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Canada

Potatoes and Potato Products Annual

2010

Approved By:
Robin Tilsworth

Prepared By:
Mihai Lupescu

Report Highlights:
Canadian growers continue to decrease potato acreage in order to bring production more in-line with market demand. Statistics Canada reported a decline of 3.2 percent in planted areas, down to 145.4 thousand hectares for the marketing year (MY) 2010/11. Post forecast a reduction of 3.4 percent in the production of fresh potatoes, down to 4.425 million metric tons (MMT) during MY 2010/11. Imports of fresh potatoes are forecast to decrease 2.5 percent to 220 TMT during MY 2010/11, while exports are forecast to increase 0.8 percent to 375 TMT. Given a lower production of fresh potatoes and a strong Canadian dollar, both production and exports of frozen french fries are forecast to decline: the former by 1.9 percent down to 1.15 MMT and the latter by 0.5 percent down to 900 TMT compared to the year before.

Executive Summary:

- As Canadian growers continue to decrease potato acreage in order to bring production more in-line with market demand, Post forecast a reduction of 3.4 percent in the production of fresh potatoes, down to 4.425 million metric tons (MMT) during the marketing year (MY) 2010/11 compared to 4.58 MMT recorded in MY 2009/10.

- Statistics Canada reported in July 2010 a decline of 3.2 percent in planted areas, down to 145.4 thousand hectares from 150.2 thousand hectares during MY 2009/10. Yields are expected to be just average to good this year, given a rainy season in Western Canada which prevented planting and plant development and a very hot summer in Prince Edward Island which reduced yields.

- The size of the Canadian market of fresh potatoes destined to processing is about 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 a chips) for the export market. In Canada consumption of fresh potatoes has seen a slow decline over the past decade.

- Given domestic market trends Post forecasts fresh potato consumption at 875 thousand metric tons (TMT) for MY 2010/11, down 2.9 percent compared to one year earlier. Post also forecasts a decline of 0.9 percent in the processing market of fresh potatoes, down to 2.825 MMT compared to the previous year, driven by a lower production and exports of frozen french fries.

- Imports of fresh potatoes are forecast to decrease 2.5 percent to 220 TMT during MY 2010/11, while exports are forecast to increase 0.8 percent to 375 TMT, both trends mainly impacted by tighter supplies in both Canada and the United Sates.

- Both production and exports of frozen french fries are forecast to decline in the current marketing year: production by 1.9 percent down to 1.15 MMT and exports by 0.5 percent down to 900 TMT. This declining trend is the result of a much stronger Canadian dollar, very close to parity with the U.S. dollar, and is in line with the forecast for a reduced production of fresh potatoes.

- Canada's top potato producing provinces in order are Prince Edward Island, Manitoba, New Brunswick, Alberta, Quebec, and Ontario. Combined, the six provinces account for 95% 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 next ten months.

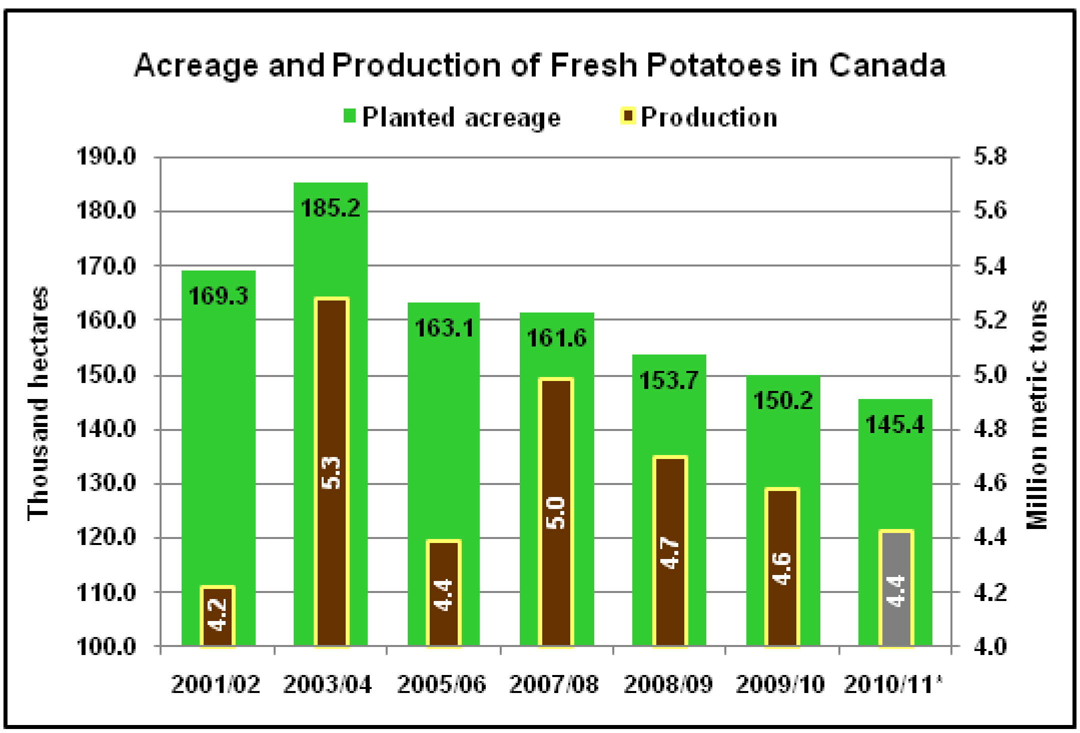
Commodities:
Potato Products, Fresh

Production:

FRESH POTATOES

Post forecasts a drop of 3.4 percent in the production of fresh potatoes, down to 4.425 million metric tons (MMT) during the marketing year (MY) 2010/11 compared to MY 2009/10. The industry continues its slow contraction started several years ago, as consumption of potatoes is in decline.

Acreage data released by Statistics Canada in July re-confirmed the declining trend in the potato sector. Areas planted in 2010 at national level were down 3.2 percent from the 2009 numbers, with Manitoba experiencing the largest decline of 11 percent in plantings, while Ontario showing an increase of 4 percent. Total potato area planted in 2010 stands now at 145.4 thousand hectares, a decline of 21.5 percent over the 2003 planted acreage of 185.2 thousand hectares.



Source: Statistics Canada / *Post forecast for production

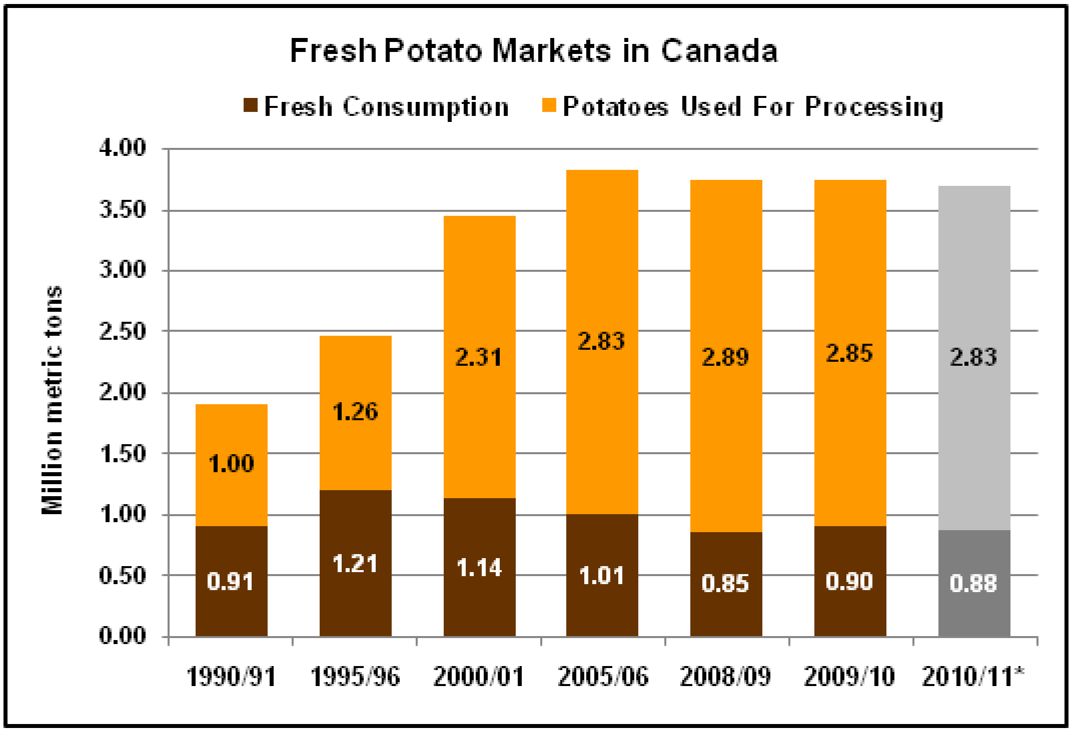
In recent years, Canadian potato growers have been steadily decreasing acreage in order to bring production more in-line with market demand. This remains a major preoccupation for the sector, since the consumption of fresh potatoes has been in decline for a number of years and the consumption of processed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

On average, yields so far are expected to be relatively fair. Western Canada, and particularly Manitoba, was affected by heavy rains early in the season which compromised planting and plant development in certain areas, but overall, harvest is expected to proceed normally. In Prince Edward Island, the largest potato producer province in Canada, an average crop is expected this year because hot and dry weather in late summer reduced yields.

Consumption:

Statistics Canada does not record planting, production, or consumption data by market end use. Also, harmonized tariff system (HS) codes for import and export trade 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 10 years the market for fresh potatoes in Canada utilized about 20 to 25 percent of the total amount of fresh potatoes available. Similarly, the size of the processing market represented between 50 and 60 percent of available fresh potatoes. This reflected the development of the frozen french fries industry in Canada starting from the late 1990s. About 6 to 8 percent of fresh potatoes available in Canada are exported. The balance is made up of waste, animal feed and stocks.



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

Post forecasts for MY 2010/11 the consumption of fresh potatoes at 875 thousand metric tons (TMT), down 2.9 percent from MY 2009/10. It has to be mentioned that Canadians have reduced their consumption of potatoes ever since 2001. Year 2009 was the first time since this declining trend started when Statistics Canada reported an increase in the amount of potatoes in the diet.

Post also forecasts for MY 2010/11 a decrease of 0.9 percent, to 2.825 MMT, in the size of the market for fresh potatoes destined to the processing industry. This reduction reflects the general trend of a declining consumption in processed potatoes such as frozen french fries and chips, largely attributable to consumers being more conscious about their diets and their concern with eating healthier food, and declining exports of frozen french fries as a result of a very strong Canadian dollar.

Trade:

Imports

Virtually all of Canada's imports of fresh potatoes come from United States. For MY 2010/11 Post forecasts a decline of 2.5 percent in imports of fresh potatoes, down to 220 TMT from their level one year earlier, given tighter market conditions in the United States. During the MY 2009/10 Canada imported 225.4 TMT of fresh potatoes, up 34.5 percent from MY 2008/09, a volume much larger than expected and reflecting a lower production in Canada.

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

	2005/06	2006/07	2007/08	2008/09	2009/10
World	**189,814**	**158,324**	**170,730**	**167,792**	**225,619**
United States	189,780	158,266	170,682	167,633	225,455

Source: Global Trade Atlas

Exports

Post forecasts a modest increase of 0.8 percent in Canadian exports of fresh potatoes during MY 2010/11, up to 375 TMT from 372.1 TMT recorded during MY 2009/10. Given the adjustments made by the industry in order to bring production more in line with market demand, and the prospect of average to good yields in the current marketing year, there will be no large surpluses left in search for a market. Post forecasts that about 350 TMT of the MY 2010/11 export volumes will be shipped to United States.

The United States represents the largest destination market for Canadian fresh potatoes. During MY 2009/10 the U.S. market accounted for 92 percent of exports. Overall, the MY 2009/10 export volume was down 15.6 percent from the level recorded one year earlier, mainly due to the lower production during that timeframe.

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

	2005/06	2006/07	2007/08	2008/09	2009/10
World	**311,390**	**464,049**	**511,890**	**440,672**	**372,064**
United States	276,111	399,668	444,958	414,027	342,305
Market share:	*89%*	*86%*	*87%*	*94%*	*92%*
Thailand	5,312	7,918	6,312	8,750	8,825
Venezuela	4,260	0	0	0	4,753
Indonesia	0	2,770	2,756	2,146	4,410
Dominican Republic	6,126	3,152	5,398	2,250	3,311
Trinidad & Tobago	7,278	20,986	21,520	2,046	1,907
Barbados	4,004	6,258	5,294	1,483	382
Jamaica	2,177	7,170	7,817	1,043	52
All other	6,121	16,126	17,834	8,926	6,118

Source: Global Trade Atlas

Policy:

New Brunswick Potato Growers Receive Assistance for Storage Losses

New Brunswick potato growers will receive up to C$3 million to help offset the extra costs of cleaning and disinfecting storage facilities and disposing of ruined product after a difficult growing season in 2009. Payments will be based on the volume of potatoes in storage and subsequently destroyed. This assistance is being delivered through AgriRecovery, a cost-shared framework on a 60/40 basis between federal and provincial governments, which allows governments to respond with targeted assistance for regional disasters.

Government Helps Potato Farmers Boost Their Bottom Line

The Government of Canada is spending up to C$123,000 to help New Brunswick potato farmers capture new markets and increase profitability by investing in a new market information database. The Potato Market Data Information Gathering and Analyses system will give farmers a stronger bargaining position with buyers by equipping them with updated, real-time information on New Brunswick's potato acreage, potato varieties planted, storage estimates, prices and market destinations. The database is expected to be completed by March 2011. The project is being led by Potatoes New Brunswick, a producer marketing organization which works with industry partners on behalf of 225 potato farmers.

Customs Tariffs

The Canadian MFN tariff rate for seed potatoes (HS 0701.10.00) and for fresh table potatoes (HS 0701.90.00) is C$4.94/MT. Preferential duty free access is provided to both type of potatoes originating in United States, Mexico, Costa Rica, Chile, Peru, Israel, Commonwealth Caribbean Countries and Least Developed Countries.

Production, Supply and Demand Data Statistics:

Note: Given the availability of potato supply and disposition data from Statistics Canada Post has revised the domestic disappearance series from MY 1999/00 through MY 2009/10.

CANADA: FRESH Potatoes; Area, Production, Consumption, Trade

Marketing Year: July/June	MY2005/06	MY2006/07	MY2007/08	MY2008/09	MY2009/10	MY2010/11*
Area planted (hectares)	163,135	162,649	161,556	153,746	150,184	145,449
Area harvested (hectares)	155,405	158,238	159,937	151,115	146,340	143,000
Production (metric tons)	4,386,584	5,091,252	4,988,784	4,697,482	4,581,224	4,425,000
Imports (metric tons)	189,814	158,324	170,730	167,792	225,619	220,000
Exports (metric tons)	311,390	464,049	511,890	440,672	372,064	375,000
Domestic Disappearance** (metric tons), of which:	4,265,008	4,785,527	4,647,624	4,424,602	4,434,779	4,270,000
Fresh Consumption	*1,008,010*	*955,450*	*900,380*	*851,180*	*901,050*	*875,000*
For Processing	*2,826,870*	*2,869,390*	*2,965,680*	*2,888,030*	*2,851,980*	*2,825,000*
*Other****	*430,128*	*960,687*	*781,564*	*685,392*	*681,749*	*570,000*

Source: Statistics Canada, Global Trade Atlas & Post Estimates

* Except for plantings, all 2010/11 data are post forecasts

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

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

CANADA: FRESH Potatoes; Area, Production, Consumption, Trade

Marketing Year: July/June	MY1999/00	MY2000/01	MY2001/02	MY2002/03	MY2003/04	MY2004/05
Area planted (hectares)	NA	NA	169,300	177,200	185,200	175,316
Area harvested (hectares)	NA	NA	166,600	171,000	181,100	171,755
Production (metric tons)	4,267,300	4,566,580	4,220,500	4,705,200	5,282,500	5,234,952
Imports (metric tons)	234,824	231,263	251,668	261,409	169,069	170,470
Exports (metric tons)	339,969	225,984	288,476	328,871	313,093	313,874
Domestic Disappearance** (metric tons), of which:	4,162,155	4,571,859	4,183,692	4,637,738	5,138,476	5,091,548
Fresh Consumption	*1,204,190*	*1,135,120*	*1,206,170*	*1,087,810*	*1,084,900*	*1,028,120*
For Processing	*2,074,180*	*2,310,000*	*2,345,520*	*2,503,680*	*2,768,530*	*3,123,510*
*Other****	*883,785*	*1,126,739*	*632,002*	*1,046,248*	*1,285,046*	*939,918*

Source: Statistics Canada, Global Trade Atlas & Post Estimates

* Except for plantings, all 2010/11 data are post forecasts

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

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

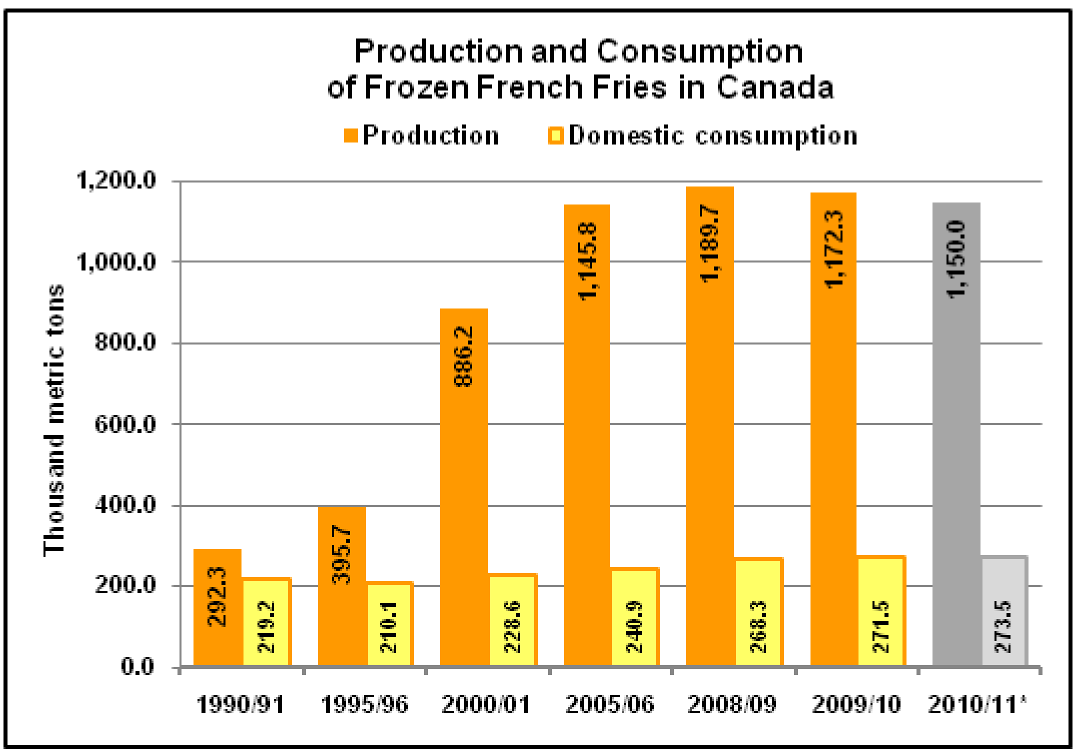
Commodities:
Potato Products, Frozen

Production:

FROZEN FRENCH FRIES

For MY 2010/11 Post forecasts a drop of 1.9 percent in frozen french fry production, down to 1.15 MMT from 1.17 MMT recorded in MY 2009/10, generally reflecting a reduced production of fresh potatoes and sluggish exports due to a very strong Canadian dollar expected to be at parity with the U.S. dollar for a more significant period of time.

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 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.

Consumption:

While Canadian production of frozen french fries, driven by exports, more than tripled over the past 20 years, not the same can be said with respect to 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 tiny 6.6 percent, or an annual average growth rate of 0.3 percent. This trend is not likely to change in the future; on the contrary, one may see a flattening or even declining per capita consumption of frozen fries in Canada as consumers become increasingly concerned with their diet.

Trade:

Imports

Relative to the significant quantities of Canadian frozen french fries exported, Canadian imports of frozen french fries are small. In part, this reflects the dominance of the major Canadian manufactures 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 2009/10, mainly from the United States, totaled 43.2 TMT.

Exports

Post forecasts a small decline of 0.5 percent in Canadian exports of frozen french fries for MY 2010/11, down to 900 TMT from 904.3 TMT one year earlier. The strong Canadian dollar, which reached parity with the U.S. dollar at the time this report was written, may actually contribute to even lower export volumes, while the tighter supplies of fresh potatoes in United States expected for the current marketing year will act as a positive driver for increased exports.

The export volume of 904.3 TMT recorded for MY 2009/10 was 7.1 percent below the previous year level, largely due to reduced exports towards United States, which usually account for close to 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, the ever stronger Canadian dollar was not helping expanding exports.

Canada: Exports of frozen french fries
Marketing year: July-June / Quantity in metric tons

	2005/06	2006/07	2007/08	2008/09	2009/10
World	**956,411**	**1,025,146**	**984,178**	**973,561**	**904,343**
United States	742,838	787,872	764,356	780,762	712,986
Mexico	32,031	36,543	38,212	41,677	57,169
Japan	46,093	42,193	41,940	33,781	28,275
Costa Rica	10,134	12,589	12,899	12,575	13,363
Venezuela	18,953	16,889	16,585	17,712	13,010
Saudi Arabia	6,629	14,950	15,528	8,975	11,830
Philippines	7,533	5,167	5,022	10,236	10,712
Taiwan	4,981	3,873	4,432	5,586	5,533
Korea South	8,421	4,711	9,416	8,761	5,261
Indonesia	5,716	6,082	5,112	5,137	4,868
Bahamas	3,977	4,333	4,366	4,363	4,476
All other	69,105	89,944	66,310	43,996	36,860
Export Market Shares					
United States	77.7%	76.9%	77.7%	80.2%	78.8%
Mexico	3.3%	3.6%	3.9%	4.3%	6.3%
Japan	4.8%	4.1%	4.3%	3.5%	3.1%
Costa Rica	1.1%	1.2%	1.3%	1.3%	1.5%
Venezuela	2.0%	1.6%	1.7%	1.8%	1.4%

Source: Global Trade Atlas

Policy:

<u>Customs Tariffs</u>

The Canadian MFN tariff rate for frozen processed potatoes (HS 2004.10.00) is 6 percent. Preferential duty free access is provided to products originating in United States, Mexico, Costa Rica, Chile, Iceland, Norway, Switzerland-Liechtenstein, Peru, Commonwealth Caribbean Countries and Least Developed Countries.

Production, Supply and Demand Data Statistics:

Note: Given the availability of frozen fries supply and disposition data from Statistics Canada Post has revised the domestic disappearance series from MY 1999/00 through MY 2009/10.

CANADA: FROZEN FRIES; Production, Consumption, Trade

Marketing Year: July/June	MY2005/06	MY2006/07	MY2007/08	MY2008/09	MY2009/10	MY2010/11*
Production**	1,145,813	1,179,965	1,223,729	1,189,676	1,172,306	1,150,000
Imports	44,283	45,437	42,253	52,343	66,983	60,000
Exports	956,411	1,025,146	984,178	973,561	904,343	900,000
Dom. Consumption**	240,915	242,630	259,165	268,259	271,518	273,500

Data in metric tons
Source: Statistics Canada, Global Trade Atlas & Post Estimates
Note: Change in stocks and waste account for the difference between supply and disposition
*Post forecast
**Post estimates derived from available Statistics Canada information

CANADA: FROZEN FRIES; Production, Consumption, Trade

Marketing Year: July/June	MY1999/00	MY2000/01	MY2001/02	MY2002/03	MY2003/04	MY2004/05
Production**	753,681	886,203	898,245	971,236	1,067,853	1,242,989
Imports	13,673	17,118	31,241	30,988	36,722	30,899
Exports	618,978	634,486	736,716	769,753	1,015,909	979,668
Dom. Consumption**	219,076	228,582	234,266	239,978	233,609	233,363

Data in metric tons
Source: Statistics Canada, Global Trade Atlas & Post Estimates
Note: Change in stocks and waste account for the difference between supply and disposition
*Post forecast
**Post estimates derived from available Statistics Canada information