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Food & Consumer Products of Canada | Produits alimentaires et de consommation du Canada

The *Persistent* Border: Regulatory Incompatibility and Agri-food Competitiveness

Fourth Annual North American Agri-food Market Integration Workshop

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Cancun, Mexico

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Discussion Outline

1. Regulatory differences mean borders still matter
2. Lost opportunity is rampant
3. Processing industry is losing competitiveness and entrepreneurial spirit
4. Canada is missing out on key consumer trends and ability to foster value-added agriculture

Today's Reality

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- Food is an important sector of the Canadian economy
  - 12% of manufacturing GDP
  - Second largest manufacturing industry
  - Largest manufacturing employer (300,000 jobs)
  - Industry buys 43% of Canadian agricultural output
  - 69% of processed foods to the U.S.

Barriers to commercialization and trade

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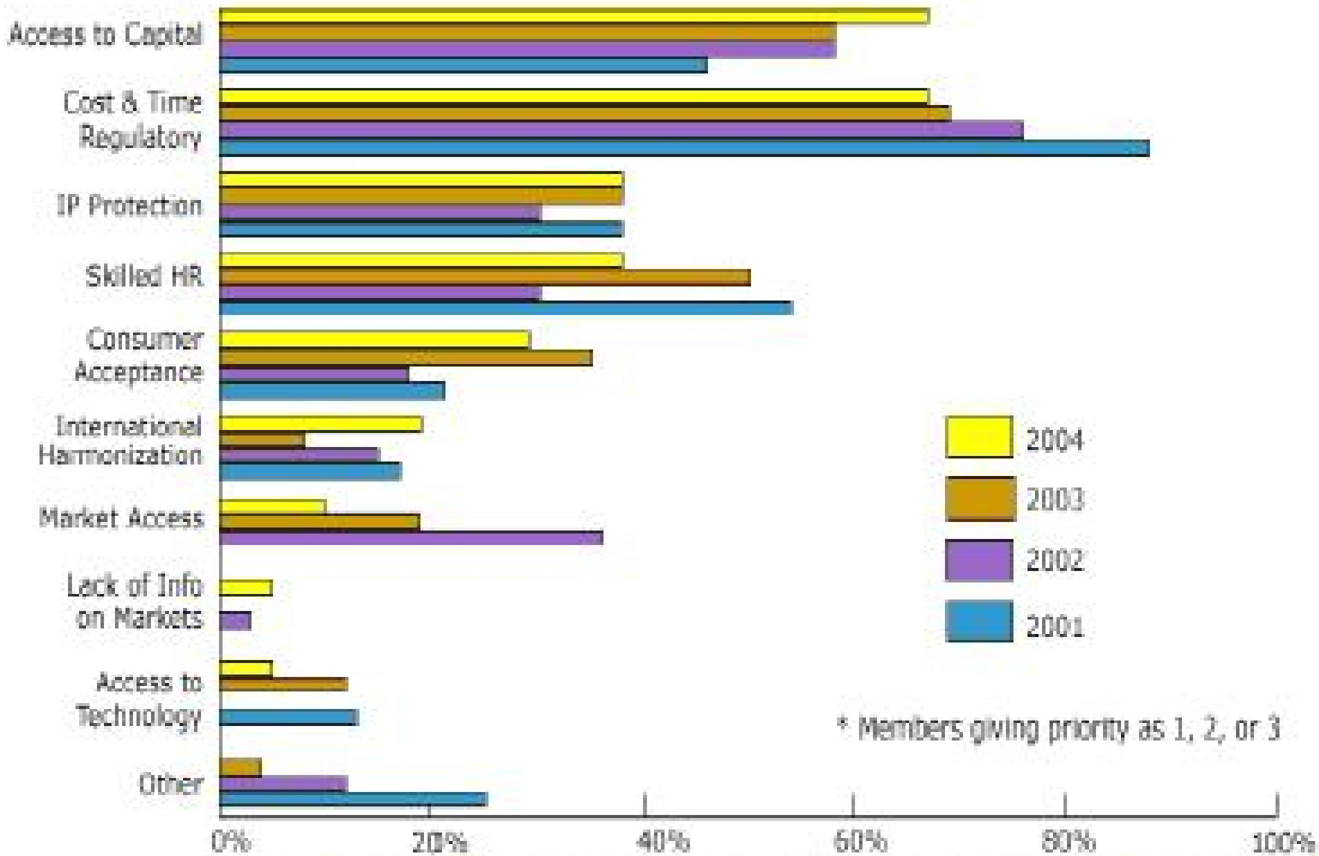

Source: Biotechnology Human Resource Council, 2004 Canadian Biotechnology Human Resources Study.

We are hamstrung by a regulatory environment that isn't working

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- An outdated, inflexible and prescriptive regulatory environment that hinders innovation
- Duplication among levels of government
- Lack of harmonization with NAFTA partners

Result

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Unable to optimize supply chains and realize full utilization of capital and infrastructure

Can’t meet consumer demand for innovative health-related products

Unable to contribute to the development of value-added agriculture

What’s not harmonized?

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- Product regulations
- Product standards
- Labelling
- Testing and certification requirements

Restrictions on marketing fortified foods

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- Vitamin and mineral enhancement prohibited in Canada except under very stringent conditions
- Vitamin C addition—a non-tariff trade barrier?
- Opportunity cost for beverage industry--$400 M/year
- Regulations allowing discretionary fortification expected in 2007 but very restrictive relative to US
- Preclude marketing the same product with the same composition in both jurisdictions
- Good science or ideology?
- U.S. and Mexico will have opportunity to comment on Canada Gazette, Part 1

Health Claims

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- 5 health claims in Canada v. 17 in the U.S.
- Canada has statutory prohibitions against making claims on foods sold to the general public which refer to any of 40 diseases e.g. heart disease, diabetes, cancer, etc. ***even If the claim could be scientifically validated***
- Plant sterols and reduced risk of CVD
- Consumers lose
- Soybean farmers lose too
- Hampering innovation in Canada
- Unilever and Forbes Medi-Tech

Standardized Containers

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- Canada prescribes standard container sizes for certain processed foods e.g. soup, baby foods, fruit and vegetable juices
- No such regulations exist in USA or Mexico
- Disguised tariff barrier
- Tenaciously held by certain SMEs but some MN companies as well
- SPP to look at standardizing containers for NAFTA-wide market

Food safety standards/ multiple audits

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- Competing food safety systems = costs
- Affects competitiveness of fresh fruit and vegetable growers/shippers and downstream re-packers and wholesalers
- Regulatory criteria as it relates to animal health not compatible
- List of products considered “hazardous substances” not compatible
- Requirement for health certificate labelling on case shipments v. pallets to certify products meet applicable Cdn and US food safety laws/regulations

Labelling & Product Standards

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- Tyranny of small differences is alive and well
- Poised to continue
- Allergen labelling
- Organic product regulations
- Standards of identity (cheese, yoghurt)
- Trans fat reduction
- English/French/Spanish—trilingual label
- Significant cost issue

Our Clock is Ticking

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- Food industry profits climbed back only 2.6% in 2006, after dropping 20% in 2005
- Investment and capital intensity lag manufacturing as a whole and are trending downwards
- Labour productivity is down
- R&D lower than other OECD countries
- North American product mandates are hard to come by in Canada for multi-nationals
- SME's are unwilling to make investments

With No Room To Move

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LACK OF HARMONIZED REGULATORY ENVIRONMENT

PRICING PRESSURE
RISING COSTS
LABOUR
INFRASTRUCTURE

So Many Opportunities!

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Producers

- Value add is the future

Products

- Innovation is the future

Consumers

- Food as therapy and path to wellness is the future

Healthy Foods Are Big News

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BusinessWeek.com

Top News March 14, 2007, 3:54PM EST

Health-Savvy Wonder Foods

Why Is It Big News?

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- Sales growth of 20%
- Health = Food
  - 71% consumers - Taste = key factor in food choices
  - 67% consumers - Nutrition = key factor in their food purchase decisions (CCFN 2006)
- “Better for You” offers premiums for the whole supply chain

"Funcational Foods and nutraceuticals are about to take off- just not in Canada"

The Future is Global

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- Harmonization is essential to optimize supply chains and capital infrastructure
- Regulatory policy must start from a transnational perspective and make national exceptions only in very limited cases to protect safety and cultural norms
- Is there a potential for cross approvals or mutual recognition agreements?
- Separate approval streams for products approved in other G7 jurisdictions?
- Will the SPP initiative bear fruit?