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Canada

Potatoes and Potato Products Annual

2011 - Modest Growth after Several Years of Decline

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Report Highlights:
As a result of increased volume in potato processing contracts growers have expended the planted areas. The estimated seeded acreage for the 2011/2012 marketing year is up 1.6 percent compared to the previous year, but lower yields are expected due to an excessively wet spring. Nevertheless, Post forecasts a modest increase in production, as well as a decline in exports back to more traditional levels. Production, exports and consumption of frozen fries are all forecast to increase.

Executive Summary:

- As Canadian growers take advantage of a surge in potato processing contracts, Post forecasts a modest increase of 0.8 percent in the production of fresh potatoes, up to 4.45 million metric tons (MT) during the marketing year (MY) 2011/12 compared to 4.413 million MT recorded in MY 2010/11.

- Statistics Canada reported an increase of 1.6 percent in planted areas, up to 146,623 hectares from 144,356 hectares during MY 2010/11. However, yields are expected to decline this year, given a cold and wet seeding season across the country, and severe flooding in the West.

- The size of the Canadian market for fresh potatoes destined to processing is about 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) for the export market. In Canada consumption of fresh potatoes has seen a slow decline over the past decade, but seems to have stabilized over the past few years.

- Given domestic market trends Post forecasts fresh potato consumption at 880,000 MT for MY 2011/12, up 0.8 percent compared to one year earlier. Post also forecasts a more significant increase of 5.5 percent in the potato processing market, up to 2.8 million MT, after a 7 percent decline in the previous year.

- Imports of fresh potatoes are forecast to decrease 12.4 percent to 250,000 MT after a 26 percent surge last year. Exports are also forecast to decrease 23 percent to 400,000 MT after a 39 percent surge one year earlier which was triggered by a decline in processing contracts resulting in additional supplies of fresh potatoes available for export.

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- Production, exports and consumption of frozen french fries are all forecast to increase in the current marketing year: production by 6.8 percent, up to 1.13 million MT (after a 10 percent drop last year); exports by 3.4 percent up to 910,000 MT; and consumption by 1 percent up to 270,000 MT.

- Canada's top potato producing provinces in order are Prince Edward Island, Manitoba, New Brunswick, Alberta, 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 is the mid-September to late October period. They are marketed from storage facilities to fresh and processing markets over the following ten months.

FRESH POTATOES

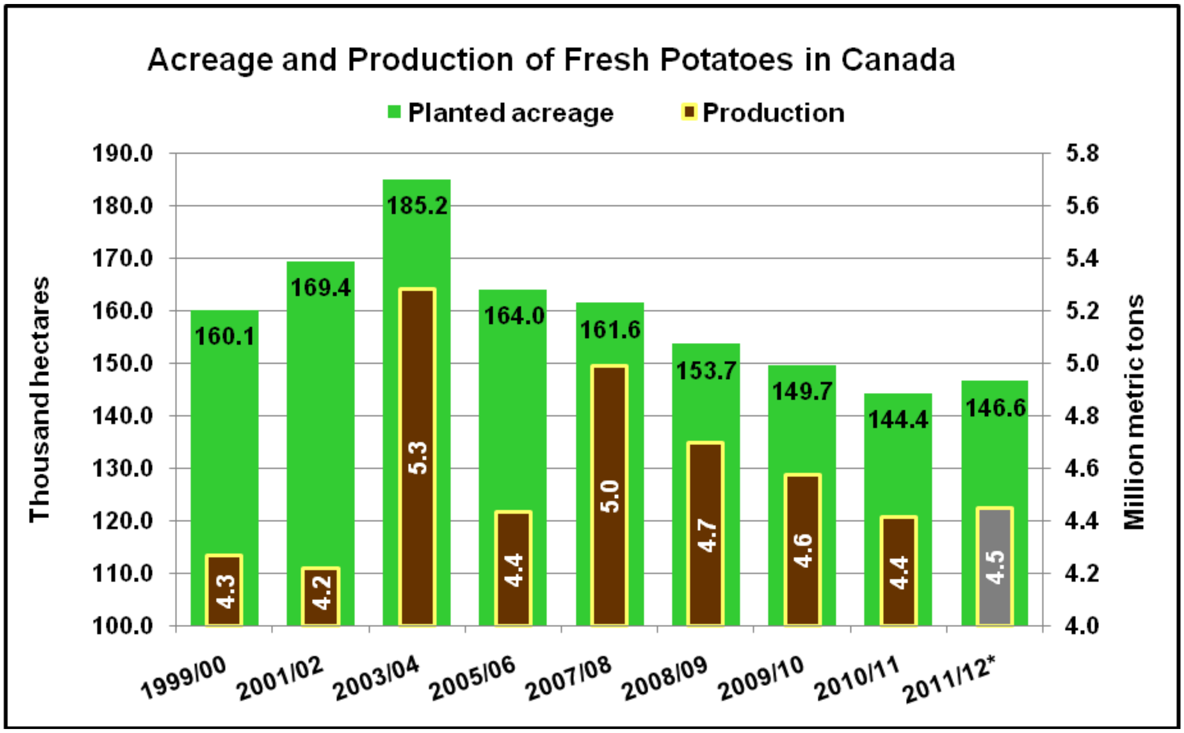
CANADA: FRESH Potatoes - Area, Production, Consumption, Trade						
Marketing Year: July/June	**MY2006/07**	**MY2007/08**	**MY2008/09**	**MY2009/10**	**MY2010/11**	**MY2011/12***
Area planted (hectares)	162,649	161,556	153,746	149,699	144,356	146,623
Area harvested (hectares)	158,238	159,937	151,115	145,571	139,217	145,000
Production (metric tons)	5,091,252	4,988,784	4,697,482	4,574,964	4,412,575	4,450,000
Imports (metric tons)	158,324	170,732	167,812	226,567	285,411	250,000
Exports (metric tons)	464,049	511,890	440,672	372,064	517,744	400,000
Domestic Disappearance** (metric tons), of which:	4,785,527	4,647,626	4,424,622	4,429,467	4,180,242	4,300,000
Fresh Consumption	*955,450*	*900,380*	*851,180*	*864,830*	*873,190*	880,000
For Processing	*2,869,390*	*2,965,680*	*2,888,030*	*2,853,120*	*2,653,090*	2,800,000
*Other****	*960,687*	*781,566*	*685,412*	*711,517*	*653,962*	*620,000*

Source: Statistics Canada, Global Trade Atlas & Post Estimates
* Except for plantings, all 2011/12 data are post forecasts
**All data are Post estimates derived from available Statistics Canada information
***Includes waste, animal feed and change in stocks

Production:

A recent increase in potato processing contracts in the west resulted in additional acreage being planted by growers, reversing a declining trend that lasted for over five years. Acreage data released by Statistics Canada showed that areas planted in 2011 at national level were up 1.6 percent from the 2010 numbers, with Alberta experiencing the largest increase of 10 percent in plantings, followed by Manitoba with a 4 percent increase. Saskatchewan, by contrast, showed the greatest decline of 7 percent in planted areas. Total potato area planted in 2011 stands now at 146,623 hectares, still a decline of 20.8 percent from the 2003 planted acreage of 185,150 hectares, the record year in terms of planted area in over a decade.

Post forecasts a modest increase of 0.8 percent in the production of fresh potatoes, up to 4.45 million metric tons (MT) during the marketing year (MY) 2011/12 compared to MY 2010/11. Despite the increase in planted areas, yields are expected to decline from last year, given a cold and wet seeding season across the country and significant floods in the west. The industry is likely to show a minimal expansion this year, after many years of contraction that started several years ago, as consumption of potatoes declined.



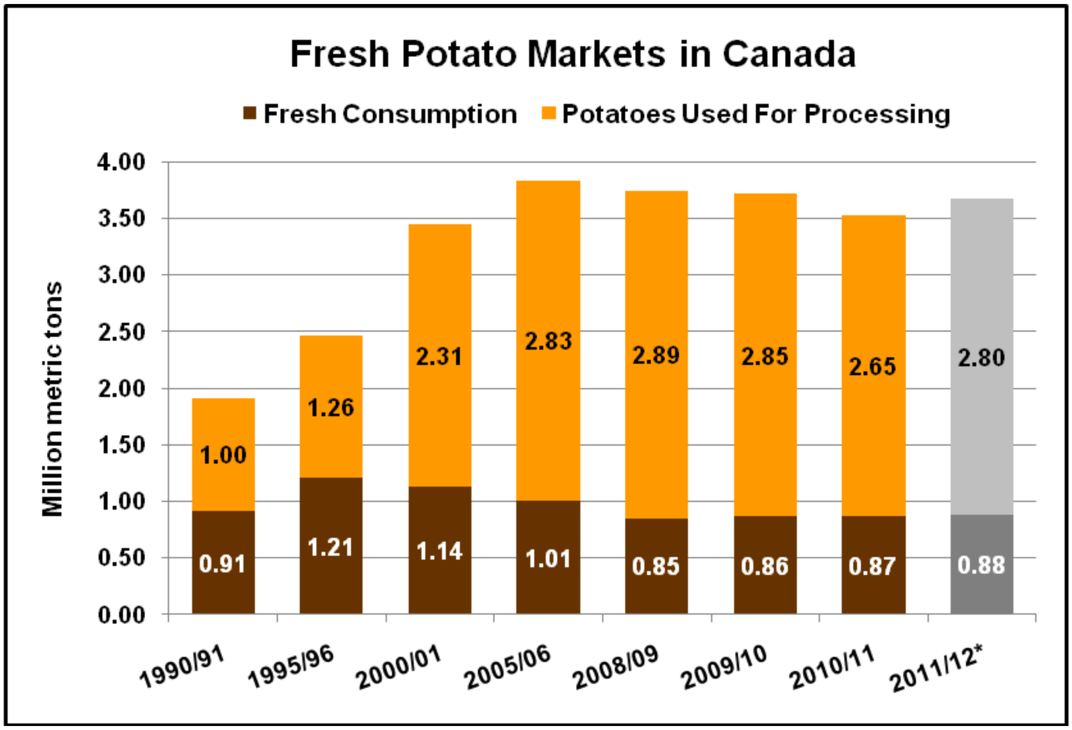
Source: Statistics Canada / *Post forecast for production

In recent years, 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 in decline for a number of years and the consumption of processed potatoes (mostly as frozen french fries) took a hit during the recession years, especially through the impact on the restaurant sector. Currently, growers remain focused on their financial bottom lines and seem to be more responsive to market demand, most of them planting enough to meet known and stable markets, and taking advantage of the 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 fresh 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 10 years the market for fresh potatoes in Canada utilized about 20 to 25 percent of the total amount of fresh potatoes available. Similarly, the size of the processing market represented between 50 and 60 percent of available fresh potatoes. This reflected the development of the frozen french fries industry in Canada starting from the late 1990s. About 6 to 8 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 the consumption of fresh potatoes at 880,000 MT for MY 2011/12, up 0.8 percent from MY 2010/11. It has to be mentioned that Canadians have steadily reduced their consumption of potatoes over the past decade. Year 2009 was the first time since this declining trend started when Statistics Canada reported an increase in the amount of potatoes in the diet, followed by 2010 with another modest increase. The data suggest that the market is stabilizing around these consumption levels, with growth expected to follow the general increase in Canadian population.

Given the additional processing contracts, Post forecasts for MY 2011/12 a 5.5 percent increase, to 2.8 million MT, in the size of the market for fresh potatoes destined to the processing industry. This increase follows many years of declining consumption in processed potatoes such as frozen french fries and chips, largely attributable to consumers being more conscious about their diets and their concern with eating healthier food, and declining exports of frozen french fries as a result of a very strong Canadian dollar.

Trade:

Imports

Virtually all of Canada's imports of fresh potatoes come from United States. For MY 2011/12 Post forecasts a decline of 12.4 percent in imports of fresh potatoes, down to 250,000 MT from their level one year earlier, due to expected increased domestic supplies. During the MY 2010/11 Canada imported 285,411 MT of fresh potatoes, up 26 percent from MY 2009/10, a volume much larger than expected and reflecting a lower production in Canada.

Canada: Imports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
World	**189,814**	**158,324**	**170,732**	**167,812**	**226,567**	**285,411**
United States	189,780	158,266	170,684	167,653	226,403	285,281

Source: Global Trade Atlas

Exports

Post forecasts a decline of 23 percent in Canadian exports of fresh potatoes during MY 2011/12, down to 400,000 MT. This follows a surge in exports by 39 percent during MY 2010/11 when the exported volume reached 517,744 MT given the additional supplies of fresh potatoes on the market resulting from shrinkage in processing contracts. With the recent adjustments made by the industry in order to bring production more in line with market demand, supplies will remain tight for the foreseeable future.

Traditionally, the United States is the largest export market for Canadian potatoes, absorbing, at times, over 90 percent of total volumes. Last year, Russia and Trinidad & Tobago emerged as large importers, together accounting for almost 14 percent of exports, while the U.S. share dropped to 76 percent.

Canada: Exports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
World	**311,390**	**464,049**	**511,890**	**440,672**	**372,064**	**517,744**
United States	276,111	399,668	444,958	414,027	342,305	395,521
Market share:	*89%*	*86%*	*87%*	*94%*	*92%*	*76%*
Russia	0	0	1,184	0	0	48,565
Trinidad & Tobago	7,278	20,986	21,520	2,046	1,907	21,098
Indonesia	0	2,770	2,756	2,146	4,410	11,984
Thailand	5,312	7,918	6,312	8,750	8,825	10,090
Barbados	4,004	6,258	5,294	1,483	382	6,799
Dominican Republic	6,126	3,152	5,398	2,250	3,311	3,738
Venezuela	4,260	0	0	0	4,753	3,500
All other countries	8,299	23,297	24,468	9,970	6,171	16,449

Source: Global Trade Atlas

Policy:

<u>Government Invests in Research to Improve Pest Management for Potato Growers</u>

The Centre de recherche Les Buissons inc. will receive up to C$700,000 to develop an integrated parasite management strategy to combat potato cyst nematodes (PCN). The funding will go towards studying the biological traits of the parasites in order to reduce the population below detectable levels. Researchers will be looking in particular at PCN virulence and resistance when exposed to different varieties of potatoes. The project will also study alternative, biological controls and develop best practices to limit the risk of contamination, such as using resistant potato varieties in rotation.

Government Supports Marketing Canadian Spuds

An investment of C$743,000 will help the Canadian Horticultural Council (CHC) to increase exports and improve record-keeping systems for potato growers. CHC will undertake international market development and export promotion activities for the potato sub-sector. The CHC will develop new promotional materials, participate in trade shows and international trade missions to showcase these tubers. The CHC will also work towards determining the feasibility and the cost to improve farm record keeping with GPS technology.

FROZEN FRENCH FRIES

CANADA: FROZEN FRIES - Production, Consumption, Trade

Marketing Year: July/June	MY2006/07	MY2007/08	MY2008/09	MY2009/10	MY2010/11	MY2011/12*
Production**	1,179,965	1,223,729	1,189,676	1,184,088	1,062,676	1,135,000
Imports	45,437	42,234	41,873	43,643	43,326	43,000
Exports	1,025,146	984,178	973,561	904,343	879,941	910,000
Dom. Consumption**	240,694	258,871	268,006	283,353	267,259	270,000

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

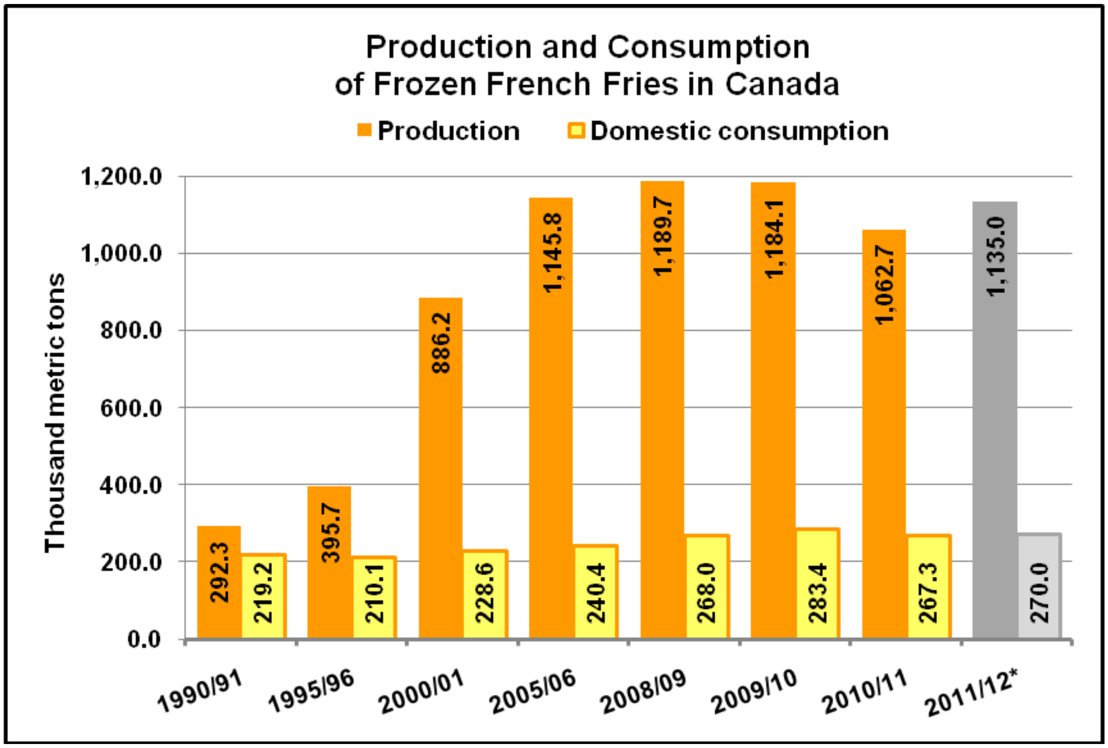
*Post forecast

**Post estimates derived from available Statistics Canada information

Production:

For MY 2011/12 Post forecasts an increase of 6.8 percent in frozen french fry production, up to 1.13 million MT from a modest 1.06 million MT recorded in MY 2010/11. Last year's production was more than 10 percent below recent levels, reflecting a weak demand both domestically and on export markets, consequence of the recession period and struggle of 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 U.S. markets enabled potato processors to expand exports of frozen french fries to the United States, especially to the foodservice sector.



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 and a persistently strong Canadian dollar vis-a-vis the U.S. dollar.

Consumption:

While Canadian production of frozen french fries, driven by exports, more than tripled over the past 20 years, not the same can be said with respect to 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 tiny 6.6 percent, or an annual average growth rate of 0.3 percent. This trend is not likely to change in the future; on the contrary, one may see a flattening or even declining per capita consumption of frozen fries in Canada as consumers become increasingly concerned with their diet. For MY 2011/2012 Post forecasts a modest increase of 1 percent in overall consumption, up to 270,000 MT.

Trade:

Imports
Relative to the significant quantities of Canadian frozen french fries exported, Canadian imports of frozen french fries are small. In part, this reflects the dominance of the major Canadian manufactures 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 2010/11, almost exclusively from the United States, totaled 43,326 MT.

Exports

Post forecasts a 3.4 percent increase in Canadian exports of frozen french fries for MY 2011/12, up to 910,000 MT from 879,941 MT one year earlier. Tight supplies and low stocks are driving this trend, despite the strong Canadian dollar, which stayed above parity with the U.S. dollar for a good part of 2011.

The export volume of 879,941 MT recorded for MY 2010/11 was 2.7 percent below the previous year level and marked the fourth consecutive year of decline, for a total drop of 14.2 percent since 2006/07. This was largely due to low exports towards United States, which usually account for close to 80 percent of the Canadian export market. During that 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 contributed to the declining exports.

(Table on the following page)

Canada: Exports of frozen french fries

Marketing year: July-June / Quantity in metric tons

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
World	**956,411**	**1,025,146**	**984,178**	**973,561**	**904,343**	**879,941**
United States	742,838	787,872	764,356	780,762	712,986	715,162
Mexico	32,031	36,543	38,212	41,677	57,169	45,429
Japan	46,093	42,193	41,940	33,781	28,275	31,559
Venezuela	18,953	16,889	16,585	17,712	13,010	11,713
Philippines	7,533	5,167	5,022	10,236	10,712	9,791
Costa Rica	10,134	12,589	12,899	12,575	13,363	8,412
China	16,673	16,406	9,813	4,740	3,365	6,961
Saudi Arabia	6,629	14,950	15,528	8,975	11,830	5,235
All other	75,527	92,537	79,823	63,103	53,633	45,679
Export Market Shares						
United States	77.7%	76.9%	77.7%	80.2%	78.8%	81.3%
Mexico	3.3%	3.6%	3.9%	4.3%	6.3%	5.2%
Japan	4.8%	4.1%	4.3%	3.5%	3.1%	3.6%
Venezuela	2.0%	1.6%	1.7%	1.8%	1.4%	1.3%

Source: Global Trade Atlas