

FCPC

Food & Consumer  
Products of Canada

PACC

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

June 15, 2007

Cancun, Mexico

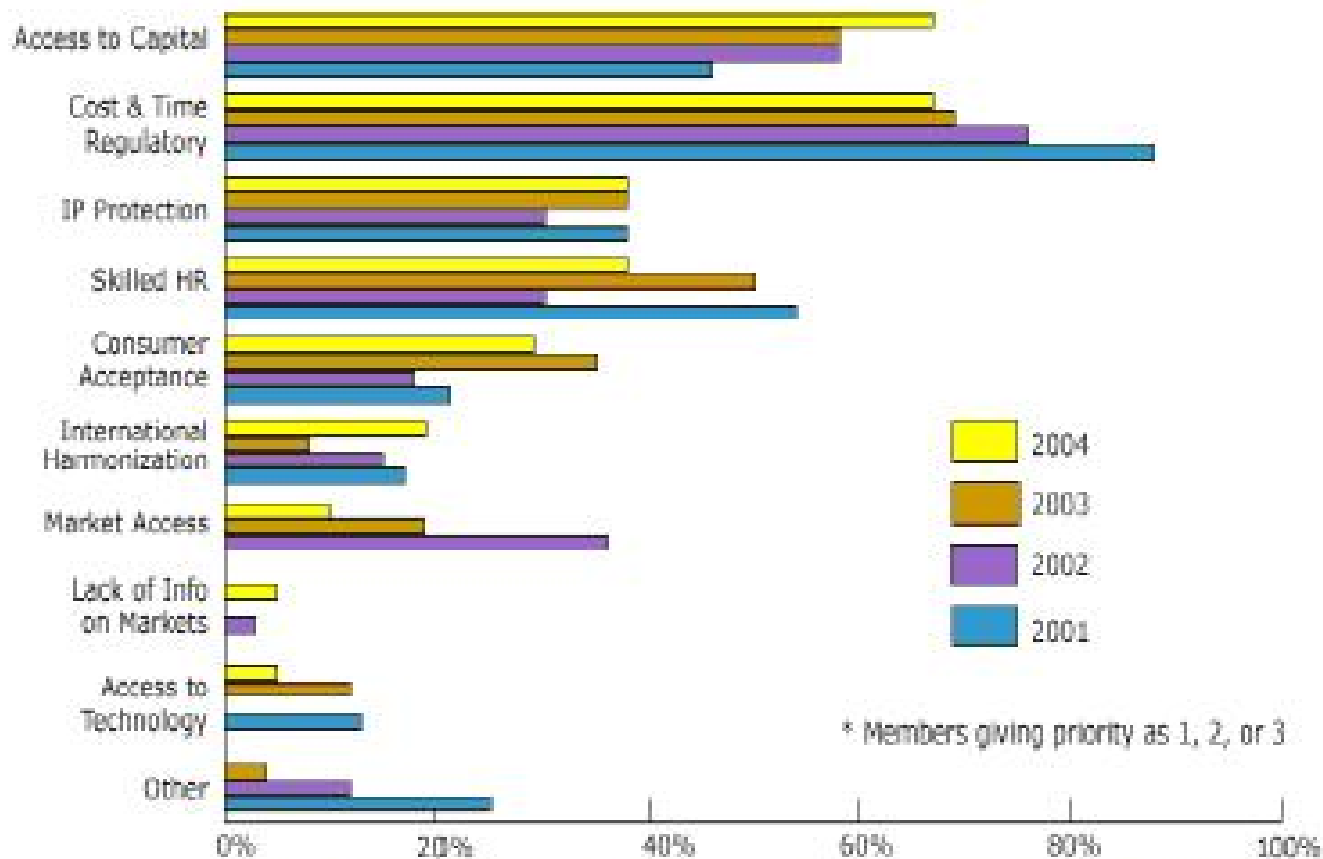
Gemma Zecchini

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

- 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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\* Members giving priority as 1, 2, or 3

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- An outdated, inflexible and prescriptive regulatory environment that hinders innovation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

***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



- 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

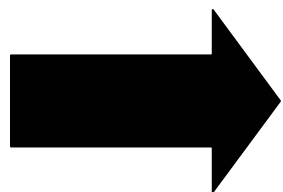
- Food industry profits climbed back only 2.6% in 2006, after dropping 20% in 2005
- Investment and capital intensity lag manufacturing as a whole and are trending downwards
- Labour productivity is down
- R&D lower than other OECD countries
- North American product mandates are hard to come by in Canada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



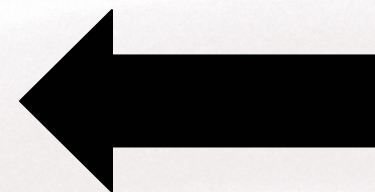
# With No Room To Move

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**LACK OF  
HARMONIZED  
REGULATORY  
ENVIRONMENT**



**PRICING PRESSURE  
RISING COSTS  
LABOUR  
INFRASTRUCTURE**





# So Many Opportunities!

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# Healthy Foods Are Big News

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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

**Cover Story**

## The future is ripe

Functional foods and nutraceuticals are about to take off—just not in Canada

By Jim Pirovone

**W**ith an aging population and increasing concerns about obesity and its many associated health issues, the future is ripe for the North American functional food and nutraceutical industry. But thanks to tough regulatory rules, development in Canada has stalled, and the majority of biotech firms have focused almost exclusively on exports to grow their businesses.

As per Agriculture and Agri-Food Canada's definition, functional foods and nutraceuticals are food components that provide demonstrated physiological benefits, or to help the body defend against disease, above and beyond their typical nutritional attributes. The latter is similar to foods or conventional food, while a nutraceutical is isolated and sold as a drug. In both cases, an active component must directly affect the food.

In 2003, functional foods accounted for US\$2.6 billion of the \$8.17 billion global market (including Natural and organic foods, nutraceuticals, herbs at \$294.4 billion, and supplements \$61.2 billion, of the total). According to the (Chicago-based) Nutrition Business Journal, Canada held 1% of the market in that same year, compared to 20% for the U.S., and 12% for Europe.

Still, Canadian companies are active in the global market. In 2005, scores by Nutrition Canada began the industry in gaining momentum. About 17% of 2005 companies developed food services and food products or more general in terms of functional foods and nutraceuticals. More than half of growth in the Natural Food sector occurred in Japan, which has 60% of the market according to NBJ's calculations.

Indeed, much of the barrier to entry was possible due to the greater growth opportunities. Despite the value of the total North American functional food market is estimated between \$1.6 and \$2.6 billion, says Peter Jones, director of the Biotechnology Center for Functional Foods and Nutraceuticals.

**“Functional Foods and nutraceuticals are about to take off- just not in Canada”**



- 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?