



Export Market

Background

The growth strategy for chipping potatoes in the previous Long Range Plan was to create new markets for US chipping potatoes by addressing market access barriers and by conducting development activities in target markets, market maintenance programs in mature markets and market research.

Barriers to export have been addressed by working on market access issues in conjunction with the states and the NPC. A great deal of attention has been directed at opening currently closed markets as well as improving access to partially open markets. Market access work has opened the Russian and Vietnamese markets and increased access to Japan and Thailand. Access to new markets such as China will continue to be pursued and increased access to partial open markets such as Mexico and Japan will continue to be sought.

Chip processors in target markets were educated about US chipping potatoes through reverse trade missions to the US, seminars and materials presented in their markets and samples provided through the USDA Quality Samples Program. Commercial relationships and understanding have been developed by taking US growers to markets as part of trade missions. Maintaining a presence in markets that are importing US potatoes has been critical to continuing business relationships. Market maintenance has included issues management and market access in Taiwan and South Korea.

In-depth research is the cornerstone to identifying true market potential and barriers to trade in new markets. Research has focused on potential new markets for chipping potatoes and helps to determine which markets meet the entry strategy criteria for this program. Research identified 2 new markets for the chip-stock program. A successful chip-stock program was started in Central America in FY10 and in Vietnam in FY11. Other potential markets identified through research include China.

Chip-stock growers have been exporting US chipping potatoes for several years and continue to refine the export process. There is a plethora of opportunities in the export markets for chipping potatoes. Other potato producing countries are already finding success in tapping these markets, however their potatoes seem to be of inferior quality and the US can compete on a quality and availability basis.

As a result of the chip-stock program activities during the previous Long Range Plan, 10 new chip manufacturers in target markets have begun purchasing US potatoes for processing. Sales of US fresh potatoes have increased by 14% to target markets from 32,698 MT in FY06 to 37,419 MT in FY10. US exports should continue to grow as processors become accustomed to US potatoes and US growers get better at supplying the markets.

Challenges

Although the Board has had a chip-stock program for several years now, there are still a lot of manufacturers in current and potential markets that are unfamiliar with US chipping potatoes, the varieties grown here, the year round supply capabilities and the high quality. They also believe that the longer shipping times and the use of storage potatoes make them inferior to fresh dug potatoes from regional sources. Manufacturers also lack an understanding of proper storage and handling and contracting.

Without the Board's presence in foreign markets the US industry has had a difficult time maintaining commercial relationships. Without continued support buyers are easily swayed by other exporting countries that offer support and in-country representation. Work needs to be done with snack manufacturers to maintain relationships to ensure US potato varieties are available and barriers to entry are addressed.

Market access barriers ranging from a complete ban in China to quotas in Korea and Thailand to time windows in Japan to geography restrictions in Mexico are the biggest barrier to increased exports of US chipping potatoes. Market access issues continually need to be addressed as they arise in both mature and potential target markets. Being able to address these issues as they arise will help the US maintain market share in mature markets and will open markets to the US and allow the Board to enter these new markets.

A major trade impediment facing US fresh chip-stock exports is the occurrence of rot during shipment to the foreign markets. Because fresh chipping potato exports must be washed to remove all soil and shipped at relatively warm temperatures to keep sugars from building up in the potatoes rot can become an issue. Rot can create a number of issues when the potatoes arrive in the foreign port, one of them being that the foreign inspectors wrongfully prevent the entry of the potatoes because of the rot. Rot in the potatoes also has commercial implications as it results in substantial waste. These losses cause foreign importers to not import US potatoes in the future and for US growers to abandon exporting.

There will always be uncertainties when exporting to new markets. The USPB must determine how to communicate with chip-stock growers to facilitate exporting to new markets. The USPB has also been challenged with finding supplies for export markets. Because many of the trade leads and requests from export markets are spot purchases, there has been limited supply to meet those needs.

Resolution - Strategies

Open new markets and expand current markets for US chipping potatoes by overcoming market access barriers

Market access barriers range from completely closed markets to the restriction of imports to certain times of the year to access for only specific US states to restrictive quotas. Barriers to export will be addressed by continuing to work on market access issues in conjunction with USDA, the state organizations and the National Potato Council. A great deal of attention will be directed at opening the currently closed markets however, improved access to other markets will be pursued as well.

Increase demand for US fresh chipping potatoes, semi-processed chipping potatoes and bulk finished chips in targeted markets through market development activities directed towards the trade

Because foreign snack manufacturers are unfamiliar with US chipping potatoes and their quality it's important to include development activities in target market program work. Chip processors in these markets will be educated about US chipping potatoes through reverse trade missions to the US, seminars and materials presented in their markets and samples provided through the Quality Samples Program. Commercial relationships and understanding will be developed by taking US growers to the markets as part of trade missions. To help manufacturers faced with market access barriers or without the ability to process fresh chipping potatoes it will be important to provide information about alternative solutions such as finished chips and semi-processed chipping potatoes so they can continue to use US potatoes in their snack lines.



Conduct a market maintenance program with the local trade in markets that meet the exit plan criteria

Maintaining a presence in markets that are importing US potatoes is critical to continuing business relationships. This strategy will focus on continuing to communicate and work with current US chipping potato buyers to ensure US chipping potato sales continue and market share is maintained. The Board will work with snack manufacturers to strengthen relationships and show our commitment to exporting US chip-stock potatoes by maintaining a strong line of communication and providing technical expertise as the need arises.

Create an export ready US industry

To ensure that the US can supply the demand created through market development, the USPB will engage US chip growers' interest in export markets. The USPB will identify opportunities and provide relevant information to growers through a variety of communication tools including public relations with US growers, publication of articles, seminars and trips to speak with growers. By communicating opportunities to the US growers they will be able to take advantage of newly created demand.

Researching and overcoming logistical and quality barriers

The US has faced issues with potato quality upon arrival. Containers have been incorrectly rejected by foreign inspectors for rot. As this is not a phytosanitary issue, the foreign governments must be educated on how to properly handle loads that show signs of rot. More importantly solutions to this problem must be sought to greatly reduce or eliminate spoilage during transit and the resulting commercial losses.

Target Markets

Growth Markets

Central America

Sales of sweet and savory snacks, including potato chips, in Central America are bolstered by the wide availability of such products through a range of retail outlets. Combined potato production among the US-CAFTA/DR nations was estimated at just over 612,000 MT in 2008. Production has been increasing in each country except the Dominican Republic, where production fell 21%. Guatemala is also the main processor of chip stock potatoes in the region. The top chip processing companies in Guatemala use between 20-30% imported potatoes. Throughout Central America, consumers in urban areas are leading faster-paced lives and are turning to more convenient food products, especially snack foods. As a result, sales of potato chips are rising and prospects for imported chip-stock potatoes appear to be strong.

Throughout the region, there have been periodic issues with the importation of US fresh potatoes. There have been significant challenges with the Costa Rican quota system for fresh potatoes. USDA is working to address these issues to ensure potato importers properly receive the import permits. Guatemala's import requirements for fresh potatoes are not transparent and shift frequently. The Dominican Republic has issued inconsistent import permits for fresh potatoes in the past. Other than trade between Central American countries the US and Canada are the only foreign suppliers of fresh potatoes to this area. Exports of US fresh potatoes to US-CAFTA/DR have achieved three times the growth of Canada's exports since 2006, a sign that US suppliers of fresh potatoes are strengthening their position in the market. Canada has signed a FTA with the region, however, and the US tariff advantage will eventually even out.

Vietnam

The primary use of potatoes in Vietnam is for fresh consumption. Chips and crisps are a niche category within the Vietnamese sweet and savory snack sector, but with Vietnam's large population of young consumers, this sector is expected to grow considerably over time. Vietnam's domestic potato production totaled 370,000 MT. Food retailers in Vietnam have been actively expanding their presence as a result of the country opening up its retail industry to foreign companies in 2009. As industry players adopt aggressive expansion strategies, potato chips and other snack foods are expected to see increased demand. Conditions for US food products entering Vietnam are expected to continue to improve in the wake of Vietnam's accession to the WTO in 2007. As more US food manufacturers invest in Vietnam demand for US ingredients should strengthen. The US potato industry gained fresh potato market access to Vietnam in July 2010. US suppliers of chip-stock potatoes face a 20% tariff disadvantage to China and other ASEAN countries.

Japan

Japan has experienced a declining birth rate and a resulting graying of the population. This has led to a reduction in sweet and savory snack consumption. The sweet and savory snack environment in Japan is projected to experience a constant value decline of 1% over the next several years. Potatoes are one of the main crops in Japan. The fresh potato market in Japan is protected from imports while the country relies on imports for most processed potatoes. Overall, the total consumption of potatoes amounted to 3,013,943 metric tons in 2008, 88.9% of which were locally produced. There is a growing awareness that local potato production cannot meet processing industry requirements. The US is currently the only country allowed to export fresh potatoes to Japan and then only for processing. US potatoes can currently be shipped to Japan from February 1 to June 30. While US potato exports to Japan are expected to increase, market access issues still need to be improved to expand the Japanese market for US chipping potatoes.

Maintenance Markets**Malaysia**

Sales of potato chips grew only 1% by value, in 2009 compared to 3.9% in 2008. Chips account for 17% of value sales within Malaysia's sweet and savory snack sector. Malaysia does not produce significant quantities of potatoes, and does not produce chip-stock potatoes. All suppliers of fresh chip-stock potatoes receive duty-free access in Malaysia. US chip-stock varieties are still relatively new to this market. As the Malaysian economy recovers, Euromonitor predicts the country's sweet and savory snacks sector will improve after slow growth in 2009. Chips are expected to post strong sales growth as consumers resume steady snacking habits. There is intense competition among leading chip brands. This fosters aggressive marketing and new product launches that should continue to boost the category. US suppliers of chip-stock potatoes face strong competition in the Malaysian market from countries with a transportation advantage. Despite the number of foreign competitors, as Malaysian snack manufacturers become more familiar with US potato varieties, there may be opportunities to expand US exports to the market. That said regional suppliers appear well positioned to also take advantage of market growth.

Philippines

The Philippines' sweet and savory snack sector saw 4% volume growth and 8% value growth in 2009. The chips and crisps subcategory mirrored these figures. Sales of chips and crisps are expected to see lower growth rates in the coming years, with Euromonitor predicting 2.5% volume growth and 3% value growth through 2014. Potato production in the Philippines surged in 2007, growing by 71%, thanks to a large expansion in land devoted to the crop. The Philippines has been importing fresh potatoes on a large scale since the early 2000s, almost all of these imports are chip-stock potatoes. The Philippines remains a relatively small market for U.S. fresh chip-stock potatoes. The US faces a 40% tariff on fresh potatoes, while potatoes from ASEAN countries and China are allowed duty free access. With a large population familiar with Western trends and a sizeable processing industry, considerable potential exists if more competitive access can be achieved.



Taiwan

The Taiwan sweet and savory snack industry grew by 2% in 2009 reaching sales upwards of an estimated US\$638 million. That year chips and crisps saw value growth of 4%, the highest growth rate of all products in the snack sector. Latest figures available show that Taiwan's domestic potato production was 59,652 MT in 2008. Potatoes grown locally in Taiwan are mainly for fresh consumption and are not considered suitable as chip-stock potatoes. Of Taiwan's fresh potato imports, 96% come from the US, and they are used as both chip-stock and table-stock potatoes; however the majority of exports are currently chip-stock. Taiwan is the third largest market for U.S. fresh potatoes, after Canada and Mexico. Euromonitor predicts chips and crisps sales will continue to grow at a higher rate than other snacks, though this growth rate is expected to be slightly lower than in recent years. Addressing the quarantine issues in Taiwan, especially the late blight field inspection requirement will assist US exports to the market. A possible trade agreement between China and Taiwan could open opportunities for Chinese potatoes in the Taiwan market. New Zealand also looms as a competitor.

Thailand

Thailand's growing urban population is stimulating demand for processed convenience foods. Chipping potato sales in Thailand reportedly grew by 7% in 2009 and are expected to grow 8-10% in 2010. Domestic potato production dropped in 2008 after steady growth, but rose again in 2009 to 126,386 MT. Virtually all potatoes produced in Thailand are used as chip-stock. The three major chip producers in Thailand enter into contracts with local farmers for supply; however they typically import chip-stock potatoes as well. The opening of the Thailand market for US chipping potatoes clears one of the major obstacles to market development. There remain several others, however. Thailand's tariff rate quota on imports of fresh potatoes will continue to limit prospects for U.S. chip-stock export growth. Fresh potato imports in 2009 were only 78% of the quota, as Thailand was able to cheaply source potatoes for processing from its domestic industry.

Korea

A focus on healthy eating and well-being continued to be the primary strategy behind new snack product launches in 2008 and 2009. As chips/crisps are impacted negatively by growing health consciousness among consumers, manufacturers introduced lower sodium and reduced fat products and promoted their use of healthier ingredients. Sweet and savory snack sales are expected to decline in volume and value terms as consumers opt for healthier products. Meanwhile, manufacturers, led by Orion Snack International, are beginning to look at new ways of positioning their products as healthier options. Potatoes are produced and consumed as one of the staple crops in South Korea. Local production of potatoes reached 604,592 MT in 2008. South Korea's consumption of potatoes is mainly fresh, making up 93% of total consumption in 2008. Imported fresh potatoes are used mainly by snack manufacturers. Fresh potatoes from the US reached 13,782 MT in 2008, accounting for 82% of fresh potato imports. Fresh potato imports are permitted from the US, Australia and Japan. South Korea maintains a tariff-rate quote for fresh potatoes of 18,810 MT with an in quota tariff of 30% and an out of quota rate of 304%.

Potential Markets

Mexico

As the health and wellness trend permeates through the population, the sweet and savory snacks category is facing pressure as Mexicans are becoming more likely to be concerned about their weight. New launches of healthier options of sweet and savory snacks are expected to grow in number. As people become more concerned about their health, due in large part to the campaigns funded by the Mexican government, portion control, reduced fat, reduced sodium and fortified savory versions of chips/crisps, extruded snacks and tortilla/corn chips may become more popular. Demand for chip-stock potatoes typically exceeds local supply, creating good opportunities for US exports. The US is the only exporter of fresh potatoes to Mexico. Fresh potato imports from the US are limited to the 26 Kilometer border zone and no snack manufacturers are located in this area. This represents the largest single trade barrier facing the US potato industry.

Indonesia

Value sales of chips grew by 14% in 2009, the highest growth within Indonesia's sweet and savory snack sector. Sweet and savory snacks are typically consumed by all age groups in Indonesia. While the health food trend is growing in Indonesia it is still small and the preference for sweet, salty, and crispy snacks remains strong. Nevertheless, manufacturers are expected to develop healthier options such as zero trans-fat and natural products to ensure continued demand for potato snacks. Euromonitor predicts chips and crisps will continue to show the strongest value sales growth within the sweet and savory snacks sector, though at a lower rate than in recent years. Indonesia is the largest potato-producing nation in Southeast Asia. About half of the potatoes used for chip manufacturing in Indonesia are grown domestically. Requirements for US fresh potato market access to Indonesia are not transparent. US suppliers of fresh potatoes face strong competition for Indonesia's chip-stock market from countries with a regional advantage. Additionally, Indonesia is able to sustain much of its chip processing needs through its own potato production. In light of both points, opportunities for US chip-stock potatoes are limited at this time.

China

Over the past two decades, annual per capita potato consumption has increased over 25%. The potato chip market in China is dominated by international manufacturers, namely PepsiCo, whose Lay's brand occupies nearly 50% of the market. Processors look to maintain consistency from their top chip-stock potato producers and therefore rarely purchase from independent growers. China is the world's leading potato producer, accounting for 22% of global production with around 8% of the overall production used for processing. Approximately 20 potato chip processing facilities operate in China. China has not imported any fresh potatoes in recent years. US fresh potatoes are currently prohibited from entering China reportedly due to phytosanitary concerns. The use of potatoes for chip processing is evolving quickly as China's market for snack foods strengthens. As Chinese consumers are working longer hours and have greater disposable incomes, portable snack foods such as potato chips are becoming more popular. Chinese consumer preferences are becoming more sophisticated and more in line with those in the West. This trend should figure largely in developing the market for potato chip products among Chinese consumers and subsequently increase the demand for chip-stock potatoes. With the largest population in the world, and a domestic industry often characterized by inefficiency and poor quality, China has vast potential for US chip-stock potatoes.



Colombia

Sales of sweet and savory snacks increased by 7% in value in 2010 in Colombia. The current focus in sweet and savory snacks is on shifting the image of the category's products away from its formerly unhealthy image towards a healthier positioning through an emphasis on fortification and more natural ingredients and less trans-fats and cholesterol. Farming is the mainstay of the Colombian economy. Potatoes are popular within the Colombian culture and they are a daily food for most Colombians. Local potato production was 2.9 million MT in 2003 and 2.8 million MT in 2008. This decrease is due to less land designated for potato growing in 2008. Potatoes are grown year round, but there is a higher yield between July and December. Interest in US fresh potatoes, both chipping and table-stock has been increasing. If the US-Colombia FTA is implemented the US will gain duty free access to this market.

Chips & Chipping Potatoes

Export Market

<i>Growth Strategy</i>	<i>Productivity Strategy</i>
<p><i>Create new markets for US chipping potatoes and maintain US market share in existing markets.</i></p> <ul style="list-style-type: none"> • Overcome market access barriers • Increase demand in targeted markets through market development activities • Conduct a market maintenance program in markets that meet the exit plan criteria 	<p><i>Productivity Strategy: Enhance US chipping potato growers' export capabilities</i></p> <ul style="list-style-type: none"> • Create an export ready US industry • Research and overcome logistical and quality barriers