# Export Market

## *Background*

Frozen potato products make up the majority of US potato exports to the world, comprising close to sixty percent (60%) of all US potato export volumes. Not only the largest program; the frozen program is also the Board's longest running international marketing program. The program continues to provide US potato growers with opportunities to increase the usage of their potatoes with overall frozen potato export volume increasing 18% in the past five years from 1,042,131 metric tons (MTs) in MY05/06 to 1,229,853 MTs in MY09/10.

As with all of the Board's international marketing programs, an integral part of the frozen program has been to provide positive information about potatoes including convenience, versatility as well as nutritional attributes. By doing so, the potato is generally viewed positively in the global marketplace, though frozen potatoes, particularly fries, still conger up negative images. Though frozen products face fewer market access issues than fresh potatoes, market access issues continue to crop up in the frozen program. Issues such as high tariffs, irregular import regulations, maximum residue levels (MRLs), GMO and acrylamide concerns all have the potential to hamper frozen potato exports. Free trade agreements between competing producers and target markets continue to place US frozen exports at a disadvantage.

For many years, marketing directives for the frozen potato program were primarily focused on the shoestring fry and earning market share in the targeted markets. For emerging and developing markets experiencing growth in the quick service restaurant (QSR) sector, establishing the US fries as the high quality standard has been essential for growth of the US potato industry. Assisting foodservice establishments and importers thru training and education has been a pillar in developing continued loyalty for US fries and maintaining market share.

However, as major target markets such as Japan have matured and saturation of the QSR sector has occurred, a shift to marketing activities introducing the many varieties of frozen potato products available including value-added specialty and non-fried frozen products has been critical. The introduction of new applications utilizing frozen potato products as well as tapping new channels such as the retail sector, institutional foodservice and online shopping has successfully assisted in growing the pie for US frozen potato products.

## *Challenges*

US frozen potato exports face numerous challenges and impediments. Some of these cannot be impacted by the USPB such as the globalization of the potato processing business, disruptions in US supplies, low cost and possibly subsidized production in the EU, as well as exchange rate fluctuations.

However, other issues can be addressed and impacted by USPB programs. They include:

- The lack of understanding of US frozen potato products' positive attributes and benefits
- A lack of understanding of the nutritional profile of US frozen potato products
- Market access and regulatory barriers to US frozen potato product exports
- Misperceptions about US frozen potato products

- Lack of knowledge of US frozen potato product variety & versatility
- Increased competition from a growing number of competitors
- Price sensitivity, particularly in emerging and developing markets
- Storage, handling and preparation issues in emerging and developing markets

In order to grow exports for US frozen potato products, it will be important to pursue the following opportunities:

- Shortages of fresh potatoes in some markets
- Demand for new and alternative US frozen potato products
- New applications for US frozen potato products
- Alternative channels for US frozen potato products
- Growth in demand in emerging and developing markets

## Solutions/Strategies

The objective of the international marketing program for frozen potato products is to increase US frozen potato exports by driving overall consumption of frozen potato products, expanding the use of frozen potato products into new sectors, new channels and through new applications and increasing or protecting US market share of frozen potato products in the target markets. In order to meet this objective the Board will follow the following strategies in the targeted markets, as determined by the status of the market.

### Drive consumption of US frozen potato products thru a positive profile

The increasing concern about the impact of food upon health and wellness is the biggest trend impacting food consumption worldwide. Increased consumption of all frozen potato products will be protected by educating the trade and consumer about basic potato nutrition as well as the role that fried foods can play in a healthy diet. The work of the new Alliance for Potato Research and Education will be leveraged in the international markets. New "better for you" products will be promoted in the markets. The positive attributes of frozen potato products in terms of ease of preparation, food safety, waste, etc. will be conveyed to the trade. Negative issues such as acrylamide, GMOs, trans-fats, etc. will either be addressed directly or deflected through positive messaging.

### Expand the use of US frozen potato products (grow the pie)

Even in established markets, many opportunities exist to increase demand for US frozen potato products by creating new uses. This will be done through market research, recipe development, merchandising, trade shows, seminars, promotional support and trade advertising. Educating the markets about the wide variety of US frozen potato products will be very important as these new and different products lend themselves to new uses.

### Protect and expand US market share

The US is the worldwide leader in frozen potato production and development. This advantage must be exploited through the delivery of the "Why Buy US" messages; profitability, quality, food safety, government standards and other messages about the US product. The USPB will also add value to US products by the provision of technical support to food service operators and importers/distributors as well as promotional support to the food service and retail sectors. By doing so, the US product will be established as the standard in emerging and developing markets.

### *Ensure market access for US potato products*

Increased access to foreign markets will expand exports of US frozen potato potatoes. Tariffs, quotas and other barriers to trade will be addressed in concert with the National Potato Council, state potato grower organizations and the America Potato Trade Alliance. The USPB is uniquely positioned to work on these issues from within the foreign markets as well as providing information to US government officials.

# *Targeted Markets*

## Established

Japan and Korea are countries that are well established in terms of the fast food industry and future potential growth, thus making QSRs and shoestring fry expansion minimal. However they have excellent growth potential in the areas of new products, applications and alternative channels such as online shopping or institutional operations.

**Japan**
Japan is the largest export market for US frozen potato products. Little growth potential is expected for the shoestring fry market due to its maturity. However, work in new channels with healthy and innovative products focused towards the needs of the population has been effective. The Japanese consumers' thirst for variety and for healthy, innovative food products will be whetted by understanding the variety and nutrition that abounds in US frozen potato products. The long term economic recession has impacted overall frozen potato product sales.

**Korea**
Korea is a mature market for shoestring fries, but there is inconsistent local fresh potato supply and no local frozen production. It is a very health conscious market which is constantly looking for new innovative products. Korean consumers' preference for health-focused items as well as poor perceptions of fast food has in the past affected fry sales. The exploration of new channels such as e-commerce and bakery cafes should lead to expansion of the market. The recent economic recession in Korea has led to more visits to quick service restaurants as well as deli section purchases which are offered at lower prices. Once ratified, the Free Trade Agreement between Korea and the US would immediately reduce the present 18% tariff to zero which will positively affect US exports to Korea.

## Developing

China, Mexico, Malaysia, Philippines, Indonesia, and Thailand are in different stages of development of the foodservice industry, but in all cases there are good opportunities for growth, especially in the quick service sector.

**China**
With the fastest GDP growth in the world, China continues to present a huge opportunity for US frozen potatoes. China is the fifth largest market for US frozen potato products. Growth is expected to stay strong in the QSR sector and the trend towards Western types of foods is prevalent. Additionally, continuous expansion of local Chinese chain restaurants as well as retail will allow for further opportunities to tap into these sectors. Even with the growth of local production capabilities and anti-import sentiment in the government; demand still exceeds the supply of frozen potatoes, especially for high quality specialty and value-added frozen products. Due to issues such as acrylamide, the flow of positive nutrition information into the market will continue to be important. Work establishing US fries as the industry standard should continue to be pursued.

**Mexico**

Mexico is the second largest target market destination for US frozen potatoes. US exports to Mexico were cut in half by the retaliatory tariff imposed on US frozen potato products as part of the NAFTA trucking dispute. Overall exports to the market have also declined due to the severe recession from 2008 – 2010. Geographically close to the US, not only the local population but US tourists favor US frozen potatoes. The retail market continues to boom, with the three largest supermarket chains continuing to build new stores spurring additional demand. Mexico's economy continues to reel from the impact of the global economic crisis, while the instability of the US-peso exchange rate has made the cost of US products rise.

**Philippines**

The Philippines is the eight largest destination for US frozen potato exports. With a population of around 88 million and a growing economy, the ability to increase the volume of US potato products shipped to this country remains excellent. The Philippines has the largest number of QSRs in the ASEAN region, which are expected to continue to grow. As well, other restaurants are opening particularly in Manila offering a wide variety of cuisines that are mainly western or fusion. These factors will continue to push consumption of US potato products. The demand for convenience and modernization of the retail sector could lead to greater frozen potato purchases at this level.

**Malaysia**

Malaysia ranks as the ninth largest US frozen potato export destination. Malaysia is one of the most developed nations in Southeast Asia with a steady GDP growth of around 6%. It is open to foreign trade including potatoes, relying on imports for its entire potato product supply. With families eating away from home more frequently and Malaysia's tourism industry expanding, further growth is expected to fuel food service expansion, creating new opportunities for US frozen potato products. The retail sector in Malaysia also presents growth opportunities with supermarkets and hypermarkets becoming more popular shopping venues.

**Indonesia**

With a population of about 240 million people (the world's 4th most populous country) and a relatively new government creating a stable political and economic environment, Indonesia offers good growth potential for the US potato industry. Both QSR and FDR foodservice expansion within the major cities of Indonesia is positioning US frozen potatoes for rapid growth. The tourist industry, also expected to increase significantly in the future, should provide opportunities for foodservice expansion. Shopping malls, supermarkets and hypermarkets are expanding and upgrading as more and more Indonesians are starting to prefer to shop in these modern, convenient and hygienic environments. Indonesia is the 14th largest destination for US frozen potatoes as it has lagged in QSR and retail growth to the rest of SE Asia.

**Thailand**

Thailand has a population of 64 million and growing. The positive Thai economic growth as well as growth of the middle and upper income classes creates opportunities to build consumer demand for US potatoes. The foodservice sector is expanding with a trend towards western, foreign, ethnic and fusion cuisines when dining out. Thai tourism is extremely important to the Thai foodservice sector as well. Besides the HRI sector, potential also exists in the retail sector. Generally speaking, Thai consumers think highly of US origin food products both in quality and safety which also bodes well for US frozen potato export potential.

Though Thailand has no frozen processing capability, the 30% Thai tariffs on frozen potatoes are some of the highest in the world. The excessively high import tariff on frozen product, substantially limits the immediate export growth potential for the US potato industry. Additionally, US potato products are at a considerable disadvantage when competing with similar products from New Zealand, Australia and China, which have free trade agreements with Thailand. US exports will continue to show declines and eventually lose not only market leader status but most of the market if the tariff faced by US product is not lowered or eliminated.

## Emerging

Countries in Central America including Guatemala, El Salvador, Costa Rica, Dominican Republic, Nicaragua, and Honduras; as well as Vietnam are emerging markets with strong growth potential for the shoestring fry product in the QSR sector and beyond.

**Central America & Dominican Republic**
The signing of US CAFTA-DR has lead to renewed interest in US products including frozen potatoes. Implementation of this free trade agreement has benefited US frozen exports positively with volume increases of 25%. Combined, the countries of Guatemala, El Salvador, Panama, Honduras, the Dominican Republic, Costa Rica and Nicaragua create the 8th largest market for US frozen potato products worldwide.

**Vietnam**
Vietnam is an emerging market which holds good growth potential for US frozen potato products. The Vietnamese economy is witnessing rapid growth with total foreign investment at record highs. Becoming a member of the WTO has created renewed vibrancy in the country's major urban areas. The 2009 tariff on frozen fries is 26.2% however, the WTO accession agreement calls for a gradual reduction of 4.4% annually. Establishing US frozen potatoes at the ground level is a positive move to encourage future US potato product sales in the HRI and retail sectors. Additionally, the cold chain is poor, assistance in this area will pave the way for future sales on US frozen potato products.

# *Potential Markets*

The following markets should be periodically reviewed to better understand their upside potential.

## Emerging

The markets of Panama, India, Saudi Arabia and Eastern Russia have shown strong growth potential in the past, though various factors currently limit US access to them.

**Panama**
Recently, Panama's HRI sector has begun to fulfill its predicted growth potential thru the tourism market. Currently there are a number of "five star" hotels and high-end restaurants that import their food supplies. However, despite the country's reduced vegetable production, Panama's high import tariffs have resulted in higher vegetable exports than imports. Panama's tariff on frozen fries was increased to 20% in 2003, however should the US and Panama implement the agreed upon Free Trade Agreement, the tariff would go to 18% and be gradually eliminated over a 10 year period. Panama does not have a well developed cold chain distribution system, this would need to be addressed via education and training.

**India**
Based on its food culture, the potato is well accepted and there is currently no domestic fry production, though plans to implement one are constantly being discussed. Good growth in frozen potato imports occurred through 2006/07 to 5,740 MT however it has backed off to 3,111 MT 2009/10. The market has traditionally favored product from Europe. Though geographically far away, it may prove to be a worthwhile market for the US to tap, if US processors are focused on it and growth resumes.

**Saudi Arabia**
Saudi Arabia is a $5.8 billion import market for food and agricultural products and this is expected to grow in the years to come. There are a growing number of QSRs, hotels and resorts. The number of upscale supermarkets continues to increase, creating greater opportunities for new-to-market US food products. This is an open access market in which US fries have been performing well. Presently there is room for growth for all suppliers but competition and geographic location could be an issue in the future.

**Russia (Eastern)**
Potatoes are a high consumption item in Russia. Increasing consumer demand for new and better food products, an expanding economy, as well as a 143 million population makes Russia an attractive target for US frozen potato exports. However, the current economic, political and social unrest make Russia a risky investment at present. The growth of QSRs is forecast to nearly double by 2012 and the sector will increasingly rely on imported foods. European competition is strong and entrenched especially in Western Russia. However, due to geographic distances the Russian Far East offers a natural market from the US West Coast.

## Established

The markets of Taiwan, Hong Kong and Singapore have well established HRI industries with longstanding relationships with US suppliers. Growth in US exports is limited by the size of the markets, however it is important to monitor them to assure that US dominance is not threatened.

**Taiwan**
The USPB targeted Taiwan with a frozen potato program for many years, but presently does not have a frozen program in this country. The market is a mature market for shoestring fries, but the array of frozen US potato products may be a vehicle for potential growth in other areas of this market. Taiwan has become a favorable export market with affluent consumers who are capable of purchasing higher priced imported products, including US potato products. Per capita rice consumption has decreased steadily in recent years as consumers have begun to favor higher protein diets. As Taiwan's reliance on rice diminishes potato products will continue to grow in popularity and acceptance.

**Hong Kong**
This market was one of the original targets for the Board's frozen program. Due to its central location, free port status and position as a regional purchasing and distribution center, a significant amount of Hong Kong imports are re-exported. Hong Kong plays an important role as a major buying center and transshipment point for China and Southeast Asia. There is a growing popularity of frozen food products as more and more consumers believe that frozen foods are more hygienic. Hong Kong has around 11,540 restaurants with 11% of them being fast food outlets and 36% non-Chinese restaurants. Hong Kong's restaurant industry purchases over $3.5 billion in food and beverages and generates over $10.2 billion in sales.

**Singapore**
This island nation was a target market for the Board for a long time as part of a regional program. Singapore's potato imports continue to grow with global imports of frozen potatoes growing by 45% from 2004 to 2009. This is largely due to the fact that Singaporeans continue to frequent fast food outlets. Singaporeans have embraced the Western diet and culinary preferences.

## Frozen Potato Products
*Export Market*

### *Growth Strategy*

***Increase US frozen potato exports by driving overall consumption of frozen potato products, expanding the use of frozen potato products into new sectors, new channels and through new applications and increasing or protecting US market share of frozen potato products in the target markets.***

- Drive consumption of US frozen potato products thru a positive profile
- Expand the use of US frozen potato products (grow the pie)
- Protect and expand US market share
- Ensure market access for US potato products