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Canada: An Emergent Market for Organic Products

INTRODUCTION

Consumer demand for organic foods in Canada has experienced dramatic growth over the past decade, with the market currently valued at over $CAN 1 billion, supplied in large part by foreign producers. Unlike government regulatory policies for the production and labeling of organic agricultural products in the European Union, the United States, and Japan, the rules and requirements for the specific import of organic products into Canada are largely determined by conventional food importation and labeling regulations. In recent years, this has been strengthened by recent reference to the National Standard for Organic Agriculture and by the market place, with some exceptions.

Market trends and channels

Historically, the Canadian consumer has a tendency to identify with U.S. consumer food trends, and this applies to general patterns of consumption for organic foods as surveyed from U.S. studies.

Organic food trends in Canada are driven by changing consumer attitudes, lifestyles, and demographics as well as changing distributor focus and retailing strategies. With the average age of consumers in Canada entering middle age, demographics are an important consideration for developing new products. Canadian consumers today are better educated about food products and about health in general, as evidenced by the trend towards eating healthier foods with less fat and more fresh fruits and vegetables. With increased attention surrounding the potentially harmful effects of fertilizers, pesticides, growth hormones, and antibiotics, the ageing and affluent Canadian consumer is increasingly concerned with the safety and nutritional quality of foods. Products that are convenient, nutritious, exotic, and value-added are also in high demand for this group.

Canadian consumers buy organic food for a number of reasons, primarily perceiving it as providing health and safety benefits for the environment, the farm worker, and the consumer. In regard to food consumption, perception is reality and most consumers view organic food as more nutritious, flavorful, and sensitive to animal welfare and the environment than conventionally produced foods. Canadian consumers are also becoming more informed regarding genetically modified / engineered (i.e., transgenic) foods and are seeking reassurance from organic food due to its prohibition of such inputs.

Over the past 5 years, there has been a major trend towards marketing organic products among major retail stores in deference to independent specialty retailers/health food shops and farm gate/box schemes/market stalls. Mainstream retailers in Canada have responded in recent years to the rapid growth of specialty food stores by developing their own retailing strategies from exclusive natural food sections and separate organic produce sections to health care products and consultation. Products included in the separate organic/natural food sections are a range of breakfast cereals and bars, soy drinks and fruit drinks with supplements, herbal supplements and vitamins, nutritious health bars, and especially premium brands in many food categories.

In industry circles, this "whole health marketing" initiative has been hailed as the single greatest competitive opportunity for Canadian supermarkets for the next 20 years. Health-conscious Canadian consumers are increasingly attracted to grocery stores that offer "boutique" health sections featuring organic produce and dairy products, among other health foods, natural remedies and nutritional supplements, self-care devices, lotions, books, and other resources. In addition, some selected large food retailers promote the idea of one-stop shopping for wellness by offering health seminars, cooking lessons, and advice from naturopathic doctors and nutritional consultants.

In terms of production, Canada has a large agricultural land base, yet currently less than 2% of agricultural land is under organic production by approximately 3000 certified / transitional producers (representing 1% of the total number of agricultural producers). The dominant Canadian organic products include grains, soybeans, fruits and vegetables (mainly apples), dairy products, slaughter livestock, and specialty products such as maple sugar. Among the preferred organic fruits and vegetables, apples and tomatoes dominate. However, packaged foods are predominating among organic consumers.

In 1999, annual food sales in Canada approached $CAN 60 billion, or about $2000 per person. Organic sales have increased generally at a rate of 20% per annum and were estimated in 1999 at $CAN 630 million, or 1% of annual food sales overall. Based on this trend, organic food sales in Canada will approach $1 billion in 2001, of which the Canadian component has been estimated at 20-30% over all food categories.

Market Potential

The organic food category in Canada is youthful, diverse, and highly fragmented with products from a range of related categories. In the organic packaged foods category, for example, the competitive environment is typically made up of a large number of smaller premium priced brands (with price premiums ranging between 10 and 50% over conventional packaged-food products). Tropical products such as organic coffee, tea, and bananas are in strong demand on Canadian shelves. After apples, bananas are Canada's most popular fruit with an annual consumption of 13 kg per capita. In 1998, total imports of organic bananas in Canada was estimated at 1,800 tons, with the bulk of Canadian imports of organic bananas sourced in the Dominican Republic, Mexico, and Honduras, via the United States. Although many food channels originate in the United States, Horizon, Pro Organics, and Marathon, for example are major Canadian distributors for the vast majority of the smaller organic products in this category.

Certification

Producer-based organizations have been certifying organically grown foods in Canada for over two decades. Market demand for certification has arisen out of the need to establish an environmentally sound production process and to assure consumers that organic producers and other stakeholders in the supply chain follow strict quality standards. Certification also opens up the opportunity for expansion into the export market. Exporters and importers of organic food now demand that organic farm products be certified, as do wholesalers, processors, and retailers. More than 30 producer-based or private fee-for-service certification bodies comprise the voluntary certification system in Canada. With the increasing need for transparency and competency through accreditation to established guidelines (ISO/IEC Guide 65), certification bodies in Canada (See:) currently face major challenges in accessing markets in the European Union, the United States and Japan.

The province of Quebec (See:), however, has established unique provincial standards and verification procedures under mandatory provincial legislation.

Import Requirements And Legislation

The regulation of food imports into Canada is the shared responsibility of several federal agencies and departments. The primary federal bodies involved are the Canadian Food Inspection Agency (CFIA) and the Department of Foreign Affairs and International Trade . The CFIA provides all federal inspection services related to food safety, economic fraud, trade-related requirements, animal and plant disease, and pest programs.

Provincial and territorial governments have jurisdiction over public health issues, which include food prepared, sold, and manufactured within their borders. Provincial and municipal inspection programs have focused on the food service industry (including restaurants and caterers), and the food retail industry (including grocery stores, butcher shops, and bakeries). Some provinces and territories have additional requirements for certain commodities such as dairy products, margarine, bottled water, and maple syrup.

For Organic Agricultural Products, the CFIA distinguishes organic food from conventional food only in the manner in which the production process differs. Federal regulatory policy toward organic agriculture is described under the Guide to Food Labeling and Advertising. This policy, as with many in the guide, is governed by sections 5.1 and 7 of the Food and Drug Act and the Consumer Packaging and Labeling Act, respectively, these sections deal with misrepresentation, misleading, and false claims.

Some of the Federal Legislation affecting Food Importation that should be considered is:

- Food and Drug Act - Applies to all food imported or sold in Canada.
- Consumer Packaging and Labeling Act - Applies to all prepackaged food products imported or sold in Canada.
- Canada Fish Inspection Act - Applies to fish and fish products marketed through import, export, and inter-provincial trade.
- Meat Inspection Act Applies to meat and meat products marketed through import, export, and inter-provincial trade.
- Canada Agricultural Products Act - Applies to most dairy, egg, fruit, vegetable, maple, and honey products marketed through import, export, and inter-provincial trade.

In all cases, it is the responsibility of the importer to ensure that products meet all requirements of Canadian legislation (federal, provincial, and municipal).

National Standard of Canada

The National Standard, approved in 1999, provides guidelines for the production, processing, handling, and labeling of organic products and their derivatives, and forms the basis to which all products identified as organic must comply.

The most important benefit to developing a voluntary standard over the traditional regulatory approach is that changes to the standard can be more easily accommodated, than if referenced entirely in legislation. Although sections of the standard referring to labeling requirements are the most secure from a regulatory context, revisions to the standard are a certainty, as trade in organic food becomes more global and regulated. Since the Canadian standard was last drafted in 1998, a number of revisions have been made to organic standards internationally; most notably the Codex Alimentarius international guidelines for crop livestock production, and the National Organic Program of the United States.

Before 2000, regulations governing organic food were dependent on the standards prescribed by each of the certifying bodies (CB) operating in Canada. In turn, each CB was required to be identified on the label in support of any organic claim.

However, under the new labeling policy, the standard provides for two formats for an organic claim. Products can now be claimed to be organic without specifically identifying a certifying body, as long as it conforms to the minimum requirements of the national standard. Products are labeled as "certified organic" only if the CB assures compliance with the national standard (in addition to any other requirements they may specify over and above that of the national standard). In this case, the CB must be identified on the label.

The specific requirements for labeling have also been revised, notably for products that are processed with some or all-organic ingredients. Products that employ an unqualified organic claim on the main panel (i.e. the principle display panel) must contain at least 95% by weight of organic ingredients. Alternatively, products that contain 70% or more organic ingredients may be claimed as organic on the main panel if the claim is qualified as to the percentage of the organic content ("contains 70% organic ingredients" or "contains 85% organic corn"). Products with less than 70% organic content are prohibited from making organic claims, with the exception of identifying organic ingredients as part of the ingredient statement.

Its Implementation

Under the current regulatory system in Canada as administered by the CFIA, certification of organic products is not a mandatory requirement. However, many organic producers feel that certification should be mandatory, and in some markets, where buyers are increasingly sourcing certified products, organic certification is becoming mandatory from this market-driven perspective, alone. Certification alone can be a powerful force for industry self-regulation in Canada, but only if it is equivalent and harmonized.

From the perspective of the CFIA, the national standard in its entirety defines the minimum organic process for labeling products as such. While producers, processors, or CBs (operating within or outside of Canada) may follow higher, and more prescriptive standards for production and processing, agricultural products that are not in accordance with the minimum guidelines set out in the standard simply cannot be labeled as “organic”.

IN CONCLUSION

With a definite trend in Canada towards organic foods, there are opportunities for innovative products, marketing, and merchandising programs from importers. Given Canada's demand for foods not produced domestically or off -season (75% of the year), this provides significant opportunities for importers who understand the market and consumer trends in regions within Canada and respond with unique, competitively distinct products to meet those consumer trends.

Importers of high-value products, and small- and medium-sized companies, may also find Canada a difficult market to enter. Historically, Canada is the top market for U.S. organic food imports with sales growing steadily over the past 10 years. Among the challenges are the costs of product development, distribution, marketing and transportation, an existing array of sophisticated products, the need to work through brokers/manufacturer's agents, the regionalization of retail distributors and brokers, and high retail food concentrations within regions of the country. Importers must also be aware that competition within the well-established North American food channels is very intense, and well financed to implement retaliation strategies in the market place if challenged. In addition, brand equity and consumer loyalties are very well established on several traditional food products, so those importers must be especially sensitive to the need to create retail demand for novel products.

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