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Frozen Potato Products

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Report Highlights:

Post estimates Canadian frozen french fry production in the current year (July 2007 to June 2008) to increase to approximately 1,410,000 metric tons (MT), up 3.0% from 1,370,000 MT produced during 2006/07. On a value basis, Canadian exports of frozen french fries totaled \$775.6 million during MY2006/07 of which \$604.2 million was exported to the United States making frozen french fries Canada's fifth most valuable agricultural export to the United States after live cattle, beef, pork, and live swine. While the United States will remain the top market for Canadian exports of frozen french fries, the outlook is for increasing Canadian exports to foreign countries reflecting rising disposable incomes and economic growth rates that are creating additional demand for frozen french fries in those markets.

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Table of Contents

Executive Summary	3
Section I. Frozen French Fry Production	4
Export Demand Determines Production	4
Production Outlook	4
Potato Area	5
Table 1; Canada: Area and Production of Potatoes, 2004-2007	5
Consumption	5
Trade	5
Exports of Frozen Potato Products.....	6
Frozen French Fry Exports.....	6
Table 2: 10 Years of Frozen French Fry Exports.....	6
Frozen French Fry Exports, By Country	7
Other Frozen Potato Product Exports.....	8
Frozen Potato Product Imports.....	9
Frozen French Fry Imports.....	9
Other Frozen Potato Product Imports.....	9
Tariffs	9
Tariffs	10
Section III. Marketing	10
Mandatory Nutrition Labeling	10
Packaging and Labeling	11
Exporter Guide.....	11
Exchange Rates.....	11

Executive Summary

* Post estimates Canadian frozen french fry production in the current year (July 2007 to June 2008) to increase to approximately 1,410,000 MT, up 3.0% from 1,370,000 MT produced during 2006/07.

* The production of frozen french fries in Canada is export driven. On an annual basis, approximately 75% of Canada's output of frozen french fries is exported, mostly to the United States.

* On a value basis, Canadian exports of frozen french fries totaled \$775.6 million during MY2006/07 of which \$604.2 million was exported to the United States making frozen french fries Canada's fifth most valuable agricultural export to the United States after live cattle, beef, pork, and live swine.

* In recent years, Canadian potato processors have been increasing their exports of frozen french fries to the rest of the world. While the United States will remain the top market for Canadian exports of frozen french fries, the outlook is for increasing Canadian exports to other destinations where rising disposable incomes and economic growth are creating additional demand for frozen french fries.

* Virtually all Canadian imports of frozen french fries are supplied by the United States. Import trade is small in comparison to the large volumes of frozen french fries exported by potato processors in Canada, but has been growing in recent years. In MY2006/07, U.S. exports of frozen french fries to Canada reached 45,437 MT, valued at \$60.1 million. The level represented a 3% increase over the previous year and a 47% increase compared to MY 2004/05.

Section I. Frozen French Fry Production

Export Demand Determines Production

The production of frozen french fries in Canada is export driven. On an annual basis, approximately 75% of Canada's output of frozen french fries is exported, mostly to the United States. During the "low carb" diet phenomenon, Canadian exports of frozen french fries fell for three successive years (2003/04 to 2005/06). However, the trend was reversed during 2006/07 and Canadian exports of frozen french fries climbed to a record 1,023,403 metric tons, 7.1% above the year earlier level. Post forecasts further production increases throughout the current year, 2007/08 and into 2008/09. Given the sudden recent rise in the value of the Canadian currency (it rose more than 20% in the first ten months of 2007), Canadian potato processors will be faced with balancing their increased purchasing power for capital assets (i.e., most processing equipment is imported) with competitive product pricing on international markets. With the fast rising dollar, Canadian potato growers seem likely to face tougher negotiations on price during 2008 processing contract discussions.

Production Outlook

Manitoba contract growers increased their potato planted area by 10% in 2007 signaling processor expectations of increased frozen french fry exports. Post estimates the production of frozen french fries in the current year (July 2007 to June 2008) to increase to approximately 1,410,000 MT, up 3.0% from 1,370,000 MT produced during 2006/07. McCain Foods Ltd announced that it would replace its Florenceville, New Brunswick potato processing plant. By early 2008, the construction of the new C\$70 million McCain frozen french fry facility with a state-of-the art processing line is expected to become operational.

Frozen French Fry Supply and Disposition

Marketing Year: July/June

Units: Metric Tons

	07/2005	07/2006	07/2007
Designated Year	2005	2006	2007
Beg. Stocks	140,000	140,000	140,000
Production	1,300,000	1,370,000	1,410,000
Imports	44,283	45,437	50,000
Total Supply	1,484,283	1,555,437	1,600,000
Exports	955,821	1,023,403	1,065,000
Dom. Consump.	388,462	392,034	395,000
End. Stocks	140,000	140,000	140,000
Total Distribution	1,484,283	1,555,437	1,600,000

Source: Imports/exports; Statistics Canada (World Trade Atlas)

Stocks, production, consump.= post estimates

Potato Area

In July 2007, Statistics Canada (SC) released its preliminary estimate of the area planted to potatoes. The data show that Canadian farmers continued to plant roughly the same area to potatoes that they did during 2005 and 2006. However, on a regional basis, plantings increased in the west and fell in the east. Survey data showed that Manitoba producers planted an estimated 36,018 hectares, up 10% from a year earlier. According to SC, the expansion of the area in Manitoba is related to increased processing contracts (i.e., for frozen french fry production) in that province. Area climbed fractionally in Alberta while plantings increased slightly in British Columbia. Ontario potato plantings in 2007 were similar to 2006, but all other eastern provinces showed reduced area planted to potatoes. The decline in Quebec was related to the 2006 outbreak of the potato pest, Golden Nematode, in a 30-acre field on a Quebec potato farm east of Montreal. Producers in the area planted alternate crops in 2007. According to the Statistics Canada 2007 planting survey, Prince Edward Island leads all provinces with 24% of the national area. Manitoba is second with 22%, New Brunswick and Alberta follow with 15% and 14% respectively.

YEAR	Seeded Area (ha)	Harvested Area (ha)	Production Metric Tons
2004	175,316	171,755	5,234,952
2005	163,135	155,405	4,386,584
2006	160,706	156,700	4,995,179
2007	162,487	Not available	Not available
Source: Statistics Canada; catalogue 22-008			

Consumption

Statistics Canada does not separately report processed potato product consumption levels. All potato disappearance is expressed on a fresh equivalent basis. For 2006, SC reported in its publication Canada Food Stats (23F0001XCB) that the total availability of white potatoes was 28.78 kg. For 2006, SC reported that each Canadian ate 15.8 kg of potatoes that had been purchased fresh, but it does not specifically report the per capita consumption of potato products in their processed form (i.e., frozen french fries, canned, dried, other frozen, etc.). Post estimates the current consumption level of frozen French fries at about 13.0 kg per person, with most of the consumption occurring at the foodservice level. The Canadian per capita level is roughly half of that of the U.S. consumption of frozen french fries (see the Food Availability datasheets on the ERS/USDA website). The consumption of other frozen potato products in Canada is minor.

Trade

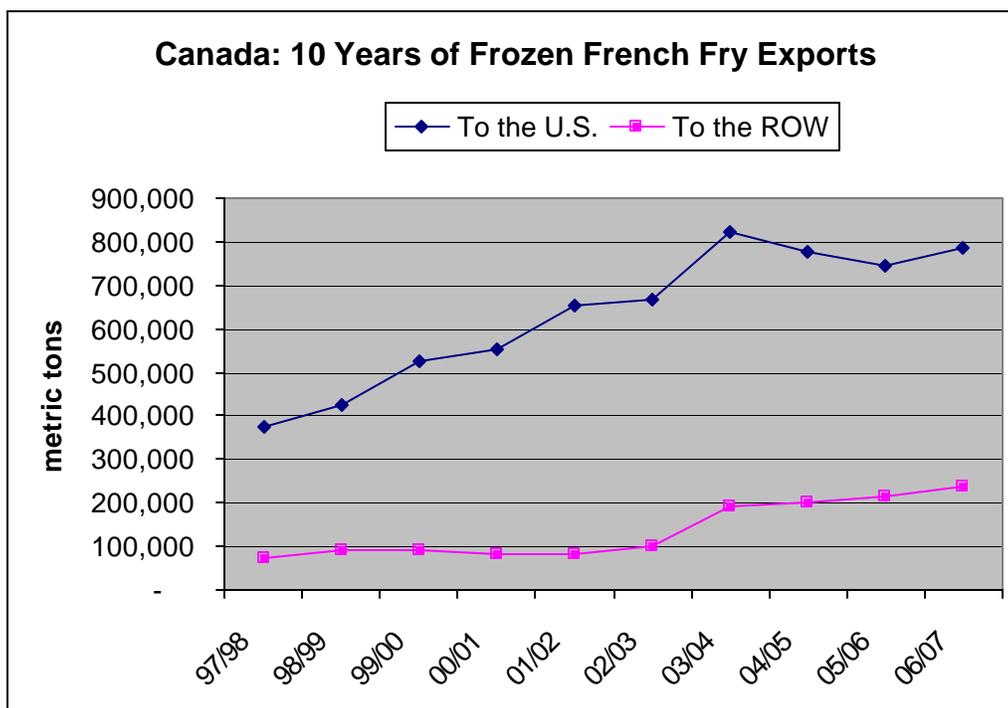
Exports of Frozen Potato Products

Frozen French Fry Exports

As shown on the tabulation on the following page, total Canadian exports of frozen french fries reached 1,023,403 MT during MY2006/07, an increase of 7.1% from 2005/06 and the first increase in three years. On a value basis, Canadian exports of frozen french fries totaled \$775.6 million during MY2006/07 of which \$604.2 million worth was exported to the United States making frozen french fries Canada’s fifth most valuable agricultural export to the United States after live cattle, beef, pork, and live swine.

The chart below illustrates Canadian exports of frozen french fries over the past ten years. Exports to the U.S. increased steadily over the period with the exception of the 2003/04 to 2005/06 period when U.S. demand for frozen french fries was adversely affected by the impact of the “low carb” diet and its strong influence on the food purchase selections of Americans during the period. However, at about the same time, Canadian potato processors were increasing their exports of frozen french fries to the rest of the world. The United States will remain the top market for Canadian exports of frozen french fries but future exports to destinations other than the United States are expected to increase in line with rising disposable income and economic growth in these markets.

Table 2: 10 Years of Frozen French Fry Exports



Frozen French Fry Exports, By Country

In MY2006/07, increased exports of frozen french fries to the US accounted for most of 7.1% increase over the previous year's level but important increases were also noted in exports of Canadian frozen french fries to Mexico, Saudi Arabia, Costa Rica, and South Africa (see table below).

Canadian Frozen French Fry Exports (HS 2004.10)

Marketing Years

Units: Metric Tons

Country	- Jul 04-Jun 05	Jul 05-Jun 06	Jul 06-Jun 07	% change
-- The World --	979,310	955,821	1,023,403	7.1%
United States	776,165	742,812	787,860	6.1%
Japan	- 42,029	46,093	42,193	-8.5%
Mexico	- 25,492	32,031	36,488	13.9%
Venezuela	- 21,384	18,953	16,770	-11.5%
China	- 13,301	16,673	16,406	-1.6%
Saudi Arabia	5,726	6,629	14,950	125.5%
Costa Rica	- 8,439	9,960	12,260	23.1%
South Africa	- 200	2,169	11,485	429.4%
Guatemala	8,730	11,447	10,915	-4.6%
Indonesia	- 6,108	5,413	6,082	12.4%
Philippines	- 7,443	7,533	5,167	-31.4%
Korea, South	10,778	8,401	4,695	-44.1%
Panama	- 3,087	3,380	4,159	23.0%
All Others	50,427	44,325	53,973	21.8%
Share to US	79%	78%	77%	

Source: Derived from World Trade Atlas

Other Frozen Potato Product Exports

Canada: Exports of Other Frozen Potato Products
HS 071010; Potatoes Uncooked/Cooked By Boiling In Water, Frozen
Units: metric tons

Country	Jul 04-Jun 05	Jul 05-Jun 06	Jul 06-Jun 07	% change
The World	593	2,874	1,836	-36%
Costa Rica	56	383	521	36%
United States	253	358	412	15%
Jamaica	-	-	381	-
Honduras	-	38	190	399%
Brazil	-	38	78	107%
Indonesia	-	-	59	-
South Africa	0	259	56	-79%
Peru	-	-	43	-
Bahamas	-	-	24	-
Ghana	-	-	24	-
All Others	283	1,798	48	-97%

Source: World Trade Atlas

Frozen Potato Product Imports

Frozen French Fry Imports

Virtually all Canadian imports of frozen french fries are supplied by the United States. Import trade is small in comparison to the large volumes of frozen french fries exported by potato processors in Canada, but has been growing in recent years. In MY2006/07, U.S. exports of frozen french fries to Canada reached 45,437 MT, valued at \$60.1 million. The level represented a 3% increase over the previous year and a 47% increase compared to MY 2004/05. More than 70% of U.S. exports of frozen french fries to Canada were destined for British Columbia and Ontario.

Canadian Frozen French Fry Imports (HS 2004.10)

Marketing Years

Units: Metric Tons

Country	Jul 04-Jun 05	Jul 05-Jun 06	Jul 06-Jun 07	% change
The World	30,899	44,283	45,437	3%
United States	30,518	44,260	45,403	3%
Bulgaria	-	10	10	0%
Japan	4	4	7	66%
India	1	1	6	1068%
Austria	-	-	6	-
Netherlands	354	2	3	59%
All Others	22	6	1	-76%

Source: World Trade Atlas

Other Frozen Potato Product Imports

Canadian imports of other frozen potatoes are minor.

Canada: Imports of Other Frozen Potato Products

HS 071010; Potatoes Uncooked/Cooked By Boiling In Water, Frozen

Units: metric tons

Country	Jul 04-Jun 05	Jul 05-Jun 06	Jul 06-Jun 07	% change
-- The World --	546	604	736	22%
United States	481	517	402	-22%
Belgium	47	47	172	267%
India	-	-	140	-
Colombia	4	2	6	171%
Egypt	6	5	6	15%
Philippines	3	4	3	-14%
Vietnam	2	3	3	6%
China	-	-	3	-
All Others	3	27	2	-91%

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, 2007		

Canadian Tariff Rates on Other Frozen Potatoes		
HS 0710.10	Trade Agreement & Preferential Tariffs	Other Rates
		MFN 6%
		GPT 5%
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, 2007		
Source: Canada Customs Tariff Schedule, January 1, 2006		

Section III. Marketing**Mandatory Nutrition Labeling**

Canada introduced mandatory nutrition labeling for prepackaged food 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 prohibited in Canada and only the Canadian nutrition panel is deemed 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 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. 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; 2005, C\$= US\$.8253; 2006, C\$= US\$.8818; 2007 (mid-October) C\$ = approximately US\$1.024.

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