



Economic Contribution Study of Canada's Natural Health Product Sector

May 2023



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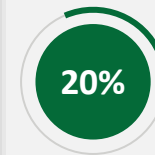
Executive Summary

Natural Health Products (NHPs) are an important source of natural organic and wellness products for Canadians. These products include probiotics, herbal remedies, vitamins and minerals, homeopathic medicines, traditional medicines such as traditional Chinese medicines, and other products such as hygiene products. While NHPs have seen strong growth over the last several years, new labelling rule changes bring substantial challenges for industry members which could negatively impact innovation, jobs and competitiveness. The purpose of this report is to examine the sector's performance, provide an estimate of the current size of the NHP sector in Canada and summarize the expected potential impact of new labelling regulations.

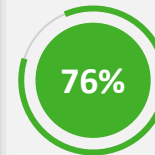
The sector has performed extremely well over the last decade. It has grown from an estimated \$4.3 billion in sales in 2007 to approximately \$13.2 billion in sales in 2021, with exports growing from \$0.7 billion in 2007 to \$3.6 billion in 2021. This growth has resulted in a direct economic footprint of \$5.5 billion of GDP in 2021. After accounting for the full supply chain and increased spending in the economy, its total footprint is estimated at \$11 billion of GDP in 2021. Overall, the sector supported and sustained approximately 54 thousand FTE jobs. It is estimated that the sector supports and sustains a total of 92 thousand FTE jobs when the sector's purchases from suppliers, and increased spending in the economy from incomes earned are considered.

While the sector has performed well over the last several years, new labelling restrictions are likely to add substantial costs. To assess the impact of incoming labelling regulations, Deloitte conducted a survey of various industry members throughout the supply chain. The results show that the new legislation will have **dire consequences** for the sector and the broader economy. The sector is mainly dominated by small businesses of less than 50 employees. Many of these businesses have minimal ability to absorb the additional costs in both the short and long-term scenarios. Some of the grim findings include: Fifty percent of respondents feel that the Canadian market's overall attractiveness (from a business perspective) will be impacted negatively by new labelling regulations; approximately 39% of respondents indicate that the restrictions will have a negative impact on employment to their organization by 10% or more; 76% of industry members indicate that there will be a high likelihood of removing product offerings; as well as 21% of industry members shutting down operations in Canada.

Our analysis indicates that the policy will likely result in material disruption to the sector and the broader economy. **In essence, the new regulations are highly likely to produce a loss of product offerings, a loss of businesses, and a loss of jobs.** Given the availability of alternative policies that can achieve the same underlying objectives, serious reconsideration and/or adjustment of the current policy is warranted.



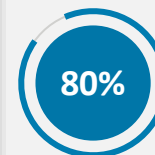
20% of respondents strongly agree that these regulations are making them consider shutting down operations in Canada



76% of survey respondents indicate a fairly high to very high likelihood of product removal from the market



83% of survey respondents indicate that they have a low to very low capacity to absorb the costs of the legislative changes



80% of survey respondents have 50 employees or less, with 91% of respondents having 200 employees or less

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Introduction

Natural Health Products (NHPs) are an important source of natural organic and wellness products for Canadians. These products include probiotics, herbal remedies, vitamins and minerals, homeopathic medicines, traditional medicines such as traditional Chinese medicines, and other products such as hygiene products. The sector has seen impressive growth over the last several years but is facing significant challenges related to new regulatory initiatives which are negatively impacting innovation, jobs and competitiveness.

The objective of the study are to:

1. Examine the growth of the sector over the last decade;
2. Measure the estimated size and composition of the industry as well its contribution to the Canadian economy; and
3. Summarize the potential impact of incoming labelling regulations on the industry's outlook.

This paper has been funded by the Canada Health Foods Association (CHFA) in conjunction with other industry trade organizations. The CHFA represents Canada's largest trade association dedicated to natural organic and wellness products. It represents approximately 1,000 members made up of various businesses including manufacturers, retailers, brokers, distributors and importers/exporters. The CHFA represents the natural health product industry in Canada and aims to promote the growth and sustainability of the sector.

In the second section of this report, we assess the performance of the sector over the last decade. Unfortunately, there is not one source of industry data as the sector is spread across several traditional industries. As a result, we have created a dataset of the sale and export of NHPs and used a number of indicators to assess its performance. We then use a model of Canada's supply chain to measure the entire supply chain of the NHP sector. This methodology traces how the expenditures and exports of NHP products as well as investments create demand for goods and services provided by suppliers. Using this methodology, we can measure the direct economic contribution of the sector from retailing to the indirect contribution from manufacturers and service providers. We are also able to measure the number of employees involved in the sector and the impact of their spending of salaries and wages earned as a result of the natural health product sector activities.

In the third section of the report, we assess the impact of incoming labelling regulations. To do this, we conducted a survey of CHFA and broader industry members. This survey also allows us to quantify the impacts based on the characteristics of firms being impacted. The survey was open for 25 days, from March 21 to April 14, 2023. It consisted of a mix of quantitative and qualitative questions and had 381 respondents with 210 completing every question.

Overview of the Natural Health Product Sector and its Economic Contribution



Takeaways:

- NHPs include a variety of products such as vitamins, minerals, herbal remedies, homeopathic medicines, probiotics, and other natural products. The NHP industry is diverse, with a variety of different products available on the market. These products and the sector in general have a significant impact on the health of Canadians.
- The sector has performed extremely well over the last decade. It has grown from an estimated \$4.3 billion in sales in 2007 to over \$13.2 billion in sales in 2021.
- The economic contribution of the NHP Sector is estimated to be over \$11 billion in total GDP including the direct activities of the sector, its supply chain, as well as increased spending generated from its employees.
- Beyond the numbers, the sector provides a wide avenue for entrepreneurial potential, generational knowledge transfer, internationally competitive business competency and local investment. It is a sector that is predominantly Canadian owned and family run.

Products of Canada's NHP Sector


The Natural Health Product Sector provides a variety of goods to the Canadian market.

Canada's Natural Health Product (NHP) sector is an important and growing part of the country's economy. The sector is regulated by Health Canada, which ensures that NHPs sold in Canada are safe, effective, and of high quality.

While there is not a perfect estimate of the value of the products sold and exported, we have relied on a number of sources including Statistics Canada, Industry Canada, our own survey, and our economic model of Canada's supply chain to estimate industry sales and exports. According to this database, the industry has total sales of \$13.2 billion in 2021 of which exports were \$3.6 billion.

NHPs sold include a variety of products such as vitamins, minerals, herbal remedies, homeopathic medicines, probiotics, and other natural products. It is clear that the NHP industry is diverse, with a variety of different products available on the market.

Overall, Canada's NHP sector is an important contributor to the country's economy, providing Canadians with access to a wide range of natural health products, promoting better and healthier lifestyle to Canadians, and contributing to the global market for NHPs.



Key Products of Natural Health Product Sector



Growth of Canada’s Natural Health Product Sector

The Natural Health Product Sector is an important contributor to the economy of Canada.

The sector has performed extremely well over the last decade. It has grown from an estimated \$4.3 billion in total sales in 2007 to over \$13.2 billion in total sales in 2021. This represents an impressive 8.2% in average annual growth, which is almost 2.5 times the growth in overall consumer purchases.

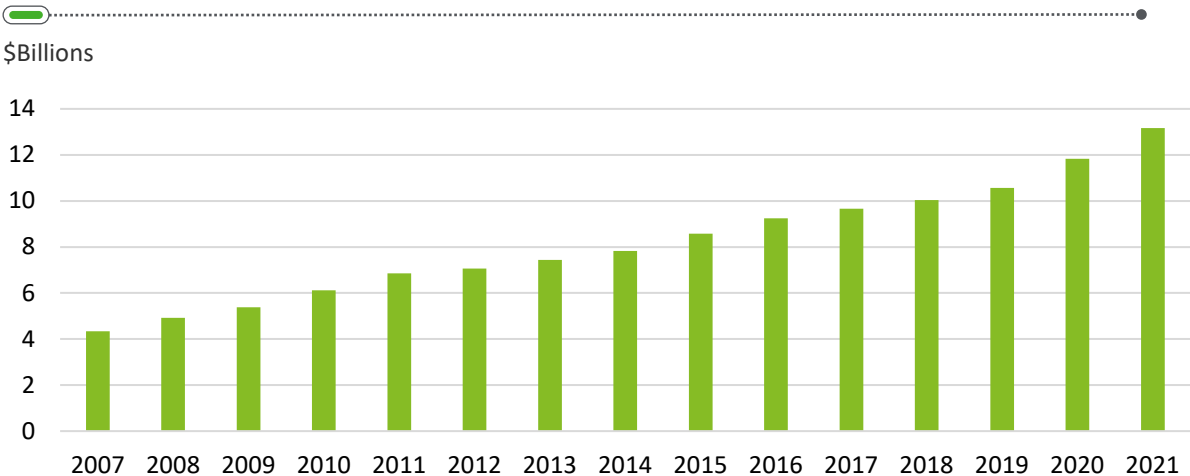
While the majority of the total sales were to Canadian households, exports to other countries also saw significant growth. From 2007 to 2021 exports increased by a rapid 12.9% which means it far outpaced the rest of the non energy exports sector, which saw growth of just over 2% in the same time period. Overall, our analysis shows that NHP’s have been a growing part of the household consumption landscape, as well as the exporting landscape for at least the last 15 years.

Beyond the numbers, the sector provides a wide avenue for entrepreneurial potential, generational knowledge transfer, internationally competitive business competency and local investment. It is a sector that is predominantly Canadian owned and family run.

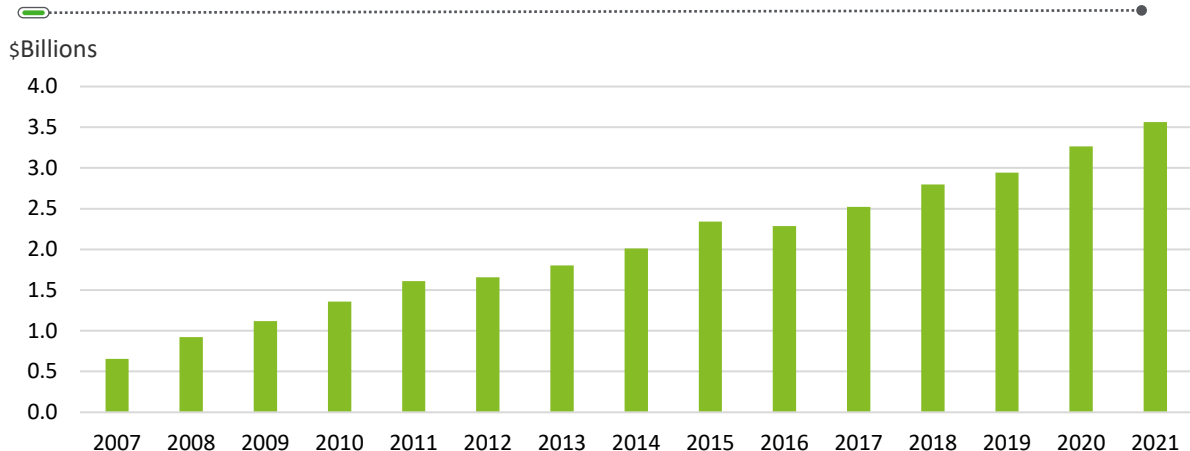


Note: Estimates of sales are based on Statistics Canada definition and data of the NHP Sector, identified in their working paper “Results from the 2011 Functional Foods and Natural Health Products Survey”. Sales of additional products were also incorporated in our analysis, including sales of hand sanitizers, essential oils and other hygiene products.

Estimated Total Sales of NHP Products



Estimated Export Sales of NHP Products



Methodology of Economic Contribution Modelling

This study estimates direct, indirect, and induced economic contribution of the Natural Health Product sector in terms of value-added (GDP), labour income, employment and government revenues.

The Three Layers of Measuring Economic Impacts

01

Direct Impacts

Measures the economic contribution of industries directly associated with Canada’s Natural Health Product sector.

02

Indirect Impacts

Measures the economic contribution of suppliers due to demand for goods and services arising from Natural Health Product sector activities.

03

Induced Impacts

Measures the economic contribution associated with the spending of wages and salaries earned as a result of Canada’s NHP sector activities and stimulated activity of suppliers to the NHP sector.

We measure the economic impacts in terms of:



Value-added (Gross Domestic Product)



Labour income



Employment



Government revenue¹

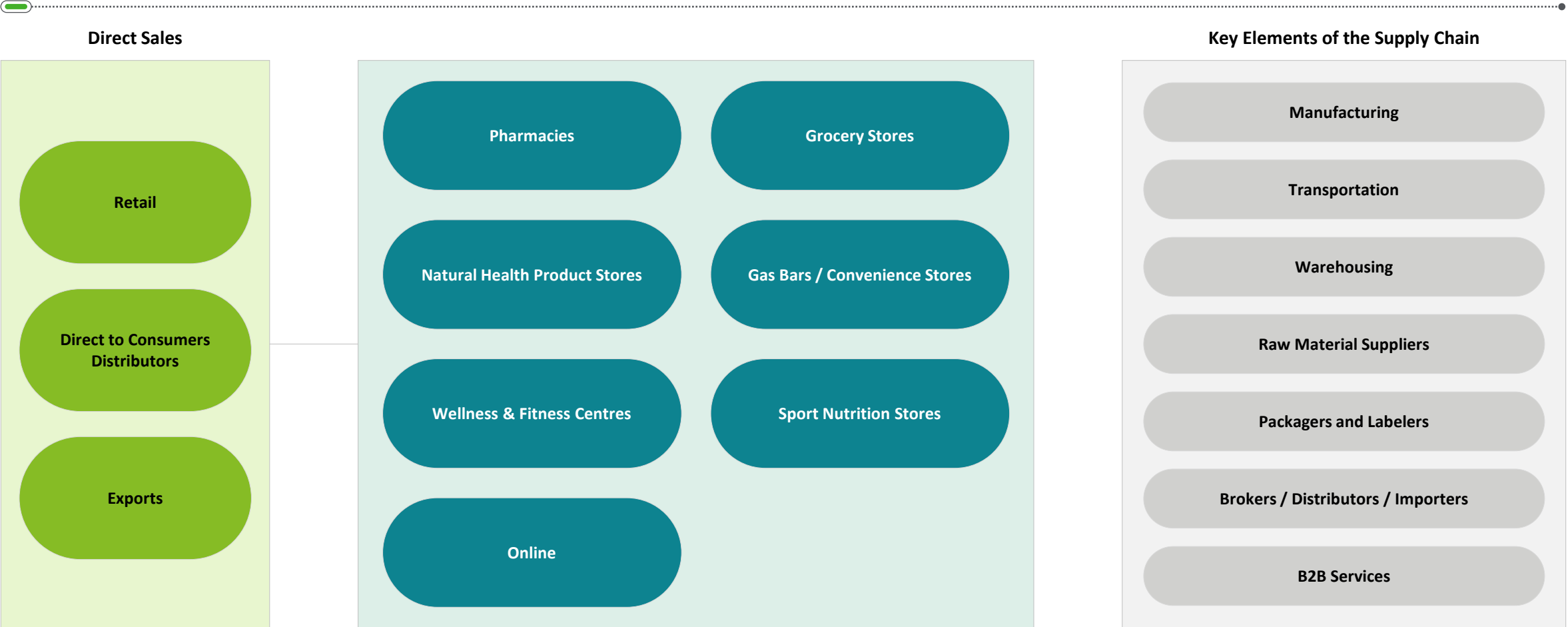


1. Government revenue refers to provincial and municipal product and production taxes such as sales taxes (HST), import duties, payroll taxes and property taxes. This report also includes corporate income taxes and personal income taxes.

The Natural Health Product Sector

Our analysis of the supply chain showcases that the industry is much more than just retailers. Through its sale of products and exports, the industry generates \$3 billion in GDP for its suppliers.

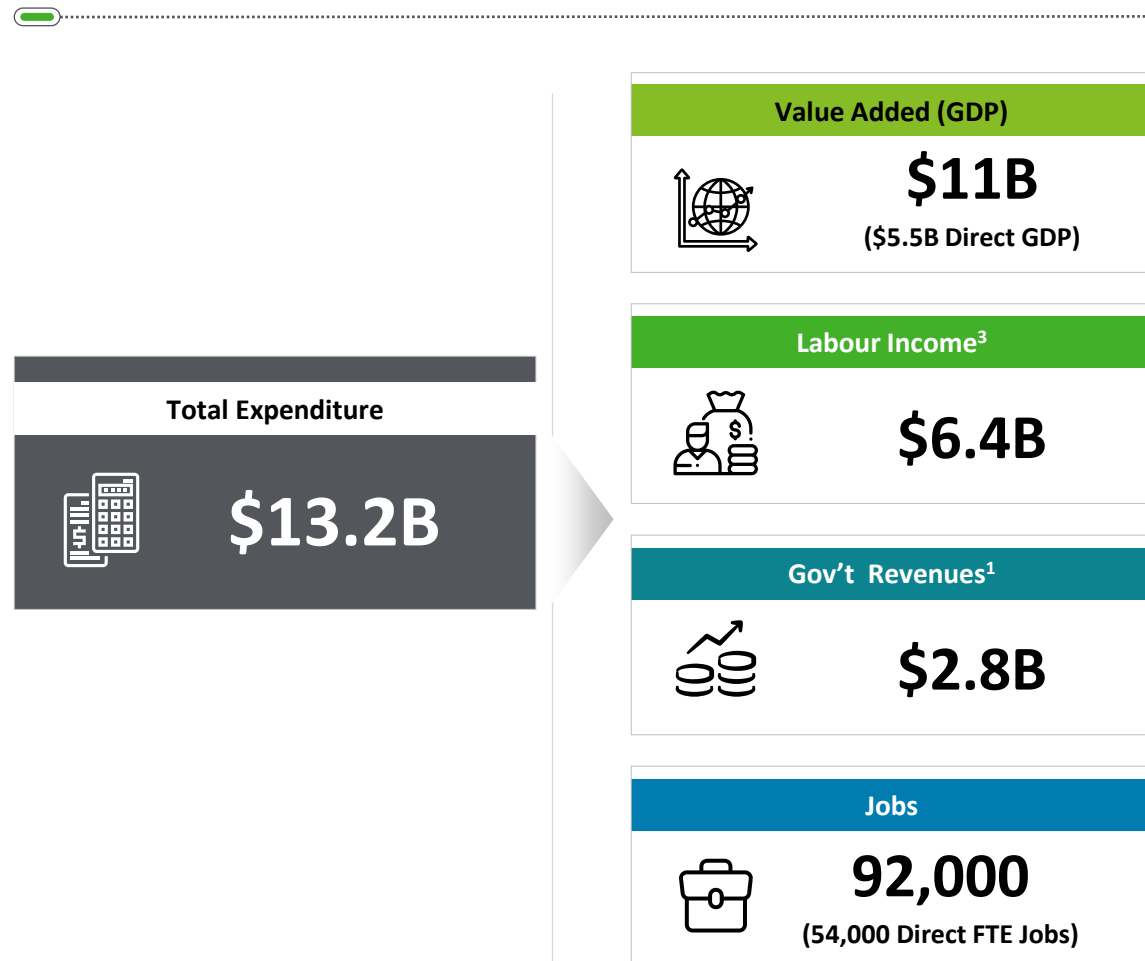
Natural Health Product Sector Key Sales Channels and Elements of the Supply Chain



The Natural Health Product Sector’s Economic Contribution

Overall, the NHP Sector supports about \$11 billion in total GDP, when accounting for the direct activities of the sector and its supply chain, as well as increased spending generated from incomes earned.

Estimated Direct, Indirect and Induced Economic Contribution to Canada



In 2021, it is estimated that:

- The direct economic contribution of the NHP sector is **\$5.5 billion**. The total economic contribution is estimated to be **\$11 billion** when accounting for the full supply chain and increased spending in the economy from incomes earned.
- For every dollar spent on NHPs, the NHP sector provided **0.83 dollars** of GDP.
- For every million dollars spent on NHPs, the sector created and maintained approximately **7 jobs** in Canada.
- It is estimated that 54 thousand FTE jobs are directly associated with the NHP sector.
- An additional 38 thousand FTE jobs are maintained and sustained through (a) the sector’s purchases from suppliers, and (b) increased spending in the economy from incomes earned.
- For every dollar spent on NHPs, the government collects at least **0.21 dollars**.



Survey Methodology



Takeaways:

- 381 people engaged with it, with 210 respondents (55%) completing the survey. The survey was open for 25 days from March 21 to April 14, 2023.
- It consisted of a mix of quantitative and qualitative questions, with some short answer / open text questions. Specifically, it consisted of five sections comprising 36 general headline questions, with 10 additional questions that serve as follow-up inquiries to some of the general listed questions, for a total of 46 potential questions.
- Questions of the survey not only provided insight into the impact of the labelling regulations, but also provided insight into the general characteristics and profile of industry members.

About this Survey

While the industry has seen solid growth over the last decade, regulatory changes have the potential to impact its performance. We conducted a survey of stakeholders to estimate the impact of regulatory changes on their business.

Background

The CHFA represents approximately 1,000 members made up of manufacturers, retailers, brokers, distributors, importers, and others. Currently, the Government of Canada is launching new labelling requirements¹ within the Natural Health Product industry.

Objective

We conducted a survey with the objective of:

1. Educating industry members and informing potential discussions with respect to upcoming changes in the industry's regulations;
2. Gathering information on the impacts of regulatory changes on members businesses in the next two years;
3. Gathering information on ways to reduce the unfavourable future impact of upcoming changes; and
4. Fill in gaps on industry information.

Approach

The survey was open for 25 days from March 21 to April 14, 2023.

It consisted of a mix of quantitative and qualitative questions, primarily using a Likert Scale format with some short answer / open text questions. It consisted of five sections comprising 36 general headline questions, with 10 additional questions that serve as follow-up inquiries to some of the general listed questions, for a potential total of 46 questions²:

- Introductory Identification Questions
 - 13 questions
- Understanding of the Regulatory Environment
 - 8 questions
- Specific Impacts to Business & Concluding Remarks
 - 25 questions

It was not made mandatory to complete every question in an effort to ensure the largest quantity of responses.

1. For more information on Government of Canada labelling requirements refer to <https://www.canada.ca/en/health-canada/services/drugs-health-products/natural-non-prescription/legislation-guidelines/guidance-documents/labelling.html>

2. There are 36 headline questions with 5 mandatory follow-up questions for a total of 41 mandatory questions. There are 5 additional potential follow-up questions that are available depending on the answers provided in a prior question. Hence, total potential of 46 questions.

Survey Respondent Profiles

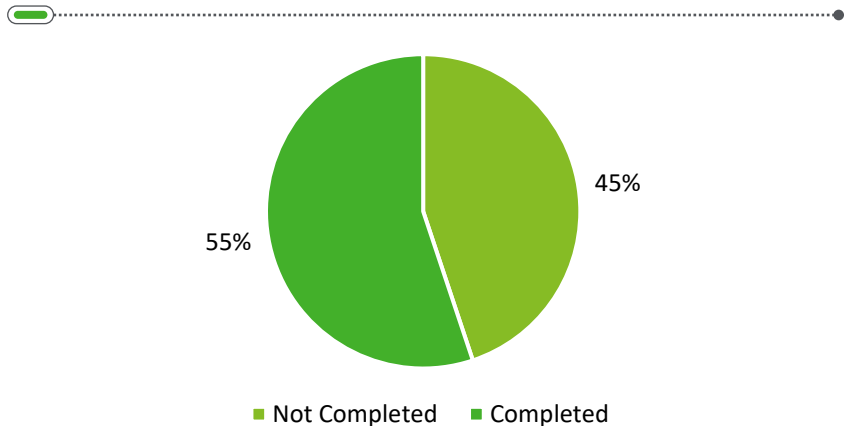
The survey’s introductory questions provided an overview of the characteristics of the respondents

While the survey was live, **381** people engaged with it, with **210** respondents (**55%**) completing the survey.¹

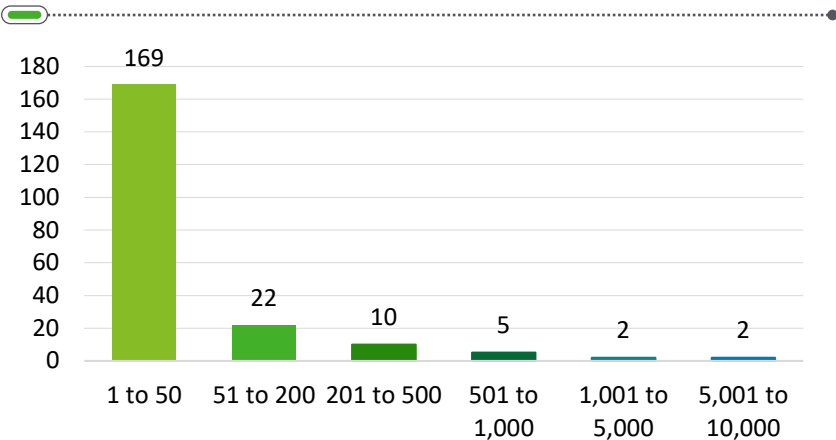
Of those that completed it:

- A large majority (**86%** in Canada and **80%** globally) are small organizations who have 50 or less employees.
- Most have been engaged in the industry between 11 to 30 years (**46%** in industry in Canada and **34%** in industry globally).
- Most identified as being Canadian-owned (**51%**), Family run (**28%**), and/or a Private businesses (**17%**).

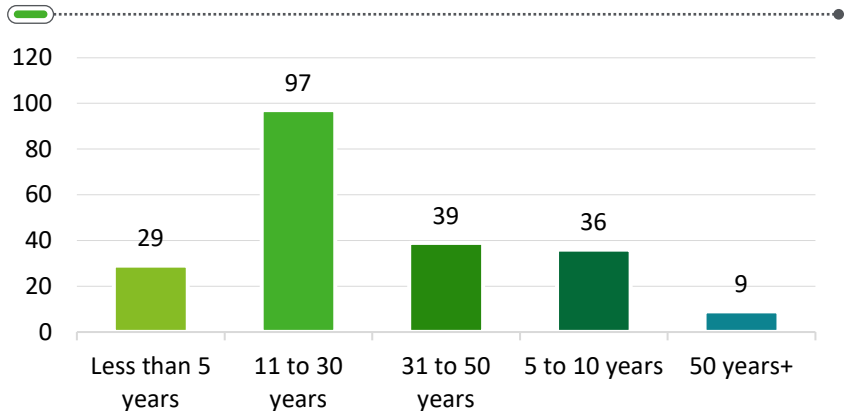
Respondents who Completed the Survey:



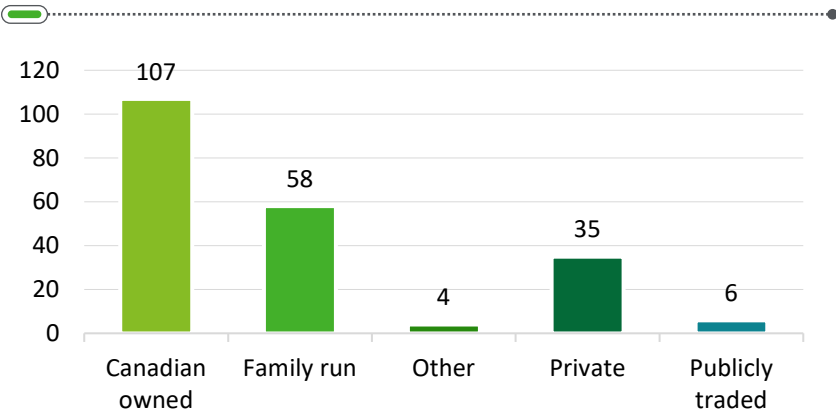
Question 4 – Approximately how Many Employees does your Organization have in Total?



Question 9 - How Long has your Firm been Engaged in this Industry in Canada?



Question 11 - Would you Describe your Business as:



1. "Completed" – Respondents have not necessarily answered every question but made it to the end of the survey and submitted their answers.

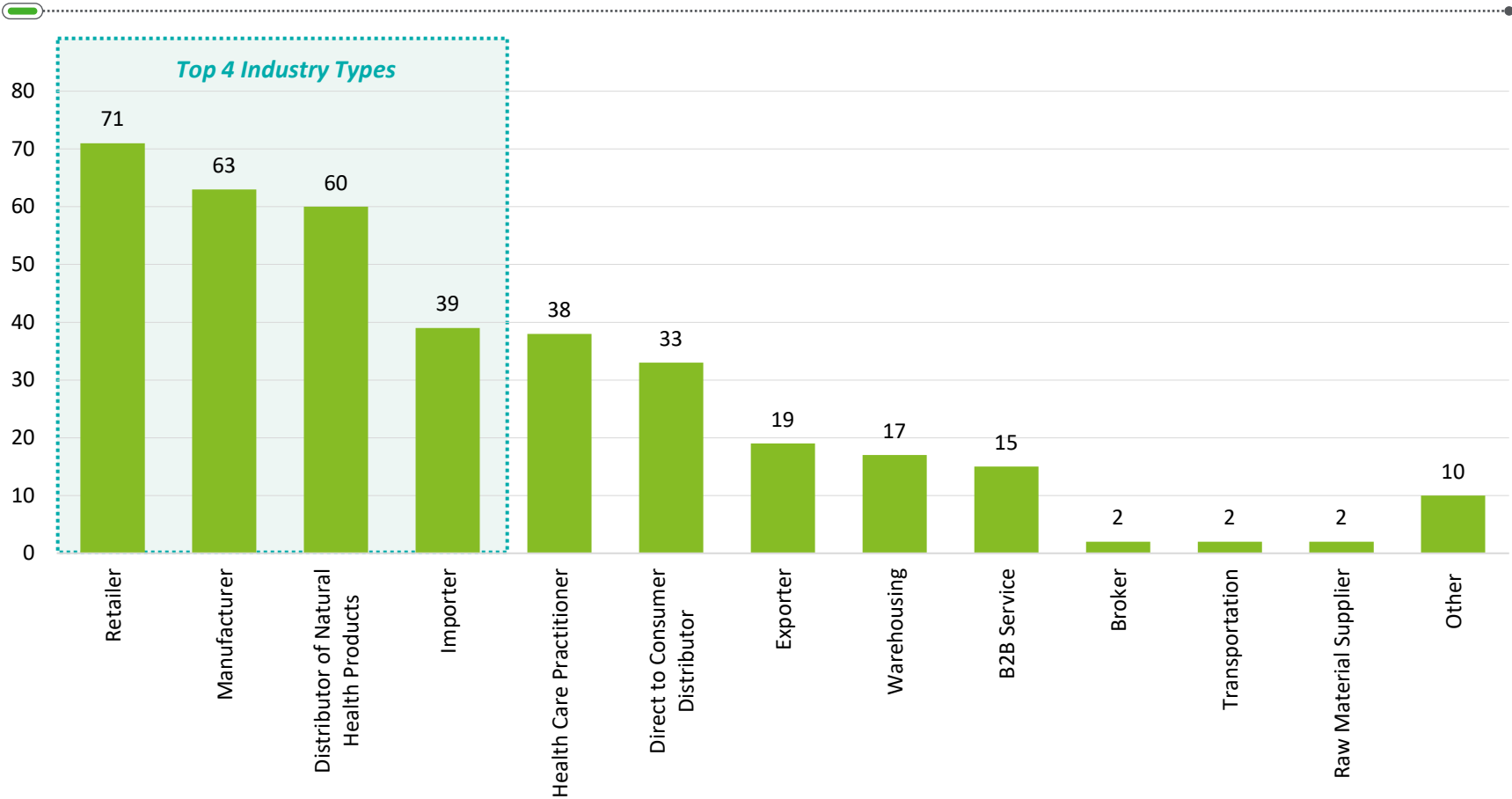
Industry Type

The greatest insights on survey questions were provided when responses were analysed on an industry basis

The survey provided respondents with the opportunity to choose the industry or industries to which they best aligned. Respondents could pick from a set of 16 industry types provided.

Of the 16 different types of industries that respondents could choose from, the top 4 industries chosen were retailer, manufacturer, Natural Health Products distributor, and importer. The top 4 industries accounted for approximately 78% of all responses. Due to the overwhelming responses from the top 4 industries, this report focuses on each of these industries.

Question 1 - Which of the Following Statements Best Represents your Current Organization?



1. Survey respondents that selected "other" were associated with industries such as Consultancy and Media.

Survey Results



Takeaways:

- The sector is dominated by small businesses which have been materially affected by the COVID-19 pandemic and have limited scope to absorb additional costs.
- As the sector has limited capacity to absorb cost increases, new labelling regulations will place a substantial burden on the sector.
- In response to these regulatory initiatives, industry members indicate that they will need to take drastic measures to cope, including reducing product offerings, shutting down operations, and/or reducing employment which will not only harm Canadian consumers, but also the broader economy.
- Alternative policies and adjustments should be made to limit the impact on the industry.

Small and Medium Sized Businesses Dominate the Sector

They are likely to be disproportionately affected by the new regulations.

The Natural Health Product Sector is dominated by small and medium sized businesses.

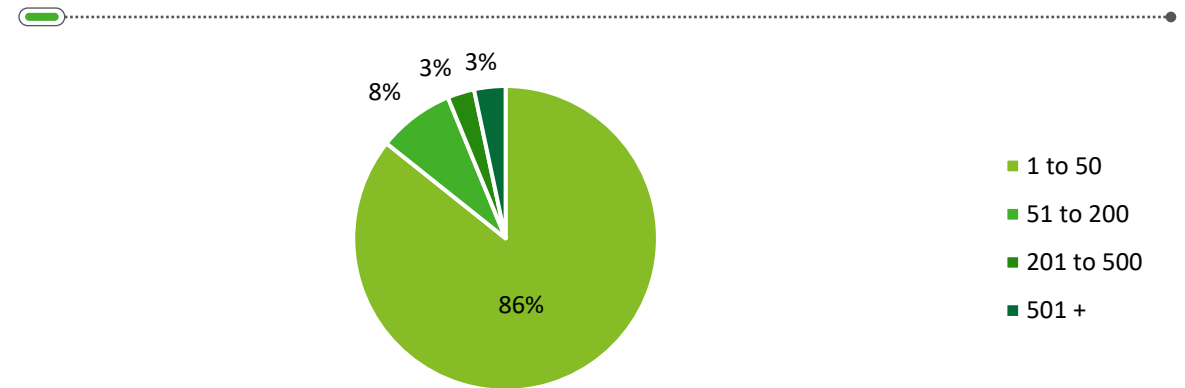
- 86% of businesses within the sector have 50 employees or less (169 out of 210 respondents)
- 94% of businesses within the sector have 200 employees or less (191 out of 210 respondents)
- 97% of businesses within the sector have 500 employees or less (201 out of 210 respondents)

Generally, smaller businesses have less capacity to absorb costs associated with regulatory changes.

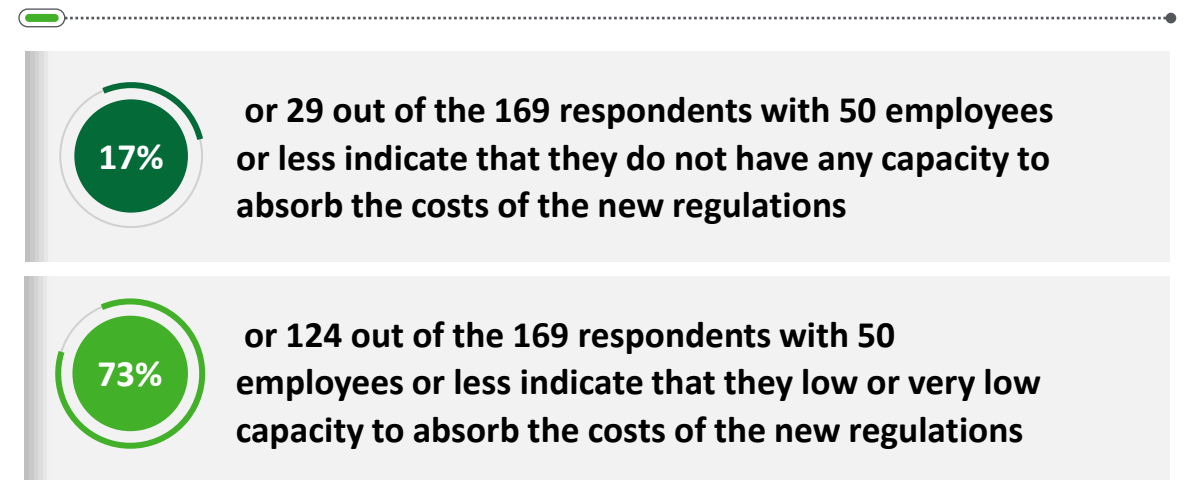
Smaller and medium sized businesses have been disproportionately scarred by the COVID-19 pandemic. Retailers, have been affected by pandemic related closures, labour shortages, increased inflation and increased online competition while manufacturers have also been affected by supply chain challenges.

Focusing on firms with 50 employees or less, we find that **17%** of respondents indicated that they had no capacity to absorb additional costs, slightly more than the overall average. With over **1 in 6 firms with 50 employees or less** indicating no capacity to absorb increase costs, these firms are likely to have to undertake significant measures to deal with the regulatory initiatives, which could include shutting down operations.

Share of Businesses by Employee Count



Small Businesses (50 Employees or Less) Capacity to Absorb Costs



Strong Opposition

A large share of respondents do not have the capacity to absorb costs stemming from the regulatory changes.

Of the 210 completed responses, most respondents (52%) strongly oppose the labelling regulations, with an additional 28% somewhat opposed.

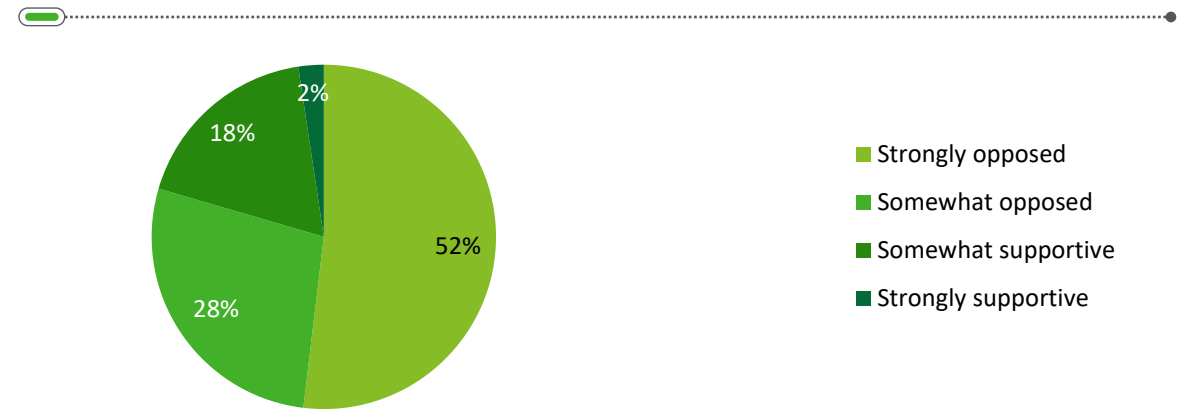
This opposition can stem from a variety of reasons, such as the bearing of additional costs to ensure compliance, and the inability to absorb such burdens:

- Roughly 58% of respondents indicate the new regulations will require significant capital outlay for machinery/equipment, software, and processes to ensure compliance.
- 48% of respondents indicate that the new regulatory changes are difficult to implement because they touch upon many different areas of their business process and are cost prohibitive.
- Roughly 19% of respondents indicate that they do not have any capacity to absorb costs associated with the regulatory changes in the near-term. Furthermore, roughly 17% of respondents indicated that they did not have any capacity to absorb any potential future regulatory changes.

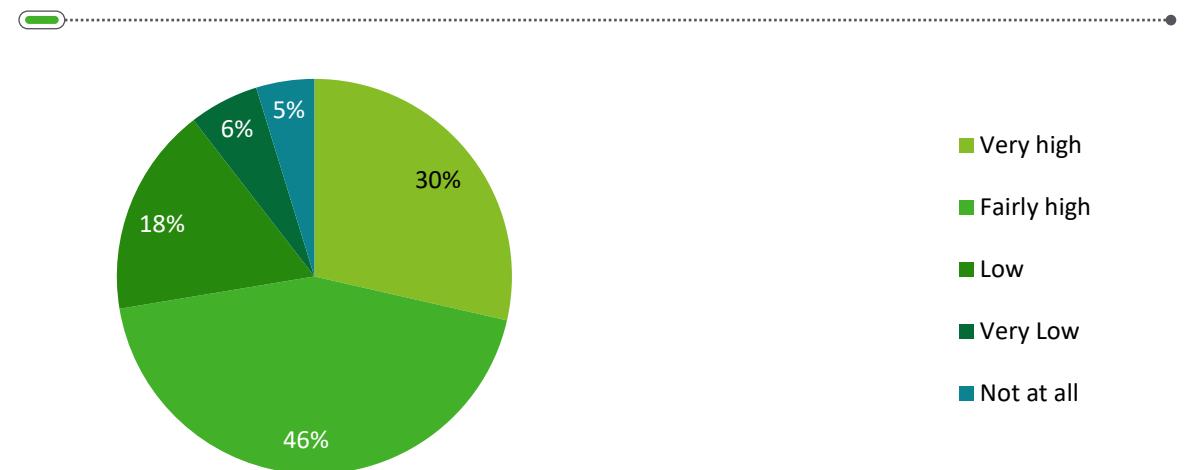
In response to this opposition:

- 76% of respondents indicate a fairly high to very high likelihood of product removal from the Canadian market.
- 66% of respondents indicate that the measures will have a negative impact on employment.
- 50% of respondents indicate that the new regulations will negatively impact the attractiveness of the Canadian NHP market.

Alignment to New Labelling Regulations



Likelihood of Product Removal



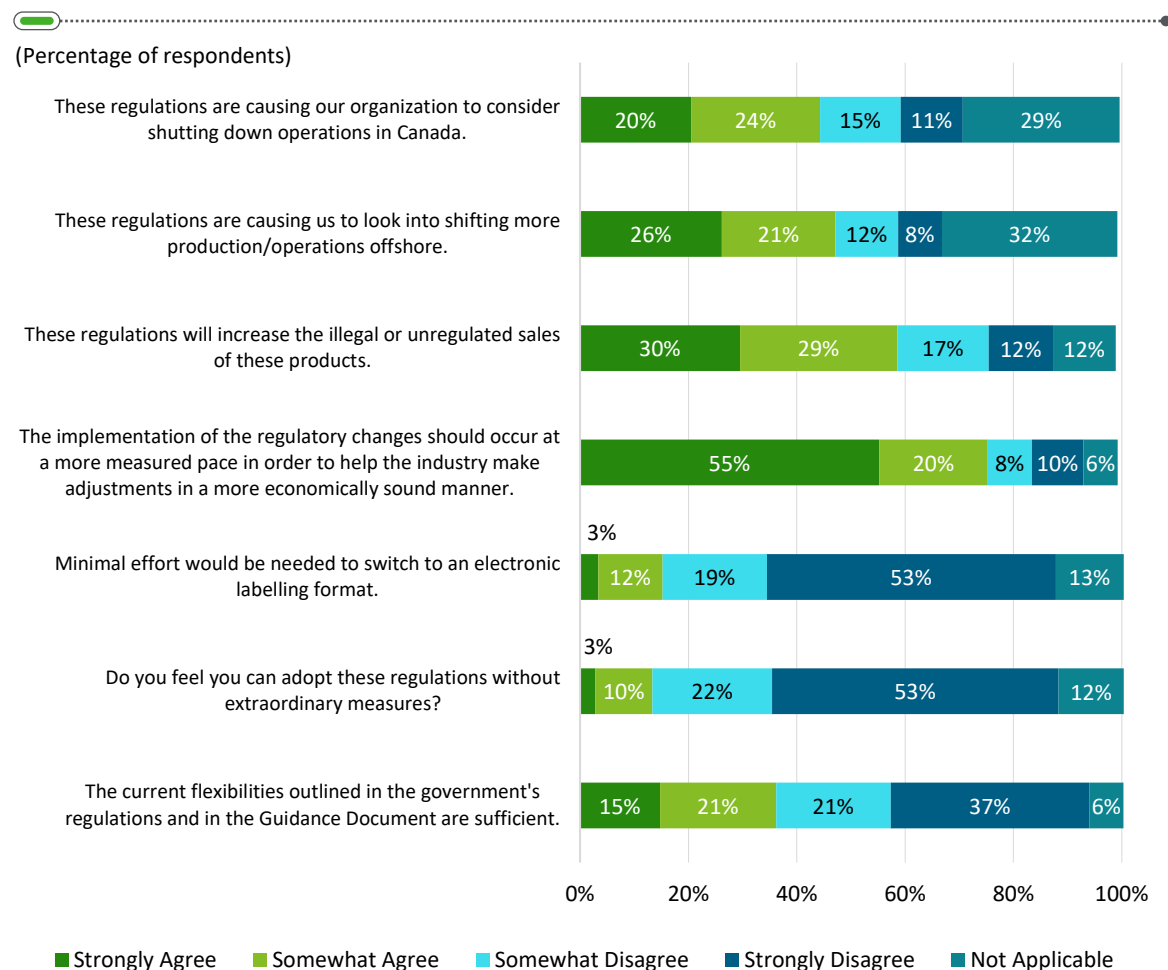
Impact of the New Regulation on Organizations

Most organizations report that the adoption of new regulations will force them to take extraordinary measures. A sizeable number of respondents suggest that the changes should occur at a more measured pace.

Respondents indicate a number of possible impacts from the regulations. Of the 210 completed responses:

- The majority (55%) strongly believe that the implementation of the regulatory changes should occur at a more measured pace.
- Furthermore, 53% of respondents indicate that they need to take extraordinary measures to align themselves with the regulations.
- Concerning the electronic labelling format, 53% strongly disagree that minimal effort will be needed to switch to the electronic system.
- Regarding the operational effects of the regulations, 26% of respondents strongly agree that these regulations are causing organizations to shift more production/operations offshore. In addition, 20% of organizations strongly agree that these regulations are making them consider shutting down operations in Canada.
- 30% of respondents strongly agree that these regulations will increase the illegal or unregulated sale of these products.
- Overall, 37% of respondents strongly disagree that the current flexibilities outlined in the government’s regulations and in the guidance document are sufficient.

Question 19 – What is the Impact Associated with Regulatory Changes



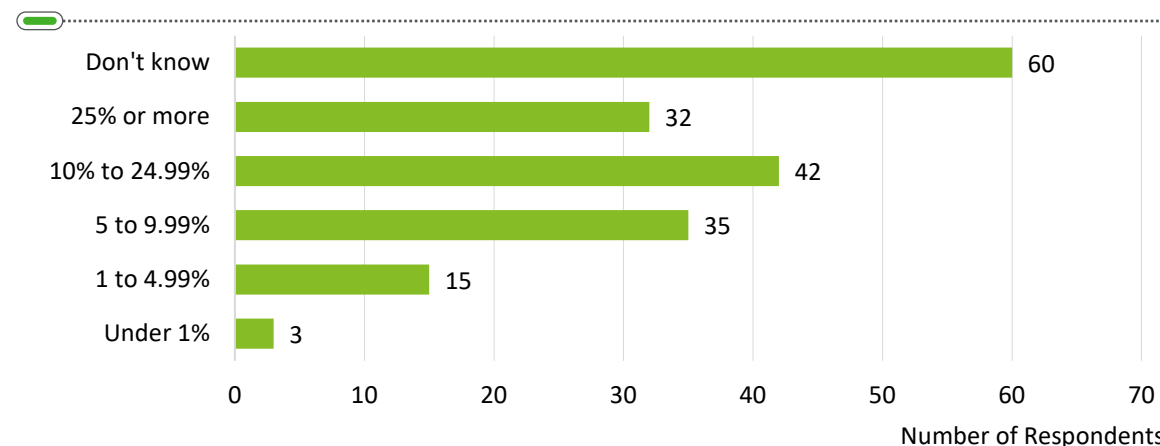
Ambiguity

Uncertainty is a key underlying theme, as many organizations indicate that the regulations' impact on costs, sales and profit remains largely ambiguous.

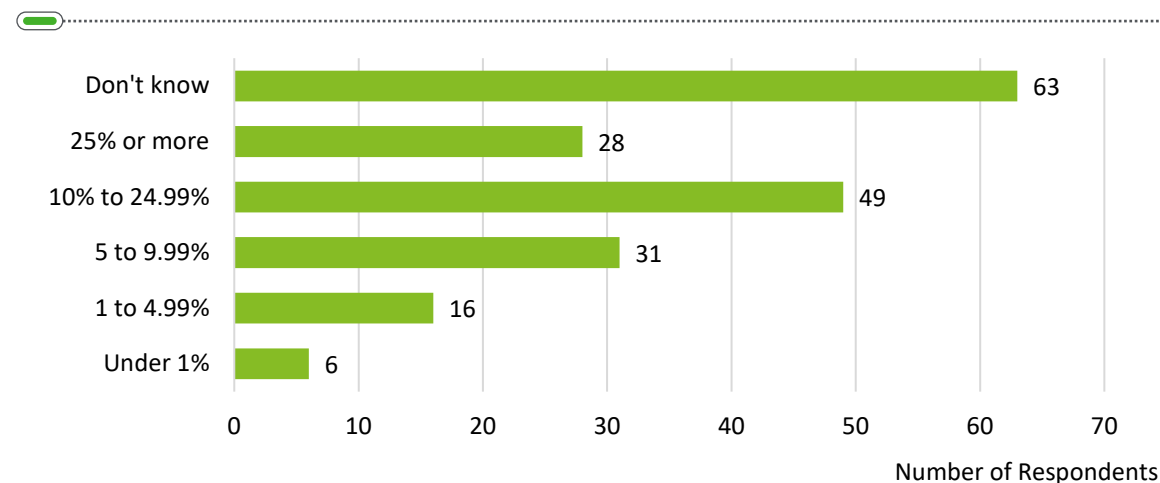
Ambiguity and uncertainty remains a key hindrance:

- 52% of respondents are not aware of the new labelling regulations.
- About 40% of respondents expect a significant increase in costs of 10% or more within the first year. On the other hand, a significantly large portion of respondents (32%) do not know the direct impact of the regulations on expenses.
- Although a large share of organizations (66%) agree that the change in regulation will have a negative impact on employment, for a significant share of organizations the general impact is not known.
- Many businesses do not yet know how many products will require new barcodes due to package size increases, thus leaving many organizations unaware of the true downstream effects of the regulations on operations and product offerings.
- While 47% of respondents indicate that sales will generally decrease by 10% or more, 33% of respondents do not know the potential impact on sales, making it hard to discern the true effect of the regulations.
- The impact on profit margins is similar, with roughly 40% of respondents indicating that profit margins will be negatively affected by 10% or more. However, again roughly 33% of respondents do not know what the regulatory changes will do to their margins.
- The underlying theme among most businesses is the unknown effect the regulations might have on different facets of their organization. While some organizations might be able to pivot, a significant portion of firms will have a difficult time adjusting.

Expected Impact on Costs



Expected Impact on Profit Margins



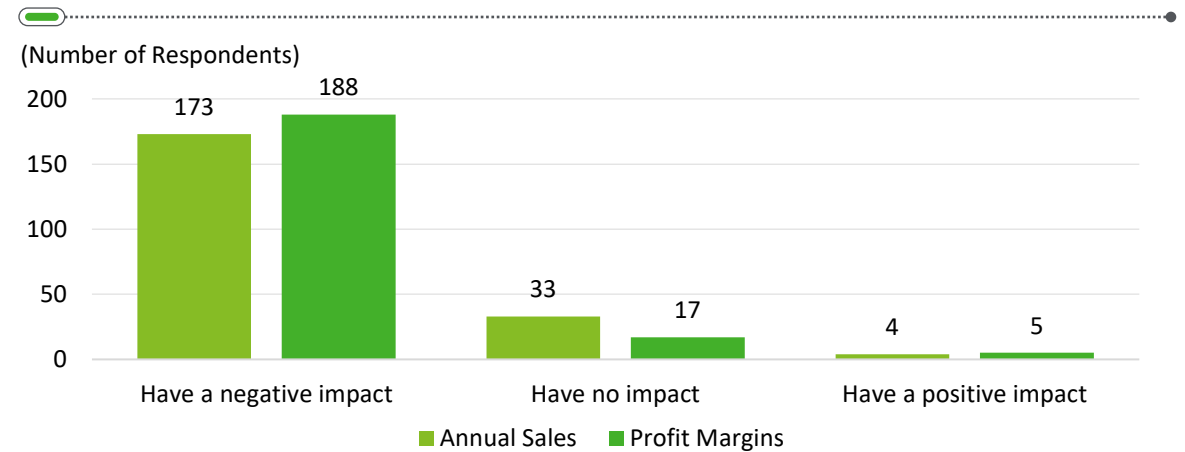
Impact on Business Operations

The new regulations will have a material impact on business operations.

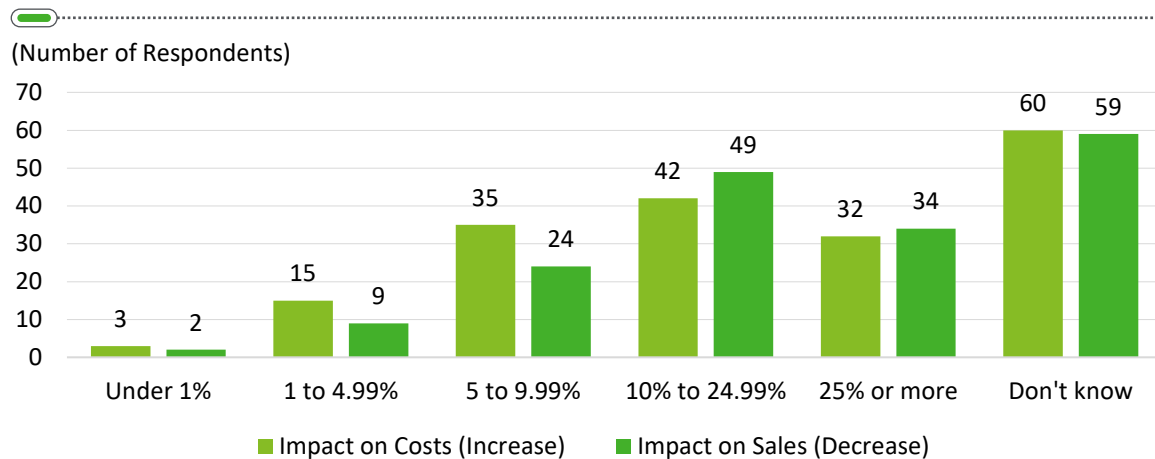
Some key findings:

- 40% of respondents expect costs to increase by 10% or more, while 47% of respondents expect to see sales negatively impacted by 10% or more.
- Overall, 82% of respondents indicate that the new labelling regulations will have a negative impact on sales, while 83% indicate that it will have a negative impact on profit margins.
- Most respondents (70%) indicate that they will have low to very low capacity to absorb costs associated with regulatory changes in the near term. Moreover, 16% of respondents indicate that they did not at all have the capacity to absorb the legislative changes in the near term.

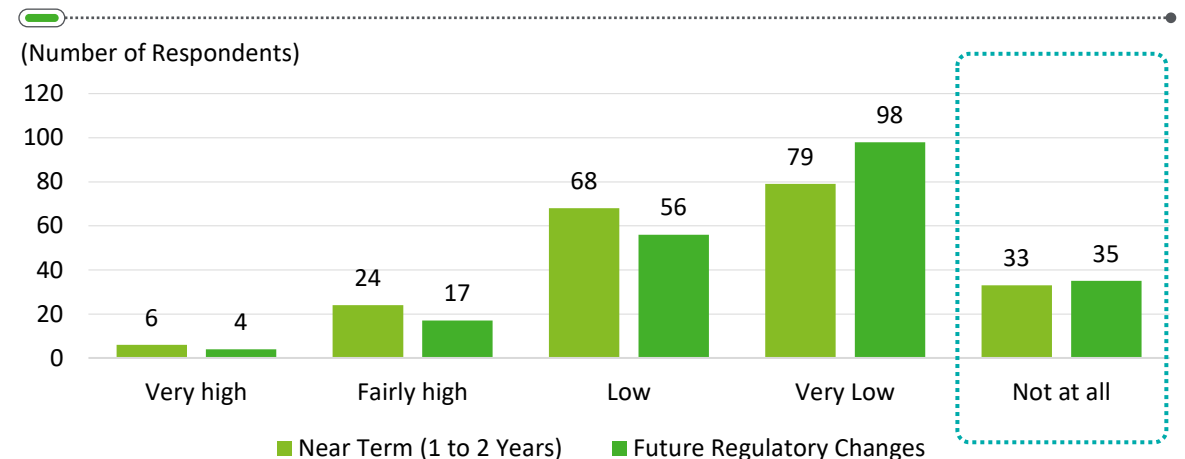
Question 28/30 – Annual Sales and Profit Margin Impacts from New Labelling Regulations



Question 27/29 – Impact on the Overall Cost of Production and Sales



Question 34/35 – What is the Capacity to Absorb Costs Associated with Regulatory Changes



Impact on Employment

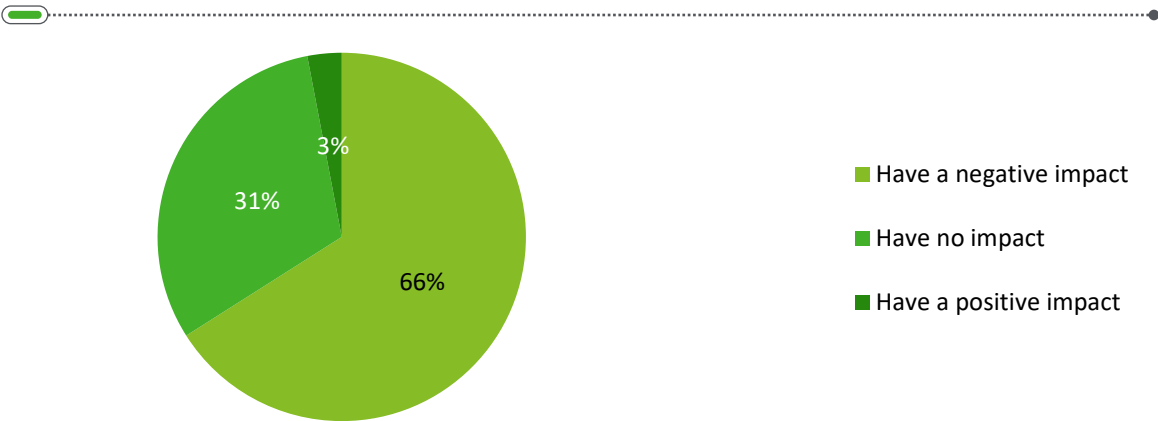
Job losses are expected in the sector from the new regulations.

Industry members indicate that reducing employment is one way in which the sector will cope with the additional costs of the new regulations.

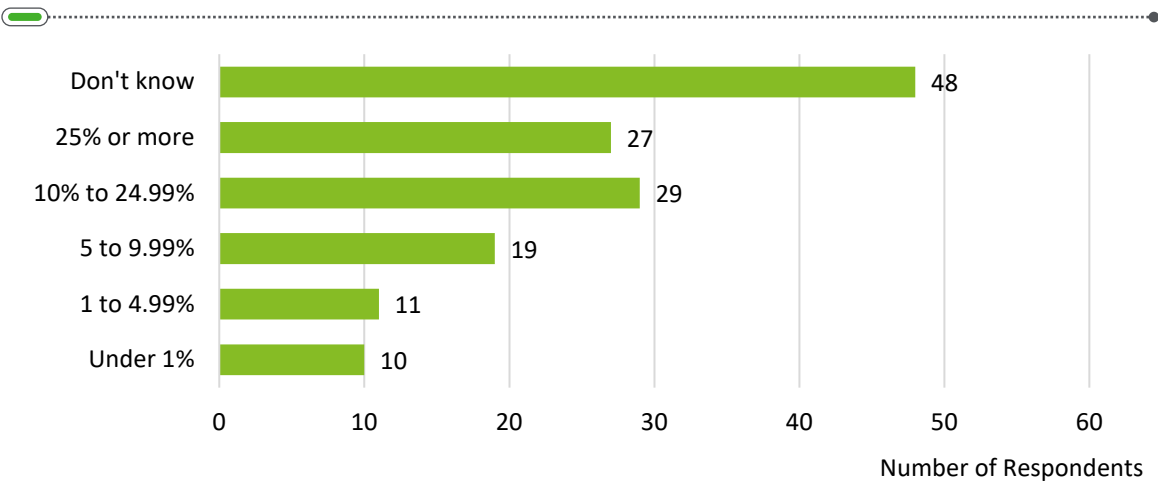
- 66% expect a negative impact on employment
- 39% of respondents expect a decline in employment by 10% or more.

The degree of negative responses to related to employment is a strong indication of the limited ability for businesses to absorb these labelling costs.

Expected Impact on Employment



Expected Decline in Employment



Survey Results – Retailer Breakout



Takeaways:

- Retailers report that regulatory changes will be the most challenging issue to deal with over the next 3-5 years.
- 45% of retailers reported a fairly high chance of removing product offerings.
- An additional 36% of retailers reported a very high chance of removing product offerings.

Retailers – General Profile

Size, Characteristics, and Challenges

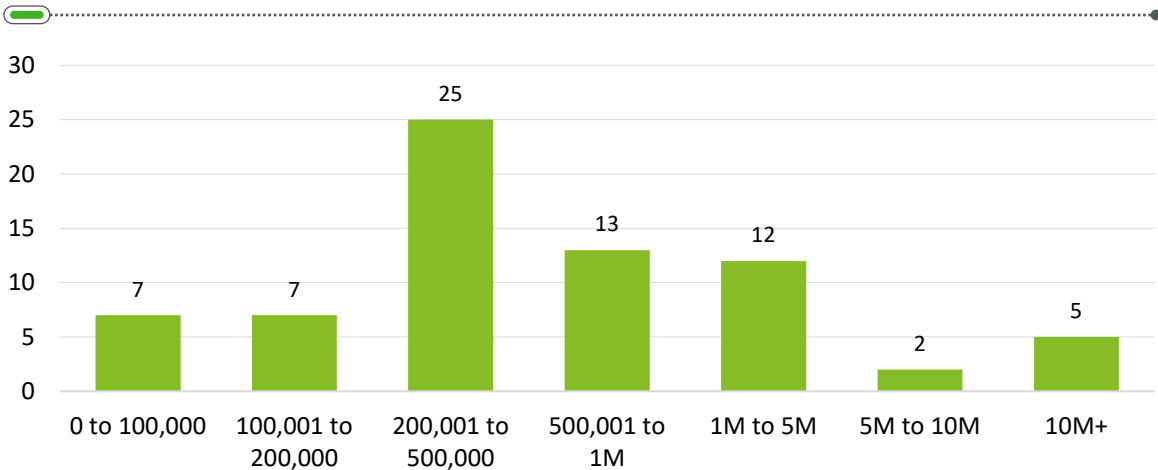
Some key findings:

- 71 respondents are categorized as Retailers.
- A majority of the organizations employ between 1 to 50 employees (92% of responses).
- A majority of the survey respondents are owners/CEOs or management accounting for 86% of responses.
- 87% of firms are either Canadian owned or family run.
- Over 35% of respondents have less than 5 years of global engagement.
- Retailers report that regulatory changes will be the most challenging issue to deal with over the next 3-5 years.

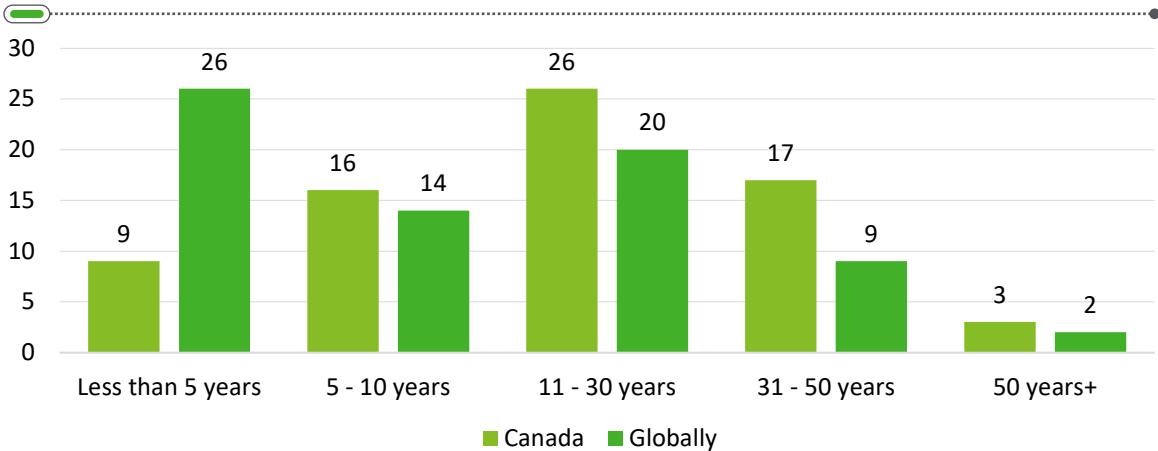
Question 12 – Challenges that Organizations are Expected to Face Within the Next 3 - 5 Years



Question 5 – Annual Total Sales in Canada



Question 9/10 – How Long has your Firm been Engaged in this Industry in Canada and Globally?



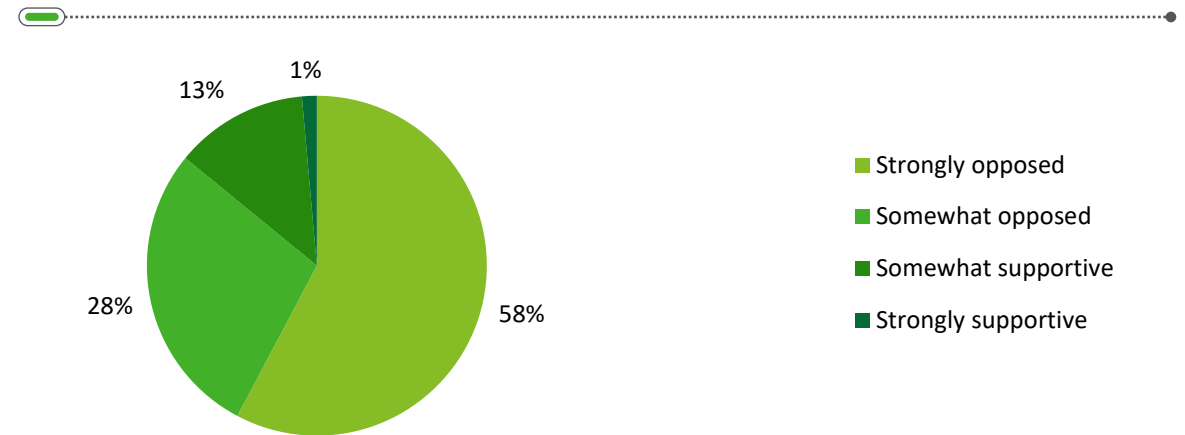
Retailers – New Labelling Regulations

General Perceptions

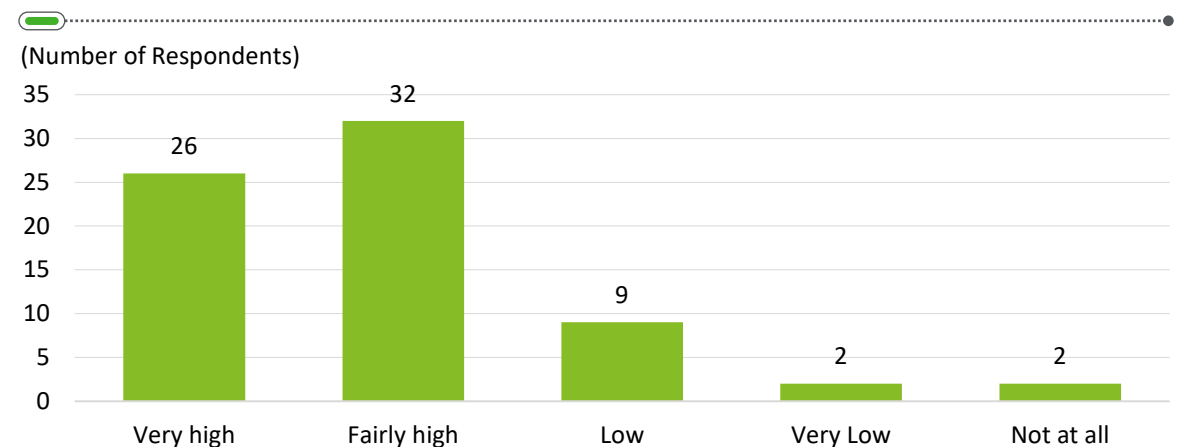
Some key findings:

- 53 respondents (75%) are not aware of the new labelling regulations.
- With respect to support of the legislative change, 41 (58%) are strongly opposed to them and 20 (28%) are somewhat opposed, 9 respondents are somewhat supportive and only 1 strongly supported the new regulations.
- A majority of respondents feel that the overall attractiveness (from a business perspective) of the Canadian market will be impacted by new labelling regulations.
- A majority of respondents believe they will not be able to adopt these regulations without extraordinary measures and that the implementation of the regulatory changes should occur at a more measured pace.
- Less than 6% respondents believe that the impact to the Canadian market will be fairly positive.
- 54 respondents believe that the impact would not be positive for the Canadian market.
- It is likely that the new regulations will cause organizations to remove product offerings:
 - 45% of respondents reported a fairly high chance of removing product offerings.
 - 36% of respondents reported a very high chance of removing product offerings.

Question 16 – Level of Support for New Labelling Regulations



Question 21 – What is the Likelihood That Your Organization Will be Removing Product Offerings?



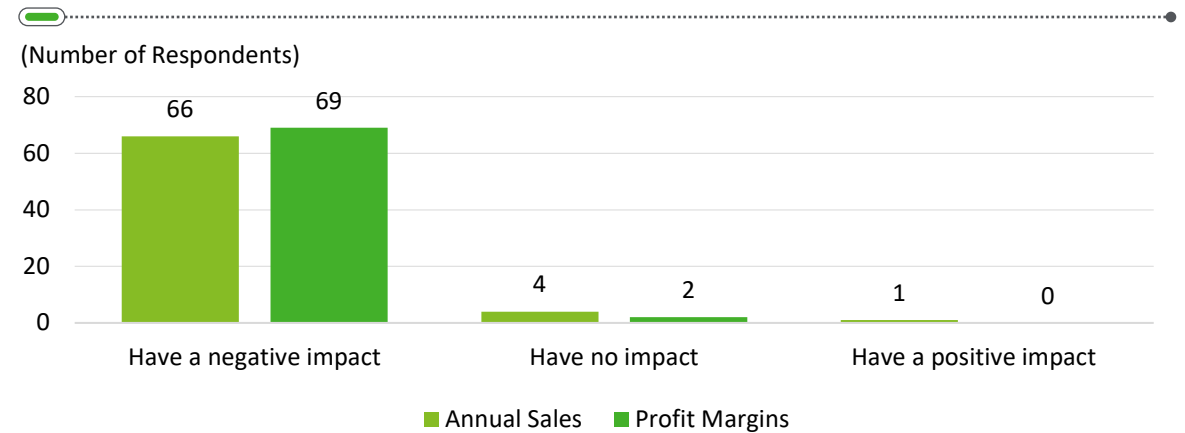
Retailers – Profits and Costs

Impact on Business Operations

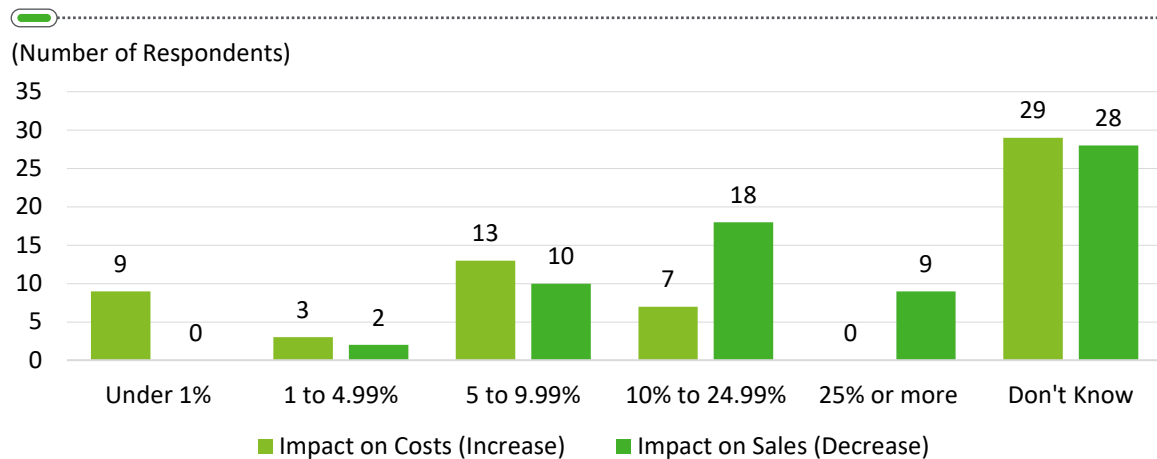
Some key findings:

- Approximately 11% of respondents expect costs to increase by 10% or more, while 40% of respondents expect to see sales negatively impacted by 10% or more.
- Overall, 93% of respondents indicate that the new labelling regulations would have a negative impact on sales, while 97% indicate that it would have a negative impact on profit margins.
- The majority of respondents also indicate that they would have low to very low capacity to absorb costs associated with regulatory changes in the near-term or in the future. About 15% of respondents indicate that they have no capacity to absorb the changes in the near term.

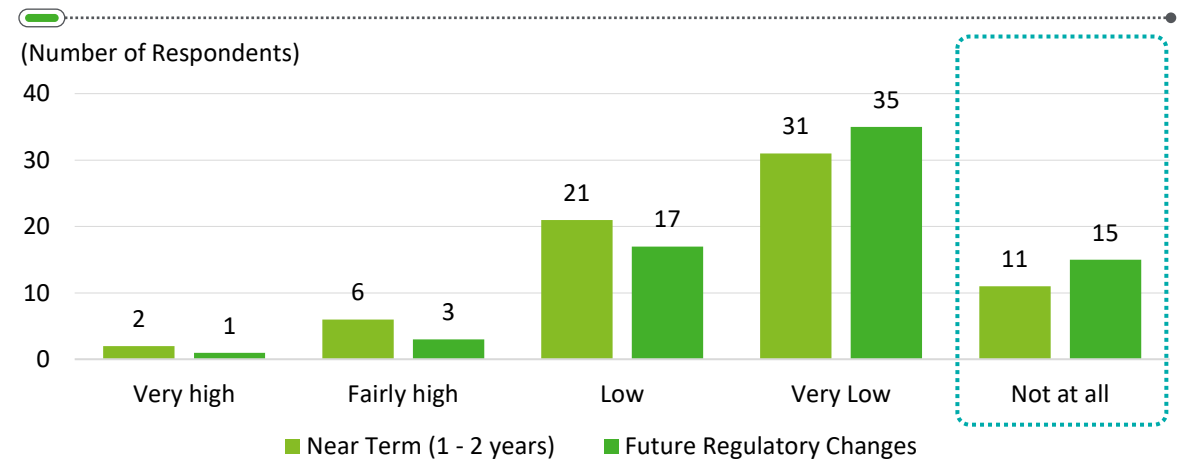
Question 28/30 – Annual Sales and Profit Margin Impacts from New Labelling Regulations



Question 27/29 – Impact on the Overall Cost of Production and Sales



Question 34/35 – What is the Capacity to Absorb Costs Associated with Regulatory Changes



Survey Results – Manufacturing Breakout



Takeaways:

- Manufacturers expect that regulatory changes will be the most challenging issue that they will face over the next 3-5 years.
- Most respondents feel that the overall attractiveness (from a business perspective) of the Canadian market will be impacted by new labelling regulations.
- 50% of respondents expect costs to increase by 10% or more, while 50% of respondents also expect to see sales negatively impacted by 10% or more.

Manufacturers – General Profile

Size, Characteristics, and Challenges

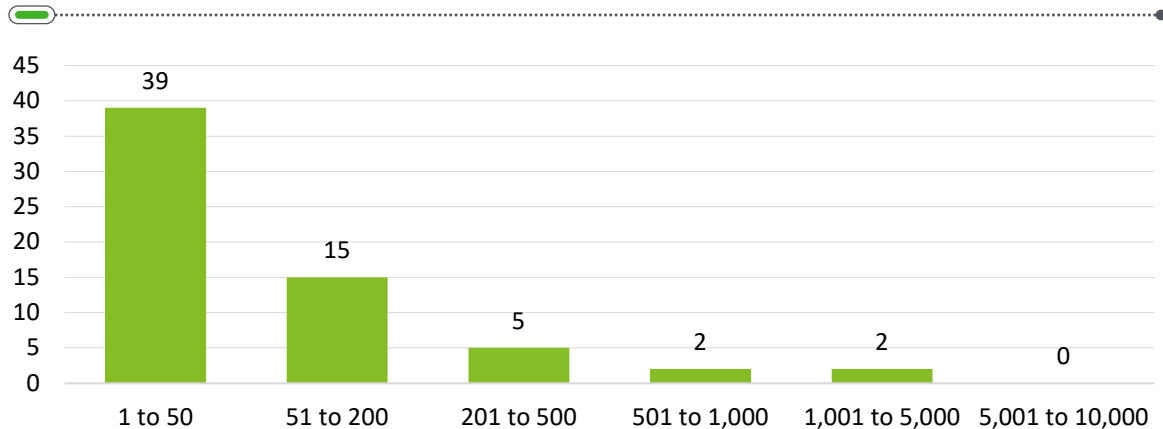
Some key findings:

- 63 respondents are categorized as Manufacturers.
- A majority of the organizations employed between 1 to 50 employees (62% of responses).
- 62% of manufacturers have 50 employees or less, and 94% are considered small and medium sized businesses (1 to 500 employees).
- A majority of the survey respondents were Owners/CEOs or roles within Regulatory Affairs/Quality Assurance (these 2 categories accounted for 71%).
- 52% of these firms are Canadian owned.
- Manufacturers expect that Regulatory Changes will be the most challenging issue that they will face over the next 3-5 years.

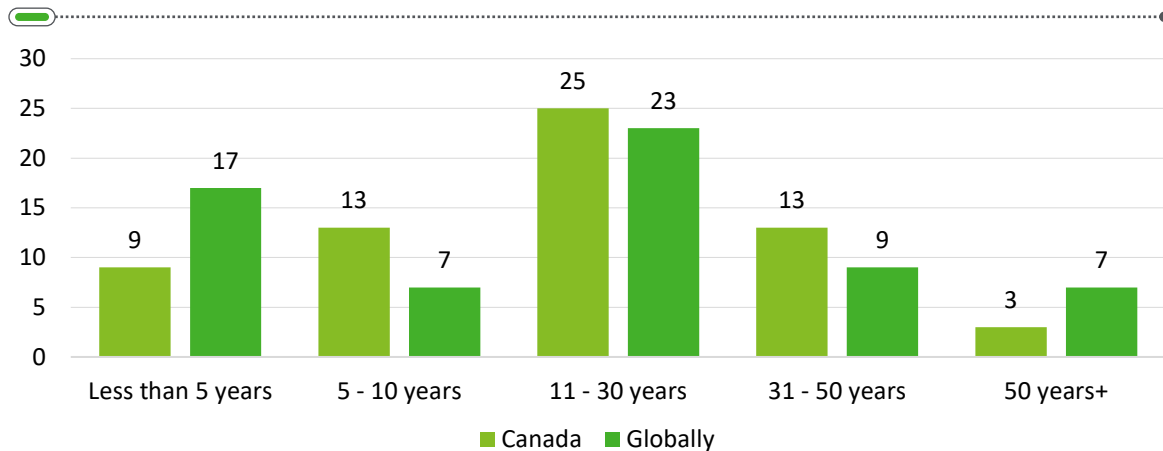
Question 12 – Challenges that Organizations are Expected to Face Within the Next 3 - 5 Years



Question 5 – Total Employees in Canada



Question 9/10 – How Long has your Firm been Engaged in this Industry in Canada and Globally?



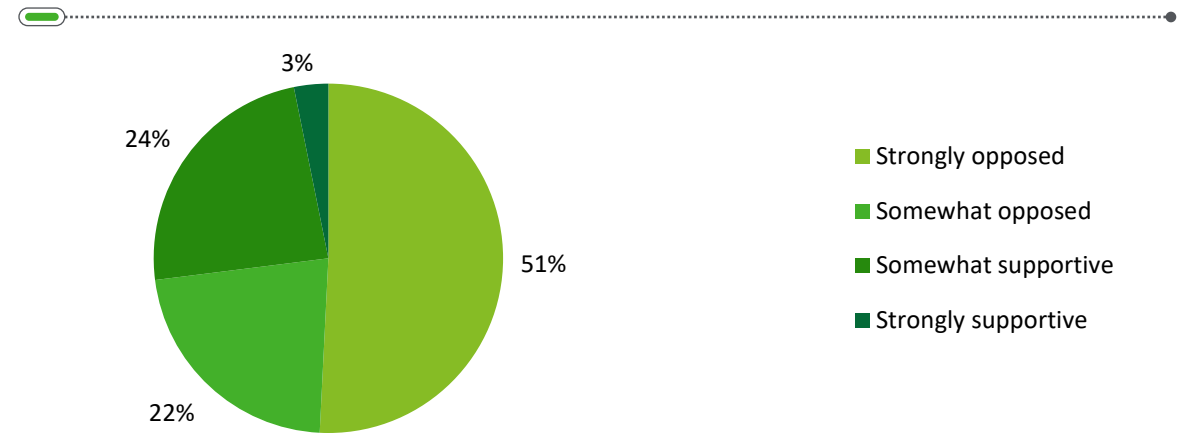
Manufacturers – New Labelling Regulations

General Perceptions

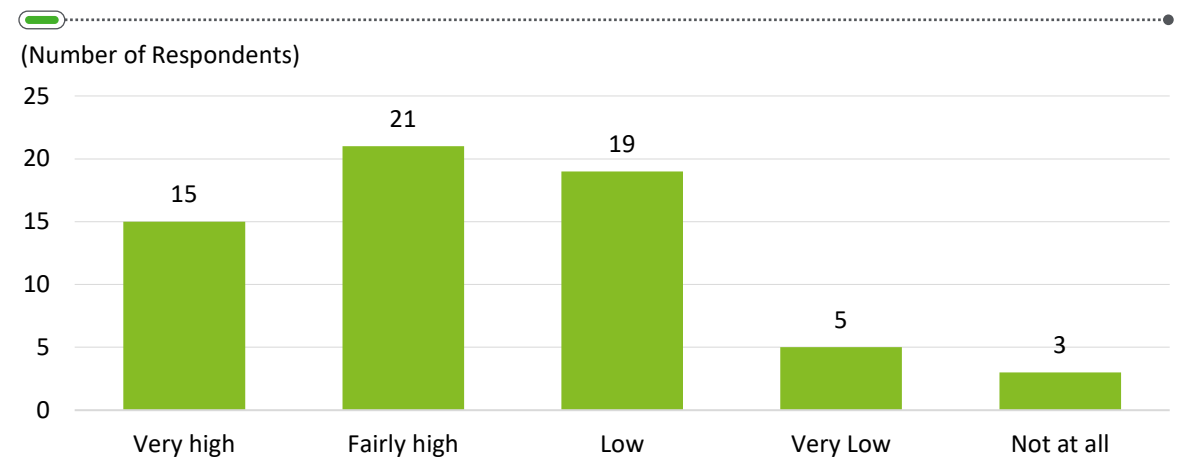
Some key findings:

- 47 respondents (75%) are aware of the new labelling regulations and 32 (51%) are strongly opposed to them while 14 (22%) are somewhat opposed.
- 15 (24%) respondents are somewhat supportive and only 2 strongly supported the new regulations.
- Most respondents feel that the overall attractiveness (from a business perspective) of the Canadian market will be impacted by new labelling regulations.
- Only 2 respondents believe that the impact to the Canadian market will be fairly positive.
- 46 respondents believe that the impact would not be positive.
- A majority of respondents believe they will not be able to adopt these regulations without extraordinary measures and that the implementation of the regulatory changes should occur at a more measured pace.
- 57% of respondents indicate that there was a fairly high to very high likelihood that their organization will be removing product offerings.

Question 16 – Level of Support for New Labelling Regulations



Question 21 – What is the Likelihood that your Organization will be Removing Product Offerings?



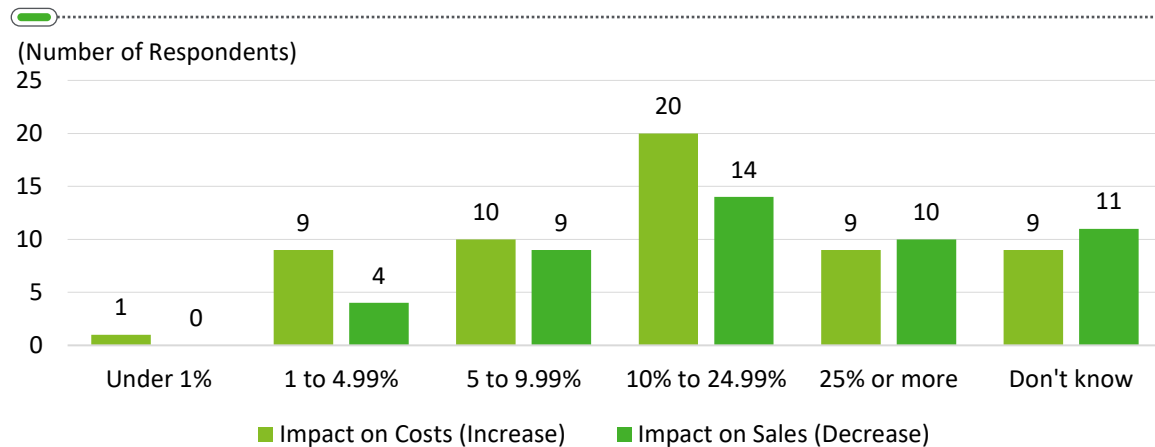
Manufacturers – Profits and Costs

Impact on Business Operations

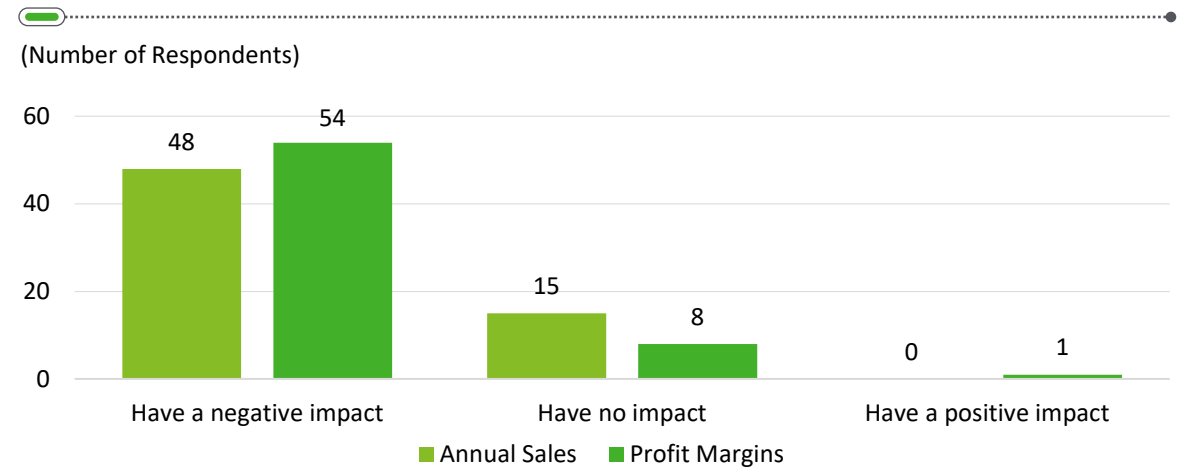
Some key findings:

- In implementing the regulatory changes, the majority of industry respondents indicate that the most expensive element of compliance will be the additional costs associated with packaging and labelling of products.
- 50% of respondents expect costs to increase by 10% or more, while 50% of respondents also expect to see sales negatively impacted by 10% or more.
- Overall, 76% and 86% of respondents indicate that the new labelling regulations would have a negative impact on sales.
- A majority of respondents also indicate that they would have low to very low capacity to absorb costs associated with regulatory changes. Approximately 10% do not have any capacity to absorb the regulatory changes.

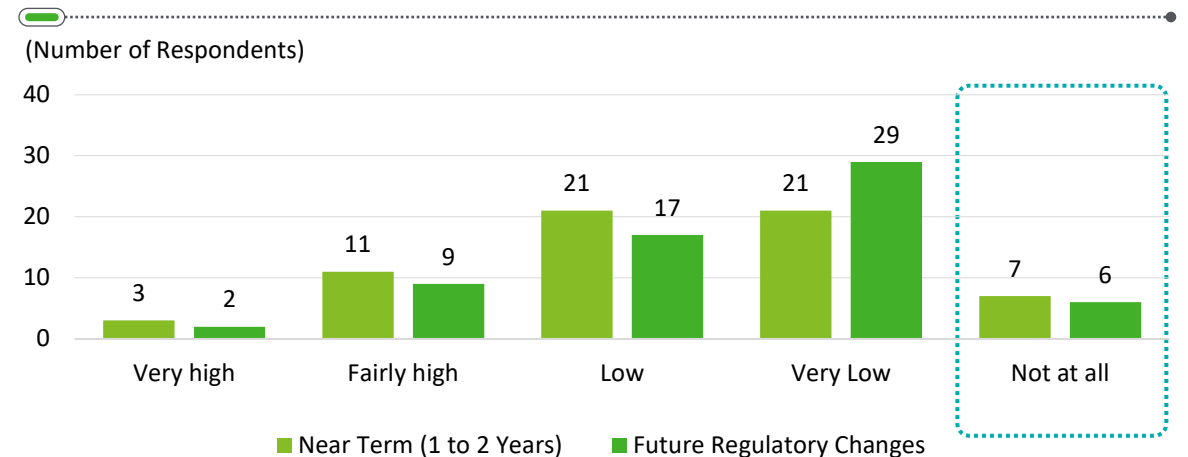
Question 27/29 – Impact on the Overall Cost of Production and Sales



Question 28/30 – Annual Sales and Profit Margin Impacts from New Labelling Regulations



Question 34/35 – What is the Capacity to Absorb Costs Associated with Regulatory Changes



Survey Results – Distributor Breakout



Takeaways:

- Distributors report that regulatory changes will be the most challenging issue that they expect to face.
- Overall, a majority of respondents indicate that the new labelling regulations would have a negative impact on sales and have a negative impact on profit margins.
- A majority of respondents indicate that they would have low to very low capacity to absorb costs associated with regulatory changes in the near term.

NHP Distributors – General Profile

Size, Characteristics, and Challenges

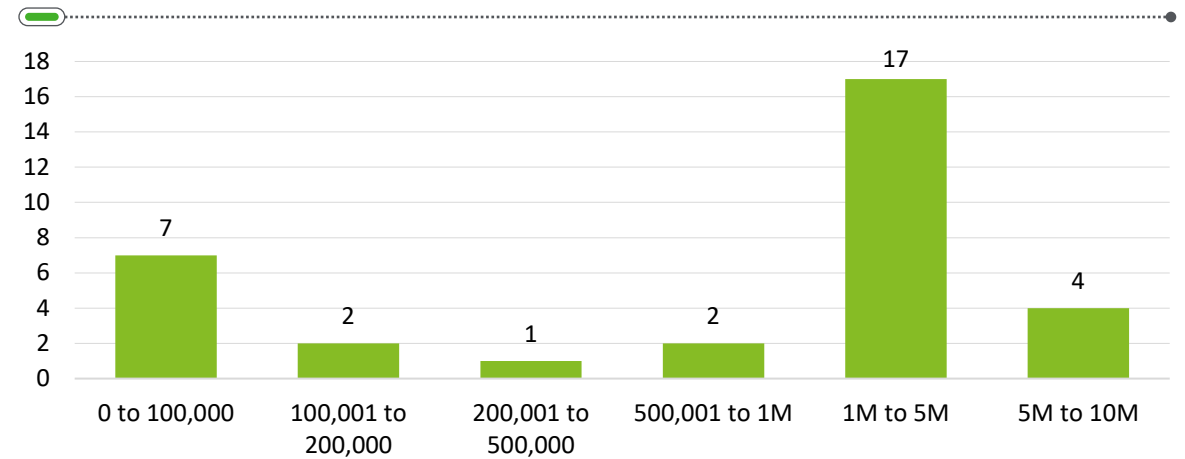
Some key findings:

- 60 respondents are categorized as NHP Distributors.
- A majority of the organizations employed between 1 to 50 employees (63% of responses).
- A majority of the survey respondents are Owners/CEOs or roles within Regulatory Affairs/Quality Assurance (these 2 categories accounted for 66%).
- 48% of these firms are Canadian owned.
- Over 16% of respondents are engaged globally for over 50 years.
- These organizations report that regulatory changes will be the most challenging issue that they expect to face.

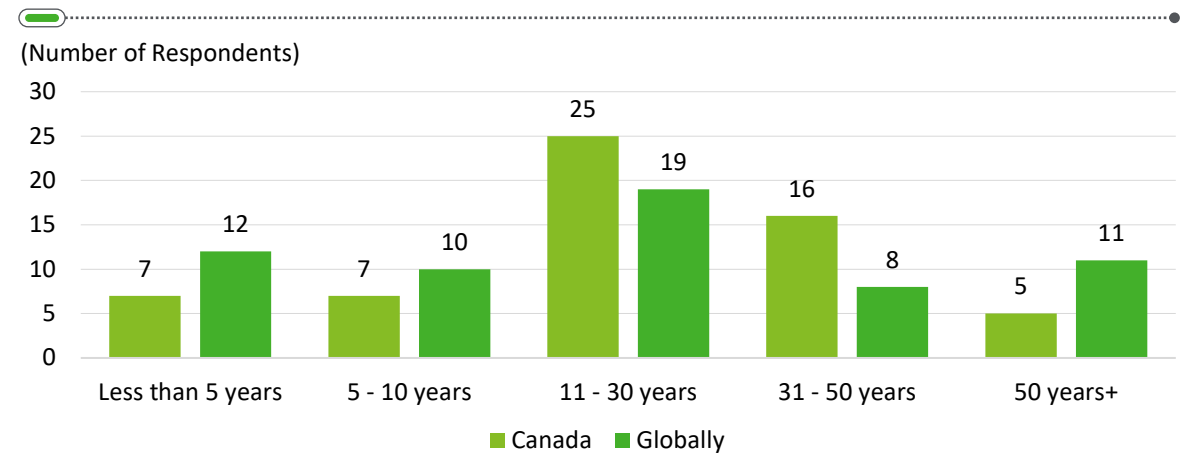
Question 12 – Challenges that Organizations are Expected to Face Within the Next 3 - 5 Years



Question 5 – Annual Total Sales in Canada



Question 9/10 – How Long has your Firm been Engaged in this Industry in Canada and Globally?



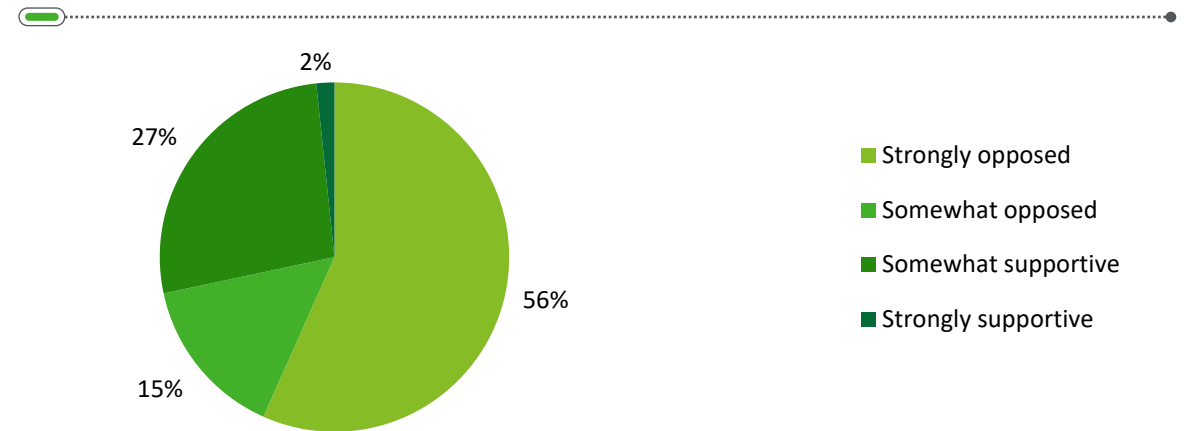
NHP Distributors – New Labelling Regulations

General Perceptions

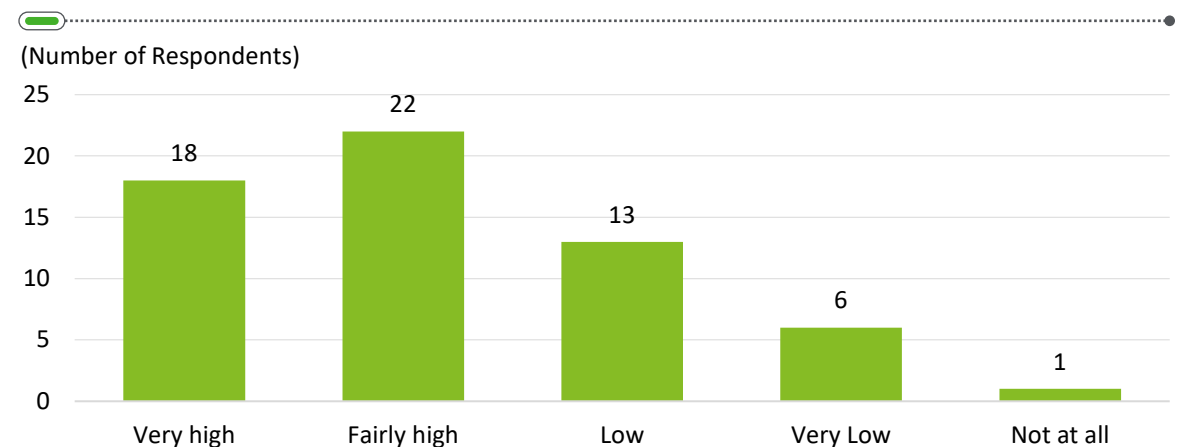
Some key findings:

- 45 respondents (75%) are aware of the new labelling regulations and 34 (56%) are strongly opposed to them, while 9 (15%) are somewhat opposed.
- 16 (27%) respondents are somewhat supportive and only 1 strongly supported the new regulations.
- A majority (80%) of respondents feel that the overall attractiveness (from a business perspective) of the Canadian market will be impacted by new labelling regulations.
- Only one respondent believed that the impact on the Canadian market would be fairly positive.
- 47 respondents believe that the impact would not be positive.
- 40 respondents expect that their organization will incur significant costs for new machinery/equipment, software, and processes to be compliant.
- 66% of respondents indicate that there is a high likelihood that their organization will be removing product offerings due to the new labelling regulations. Furthermore, 63% of respondents believe there will be a negative overall impact on employment.
- In addition, 41 respondents agreed that “the new regulatory changes are difficult to implement because they touch upon many different areas of our business process and are cost prohibitive”.

Question 16 – Level of Support for New Labelling Regulations



Question 21 – What is the Likelihood that your Organization will be Removing Product Offerings?



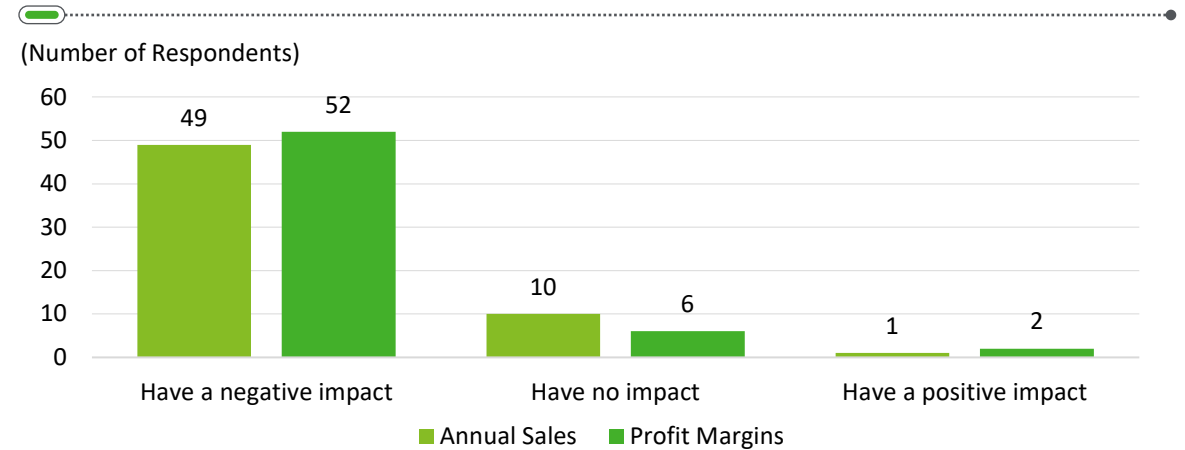
NHP Distributors – Profits and Costs

Impact on Business Operations

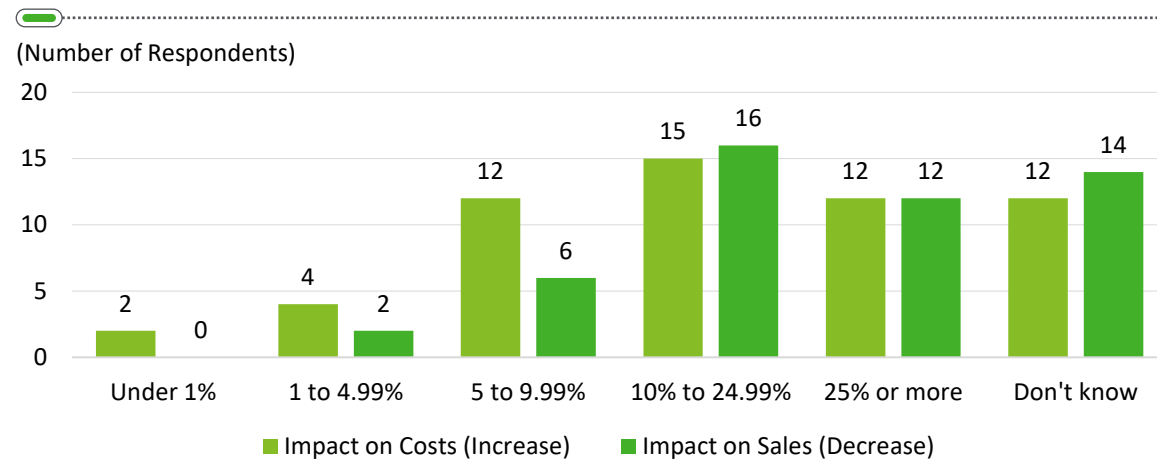
Some key findings:

- 47% of respondents expect costs to increase by 10% or more, while 56% of respondents expect to see sales negatively impacted by 10% or more.
- Overall, 82% of respondents indicate that the new labelling regulations would have a negative impact on sales, while 87% indicate that it would have a negative impact on profit margins.
- Majority of respondents (72%) indicate that they would have low to very low capacity to absorb costs associated with regulatory changes in the near term. Moreover, 15% of respondents indicate that they did not at all have the capacity to absorb the legislative changes in the near term.

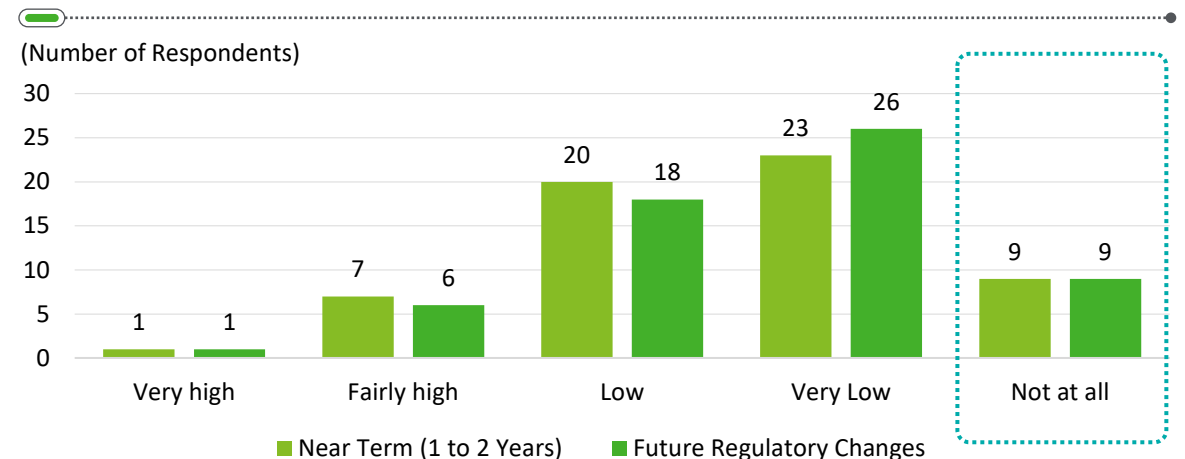
Question 28/30 – Annual Sales and Profit Margin Impacts from New Labelling Regulations



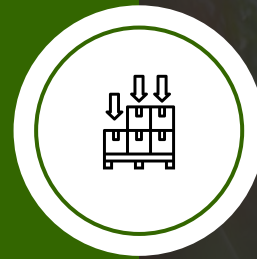
Question 27/29 – Impact on the Overall Cost of Production and Sales



Question 34/35 – What is the Capacity to Absorb Costs Associated with Regulatory Changes



Survey Results – Importer Breakout



Takeaways:

- The most challenging issues that organizations in this industry expect to face are regulatory changes.
- A majority of respondents are aware of the new labelling regulations and are strongly opposed to them.
- A majority of respondents indicate that there is a high likelihood that their organization will be removing product offerings due to the new labelling regulations.

Importers – General Profile

Size, Characteristics, and Challenges

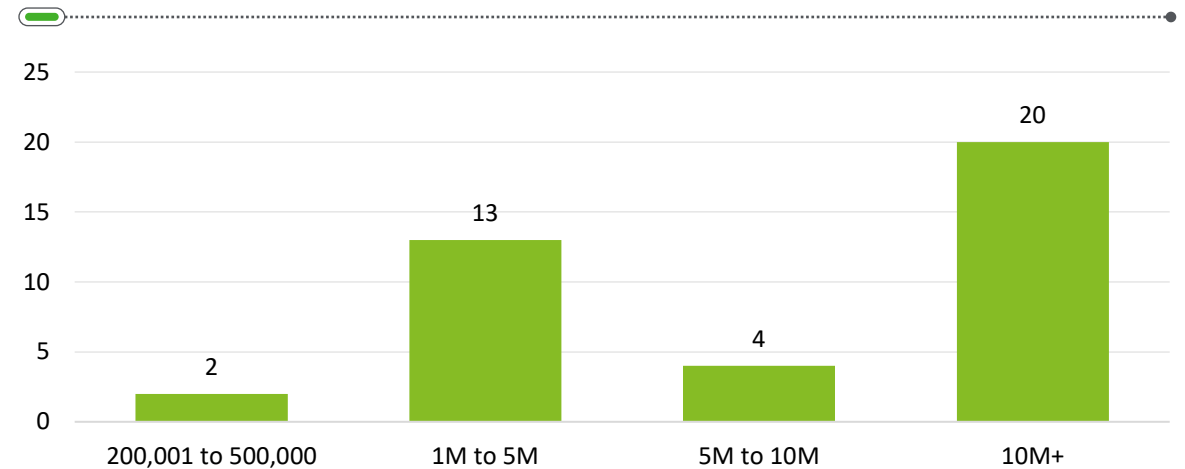
Some key findings:

- 39 respondents are categorized as Importers.
- A majority of the organizations employed between 1 to 50 employees (59% of responses).
- A majority of the survey respondents are Owners/CEOs or roles within Regulatory Affairs/Quality Assurance (these 2 categories accounted for 64%).
- 51% of these firms are Canadian owned.
- A large portion of firms are engaged in the industry between 11 and 30 years (48%).
- The most challenging issues that organizations in this industry expect to face are regulatory changes.

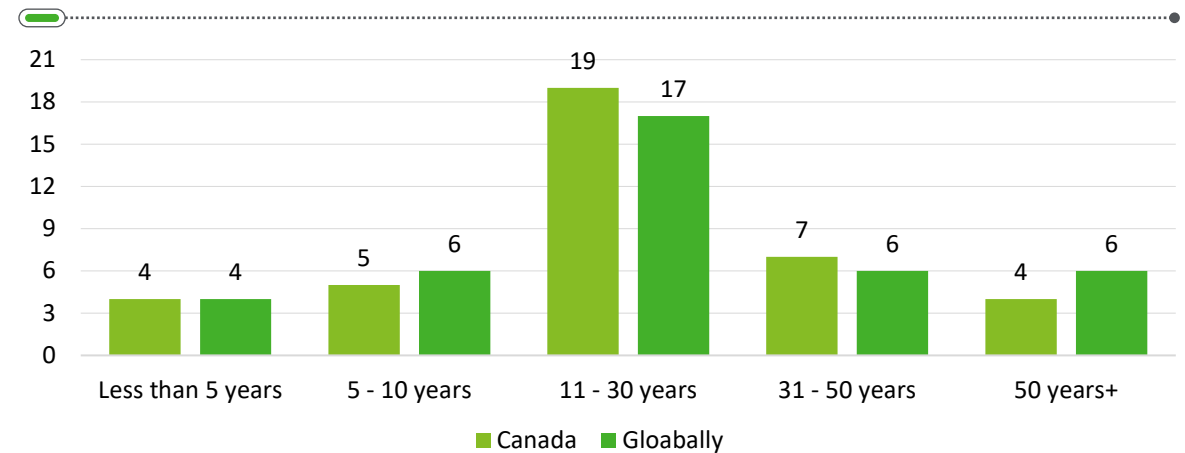
Question 12 – Challenges that Organizations are Expected to Face Within the Next 3 - 5 Years



Question 5 – Annual Total Sales in Canada



Question 9/10 – How Long has your Firm been Engaged in this Industry in Canada and Globally?



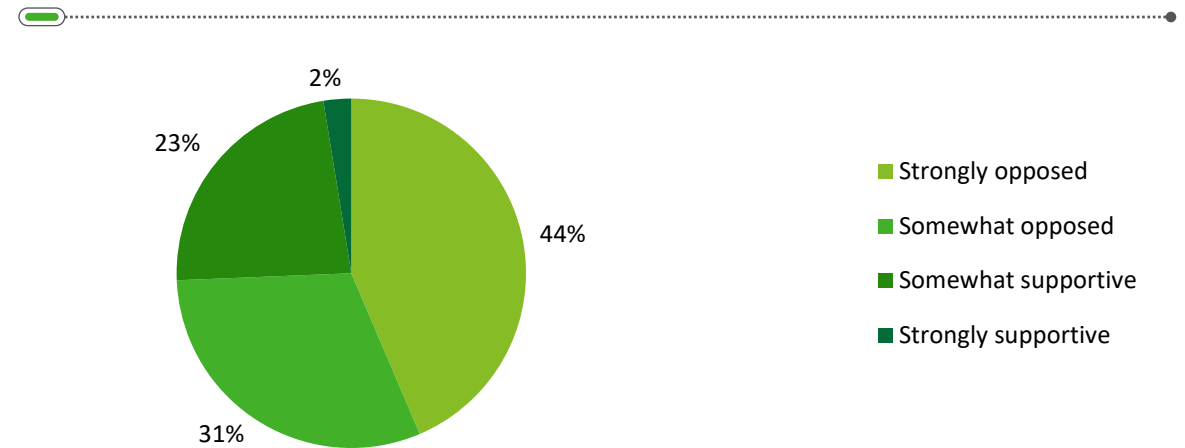
Importers – New Labelling Regulations

General Perceptions

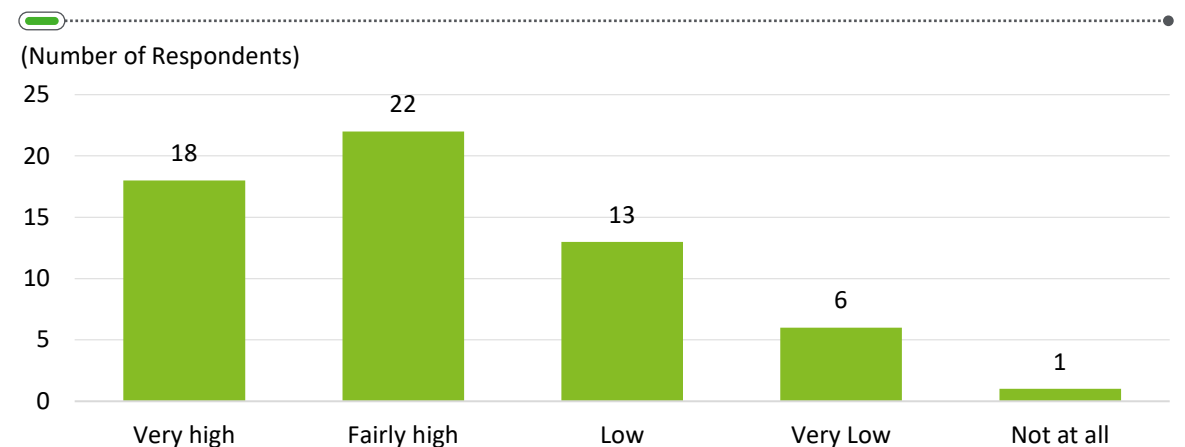
Some key findings:

- 32 respondents (82%) are aware of the new labelling regulations and 17 (44%) are strongly opposed to them, while 12 (31%) are somewhat opposed.
- 9 (23%) respondents are somewhat supportive and only 1 strongly supported the new regulations.
- A majority (74%) of respondents feel that the overall attractiveness (from a business perspective) of the Canadian market will be impacted by new labelling regulations.
- Only one respondent believed that the impact on the Canadian market would be fairly positive.
- 28 respondents believe that the impact would not be positive.
- 24 respondents expect their organization to incur significant costs for new machinery/equipment, software, and processes to be compliant.
- 71% of respondents indicate that there is a high likelihood that their organization will be removing product offerings due to the new labelling regulations. Furthermore, 59% of respondents believe there will be a negative overall impact on employment.
- In addition, 24 respondents agreed that *“The new regulatory changes are difficult to implement because they touch upon many different areas of our business process and are cost prohibitive”*.

Question 16 – Level of Support for New Labelling Regulations



Question 21 – What is the Likelihood that your Organization will be Removing Product Offerings?



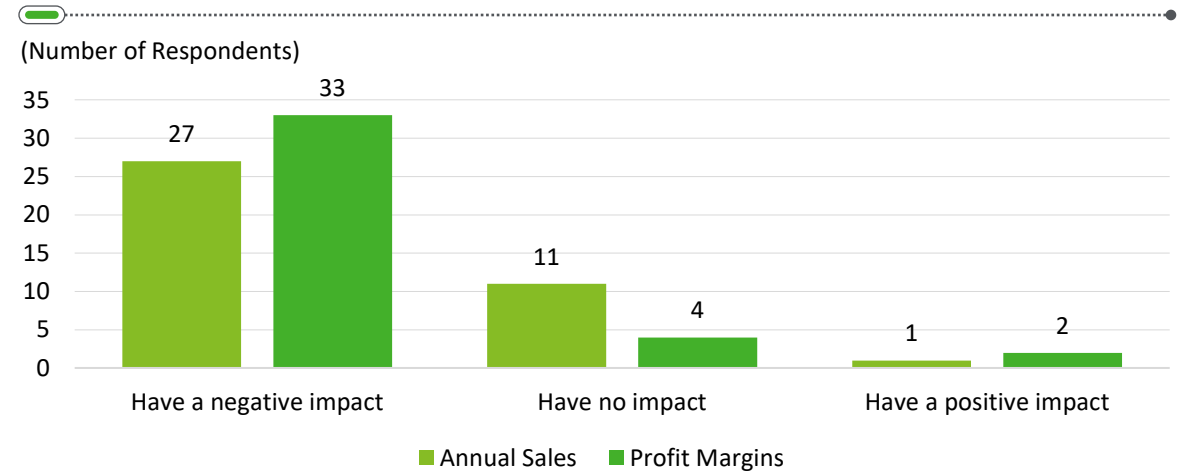
Importers – Profits and Costs

Impact on Business Operations

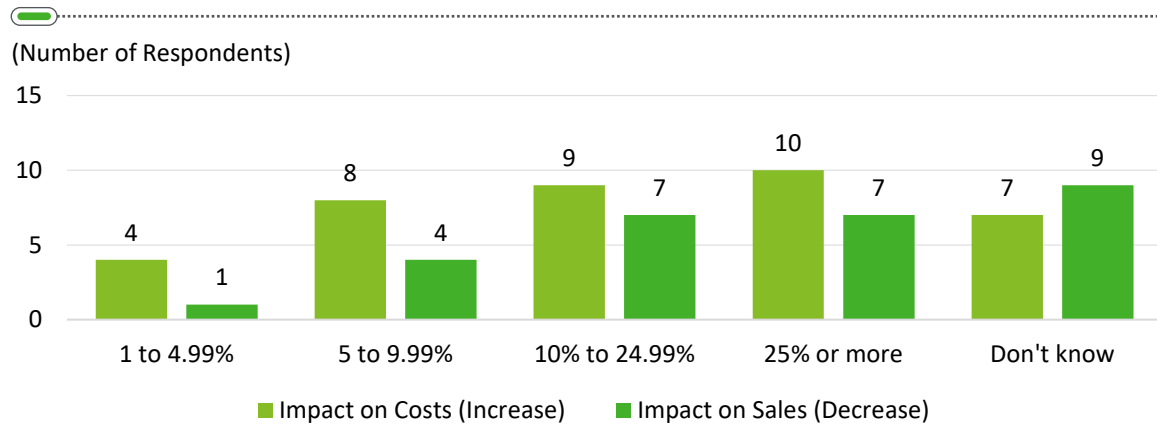
Some key findings:

- In implementing the regulatory changes, a majority of respondents indicate that the most expensive element of compliance will be the additional costs associated with packaging and labelling of products.
- 34% of respondents expect costs to increase by more than 10%, while 38% of respondents expect to see sales negatively impacted by 10% or more.
- Overall, 69% of respondents indicate that the new labelling regulations would have a negative impact on sales, while 85% indicate that it would have a negative impact on profit margins.
- A majority of respondents (72%) indicate that they will have low to very low capacity to absorb costs associated with regulatory changes in the near term. In addition, 13% of respondents indicate that they have no capacity to absorb the current legislative changes.

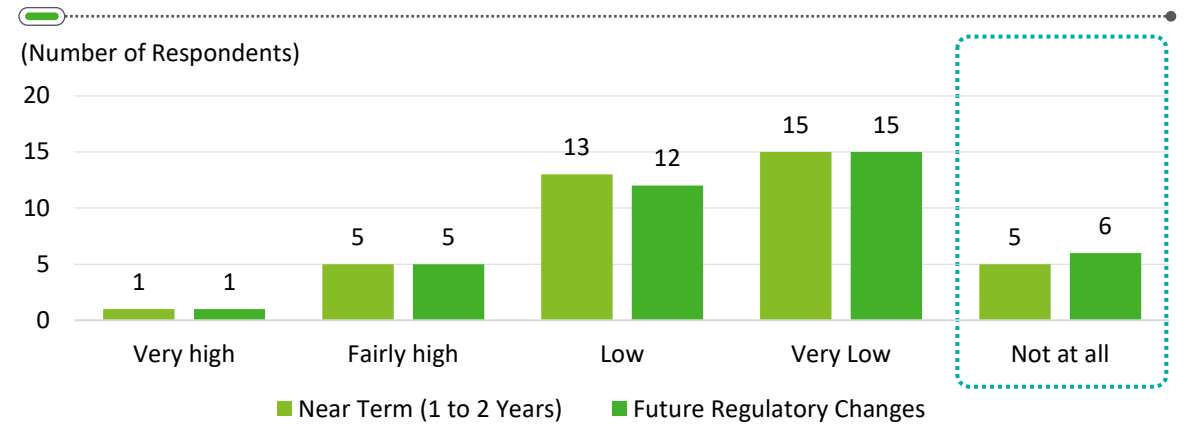
Question 28/30 – Annual Sales and Profit Margin Impacts from New Labelling Regulations



Question 27/29 – Impact on the Overall Cost of Production and Sales



Question 34/35 – What is the Capacity to Absorb Costs Associated with Regulatory Changes



Conclusion



Takeaways:

- The Natural Health Product Sector has seen rapid growth over the last decade.
- However, the consequences of new regulations are expected to be severe.
- In response to these regulatory initiatives, industry members indicate that they are likely to reduce product offerings and employment, and in the extreme case shut down operations.

Bottom Line

Severe Consequences from the New Labelling Regulations

The Natural Health Product Sector has seen rapid growth over the last decade. In fact, it has achieved an impressive 8.2% average annual growth in Canadian sales from 2007 to 2021, which is almost 150% higher (or 2.5 times more) than growth in overall consumer purchases. Exports have seen a similar performance increasing by a rapid 7 per cent, far outpacing the rest of the non energy exports.

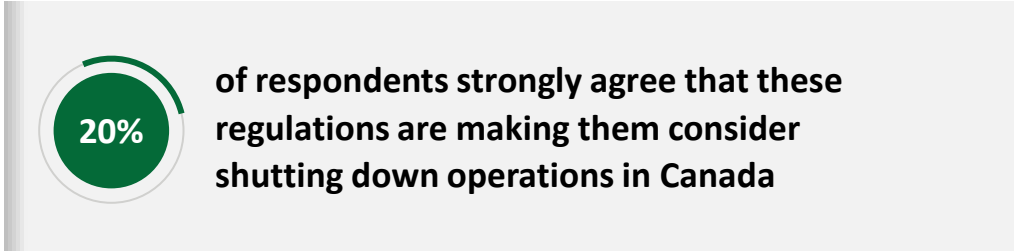
However, the consequences of new regulations are expected to be severe. The industry is comprised of mainly small businesses which have limited capacity to absorb the costs associated with the drastic changes proposed by the new labelling regulations. **These regulatory measures as well as future proposed measures have placed the sector in a dire situation.** A large portion of firms indicate that they have no capacity at all to absorb the additional costs.

In response to these regulatory initiatives, industry members indicate that **reducing employment** will be a measure taken to help cope, whereby a significant portion of firms indicate that they will be cutting 10% or more of their staff.

Industry members also indicate other means of coping, such as **reducing product offerings, or shutting down operations**, which will not only harm Canadian consumers, but also the broader economy.

According to industry members, the impacts of the new regulations are quite severe, and will result in far-reaching consequences. The policy will result in material disruption to the sector and the broader economy. **According to survey results, the new regulations are highly likely to produce a loss of product offerings, a loss of businesses, and job losses.** Given that alternative government policies are available which can achieve the same underlying objectives, reconsideration and/or adjustment of the current policy is warranted.

The Dire Negative Impacts





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