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Canada

Potatoes and Potato Products Annual

2013

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Report Highlights:
Planted areas declined this year as a result of a reduction in the demand for processing potatoes, a stagnant demand for table potatoes and growers' decision to cut back production following a year of oversupply and depressed prices. Yields will turn out well across the country, despite capricious weather conditions at various stages of production. Post forecasts an increase in exports and a decline in imports of fresh potatoes, while the frozen french fry sector continues to run steadily.

Executive Summary

- Statistics Canada reported a 3.2 percent decline in planted areas, down to 146,340 hectares from 151,115 hectares during marketing year (MY) 2012/13, as Canadian growers decided to scale back production following a year of oversupply and depressed prices. Yields are expected to average at good levels across the country, despite negative weather conditions at various stages of production in various provinces.

- Based on these trends, Post forecasts a 3 percent decline in the production of fresh potatoes, down to 4,450,000 metric tons (MT) during MY 2013/14, compared to 4,590,296 MT recorded in MY 2012/13.

- The size of the Canadian market for fresh potatoes destined to processing remains more than three times the size of the market for fresh table potatoes. This is due to the fact that large processing companies produce frozen french fries and other processed potato products (such as chips) for various export markets around the world. In Canada, the consumption of fresh potatoes has been on a slow decline over the past decade, but seems to have stabilized in the last few years around 23-25 kg per person per year.

- Post forecasts fresh potato consumption at 810,000 MT for MY 2013/14, up 1.3 percent compared to one year earlier. Post also forecasts a 5 percent decline in the potato processing market, down to 2,800,000 MT, as a result of a decline in the volume of processing contracts.

- Imports of fresh potatoes are forecast to decline during MY 2013/14, while exports are expected to increase, given that potato production is also scaling back in the United Sates, Canada's major trading partner, and the world supply of fresh potatoes is expected to be relatively tight. This follows after a year when imports increased by 45 percent and exports declined by close to 11 percent, both trends primarily caused by an oversupply of potatoes in North America.

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- The production of frozen french fries is expected to decline, following a year of solid growth, as processing plants are scaling back to match a steady demand. Post forecasts the french fry production during MY 2013/14 at 1,150,000 MT, down from an estimated level of 1,205,882 MT one year earlier. Exports and domestic consumption of french fries are expected to remain relatively flat at 905,000 MT for exports and 245,000 MT for consumption.

- Canada's top potato producing provinces in order are Prince Edward Island, Manitoba, Alberta, New Brunswick, Quebec, and Ontario. Combined, the six provinces account for 95 percent of total Canadian potato production. Across all regions, potatoes are mostly planted in late April and May. The harvest of early varieties begins in August but the main harvest is the mid-September to late October period. They are marketed from storage facilities to fresh and processing markets over the following ten months.

- Potato yields tend to be in the 275-300 cwt/acre range (or 31-34 MT/ha) in the Atlantic Provinces and Manitoba, and in the 200-265 cwt/acre range (or 22-30 MT/ha) in Central Canada (Ontario and Quebec). In Alberta yields are typically higher, up to 340 cwt/acre (or 38 MT/ha), given that irrigation is used extensively.

FRESH POTATOES

CANADA: FRESH Potatoes - Area, Production, Consumption, Trade						
Marketing Year: July/June	MY2008/09	MY2009/10	MY2010/11	MY2011/12	MY2012/13	MY2013/14*
Area planted (hectares)	153,746	149,699	144,478	145,894	151,115	146,340
Area harvested (hectares)	151,115	145,571	139,217	141,159	148,687	144,000
Production (metric tons)	4,697,482	4,574,964	4,406,860	4,189,994	4,590,296	4,450,000
Imports (metric tons)	167,795	219,906	243,661	217,553	315,551	250,000
Exports (metric tons)	440,672	372,064	517,744	363,542	324,848	375,000
Domestic Disappearance** (metric tons), of which:	4,424,605	4,422,806	4,132,777	4,044,005	4,580,999	4,325,000
Fresh Consumption	*851,170*	*862,380*	*857,990*	*760,570*	*800,000*	*810,000*
For Processing	*2,888,440*	*2,858,830*	*2,606,360*	*2,680,540*	*2,950,000*	*2,800,000*
*Other****	*684,995*	*701,596*	*668,427*	*602,895*	*830,999*	*715,000*

Source: Statistics Canada, Global Trade Atlas & Post Estimates

* Except for plantings, all 2012/13 data are post forecasts

**All data are Post estimates derived from available Statistics Canada information

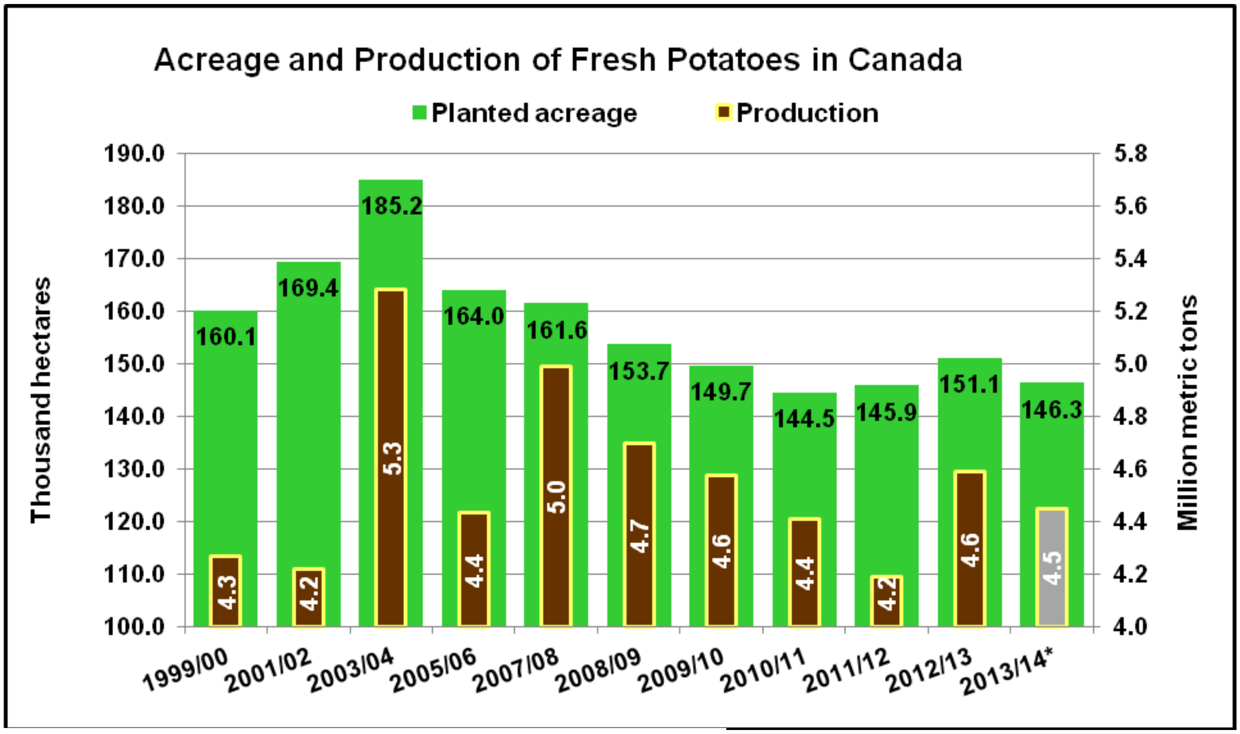
***Includes waste, animal feed and change in stocks

Production

Post forecasts a 3 percent decline in the production of fresh potatoes, down to 4,450,000 metric tons (MT) during MY 2013/14, compared to 4,590,296 MT recorded in MY 2012/13. The underlying factors behind this estimate are reduced areas planted to potatoes and yields expected to fall within good to average levels.

Planting data released by Statistics Canada showed that areas seeded to potatoes in 2013 were down 3.2 percent at the national level compared to 2012 plantings. Planted areas declined this year as a result of a reduction in the demand for processing potatoes, a stagnant demand for table potatoes and growers' decisions to cut back production following a year of oversupply and depressed prices. This trend follows two consecutive years of expansion in the sector, after a five year decline experienced from 2005/06 through 2010/11.

The majority of Canadian provinces experienced a reduction in planted areas, including: Alberta by 6.6 percent, Manitoba by 5.3 percent, New Brunswick by 4.7 percent and Ontario by 4.5 percent. In Prince Edward Island (P.E.I.), plantings remained basically flat, with a minor 0.5 percent reduction, while Quebec was the only province experiencing an increase in areas seeded to potatoes by 3.1 percent. At national level, 146,340 hectares were planted with potatoes in 2013, compared to 151,115 hectares planted in 2012.



Source: Statistics Canada / *Post forecast for production

Yields, on the other side, are expected to average at good levels across the country, despite negative weather conditions at various stages of production in various provinces.

For instance, P.E.I. growers had a good start to seeding but the subsequent arrival of cool, damp conditions caused seed rot and a need for re-seeding in some areas. During the summer, several regions on the island experienced hot and dry weather which triggered concerns over potato development. Strict water management regulations in the province limit the ability of growers to irrigate their fields. Potato wart was also discovered in isolated areas in P.E.I. this year, after many years without a case.

In New Brunswick, seeding was hampered by prolonged rainfall in both May and June, which put the crop a month behind schedule. In addition, soil erosion has been documented in some areas and some seed rot was also inevitable. Harvesting was severely impacted in the western potato areas of the province by heavy rains in mid-September. Excess moisture in tubers raised concerns over increased chances of potato rot once in storage.

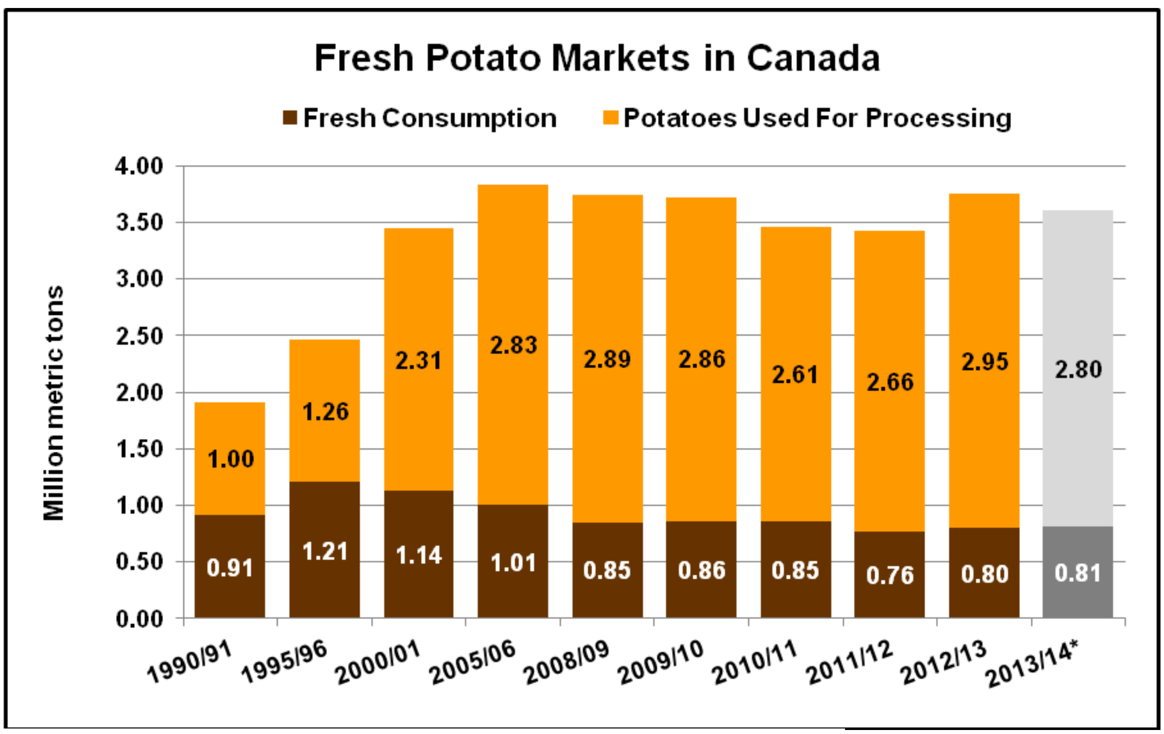
Finally, reports indicate that while northern Alberta struggled with excess moisture in some areas, seeding was only delayed by about a week in the south. In addition, the heavy rains and flooding that caused significant damage in Calgary and surrounding areas in June had little impact in the potato growing areas in southern Alberta. However, late blight and hail at the end of the summer will probably impact yields, as the province is unlikely to repeat last year's record level of 344 cwt/acre (or 38.6 MT/ha)

Overall, the industry is scaling back this year, as consumption of potatoes, both fresh and processed, remains stagnant. Over the past decade, Canadian potato growers have been steadily decreasing acreage in order to bring production more in-line with market demand. This remains a major preoccupation for the sector, since the consumption of fresh potatoes has been in decline for a number of years and the consumption of processed potatoes (mostly frozen french fries) took a hit during the recession years, especially through the impact on the restaurant sector. Currently, growers remain focused on their financial bottom lines and seem to be responsive to market demand, most of them planting enough to meet known and stable markets, and trying to take advantage of the higher prices implied by a tighter supply.

Consumption

Statistics Canada does not record planting, production, or consumption data by market end use. Also, the harmonized tariff system (HS) codes for imports and exports of fresh potatoes do not delineate end use. It is, therefore, difficult to get a detailed image on the split between the fresh and processed markets for the domestic fresh potato production and for imports. However, an estimate can be made of the size of the two markets when compared to the total amount of potatoes available in Canada, based on production and imports of fresh potatoes taken together.

With this approach, Post estimates, based on food supply and distribution data from Statistics Canada, that over the past ten years the market for fresh potatoes in Canada utilized about 20 percent of the total amount of fresh potatoes available. Similarly, the size of the processing market represented about 60 percent of available fresh potatoes. This reflected the development of the frozen french fries industry in Canada starting from the late 1990s. About 5 to 10 percent of fresh potatoes available in Canada are exported. The remaining balance is made up of waste, animal feed and stocks.



Source: Post estimates based on Statistics Canada / *Post forecast

Post forecasts fresh potato consumption at 810,000 MT for MY 2013/14, up 1.3 percent compared to one year earlier. It has to be mentioned that Canadians have steadily reduced their consumption of potatoes over the past decade. Year 2009 was the first time since the beginning of this declining trend when Statistics Canada started to report a stable amount of potatoes in the diet. Ten years ago, Canadians used to consume almost 40 kg of potatoes per person per year. Recent data suggest that the market is now stabilizing around 23-25 kg of potatoes per capita per year.

Post also forecasts a 5 percent decline in the potato processing market for MY 2013/14, down to 2,800,000 MT. This is the result of a decline in the volume of processing contracts, as the sector is scaling back after an oversupplied marketing year 2012/13. In general, the domestic consumption of processed potatoes, such as frozen french fries and chips, has been on a constant decline, and only recently seems to have stabilized. This trend is largely attributable to consumers being more conscious about their diets and their concern with eating healthier food. The processing sector has remained largely flat also due to declining exports of frozen french fries as a result of a very strong Canadian dollar.

Prices

Agriculture and Agri-Food Canada (AAFC) provides market information for a number of commodities, including potatoes. Price information is available at the following web link:
Potato Reports

Trade

Imports

Virtually all of Canada's imports of fresh potatoes come from the United States. For MY 2013/14 Post forecasts a 21 percent decline in imports of fresh potatoes, down to 250,000 MT from their level one year earlier, due to expected reduced supplies in the United States and a tight international market attractive for exports. During the MY 2012/13 Canada imported 315,551 MT of fresh potatoes, up 45 percent from MY 2011/12, a volume reflecting the production glut in the United States.

Canada: Imports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
World	**170,732**	**167,795**	**219,906**	**243,661**	**217,553**	**315,551**
United States	170,684	167,636	219,742	243,531	217,334	315,467

Source: Global Trade Atlas

Exports
Post forecasts a 15 percent increase in Canadian exports of fresh potatoes during MY 2013/14, up to 375,000 MT, primarily based on an expected reduced crop in the United States, Canada's principal export market, and on tight world supplies likely to generate increased export opportunities. This follows a drop of 11 percent in exports during MY 2012/13 when shipments to the United States dropped considerably given the market oversupply situation there. Typically, the United States is the largest export market for Canadian potatoes, absorbing, at times, over 90 percent of total volumes. Trinidad and Tobago, Indonesia and Thailand have emerged as other important export markets over the past several years.

Canada: Exports of fresh potatoes, excluding seed
Marketing year: July-June / Quantity in metric tons

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
World	**511,890**	**440,672**	**372,064**	**517,744**	**363,542**	**324,848**
United States	444,958	414,027	342,305	395,521	335,864	268,230
Market share:	*87%*	*94%*	*92%*	*76%*	*92%*	*83%*
Trinidad & Tobago	21,520	2,046	1,907	21,098	1,620	15,841
Indonesia	2,756	2,146	4,410	11,984	9,289	14,285
Thailand	6,312	8,750	8,825	10,090	11,119	10,291
All other countries	36,344	13,703	14,617	79,051	5,650	16,201

Source: Global Trade Atlas

Policy

Government Support Programs
Growing Forward 2 is Canada's new farm bill which was formally launched on April 1, 2013. To date, no programs specific to the potato sector have been announced. Typically, such programs will be posted on Agriculture and Agri-Food Canada's website here: AAFC programs.

Potato Promotion and Marketing Agency
The Canadian potato industry continues to discuss the idea of establishing a national marketing agency to promote the consumption of potatoes and conduct various research projects. Such an agency would collect levies on both the domestic production and on imports of potatoes to fund its activities. Although the idea is not new, the industry is currently conducting a feasibility study to further assess the prospects of creating such a check-off agency in the near future.

Deregulation of the Soybean Cyst Nematode (SCN)
At the end of August 2013, the Canadian Food Inspection Agency (CFIA) posted a document indicating its decision to deregulate SCN in Canada. Effective November 25, 2013, the CFIA will not enforce the import regulations related to SCN. Also, the CFIA will not be enforcing the Schedule II of the Plant Protection Regulations pertaining to the domestic movement restriction of SCN infested material. As part of the overall regulatory review process, the CFIA will work towards the removal of SCN from the Schedule II of the Plant Protection Regulations and the List of Pests Regulated by Canada. For additional information please consult the following document: RMD-11-02.

FROZEN FRENCH FRIES

CANADA: FROZEN FRIES - Production, Consumption, Trade						
Marketing Year: July/June	**MY2008/09**	**MY2009/10**	**MY2010/11**	**MY2011/12**	**MY2012/13**	**MY2013/14***
Production**	1,189,676	1,184,088	1,038,782	1,073,059	1,205,882	1,150,000
Imports	41,794	43,276	42,815	40,623	41,670	40,000
Exports	973,561	904,343	879,941	896,123	902,024	905,000
Dom. Consumption**	268,006	283,353	243,247	241,053	244,118	245,000

Source: Statistics Canada, Global Trade Atlas & Post Estimates / Data in metric tons

Note: Change in stocks and waste account for the difference between supply and disposition

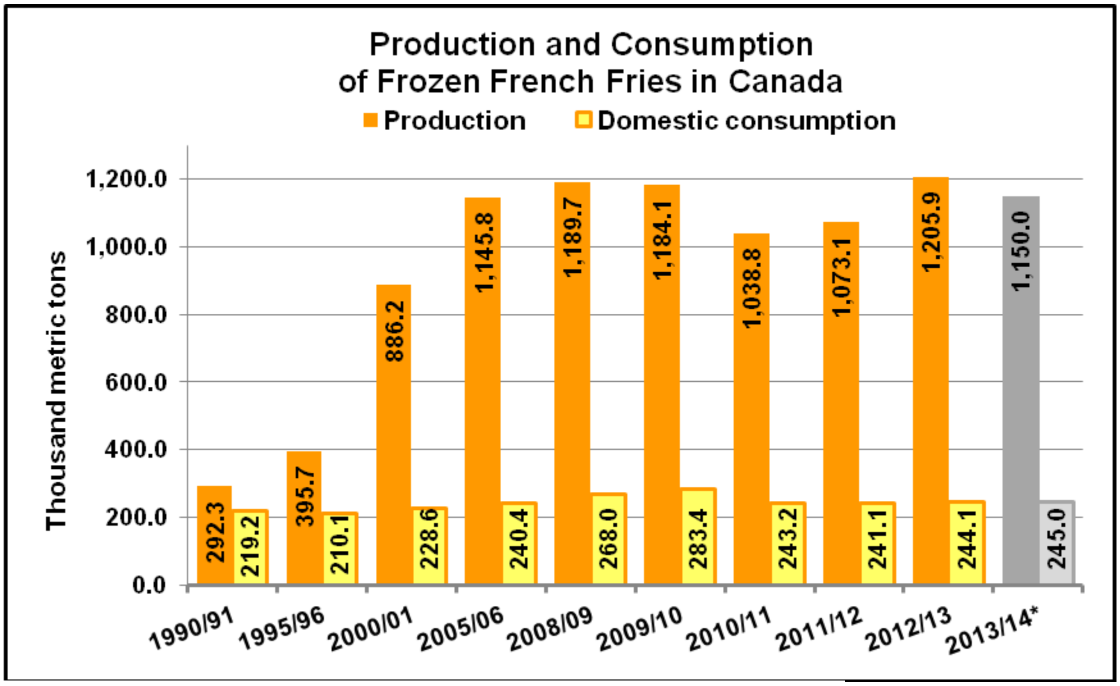
*Post forecast

**Post estimates derived from available Statistics Canada information

Production

Post forecasts the french fry production during MY 2013/14 at 1,150,000 MT, down from an estimated level of 1,205,882 MT one year earlier. The decline, following a year of solid growth, is primarily driven by the processing plants' decision to scale back production in order to match existing demand. In general, frozen fries demand, both domestically and on export markets, seems to have recovered after it tanked as a consequence of the 2009 recession and struggles in the foodservice sector.

Canadian frozen french fry production is export driven. From the late 1990s to the mid-2000s, North American potato processors built state-of-the-art processing facilities in Canada to take advantage of the low value of the Canadian dollar versus the U.S. dollar. Potato growers responded with additional potato plantings to meet the demand from the processors. The Canadian dollar’s then low value and proximity to the U.S. markets enabled potato processors to expand exports of frozen french fries to the United States, especially to the foodservice sector.



Source: Post estimates based on Statistics Canada / *Post forecast

From MY 1989/90 to MY 2009/10 Canadian production of frozen french fries increased by 322 percent. Over the same period of time, exports soared more than eightfold, with an annual average growth rate of 41 percent. Unless new markets are explored, this business model may be in jeopardy today, given the declining trend in North American consumption and a persistently strong Canadian dollar vis-a-vis the U.S. dollar. In recent years, the byproduct of the french fry manufacturing is used as feedstock in biogas plants. Some of the potato processing companies have their own biogas facilities and re-use the generated energy to run their frozen fry operations.

Consumption

For MY 2013/2014 Post forecasts overall consumption of french fries to remain flat, at 245,000 MT, compared to 244,118 MT one year earlier.

While Canadian production of frozen french fries, driven by exports, more than tripled over the past 20 years, the same cannot be said for domestic consumption. During the 20-year period ending with MY 2009/10, Canadian consumption of frozen fries increased by a mere 32 percent. Given that the total population increased over the same period of time by 24 percent, the increase in per capita consumption of frozen fries was a very modest 6.6 percent, or an average annual growth rate of 0.3 percent. This trend is not likely to change in the future; on the contrary, one may observe a flattening or even declining per capita consumption of frozen fries in Canada as consumers become increasingly concerned with their diet. Currently, Canadians consume about 7 kg of frozen fries per person per year.

Trade

Imports

Relative to the significant quantities of Canadian frozen french fries exported, Canadian imports of frozen french fries are very small. In part, this reflects the dominance of the major Canadian manufacturers in domestic market distribution. Almost all of the major national fast food outlets source their frozen french fries through the established distribution channels of the large Canadian processors. Imports during MY 2012/13, almost exclusively from the United States, totaled 41,670 MT.

Exports

At 905,000 MT, Post forecasts no significant increase in Canadian exports of frozen french fries for MY 2013/14. One year earlier, the export volume reached 902,024 MT, up for a second consecutive year, after several years of decline which started back in 2006/07. The decline was largely due to low exports towards the United States, which usually account for about 80 percent of the Canadian export market. During that timeframe the United States saw an exceptionally large production of fresh potatoes, while Canada saw a decrease in production. In addition, weak demand and the ever stronger Canadian dollar contributed to declining exports.

Canada: Exports of frozen french fries

Marketing year: July-June / Quantity in metric tons

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
World	**984,178**	**973,561**	**904,343**	**879,941**	**896,123**	**902,024**
United States	762,307	775,142	706,774	708,736	727,209	742,142
Japan	41,940	33,781	28,275	31,559	33,952	35,460
Mexico	38,212	41,677	57,169	45,429	41,692	25,606
Indonesia	5,112	5,137	4,868	4,777	6,694	10,879
China	9,813	4,740	3,365	6,961	4,646	10,587
Costa Rica	12,899	12,575	13,363	8,412	10,196	10,012
Bahamas	4,366	4,363	4,476	4,440	4,620	8,141
Kuwait	1,311	1,058	1,080	1,162	1,194	7,853
Taiwan	4,432	5,586	5,533	4,625	4,828	5,186
Aruba	653	541	456	571	426	5,112
All other countries	103,133	88,961	78,984	63,269	60,666	41,046
Export Market Shares						
United States	77.5%	79.6%	78.2%	80.5%	81.2%	82.3%
Japan	4.3%	3.5%	3.1%	3.6%	3.8%	3.9%
Mexico	3.9%	4.3%	6.3%	5.2%	4.7%	2.8%
Indonesia	0.5%	0.5%	0.5%	0.5%	0.7%	1.2%
China	1.0%	0.5%	0.4%	0.8%	0.5%	1.2%

Source: Global Trade Atlas