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Potatoes and Potato Products Annual 2018

Report Categories:
Potatoes and Potato Products

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Report Highlights:
FAS/Ottawa forecasts a one percent decline in total potato production for marketing year 2018/19, following a challenging growing year for potato growers across Canada due to high temperatures and below average precipitation. Canadian imports of fresh potatoes are forecast to grow one percent in the year ahead on smaller production and lower carryover stocks. FAS/Ottawa expects frozen potato product production to rise two percent and exports one percent higher on steady domestic and foreign demand.

Keywords: Canada, CA18054, Potato, Potato Products

FRESH POTATOES

CANADA: FRESH Potatoes - Area, Production, Consumption, Trade						
Marketing Year: July/June	**MY2013/ 14**	**MY2014/ 15**	**MY2015/ 16**	**MY2016/ 17**	**MY2017/ 18**	**MY2018/ 19***
Area planted (hectares)	141,348	138,133	139,723	140,190	139,947	140,594
Area harvested (hectares)	139,632	136,362	137,553	138,123	138,491	138,800
Production (metric tons)	4,644,093	4,571,018	4,758,582	4,795,278	4,822,267	4,750,000
Imports (metric tons)	353,277	165,259	132,352	152,011	168,116	170,000
Exports (metric tons)	471,543	357,005	432,970	469,000	432,759	432,500
Domestic Disappearance** (metric tons), of which:	4,525,827	4,379,272	4,457,964	4,478,289	4,557,624	4,487,500
Fresh Consumption	*890,930*	*806,340*	*777,020*	*824,170*	*910,820*	*850,000*
For Processing	*2,925,779*	*2,879,741*	*2,997,906*	*3,021,025*	*3,038,028*	*3,100,000*
Waste	*744,730*	*753,150*	*804,180*	*789,380*	*762,290*	*760,000*
*Other****	*-35,612*	*-59,959*	*-121,143*	*-156,286*	*-153,514*	*-222,500*

Source: Statistics Canada, Global Trade Atlas & Post Estimates

* Except for planted area, all 2018/19 data are post forecasts

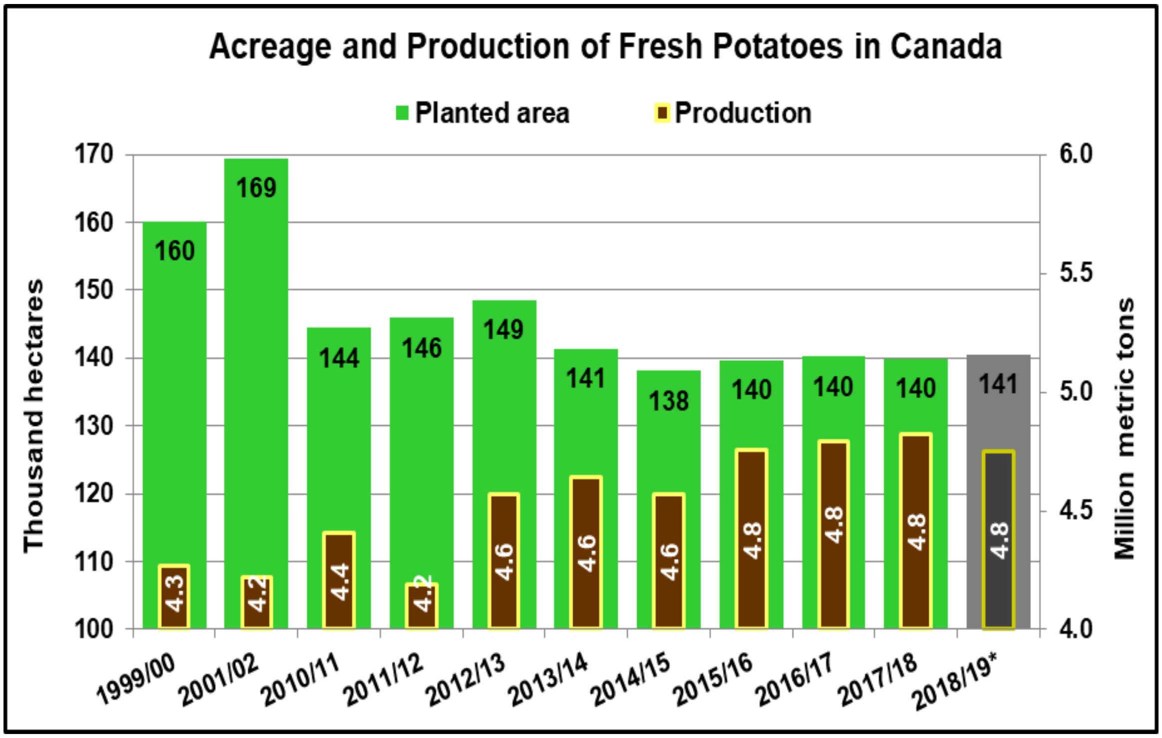
**All data are Post estimates derived from available Statistics Canada information

***Includes animal feed and change in stocks

Production

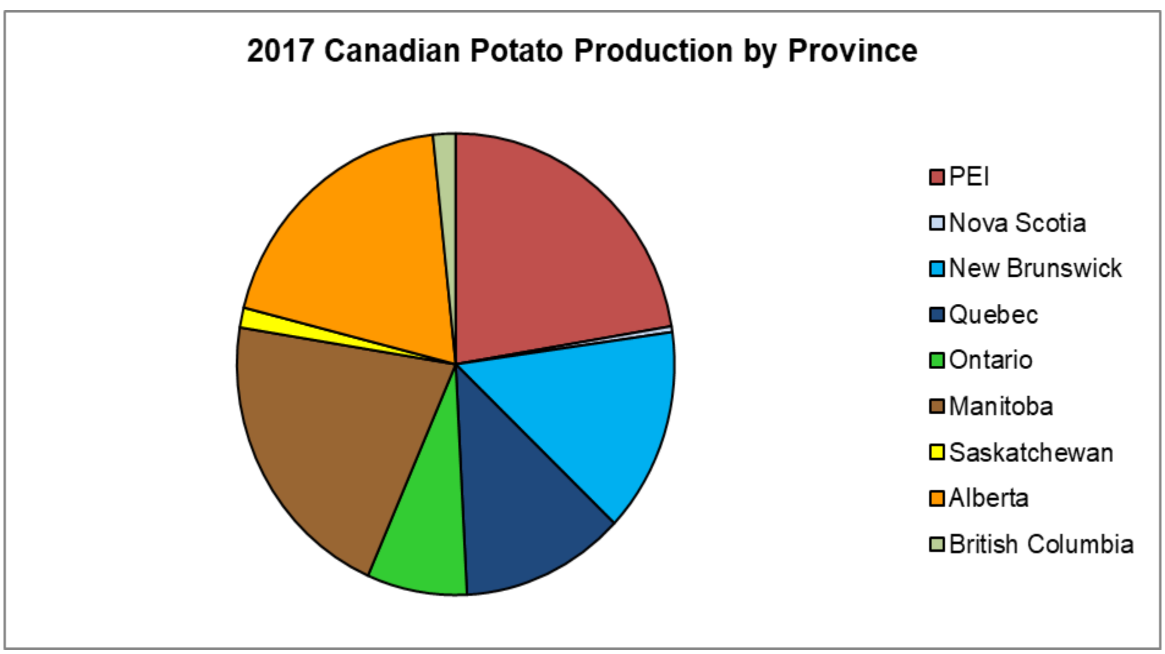
FAS/Ottawa forecasts total Canadian potato production to decline by one percent in marketing year (MY) 2018/19. Though total potato area planted expanded 647 hectares in MY 2018/19 season, dry growing conditions in the prairies and the number of consecutive high temperature days across most of Canada's potato growing regions are expected to reduce yields, more than offsetting higher area planted.

Total Canadian potato area planted has remained relatively stable, despite a 38 percent decline in the number of potato farms between 2006 and 2016. As a result, potato area has consolidated among fewer operators, driving up average farm size as older farmers have retired and as smaller, less profitable operations have exited the industry.

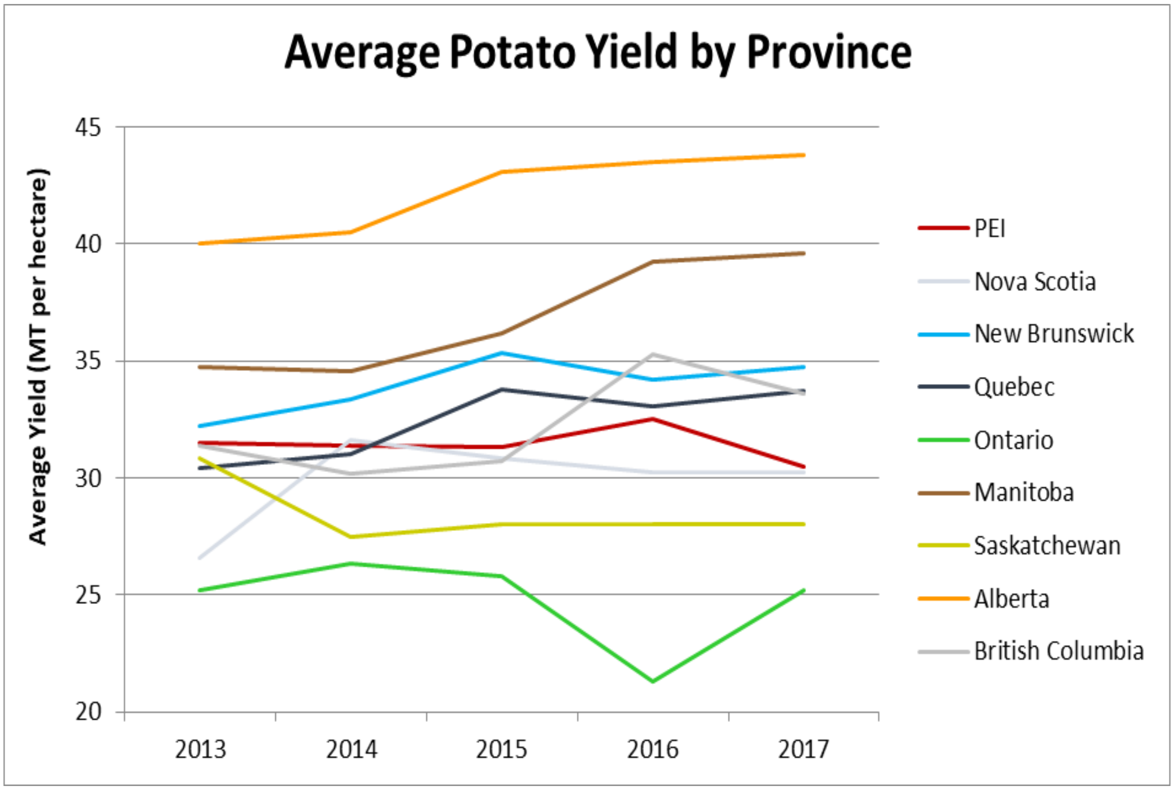


*Source: Statistics Canada. *FAS/Ottawa forecast for production*

PEI is expected to remain the top potato-producing province in MY 2018/19. However, increased area planted in Alberta and Manitoba coupled with greater flexibility in responding to weather-related challenges point to prairie provinces emerging as Canada's leading production area. This trend has been reinforced by the expansion of potato processing capacity in Manitoba, and Alberta, even as facilities in PEI have closed in recent years.

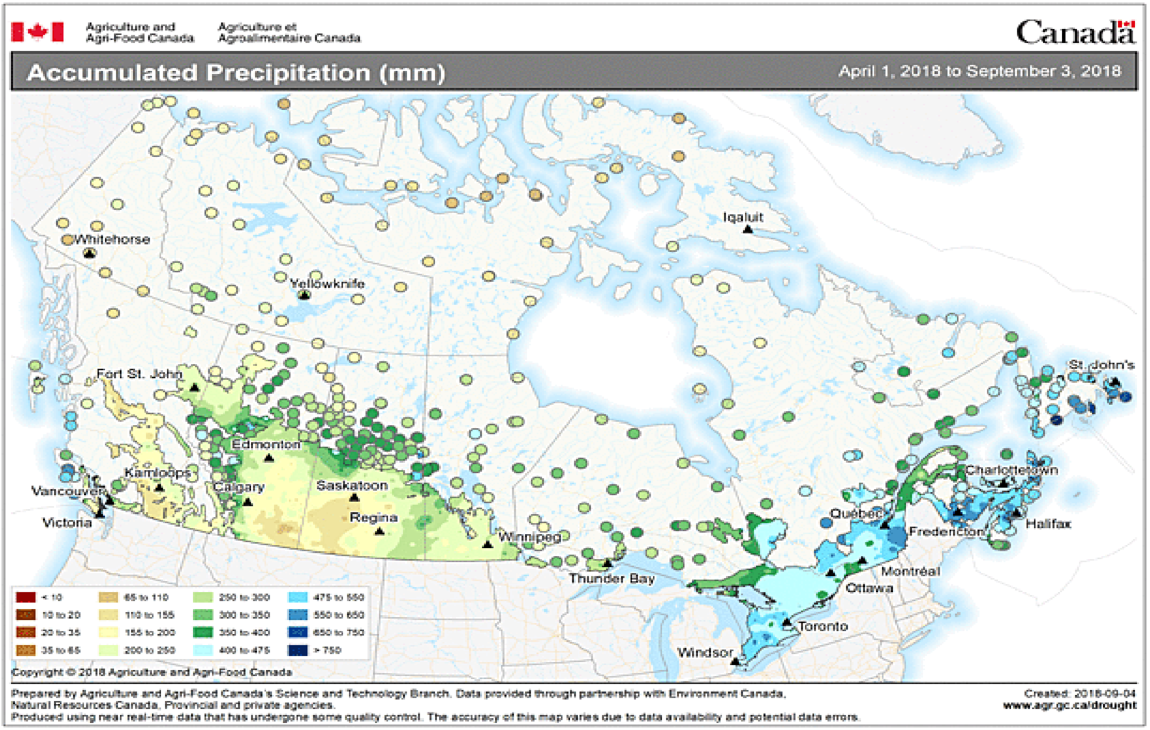


Source: Statistics Canada

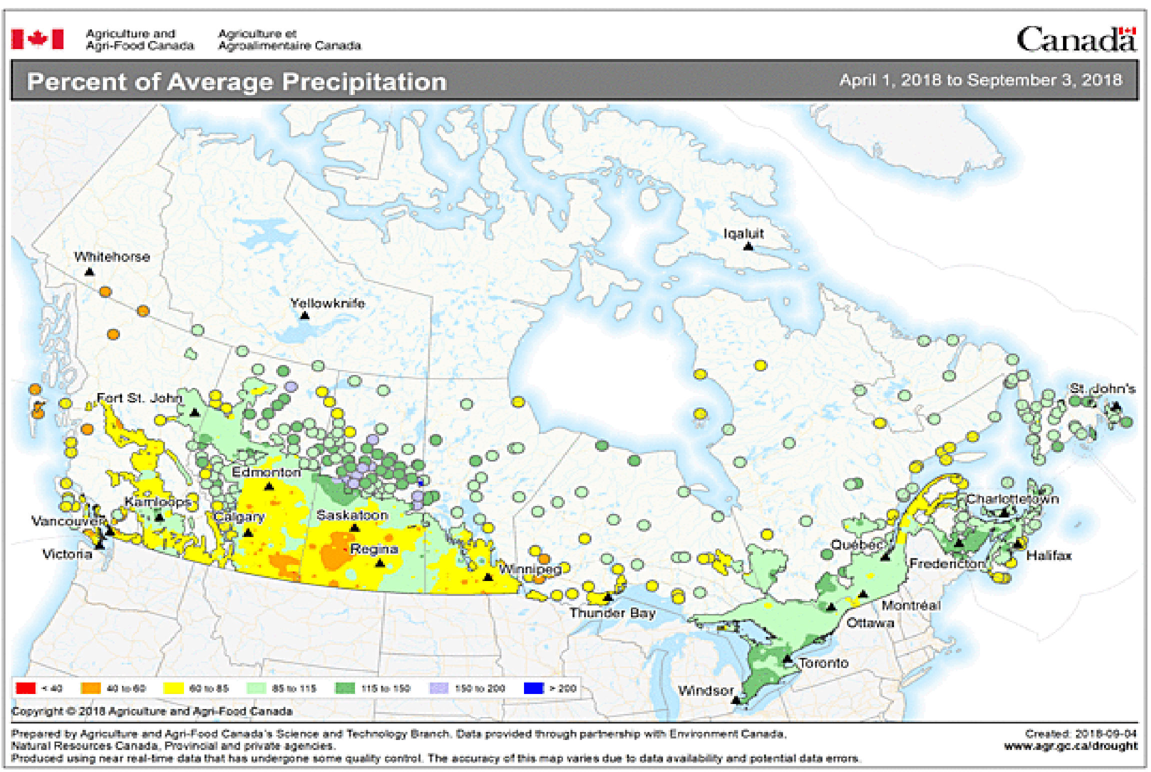


Source: Statistics Canada

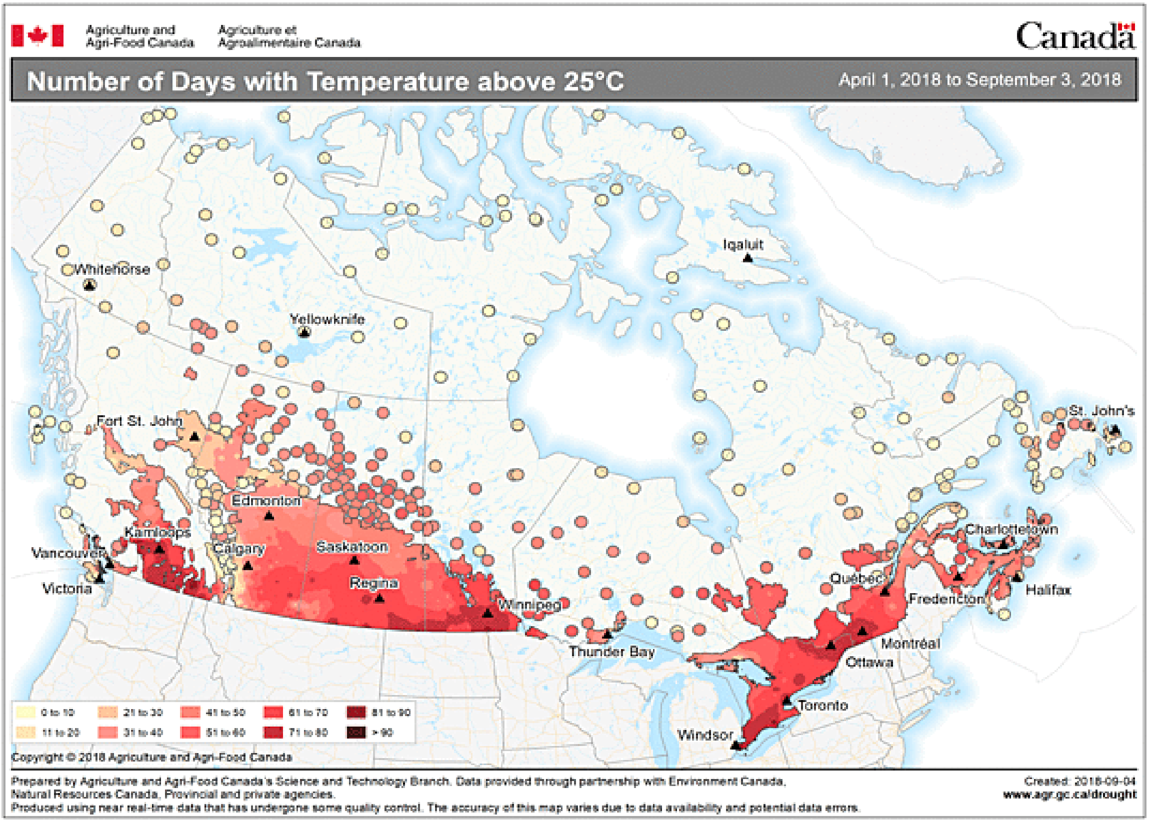
While irrigation has mitigated some of the dry conditions across in potato fields across Western Canada, growers in Prince Edward Island (PEI) have limited irrigation options due to a provincial moratorium on high capacity wells for agriculture. As such, hotter, dryer weather has taken a toll on PEI growers, who still lead all Canadian provinces producing approximately 25 percent of the national crop. A new provincial Water Act was passed in Fall 2017 and the expectation is that Regulations for the Act will address high capacity wells for agriculture. Regulations have not yet been announced and results from studies on the impact of high capacity wells on the water table have yet to be released, but with the moratorium in place, growers' only option for irrigation would be digging irrigation ponds, which sources report as prohibitively expensive. If dry summer conditions persist in PEI and if cost-effective irrigation options do not emerge, then Canadian potato production is likely to shift away from PEI and towards the prairie provinces, where yields this past year have, in some areas, been more than 40 percent higher than in PEI.



Source: Agriculture and Agri-Food Canada



Source: Agriculture and Agri-Food Canada

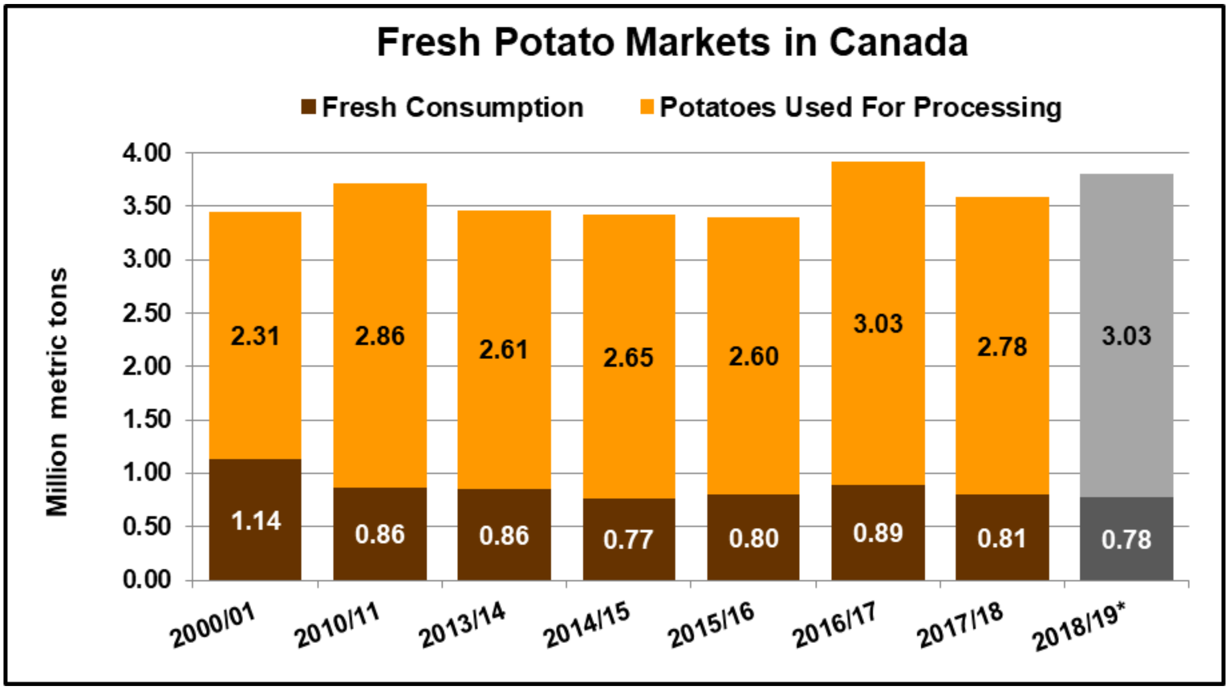


Source: Agriculture and Agri-Food Canada

Consumption

FAS/Ottawa forecasts a seven percent decline in Canadian consumption of fresh potatoes in MY 2018/19, as estimated consumption returns to recent average levels. Neither industry nor Government of Canada captures comprehensive data on Canadian domestic potato distribution. FAS/Ottawa has estimated Canadian consumption and distribution from available Statistics Canada data on domestic disappearance, calculated after accounting for production, trade, waste, and storage stocks. FAS/Ottawa also incorporated industry estimates, Agriculture and Agri-Food Canada (AAFC) intended utilization and storage data, as well as per capita availability of fresh potatoes.

Historical reports indicate that between 2006 and 2009 fresh potato consumption in Canada was between 22 and 27.9 kg per person with approximately 20 percent of overall production utilized as table potatoes for fresh consumption. The decline in per capita fresh potato consumption observed since the 1980's could rebound if potato industry has marketing campaigns focusing on the health benefits of fresh potatoes and healthy cooking methods successfully reach new generations of consumers. Rising consumer interest in "creamers," a smaller sized potato, and specialty breeds could also support great fresh consumption, especially if fresh potato prices remain competitive against other fresh vegetable prices in grocery stores.



*Source: FAS/Ottawa estimates based on Statistics Canada. *FAS/Ottawa forecast*

Prices

Agriculture and Agri-Food Canada (AAFC) provides market information for a number of commodities, including potatoes. The most recent weekly price data is June 2014. The most recent daily price data is June 2011. Price information is available at the following web link:
Potato Reports or by contacting AAFC InfoHort directly. Alternatively, the most recent Potato Market Information Review, including pricing, is available for 2015/16.

Trade

Imports

Canada: Imports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
World	**315,530**	**353,277**	**165,259**	**132,352**	**152,011**	**168,116**
United States	315,446	353,139	165,159	132,204	151,867	167,923
Market share:	*99.97%*	*99.96%*	*99.94%*	*99.89%*	*99.91%*	*99.89%*

Source: Global Trade Atlas

Virtually all Canadian fresh potato imports are from the United States. FAS/Ottawa forecasts imports to grow one percent for MY 2018/19. This growth will represent a second consecutive year of increased fresh imports following a 52 percent decline in imports from MY 2013/14 to MY 2014/15 and a further 20 percent decline in MY 2015/16. The original decline in MY 2014/15 was reportedly a result of increased production in MY 2013/14. However, as production has steadily expanded from MY 2014/15, the reversal in decreased imports would suggest that potato demand and utilization has increased in Canada. Sources report that this increased import activity is likely a result of increased export activity and subsequent depletion of storage stocks. Despite a strong production year in MY 2017/18, FAS/Ottawa has heard from packing operations that potato stocks were drawn down by end of MY 2017/18. Lower stocks, sustained demand, and lower forecasted production in MY 2018/19 point toward strong import activity in MY 2018/19.

Exports

Canada: Exports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
World	**324,137**	**471,543**	**357,005**	**432,970**	**469,000**	**432,759**
United States	268,230	420,691	322,558	385,652	435,812	406,070
Market share:	*83%*	*89%*	*90%*	*89%*	*93%*	*94%*
Indonesia	14,285	17,108	11,480	5,992	5,964	5,040
Thailand	10,291	7,999	8,960	9,629	5,493	6,986
Trinidad & Tobago	15,376	6,892	7,816	16,884	11,497	6,343
All other countries	15,955	18,853	6,191	14,813	10,234	8,320

Source: Global Trade Atlas

FAS/Ottawa forecasts fresh potato exports to remain flat in MY 2018/19 on lower production forecasts and ample supplies in the United States. The United States remains the dominant export market for Canadian fresh potatoes. Increased U.S. area planted combined with expanded production in other export markets will contribute to exports remaining flat.

Policy

Potato Promotion and Marketing Agency

The Canadian potato industry has discussed the establishment of a national promotion and marketing agency to facilitate research and marketing for the industry for several years. A feasibility study was conducted in 2014 and the industry is reportedly continuing outreach activities with the goal of creating an agency.

Ministerial Exemptions

Potatoes are one of 30 produce products for which Canada regulates trade on domestic commerce and on imports. Provided that products meet Canadian phyto-sanitary requirements, there are virtually no restrictions on potato shipments compliant with the Fresh Fruit and Vegetable Regulations, including imports. Under these Regulations, potatoes may be sourced from any point of origin provided:

- quality and grading standards of Canada No. 1 grade are met
- potatoes are not artificially colored
- potatoes are contained in packaging less than 50 kg

Grade compliant potatoes in bulk packaging greater than 50 kg are inadmissible according to the Fresh Fruit and Vegetable Regulations. However, the Canadian Food Inspection Agency (CFIA) may grant a Ministerial Exemption (ME) to the Regulations on a case-by-case basis. Among the Regulations that may be waived under an ME, are:

- packaging (e.g., size of package),
- labeling (e.g., required labeling content),
- or quality (e.g., Canada No. 1 grade).

MEs are granted in order to prevent or alleviate a supply shortage of potatoes in Canada. Applicants for an ME may submit evidence on a case-by-case basis or based on 60-day forward contracts. MEs are issued as province-specific and product admitted to Canada under an ME may not be transferred into another province. Additionally, for U.S. applicants, an ME is granted on a state-specific basis and potatoes from other states may not enter Canada under another state's ME. CFIA is responsible for determining whether the ME request will be granted, in full, in part, or declined. An ME may cover multiple loads but is only valid up to the number of loads approved by CFIA at the time of issuance. All MEs expire on December 31 of the year in which they are issued.

British Columbia

The province of British Columbia (BC) has sustained an anti-dumping action against the United States for whole potatoes since 1983. This action, renewed at 5-year intervals, maintains anti-dumping duties on whole potatoes originating in or exported from the United States for use or consumption in the province of British Columbia. These duties are administered by the Canadian Border Services Agency (CBSA) under the Special Import Measures Act (SIMA). Most data used to substantiate the CBSA findings of "dumping" by U.S. growers (specifically Washington State potato growers) are held 'in camera' by the Canadian International Trade Tribunal (CITT). However, the CITT exempts the following categories from the anti-dumping action.

British Columbia Anti-Dumping Exclusions:

- Imports occurring from May 1-July 31

- seed potatoes
- red potatoes
- yellow potatoes
- exotic potatoes
- white and russet potatoes imported in 50lb cartons in counts of: 40, 50, 60, 70, or 80
- certified organic whole potatoes

SIMA Duties on U.S. Whole Potatoes

Year	Value for Duty	Quantity	Value for Duty Subject	Quantity Subject	SIMA Duties
2017	$30,068,412	200,149 MT	$8,386,904	98,613 MT	$212,998
2017	$50,008,639	337,559 MT	$6,437,093	88,102 MT	$216,562
2015	$44,854,024	610,275 MT	$7,111,934	260,707 MT	$321,550
2014	$27,776,945	847,511 MT	$6,916,848	285,183 MT	$394,564

Source: Canadian Border Services Agency. All values in CAD.

British Columbia enforces production controls on potato growers within the province. These controls are regulated through the British Columbia Farm Industry Review Board and BC potato growers acquire a delivery allocation or quota based on five year production averages and market demand. The BC Vegetable Marketing Commission oversees the regulated marketing of potatoes in the province.

CETA

The Comprehensive Economic and Trade Agreement (CETA) between the Canada and the European Union was signed into force in September 2017. Under CETA, Canadian exports of fresh or chilled potatoes are duty free, while the most favored nation (MFN) rate for 2018 is set at 13.4 percent.

CPTPP

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed in principle by the eleven participating countries in March 2018. The Liberal Government in Canada introduced legislation to ratify the CPTPP agreement in June 2018, but it is not clear when the measure (Bill C-79) will receive royal assent or when the CPTPP agreement will enter into force; six member states must ratify for the agreement to take effect. With indications that Canada intends to be among the first six to ratify, sources indicate that the Liberals could push the measure through before the Parliament rises for the holidays in mid-December. Under CPTPP, Canada will see an elimination or gradual reduction of tariffs on fresh/chilled potato product exports to Japan.

FROZEN POTATO PRODUCTS (HS 200410)

CANADA: FROZEN POTATO PRODUCTS (HS 200410) - Production, Consumption, Trade						
Marketing Year: July/June	**MY2013/14**	**MY2014/15**	**MY2015/16**	**MY2016/17**	**MY2017/18**	**MY2018/19***
Production**	1,118,680	1,101,078	1,146,258	1,155,098	1,161,599	1,185,300
Imports	41,735	52,789	43,049	48,578	51,231	51,000
Exports	930,046	936,815	989,650	1,015,786	1,079,714	1,090,000
Dom. Consumption**	0	0	0	0	0	241,500

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

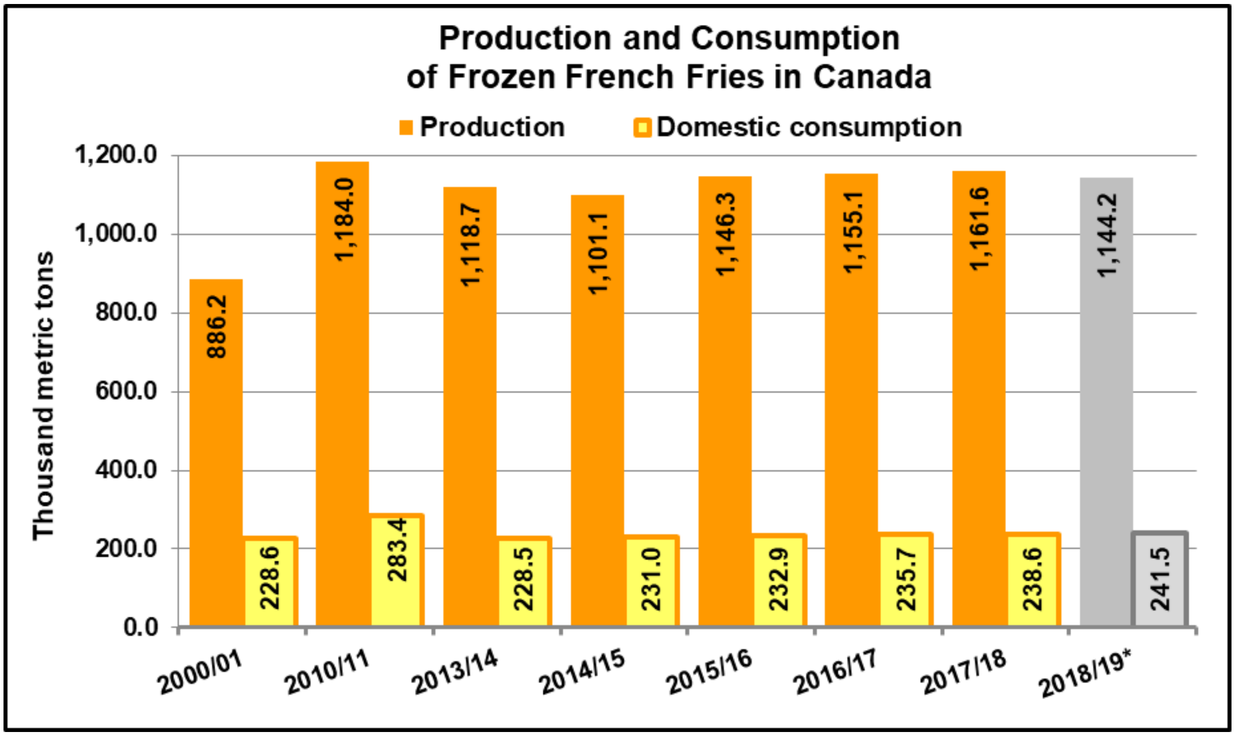
Production

FAS/Ottawa forecasts a two percent increase in frozen potato product production for MY 2018/19 on increased production of potatoes for processing, increased processing capacity, increased consumption of processed potatoes, and increased export activity.

In 2017, a McCain's frozen potato product processing plant in New Brunswick expanded its production line by 35,000 square feet, increasing utilization by an estimated 4,000 acres of potatoes. Current reports suggest that the intention is to supply this facility solely through New Brunswick potatoes and while that should not be an issue given production in the province, in poorer growing years the plant may also source from PEI, Quebec, or from the northeastern United States. McCain's also expanded production capacity at its Coaldale, Alberta french fry plant by 15 percent in 2017. The Coaldale plant expansion should have no trouble sourcing additional potato supplies in Alberta.

Simplot announced an expansion at its Manitoba facility in early 2018 that would reportedly double french fry production capacity there. Construction will not be completed until late 2019, however, industry reports suggest that contracts for processing potatoes were already up in MY 2018/19 to ensure sufficient supplies will be available when the expansion comes online. A new $275 million Cavendish processing facility in Lethbridge, Alberta, also expected to be completed in late 2019, would reportedly triple the frozen potato production capacity of Cavendish's current Lethbridge facility and require a further 9,000-10,000 acres of potatoes to operate at capacity.

Production and processing growth in New Brunswick and Western Canada have more than offset production and processing challenges in PEI. After McCain shuttered its PEI processing plant in 2014, Cavendish remained as the sole processor on the island. Cavendish opened a new, state-of-the-art storage facility in fall 2017 at their processing facility, which should mitigate shrink. However, as a result of higher temperatures and dryer growing conditions in PEI, Cavendish has reportedly faced challenges sourcing potatoes for the plant. In 2017, the company sourced potatoes from as far away as Alberta in order to maintain production throughput, significantly raising the facility's operating cost despite an Alberta practice of capping prices on open, non-contracted potatoes at no more than $4 per hundred weight to discourage overproduction. Sources also indicate that Cavendish was sourcing potatoes out of Maine, a trend likely to continue in MY 2018/19 as PEI supplies are expected to remain lower.



*Source: FAS/Ottawa estimates based on Statistics Canada. *FAS/Ottawa forecast*

Consumption

Similar to fresh potatoes, Canadian frozen potato product consumption data is incomplete. FAS/Canada estimated consumption numbers using industry statistics, AAFC intended utilization and storage data, and historical trends. Approximately 60 percent of potatoes grown in Canada are destined for processing in a given year. Furthermore, of the total processing volume, approximately 65 percent are used for frozen potato products. Using the industry reported fresh equivalent conversion factor of 1.7 to convert from fresh equivalent, FAS/Ottawa forecasts two percent growth in frozen potato production for MY 2018/19, bolstered by significant processing investments.

Global demand for frozen potato products, especially french fries, has been increasing in recent years. Estimates suggest that Canadians consume approximately 6.5 kg of frozen potato products per person per year. Therefore, FAS/Ottawa forecasts a one percent rise in total consumption MY 2018/19, as per capita consumption is projected to remain flat as health conscious consumers trim back their french fry consumption.

Trade

Imports

Canada: Imports of frozen potato products (HS 200410)

Marketing year: July-June / Quantity in metric tons

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/2018
World	**58,178**	**41,735**	**52,789**	**43,049**	**48,578**	**51,231**
United States	41,670	39,748	52,023	41,259	45,525	48,507
Export Market Shares						
United States	71.6%	95.2%	98.5%	95.8%	93.7%	94.7%

Source: Global Trade Atlas

Canadian imports of frozen potato products are not significant, at less than five percent the size of total frozen potato product export volumes. Canada is a major frozen potato product processor and increasingly export oriented as domestic consumption remains relatively static. Canadian imports are largely from the United States in response to geographic proximity and transportation differentials. FAS/Ottawa forecasts imports to be steady for MY 2018/19.

Exports

Canada: Exports of frozen potato products (HS 200410)

Marketing year: July-June / Quantity in metric tons

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/2018
World	**902,008**	**930,046**	**936,815**	**989,650**	**1,015,786**	**1,079,714**
United States	742,183	790,956	769,874	830,382	883,286	942,224
Japan	35,460	36,465	34,639	19,146	18,204	18,822
China	10,587	17,081	26,036	21,422	6,955	3,456
Mexico	25,606	10,261	25,724	25,489	25,814	33,157
Philippines	1,955	2,646	5,745	3,909	16,873	16,678
Korea South	1,289	2,561	5,367	8,552	11,321	14,235
All other countries	84,928	70,076	69,430	80,750	53,333	51,142
Export Market Shares						
United States	82.3%	85.0%	82.2%	83.9%	87.0%	87.3%
Japan	3.9%	3.9%	3.7%	1.9%	1.8%	1.7%
China	1.2%	1.8%	2.8%	2.2%	0.7%	0.3%
Mexico	2.8%	1.1%	2.7%	2.6%	2.5%	3.1%
Philippines	0.2%	0.3%	0.6%	0.4%	1.7%	1.5%
Korea South	0.1%	0.3%	0.6%	0.9%	1.1%	1.3%

Source: Global Trade Atlas

Canada will continue to export the vast majority of its frozen potato product in MY 2018/19. Exports are projected to rise one percent to 1,090,000 MT in MY 2018/19 on expanded processing capacity and production and as well as continued strong demand from foreign markets, although competition for those markets has been steadily increasing.

The United States remains Canada's largest export market, buying, on average, 80-90 percent of Canada's total exports. Canadian exports to the Philippines and South Korea increased markedly in MY 2016/17 and MY 2017/18. The Canada-Korea Free Trade Agreement was signed into force in 2015, creating duty free access for Canadian frozen potato products. Building on exploratory free trade discussions with the Philippines in 2015, Canada opened consultations with the 16-member states of ASEAN (including the Philippines) in 2017. A Canadian public comment period on an ASEAN free trade agreement is open through October 16, 2018. As Canada seeks greater diversification of its export markets, interest in Asian export markets, beyond CPTPP, is likely to remain high.

Policy

CETA

The Comprehensive Economic and Trade Agreement (CETA) between the Canada and the European Union (EU) was signed into force in September 2017. Under CETA, Canadian exports of frozen potato products are duty free while the MFN rate for 2018 is set at 14.4 percent.

Canadian frozen potato product exports to the EU increased 1,400 percent in MY 2017/18 compared to MY 2016/17. However, the EU remains a small market for Canadian exports and the economic significance of CETA for frozen potato product exports is not evident at this time.

CPTPP

Upon implementation of the CPTPP, Canada would see an elimination or gradual reduction of tariffs on frozen potato products exported to CPTPP countries. For frozen french fries specifically, Canadian exports benefit from:

- immediate elimination of five percent tariffs on exports to Australia and New Zealand;
- elimination of tariffs up to 8.5 percent over three years on exports to Japan;
- elimination of tariffs of 24 percent over three years on exports to Vietnam.