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Canada

Potatoes and Potato Products Annual

2012

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Report Highlights:
Sustained demand in potato processing resulted in expended planted areas for a second consecutive year. Following a depressed production last year caused by poor weather, Post forecasts an abundant fresh potatoes crop, given a larger seeded area and an expected return to average yields after an uneventful growing season. Larger crops expected in the United States will result in modest trade. With ample supplies and solid demand, frozen fries will see expanded production, exports and consumption.

Executive Summary:

- As Canadian growers continue to take advantage of a surge in potato processing contracts, Statistics Canada reported a 3 percent increase in planted areas, up to 150,500 hectares from 146,000 hectares during MY 2011/12. At the same time, yields are expected to return to average historical levels after an uneventful growing season in most of the country.

- Based on these trends, Post forecasts a solid increase of 8.6 percent in the production of fresh potatoes, up to 4.525 million metric tons (MT) during the marketing year (MY) 2012/13 compared to 4.168 million MT recorded in MY 2011/12.

- The size of the Canadian market for fresh potatoes destined to processing is 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) for the export market. In Canada, consumption of fresh potatoes has seen a slow decline over the past decade, but seems to have stabilized in the last few years at some 25 kg per person per year.

- Given domestic market trends, Post forecasts fresh potato consumption at 825,000 MT for MY 2012/13. This is up 8 percent compared to one year earlier when a shortage of supply translated in reduced consumption. Post also forecasts a 5.4 percent increase in the potato processing market, up to 2.8 million MT, after a modest 2 percent growth during the previous year caused by limited supplies of fresh potatoes.

- Both imports and exports of fresh potatoes are forecast to remain flat during MY 2012/13, given that larger potato crops are also expected in the United Sates, Canada's major trading partner. This follows after a year when imports declined by 11 percent and exports by 30 percent. Both trends were primarily caused by reduced supplies in North America, and the loss of contracts on the Russian market, which had previously boosted exports during MY2010/11.

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- With the availability of ample supplies of fresh potatoes and a solid demand, the production, exports and consumption of frozen french fries are all forecast to increase in the current marketing year: production by 8.3 percent, up to 1.15 million MT (after a 2.3 percent expansion last year); exports by 2.1 percent up to 915,000 MT (after a 1.8 percent increase the previous year); and consumption by 17 percent up to 240,000 MT, a volume closer to historical levels (this trend follows a 16.5 percent decline in the previous year).

- 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 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	**MY2007/08**	**MY2008/09**	**MY2009/10**	**MY2010/11**	**MY2011/12**	**MY2012/13 ***
Area planted (hectares)	161,556	153,746	149,699	144,276	146,056	150,508
Area harvested (hectares)	159,937	151,115	145,571	138,812	140,917	146,000
Production (metric tons)	4,988,784	4,697,482	4,574,964	4,393,252	4,168,266	4,525,000
Imports (metric tons)	170,732	167,812	226,567	243,823	217,576	210,000
Exports (metric tons)	511,890	440,672	372,064	517,744	363,542	360,000
Domestic Disappearance** (metric tons), of which:	4,647,626	4,424,622	4,429,467	4,119,331	4,022,300	4,375,000
Fresh Consumption	*900,380*	*851,200*	*862,460*	*854,445*	*764,500*	*825,000*
For Processing	*2,965,680*	*2,888,030*	*2,858,380*	*2,607,040*	*2,655,660*	*2,800,000*
*Other****	*781,566*	*685,392*	*708,627*	*657,846*	*602,140*	*750,000*

Source: Statistics Canada, Global Trade Atlas & Post Estimates

* Except for plantings, all 2012/13 data are post forecasts

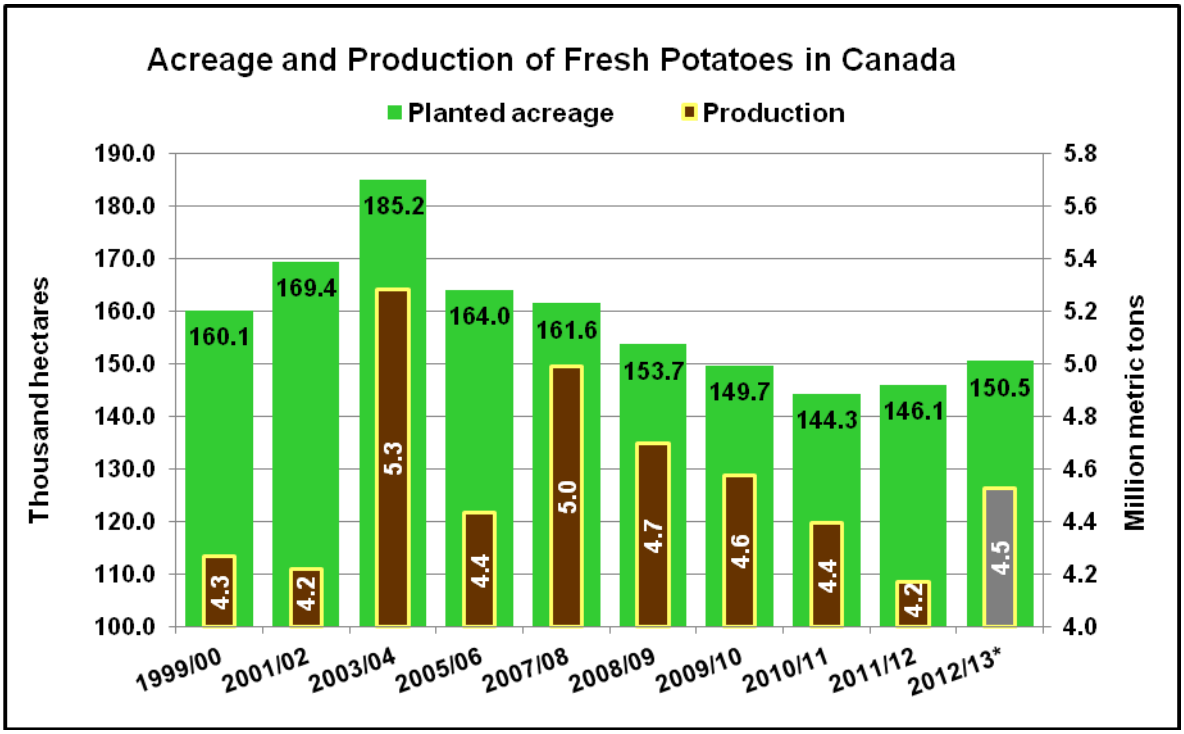
**All data are Post estimates derived from available Statistics Canada information

***Includes waste, animal feed and change in stocks

Production

As Canadian potato growers continue to take advantage of a surge in potato processing contracts, they increased planted areas across the country. This is a second consecutive year of expansion in this sector, after a five year decline experienced from 2005/06 through 2010/11. Acreage data released by Statistics Canada showed that areas planted in 2012, at the national level were up 3 percent from the 2011 numbers. Manitoba and Prince Edward Island experienced increases of 4.1 percent in plantings, followed by Alberta with a 3.5 percent raise and New Brunswick with 1.9 percent. Total potato area planted in 2012 stands now at 150,500 hectares, still a decline of 18.7 percent from the 2003 planted acreage of 185,150 hectares, the record year in terms of planted area in over a decade.

Yields are expected to return to average historical levels after an uneventful growing season in most of the country. Post forecasts a solid increase of 8.6 percent in the production of fresh potatoes, up to 4.525 million metric tons (MT) during the marketing year (MY) 2012/13 compared to MY 2011/12. The industry is likely to show a more substantial expansion this year, after a contraction period that started several years ago, as consumption of potatoes declined, and after a poor crop last year caused by extremely wet weather. Post also estimates that the current marketing year will see additional amounts of potatoes used as animal feed, given the expected tight and costly supplies of grain feed. Use of potatoes as feed also provides a way to manage inventories and avoid oversupplying the market, especially with the anticipated bumper crop in the United States.



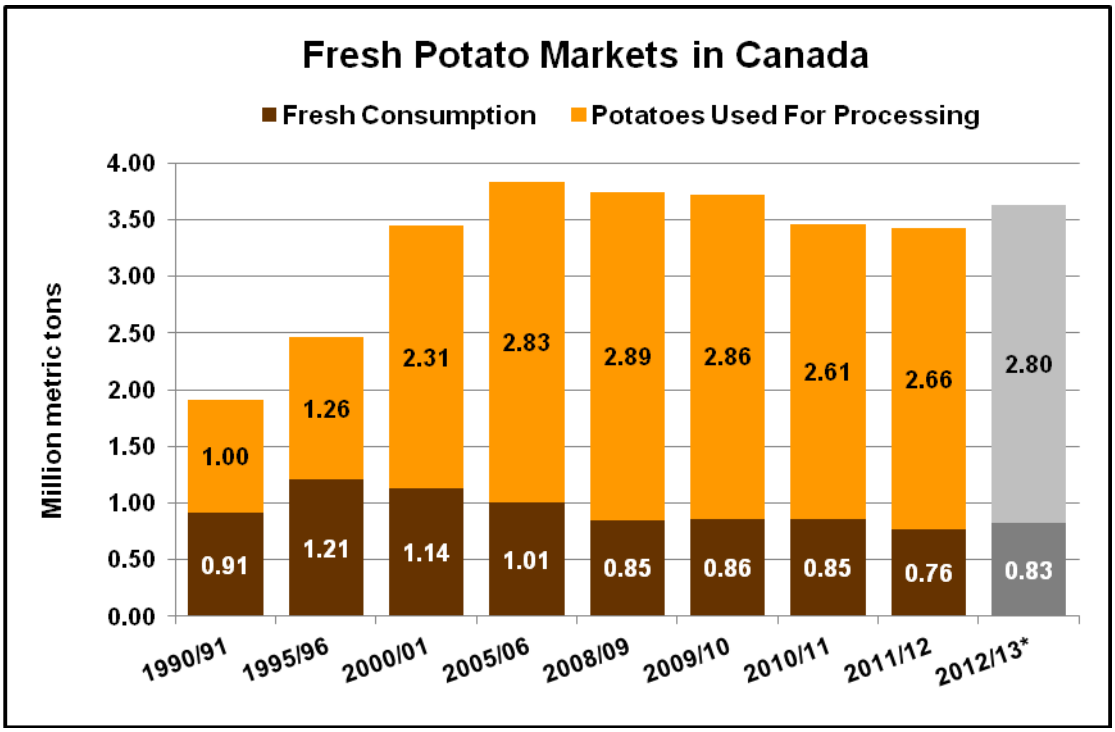
Source: Statistics Canada / *Post forecast for production

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 plant enough to meet known and stable markets, and 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 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 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 the consumption of fresh potatoes at 825,000 MT for MY 2012/13, up 8 percent from MY 2011/12, when, at 764,500 MT, the shortage caused by a poor crop depressed consumption to its lowest level on record. It bears repeating 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 reported a stable amount of potatoes in the diet. Ten year ago, Canadians used to consume almost 40 kg of potatoes per person per year. Recent data suggest that the market is now stabilizing around 25 kg of potatoes per capita per year, with the exception of last year when consumption dropped to 22 kg per person due to market shortages and higher prices.

Given the additional processing contracts, Post forecasts for MY 2012/13 a 5.4 percent increase, to 2.8 million MT, in the size of the market for fresh potatoes destined for 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. It can also be attributed to 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 the United States. For MY 2012/13, Post forecasts a decline of 3 percent in imports of fresh potatoes, down to 210,000 MT from their level one year earlier, due to expected increased domestic supplies. During the MY 2011/10, Canada imported 217,576 MT of fresh potatoes, down 11 percent from MY 2010/11. This is a volume much lower than expected and reflects a lower production in the United States.

Canada: Imports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
World	**158,324**	**170,732**	**167,795**	**226,567**	**243,823**	**217,576**
United States	158,266	170,684	167,636	226,403	243,693	217,357

Source: Global Trade Atlas

Exports

Post forecasts a decline of 1 percent in Canadian exports of fresh potatoes during MY 2012/13, down to 360,000 MT. This is primarily based on an expected bumper crop in the United States, Canada's principal export market. This follows another drop of 30 percent in exports during MY 2011/12 when shipments to Russia, which had fueled sales the previous year, ceased. With the recent adjustments made by the industry in order to bring production more in line with market demand, supplies will remain limited for the foreseeable future. Traditionally, the United States was the largest export market for Canadian potatoes, at times absorbing over 90 percent of total volumes. It has now returned to this market position after the one-year surge in shipments to Russia and Trinidad & Tobago, when the U.S. share dropped to 76 percent.

Canada: Exports of fresh potatoes, excluding seed

Marketing year: July-June / Quantity in metric tons

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
World	**464,049**	**511,890**	**440,672**	**372,064**	**517,744**	**363,542**
United States	399,668	444,958	414,027	342,305	395,521	335,864
Market share:	*86%*	*87%*	*94%*	*92%*	*76%*	*92%*
Thailand	7,918	6,312	8,750	8,825	10,090	11,119
Indonesia	2,770	2,756	2,146	4,410	11,984	9,289
Dominican Republic	3,152	5,398	2,250	3,311	3,738	3,276
Trinidad & Tobago	20,986	21,520	2,046	1,907	21,098	1,620
Russia	0	1,184	0	0	48,565	46
All other	29,554	29,761	11,452	11,305	26,747	2,327

Source: Global Trade Atlas

FROZEN FRENCH FRIES

CANADA: FROZEN FRIES - Production, Consumption, Trade

Marketing Year: July/June	MY2007/08	MY2008/09	MY2009/10	MY2010/11	MY2011/12	MY2012/13*
Production**	1,223,729	1,189,676	1,184,088	1,038,782	1,062,324	1,150,000
Imports	42,234	41,873	43,643	43,371	41,063	43,000
Exports	984,178	973,561	904,343	879,941	896,172	915,000
Dom. Consumption**	258,871	268,276	284,418	246,106	205,394	240,000

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

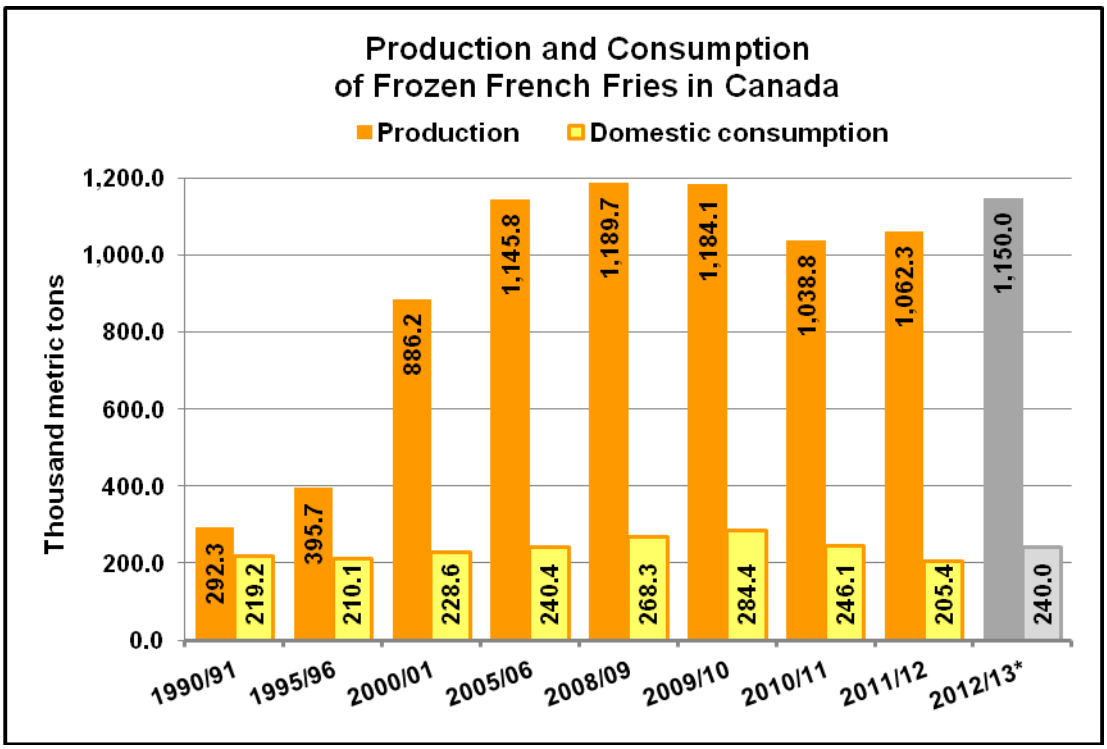
*Post forecast

**Post estimates derived from available Statistics Canada information

Production

For MY 2012/13, Post forecasts an increase of 8.3 percent in frozen french fry production, up to 1.15 million MT from a modest 1.06 million MT recorded in MY 2011/12. Last year's production was only 2.3 percent above the 2010/11 level, which remains the lowest during the past five-year period. Despite the expected growth, the current year's production is still approximately 6 percent below the record level registered in 2007/08. Demand for frozen fries, both domestically and in export markets, seems to have somewhat recovered after it tanked as a consequence of the recent recession and the 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 modest 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. Currently Canadians consume some 7.5 kg of frozen fries per person per year. For MY 2012/2013, Post forecasts a 17 percent increase in overall consumption, up to 240,000 MT, after a 16 percent drop during the previous year, when limited supplies of fresh potatoes and the need to satisfy export demand resulted in fewer supplies on the domestic market.

Trade

Imports

Relative to the significant quantities of Canadian frozen french fries exported, Canadian imports of frozen french fries are very 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 2011/12, almost exclusively from the United States, totaled 41,063 MT.

Exports

Post forecasts a 2.1 percent increase in Canadian exports of frozen french fries for MY 2012/13, up to 915,000 MT from 896,172 MT one year earlier, when a declining trend which started several years ago was finally reversed by a modest 1.8 percent raise. A sustained foreign demand is behind this recent trend, despite the strong Canadian dollar, which stayed above parity with the U.S. dollar for a good part of the past two years. The Philippines is one of the leading, rapidly growing markets behind this foreign demand.

The 14 percent decline experienced from 2006/07 until last year was largely due to low exports to the United States, which usually account for close to 80 percent of the Canadian export market. During this 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.

Canada: Exports of frozen french fries

Marketing year: July-June / Quantity in metric tons

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
World	**1,025,146**	**984,178**	**973,561**	**904,343**	**879,941**	**896,172**
United States	787,872	764,356	780,762	712,986	715,162	732,965
Mexico	36,543	38,212	41,677	57,169	45,429	41,692
Japan	42,193	41,940	33,781	28,275	31,559	33,952
Philippines	5,167	5,022	10,236	10,712	9,791	15,648
Costa Rica	12,589	12,899	12,575	13,363	8,412	10,196
Venezuela	16,889	16,585	17,712	13,010	11,713	6,696
Indonesia	6,082	5,112	5,137	4,868	4,777	6,694
Australia	499	9,735	545	2,518	4,100	4,846
All other	117,312	90,317	71,136	61,442	48,998	43,483
Export Market Shares						
United States	76.9%	77.7%	80.2%	78.8%	81.3%	81.8%
Mexico	3.6%	3.9%	4.3%	6.3%	5.2%	4.7%
Japan	4.1%	4.3%	3.5%	3.1%	3.6%	3.8%
Philippines	0.5%	0.5%	1.1%	1.2%	1.1%	1.7%

Source: Global Trade Atlas