



- UNITED STATES COUNTRY PROFILE –

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The United States is the world's largest economy and a top priority market for Canadian exporters. With its market size, high Gross Domestic Product (GDP) per capita, proximity, similar business infrastructure and preferential trade access, the United States is the obvious international market for agri-food exports. The U.S. is Canada's largest agricultural import and export market. As North America is growing towards one market policy changes south of the border, foreign competition and fluctuations of the U.S. dollar all have an impact on the Canadian agri-food industry.

The US is Alberta's largest trading partner for agri-food products receiving 41% of Alberta's total agri-food exports in 2007 (\$2.7 billion)¹. In 2002, this share was 58%². Alberta's strength has been in supplying live cattle, beef, wheat, processed potatoes, canola oil, pork, canola seed, oilseed cake and meal, and live hogs. Given its dependence on exports, Alberta is forced to develop international strategies multilaterally and maintain focus on its most traditional partner as well.

The Pacific Northwest region presents numerous opportunities for exporters in the agri-food sector with its 12 million consumers situated one day and a half shipping from Alberta. U.S. consumers are willing to pay more for quality products and Alberta is well positioned to meet the growing demand for private label, ready meals, meats, natural, specialty and functional foods in this region. Challenges for Alberta producers include greater access to U.S. markets. While American companies provide for many of their own consumers, there are tremendous opportunities for progressive and innovative Alberta companies willing to gain a foothold in the market and develop long-term competitive presence south of the border.

MARKET OVERVIEW

▪ Economic

With a population of approximately 306 million people, the United States is the largest and most powerful economy in the world. Its nominal GDP (PPP) in 2007 is a massive \$13.78 trillion and the GDP per capita (PPP) is \$45,800³.

2001-2007 Economic expansion

The economic expansion was largely fueled by historically low interest rates, federal tax cuts, rapid productivity growth and debt-driven consumer spending. Despite corporate scandals, terrorist attacks, wars in Afghanistan and Iraq and a hurricane's extensive damage along the Gulf Coast, 2006 marked the sixth consecutive year of growth with an average annual growth of 3.4%⁴. While consumers were shifting into high gear, low interest rates combined with rising income levels resulted in a housing boom, the biggest on U.S. records. However, soaring oil prices in 2005-2007 threatened the economy with higher inflation and unemployment. Inflation progressively increased to 2.9% in 2007 owing partly to the impact of higher energy prices on goods and services⁵. As the expansion gained momentum supported by overinvestment in construction, the Federal Reserve raised the interest rates in an attempt to gear the economy towards a soft landing. Cooling off of the hot U.S. housing market began in 2006. With significantly higher commodity prices, the economic growth in the U.S. slightly slowed through year-end 2006 and again in 2007.

¹ Agriculture and Rural Development (ARD), Agri-Trade Online

² Agriculture and Rural Development (ARD), Agri-Trade Online

³ CIA World Factbook

⁴ U.S. Department of Commerce, Bureau of Economic Analysis

⁵ OECD Statistics and TheEconomist.com

The financial meltdown of 2008 resulted in a severe credit crunch, which combined with the bursting of the bubble in the housing sector and rising unemployment, caused a consumer retrenchment that pushed the economy into recession.

Table 1- Change in GDP for the United States (2005-2010 forecast)

	2005	2006	2008(e)	2009(f)	2010(f)
GDP per capita (\$ at PPP)	42,004	44,157	47,750	47,522	48,037
GDP (% real change pa)	2.9	2.8	1.3	-1	0.8
Inflation	3.4	3.2	4.0	0.5	1.2

2008 Recession

The US economy slipped into recession in December 2007. The slide has accelerated in recent months and the US economy contracted at an annualized rate of 0.3% in the third quarter of 2008⁶.

In December 2008, the US economy was officially in recession⁷. Recent indicators, including massive drop in employment, suggest a further sharp deterioration. The GDP shrank by 0.5% in annualized terms in the third quarter, the first contraction in seven years, compared with a 2.8% advance in the previous three months⁸. At the same time, the effective nationalization of the Fannie Mae, Freddie Mac, and American International Group (AIG), one of the world's largest insurance group, as well as the collapse of Lehman Brothers, a major US investment bank, and the troubles at Washington Mutual and other financial services organizations have made it clear that the US is facing the worst financial crisis since the Great Depression.

One major development between the second and third quarters of 2008 was the sharp retrenchment by US consumers, whose spending accounted for about 70% of the expansion and generated by car and home-equity loans or credit card borrowings. After increasing at an annualized rate of 1.2% in the second quarter, consumption dropped by 3.1% in the third quarter of 2008. The decline in consumer spending was steeper than expected and marked the first drop in consumption since the 1991 recession and the fastest drop since 1980⁹. Retail sales dropped in October by the most on US records, adding to the somber economic prospects. The 2.8% decrease in retail sales was the fourth consecutive drop and the biggest since record began in 1992¹⁰.

The downward spiral of house prices continues, and there is an increase in the number of defaults on regular residential mortgages, commercial mortgages, consumer and credit-card loans as well as commercial credits¹¹. The plunging housing and stock markets have already reduced household net wealth from a peak of 630% of annual disposable income at the end of June 2007 to 527% at the end of September 2008. The mounting job losses are also depressing purchasing power and confidence. Hardly a week passes without a major company announcing mass layoffs. Employment has shrunk by 2.6 million in the past year with some 525,000 of those job losses occurring in December¹². The unemployment rate jumped from 5% in April to 7.2% in December. More than 11 million Americans are now unemployed. In an unprecedented move, GM, the biggest carmaker, announced it was closing all but one of its North American plants in January 2009.

Real GDP is forecast to contract by 2% in 2009 as the financial crisis and the housing downturn take their toll on domestic demand¹³. Slowing growth in the world will also curb US export growth in 2009. Inflation is set to decelerate sharply in 2009-2010. The severe weakness of domestic demand and easing commodity prices will exert strong downward pressure on US prices and is pointing to a risk of deflation.

Barack Obama the president elect is preparing an additional fiscal stimulus package along with further measures to boost financial markets and confidence. However large-scale monetary stimulus may help avoid further damage but is unlikely to prevent substantial economic contraction in 2009. At the same time it will drastically increase the federal deficit.

US dollar under pressure

The fall of the US dollar began in 2002 owing partly to the widening current-account and budget deficits. Compared to February 2002, the dollar depreciated about 18% against the British pound, 52% against the Euro and 35% against the Canadian dollar. The dollar's broad trade-weighted index⁹ has fallen by 18% between February 2002

⁶ The National Bureau of Economic Research

⁷ The National Bureau of Economic Research

⁸ US Commerce Department

⁹ Financial Times, FT.com, *Recession nears as consumers cut back*, Nov 7, 2008

¹⁰ Bloomberg.com, *U.S. Retail Sales Drop in October by Most on Record*, Nov 14, 2008

¹¹ The Economist.com, November 2008

¹² US Bureau of Labor Statistics

¹³ The Economist Intelligence Unit –Monthly Report January 2009

and October 2008¹⁴. The decline owes a lot to low oil prices, geopolitical factors and global imbalances. New in the global currency game, the U.S has requested China and Japan to stop currency manipulation by bringing the issue before the WTO, the only independent body with the authority to arbitrate trade issues.

The US dollar rally between July and October was initially driven by rising skepticism about the strength of the euro zone. Deleveraging from emerging markets will likely continue to support the greenback in coming months. That said, the instability in financial markets indicates that the currency's trajectory is likely to be volatile.

Despite a declining dollar the United States continues to face a chronic trade deficit of \$790.3 billion in 2007, slightly lower than the 2006 deficit of \$818.1 billion¹⁵. The deficit with China, \$256.3 billion, was the largest imbalance ever recorded with any country while deficits with Japan and Mexico also set gaps of \$82.8 and \$74.3 billion respectively. The trade deficits with Canada (\$64.2 billion), Europe and Japan slightly dropped. The 2007 exports to Canada (\$248.9 billion) and the 2007 imports from Canada (\$313.1 billion) were records. It is widely agreed that this deficit is unsustainable and that the result of its unwinding could be painful for both the United States and its major trading partners. In 2009, the deficit is expected to narrow as the domestic demand slumps and a fall in commodity process help to curb the import bill¹⁶.

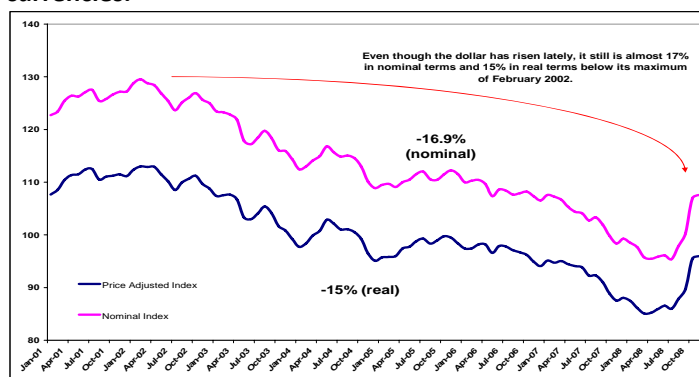
- **Political**

On the political scene, a sense of change is in the air as Republicans lost their dominance. The incoming Democratic president Barack Obama won the presidential elections ending eight years of staunchly conservative administration under Republican George Bush. The democrats have also made significant gains in the Senate and the House of Representatives, maintaining control of both houses. However, significant challenges await the president-elect, including 2 wars, twin deficits, a financial meltdown, recession and increasing unemployment.

The Democrats are more protectionist than the politicians they replaced and their trade-skepticism was important to voters who want the government to "protect jobs and ensure that trade is fair rather than promote free trade"¹⁷. Foreign governments for the most part are more comfortable with Mr. Obama than Mr. Bush. While Mr. Obama seeks to rebuild relations with foreign governments there are fears that the new administration will impose more aggressive trade protection measures against China in particular.

President Bush's initial plan on foreign policy was to open markets on every available front. However, steel tariffs imports, disputes on softwood lumber, cotton and textile, the Byrd Amendment¹⁸ and the increased farm-subsidies through a new Farm Act in 2002¹⁹ sent mixed messages. President Bush pleaded for a "strong economy benefiting open trade, urged lawmakers to resist protectionism and stressed the importance of concluding the multilateral trade liberalization talks under the Doha round"²⁰. At the same time the agriculture secretary announced plans to reduce the subsidies to the farmers and support agriculture research that does not greatly distort trade. In June

Graph 1: U.S dollar trade-weighted index against a basket of currencies.



Source: Board of Governors of the Federal Reserve System

¹⁴ US Federal Reserve

¹⁵ Foreign Trade Division, U.S. Census Bureau, Nov 7, 2008

¹⁶ Given the current situation, the federal government deficit is set to deteriorate substantially. The financial crisis will be one of the factors weighing on public finances. The budget deficit for fiscal year 2008 (which ended on September 30th) was \$455 billion, or 3.2% of GDP, much more than the \$389 billion projected in July. The prospects of sizeable fiscal stimulus plans, combined with the \$700 billion Troubled Asset Relief Program (TARP) rescue package for financial institutions, threaten to add up to a deficit of at least \$1 trillion in FY2009.

¹⁷ The Economist February 2007

¹⁸ "On October 28, 2000, U.S. President Bill Clinton signed the "Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001". The "Continued Dumping and Subsidy Offset Act of 2000" (Byrd Amendment) was part of that Act. Under the Byrd Amendment (which amended the Tariff Act of 1930, the principal U.S. trade remedy statute), anti-dumping and countervailing duties are given to U.S. producers who supported those trade remedy actions." Foreign Affairs and International Trade Canada

¹⁹ World Trade Organization, Trade Policy Review

²⁰ "The Agricultural Adjustment Act of 1938 and the Agricultural Act of 1949 constitute what is known as the "permanent" legal framework governing commodity price and income support in the United States. Congress regularly enacts legislation that amends and suspends provisions of the permanent laws. The last such legislation was the Farm Security and Rural Investment Act of 2002 (the 2002 Farm Act), signed by the U.S. President in 2002. Additionally, Congress provides ad hoc emergency and supplementary assistance under separate legislation."

²⁰ The White House and the Economist, February 2007

2008, Congress overrode the President's veto the Food, Conservation, and Energy Act of 2008, ensuring that all parts of the 2008 Farm Bill are enacted into law and continuing the United States' long history of agricultural subsidies. The Farm Bill is heavily focused on developing renewable energy, in line with the President's goal of reducing annual gasoline fuel demand by 20% in 10 years. Other secondary goals include reforming commodity payment programs and supporting conservation. The increasing use of corn to produce ethanol raises concerns. The USDA projects that corn production will fall short of demand, adding upward pressure to corn prices. Strong corn prices encourage U.S. producers to plant corn at the expense of soybean and cotton which in turn impacts livestock feeding in the U.S.²¹

Another provision of the Farm Bill required country of origin labeling (COOL) for a number of commodities including beef, lamb, pork, fish, perishable agricultural commodities, and peanuts. Implementation of mandatory COOL became effective for all covered commodities on September 30, 2008 under an interim rule. In December 2008, Canada took the first step in challenging the U.S. regulation before the World Trade Organization. Mexico joined the trade challenge in mid-December. U.S. consumer and farm groups say the labeling rules will distinguish U.S.-grown food from imports on the grocery shelf and met the shopper's right to know about products. Canada says the labeling rule poses an unfair technical trade barrier that makes U.S. meatpackers less willing to buy Canadian cattle and only at lower prices. Up to 1.5 million head of cattle are shipped to U.S. buyers from Canada each year and two-thirds are slaughter cattle²².

U.S. president-elect Barack Obama has selected Tom Vilsack as his new agriculture secretary. Supporters say Vilsack's experience as former governor of Iowa, one of the nation's biggest providers of corn, soybeans, hogs and eggs, has given him a thorough understanding of agricultural issues. His immediate challenges will be the implementation of last year's Farm Bill. The \$289 billion, five year bill was passed last June, over President Bush's veto but has yet to be implemented. Other challenges include ethanol policies, food safety and animal welfare. Vilsack is a strong supporter of alternative energy and has argued it is the key to bolstering rural economies. Historically he has supported some initiatives favored by the meat industry and others that the industry vigorously opposed.

The Canada-U.S. trade relationship is affected by changes in politics and policies as illustrated with the Bovine Spongiform Encephalopathy (BSE) episode in 2003 and mandatory Country of Origin Labeling in 2008. In Washington the role of the Advocacy Secretariat is to enhance Canada's advocacy activities with Congress and to improve the management of Canada/U.S. relations by assisting the provinces, territories and Parliaments in their efforts to lobby the Congress and the White House.

▪ Relevant Demographics

In 2008, the United States is home to 305.8 million people²³, the world's third largest population.

Due to increasing immigration, life expectancy and birth rates, the U.S. population is expected to increase by another 18-28% by 2020, which represents another 50-80 million people to feed²⁴. California alone should add 16 million people (most of them international migrants), which would boost its share of the total population to 15%. Nevada, Texas, Florida and Washington are expected to be the next biggest gainers.

The US population is getting older with the number of persons aged 65 and older steadily increasing from 19.1 million in 1967 (9%) to 36.8 million in 2007 (14.4%). By 2030, about 20% of the U.S. population will be 65 or older. The percentage of the population in the "working ages" of 18 to 64 is projected to decline from 63 percent in 2008 to 57 percent in 2050. Similarly, the 85 and older population is expected to more than triple, from 5.4 million to 19 million between 2008 and 2050.

The U.S. is becoming more racially and ethnically diverse. Whites continue to account for the majority of the US population (66%). However the U.S. population is now one third minority. Hispanics continue to be the largest minority group at 46.7 million followed by Blacks (41.1 million), Asians (15.5 million), American Indians and Alaska natives (4.9 million) and native Hawaiians and other Pacific islanders (1.1 million).

The largest share of new immigrants comes from Latin-America and Mexico in particular, although the share from Asia has also grown substantially. Net immigration will continue to be an important component of population growth in the U.S. through 2050. The population of Hispanics is projected to steadily increase as a percentage of total U.S. population through 2050, rising from 15% in 2008 to 30% in 2050.

²¹ U.S. Farm Bill 2007 Fact Sheet & Trade Implications, Alberta Agriculture and Rural Development

²² USDA Economic Research Service

²³ US Census Bureau

²⁴ U.S. Census Bureau, Population projections

Consumers demand more choices and lower prices and are increasingly more health conscious. Higher incomes and aging of the population is expected to cause shifts in the American food market and require its suppliers to adapt to more mature consumers, more diversity, and more people to feed. By 2020, the share of people older than 65 will increase while the share of the population under 18 will decline²⁵. Older Americans are likely to be more health conscious than their younger counterparts.

In 2007, the average American family spent 9.8% of their disposable personal income on food. The average American ate 8.2kg of food weekly²⁶. The total spent for all food consumed in the U.S. was \$1,139.4 billion dollars in 2007, 48.9% was spent on food away from home and 51.1% spent on food at home.

The total household food spending is expected to increase by 26% between 2000 and 2020²⁷ and will have a larger impact on demand for quality and diversity of food than on quantity. This includes things such as:

- specialty cuts of meats,
- natural and organic foods
- healthy and functional food products
- exotic vegetables,
- luxury foods,
- ready-to-eat meals,
- exotic fresh foods,
- single-serving lunchbox snacks, and
- washed and bagged vegetables.

Growth of Hispanic and ethnic populations with an increasing disposable income (over double the growth of the average U.S. consumer since 2001) will also contribute to expand the American food repertoire and require specific marketing initiative. More than the Hispanic labels this will require identifying specific flavors in demand.

The American food market is considered a mature market as consumers benefit from a highly productive sector that fulfills all their basic needs. Suppliers to the U.S. food markets should inquire what foods will be in demand and how much of their higher income consumers will spend on them. By 2020 the total American consumer base is expected to consume 15% more beef and 8% more processed potatoes than in 2000²⁸. Per capita consumption of beef is expected to slowdown in 2009 because of the impact of the economy, high corn prices as well as price and supply of chicken putting pressure on the beef side. However per capita consumption of beef is expected to increase by 2012. Consumption of pork and poultry are expected to follow similar patterns²⁹.

▪ Trade Agreements and Market Access

The United States is a member of numerous international organizations, including the United Nations (UN), the World Trade Organization (WTO) and the Organization for Economic Cooperation and Development (OECD). It is a member of a wide range of bilateral and multilateral trade and economic agreements.

Regional agreements include: the North American Free Trade Agreement (NAFTA), the Free Trade Area of the Americas (FTAA), the Enterprise for ASEAN Initiative (Association of Southeast Asian Nations), the Middle East Free Trade Initiative, and the Asia Pacific Economic Cooperation (APEC). The United States has free-trade agreements (FTA) in force with Canada, Mexico, Israel, Jordan, Chile, Singapore, and Australia. FTAs have recently been completed with several countries including Bahrain, the five central American countries, Morocco and the Dominican Republic. Current negotiations to create FTAs include over 12 countries while unilateral preferences in favor of developing countries have been expanded to over 120 countries.

Canada and the United States entered into a free trade agreement (NAFTA) on January 1, 1989 which was extended in 1994 to include Mexico. Since 1989 two-way trade has tripled and virtually all Canada-U.S. trade has been tariff-free³⁰. Some challenges still remain despite the largely irritant-free nature of Canada-U.S. trade.

The importance of agricultural trade between Canada and the U.S. is marked by greater integration of agricultural markets. Data shows the dependency of Canada upon U.S. trade and the potential exposure in case of conflict or policy changes. Alberta and Saskatchewan have been severely hit by the closure of U.S. border to Canadian

²⁵ U.S. Census Bureau, Population projections

²⁶ USDA/ERS: US Consumers Food Spending

²⁷ USDA/ERS: Food Expenditures by U.S. households: looking ahead to 2020

²⁸ USDA/ERS Food Review Consumer driven agriculture

²⁹ USDA long-term projections for per-capita meat consumption

³⁰ During 1989 and 1998 virtually all tariff and quota barriers to Canada-U.S. agricultural trade were dismantled with a few notable exceptions: U.S. imports of dairy products, peanuts, peanut butter, cotton, sugar, and sugar-containing products and Canadian imports of dairy products, poultry, eggs, and margarine

beef following Canada's announcement of its first BSE case in May 2003. The border was reopened to boneless beef from cattle less than 30 months of age later that same year and to live cattle under 30 months. Trade resumed in 2007 with the reopening of the border to animals and beef from cattle over 30 months. Building domestic slaughter, finding new markets, developing new products and leading the research on BSE will be essential in ensuring that Alberta's cattle industry remains competitive.

Under NAFTA, 2008 saw an end to trade restrictions between Mexico and the US on a raft of farm commodities including corn and sugar.

- **Current issues**

- **Ranchers-Cattlemen Action Legal Fund**

On the list of major protectionist elements are the Ranchers-Cattlemen Action Legal Fund (RCALF) and the U.S. Farm Bill. Both have agribusinesses in common and use their considerable wealth and political clout to influence domestic farm policies and trade laws. The Ranchers-Cattlemen Action Legal Fund, founded to represent and file trade cases on behalf of U.S. cattle industry, filed a lawsuit against the importation of Canadian cattle and meat products. More recently R-CALF reinstated the need for immediate policy reforms to restore the viability of, and profit-opportunity for, the U.S. cattle industry. R-CALF claims that "the U.S. cattle industry is highly sensitive to increases in imported cattle" and that "on a dollar value basis, the U.S. has suffered a tremendous deficit in the trade of cattle and beef that reached about \$3.5 billion in 2005 and remained at nearly \$3 billion in 2007"³¹. R-CALF is requesting 10 reforms immediately to restore and rebuild the contracted U.S. cattle industry including: rules to safeguard the cattle industry from price-depressing import surges; a designation that cattle and beef are like/kind products; an end to the practice of allowing access to the U.S. market before the U.S. gains access to foreign markets; an end to the practice of ratcheting down U.S. health and safety standards for the purpose of accommodating more imports; and, an amendment to the North American Free Trade Agreement (NAFTA) to provide relief to U.S. cattle producers from price-depressing live cattle imports from Canada and Mexico.

- **Country of Origin Labelling**

A highly prescriptive country of-origin labelling (COOL) for meat, produce, seafood and peanuts sold at retail was included in the Farm Bill. The measure was supported by groups opposed to imports of certain foods because of the perceived competition they pose. In an effort to give the law a mantle of virtue, they called it a "consumer right to know" law, although research has yet to demonstrate that consumers are seeking this information. Key segments of U.S. industry and U.S. trading partners have opposed mandatory COOL due to the compliance costs involved and view country-of-origin labelling as an anti-import law.

- **2008 Farm Bill**

The U.S. Farm Bill can have a significant influence over agricultural production and trade. The 2008 Farm Bill is heavily focused on developing renewable energy, in line with goals of reducing annual gasoline fuel demand by 20% in 10 years. Other secondary goals include reforming commodity payment programs and supporting conservation. Corn ethanol is seen as first generation technology. The increasing use of corn to produce ethanol raises concerns. USDA projects that corn production will fall short of demand. Strong corn prices will encourage U.S. producers to plant corn at the expense of soybean and cotton and will impact livestock feeding in the U.S.

- **U.S. dollar fluctuation**

The Canadian dollar is usually being measured against its U.S. counterpart. The slowdown of the U.S. economy will have an echo on Canada because the vast majority of the country exports go to our southern neighbor. Fluctuations of the U.S. dollar have an impact on the competitive strength of the agri-food sector in Canada. Companies can be positively and negatively affected by the exchange rate even though they are not importing or exporting. The pork industry in Canada has particularly been affected by a depreciating U.S. dollar and increased feed costs, which resulted in significantly reduced margins for Canadian pork processors and forces the industry to restructure. Canadian hog production and slaughter is expected to decline further. Major processors are restructuring and shifting productions to producing further-processed meats.

³¹ R-CALF USA CEO Bill Bullard met with US official. CattleNetwork January 2009

AGRICULTURE AND FOOD TRADE OVERVIEW

■ US – Canada

Boosted by NAFTA, trade between Canada and the United States (U.S.) in agriculture and agri-food products grew at an average of 6% over the past decade. The U.S. is Canada's largest agricultural import and export market. Canada's positive agri-food trade balance with the United States reached \$2.8 billion in 2007 (compared to \$3.1 billion in 2006)³². "Much of the trade is complementary and consists of intra-industry trade, meaning that within certain sectors, each country exports products to the other. When the U.S. supplies fresh fruits and vegetables to Canadians in the wintertime, Canada supplies the United States with a blend of bulk and specific products that meet the needs of certain geographic markets or fill important niche markets for manufactured food and beverage products from Ice wines to game meats"³³. In grains and feeds, intra-industry trade encompasses numerous processed products, including dog and cat food for retail sale; mixes and doughs; pastries, cake, bread, and pudding; breakfast cereal; and uncooked pastas. Beef and pork are prominent examples of intra-industry trade outside the grains and feeds sector.

Since 2005, the main factors that have influenced trade between Alberta and the U.S. are:

- high energy prices;
- strong Canadian dollar and weak U.S. dollar;
- increased competition from Chinese and Japanese economies;
- low world prices for grains and oil seeds;
- reopening of the U.S. border to live cattle under 30 months of age; and
- country of origin labeling

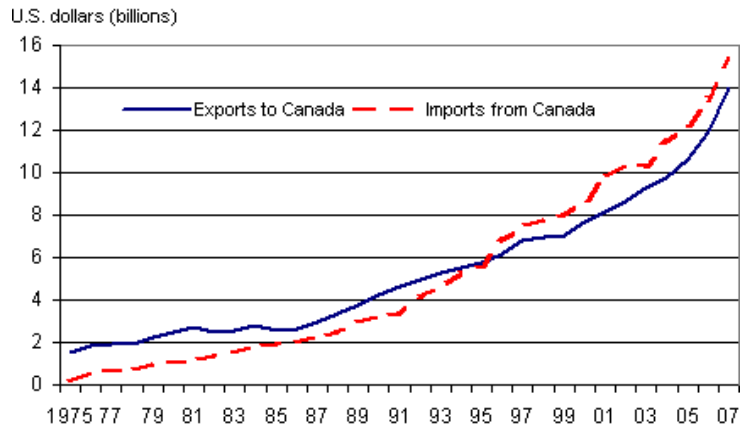
Canada's 2007 imports from the U.S. were valued at approximately \$15.1 billion. Canada's 2007 exports to the U.S. totalled \$17.4 billion. Grains, fruit, vegetables, meat, and related products accounted for about 60% of U.S. agricultural exports to Canada in 2007. Among the leading exports were pork (US\$589 million), beef (US\$475 million), dog and cat food for retail sale (US\$426 million), fresh lettuce (US\$361 million), and confectionery containing cocoa (US\$332 million).

Major Canadian exports to the U.S. include live cattle, beef, frozen fries, bakery products and food and cereal preparations. Canada retains its large trade surplus with the U.S. in the agri-food sector. However U.S. agricultural exports to Canada have been increasing faster than agricultural imports from Canada. This trend is likely to continue for the next few years. The US has become a net importer of food and new competitors in China, Brazil, and elsewhere in Asia are emerging as cheaper producers of food. This creates policy and competitiveness challenges for Canadian producers of agriculture and food products.

■ US-Alberta

The agri-food industry in Alberta is export-oriented. Alberta is the second largest exporter of primary and processed agricultural and food products in Canada after Ontario. In 2007, Alberta agri-food exports reached a record high of \$6.6 billion, an increase of 13.8% from 2006. The US is Alberta's largest trading partner for agri-food products receiving 41% of Alberta's total agri-food exports in 2007 (\$2.7 billion). In 2002, this share was 58%. Other major markets include Japan (canola and pork), Mexico (canola and beef) and China (canola, hides and skin).

Canada-U.S. agricultural trade has expanded almost without interruption during the CUSTA-NAFTA period (1989-present)



Sources: USDA, Foreign Agricultural Trade, U.S. Trade Internet System (1990-2007 and imports for 1989); USDA, Foreign Agricultural Trade of the United States database (imports for 1975-88); and United Nations, COMTRADE database (exports for 1975-89).

³² Agriculture and Agri-Food Canada, Trade Service

³³ Agriculture and Agri-Food Canada, Trading Relationship

Alberta's strength has been in supplying live cattle (\$702 million), beef (\$670 million), wheat (\$158 million), processed potatoes (\$153 million), canola oil (\$114 million), pork (\$107 million), canola seed (\$105 million), oilseed cake and meal (\$94 million) and live hogs (\$53 million).

Alberta exports 27% of its beef production and 1.2 million tones of wheat and oilseeds production to the U.S. every year. In the last five years, Alberta exported roughly 31% of its primary agricultural exports and 65% of its value added processed exports to the U.S.

The U.S. remains Alberta's first market for beef and second market for pork. The U.S. is Alberta's sole market for live cattle (non purebred) and hogs. In 2006, as a result of reopening borders, exports of live cattle amounted to \$690 million compared to zero in 2004. Overall, the value of exported hogs was down 1.8% to \$53.7 million while quantities were up 4.2%.

Excluding the U.S. as a whole, California is Alberta's largest market in the U.S., followed by Washington, Colorado, Texas, North Dakota and Utah. Beef was the largest agri-food export to California in 2007 followed by oilseed cake and meal, pork, canola oil and processed potatoes.

In 2007, Alberta agri-food imports from the U.S. were valued at \$1 billion consisting mainly of fruits and vegetables (\$315.6 million), beverages (\$84.2 million), foods and food materials (\$64.9 million), cereals unmilled (\$69.5 million), cereal preparations (\$69.1 million) and prepared animal feed (\$57.6 million). Alberta imports agriculture and food products mainly from California, Minnesota, Wisconsin, Arizona, Iowa and North Dakota.

Alberta is dependent on exports to the US: policy changes, BSE outbreak, foreign competition and fluctuations of the US dollar –among others- have an impact on Alberta's competitiveness in the US. Alberta supports free trade in agriculture and will work toward a continued collaborative effort between the U.S. and Canada in increasing trade between the two countries.

Alberta industry is pleased with the resumption of normal cross border trade flows in cattle and beef. One area of concern is the mandatory regulations on country of origin labeling (M-COOL) that took effect on September 30, 2008 and set to be enforced after April 1, 2009. M-COOL has started to significantly affect the meat supply chain in North America and create significant barriers to imports of foreign products in the US.

▪ **US – Projected imports from the rest of the world**

In 2009 Canada, Mexico and Europe will keep their lead in food exports to the United States while Asian and other Latin American countries should continue to gain market share in the United States. However U.S. imports from Canada and Mexico are expected to grow at a slower rate³⁴. Foreign competitors in the U.S. food market include Mexico, France, Italy, the Netherlands, Indonesia, Brazil, the United Kingdom and Australia.

Canada's next-door relationship with the U.S. is coming under pressure as countries formerly considered to be "developing" are becoming more influential. These countries have growing middle classes and rising production with purchasing power, human capital and financial strength. Major emerging powers such as Brazil, Russia, India and China are forcing shifts on the world marketplace. With rapid technological changes, these low cost producers are increasing their market share of agri-food products with relatively low levels of government support and attract investments of multinational companies. In fact, Brazil and Argentina are expected to produce as much soybeans as the United States in 2008³⁵. Increased competition and world supply force commodity prices downwards. Farm support programs and other government subsidies in place in other countries do not seem to be able to change this trend that continues to lower prices traded on the world marketplace.

³⁴ USDA/ERS US Agriculture Outlook

³⁵ Food and Agriculture Organization of the United Nations (FAO), Food Outlook 2006

The worsened state of the U.S. and global economies in late 2008 and potentially thru 2009 is expected to constrain U.S. import demand. Agricultural imports are projected at \$81 billion in fiscal 2009—\$2 billion lower than the preceding forecast. In contrast to the 13% percent growth in import value in 2008, a significant slowdown to 2% is anticipated in 2009. Although the U.S. dollar has strengthened and producer prices for food have subsided in recent months, domestic unemployment is higher and domestic demand is much weaker. While import demand for food in general is relatively inelastic, demand for many high-value foods such as cheese, wine, beer, red meats, and fresh fruit declines in the face of higher prices.

Lower farm commodity prices will likely keep import volumes close to 2008 levels, but would reduce import values of livestock, dairy, grain, and oilseed products. Livestock and dairy products are projected to fall in 2009. The forecast of \$12 billion is \$400 million less than the August forecast and \$200 million lower than in 2008. The drop from August is attributed to the 500,000 head decline in cattle shipments from Canada and Mexico in 2009. Swine imports are also projected down, from 7.8 to 7.4 million head from the August forecast as the Canadian inventory declines and regulations on country of origin labeling alter trade patterns. The smaller volume of beef imports is mostly offset by higher expected unit values. Weaker demand is expected to limit volumes of dairy product imports while lower global prices reduce import unit values. Prices, especially for processed fruit and vegetables, nuts, wine, and essential oils, are significantly higher. As a result, consumer demand for these products will weaken, but not enough to overcome higher prices which will raise the import bill by at least \$1 billion in 2009. The expectation for sugar and tropical products is similar. Although import prices of coffee and cocoa beans have already started to decline, they are nonetheless projected to boost overall import value by \$1 billion in 2009. Import volumes of coffee and cocoa beans and confections were down by double digits in 2008 as a result of escalating prices, but are not expected to face similar declines in 2009 as their prices ease.

Since 1996 the volume of U.S. agricultural imports has grown. The long-term upward trend will likely continue in 2009, but at most half the 5.6% pace in 2008. Much of the estimated growth reduction in 2009 is attributed to the contraction in vegetable oil import values. Although the price of tropical oils (coconut, palm, and palm kernel) was considerably higher in 2008, import volumes were still up by double-digits. This inelastic demand for vegetable oils will carry over to some extent into 2009. Prices for coconut and palm oil, olive oil, and canola oil are all projected down in 2009 (as they have already started to fall), thus limiting any downward movement in their import volumes. U.S imports of canola oil are expected to reach 2.55 billion pounds in 2008-09. This would be 14% higher than last year and twice as high as it was just 4-5 years ago³⁶. Like meat and dairy, imported grain and oilseed products are expected to contract in 2009. The prospective picture is akin to that of vegetable oils. Despite substantially higher prices for feed grains and grain products in 2008, import volumes racked double-digit gains as domestic supplies turned scarce after corn for ethanol production reduced plantings of other grains and oilseeds. Among grains, only rice is projected to register an increase in imports in 2009. Imported processed grain products are expected to remain at last year's level due to relatively price-inelastic demand. The dollar's recent appreciation will help to counterbalance the impact of higher prices for some high-value products on U.S. import demand.

US FOOD AND BEVERAGE INDUSTRY

The U.S. food industry which includes growing product, processing, distribution, and retailing, is highly competitive and has been challenged by an economic crisis, global low prices, high energy costs, and changing consumer tastes. The high level of competitiveness within the industry poses the danger of modest future growth prospects³⁷. Recent years have been characterized by mergers and acquisitions, new store formats, competition from new entrants from Europe and Latin America, as companies strive to increase their market share, cut costs and diversify, as well as strengthen their products lines. One recent major development for example involves Brazilian beef processor JBS, which began its conquest of the US in 2007 with the acquisition of the large beef and pork processor Swift. The firm now looks set to go on to become the US's largest beef processor through the acquisitions of National Beef and the beef operations of US meat group Smithfield Foods, which would give JBS control of 32% of the US market if approved by the country's antitrust authorities. The current largest operators Cargill Meat Solutions and Tyson Foods both control around 22% of the market³⁸.

■ Processing

³⁶ The Healthy Newspaper <http://www.thesoydailyclub.com/DisplayNews.cfm?NewsID=2637>

³⁷ Business Monitor International

³⁸ Surprisingly, despite the food production being a politically sensitive issue, these moves have not attracted too much criticism from the country's protectionist politicians. However this is likely to be because the US beef processing industry is currently experiencing significant problems, with excess processing capacity and slowing sales due to the economic downturn, and any form of investment is therefore greeted positively

Per capita meat consumption declines through 2012-14 as the livestock sector lowers overall production and retail prices rise. Meat consumption per person then rises again at the end of the projections period. Rising incomes facilitate gains in consumer spending on meat. Nonetheless, overall meat expenditures represent a declining proportion of disposable income.

Consolidation is apparent in the food processing industries, where plant sizes have increased sharply, as well as in retailing and wholesaling, where store sizes have changed and mergers have led to fewer but larger chains³⁹. In 2007, revenues of the entire U.S. food industry are estimated between \$1 and \$1.25 trillion⁴⁰. Despite consolidation, the retail industry is faced with strong competition increasingly focusing on price, creating significant margin pressure for food and drink manufacturers. At the same time the US foodservice industry is feeling the impact of the economic crunch and competing with retail stores for consumers' food dollars.

The continuing concentration of food brokers, wholesalers and retailers impact size and buying power of stakeholders and make entry of branded products extremely difficult (promotion costs and listing fees). The increased supply chain integration and adoption of technology place increased requirements on companies supplying product to the US market.

An ever-changing U.S. consumer who enjoys the convenience of ready-to-eat produce and seasonable fruits during the dead of winter has also brought new challenges to food (import) safety. That has led to more change and complexity among how food is processed and delivered into the U.S. consumers' tastes and preferences are changing. Consumer confidence in the safety of the U.S. food supply remains high; however the percentage of Americans that are "very" confident has eroded somewhat over the past year in part due to a number of food product recalls, poisoning and disease outbreaks. Only 10% of the population says that they are not confident in the food safety of the US food safety. Disease/contamination, food handling and food sources are the areas of greatest concern.

Food processing plants are located throughout the United States. In 2000 California had the most food manufacturing plants (4,252), while New York (2,227) and Texas (1,739) were also leading food manufacturing states. Meat processing, including livestock and poultry slaughter, processing, and rendering, is the largest single component of food and beverage manufacturing. The 29,000 food processing establishments are owned by about 22,000 companies⁴¹. The 20 largest firms in food manufacturing account for about 35% of shipments, while the 20 largest beverage manufacturing account for 66%. Other important components include beverages, dairy, other food products, fruits and vegetables, and bakery and tortilla products. Some of the bigger food processing companies include⁴²:

- Tyson Foods Inc
- Kraft Foods Inc
- Pepsico Inc
- Anheuser-Busch Cos. Inc
- Dean Foods
- General Mills
- Smithfield Foods Inc
- Con Agra Foods Inc

In the United States today, just four firms handle more than 80% of all beef production and four firms control over half of all hog production. Despite anti-trust legislation, corporations engage in mergers and acquisitions that give them almost complete control over the sale of agricultural products. Eventually this raises concerns over market control and possibly curtails innovation.

The North American beef/cattle industry is increasingly integrated. For example:

- Animals born in Northern Plain states and Hawaii are shipped to Western Canada feed-lots
- Fed cattle is shipped from Western Canada to the U.S. for processing
- Eastern Canada buys beef from the U.S.

³⁹ USDA/ERS Food Market Structures <http://www.ers.usda.gov/Briefing/FoodMarketStructures/industryorg.htm>

⁴⁰ Food Marketing Institute

⁴¹ USDA/ERS Food Market Structures <http://www.ers.usda.gov/Briefing/FoodMarketStructures/processing.htm>

⁴² Food Processing Magazine and Food Marketing Institute

In 2009 most players in the food and beverage market can expect changes of consumer purchasing habits brought by economic pressures, health concerns, food safety and environmental issues. Customers have already reduced the total number of their grocery shopping trips, while also shopping more frequently at discount outlets, at the expense of supermarkets. They eat out less often and turn to fresh ready meal options from the grocery stores. Dealing with cost is arguably the most important issue facing all types of grocers. The ability to attract new customers while retaining existing customers will be important t all levels of the supply chain.

At best, industry growth will be steady and slow. In the long terms the US food industry is expected to experience a solid growth in per capita food consumption, as its population continues to grow and consumers increasingly turn towards premium-priced products, as well as opt for healthier/greener alternatives.

- **Retail**

Retail is the second-largest industry in the United States both in number of establishments and number of employees. In 2007, national retail grocery sales were approximately \$820 billion. The United States has 34,052 supermarkets with annual sales of \$2 million or more. More than three-quarters of those supermarkets, 25,890, belong to a chain. The remaining 8,162 are independent supermarkets. Grocery stores with less than \$2 million in annual sales account for 13,047. The United States has 1,067 wholesale club stores that market groceries and 140,241 convenience stores. An average-sized supermarket now carries 45,000 different items.

Consumers go to the supermarket 2.2 times a week on average and spend 5.4% of their income on food for consumption at home while 4.1% is spent on food for consumption away from home. Competition from mass merchandisers and warehouse clubs offer customers everyday low prices and a broader selection of items. 2,000 supermarkets close annually due to Wal-Mart's escalating grocery market share⁴³. Because of increased efforts by chains like Target and Costco, hypermarts will control 18.5% of the market by 2008, followed by food and drug combination stores with 13.1%, and conventional grocery stores with 11.6%⁴⁴.

Growth areas include private label products, home meal replacements, specialty and prepared, organic, natural, and ethnic foods.

Supermarkets account for two-thirds of industry stores, and claim most of the industry's revenues. Because of the industry's fragmented nature, however, the top five supermarket chains account for less than 25% of total industry revenues. Convenience stores generate roughly \$105 billion in annual sales, accrued from 130,000 stores. Smaller still are online grocers, which, after a disastrous start, have begun to show promise. The largest traditional supermarket chains include: Kroger Co. (\$51 billion in annual sales); Albertson's Inc.; Royal Ahold, NV; Safeway Inc.; and Publix Super Markets, Inc. With \$95 billion in annual grocery sales, Walmart is now the largest U.S. grocery chain and holds 14 percent of the market. Sam's Club, Walmart's popular wholesale operation, accounts for a large share of the hypermart's grocery sales. Costco and BJ's Wholesale Club are other large wholesale operations, with the latter operating almost exclusively in the Northeastern U.S. In the convenience store sector, leading retailers include: 7 Eleven (17 percent of total stores); The Pantry; and Quik Trip. Peapod, a web-based grocer, was the first successful U.S. online operator. Online startup Fresh Direct is also doing well. Companies such as Safeway and SuperValu have begun to experiment with online shopping of late, but only in regional markets. In June 2006, amazon.com quietly introduced an online grocery department, dealing exclusively in non-perishables and 2008 saw the full realization of their home delivery model with their Amazon Fresh home replenishment systems.

Economic pressures are taking a toll on how Americans grocery shop: 2009 and beyond promise to be challenging years for food retailers as consumers cut back spending in the face of tightening household budgets. At the same time, changing demographics, greater health awareness and channel surfing are impacting where and how consumers shop for food. Meanwhile, although supermarkets are still the dominant force in food retailing, economic, demographic, lifestyle and technological changes are creating a fertile environment for new concepts—from Safeway's Lifestyle Stores to Tesco's 2007 launch of its Fresh & Easy convenience store chain—that promise to entice food shoppers, capture market share and indeed re-invent the grocery industry. Several major retailers (Tesco, Wal-Mart & Safeway) have launched small-format grocery retail chains (Fresh & Easy, Marketside & The Market) emphasizing ease of use and convenience as well as fresh & prepared food offerings. In the process, many food retailers are morphing into foodservice operators as they take back market share lost to restaurants, whether through enhanced prepared food selections or through actual in-store eateries.

⁴³ Progressive Grocer

⁴⁴ Supermarket News

The evolving trajectory of consumer interest in private label coupled with the enhanced quality of private label offerings by retailers has created a surprising groundswell of interest in private label (in general) and “premium” private label (in specific). Only 9% of US consumers believe premium or “branded” products are superior to private-label products⁴⁵. Nearly two-thirds of US consumers (60%), believe that private label products are manufactured by the same firms who produce premium or “branded” products. Leading retailers such as Trader Joe’s, Safeway and Whole Foods have created private label brands that many consumers perceive to be far superior to leading premium branded products.

Table 3: U.S. Top retailers and Number of stores

Top 10 U.S. Food Retailers* in 2007	Number of Stores in 2005
1. Wal-Mart (includes Wal-Mart Supercenters and Sam’s Club)	Supermarkets (>\$2 million) 52,000 Chain Supermarkets 25,890
2. Kroger	Independent Supermarket 8,162
3. Safeway	Grocery (< \$2 million) 13,047
4. Costco	Wholesale Club stores 1,067
5. SuperValu	Convenience 140,021
6. Costco	
7. Publix	
8. Ahold	
9. H.E.B	
10. Meijer	
11. Winn-Dixie	
12. Whole Foods	
Source: Food Marketing Institute, Facts and Industry Figures * by sales	

▪ **Hotel, Restaurant, Institutional (HRI) Sector**

Restaurant industry sales are expected to reach \$566 billion in 2009, with the industry employing 13 million individuals in 945,000 restaurant-and-foodservice outlets nationwide⁴⁶. The total economic impact exceeds \$1.5 trillion. While overall restaurant industry sales will increase in current dollars by 2.5% over 2008 figures, the numbers translate to an inflation-adjusted decline of 1.0%. Despite the economic downturn, the industry will remain a cornerstone of the economy, representing 4% of the U.S. gross domestic product and employing 9% of the U.S. workforce, and restaurants will continue to adapt to the latest menu trends and consumer preferences. Sales at fullservice restaurants are projected to reach \$182.9 billion in 2009, an increase of 1.0% over 2008. Quickservice restaurants are projected to post sales of \$163.8 billion in 2009, a gain of 4.0% over 2008. Eating-and-drinking places will see an increase in sales from 2008 of 2.2 percent, totaling \$395 billion. More than seven in 10 eating-and-drinking places are single-unit (independent) operations.

Americans today are looking for restaurants that deliver value, convenience and healthier options. Restaurateurs will sharpen their appeal in the coming year by reaching out to health-conscious guests as well as to the growing number of diners who are interested in how and where their food was produced. Among top trends restaurateurs see for 2009 are an expanded focus on value, healthy options in kids’ meals, locally sourced items and green initiatives. Healthy kids’ meals will be among the hottest trends in 2009. Out of nearly 210 culinary items listed on the National Restaurant Association’s “What’s Hot” survey of more than 1,600 American Culinary Federation member chefs, nutritionally balanced children’s dishes came in as the No. 4 trend, and fruit/vegetable side items for kids ranked sixth. In a separate survey, quickservice operators named healthy options in kids meals as the No. 1 food trend in the segment in 2009.

Overall, chefs ranked nutrition/health as the No. 11 trend on restaurant menus for 2009. Underscoring the importance of healthful foods, produce and fruit items, smaller dishes, fish, and gluten-free/allergy-conscious meals were all among the top-20 items on the third-annual chef survey. Three in four adults say they are trying to eat healthier now at restaurants than they did two years ago. Nearly three in 10 adults – 27%– have gone online to search for nutrition information about restaurant food, up from 24% a year ago.

⁴⁵ Business Monitor International

⁴⁶ National Restaurant Association’s 2009 Restaurant Industry Forecast

The No. 1 trend for 2009 is local produce, according to the “What’s Hot” chef survey. The local-foods trend has become particularly popular at fine-dining establishments. 89% of fine-dining operators serve locally sourced items, and nine in 10 believe demand for locally sourced items will grow in their segment in the future. Close to three in 10 quickservice operators serve locally sourced items now and nearly half believe these items will grow more popular in their segment in the future. 70% of adults say they are more likely to visit a restaurant that offers locally produced food items.

Restaurateurs will also continue to show increasing leadership in becoming “greener” in 2009— by taking action such as reducing energy and water use—in step with patrons’ interest in environmental issues. About four in 10 fullservice-restaurant operators and nearly three in 10 quickservice operators say they plan to devote more of their 2009 budgets to green initiatives. Restaurant patrons like the idea: 44% are likely to make a restaurant choice based on an operation’s practices in the areas of energy and water conservation.

Recognizing the demand for natural products, in July 2008, US-based Campbell Soup agreed two separate deals to sell organic soup under the Wolfgang Puck label, acquiring the Wolfgang Puck soup business from Country Gourmet Foods and entering into a licensing agreement with Wolfgang Puck Worldwide for the use of the Wolfgang Puck label in North America. Campbell will be buoyed by the fact that the US market for organic soup sold ‘wet’ has been growing at an annual rate of over 20% since 2000.

Entering 2009, consumers feel tugged in two directions. On one hand, consumers express serious concern about finances, on the other hand they remain strongly desirous of continued—and even increased—use of restaurants. 45% of adults say restaurants are an essential part of their lifestyle, one of three say they are not eating out as often as they wish, and 35% of adults say that on a weekly basis, they are not purchasing take-out foods to go or having it delivered as often as they would like.

To be successful during the present economic downturn and prepare for an eventual recovery with its pent-up demand for restaurant services, restaurant operators are offering the value patrons desire in conjunction with operational improvements that cut costs without detracting from the dining experience. Indeed, the top trend restaurateurs see for 2009 is an expanded focus on value, with 36% of quickservice operators and 16% of casual-dining operators seeing the demand for value as the year’s top trend in their segment.

The restaurant industry’s resilience amidst the weak economy and relative strength compared to other industries is driven by restaurants responsiveness to consumers’ desire for convenience, value and socialization. The increasingly essential nature of restaurant services buoys the industry even during times of economic uncertainty: purchasing meals from restaurants, take-out and delivery places makes it easier for families with children to manage their day-to-day lives. At the same time going out to a restaurant with family and/or friends gives them an opportunity to socialize and is a better way to make use of their leisure time rather than cooking at home.

EXPORTERS BUSINESS TIPS

The U.S. market is vast, complex, highly competitive, and can be intimidating to enter. There is actually no single “U.S. market”. U.S. markets can be segmented by race, religion, age, geography, nationality, citizenship status, income bracket, occupation, political persuasion, industry, profession and so on. Due to its size, geography and demography, it is impossible to target the entire country all at once. It is recommended that each firm narrow their focus to include only a specific region or a few states at one time. Emphasis on the Pacific Northwest (PNW) region for Alberta exporters is recommended due to multiple factors:

- Proximity,
- Historical ties,
- Similar consumer tastes and demographics,
- Affluent consumer base,
- Opportunities for specialty/niche products,
- Economic growth,
- Trade dependency of the region and transportation costs.

Other priority markets for Alberta exporters include:

- California and West Coast
- Upper-Midwest
- Intermountain region
- Niche markets with identified and manageable opportunities

The Pacific Northwest region includes the states of Alaska, Idaho, Oregon and Washington and its population is approximately 13 million people, about 4% of the U.S. consumer base⁴⁷. Seattle, the main city of the region, is located 100 miles south of the border and hosts a market of nearly 4 million people. Oregon and Washington are also both important export markets with transportation routes for exporting products from Alberta to California, Mexico and the Pacific Rim. The high income population of the region represents an attractive opportunity for Alberta exporters in particular in the specialty foods and beverages segment. Despite a slight slowdown in the U.S. economy, growth of the specialty, organic and health food markets in this region retain all its potential for Alberta exporters. Extensive cooperation in various sectors and the affinity of the Pacific Northwest region for Canada's Western provinces should also contribute to a deeper development of the Canadian presence in this market.

Market entry strategies

Exporters may want to establish a business presence in the U.S., set up a partnership with a similar American business or use a manufacturer's representative. Selling through intermediaries is the most common method of entering the market. Intermediaries are mainly distributors, trading houses and representatives also called agents. The growing demand of trendy foods is driven by distributors, wholesalers, restaurants, retailers and supermarkets. Large retailers often operate their own warehouses and distribution centers and buy directly from food brokers or manufacturers. Perishable products are usually sold to wholesalers and occasionally retail buyers. It is recommended that Canadian exporters hire a U.S. broker before entering the U.S. market. The services of a food broker allow companies with limited resources to reach a broad client base.

Among the 600 companies in Alberta involved in processing agricultural commodities into food, animal feed, beverages, or non-food products, several are multinational companies (beef slaughtering, pork and poultry processing, french fry manufacturing and brewing).

Most Alberta agri-food exporters are Small and Medium Enterprises (SMEs). SMEs are encouraged to increase or develop value-added products, and foster backward and forward inter-linkages. Alberta agri-food exporters traditionally ship products to retailers and/or food service users. Other strategies include setting up a satellite plant or integration with larger U.S. companies that set up plants in Alberta and British Columbia.

Distribution, Logistics

The industry is dependent upon a highly fragmented truck transportation system for 80 % of the shipments. Cross-docking, the practice of receiving goods at one door of a facility and shipping out through the other door almost immediately without putting them in storage, is definitely a growing trend in food logistic. The most common shipping methods from Alberta are: truck, bus (for small and light shipment), air (fast and reasonable insurance and warehousing rates) and rail (large bulk shipments).

Inspection, Customs

U.S. Security measures and economic policies continue to evolve and may complicate the export business. For example, slow traffic across the border as a result of requiring more preparation and documentation.

- Country-Of-Origin-Labeling (COOL): Implementation of the mandatory labeling program for meat, produce and peanut was delayed until September 30, 2008. COOL for seafood began in 2005 and has failed to deliver the benefits promised by the law. Sales of U.S. seafood did not increase and the industry's costs to implement the rule were 10 times higher than projected for retailers and 100 times for suppliers⁴⁸. Under the new law, every commodity affected exported to the US will have to be indelibly labeled "Made in Canada". Such requirements are expected to hurt Canadian exports. Detailed information can be found on the U.S. Bureau of Customs and Border Protection trade publications page at www.customs.treas.gov/xp/cgov/toolbox/publications/trade.
- Harmonized System (HS): a product can not be exported without its Harmonized System code (HS code). The Harmonized System is an international commodity-description and coding system, upon which the tariffs of most countries of the world are based.
- Technical regulations, standards and conformity assessment: there may be technical requirements related to the sale of a product in the United States. These requirements may be contained in government laws

⁴⁷ Agriculture and Agri-food Canada, Agri-Food Trade Service

⁴⁸ Food Marketing Institute February 2007

and/or regulations may have been established at the federal, state and/or local levels. For example: all organic products entering the U.S. must be certified according to NOP (National Organic Program, USDA Agency) regulation.

- World Trade Organization Agreement on Sanitary and Phytosanitary (SPS): this particular class of standards constitutes a major part of the trade of agricultural and natural resource products. For details, refer to: www.wto.org/english/tratop_e/sps_e/sps_e.htm
- Labelling and marking requirements: several U.S. agencies have special marking and labelling rules. Canadian producers will find specialized labelling information for their sector on the Agriculture and Agri-Food Canada Web site at http://ats-sea.agr.gc.ca/access/groundwork_e.htm
The major American agencies with special labelling rules are the Federal Trade Commission (FTC) (www.ftc.gov), Food and Drug Administration (FDA) (www.fda.gov), and the U.S. Department of Agriculture (USDA) (www.usda.gov).

Details concerning types, sizes, location are found in FDA regulations and are summarized as follow:

- If the label of the food bears representations in a foreign language, the label must bear all of the required statements in the foreign language as well as in English.
- If the food is packaged, the followings must appear on the label in English:
 - Name
 - Street address
 - City, Province, Postal Code (manufacturer, distributor or packer)
 - Accurate statement of the net amount of food in the package
 - Drained weight rather than net weight for some products
 - The common name of a food must appear on the principal display panel, in bold type and in lines generally parallel to the base of the package
 - The ingredients in a food must be listed by their common or usual names in decreasing order of their predominance by weight
 - Nutrition information must be provided on the label for almost all packaged foods intended for sale to the consumer
- U.S. Bioterrorism Act: all companies importing food and agricultural products into the U.S. must register their company with FDA. The key points of the regulation state that companies must: provide prior notice of product crossing the border, employ a U.S. based agent; and be prepared to provide more detailed information if food products are stopped at the border. For more information: <http://www.cfsan.fda.gov/>

Cultural

Similarity of language, attitude and business practices somewhat blur the differences between Canada and the United States. The Challenge for Canadian exporters is to consider the U.S. as a separate market with distinct sub-markets and keep in mind that both countries do maintain key differences in economic policy, and respond in different ways to world economic conditions and the global free trade agenda.

Typically U.S. buyers demand frequent sales calls and appreciate the assurance of a local contact.

Opportunities

The Pacific Northwest region stands out as a top priority market for different sector for Alberta companies given some of the followings factors:

- Affluent consumer base with 12 million people (4% of the total U.S. population)
- High per capita income and income growth
- Manageable size of the market (mix of small and large chains)
- Consumer preferences, which Alberta companies can supply
- Specialty market offers a broad range of niches (baked goods, cereals, dressings, meats, dairy, ethnic foods etc)
- Market in demand of natural foods (the region counts 25% of all natural food stores)
- Proximity of the market – low transportation costs
- Affinity and awareness of products from the Canadian Western provinces*

* Historically, Alberta has exported commodities such as live animals, feed, grains, pulses and boxed beef. More recently, growth has been in more value-added products such as sandwiches with longer shelf life, nutritional supplements, frozen ready meals and specialty canola.

- Population open to trying new products
- U.S. retailers look for unique rather than “me-too” products
- Private label offers opportunities for processors who will not have the expertise or funds to promote their own brand but have the capabilities at the right price

Strong interest for specialty, organic, natural, health and functional foods offer many opportunities for Alberta companies. More supermarkets offer more organic and natural products that are comparable in price to mainstream products. Exports of beef and live cattle should continue given the strong demand for quality meat and meat products. Canola seed and other ingredients for health foods is another sector in which Alberta companies are well positioned.

Demand for ready meals represents opportunities for value-added products from Alberta. Consumers want nutritious meals that are convenient and make them feel that they prepared the food themselves. Other states offer many opportunities for Alberta exporters for similar reasons in particular California, Texas, Illinois and Florida.

Table 4: priority regions and opportunities in the U.S. for Alberta

<p>Priority states and regions that Alberta should target include:</p> <ul style="list-style-type: none"> - California - Pacific Northwest - Colorado - Minnesota - Texas, Arizona, New Mexico 	<p>Priority products that Alberta should export include: differentiated value added</p> <ul style="list-style-type: none"> - beef/pork - functional - food ingredients - oilseed (canola) -processed potatoes
<p>Short term opportunities for Alberta include:</p> <ul style="list-style-type: none"> - natural and organic products - beef - value added and ready meals - specialty foods 	<p>Long term opportunities for Alberta include:</p> <ul style="list-style-type: none"> - canola oil - foods addressing specific dietary concerns (cholesterol, diabetes...) - functional foods

Advantages and Challenges

The continent is becoming more interdependent and each country still maintains its own sets of advantages and challenges.

Advantages for the Alberta food processors include:

- Proximity of the markets;
- Similar lifestyles and consumption trends;
- Duty free tariff treatment for most products under NAFTA;
- Awareness and demand for product brands;
- Quality and safety perceptions; and
- Similar food shopping patterns.

Market barriers for the Alberta food processors include:

- Price competitiveness
- Limited retail shelf space for the proliferation of products offered
- Listing fees and product promotion costs
- Supply and export capabilities (small companies are unable to supply the size of orders that retail chains expect)
- Inability to distinguish Canadian/Alberta products from domestic, particularly in the meat sector
- The supply system limits production capability for dairy, poultry and eggs. These products are also exempt from preferential trade agreements, such as NAFTA, resulting in high tariffs
- Strong competition from domestic suppliers
- Consolidation of industry impedes suppliers access to buyers/distributors
- Legislation related to food security such as Prior Notice, record keeping and designated U.S. representative

- Currency fluctuations

Exporters can quickly overlook the ways in which the two countries differ because of the language, proximity and similarities. Exporters face the challenge of treating the U.S. as a separate market from Canada. Exporters should be aware of the differences in packaged sizes, chemical tolerances and nutrition labelling requirements. Trade policies differ on the other side of the border and some products may be subject to tariff rate quotas. Exporters should also be prepared against fluctuations of the U.S. dollar. Alberta companies exporting products to the U.S. must compete with each other and with other U.S. domestic suppliers. The variety of market segments make it difficult to stay focused on the areas where the company can best apply its strength. The main reasons Alberta companies do not succeed in their export strategies include:

- Lack of quality and regulations compliance;
- Insufficient market knowledge; and
- Lack of commitment in the export initiative.

Other reasons include:

- Cost effective transportation and distribution;
- Limited access to buyers, specifically retail buyers;
- Lack of knowledge of Canadian food products among target food brokers;
- Lack of product specific competitive intelligence; and
- Market saturation from multinational and national competitors.

Exporters should be aware of the characteristics of the markets they decide to enter. Exporters should also be aware of the impediments to trade presented by non-tariff barriers, security issues and “Buy American” policies. Companies willing to expand beyond the border can develop long-term competitive presence in the U.S. market.

FURTHER INFORMATION

Alberta-United States Relations

http://www.iir.gov.ab.ca/international_relations/alberta_us_relations.asp

Alberta Agriculture and Food

<http://www.agric.gov.ab.ca>

<http://www.agrifoodalberta.ca>

International and Intergovernmental Relations

<http://www.iir.gov.ab.ca/>

Agriculture and Agri-Food Canada (AAFC)

<http://www.agr.gc.ca>

AAFC, Trade Service

<http://ats.agr.ca>

Foreign Affairs and International Trade Canada

www.dfait-maeci.gc.ca/

U.S. Census Bureau

www.census.gov

United States Department of Agriculture – Foreign Agriculture Service

www.fas.usda.gov/

U.S. Bureau of Economic
Analysis

www.bea.doc.gov

NAFTA

<http://www.nafta-sec-alena.org/DefaultSite/index.html>

Industry Canada

www.ic.gc.ca

Strategis Canada

www.strategic.gc.ca

TRADE SHOWS

Natural Products Expo West
Fancy Food Show, Chicago
USA Food Show
West Pack Show
Canadian International Food and Beverage
SIAL, Montreal Canada
American Food Fair at NRA
PacEx International
International Baking Industry Exposition IFE
Americas
International Pizza Expo
Natural MarketPlace 2007

Dairy-Deli-Bake 2007
Wine and Food Experience
Summer International Fancy Food & Confection
Food Safety & Security Summit
All Things Organic
The FMI Show
Spring Fancy Food and Confection Show
NRA Show 2007
Private Label Manufacturers Association World
Pork Expo

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