

## EXPORT

### ▶ BACKGROUND

The USPB dehydrated (dehy) potato program began in 1999 with the primary focus of promoting US dehy products through education of the trade in the target markets of Japan, Mexico and the Philippines. It has evolved to also include country specific programs for China, South Korea, Indonesia, Malaysia and Thailand.

Education is primarily carried out through trade shows, seminars, reverse trade missions and one-on-one technical meetings. In addition to basic dehy information on the characteristics and different products available, the trade is ready for new technical information regarding the functionality and benefits of utilizing US dehy in a variety of applications.

The snack food sector is mature in most target markets, and there are limited opportunities for the USPB to offer additional support to further the sales in this area. In the bakery sector, illustrating the benefits of utilizing dehy in bakery applications has been the focus; however, more country specific research on bakery products needs to be conducted. Variables such as wheat flour strength, water pH, sugar content in bread formulas, etc. all affect the formulation of the dough and finished baked goods and need to be accounted for when showing the benefits of using dehy.

New products, channels and sectors such as slice, dice and shreds in food service and mass catering have yet to be tapped in most markets. This would represent net new business; however, more information for these targets needs to be developed. Information such as the cost benefit of using dehy, reduced staff time for preparation or even nutrition benefits needs to be developed along with new menu concepts and ideas integrating US dehy into local cuisines.

The USPB has been actively promoting dehy for use in the US government international food assistance programs. This is an extremely difficult process, but success has been achieved with the USDA administered programs. The process is just beginning with the programs administered by USAID and the UN World Food Programme.

### ▶▶ CURRENT MARKETS ◀◀

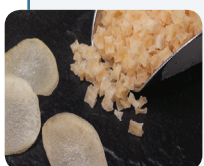
#### Japan

Japan remains a top priority for US dehy potato products. Although some companies have switched back to US origin after the GMO incident, the US has not fully regained lost business. Reduced US potato supplies and increasing dehy prices contribute to this as well.

Huge potential for US dehy remains in the newly tapped sectors of food manufacturing, food service, convenience stores, retail and mass catering, especially those targeting hospitals and nursing homes. Continued emphasis and education on “soft foods” utilizing dehy presents an excellent opportunity for growth in this sector. On the bakery front, smaller retail bakeries are starting to experience the benefits of utilizing dehy and more education and awareness needs to be built in this sector. Promoting products such as slice, dice and shreds which were mostly prohibited in the past due to the sulfite tolerance level regulation, will continue to increase the sales of US dehy and present opportunities for net new sales.

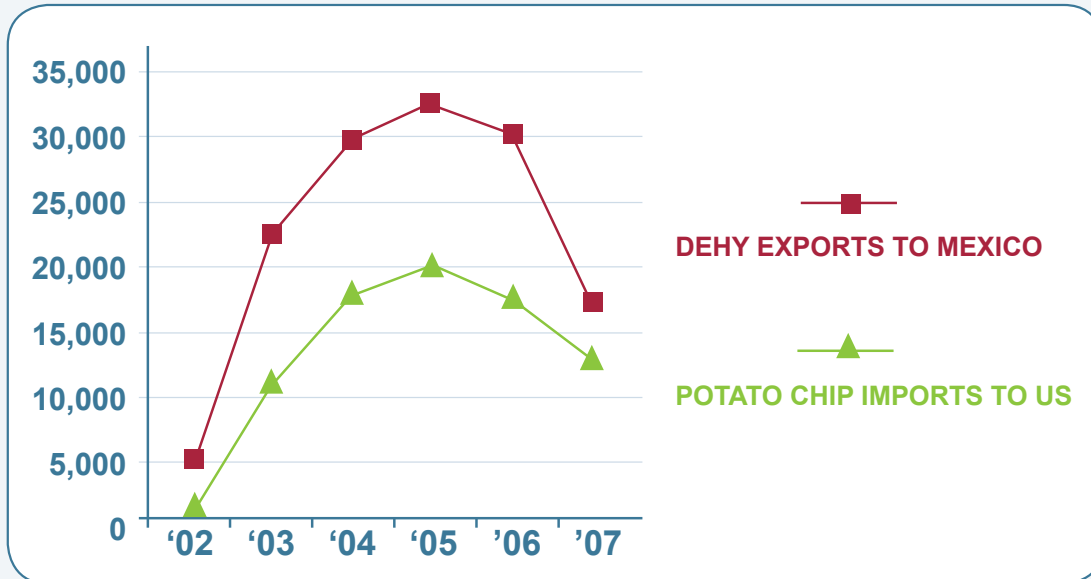
#### Mexico

Mexico is among the US potato industry's top priorities for dehy. It moved from the largest dehy export market into second, behind Japan in MY07. Although exports to this market reached an all time high of 37,245 MT in MY05, they declined by 46 percent in MY06 and 50 percent in MY07. It is believed the majority of this decline is because the STAX chip product, manufactured in Mexico by Frito Lay with US dehy and then re-exported to the US, has not done well. In looking at calendar year dehy export numbers when the STAX plant first started and comparing them to potato chip imports to the US, the trend lines are very similar. In comparing pre-STAX export numbers to the past marketing year, dehy numbers have increased by approximately 178 percent in six years. Although STAX has declined, the overall snack sector continues to grow as snack food manufacturers develop new and innovative potato snack products for the Mexican market.



## DEHYDRATED POTATO PRODUCTS

There is also excellent potential for growth in the bakery sector. New products such as slice, dice and shreds need to be promoted, in addition to the main products of standard flakes, flour and standard granules. These need to be introduced throughout new target sectors and channels such as food manufacturing, food service, mass catering and retail which have outstanding upside potential. The program needs to be conducted regionally to get the information disseminated throughout all of Mexico.



### Indonesia

Indonesia continues to challenge the Philippines as the top export market within ASEAN. The snack food sector is fairly mature and is dominated by large companies. Therefore, the best ROI would be to focus on new sectors such as bakery, food manufacturing and food service. The bakery industry continues to grow with several thousand small, retail bakeries throughout Indonesia. This represents an outstanding opportunity for US dehy; however, much more education is needed, and the development of importers and distributors to support this sector will be important. Foodservice is expanding in the major cities and not only offers Western style foods, but fusion and foreign ethnic cuisines. New recipes and ideas utilizing dehy should be developed and promoted for this segment. Application studies for food manufacturing should be completed and information disseminated.

### Malaysia

Malaysia holds excellent potential for growth in the snack food, food manufacturing, food service and bakery sectors. Utilization is currently very low and there is a lot of room for new, innovative products. New menu concepts utilizing US dehy, specifically targeting local taste preferences, need to be developed and promoted. Products such as slice, dice and shredded potatoes, which have not been historically utilized in the region, need to be introduced and more education provided. Food manufacturers need to be better targeted. Importers and distributors need to be developed, as well, to support the demand for dehy.

### The Philippines

The Philippines is the most developed market within ASEAN due to the fact the dehy program was started in this country. For now, the use of and opportunities for dehydrated potatoes is primarily limited to snack food producers and to a smaller degree, bakeries. Considerable potential for growth exists within these groups; however, as current product utilization is very low and there is a lot of room for new, innovative products. More focus on the HRI and food manufacturing sectors needs to be implemented as the overall economy improves, additional jobs increase and personal disposable income increases. Importers and distributors need to be developed to support the pent up demand for dehy in this country.

## Thailand

Thailand is currently the least developed market within ASEAN with most utilization in the snack food market. Usage is limited and potential for growth is substantial, especially with new products. Other segments such as bakery, food manufacturers and HRI needs to be further explored and targeted. Information specific to these segments needs to be developed and disseminated. More in-depth training and education needs to occur across the board to spur trials and development of new products.

## Korea

Korea has excellent potential for new snack, bakery, food service, food manufacturing and retail products made with US dehy. However, a tariff rate quota that only allows 30 MT of flakes, flour and granules into the market before a 338 percent tariff is applied, severely impacts dehy exports to this country. Though the ability to circumvent this TRQ through the export of mixtures has resulted in excellent growth, it is still much more difficult for R&D personnel to develop new products, as it also requires developing a “blended dehy product” to meet import regulations. The completion of the KORUS Free Trade Agreement was announced in April 2007. The US free trade agreement with Korea offers hope of increasing the TRQ to 5,000 MT in the first year for dehydrated potatoes, if it is passed by the legislatures in both countries. In the meantime, ways in which to work around the current regulations must be pursued. One example is to work with pre-blended product already approved for import into the market.

The TRQ does not apply to slice, dice and shredded products, and despite a relatively high tariff of 27 percent, this sector offers possible opportunities for net new business. Information specifically targeted for these products needs to be developed and trade education implemented.

## China

China had proved to be an extremely difficult market in which to promote US dehydrated potatoes in the past due to the growing supply of extremely low cost potato flakes and strong competition from Europe. However, the US experienced excellent growth in MY06, a 217 percent increase, bringing it to the third largest export market for the US behind Japan and Mexico. The dehy industry recognized this opportunity and recommended that a program in China should be implemented in MY07. Although exports declined from MY06 to MY07, opportunities for use of dehydrated potatoes within the foodservice, baking and retail markets continue to grow and present excellent opportunities for growth.

## Vietnam

Vietnam is an emerging market which could hold growth potential for US dehy potato products, especially in the snack food market. Currently, all dehy imports are from European countries. The Vietnamese economy is witnessing huge achievements with total foreign investment at record highs. Becoming a member of the WTO seems to have created renewed vibrancy in the country's major urban areas. Growth is expected in sectors such as QSRs and supermarkets, where products utilizing dehydrated potatoes are sold. A basic educational program regarding US dehydrated potatoes needs to be introduced to the local trade, including importers, distributors, snack manufacturers, HRI and bakeries. It will be important to work closely with the importers/distributors to establish local supplies in the market.

## International Food Aid Programs

International Food Aid Programs offer excellent market potential, but also substantial hurdles to entry. The US government purchased dehy for use in international food aid programs for the first time in 2001. However, only limited amounts have been used to date in the smaller USDA administered programs, while the much larger USAID programs have just begun to recognize dehy as an alternative. Of even greater potential are the UN administered World Food Programme emergency and developmental feeding programs; however, the barriers to entry are even more daunting. PVO's, USDA and USAID are increasingly recognizing the benefits of dehy through one-on-one technical meetings and trainings. This awareness needs to be leveraged while the opportunities exist. New information on the benefits of dehy also needs to be created to continue to build awareness and interest in dehy for food programming.

# DEHYDRATED POTATO PRODUCTS

## ►► POTENTIAL MARKETS ◀◀

### Russia

Russia offers excellent market potential for dehydrated potatoes in the snack, retail and food manufacturing sectors and should be further monitored in the upcoming year. There appears to be a general shortage of dehy and strong interest from the food manufacturing sector. Use of, and thus demand, for dehy is still at a very basic and limited level, leading one to believe that significant potential exists to expand this category. As a result of an initial market visit, the Board has been working with several contacts facilitating communication with the US dehy industry. Competition from Europe and China is significant.

### Central America

On August 5, 2004, the United States signed the United States-Central America-Dominican Republic Free Trade Agreement (DR-CAFTA) between the US and Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua and the DR. The DR-CAFTA levels the playing field, providing US exporters market access that is better than, or at a minimum, equal to, that given to other competitor countries, which has led to renewed interest in US products.

With CAFTA in place, the opportunities for exports of US agriculture products to the region should increase significantly. According to the USDA, this area represents one of the United States' largest destinations for US agricultural exports (over \$1 billion in 2002), with a total population of approximately 37 million. The region has a total combined purchasing power parity of almost \$152 billion (CIA World Factbook).

Several US dehy processors have shown interest in this region. Research conducted by the potato industry on the potential opportunities in this market should be reviewed and discussed.

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## ► CHALLENGES

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Past programs reached out to broad targets and were designed to educate a general population of companies. This effort was refined by programs designed to increase the number of channels in which dehy is utilized by providing more specific technical information and support. These programs have been very successful, but constraints still exist to increased exports to the targeted markets.

There is still a significant lack of understanding of dehy by the foreign trade, its multiple uses and the alternative products available. This is compounded by a lack of documentation of all of the potential uses of dehy and the benefits of using dehy. Further hindering the adoption of new uses and products is the lack of technical experts on dehy available in the markets. **Created demand is still going unmet because of the lack of importers and distributors handling the full range of dehydrated potatoes in many of the markets.** High tariffs in a number of markets, and access issues in Korea and other markets, further hinder US exports.

In 2007, reduced worldwide potato supplies increased demand for US product and therefore, higher prices also plagued the market. In 2008, reduced US potato supplies and high dehy prices continue to affect export demand. Exchange rates could further impact demand for US dehy.

Increased competition from China into dehy target markets is becoming a challenge and needs to be monitored.

## ► RESOLUTION

We have come a great distance in educating the foreign trade about the basics of US dehydrated potatoes—its various products, quality and versatility. However, there is a great deal more education which needs to be conducted, not only about the basics of dehy to a broad audience, but specific technical information on the benefits of using US dehy in a variety of food applications. A “library” of technical information on the uses and applications of dehy needs to be built and shared with target sectors so that they may quickly utilize the information and apply it to their processes. Each market is very unique, and the programs and activities must be tailored specifically for local tastes and formulations.

### ***Build a foundation of technical knowledge and information regarding the benefits of utilizing US Dehy in a variety of applications***

We will increase the understanding and usage of US dehydrated potato products through proactive strategies, ensuring that US dehy is utilized in new products and channels, thus increasing overall usage. Identifying new opportunities for US dehy potato usage and documenting its benefits, will build a foundation of information that foreign companies can take advantage of in their specific applications.

### ***Provide education and training about US Dehy where needed and appropriate***

Although much work has been done to educate the foreign trade in target markets about US dehy and its various products, this work needs to continue as there is high turnover in food manufacturing companies, and new employees continue to need the basic education. As further technical information is developed, there will be a need to disseminate new application study information and documented benefits of utilizing US dehy in a variety of food applications through trade shows and seminars.

### ***Increase the number of channels in which Dehy is utilized***

Each target market holds potential for growth throughout new channels where dehy is currently underutilized or not being utilized at all. Through the development of new information regarding the benefits of utilizing US dehy, new menu concepts and technical application studies – new target audiences can be reached and educated about US dehy. Excellent examples are mass catering targeting hospitals and nursing homes, food service and large institutions with in-house cafeterias.

### ***Assist importers and distributors to assure availability of US Dehy in all target markets***

This group holds the key to future dehy purchases and exports. We will continue to educate this sector to ensure constant supply in the target markets. General education regarding dehy will be implemented to a broad group to encourage them to try dehy. Additionally, specific seminars developed for new importers and distributors handling dehy for the first time will be conducted to ensure they are successful in selling and promoting dehy within their country.

### ***Expand the use of US Dehy in international food aid programs***

Increased demand for dehy by the PVOs will be created through demonstration projects that prove the benefits and effectiveness of dehy in food aid settings. These projects will be focused in the areas and programs being targeted by the US government and United Nations. The barriers within USAID and the UN will be overcome to allow the use of dehy in Title II and World Food Programme (WFP) food aid programs. Information will be developed, as needed, and tailored to each of these sectors to overcome the lack of understanding of US dehy within various programs. For example, the cost of dehy per nutritional value versus other commodities needs to be determined.

### ***Explore new markets***

To help US processors expand their presence around the world and to create new opportunities, the USPB will research new market opportunities for dehy.

### ***Communicate opportunities and information to processors***

We will ensure US processors are continually updated and informed about new technical information and studies conducted to document the benefits of dehy so they may better sell their products. **Additionally, more emphasis needs to be placed on assisting US processors to better compete in a world market place. This may include training and export skill development in addition to providing them with information.**

# DEHYDRATED POTATO PRODUCTS

## EXPORT

### GROWTH STRATEGY

#### *Increase understanding and use of US dehydrated potato products*

- Build a foundation of technical knowledge and information regarding the benefits of utilizing US dehy in a variety of applications
- Provide education and training about US dehy where needed and appropriate
- Increase the number of channels in which dehy is included/utilized
- Assist importers and distributors to assure availability of US dehy in all target markets
- Expand the use of US dehy in international food aid programs
- Continue market access work

### PRODUCTIVITY STRATEGY

#### *Facilitate the expansion of exports of dehydrated potatoes*

- Reputation and issues management
- Communicate opportunities and information to US processors
- Support processors as issues resource
- Explore new markets
- Develop a plan for entering new markets and exiting those that are mature