

# 1. Executive summary

This report examines for the first time, the health of the Canadian organic food and beverage processing sector. It provides detailed analysis of the key food sub-sectors including sales, trends and key players while outlining the challenges that food processors face that are related to organic standards. The report relies on a number of data sources including published reports on sales and new product introductions, particularly Euromonitor International and Mintel databases, organic company websites, technical reports in the scientific literature and in-depth interviews with key respondents in the main food and beverage processing sub-sectors.

We identified 1118 organic food processing companies that met our definition (see Appendix 1) of food processing in 2018. Of these, 358 (32%) were primary producers adding value to their businesses through on-farm processing. The vast majority of organic food processors were located close to the large and mature organic marketplaces in Ontario, Quebec and British Columbia. In most cases, the type of food processed in a region reflects regional primary production specialization. For instance, QC and NB are home to the lion's share of organic maple syrup processors, BC has the most organic aquaculture operations and the Prairie region focuses on organic grain processing. Multi-ingredient organic food processors are based primarily in ON, QC and BC.

The report estimates for the first time, the value of processed organic food products sold at Canadian retail at \$2.5 B, roughly 57% of the \$4.4 billion organic food and beverage sector in Canada (COTA, 2017). This value represents total domestic Canadian retail sales combined with imported organic processed foods. It is thus not a measure of the size of Canada's organic food processing sector. This value will remain elusive until we have comprehensive import and export data for organic,

The key sub-sectors driving domestic organic sales are non-alcoholic beverages (excluding dairy), worth \$779 M in 2017, dairy (\$377.6 M) and ready meals (\$192.3 M). For some food types such as ready meals, large multinationals hold dominant market share of Canadian sales, while for others such as non-alcoholic beverages, maple and dairy, key players are Canadian. There is dramatic variation amongst food types with

respect to their share of the overall category markets. In Canada, organic maple products have the greatest share of the total category market of all organic foods. Organic maple products make up 36% of all maple sales, 30% of maple taps and 10% of maple farms. The organic packaged salad market is dominated by California-based companies and organic salads command a 25% share of the total market. The situation is similar for organic baby carrots. According to Willer and Lernoud (2019), organic coffee makes up 8.5% of global coffee acres. On the lower end of the scale, organic bee hives make up only 1% of Canadian bee colonies.

We interviewed forty-three organic food processors across the country across a range of food types to identify challenges related to the organic portion of their business. The survey covered topics such as business model, types of foods processed, marketing and distribution, challenges related to organic standards and other topics. Interviewed companies included a mix of large and small mostly Canadian-owned companies. Most processed both organic and conventional foods, although a few of the newer businesses started out as organic specialized companies. Twenty-eight percent of the businesses interviewed were also primary producers.

Despite the diversity of foods and processing methodologies considered, some common themes emerged from the survey, including:

**Rapid Growth** The organic food processing sector in Canada is on solid footing with respect to growth and economic health. Most of the surveyed businesses are experiencing year-over-year growth in excess of 10%. Rapid growth has resulted in challenges in securing a steady supply of organic ingredients and accessing capital for expansion.

**Organic food processors are environmental and marketing innovators** Many of the processors we examined have developed innovative products, packaging, and or marketing strategies and in some instances, they are the leading environmentally-friendly companies in their sub-sector. Many have obtained additional certifications such as B-Corp or Fair Trade.

**Sourcing and price of ingredients** The majority of Canadian organic food processors surveyed, both large and small, indicated that sourcing organic ingredients, especially close to the processing facility is their number one challenge. The high cost of ingredients -

in some cases double or triple the cost of conventional, is also a limiting factor in the growth of the sector. For some sub-sectors in which pricing is a factor in competitiveness, using organic ingredients does not yet make economic sense. While some companies are dealing with their own supply chain issues, others are working collaboratively to build the ingredients supply. For example, the Prairie Organic Grain Initiative which ran from 2015 to 2019 was a collaborative effort led by associations and organic grain buyers to build the supply of organic grains in the Prairie region.

**Small list of permitted substances and processing methodology is not a significant barrier**

Despite the very small list of food additives and processing aids allowed in organic food processing, none of the processors we spoke with considered organic standards to be a significant limiting factor in developing new organic processed foods. Only a few businesses were unable to bring a new product to market as a result of the restrictions inherent in organic standards. Canadian organic food processors are innovative, often finding novel solutions to their unique food processing challenges. Processing aids, such as food colourants, flavours, aromas, yeasts and enzymes that were once extremely difficult to source organically are becoming more available in the marketplace. There are now companies that specialize in producing ingredients for the natural and organic food industries, although few are based in Canada.

**Access to knowledge and scale appropriate equipment**

Very few of the processors we surveyed relied on existing sources of information, experts in the field or even other food processors to help them develop new organic products. For the most part, organic processors developed their own unique solutions through trial and error. Most were able to find the equipment they needed in their price range and for the scale of their operation in Canada, the U.S. and Europe. Several respondents chose to manufacture their own equipment or to customize existing equipment to meet their needs.

**Organic food processors exploit multiple marketing claims**

Only a few of the surveyed companies relied on the organic label as their dominant marketing strategy. Organic food products are more likely than not to also carry a variety of other marketing claims. It is not uncommon for processors to use up to three marketing claims on packaging. For some food sub-sectors such

as alcoholic beverages, the organic label does not yet represent a significant marketing advantage. For other foods such as baby food, organic certification is now seen as a basic requirement for doing business.