



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.07

Required Report - public distribution

Date: 10/23/2003

GAIN Report Number: CA3067

Canada

Frozen Potato Products

Annual

2003

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Report Highlights:

Canadian frozen french fry production during MY2003/04 is forecast to advance 6-7% due, in part, to a new processing facility that came on stream in August 2003 in Manitoba. The industry is driven by export demand. Of total Canadian frozen french fry exports of 668,000 metric tons last year, more than 87% were destined for the United States, valued at \$415 million.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Ottawa [CA1]
[CA]

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Executive Summary

* Canadian frozen french fry production continues to be driven by export demand. Although Canadian frozen french fry exports during MY2002/03 (July /June) increased more moderately than during prior years, the pace of exports could increase during the current marketing year. For MY2003/04, post projects total Canadian frozen french fry output and exports to advance by approximately 6-7% reflecting, in part, the start up of the new J.R. Simplot plant in Portage La Prairie, Manitoba in August 2003. Canadian exports of frozen french fries to the U.S. reached 668,360 metric tons valued at \$415 million during MY2002/03 and accounted for more than 87% of total Canadian frozen french fry exports to the world. Canadian potato processors export frozen french fries to more than 75 countries. In addition to their U.S. sales, Canadian potato processors are looking to Mexico, Japan and China for increased export opportunities.

* The demand for processing potatoes continues to push Canadian potato area higher. According to Statistics Canada, preliminary 2003 potato area is estimated to be 448,500 acres, up 3.2% from the previous year's estimate of 434,400 acres.

* French fries is the most popular menu item in Canadian foodservice establishments, but their lead over other foods has declined according to an industry association. Post believes part of the reason is the increasingly wide variety of foodservice offerings, especially of ethnic style foods, that is providing growing competition for french fries.

Section I. Production

Canadian frozen french fry production continues to be driven by export demand. However, the rate of increase during MY2003/03 was more moderate than the double digit year-to-year increases evident during the late 1990s and the early 2000s when potato processing expansion in Canada was at its peak. For MY2003/04, post projects total Canadian frozen french fry output to advance approximately 6-7% reflecting, in part, the start up of the J.R. Simplot plant in Portage La Prairie, Manitoba. The new Simplot plant commenced production in August 2003. Initially, the company is expected to run at about two-thirds of total capacity for the first year, but the development will increase Canada's overall ability to produce frozen french fries during MY2003/04. The new Simplot plant joins other major french fry potato processors in Manitoba, namely Midwest Food Products in Carberry and McCain Foods in Portage la Prairie. Manitoba's share of national french fry production capacity is about 50%.

Other recent processor expansion was covered in earlier reports CA0201; CA1157; CA9136, and CA8075: Lamb-Weston constructed a new facility in 1999 near Taber, Alberta while McCain Foods (Canada) constructed a new potato processing facility in southern Alberta (Coaldale). The Alberta facility joined 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. The other major frozen french fry processor in Canada is Cavendish farms, which has two state-of-the-art processing plants in Prince Edward Island.

Note: There are no official Canadian production data for frozen french fries. Production estimates and forecasts in the following supply and distribution table are post estimates based on assumptions related to domestic disappearance and exports.

Supply and Distribution

Country Commodity	Canada Frozen Potato Products (MT)(MT, Net Weight)					
	2002 USDA Official [Old]	Revised Post Estimate [New]	2003 USDA Official [Old]	Estimate Post Estimate [New]	2004 USDA Official [Old]	Forecast Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Deliv. To Processors	0	0	0	0	0	0
Beginning Stocks	140000	25000	0	25000	0	25000
Production	1160000	1170000	0	1245000	0	1290000
Imports	50000	30988	0	32000	0	30000
TOTAL SUPPLY	1350000	1225988	0	1302000	0	1345000
Exports	820000	766349	0	820000	0	865000
Domestic Consumption	380000	434639	0	457000	0	455000
Ending Stocks	150000	25000	0	25000	0	25000
TOTAL DISTRIBUTION	1350000	1225988	0	1302000	0	1345000

Potato Area

Demand for processing potatoes continues to push Canadian potato area higher. According to Statistics Canada, preliminary 2003 potato area is estimated to be 448,500 acres (181 500 hectares), up 3.2% from the previous year's estimate of 434,400 acres (175 900 hectares). Again, Manitoba led the increase up 10.6% to 94,000 acres (38 000 hectares). Alberta area in 2003 is up 4.8% to 65,000 acres (26 300 hectares). Prince Edward Island showed the largest decrease, down 2.8% to 106,000 acres (42 900 hectares).

Section II. Trade

Frozen French Fry Exports by Marketing Year

The pace of increase of Canadian frozen French fry exports to the United States during marketing year July 2002 to June 2003 slowed to 2% compared to the double digit increase during the previous twelve month period. Total Canadian frozen french fry exports to the United States in MY2002/03 reached 668,360 metric tons, valued at \$415 million. Canadian frozen french fry exports to the United States accounted for 87% of total exports of 766,000 metric tons. Other important export markets for Canadian frozen french fries are Japan and Mexico, but Canadian potato processors exported to more than 75 countries in MY2002/03.

For 2003/04, Canadian frozen french fry exporters are looking to Mexico, Japan and China for increased sales in addition to increased exports to the United States. Exports to Mexico have increased sharply in recent years reflecting the elimination of Mexico's tariff rate quota on french fries under NAFTA. Frozen french fry exports to China are expected to increase as Canadian processors move to capitalize on the economic growth in that country that is fueling an increased demand for french fries.

Canadian Frozen French Fry Exports

Marketing Years

Units: metric tons

HS 2004.10*

	Jul 00-Jun 01	Jul 01-Jun 02	Jul 02-Jun 03	% change
The World	634,467	735,892	766,349	4%
United States	551,455	653,438	668,360	2%
Japan	37,279	35,643	43,498	22%
Mexico	1,799	3,785	7,346	94%
Korea, South	3,538	4,688	5,991	28%
Philippines	6,075	4,251	5,167	22%
Indonesia	1,629	1,695	3,567	110%
Saudi Arabia	1,431	2,249	3,348	49%
Taiwan	4,381	4,269	3,316	-22%
Singapore	2,405	2,641	2,909	10%
Malaysia	2,708	1,955	2,519	29%
China	423	808	2,354	191%
All Others	21,343	20,470	17,973	-12%

* HS category may include other frozen potato products

Source: World Trade Atlas

Value of Marketing Year Exports

Value of Canadian Frozen French Fry Exports

Marketing Years

Units: US\$ millions

HS 2004.10*

	Jul 00 Jun 01	Jul 01 Jun 02	Jul 02 Jun 03
The World	427.2	470.6	484.2
United States	369.6	412.6	414.8
Japan	26.8	26.7	34.0
Korea, South	2.7	3.3	4.3
Philippines	4.6	3.0	3.4
Mexico	1.0	2.1	3.2
Indonesia	0.9	1.0	2.7
Saudi Arabia	0.8	1.3	2.3
Taiwan	3.0	2.6	1.9
Singapore	1.3	1.6	1.9
Jamaica	1.2	1.6	1.7
China	0.3	0.5	1.6
Malaysia	1.6	1.2	1.5
All Others	13.4	13.1	10.8

* HS category may include other frozen potato products

Source: World Trade Atlas

Exports by Calendar Year

Canadian Frozen French Fry Exports by Calendar Year

Units: metric tons

HS 2004.10*

Country	2000	2001	2002	Jan-Aug 2002	Jan-Aug 2003
-- The World --	624,482	690,166	731,584	476,513	553,854
United States	542,696	604,926	650,882	423,754	465,427
Japan	36,388	36,569	39,157	24,206	31,252
Korea, South	3,701	3,675	4,904	3,329	5,124
Mexico	1,999	2,605	4,218	2,701	9,697
Venezuela	5,407	6,579	3,178	2,788	2,126
Saudi Arabia	1,573	1,977	2,954	1,799	2,212
Singapore	2,428	2,536	2,644	1,657	2,205
Philippines	5,486	5,634	2,620	1,795	5,867
Taiwan	3,523	5,446	2,613	1,915	4,026
Jamaica	1,390	1,739	2,495	1,616	1,149
Malaysia	2,775	2,583	1,967	1,232	1,956
China	111	540	849	655	3,598
All Others	17,006	15,355	13,102	9,065	19,216
% exports to U.S.	87%	88%	89%	89%	84%

* HS category may include other frozen potato products

Source: World Trade Atlas

Imports of Frozen French Fries by Marketing Year

U.S. exports of frozen french fries to Canada were flat during MY2002/03. Canada's former strict packaging and labeling regulations thwarted the marketing opportunities for U.S. french fries for the foodservice industry during the expansion years of the potato processing industry in Canada allowing those Canadian processors to capture virtually all of the domestic market. After many years of U.S. representation arguing fair market access, the Canadian import rules were relaxed in December 1998 allowing the common U.S. food service industry sizes, but by that time Canadian processors had achieved a dominant presence in the marketplace.

Canadian Frozen French Fry Imports

Marketing Years

Units: metric tons

HS 2004.10*

	Quantity			Value		
	Jul 00-Jun 01 metric tons	Jul 01-Jun 02 metric tons	Jul 02- Jun 03 metric tons	Jul 00-Jun 01 US\$ mil.	Jul 01-Jun 02 US\$ mil.	Jul 02- Jun 03 US\$ mil.
The World	17,118	31,250	30,988	14.2	23.9	25.2
United States	16,993	31,174	30,674	14.1	23.8	25.0
Netherlands	63	23	172	0.0	0.0	0.1
India	-	33	76	0.0	0.0	0.0
Japan	2	5	20	0.0	0.0	0.0
France	-	-	19	0.0	0.0	0.0
Belgium	38	13	16	0.0	0.0	0.0
All Others	21	2	11	0.0	0.0	0.0

* HS category may include other frozen potato products

Source: World Trade Atlas

Section III. Marketing

According to a new study recently released by Statistics Canada, potatoes represented 35% of all vegetables consumed in Canada. Last year, each person ate on average 38 kilograms of potatoes, in fresh form or as processed products such as French fries, potato chips, stuffed baked potatoes or frozen mashed potatoes. That compares with an average intake of 33 kilograms a decade ago. However, there are indications that the domestic market for french fries in Canada has begun to level off. According to the Canadian Restaurant and Foodservice Association (CRFA), french fries remained the most popular menu item in 2002, but their lead over other foods declined. Post believes part of the reason is the increasingly wide variety of foodservice offerings, especially of ethnic style foods, that is providing growing competition for french fries.

Packaging & Labeling

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.).

Nutritional labeling

On January 1, 2003, Canada published new regulations making nutrition labeling mandatory on most food labels at the retail level. There are also new requirements for nutrient content claims; a new mandatory Nutrition Fact box, and for the first time in Canada, diet-related health claims for foods will be permitted. U.S. frozen potato products destined for the Canadian retail market must meet the same labeling requirements as foods produced in Canada. U.S. food manufacturers will have a 3-5 year transition time (depending on company size) to comply with the new nutrition labeling requirements. To review the new Canadian regulations for nutrition labeling for pre-packaged products and to view the new mandatory Nutrition Fact standards, go to the following Health Canada web page: http://www.hc-sc.gc.ca/hpfb-dgpsa/onpp-bppn/labelling-etiquetage/index_e.html

Major Importers

Industry Canada lists the following (in alphabetical order) as the top 3 registered importers (accounting for 80% of total) of frozen french fries to Canada during 2001: Brittany Acres, Port Hope, Ontario; Lamb Weston Inc., Tri Cities, Washington, and; The Maintenance Store, Florenceville, New Brunswick.

Exchange Rates

Where prices and values in this report are expressed in Canadian dollars, the exchange rates are: 1999, C\$=US\$.6730; 2000, C\$=US\$.6733; 2001, C\$=US\$.6458; 2002, C\$=US \$.6368; 2003 estimated, C\$=US\$.7000

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