



# WORLD MARKETS AND TRADE

March 2008

## Fresh Potatoes

### SUMMARY

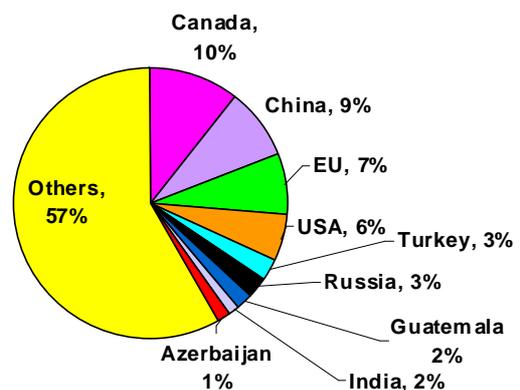
World potato trade is dominated by small players. However, the major exporters are having mixed results. Canada's, China's, and the United States' exports are rising, while the EU's are falling. The potato industry is very complex, as fresh potatoes are produced for table stock and for processing into chips, frozen fries, and other products. The greatest opportunities for export growth seem to lie in the new markets where demand is rising for processing into western-style snack foods and convenience foods.

### U.S. Exports Forecast Up

U.S. potato production for crop year 2007 (Jan-Dec) is estimated at 20.4 million tons, up 2 percent from last year due to record yields and slightly increased area.

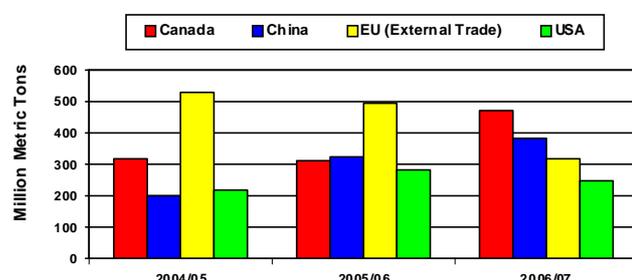
The market has been affected by changing lifestyles away from traditional home-cooked meals to increased purchases of convenience foods, as well as the low-carb diet a few years ago. As a result, potato consumption in the United States

### World Fresh Potato Exports Dominated by Small Players, 2006/07



Note: HS070190. Others made up of 30 other countries with less than 1 percent share each.

### Mixed Results for Major Fresh Potato Exporters Canada, China, & U.S. Rise, EU Declines



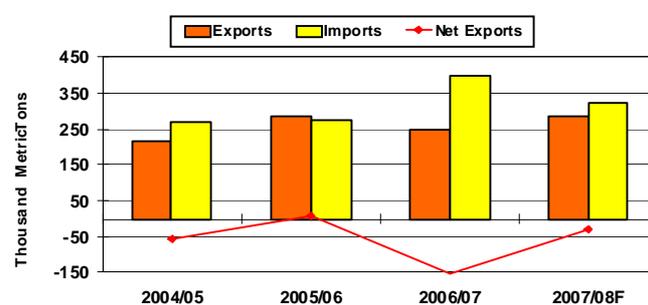
dropped from 138 pounds per person in 2003 to 126 pounds last year.

Exports are a critical source of growth. Exports have grown 15 percent over the last three years and are forecast to grow 15 percent to 285,000 tons in marketing year 2007/08, driven by slightly higher production, growing demand for high quality fresh potatoes in certain markets (especially for chipping), improved global market access, and effective overseas promotion and marketing activities by U.S. industry. For the first six months of 2007/08, exports to our traditional major markets were strong: Canada was up 6 percent to 90,100 tons, and Mexico was up 30 percent to 31,200. Exports to new markets grew even faster over this same period (Taiwan, up 65 percent to 15,300 tons, which is greater than the amount for the full previous year; Malaysia tripled to 3,600; Korea soared to 4,400, almost double the amount for the full previous year). In particular, the growth in Korea is due to increased use by chip manufacturers, improved market access, and robust overseas marketing activities by U.S. industry to increase demand.

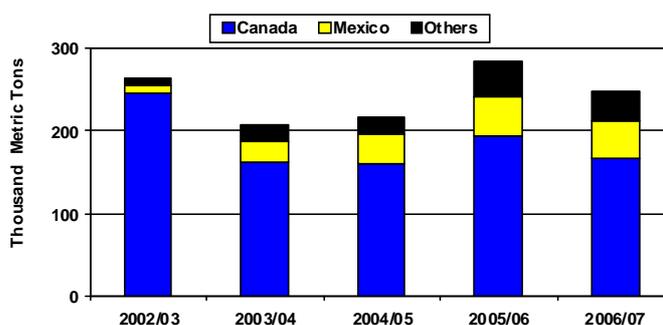
Exports to Canada are also expected to rise due in part to the U.S.-Canada potato technical arrangement, which went into effect in November 2007. The Arrangement will provide U.S. potato producers with predictable access to Canadian Ministerial Exemptions (MEs) to import potatoes. Canadian ME regulations dictate that bulk fruits and vegetables may only be imported under a waiver (Ministerial exemption) of standard package size regulations issued by the Government of Canada. MEs for potatoes are generally granted by the Government of Canada only when there is a proven shortage of potatoes in Canada. The Arrangement, when fully implemented in year three, will allow a 60-day forward contract between U.S. growers and Canadian processors to serve as sufficient evidence of a shortage in Canadian potatoes. Additionally, spot-check inspections along the northeastern border will be phased out and quality inspections for potatoes at destination will be phased in. The United States will also begin amending rules to allow some

### U.S. Net Trade Deficit in Fresh Potatoes Expected to Narrow in 2007/08

*Exports Forecast to Rise 20 Percent, Imports Will to Return to More Normal Levels*



### U.S. Exports to Canada Fell Over Last 5 Years, Diverted to Mexico & Other Markets



Canadian specialty potatoes that do not currently meet current U.S. quality standards for size to enter the U.S. market.

The United States is also an important importer, and is the second largest market in the world after the EU. Almost all imports are sourced from Canada. From 2005/06 to 2006/07, imports jumped almost 50 percent to 400,000 tons. Imports are expected to dip down to more normal levels to 322,000 tons in 2007/08 due to the weak U.S. dollar.

### Canada Diversifies Markets

Production in 2007 was 5 million tons, unchanged from the previous year. Analysts expect production to remain stable in 2008, depending on disease pressure and weather. Canada accounts for approximately 1 percent of world production, yet is the world's largest exporter, with about 75 percent of its production exported.

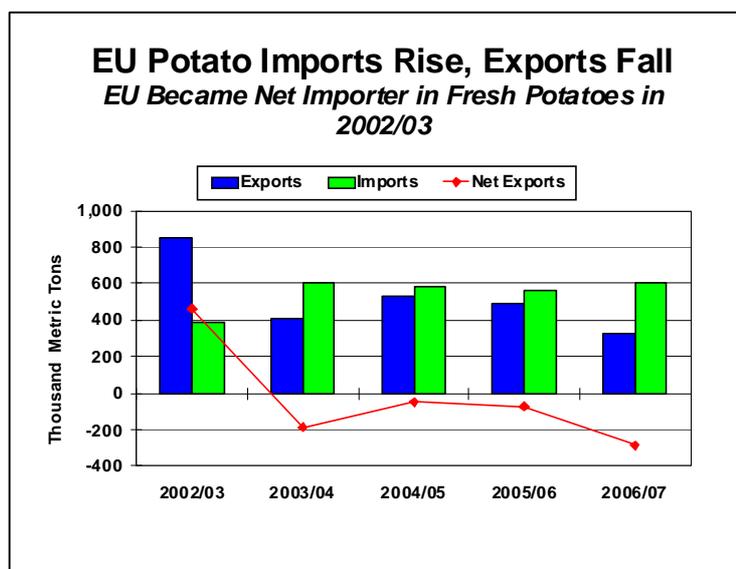
Canada is the world's largest potato exporter, accounting for 10 percent of world exports. About 90 percent is traditionally shipped to the United States. However, Canada has begun diversifying its markets in recent years, as non-traditional markets have been growing faster than the U.S. market. From 2005/06 to 2006/07, exports jumped almost 50 percent to 470,000 tons.

Exports are poised to rise again this year. From July-December 2007 (the latest data available for marketing year 2007/08), exports reached 183,000 tons, up 22 percent over the same period last year, spurred by faster growth in the Caribbean, Thailand, and other new markets. Over the same period, exports to the United States grew 14 percent to 141,000 tons. Export growth to the United States was limited by the weak U.S. dollar and ample U.S. supplies.

### EU Imports Rise

The EU has been forging closer ties with its current and new members. Rising sales to new EU members as a result of the relaxation in intra-EU trade barriers, lower transportation costs, reduced exportable supply, tougher global competition, and a strong Euro have all contributed to rising imports from non-EU countries.

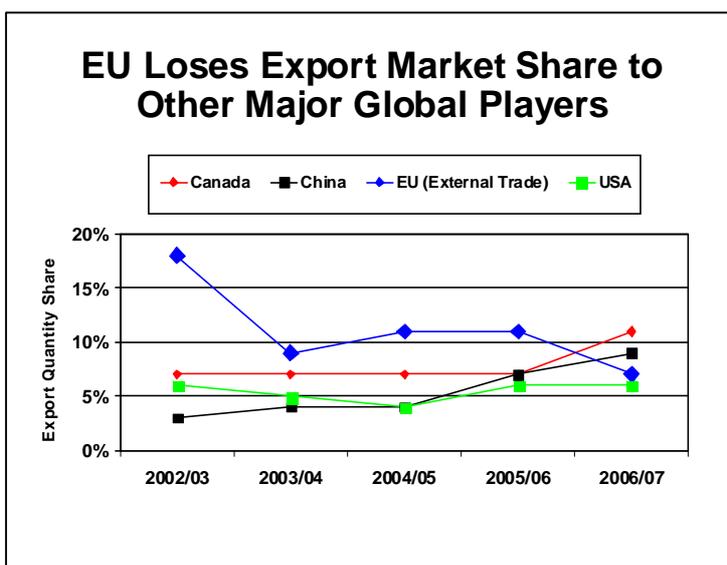
As a result of a changing market and reduced exportable supplies, EU is now a net importer. Furthermore, imports are forecast to rise faster than exports. From 2005/06 to 2006/07, imports climbed 6 percent from 560,000 tons to 600,000. Its



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largest suppliers are Israel (with a 45 percent share), Egypt (40 percent share), and Morocco (10 percent share). EU does not allow imports of U.S. fresh potatoes due to phytosanitary concerns. For the first five months of this marketing year, EU imports were 22,000 tons, up 36 percent over the same period last year. Exports were 314,000 tons, almost triple the previous year, with Turkey as the principle market.

From 2005/06 to 2006/07, exports plummeted 43 percent from 500,000 tons to 290,000 due mainly to drastically reduced exports to Russia.



### Japan's Imports of U.S. Potatoes Doubled in 2007 as a Result of Agreement

The outlook for Japan is very positive, with a strong and growing demand for potatoes. Last year, Japan imported over 1,000 tons, double the amount in 2006. In early 2006, Japan lifted a long imposed import ban on U.S. potatoes and opened the market to U.S. chipping potatoes under very restrictive measures. Under this agreement, U.S. potatoes may be imported into Japan from February to June on the condition that the potatoes will be processed into potato chips. Currently, Japan imports fresh potatoes exclusively from the United States.

### Chinese Exports Expand Rapidly

Although currently very small, China's fresh potato exports have been growing rapidly in recent years as the government works to establish closer trade ties with its neighbors. Trade sources report that Chinese fresh potato exports to neighboring Asian countries are forecast to expand rapidly, although from a small base. Exports are forecast to rise 50 percent to 600 tons in 2007/08. The strong export growth is attributed to comparatively low production costs, seed improvement, and freight rate advantages to nearby markets, despite domestic limitations and phytosanitary constraints.

As a result of increasing area, growing demand by processors, and rapid expansion of fast food chains, total fresh potato production is forecast to grow 5 percent to 75.6 million tons in 2007/08 (September-August). About 50 percent of total domestic production is for fresh use; 30 percent is used for feed and seed; 5 percent is processed into starch; 1 percent is processed into fries, chips, and dehydrated potatoes; and the remainder is lost to waste. Average fresh potato prices have risen 15 percent annually over the previous three years, due partly to the rising demand by the processing sector.

China currently bans imports of fresh potatoes due to phytosanitary concerns. U.S.-China discussions aimed at increasing market access are progressing slowly. Meanwhile, domestic demand for potato products is outstripping production, forcing it to rely on imports of processed products to supplement demand. For this reason, the opportunities are huge and the outlook for export expansion to China is very favorable.

### **New Zealand Export Forecast Up**

New Zealand produces fresh table stock potatoes and processing potatoes, which are mainly processed into fries and then exported primarily to Australia. Despite strong demand for frozen fries in Australia, the area planted for 2007/08 is expected to remain the same as the last several years at about 11,000 hectares. As a result, production and exports of fresh potatoes are expected to remain flat, with exports forecast at 26,000 tons in 2007/08. Most of its fresh potato exports are exported to Fiji and other surrounding island nations. From July-December 2007, exports were 12,000 tons, down 6 percent over the same period last year.

### **Australia's Exports Down Due to Drought**

Potatoes are Australia's largest vegetable crop by value, accounting for about 17 percent of domestic vegetable production. However, a recent drought and industry restructuring have led to a steady decline in its potato industry. These conditions are reflected in Australia's potato trade. From July to December 2007, fresh potato exports were 3,300 tons, down 36 percent over the same period last year. Australia currently prohibits all fresh potato imports due to phytosanitary concerns.

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