

Trade, Statistics & Consumption

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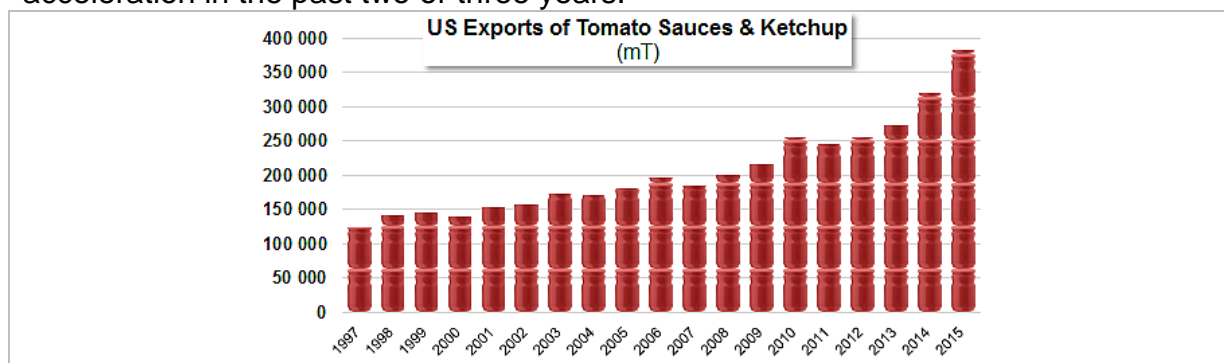
Sauces: a strategic market between the USA and Canada

Canada: still highly dependent on US exports

US foreign sales increased by 20% last year

Whereas US exports of paste have slowed, foreign sales of sauces recorded unprecedented growth last year: in 2015, 383 000 metric tonnes (mT) of tomato sauces and ketchup left US warehouses for foreign destinations, almost 63 000 tonnes more than in 2014 (+20%!). This result is record-breaking, but above all confirms the sudden acceleration of growth in the quantities of exports already observed last year: between 1997 and 2013, US foreign sales grew at an average annual rate of close on 5%, which is already impressive. Over the past two years, this growth has been consolidated and reached close on 17% and 20%, with the quantities exported having doubled in slightly more than eight years and tripled over slightly less than 20 years.

The turnover generated by this sector has also sharply progressed (from USD 113 million in 1997 to USD 373 million in 2015), and it has also recorded a sudden acceleration in the past two or three years.



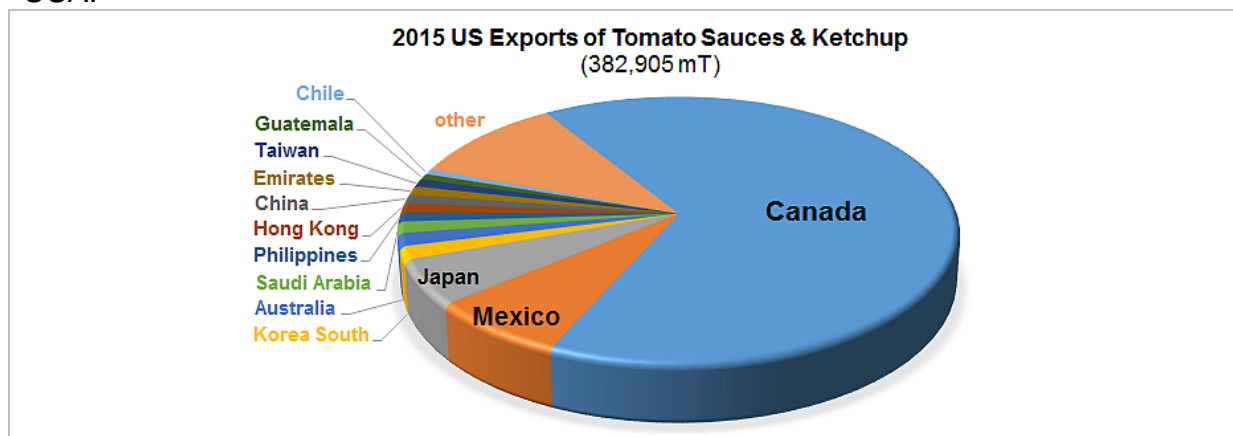
Canada, Mexico and Japan: these three countries regularly absorb close on 80% of US exports of tomato sauces and ketchup. In addition to these historical neighboring markets, a number of widely dispersed outlets also absorb smaller volumes: South Korea, Australia, Saudi Arabia, etc. These are the very same destinations that most remarkably contributed to the spectacular growth of exports in 2015. Having already imported an annual average of 23 000 mT over the period running 2012-2014, Mexico increased its purchases by more than 4 800 mT (+21%), reaching 27 900 mT of US sauces and ketchup imported in 2015. Similarly, Japan increased by one third the average volume of its imports of US sauces, increasing from 15 800 mT per year in 2012-2014 to 20 900 mT in 2015. At the same time, Hong Kong and the Philippines tripled their purchases, to about 4 300 mT each in 2015. Korea and Saudi Arabia also feature in good position on the list of destinations to which US exporters shipped much larger volumes in 2015.

But one destination particularly stands out, to the point of representing a kind of "51st state" in terms of its supplies of tomato sauces and ketchup: over the past six years, **almost 98%** of the imports to Canada have been shipped from the USA, with Canada being one of the four or five biggest importing countries for this type of tomato product, along with the UK, France and Germany. The remaining small volumes of imports to Canada come from Italy and Mexico. This almost exclusive

relationship is particularly consistent and dependable for US operators, given that Canadian purchasers of sauce and ketchup absorb an increasingly large proportion of US foreign sales. With 60 000 mT of US products imported in 1997, Canadian supply shipments accounted for barely 49% of US exports. In 2014, out of 320 000 mT exported by the USA, 203 000 mT (63%) were shipped to Canada. Last year, US operators exported 383 000 mT of sauces and ketchup, of which almost **two-thirds ended up on the Canadian market...**

This increasing importance of Canada for US foreign trade has been materialized, over the past two years, by an exceptional growth in the quantities of products shipped from the USA: in 2015, 251 000 mT of tomato sauces and ketchup were shipped across the US-Canada border. This figure is already impressive, but it becomes even more so in consideration of the fact that it exceeded the volume recorded in 2014 by almost 49 000 mT (24%!), and exceeded by almost 76 000 mT (43%!) the average annual quantities shipped between 2012 and 2014.

This development in the trade flow between the two countries is a historical reality. Yet it should be pointed out that the reason for this sudden increase is actually to be found in the progressive slowdown of Canadian processing operations over the past 10 to 12 years, as well as in the withdrawal of Heinz from the main Canadian tomato processing plant (Leamington). The drop in processed volumes, from more than 500 000 mT in 2012 to some 330 000 mT in 2013 and 2014, caused an agro-industrial slump for which the market has compensated by turning increasingly to foreign purchases in order to satisfy consumer demand, which remains strong. And the Canadian market has naturally turned in priority to its "supplier next-door": the USA.



"Ontarians want Ontario ketchup"

Due to the large volume quantities involved and to the turnover results generated by these trade flows, it is easier to understand what is at stake commercially, industrially, agriculturally, and sometimes politically, in the Canadian market for tomato sauces and ketchup. In recent months, the Canadian press has extensively reported what it has called "the ketchup wars", with battles being fought on social networks and in the press between the big names of ketchup production on both sides of the border, including Highbury Canco and Ontarian tomato growers.

The first episode played out in 2013, when the new owners of Heinz (3G Capital and Warren Buffett) announced their intention to close the Leamington plant, which was considered "not efficient" because it used fresh tomatoes grown in Canada instead of cheaper tomato paste that could have been imported "from Mexico or elsewhere". According to international market experts, *"Had Canada's food regulations been fully*

harmonized with those of the U.S., Leamington would have been finished. Heinz could have easily serviced the small Canadian market with tomato products processed elsewhere." But that did not happen.

Given drastic reductions in operations, in the number of staff and in salaries, all of which were accepted by trade unions, Sam Diab gathered a number of investors and maintained production operations at the plant. It is now clear that processing operations, in this new form, have only been able to survive thanks to a regulation included in the **Canadian Agricultural Products Act**. Canadian regulations state that tomato juice sold in Canada must be exclusively made from tomatoes that are "sound, whole, ripe", and not from concentrates or paste. A five-year production contract under license was negotiated with Highbury, and this has allowed Heinz to retain the 50% share of the Canadian market that it has held until now. In this context, Highbury Canco continues to produce several dozen well-known products under the Heinz label: Heinz beans, tomato juice, canned pasta, baby food cereals, and a number of sauces like chili sauce, Cattelli tomato sauce, Bravo pasta sauce, and HP sauce. The contract also includes the production of tomato products for the catering industry, like tomato juices and soups, baked beans, etc. *"In total, over 70 000 metric tonnes of [Heinz] products are produced in Leamington,"* explained a spokesperson for Kraft Heinz. But Highbury does not manufacture any ketchup.

The new operators of the Leamington plant supply tomato paste to several remanufacturing companies, including French's, a subsidiary of British conglomerate Reckitt Benckiser, which has decided to launch out into the ketchup market on the basis of the exclusively Ontarian origin of the tomatoes used in the manufacturing process. French's is #1 for mustards worldwide, and controls 60% of the US market in the "yellow category". In turn, Kraft Heinz reacted by launching itself onto the worldwide mustard market.

The French's-Heinz ketchup controversy has prompted calls for consumers to ditch the Heinz product in favor of French's ketchup. Buying local supports jobs and economic growth, but there are fears a Heinz ketchup boycott could extend to other products, including those made at the Leamington plant.

Social networks have participated in the popularity of French's ketchup, although unintentionally at first, and they contributed to the ongoing battle between the food giants. At this point, two major Canadian food distributors, Loblaw (a major distribution chain) and Primo (French's main competitor), decided to join the fray. Loblaw removed French's products from its shelves, which turned out to

be a commercial and strategic mistake, but rapidly backtracked under the pressure of the media and social networks. As for Primo, the company launched a ketchup that is 100% Canadian, in direct competition against French's: *"It was the social media firestorm over French's that gave [us] the needed push. When we saw all the support behind Canadian-made products, we thought this is the right time to move forward,"* explained John Porco, the CEO of Primo foods, a subsidiary, with Unico (grilled sweet peppers, diced tomato, and canned tuna), of Sun-Brite, which is based just a few miles from Leamington.

[Ketchup war has Ontario farmers upping tomato production](#)

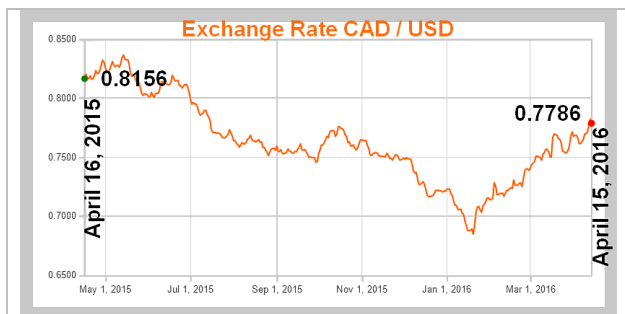
Growers and processors of Ontarian tomatoes should benefit from this "ketchup war" that has been ongoing since March, when the food giant French's broke into the ketchup market. Although it is not the main player, Highbury Canco is now very involved in a situation that it does not control, but which has major implications for its survival and for the Canadian industry as a whole.

After several difficult years, the tomato growers of the region are considering, on the basis of figures provided by the OPVG (Ontario Processing Vegetable Growers) association and published in the local press, a processing volume of 525 000 short tons (476 000 metric tonnes) in 2016. This volume, based on the quantities contracted by growers, is much higher than the volume processed in 2014 (approximately 340 000 mT), after the transfer of Heinz operations to the USA.



"And there's plenty of room to grow more, should demand for Ontario tomatoes continue to increase", explained John Mumford, general manager of OPVG, the vegetable growers' association that tracks annual production yields. *"Absolutely. No question,"* Mumford said. *"There's a lot more acreage that's suitable for tomato production. There's no doubt about it."*

The success of Highbury Canco, the company that took over the Heinz plant and has been growing its tomato paste production ever since, is a significant reason for the resurging tomato demand. The company has upped its production levels every year, with several farmers getting new contracts this year, and now several food companies have learned the value of sourcing Canadian tomatoes. *"If the consumer follows through on its patriotic promise to support locally sourced products, then farmers can expect to grow a lot more tomatoes,"* explained Mumford.



A low Canadian dollar also helps with making the region's tomatoes more attractive to food processors, Mumford said. With the value of the Canadian currency falling well below the US dollar, to depths not seen in years, there should be no surprise more companies are buying from Ontario.

Sun-Brite Foods, the parent company of Primo, could also need more tomatoes now that it has dipped its fingers in the ketchup market. If its latest all-Canadian brand of ketchup is a hit, Sun-Brite president Henry Iacobelli said the company could increase production by 50 000 sT (45 000 mT) of tomatoes per year. His Kingsville facility already contracts about 186 000 sT (169 000 mT) of tomatoes annually. The increase would mean working with seven or eight more growers and adding five to ten more employees.

For his part, Thomas Canning owner Bill Thomas does not expect to increase tomato processing this year, but that could quickly change as American companies like French's realize the benefits of using tomato paste processed in Canada. Both Thomas and Iacobelli recognize the driving force behind the latest increase in product demand.

"The strength of this whole thing [...], it's the Canadian consumer," Thomas said, *"who spoke out on social media and took action with its money by supporting French's new ketchup brand because the American company sources tomatoes grown in Leamington."*

[A launchpad for new opportunities?](#)

The growth in demand for locally grown tomatoes could create an opportunity for Canada to stake a claim in the global production of tomato paste, say growers and processors. Any Canadian company making tomato paste typically has a difficult time keeping up with other regions, particularly California, where overhead costs are lower, explained Thomas. Because of the mass production, California's tomato processing industry often influences pricing around the world.

"There are some costs here that we have that are higher than what they are in other jurisdictions," Thomas said. "As such, that makes us have to sharpen our pencil pretty good in order to compete in that market. So, the product-of-Canada thing is a bonus for us."

Ontario's tomato industry is poised for success for several reasons, explained Dave Epp, who was the director of the Ontario Processing Vegetable Growers for fifteen years. In addition to the Canadian dollar, he applauds farmers and processors for creating a competitive market. *"The industry has bounced back and the system is doing just fine,"* he said.



However, trust in the future should remain measured. Current regulations protecting the national Canadian production of a number of tomato products have already been criticized by trade lobbies that would like to see them repealed in the context of the free-trade agreements that have been set up between Canada and the United States. Where Canadian operators defend a justifiable measure of protection for the

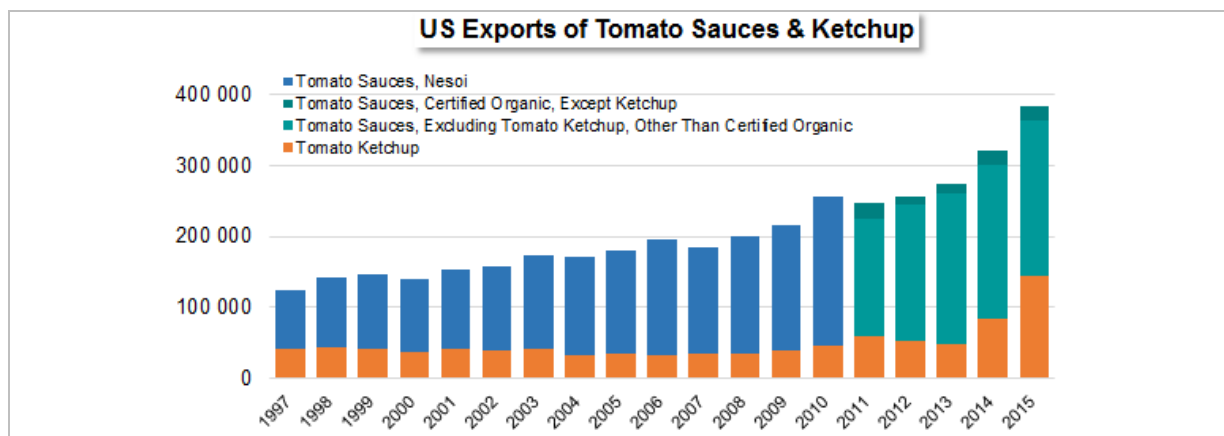
country's industry, a number of business interests consider the regulation of the Canadian Agricultural Products Act as a source of distortion for fair competition, and hope to see it disappear after the ratification of the free trade agreement called the *"Trans-Pacific Partnership"* (TPP).

If the regulatory constraints should disappear, Heinz would probably no longer need the services of the Highbury plant in order to manufacture its juice intended for the Canadian market. In this event, the renegotiation of the contract signed with Highbury in 2013 for a duration of five years could occur in a context that would be very different commercially and in terms of food standards. A large part of the future Canadian processing industry is at stake.

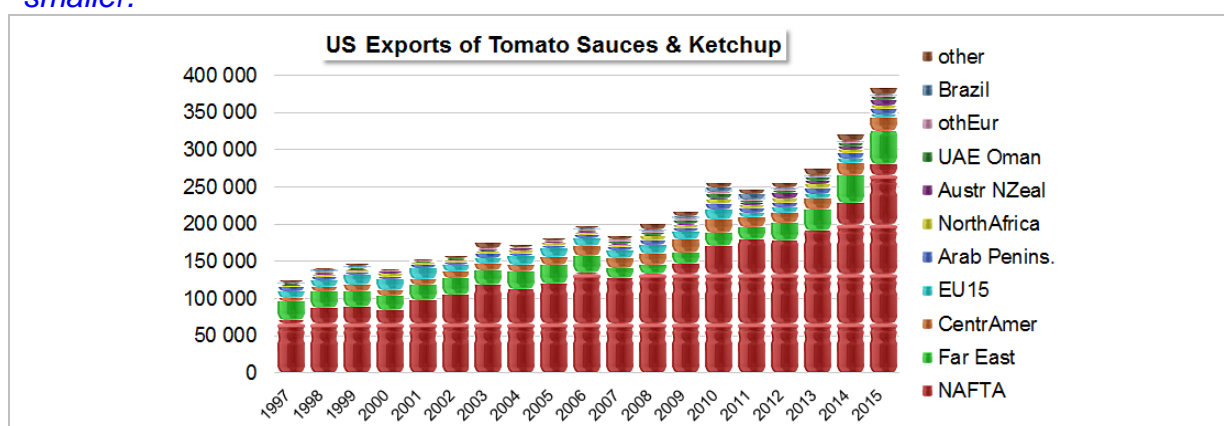
(See also our articles in the Tomato News issues of February and April 2016.)

[Some complementary data](#)

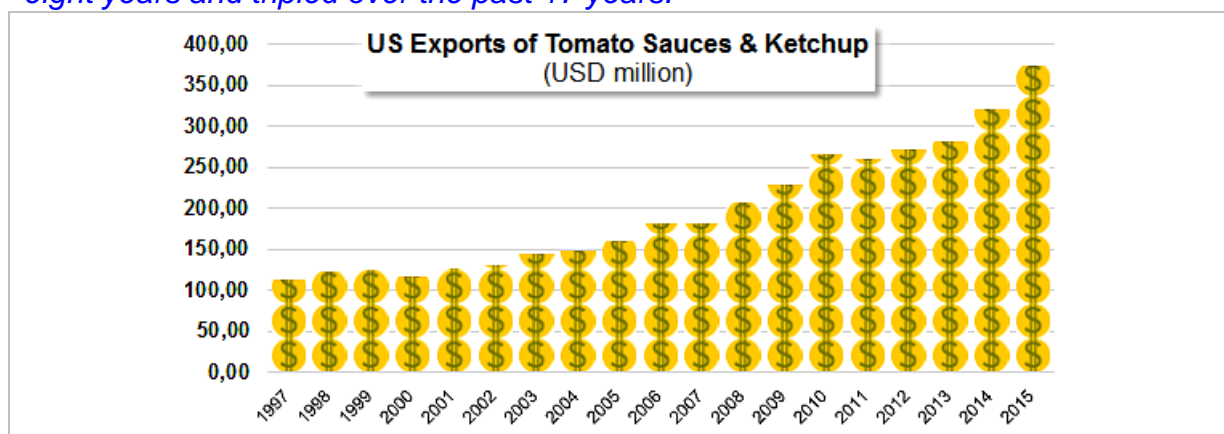
A large proportion of the growth observed in 2014 and 2015 is due to the development of ketchup exports, particularly to Canada.



Exports of sauces and ketchup are mainly intended for the markets of North American countries (NAFTA) (Canada, Mexico, etc.). The Middle East, which is the second biggest outlet for this sector, accounts for quantities that are seven times smaller.



The turnover generated by sauces and ketchup exports has doubled over the past eight years and tripled over the past 17 years.



The complete version of this article
is available on the Tomato News
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Appendices/Annexes

Sauce exports in 2015: the world's six biggest players (USA, Netherlands, Italy, Germany, Spain and Poland) (each holding more than 5% of the global market share) accounted for more than 70% (947 000 mT) of the worldwide trade in tomato sauces and ketchup in 2015.

