



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 10/25/2005

**GAIN Report Number:** CA5070

## Canada

## Frozen Potato Products

## Annual

## 2005

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**Report Highlights:**

This report highlights the production and trade of Canadian frozen french fries. During MY2004/05, for the first time in a decade, the Canadian output of frozen french fries declined from the year earlier level. Sluggish demand in the domestic market and in major export markets was the principal reason for the decline.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Ottawa [CA1]  
[CA]

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**Executive Summary**

\* Canadian frozen french fry production during MY2004/05 slipped almost 2% from the year earlier level to an estimated 1,365,000 metric tons. The decline marked the first time in more than a decade that french fry output in Canada failed to show a year-over-year increase.

\* Prospects for MY2005/06 point to another modest decline in Canadian frozen french fry production. Canadian potato producers reported a decline in processing potatoes under contract and subsequently reduced the area planted to potatoes in 2005 to 159,400 hectares, down 9% from the 2004 level.

\* Cavendish Farms, which currently operates two processing plants in Prince Edward Island, announced it would abandon a plan to add another processing line citing the sluggish frozen french fry market.

\* Canadian exports of frozen french fries to the United States in MY2004/05 dropped to 776,146 metric tons, down 6% from the year earlier level of 822,909 metric tons. However, the value of exports over the period was virtually unchanged at \$538 million. Frozen french fries are the third most valuable Canadian agricultural product export to the United States after beef and pork.

\* U.S. frozen french fry exports to Canada during MY2004/05 totaled 30,153 metric tons, valued at \$38 million, down sharply from a year earlier.

\* Canada's new nutrition labeling regulations come into effect on December 12, 2005. The new rules will apply to U.S. prepackaged frozen potato product exports to Canada.

## Section I. Production

Canadian production of frozen french fries during MY2004/05 slipped almost 2% from the year earlier level to an estimated 1,365,000 metric tons. The decline marked the first time in more than 10 years that french fry output in Canada failed to show a year-to-year increase. Weaker demand for Canadian frozen french fries in the United States and Japan, combined with flat domestic market demand caused Canadian processors to reassess their production targets.

For MY2005/06, a similar scenario is developing. A cutback in Canadian potato area in 2005 reflects the sluggish french fry market and a strengthening Canadian currency could impact the competitiveness of Canadian frozen french fry in foreign markets. Post forecasts production in MY 2005/06 to drop to about 1,325,000 metric tons, down a further 3.0% from the previous year's level.

Country Commodity	Canada		Potato Products, Frozen (MT)(MT, Net Weight)			
	2004 USDA Official [	Revised Estimate[1]A Official [	2005 Estimate[1]A Official [	Estimate Estimate[1]A Official [	2006 Estimate[1]A Official [	Forecast Estimate[1]A Official [
Market Year Begin	07/2004	07/2004	07/2005	07/2005	07/2006	07/2006
Deliv. To Processors	0	0	0	0	0	0
Beginning Stocks	140000	140000	0	150000	0	140000
Production	1535000	1365000	0	1325000	0	1360000
Imports	40000	30528	0	35000	0	35000
TOTAL SUPPLY	1715000	1535528	0	1510000	0	1535000
Exports	1165000	979286	0	970000	0	1000000
Domestic Consumption	400000	406242	0	400000	0	395000
Ending Stocks	150000	150000	0	140000	0	140000
TOTAL DISTRIBUTION	1715000	1535528	0	1510000	0	1535000

## Industry Developments

In April 2005, Cavendish Farms, which currently operates two processing plants in Prince Edward Island, announced it would abandon a plan to add another processing line citing the sluggish frozen french fry market. The Canadian frozen french fry industry is relatively mature following the construction of Canadian and U.S. owned plants in Canada over the past ten years and no major expansion of potato area is forecast. Canadian frozen french fry plants are strategically located close to the potato production areas in the Maritime and Prairie provinces to serve markets throughout Canada and the United States and in the Caribbean, Europe and Asia.

## Non-Hydrogenated Oil

Given recent concerns by customers and consumers over trans fats in foods, many Canadian frozen french fry processors are processing branded retail and foodservice products in non-hydrogenated oil.

## Potato Area

Statistics Canada reports that the total area planted to potatoes in 2005 slipped to 159,400 hectares, down 9% from last year. Prince Edward Island and Manitoba showed the largest declines, down 4,200 hectares and 4,000 hectares respectively, but all provinces shared in the 15,900 hectare reduction in total plantings. Contract cuts for processing potatoes and low prices for the 2004 crop are cited as the major reasons for the drop in Canadian potato area. It was the second year in a row that Canadian potato producers reported reduced plantings.

## Consumption

Statistics Canada does not keep an official data series on the Canadian consumption of frozen french fries. Anecdotal evidence from the foodservice industry suggests that the Canadian consumption level of frozen french fries peaked sometime during 2003. Trends such as the "low carb" diet pushed per capita consumption lower for both foodservice frozen french fries and grocery store sales. Recent grocery product industry surveys show that retail frozen french fries sales continue to under perform the average rate of sales increase in the total frozen food sector.

## Section II. Trade

## Frozen French Fry Exports

For the first time in a decade, total Canadian frozen french fry exports to the world fell below the year earlier recorded level, reflecting lackluster demand in major destination markets.

Canadian Frozen French Fry Exports  
Marketing Years  
Units: metric tons  
HS2004.10\*

Country	Jul 02-Jun 03	Jul 03-Jun 04	Jul 04-Jun 05	% change
The World	767,860	1,015,554	979,286	-4%
United States	668,360	822,909	776,146	-6%
Japan	43,878	52,911	42,029	-21%
Mexico	7,346	24,697	25,492	3%
Venezuela	1,791	8,350	21,384	156%
China	2,354	6,277	13,301	112%
Korea, South	5,991	7,942	10,778	36%
Guatemala	1,452	8,761	8,730	0%
Costa Rica	1,275	6,558	8,439	29%
Taiwan	3,316	8,209	7,912	-4%
Philippines	5,208	9,455	7,443	-21%
All Others	26,888	59,485	57,631	-3%

\*HS category may include other frozen potato products

Value of Canadian Frozen French Fry Exports  
Marketing Years  
Units: US\$ millions  
HS2004.10

Country	Jul 02-Jun 03	Jul 03-Jun 04	Jul 04-Jun 05	% change
The World	485.2	662.4	675.1	2%
United States	414.8	538.0	538.2	0%
Japan	34.3	40.9	34.2	-16%
Mexico	3.2	9.6	12.3	28%
Venezuela	1.1	4.8	13.5	180%
China	1.6	4.2	9.2	120%
Korea, South	4.3	5.8	7.7	32%
Guatemala	1.0	5.3	5.1	-4%
Costa Rica	0.8	3.6	4.6	28%
Taiwan	1.9	5.1	5.3	4%
Philippines	3.4	5.9	5.5	-5%
All Others	18.9	39.2	39.4	0%

Source: World Trade Atlas

## Frozen French Fry Imports

There are no major developments to report in Canada's import market for frozen french fries. Reflecting sluggish demand, imports of frozen french fries from the United States during MY2004/05 slipped sharply from the year earlier level, but the total value of shipments increased.

Canadian Frozen French Fry Imports  
Marketing Years  
Units: metric tons  
HS2004.10\*

Country	Quantity MT			Value \$mil.		
	2002/03	2003/04	2004/05	2002/03	2003/04	2004/05
The World	30,988	36,722	30,528	25.2	33.9	38.4
United States	30,674	36,012	30,153	25.0	33.4	38.0
Netherlands	172	537	354	0.1	0.3	0.3
All Others	142	173	22	-	-	-

\*HS category may include other frozen potato products

Source: World Trade Atlas

## Tariffs

Canadian Tariff Rates on Frozen French Fries		
HS 2004.10.00	Trade Agreement & Preferential Tariffs	MFN Rate
		6%
United States	FREE	
Commonwealth Caribbean Countries	FREE	
Least Developed Countries	FREE	
Mexico	FREE	
Chile	FREE	
Costa Rica	FREE	
Source: Canada Customs Tariff Schedule, January 1, 2005		

**Other Frozen Potato Product Trade**

As shown below, Canadian trade in other frozen potato products in classification HS 0710.10 is minor.

**Canada: Trade in Other Frozen Potatoes**

HS: 0710.10  
Quantity: metric tons  
Other Frozen Potatoes

**EXPORTS**

To...	Jul 02- Jun 03	Jul 03 - Jun 04	Jul 04 - Jun 05
The World	1,341	4,992	593
United States	813	4,597	253
Japan	513	158	215
Costa Rica	-	18	56
Mexico	-	150	30
Philippines	-	-	20
St. Pierre & Miquelon	2	3	10
New Caledonia	2	4	7
Netherlands Antilles	-	2	2
All Others	11	61	0

**IMPORTS**

From...	Jul 02- Jun 03	Jul 03 - Jun 04	Jul 04 - Jun 05
The World	291	226	546
United States	230	209	481
Belgium	6	-	47
Egypt	10	4	6
All Others	46	13	12

Source: Derived from World Trade Atlas

### Section III. Marketing

#### Mandatory Nutrition Labeling

Canada will adopt mandatory nutrition labeling for most prepackaged products effective December 12, 2005 and all imported products must meet the same labeling requirements as foods produced in Canada. Use of the U.S. nutrition panel on labeling is currently prohibited in Canada and will remain so after Dec. 12, 2005. Only the Canadian nutrition panel will be acceptable for prepackaged products sold in Canada. There are differences in the U.S. and Canadian nutrition facts tables for daily intakes and in the definitions of zero "trans fats".

The Canadian Food Inspection Agency has a webpage dedicated to Canada's the new labeling regulations: <http://www.inspection.gc.ca/english/fssa/labeti/nutrition-pagee.shtml>

The webpage listed above provides a link to a Nutrition Labeling Toolkit to assist U.S. companies interested in bringing their processed potato product label into compliance with Canada's new nutrition labeling regulations.

#### Packaging and Labeling

For retail sale, Canada's Processed Product Regulations stipulate that the standard container sizes for frozen french fries are: 250 g; 500 g; 1 kg; 1.25 kg; 1.5 kg; and 2 kg. On December 3, 1998 the regulations were revised to include "any size over 2 kg but not over 20 kg." For U.S. exporters, the relaxed rule means they can export wholesale cartons of frozen french fries containing inner bags in the common U.S. food service industry sizes provided the inner bags have no markings. If inner bags are marked, full labeling requirements apply (bilingual labeling, ingredients, etc.).

#### Exporter Guide

U.S. processed food exporters interested in the Canadian market can consult the Exporter Guide prepared by FAS/Ottawa. The Exporter Guide for Canada is available on the FAS website under Attaché reports at [www.fas.usda.gov](http://www.fas.usda.gov). The Exporter Guide provides general information concerning Canadian regulatory requirements and details the FAS sponsored services available to U.S. exporters interested in entering the Canadian Food market.

#### Exchange Rates

Where prices and values in this report are expressed in Canadian dollars, the exchange rates are: 2002, C\$=US\$.6368; 2003, C\$=US\$.7135; 2004, C\$= US\$ .7683; October 2005, C\$= US\$.8425 approximately.

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