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Canada

Potatoes and Potato Products Annual

2014

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Report Highlights:
Post forecasts a reduction in fresh potato production, a modest increase in exports and mild decline in imports based on a weaker Canadian dollar. The frozen french fry sector will continue to remain stable. Planted areas declined once again this year as a result of further reduction in the demand for processing potatoes, and a stable demand for table potatoes. Yields are expected to be good across the country, despite late planting due to wet weather in most of the regions.

Executive Summary

- Statistics Canada reported a 2 percent decline in planted areas for the current market year (MY) 2014/15, down to 140,925 hectares from 143,805 hectares during MY 2013/14, as the processing companies scaled back their contracts following a year of high supply and availability of large inventories of potatoes in storage. Yields are expected to average at good levels across the country, despite a late start in planting due to very wet weather conditions in most growing regions.

- Based on these trends, Post forecasts a 4 percent decline in the production of fresh potatoes, down to 4,475,000 metric tons (MT), during MY 2014/15 compared to a high crop level of 4,660,105 MT recorded in MY 2013/14, when exceptional yields outweighed the reduction in planted areas.

- The size of the Canadian market for fresh potatoes destined to processing remains more than 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, flakes, etc.) for various export markets around the world. In Canada, the consumption of fresh table potatoes has been on a slow decline over the past decade, but seems to have stabilized in the last few years around 23 kg per person per year, and there may be signs of improvement in the future.

- Post forecasts fresh potato consumption at 805,000 MT for MY 2014/15, up 0.2 percent compared to one year earlier. Post also forecasts a 1.4 percent decline in the potato processing market, down to 2,650,000 MT, as a result of a decline in the volume of processing contracts.

- Imports of fresh potatoes are forecast to decline by 8 percent during MY 2014/15, while exports are expected to increase by 1 percent, given the weaker Canadian dollar and the availability of potatoes in the United Sates, Canada's major trading partner. This follows after a year when imports increased by 12 percent and exports expanded by 45 percent, both trends primarily caused by good potato crops and a solid demand.

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- The production of frozen french fries is expected to decline, following a year of good growth, as processing plants are scaling back to match a steady demand. Post forecasts the french fry production during MY 2014/15 at 1,050,000 MT, down from an estimated level of 1,087,453 MT one year earlier. Exports and domestic consumption of french fries are expected to remain relatively flat at 910,000 MT for exports and 215,000 MT for consumption.

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

- Potato yields tend to be in the 275-300 cwt/acre range (or 31-34 MT/ha) in the Atlantic Provinces and Manitoba, and in the 200-265 cwt/acre range (or 22-30 MT/ha) in Central Canada (Ontario and Quebec). In Alberta yields are typically higher, up to 340 cwt/acre (or 38 MT/ha), given that irrigation is used extensively and the growing region in the south of the province has a weather pattern favorable to this crop.

FRESH POTATOES

CANADA: FRESH Potatoes - Area, Production, Consumption, Trade						
Marketing Year: July/June	**MY2009/10**	**MY2010/11**	**MY2011/12**	**MY2012/13**	**MY2013/14**	**MY2014/15***
Area planted (hectares)	149,699	144,478	145,894	151,015	143,805	140,925
Area harvested (hectares)	145,571	139,217	141,159	148,569	142,189	139,350
Production (metric tons)	4,574,964	4,406,860	4,189,994	4,569,612	4,660,105	4,475,000
Imports (metric tons)	219,906	243,661	217,554	315,552	353,284	325,000
Exports (metric tons)	372,064	517,744	363,542	324,137	470,115	475,000
Domestic Disappearance** (metric tons), of which:	4,422,806	4,132,777	4,044,006	4,561,027	4,543,274	4,325,000
Fresh Consumption	*862,380*	*857,990*	*768,290*	*800,000*	*803,010*	*805,000*
For Processing	*2,858,830*	*2,606,360*	*2,652,540*	*2,795,000*	*2,687,990*	*2,650,000*
Waste	*665,480*	*688,230*	*666,900*	*621,250*	*742,730*	*700,000*
*Other****	*36,116*	*-19,803*	*-43,724*	*344,777*	*309,544*	*170,000*

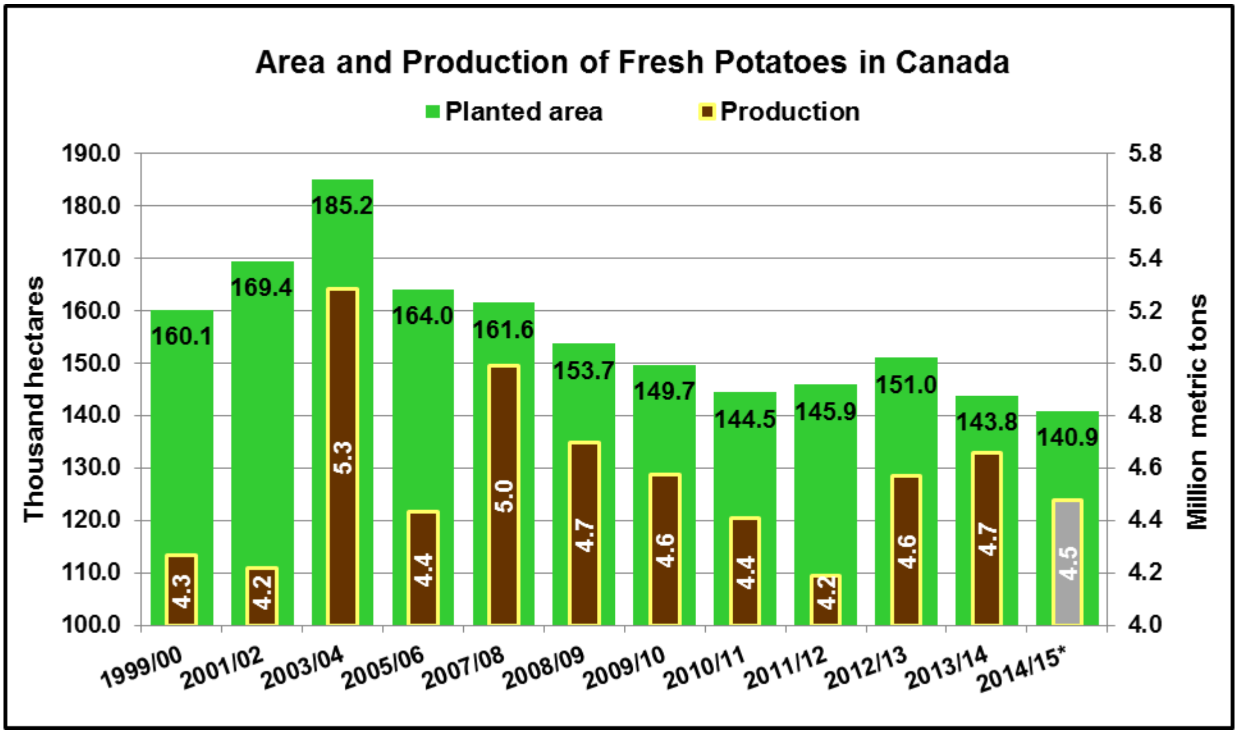
Source: Statistics Canada, Global Trade Atlas & Post Estimates
* Except for plantings, all 2014/15 data are post forecasts
**All data are Post estimates derived from available Statistics Canada information
***Includes animal feed and change in stocks

Production

Post forecasts a 4 percent decline in the production of fresh potatoes, down to 4,475,000 metric tons (MT) during MY 2014/15, compared to 4,660,105 MT recorded in MY 2012/13. The underlying factors behind this estimate are reduced areas planted to potatoes and yields expected to fall within good to average levels.

Planting data released by Statistics Canada showed that areas seeded to potatoes in 2014 were down 2 percent at the national level compared to 2013 plantings. Planted areas declined this year as a result of a reduction in the demand for processing potatoes and a stable demand for table potatoes. A larger than expected crop during the previous marketing year resulted in increased volumes of potatoes in storage prompting processing plants to cut back contract volumes.

Several Canadian provinces experienced a reduction in planted areas, including: New Brunswick by 1 percent, Ontario by 6.6 percent, and Manitoba by 9.5 percent. Other provinces saw an increase: Prince Edward Island by 1.7 percent, Quebec by 2.3 percent and Alberta by 1.6 percent. At national level, 140,925 hectares were planted with potatoes in 2014, compared to 143,805 hectares planted in 2013.



Source: Statistics Canada / *Post forecast for production

In P.E.I. growers had a slow start due to a cool and wet spring, with the early crop going into the ground about two weeks behind schedule. After that, the weather turned around and a stretch of sunny days helped the main crop to be planted in a timely manner. During the summer, warm temperatures and rain in mid-June promoted a good growth. Potato wart was discovered in isolated areas in P.E.I. this year, after many years without a case. The relevant Canadian and U.S. authorities are currently working together to manage the disease, while keeping the borders open.

In New Brunswick the planting season started about two weeks later than normal as well, due to cold wet weather. Nevertheless, the remaining of the season has seen good weather, so the potatoes are supposed to turn out well. Last year's crop got planted late and had more rain than needed. Despite this, the yields last year were good to very good.

Similar weather conditions prevailed in most other potato growing regions of the country, like Quebec, Ontario, Manitoba and Alberta. A longer than expected winter delayed the planting of potatoes by up to two weeks. Despite the late start, the growing season turned out to be good in most areas, and tubers received to right amount of sun and moisture to mature well. All provinces expect good average yields.

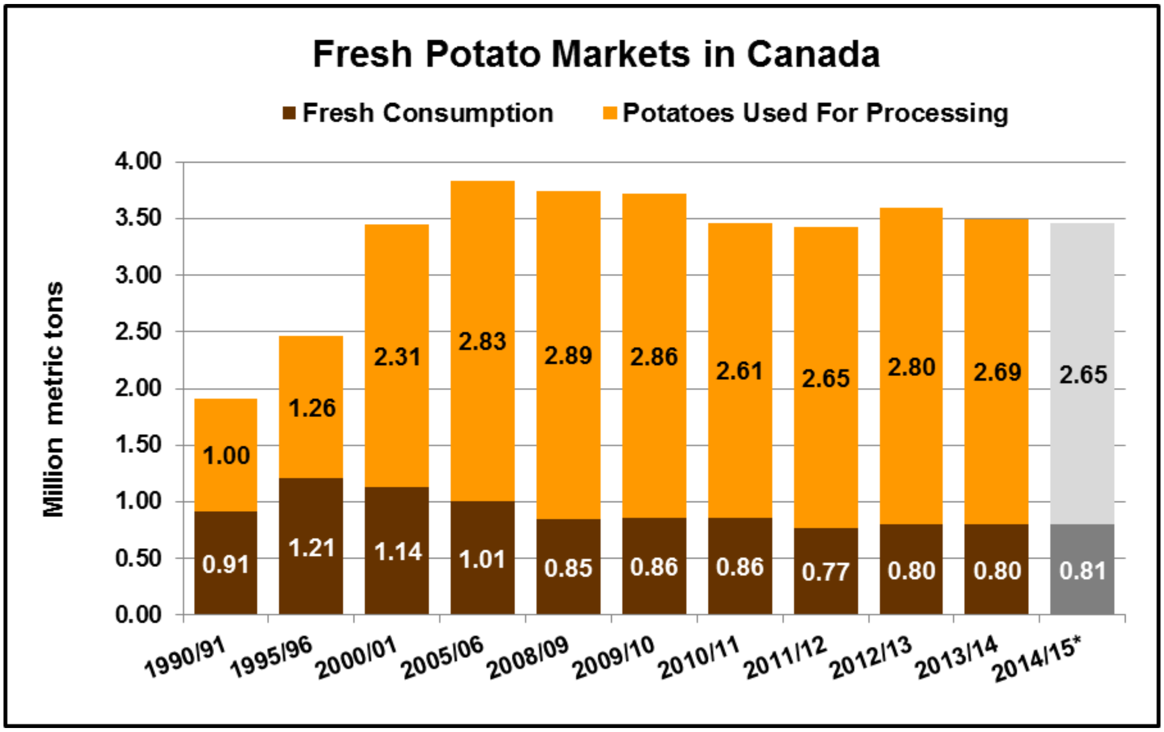
During a potato field trip in western Canada, Post learned that some producers are looking into adopting a new production method called "bed planting" as opposed to the traditional furrow planting model. This method would be new to Canada, but it is already used by producers in the United States. Bed planting would help improve yields, since by eliminating several furrows, more rows of potatoes could be planted on the same area. Provincial researchers in the region are helping growers optimize this production method and it is expected that in the future increased potato acreage would be using bed planting.

Overall, the industry is scaling back this year, as the consumption of both fresh and processed potatoes, on the domestic market and abroad, remains stagnant. Over the past decade, 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 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 responsive to market demand, most of them planting enough to meet known and stable markets, and trying to take 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 ten years the market for fresh potatoes in Canada utilized about 20 percent of the total amount of fresh potatoes available. Similarly, the size of the processing market represented about 60 percent of available fresh potatoes. This reflected the development of the frozen french fries industry in Canada starting from the late 1990s. About 5 to 10 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 fresh potato consumption at 805,000 MT for MY 2014/15, flat from one year earlier. 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 the beginning of this declining trend when Statistics Canada started to report a stable amount of potatoes in the diet. Fifteen years ago, Canadians used to consume almost 40 kg of potatoes per person per year. Recent data suggest that the market is now stabilizing around 23 kg of potatoes per capita per year.

Post also forecasts a 1.4 percent decline in the potato processing market for MY 2014/15, down to 2,650,000 MT. This is the result of a decline in the volume of processing contracts, as the sector is scaling back after two oversupplied marketing years which resulted in increased inventories of potatoes in storage. In general, the domestic consumption of processed potatoes, such as frozen french fries and chips, has been on a constant decline, and only recently seems to have stabilized. This trend is largely attributable to consumers being more conscious about their diets and their concern with eating healthier food. Overall, the processing sector has remained stable, with recent signs of modest improvement driven by sustained exports of frozen french fries supported by a weaker Canadian dollar.

Prices

Agriculture and Agri-Food Canada (AAFC) provides market information for a number of commodities, including potatoes. Price information is available at the following web link:
[Potato Reports]

Trade

Imports

Virtually all of Canada's imports of fresh potatoes come from the United States. For MY 2014/15 Post forecasts 8 percent decline in imports of fresh potatoes, down to 325,000 MT from their level one year earlier, due to anticipated good domestic supplies and a weaker currency. During the MY 2013/14 Canada imported 353,284 MT of fresh potatoes, up 12 percent from MY 2012/13, a volume reflecting increased supplies in the United States.

Canada: Imports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
World	**167,795**	**219,906**	**243,661**	**217,554**	**315,552**	**353,284**
United States	167,636	219,742	243,531	217,335	315,468	353,146

Source: Global Trade Atlas

Exports

Post forecasts a modest 1 percent increase in Canadian exports of fresh potatoes during MY 2014/15, up to 475,000 MT, primarily supported by the weaker Canadian dollar, and a normal crop in the United States, Canada's principal export market. Limited world supplies are likely to generate increased export opportunities as well. This follows a rise of 45 percent in exports during MY 2013/14 when shipments to the United States increased considerably given the market shortage situation there. Typically, the United States is the largest export market for Canadian potatoes, absorbing, at times, over 90 percent of total volumes. Trinidad and Tobago, Indonesia and Thailand have emerged as other important export markets over the past several years.

Canada: Exports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
World	**440,672**	**372,064**	**517,744**	**363,542**	**324,137**	**470,115**
United States	414,027	342,305	395,521	335,864	268,230	419,263
Market share:	*94%*	*92%*	*76%*	*92%*	*83%*	*89%*
Trinidad & Tobago	2,046	1,907	21,098	1,620	15,376	6,892
Indonesia	2,146	4,410	11,984	9,289	14,285	17,108
Thailand	8,750	8,825	10,090	11,119	10,291	7,999
All other countries	13,703	14,617	79,051	5,650	15,955	18,853

Source: Global Trade Atlas

Policy

Potato Promotion and Marketing Agency

The Canadian potato industry continues to discuss the idea of establishing a national marketing agency to promote the consumption of potatoes and conduct various research projects. Such an agency would collect levies on both the domestic production and on imports of potatoes to fund its activities. Although the idea is not new, the industry has commissioned a feasibility study to further assess the prospects of creating such a check-off agency in the near future. This is an article that talks about some of the findings in the study, which was completed in March 2014 and has not yet been made public.

Deregulation of the Soybean Cyst Nematode (SCN)

At the end of August 2013, the Canadian Food Inspection Agency (CFIA) posted a document indicating its decision to deregulate SCN in Canada. Effective November 25, 2013, the CFIA will not enforce the import regulations related to SCN. Also, the CFIA will not be enforcing the Schedule II of the Plant Protection Regulations pertaining to the domestic movement restriction of SCN infested material. The implementation of the SCN deregulation would require that relevant plant health import directives be amended to remove reference to requirements for freedom from SCN or be revoked. As part of the overall regulatory review process, the CFIA will work towards the removal of SCN from the Schedule II of the Plant Protection Regulations and the List of Pests Regulated by Canada. For additional information please consult the following document: RMD-11-02.

FROZEN FRENCH FRIES

CANADA: FROZEN FRIES - Production, Consumption, Trade						
Marketing Year: July/June	**MY2009/10**	**MY2010/11**	**MY2011/12**	**MY2012/13**	**MY2013/14**	**MY2014/15***
Production**	1,184,088	1,038,782	1,067,176	1,059,341	1,087,453	1,050,000
Imports	43,276	42,815	40,623	41,670	39,750	39,000
Exports	904,343	879,941	896,123	902,008	929,656	910,000
Dom. Consumption**	283,353	243,247	235,171	237,088	215,129	215,000

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

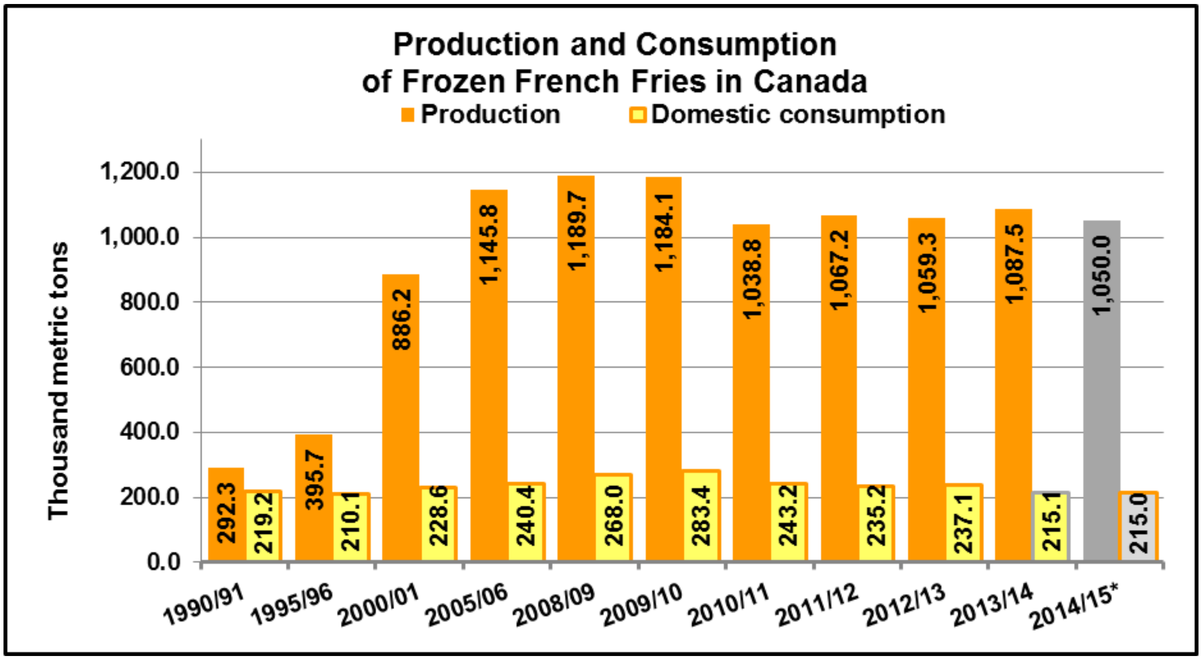
**Post estimates derived from available Statistics Canada information

Production

Post forecasts the french fry production during MY 2014/15 at 1,050,000 MT, down from an estimated level of 1,087,453 MT one year earlier. The decline, following a year of growth, is primarily driven by the processing plants' decision to scale back production in order to match existing demand with current supply, which has recently been augmented by increased volumes of potatoes in storage following last year's better than anticipated crop. In general, frozen fries demand, both domestically and on export markets, seems to have recovered after it tanked as a consequence of the 2009 recession and subsequent struggles in 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 the U.S. markets enabled potato processors to expand exports of frozen french fries to the United States, especially to the foodservice sector.

For the future, the expectations are that most of the export growth would come from Asian markets. During a recent potato tour in western Canada, Post heard that in order to take advantage of this possible trend, some of the french fry companies based there would expand their production capacities, either by adding a supplementary line to an existing facility, or by building a new, larger plant. As a consequence, the production of processing potatoes might see an increase in the region, possibly, but not necessarily, coupled with a decline in production in eastern Canada.



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. In recent years, the byproduct of the french fry manufacturing is used as feedstock in biogas plants. Some of the potato processing companies have their own biogas facilities and re-use the generated energy to run their frozen fry operations.

In 2014, eastern Canada saw the closure of one of the oldest french fry plants in the country. In August, McCain announced that the Borden-Carleton plant in Prince Edward Island (P.E.I.) would be shut down permanently as of October 31. The facility was built in 1990 and in recent years has been operating at less than half of the designed capacity. McCain explained the closure as part of a global business restructuring process. For the current marketing year, McCain will continue to honor all processing contracts with growers either at Borden, or, after October 31, in the neighboring province of New Brunswick, where McCain operates two french fry plants. For the future, the P.E.I potato growers are hopeful that those processing volumes would not be lost, and that either McCain (in New Brunswick) or Cavendish (at their facilities in P.E.I) would increase processing to compensate for the plant closure.

Consumption

For MY 2013/2014 Post forecasts overall consumption of french fries to remain flat, at 215,000 MT, compared to 215,129 MT one year earlier.

While Canadian production of frozen french fries, driven by exports, more than tripled over the past 20 years, the same cannot be said for 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 modest 6.6 percent, or an average annual growth rate of 0.3 percent. This trend is not likely to change in the future; on the contrary, one may observe a flattening or even declining per capita consumption of frozen fries in Canada as consumers become increasingly concerned with their diet. Currently, Canadians consume about 6-7 kg of frozen fries per person per year.

Trade

Imports

Relative to the large volume of Canadian frozen french fries exported, Canadian imports of frozen french fries are not significant. In part, this reflects the dominance of the major Canadian manufacturers 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 2013/14, almost exclusively from the United States, totaled 39,750 MT.

Exports

At 910,000 MT, Post forecasts a mild decrease in Canadian exports of frozen french fries for MY 2014/15, given that the Canadian dollar is expected to remain weaker. In general, the export markets are perceived as steady and solid, having recovered from the recent period of decline.

One year earlier, the export volume reached a level of 929,656 MT, up for a third consecutive year, after several years of decline which started back in 2006/07. The decline was largely due to low exports towards the United States, which usually account for about 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 declining exports.

Canada: Exports of frozen french fries

Marketing year: July-June / Quantity in metric tons

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
World	**973,561**	**904,343**	**879,941**	**896,123**	**902,008**	**929,656**
United States	775,142	706,774	708,736	727,209	742,183	790,607
Japan	33,781	28,275	31,559	33,952	35,460	36,465
China	4,740	3,365	6,961	4,646	10,587	17,081
Mexico	41,677	57,169	45,429	41,692	25,606	10,261
Bahamas	4,363	4,476	4,440	4,620	8,141	9,628
Indonesia	5,137	4,868	4,777	6,694	10,879	8,295
Costa Rica	12,575	13,363	8,412	10,196	9,955	7,559
Taiwan	5,586	5,533	4,625	4,828	5,186	5,783
Saudi Arabia	8,975	11,830	5,235	3,206	3,420	3,930
Philippines	10,236	10,712	9,791	15,648	1,955	2,646
All other countries	71,349	57,978	49,976	43,432	48,636	37,401
Export Market Shares						
United States	79.6%	78.2%	80.5%	81.2%	82.3%	85.0%
Japan	3.5%	3.1%	3.6%	3.8%	3.9%	3.9%
China	0.5%	0.4%	0.8%	0.5%	1.2%	1.8%
Mexico	4.3%	6.3%	5.2%	4.7%	2.8%	1.1%
Bahamas	0.4%	0.5%	0.5%	0.5%	0.9%	1.0%

Source: Global Trade Atlas