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Potatoes and Potato Products Annual

2015

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Report Highlights:

Despite a small increase in planted area, Post forecasts a reduction in MY 2015/16 for fresh potato production as yields return to average levels of 32 MT/ha. Exports of fresh potatoes are forecast to increase 14 percent, while imports, originating almost exclusively from the United States, are forecast to increase by 19 percent. The frozen french fry sector will continue to remain stable, with a modest increase in production resulting from a larger contracted volume for processing potatoes. Domestic consumption to remain stable.

Executive Summary

- Statistics Canada reported a 0.4 percent increase in planted areas for the current market year (MY) 2015/16, up to 141,242 hectares from 140,649 hectares during MY 2014/15, as contracts for processing potatoes remained at stable levels in most provinces. Yields are expected to return to average levels across the country, following a year of better than expected yields.
- Based on these trends, Post forecasts a 2.7 percent decline in the production of fresh potatoes, down to 4,500,000 metric tons (MT) during MY 2015/16 compared to the larger than expected crop level of 4,625,494 MT recorded in MY 2014/15, when exceptional yields of 33.3 MT/ha were realized on a reduced planted area.
- 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, flakes, etc.) for various export markets around the world. In Canada, the consumption of fresh table potatoes has been on a slow decline over the past decade, but seems to have stabilized in the last few years around 21 kg per person per year.
- Post forecasts fresh potato consumption at 765,000 MT for MY 2015/16, up 1.9 percent compared to one year earlier. Post also forecasts a modest increase of 0.6 percent in the potato processing market, up to 2,850,000 MT, reflecting stable volumes in processing contracts.
- Imports of fresh potatoes are forecast at 200,000 MT in MY 2015/16, while exports are expected to reach 400,000 supported by the weaker Canadian dollar. This follows after a year when imports declined by 52.4 percent and exports declined by 25.5 percent.
- The production of frozen french fries is expected to show a modest increase, as processing plants hold production steady. Post forecasts the french fry production during MY 2015/16 at 1,120,000 MT, up from an estimated level of 1,115,876 MT one year earlier. Exports and domestic consumption of french fries are expected to remain relatively flat at 920,000 MT for exports and 250,000 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 season 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 and the growing region in the south of the province has a weather pattern favorable to this crop.

FRESH POTATOES

CANADA: FRESH Potatoes - Area, Production, Consumption, Trade						
Marketing Year: July/June	**MY2010/ 11**	**MY2011/ 12**	**MY2012/ 13**	**MY2013/ 14**	**MY2014/ 15**	**MY2015/ 16***
Area planted (hectares)	144,478	145,894	151,015	143,805	140,649	141,242
Area harvested (hectares)	139,217	141,159	148,569	142,189	139,080	139,500
Production (metric tons)	4,406,860	4,189,994	4,569,612	4,660,105	4,625,949	4,500,000
Imports (metric tons)	243,661	217,554	315,530	353,276	168,019	200,000
Exports (metric tons)	517,744	363,542	324,137	470,115	350,328	400,000
Domestic Disappearance** (metric tons), of which:	4,132,777	4,044,006	4,561,005	4,543,266	4,443,640	4,300,000
Fresh Consumption	*857,990*	*768,290*	*800,000*	*737,680*	*750,860*	*765,000*
For Processing	*2,606,360*	*2,652,540*	*2,595,000*	*2,759,130*	*2,833,190*	*2,850,000*
Waste	*688,230*	*666,900*	*621,250*	*740,010*	*764,540*	*725,000*
*Other****	*-19,803*	*-43,724*	*544,755*	*306,446*	*95,050*	*-40,000*

Source: Statistics Canada, Global Trade Atlas & Post Estimates

* Except for plantings, all 2015/16 data are post forecasts

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

***Includes animal feed and change in stocks

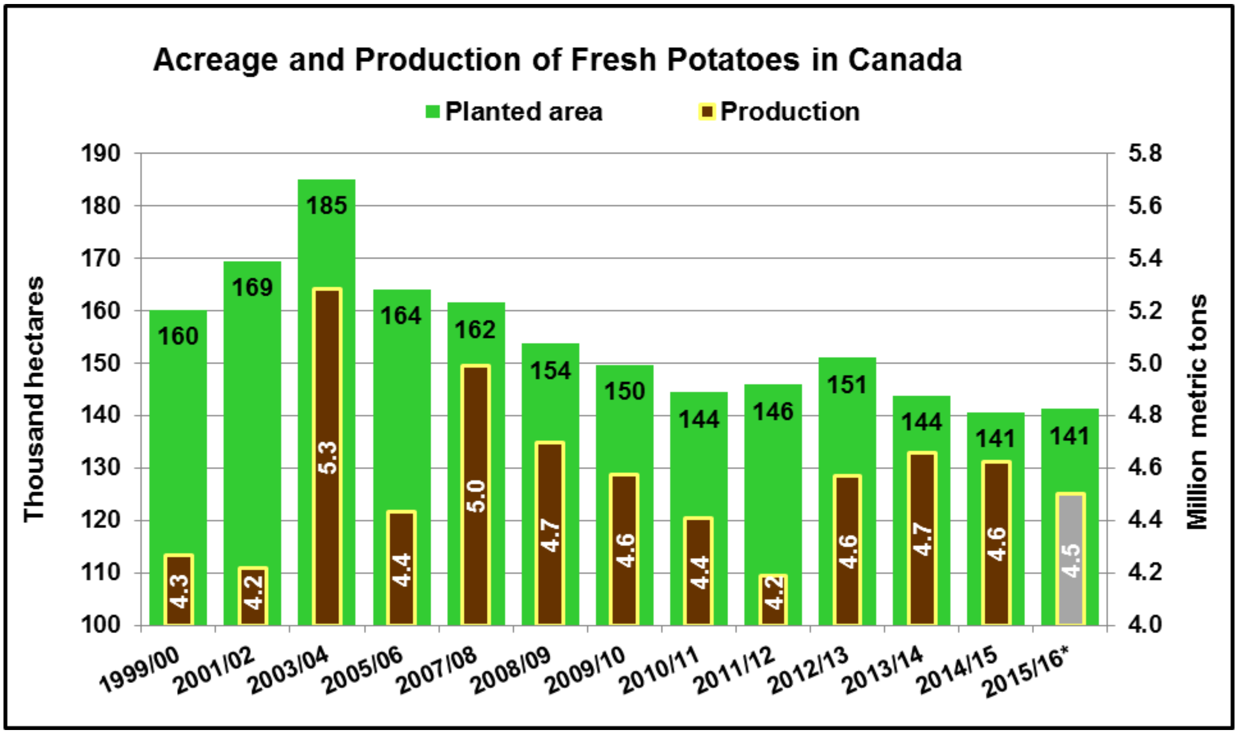
Production

Post forecasts a 2.7 percent decline in the production of fresh potatoes, down to 4,500,000 metric tons (MT) during MY 2015/16, compared to 4,625,949 MT recorded in MY 2014/15. The underlying factor behind this estimate is that yields are expected to fall back to an average level of 32 MT/ha, after better than anticipated yields of 33.3 MT/ha one year earlier.

Planting data released by Statistics Canada showed that areas seeded to potatoes in 2015 modestly increased by 0.4 percent at the national level compared to 2014. Planted area remained relatively flat this year as a result of stable demand for processing potatoes and unchanged demand for table potatoes. A larger than expected crop during the previous marketing year resulted in increased volumes of potatoes in storage, prompting processing plants not to increase contract volumes.

Most Canadian provinces experienced a modest reduction in planted area, including: Prince Edward Island by 1.1 percent, New Brunswick by 0.6 percent, Ontario by 2.1 percent, and Quebec by 0.6 percent. Other provinces saw an increase: Manitoba by 6.3 percent and Alberta by 0.9 percent. At national level, 141,242 hectares were planted with potatoes in 2015, compared to 140,649 hectares planted in 2014.

It has to be noted that the larger increase in seeded area in Manitoba in 2015, follows two consecutive years of significant decline, by 8 percent in 2013 and by 10 percent in 2014. In 2015, processing companies in the province readjusted upwards their contract volumes, largely as a result of the weaker Canadian dollar which makes production in Canada and exports more profitable, which in turn resulted in the larger planted area in the province.



Source: Statistics Canada / *Post forecast for production

In the Maritime provinces of Prince Edward Island (P.E.I.) and New Brunswick the planting season started late, as a result of heavy snowfalls in the winter and a cold spring. The growing season was fairly good, especially in New Brunswick, although some areas in P.E.I. experienced hot dry spans which may have impacted yields. Digging in both provinces proceeds well to date, although the potential of too much rain at the end of the harvest season may have a negative impact on getting the last tubers out of the ground.

Quebec and Ontario had an early to normal start in the planting season in most regions, with favorable weather conditions during the growing period. The only concern was related to dry conditions during the summer, which translate to a lower quality for some of the processing potatoes. Harvest took place without major hurdles.

In Western Canada, planting took place on schedule, particularly in Alberta which had one of the best planting seasons ever, and where growers were a couple of weeks ahead compared to last year. Growing and harvest seasons went fairly well and expectations are for a decent crop, both in terms of yield and quality.

Based on industry comments, some western producers are looking into adopting a new production method called "bed planting" as opposed to the traditional furrow planting model. This method would be new to Canada. Bed planting would help improve yields, through eliminating several furrows whereby more rows of potatoes could be planted in the same area. Provincial researchers in the region are helping growers optimize this production method and it is expected that in the future increased potato acreage would be using bed planting.

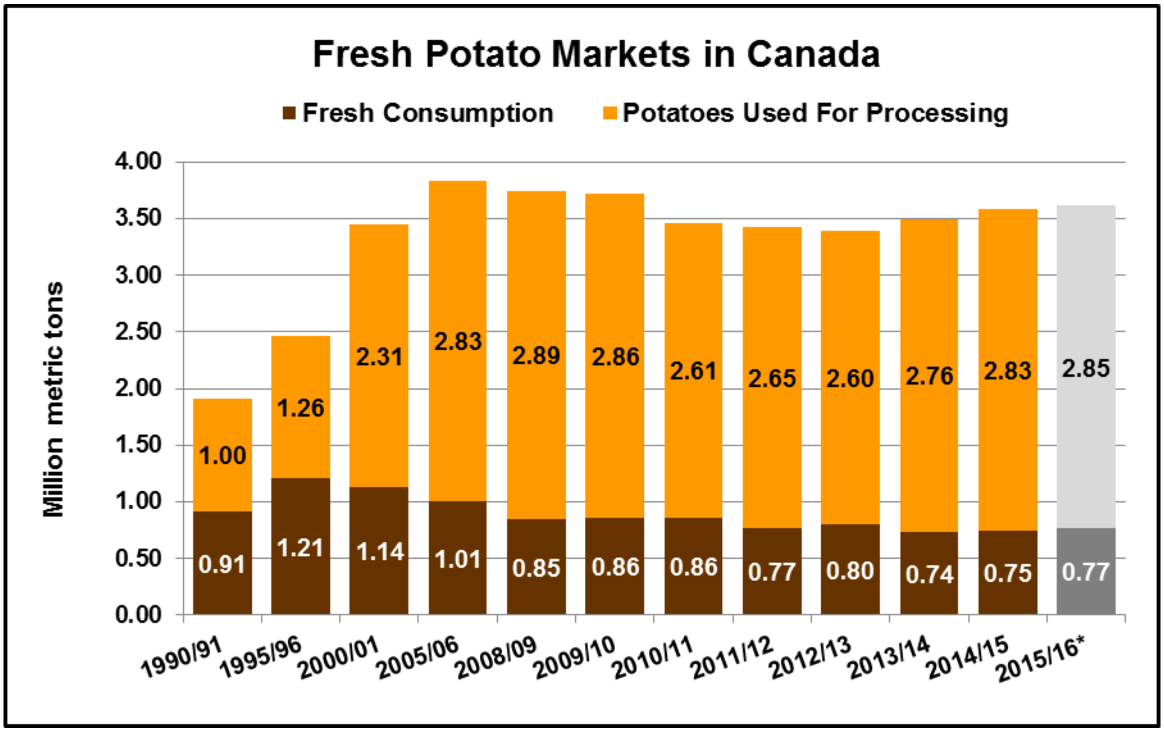
Overall, the industry remains stable this year, as the consumption of both fresh and processed potatoes, on the domestic market and abroad, remains flat. However, the weaker Canadian dollar makes processing in and exports from Canada more profitable, thus helping companies' bottom lines and positioning them well for future growth, should demand start picking up.

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 on 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, and more recently due to consumers' shift towards a healthier diet. Currently, growers remain focused on their financial bottom lines and market demand. Therefore, the majority of producers are planting enough to meet known and stable markets, and trying to take advantage of 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 table 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 table potatoes in Canada utilized between 15 to 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 table potato consumption at 765,000 MT for MY 2015/16, up 2 percent from one year earlier. Canadians have steadily reduced their consumption of table potatoes over the past decade. According to Statistics Canada data, fifteen years ago, Canadians used to consume almost 40 kg of potatoes per person per year. After stabilizing at around 25 kg per person per year in late 2000s, recent Statistics Canada data suggests that consumption has started a new declining trend, resulting in a consumption level of about 21 kg of potatoes per capita in 2014.

Post also forecasts a modest increase of 0.6 percent in the potato processing market for MY 2015/16, up to 2,850,000 MT. The volume of processing contracts is now stable, after the sector scaled back following two oversupplied marketing years which resulted in increased inventories of potatoes in storage. 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. Overall, the processing sector has remained stable, with recent signs of modest improvement driven by sustained exports of frozen french fries supported by a weaker 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 2015/16 Post forecasts a 19 percent increase in imports of fresh potatoes, up to 200,000 MT from their level one year earlier, as volumes fall back into their more typical annual volumes. During the MY 2014/15 Canada imported only 168,019 MT of fresh potatoes, down 52 percent from MY 2013/14, a volume reflecting a larger than expected crop in Canada and increased volumes of potatoes in storage.

Canada: Imports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
World	**219,906**	**243,661**	**217,554**	**315,530**	**353,276**	**168,019**
United States	219,742	243,531	217,335	315,446	353,138	167,919

Source: Global Trade Atlas

Exports

Post forecasts a modest 14 percent increase in Canadian exports of fresh potatoes during MY 2015/16, up to 400,000 MT, primarily supported by the weaker Canadian dollar, and a normal crop in the United States, Canada's principal export market. Limited world supplies are likely to generate increased export opportunities as well. This follows a 25 percent decline in exports during MY 2014/15 when shipments to the United States decreased considerably given a well-supplied market 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

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
World	**372,064**	**517,744**	**363,542**	**324,137**	**470,115**	**350,328**
United States	342,305	395,521	335,864	268,230	419,263	315,881
Market share:	*92%*	*76%*	*92%*	*83%*	*89%*	*90%*
Indonesia	4,410	11,984	9,289	14,285	17,108	11,480
Thailand	8,825	10,090	11,119	10,291	7,999	8,960
Trinidad & Tobago	1,907	21,098	1,620	15,376	6,892	7,816
All other countries	14,617	79,051	5,650	15,955	18,853	6,191

Source: Global Trade Atlas

Policy

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 potato industry has commissioned a feasibility study to further assess the prospects of creating such a check-off agency in the near future. This is referenced in an article that talks about some of the findings in the study, which was completed in March 2014 and has not yet been made public. At this time, the Canadian industry has decided to move ahead with the next phase of this initiative, which includes broader consultation on a province-by-province basis with a wide range of stakeholders including growers, processors, importers, retailers and other interested groups.

FROZEN FRENCH FRIES

CANADA: FROZEN FRIES - Production, Consumption, Trade						
Marketing Year: July/June	**MY2010/ 11**	**MY2011/ 12**	**MY2012/ 13**	**MY2013/ 14**	**MY2014/ 15**	**MY2015/ 16***
Production**	1,038,782	1,067,176	1,059,341	1,112,418	1,115,876	1,120,000
Imports	42,815	40,623	41,670	39,751	51,956	45,000
Exports	879,941	896,123	902,008	929,656	914,193	920,000
Dom. Consumption**	243,247	235,171	237,088	239,135	246,776	250,000

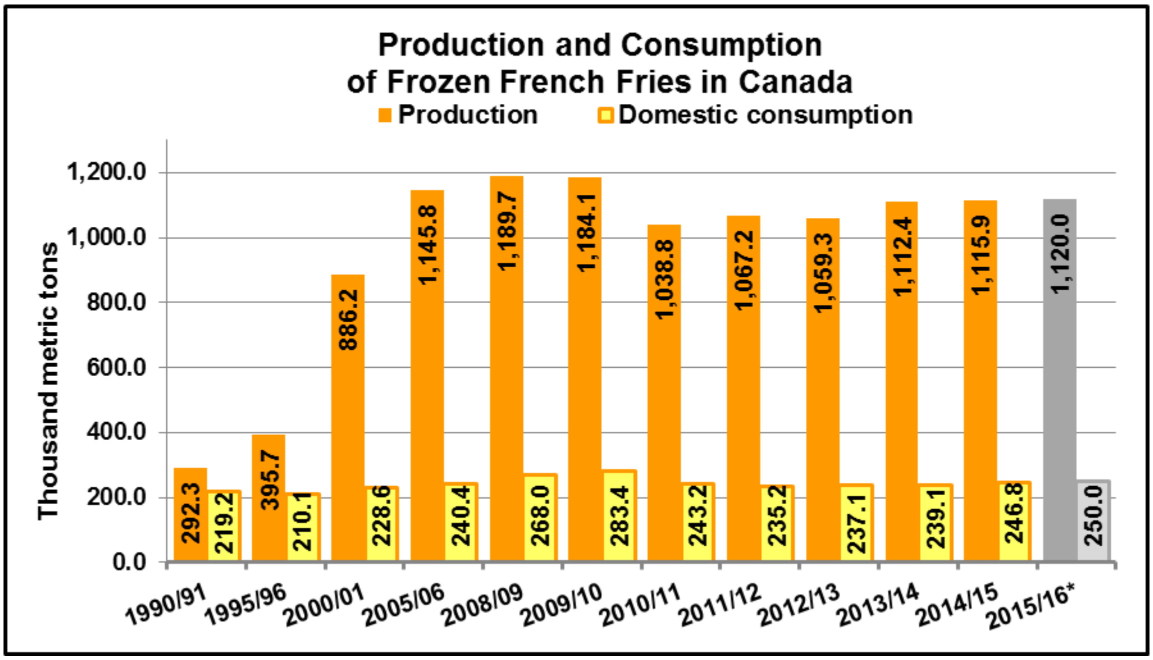
Source: Statistics Canada, Global Trade Atlas & Post Estimates / Data in metric tons
Note: Change in stocks and waste account for the difference between supply and disposition
*Post forecast
**Post estimates derived from available Statistics Canada information

Production

Post forecasts the french fry production during MY 2015/16 at 1,120,000 MT, up from an estimated level of 1,115,876 MT one year earlier. This modest increase reflects a stable demand and improved profitability supported by the weaker Canadian dollar. 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 subsequent 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.

For the near future, the expectations are that most of the export growth would come from Asian markets. In order to take advantage of this possible trend, some french fry companies based in western Canada would expand their production capacities, either by adding a supplementary line to an existing facility, or by building a new, larger plant. As a consequence, the production of processing potatoes might see an increase in the western regions, possibly, but not necessarily, coupled with a decline in production in eastern Canada. So far this has yet to materialize.



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. In recent years, the byproduct of 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.

In 2014, eastern Canada saw the closure of one of the oldest french fry plants in the country. In August, McCain announced that the Borden-Carleton plant in Prince Edward Island (P.E.I.) would be shut down permanently as of October 31. The facility was built in 1990 and in recent years has been operating at less than half of the designed capacity. McCain explained the closure as part of a global business restructuring process. Since the closure of this plant, those processing volumes were picked up by other processing facilities belonging to either McCain (in New Brunswick) or Cavendish (in P.E.I).

Consumption

For MY 2015/2016 Post forecasts overall consumption of french fries to modestly increase to 250,000 MT, from 246,776 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 about 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 large volume of Canadian frozen french fries exported, Canadian imports of frozen french fries are not significant. 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 2014/15, almost exclusively from the United States, totaled 51,956 MT.

Exports

At 920,000 MT, Post forecasts a very modest increase in Canadian exports of frozen french fries for MY 2015/16, given that the Canadian dollar is expected to remain weak compared to the U.S. dollar. In general, the export markets are perceived as steady and solid, having recovered from the recent period of decline.

One year earlier, in MY 2014/15, the export volume reached a level of 914,193 MT, down by 1.7 percent after few consecutive years of expansion. The current export levels are about 10 percent below the levels observed in the early-to-mid 2000s when exports peaked at over 1 million MT annually. The decline since that period was largely due to low exports to the United States, which usually account for about 80 percent of the Canadian export market. During the 2006-2012 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 during that period contributed to declining exports.

Canada: Exports of frozen french fries

Marketing year: July-June / Quantity in metric tons

	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15
World	**904,343**	**879,941**	**896,123**	**902,008**	**929,656**	**914,193**
United States	706,774	708,736	727,209	742,183	790,607	747,274
Japan	28,275	31,559	33,952	35,460	36,465	34,639
China	3,365	6,961	4,646	10,587	17,081	26,036
Mexico	57,169	45,429	41,692	25,606	10,261	25,701
Costa Rica	13,363	8,412	10,196	9,955	7,559	10,375
Taiwan	5,533	4,625	4,828	5,186	5,783	7,101
Indonesia	4,868	4,777	6,694	10,879	8,295	6,240
Malaysia	3,318	1,450	1,490	1,453	565	5,996
Philippines	10,712	9,791	15,648	1,955	2,646	5,745
Korea South	5,261	4,659	2,328	1,289	2,561	5,367
All other countries	65,705	53,542	47,440	57,455	47,833	39,719
Export Market Shares						
United States	78.2%	80.5%	81.2%	82.3%	85.0%	81.7%
Japan	3.1%	3.6%	3.8%	3.9%	3.9%	3.8%
China	0.4%	0.8%	0.5%	1.2%	1.8%	2.8%
Mexico	6.3%	5.2%	4.7%	2.8%	1.1%	2.8%
Costa Rica	1.5%	1.0%	1.1%	1.1%	0.8%	1.1%

Source: Global Trade Atlas