible but it is open to new and innovative product whether local or imported. The foodservice markets in Eastern and Western Canada have different orientations when it comes to import sourcing. In Eastern Canada the orientation is a combination of Europe and the U.S., with a very strong U.S. presence. In the West there is little orientation to Europe and a much closer relationship with U.S. market sourcing.

U.S. dominance in the Canadian market can be attributed to several factors:

Proximity (90% of the Canadian population lives within 100 miles of the U.S. border)

- Similar culture, eating habits and food trends
- Common restaurant and hotel chains
- Generally higher levels of food production efficiency in the U.S.
- Similar social trends driving food demand, including time poverty
- NAFTA, which resulted in the elimination of import duties for most products

Barriers to Liberalized International Food & Agricultural Trade

Currently, it is difficult for U.S. exporters of dairy and poultry products to export any amount of product to Canada. Canada protects its dairy and poultry industries with a supply managed program approved under the World Trade Organization (WTO).

With the implementation of the U.S. – Canada FTA (Free Trade Agreement) and later NAFTA (North America Free Trade Agreement) all tariffs between Canada and the U.S. (and Mexico) were removed with the exception of those products for which Canada implemented Tariff Rate Quotas (TRQ). Under the TRQ system, imports that are within quota are subject to low or free rates of duty, until the quota limit has been reached. Once quota limits have been reached, over-quota imports are subject to significantly higher Most-Favored-Nation (MFN) rates of duty. The Canadian importer must be possession of an import permit to import TRQ

commodities. At present over-import duties on dairy and poultry products can amount to as much as 300%.

The Canadian Restaurant and Foodservices Association (CRFA) has 20,000 members who represent restaurants, bars, cafeterias, caterers and institutional foodservice providers and who spend C\$14.5 billion each year on food and beverage products. CRFA has become a member of the Global Alliance for Liberalized Trade in Food and Agriculture, a new alliance of 38 organizations that has called on WTO member countries to commit to achieving a comprehensive agreement on agriculture. Member countries are advocating the removal of barriers to further liberalize international food and agricultural trade and the creation of an international trading environment free from trade distortions and unfair trading practices, including the Canadian practices of supply management, which protect its dairy and poultry sectors and which adversely impact U.S. exporters of these products. However, the federal government is under domestic pressure from its dairy and poultry sectors, which represent 10% of Canadian farms, to retain its protectionist practices of supply management.

For more information on Canada's Tariff Rate Quotas (TRQ) for Agricultural Products, refer to the Department of Foreign Affairs and International Trade (Export and Import Controls Bureau) web site: www.dfait-maeci.gc.ca/trade/eicb/agric/agric-en.asp

Canada has additional TRQs that affect both the level and tariff rates of imports from non-NAFTA origin of pork, beef and wheat, barley and their products, but they do not apply to imports of U.S. origin. Canada does impose some import restrictions on U.S. meat and meat product following the December 2003 detection of bovine spongiform encephalopathy (BSE). Only beef from animals slaughtered under the Agricultural Marketing Service (AMS) Beef Export Verification (BEV) program for Canada are eligible for entry. Please refer to website for further information: www.ams.usda.gov/lsg/arc/bev.htm

Competition in the Canadian Market for U.S. Product 2005

Product Category (HS Code)	Total Import Market	Major Supply Sources	Advantages & Disadvantages
Fish and Seafood (03)	US \$1246	1. US 45% 2. China 17% 3. Thailand 6%	
Meat (02)	US \$976	1. US 66% 2. NZ 15% 3. Australia 6%	
Prepared Meat, Fish, etc. (16)	US \$684	1. US 61% 2. Thailand 19% 3. China 8%	
Fruits and Nuts (08)	US \$2312	1. US 52% 2. Chile 9% 3. Mexico 6% 4. Costa Rico 5%	
Vegetables (07)	US \$1608	1. US 74% 2. Mexico 14% 3. China 3%	
Bakery and Related Products (19)	US \$1374	1. US 80% 2. Italy 3% 3. Germany 2%	
Dairy, Eggs, Honey (04)	US \$1447	1. US 30% 2. NZ 21%	Marketing Boards and TRQ's control the import

		3. France 10% 4. Italy 6%	of these products
Prepared Foods (20)	US \$1139	1. US 64% 2. Brazil 6% 3. China 6%	
Wine (2204)	US \$1045	1. France 27% 2. Australia 22% 3. Italy 17% 4. US 12% 5. Chile 5%	Cultural/Ethnic preferences, cost and aggressive promotional campaigns by some countries, place U.S. wine in a less favorable light.

Source: World Trade Atlas

SECTION IV. BEST PRODUCT PROSPECTS/TRENDS

Trends expected to affect the foodservice sector in the year ahead continue to be driven by a desire for healthier food options. This trend, like so many others before it, is being driven largely by aging baby boomers, who are increasingly focusing on healthier eating. Also, as in the U.S. the focus is on healthier food options for school age children. Most schools are stocking snack machines and cafeterias with low fat, low sugar, and high fiber snacks, drinks and lunch food.

Trends on the rise:

- Organic foods
- Low fat foods
- No Trans fats
- High fiber diets
- Vegetarianism
- Lighter meals and less food on the plate
- Increased awareness and demand for higher-quality ingredients with specific origins, prepared authentically, not over-processed
- Convenient foods
- Salads and fruits
- Healthy snacks: juice, bottled water, natural snacks, fruit snacks, whole grain snacks, etc.
- Whole grain products
- Better informed consumers
- Ethnic foods: East Indian and Japanese currently some of the more popular

SECTION V. POST CONTACT AND FURTHER INFORMATION

Prepared by:

Office of Agricultural Affairs
Embassy of the United States of America
Ottawa, Canada
Telephone: (613) 688-5267
Facsimile: (613) 688-3124
Email: AgOttawa@usda.gov

Find Us on the World Wide Web:

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Related FAS/Ottawa reports:

AGR#	Title of Report	Date
CA0135	Private Label Grocery Opportunities	09/11/00
CA0174	Pet Food Industry Product Brief	11/06/00
CA1126	Exploring Canada's Food Manufacturing Industry	09/18/01
CA2001	Organic Food Industry Report	01/04/02
CA2002	Convenience & Non-Traditional Grocery Outlets Report	01/04/02
CA2021	Quebec as a Market for U.S. Wines	02/05/02
CA2026	Controversial Quebec Plan for Wine Marketing	03/15/02
CA2037	Quebec Beer Industry Overview	04/15/02
CA2075	An Overview of the Institutional Foodservice Market in Canada	07/10/02
CA2078	Canadian Seafood Industry	07/10/02
CA2100	Exporting U.S. Wine to Ontario	08/20/02
CA2115	Vending Machine Food Distribution in Canada	10/24/02
CA2124	Asian-Style Foods in the Canadian Market	10/23/02
CA2125	An Overview of Selected Segments of the Canadian Frozen Food Industry	10/24/02
CA3001	Canada Introduces Mandatory Nutrition Labeling	01/03/03
CA3006	Snack Food Market In Canada	01/24/03
CA3041	Food & Beverage Shows	07/14/03
CA3075	Packaging & Retailing Trends in Fresh Produce	11/20/03
CA4019	HRI Food Service Sector Report	03/22/04
CA5053	Technical Requirements for the Canadian Food Market	08/09/05
CA5060	Canada Connect Matchmaker Program	09/09/05
CA5061	Kosher Report	11/08/05
CA5068	Food Brokers Report	10/06/05
CA5077	Exporter Guide	11/22/05
CA5079	Export Certificate Report	11/23/05
CA5080	Retail Food Sector Report	11/23/05