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## **Canada**

### **Frozen French Fries**

### **Processing Expansion and Increasing Exports**

**1999**

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#### **Report Highlights:**

Processing expansion in Alberta by two major North American-based potato processors will bolster the continuing surge in Canadian frozen french fry output and in exports. Exports of frozen french fries to the United States, which surpassed C\$400 million in MY1998/99, are forecast to rise significantly in the current year and over the mid-term. McCain Foods, Canada's largest frozen french fry manufacturer, recently announced that it will no longer buy genetically modified potatoes for its Canadian production facilities.

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## Executive Summary

\* Canadian frozen french fry production is expected to reach about 985,000 metric tons in the current marketing year, up 8% from last year. Post forecasts production to surpass the 1.0 million metric ton mark for the first time during MY2000/01. A modern Lamb-Weston processing plant came on stream near Taber, Alberta in 1999 and McCain Foods is constructing a new frozen french fry plant at Coaldale, Alberta, which the company expects to become operational next spring.

\* Alberta potato acreage is experiencing rapid expansion as a result of the investments in potato processing facilities in that province by Lamb-Weston and McCain. By 2000, Alberta potato area is forecast to be nearly 20,000 acres higher than the recorded acreage just two years earlier.

\* Western Canada potato area has demonstrated rapid growth throughout the 1990s, led by Manitoba and Alberta. The prairie region now accounts for nearly one-third of total Canadian potato output compared to about 25% early in the decade.

\* Canadian exports of frozen french fries continue to increase at a rapid rate, mostly attributable to increased exports to the U.S. foodservice market.

\* Total Canadian frozen french fry exports surged 15% during MY1998/99 from a year earlier. The largest increase in absolute terms was in exports to the United States which grew 13% to 424,000 metric tons, valued at C\$401 million, but increased exports were also noted to Japan and to the United Kingdom .

\* Despite improved access to the Canadian market, following years of a packaging and labeling non-tariff barrier that was lifted in late 1998, U.S. exports of frozen french fries to Canada remain flat due to strong competition from Canadian manufacturers and the low value of the Canadian dollar.

\* In late November 1999, McCain Foods Ltd., announced that it would no longer buy genetically modified potatoes for its Canadian potato product production facilities. The company claimed the action was in response to mounting pressure from Canadian consumers.

\* Exchange rates: Prices and values in this report are expressed in Canadian dollars. Exchange rates are 1996, C\$=US\$.7334; 1997, C\$=US\$.7223; 1998, C\$=.6743; December, 1999, approximately US\$.6800.

## Section I. Production

### Production Developments

The production of frozen french fries in Canada continues to demonstrate strong expansion. Post estimates total production during the current marketing year (1999/00) at about 985,000 metric tons, more than 8% above the year earlier level. Much of the increase reflects the startup of the new Lamb-Weston plant near Taber, Alberta which was constructed in less than one year. The company contracted heavily with Alberta potato growers and as a result, acreage in that province during 1999 rose 9,000 acres above the 1998 area (see Potato Situation below). According to the company, the plant supports the latest fry processing techniques and cutting equipment, as well as advanced sizing/receiving processes, quality controls, warehousing, ordering, customer service and Efficient Foodservice Response systems.

The outlook for 2000/01 is for a further increase in Canadian frozen french fry manufacture. In late 1998, McCain Foods (Canada) announced the construction of a new C\$93.9 million potato processing facility in southern Alberta (Coaldale). Actual construction of the french fry plant began in June of 1999, and it is expected to be in commercial operation by early spring of the year 2000. According to McCain, the plant will employ 200-250 workers and produce 200 million pounds of potato products annually. The Alberta facility will join other frozen french fry production plants of McCain Foods in Portage la Prairie, Man., Florenceville and Grand Falls, N.B., and Borden-Carleton, P.E.I. As a result of potato contract requirements for the new McCain plant, Alberta potato area in 2000 is expected to increase by about another 8,000-10,000 acres. Post forecasts that total Canadian frozen french fry production will surpass the 1.0 million metric ton level during 2000/01.

Other major frozen french fry processors in Canada include Cavendish farms, which has two state-of-the-art processing plants in P.E.I., and Nestle (large Manitoba plant).

PSD Table						
Country	Canada					
Commodity	Frozen French Fries				(MT)(MT, Net Weight)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		07/1998		07/1999		07/2000
Deliv. To Processors	0	0	0	0	0	0
Beginning Stocks	0	50000	0	40000	0	30000
Production	0	910000	0	985000	0	1060000
Imports	0	23984	0	24500	0	25000
TOTAL SUPPLY	0	983984	0	1049500	0	1115000
Exports	0	516240	0	590000	0	650000
Domestic Consumption	0	427744	0	429500	0	433000
Ending Stocks	0	40000	0	30000	0	32000
TOTAL DISTRIBUTION	0	983984	0	1049500	0	1115000

## Potato Situation & Outlook

Statistics Canadian estimates that Canadian potato production in 1999 fell 2.9% from the 1998 level, the first decline in five years. Six provinces registered production declines, a combination of lower average yields and acreage declines, especially in the major producing provinces of Prince Edward Island, Manitoba and New Brunswick. The province of Saskatchewan suffered a 40% decline in harvested area following the collapse and bankruptcy of the Lake Diefenbaker Potato Corporation prior to the 1999 planting season (see Policy Section). Alberta recorded a sharp increase in potato output in 1999 (+21%) resulting from an increase in the harvested area of nearly 9,000 acres, reflecting increased demand for processing potatoes by the new Lamb-Weston plant near Taber, Alberta.

The table on the following page illustrates Canadian potato production, by province for the years 1998 and 1999.

## Potato Production, by Province

Canada: Potato Production, By Province					
	Area	Area	Area		Total
	Planted	Harvested	Harvested	Yield	Production
	(acres)	(acres)	(ha.)	(mt/ha.)	(MT)
			(rounded)		
1998					
Newfoundland	800	700	300	14.3	4,300
P.E.I.	112,000	110,000	44,500	29.7	1,322,200
Nova Scotia	5,000	4,800	1,900	23.5	44,600
New Brunswick	57,000	56,700	22,900	29.8	681,600
Quebec	46,000	45,200	18,300	26.0	475,000
Ontario	43,100	43,100	17,400	20.2	351,900
Manitoba	74,000	72,500	29,300	26.4	772,800
Saskatchewan	13,500	13,200	5,300	29.9	158,700
Alberta	33,000	32,200	13,000	33.1	430,900
British Columbia	8,400	8,000	3,200	27.2	87,100
TOTAL	392,800	386,400	156,100	27.7	4,329,100
1999					
Newfoundland	700	500	200	14.5	2,900
P.E.I.	113,000	110,000	44,500	29.2	1,297,300
Nova Scotia	5,100	4,800	1,900	24.1	45,700
New Brunswick	56,000	55,000	22,300	26.9	598,800
Quebec	45,200	44,500	18,000	26.1	470,000
Ontario	43,500	42,500	17,200	21.3	366,300
Manitoba	71,000	70,000	28,300	25.2	714,400
Saskatchewan	8,000	7,900	3,200	28.0	89,600
Alberta	42,000	41,000	16,600	31.4	520,700
British Columbia	8,200	8,200	3,300	29.9	98,600
TOTAL	392,700	384,400	155,500	27.0	4,204,300
'99 as % '98	100%				97%
Source: Statistics Canada					
crop99.wk4					

## Section II. Trade

## Frozen Fry Exports; Marketing Year

Total Canadian frozen french fry exports surged 15% during MY1998/99 from a year earlier, only slightly below the average annual growth rate for exports of 19% since MY1994/95. The largest increase in absolute terms was in exports to the United States which grew 13% to 424,000 metric tons, valued at C\$401 million, but increased exports were also noted to Japan and to the United Kingdom .

For 1999/00 and 2000/01 Canadian export levels of frozen french fries can be expected to reflect the increased production from the new Lamb-Weston and McCain processing plants in Alberta. Post projects 1999/00 exports to reach about 570,000 metric tons and 2000/01 exports to reach at least the 600,000 metric ton level. The companies are expected to target a major portion of the expanded production at the U.S. foodservice market.

Canadian Frozen French Fry Exports						
Marketing Year: July/June						
Units: metric tons						
HS 2004.10						
	1994/95	1995/96	1996/97	1997/98	1998/99	% chng.
United States	153,401	171,119	273,881	373,945	423,988	13%
Japan	14,881	14,357	23,045	21,177	26,542	25%
United Kingdom	3,882	485	24	25	5,602	22592%
Venezuela	2,976	3,026	3,048	5,847	5,211	-11%
Guatemala	1,714	2,151	3,268	3,379	4,298	27%
Chile	1,157	1,325	1,595	2,633	3,791	44%
Saudi Arabia	1,540	1,497	1,895	2,040	3,239	59%
Malaysia	335	2,306	5,778	3,554	3,187	-10%
Brazil	9,093	6,189	3,919	4,835	2,855	-41%
Singapore	2,029	2,716	2,453	2,100	2,707	29%
Trinidad-Tobago	1,486	2,852	2,726	2,726	1,995	-27%
Others	26,282	24,724	23,278	25,113	32,827	31%
Total	218,777	232,747	344,911	447,374	516,240	15%
06-Dec-99						
fryex99.wk4-FAS/Ottawa-Source: Tiers; StatCan.						

## Value of Marketing Year Exports

Value of Canadian Frozen French Fry Exports						
Marketing Year: July/June						
Units: C\$'000						
HS 2004.10						
	1994/95	1995/96	1996/97	1997/98	1998/99	% chng.
United States	127,934	145,620	227,413	330,677	401,418	21%
Japan	14,243	13,855	22,567	21,505	27,320	27%
Venezuela	3,154	2,854	3,297	6,180	5,311	-14%
Guatemala	2,066	2,309	3,574	3,969	5,311	34%
Chile	1,515	1,716	2,111	3,404	4,454	31%
Saudi Arabia	1,757	1,562	2,187	2,424	3,932	62%
Malaysia	436	2,819	6,184	3,577	2,993	-16%
Brazil	7,284	5,707	4,053	4,745	2,526	-47%
Korea, South	600	1,477	3,678	3,190	2,508	-21%
Singapore	2,015	2,610	2,350	1,923	2,400	25%
Trinidad-Tobago	1,721	2,583	2,587	2,839	2,335	-18%
Others	32,071	22,761	21,751	24,479	38,836	59%
Total	194,797	205,873	301,753	408,912	499,345	22%
06-Dec-99						
valex99.wk4-FAS/Ottawa-Source: Tiers; StatCan.						



## Imports of Frozen French Fries by Marketing Year

As shown below, Canadian imports of frozen french fries are flat. Onerous packaging and labeling regulations kept in place by the GOC during a decade of rapid expansion in the foodservice market in Canada precluded U.S. frozen french fry exporters from gaining market share. Although remedied in late 1998 (see CA8075, 12/8/98), the amended packaging and labeling regulations came too late for U.S. exporters. Under the formerly captive market, Canadian frozen french fry processors expanded their operations and became highly competitive. The weak purchasing power of the Canadian dollar has aided their dominance of the domestic market.

Canadian Frozen French Fry Imports						
Marketing Year; July/June						
Units: metric tons						
HS 2004.10						
	1994/95	1995/96	1996/97	1997/98	1998/99	% chng.
United States	7,366	11,508	12,239	23,478	23,635	1%
Belgium	65	68	51	136	111	-18%
United Kingdom	10	30	16	71	83	18%
China, P. Rep.			0	0	6	1258%
Japan	2		0	0	1	1218%
Denmark	0			4	0	-93%
Netherlands				49	0	-100%
Mexico				4		-100%
Switzerland				4		-100%
Zimbabwe		4				
Others	1	22	8	47	147	211%
Total	7,445	11,632	12,315	23,793	23,984	1%
06-Dec-99						
fryim99.wk4-FAS/Ottawa-Source: Tiers; StatCan.						

## Value of Imports

Value of Canadian Frozen French Fry Imports					
Marketing Year: July/June					
Units: C\$'000	HS 2004.10				
	1994/95	1995/96	1996/97	1997/98	1998/99
United States	8,944	11,762	14,527	27,319	28,879
Belgium	104	142	107	213	160
United Kingdom	13	50	27	73	93
China, P. Rep.			1		9
Others	5	37	13	128	140
Total	9,066	11,991	14,674	27,733	29,281
06-Dec-99					
valim99.wk4-FAS/Ottawa-Source: Tiers; StatCan.					

## Canadian Frozen French Fry Exports by Calendar Year

To accommodate requests from the trade, Canadian frozen french fry exports are tabulated below on a calendar year basis. In the first nine months of 1999, Canadian frozen french exports registered a 20% increase over the similar period last year.

Canadian Frozen French Fry Exports by Calendar Year								
Units: metric tons								
HS 2004.10								
			Quantity			Jan-Sept	Jan-Sept	% Chng.
Rank	Country	1996	1997	1998		98	99	'99/'98
0	-- The World ---	273,103	401,867	483,977		347,632	417,476	20%
1	United States	211,746	324,107	409,945		294,347	338,964	15%
2	Japan	16,844	23,058	22,471		16,706	22,790	36%
3	Philippines	1,056	1,046	533		475	6,019	1167%
4	United Kingdom	104	25	805		23	4,881	21295%
5	Venezuela	2,445	4,565	5,897		4,594	3,527	-23%
6	Saudi Arabia	1,654	1,902	2,037		1,537	3,437	124%
7	Guatemala	2,827	3,475	3,593		2,508	3,311	32%
8	Taiwan	1,372	2,067	2,229		1,544	2,740	77%
9	Chile	946	2,396	2,918		2,146	2,660	24%
10	Malaysia	3,664	6,148	2,522		1,419	2,559	80%
11	Jamaica	1,360	1,914	2,129		1,386	2,000	44%
12	Singapore	1,847	2,724	2,436		1,685	1,940	15%
13	Korea, South	2,200	3,313	2,422		1,727	1,759	2%
14	Iceland	743	715	1,040		690	1,621	135%
15	Ireland	379	147	106		20	1,483	7420%
16	Trinidad-Tobago	2,504	3,145	2,113		1,538	1,469	-5%
17	Kuwait	1,031	654	1,054		783	1,327	69%
18	Neth. Antilles	1,772	1,043	1,145		779	1,316	69%
19	Brazil	4,430	4,415	4,377		3,168	1,099	-65%
	All Others	14,179	15,008	14,205		10,558	12,574	19%
Source: Derived from World Trade Atlas								

### **Section III. Policy**

#### **McCain to Refuse Genetically Modified Potatoes**

In late November 1999, McCain Foods Ltd., Florenceville, New Brunswick, one of the world's largest frozen french fry producers, announced that it would no longer buy genetically modified potatoes for its Canadian production facilities. The company claimed the action was in response to mounting pressure from Canadian consumers whose concerns over the use and labeling of genetically modified foods are increasing. According to the New Brunswick Department of Agriculture, less than 1% of that province's recent potato crop was genetically modified seed. In a press statement, McCain's chairman, Harrison McCain, claimed that the company believes that genetically modified material is very good science, but presently very bad public relations.

#### **Saskatchewan Potato Company Collapses**

As noted in the potato crop summary of this report, Saskatchewan potato acreage fell sharply in 1999. The development reflects the bankruptcy of the Lake Diefenbaker Potato Corporation (LDPC), a private potato production company prior to the 1999 planting season. A subsequent legal battle and a restructuring of the potato industry in the province, led to a production year (1999) where few growers were willing to plant a crop. As a result, Saskatchewan potato acreage fell 40% from a year earlier. Sask Water, the provincial crown corporation with responsibility for the province's irrigation system, reportedly incurred a multi-million dollar loss due to the bankruptcy of LDPC. Sask Water, as one of the creditors of LDPC, sold the fresh pack operations of LDPC in late 1999 and expects the Saskatchewan potato industry to make a recovery in the coming years.

### **Section IV. Marketing**

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.).

For further information, exporters are advised to contact the Canadian Food Inspection Agency (CFIA), Processed Products Division, Nepean, Ontario, telephone (613) 225-2342 or visit the CFIA packaging and labeling website at <http://www.cfia-acia.agr.ca/english/food/label/home.html>

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