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Report Name: Good Weather Boosts Struggling Potato Industry

Country: China - Peoples Republic of

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Report Highlights:

In marketing year 2019/20, potato farmers in China are expected to reap a bumper harvest, with fresh potato production increasing by 5 percent year on year. Favorable weather in key growing regions will boost China's processed potato production, particularly in the fast-growing area of frozen french fries. China's additional tariffs on U.S. processed potato products will result in decreased imports of frozen french fries. While the United States does not have market access to ship fresh table stock potatoes, it is one of only a few countries eligible to export seed potatoes to China, although commercial shipments have been limited.

Executive Summary

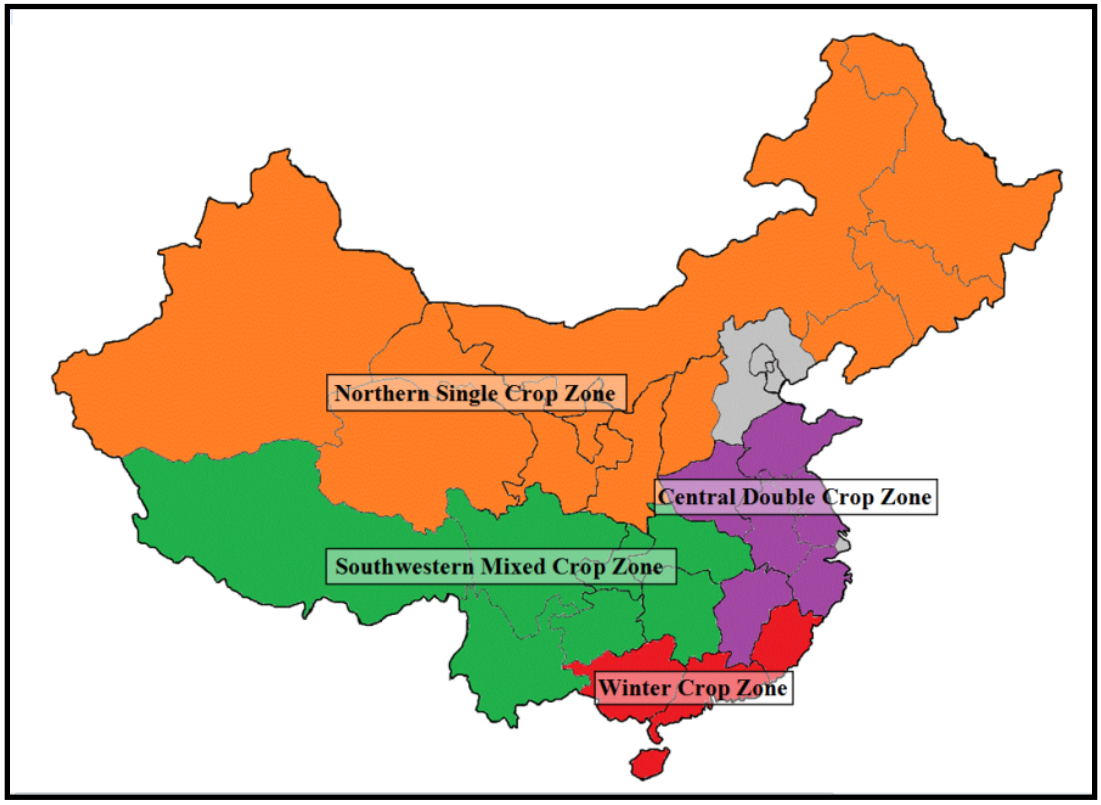
In marketing year (MY) 2019/20 (September to August), fresh potato production is forecast to increase 5 percent, to 98 million metric tons (MMT). This increase is due to favorable weather in China's major potato growing areas of Inner Mongolia, Gansu, and Ningxia. Forty percent of fresh potatoes in China are consumed through processing. Frozen french fry (FFF) production is forecast to increase 10 percent in MY2019/20 due to the increased supply of fresh potatoes. Currently, China does not import table stock potatoes due to phytosanitary restrictions. The United States does export a small amount of seed potatoes from the state of Alaska. China's imports of FFF is expected to decrease this year by 10 percent due to the additional tariffs it has placed on the United States, its largest supplier of imported FFF.

Production

Favorable weather leads to increased potato harvests

Marketing year 2019/20 (September to August) fresh potato production is forecast at 98 MMT, a 5-percent increase from the estimated 93 MMT produced in MY2018/19. This is a result of very favorable weather conditions in many major potato producing provinces, such as Inner Mongolia, Gansu, and Ningxia. According to industry sources, potato yields were 15- 20 percent higher than average in those provinces.

Map of Mainland China's Potato Growing Zones



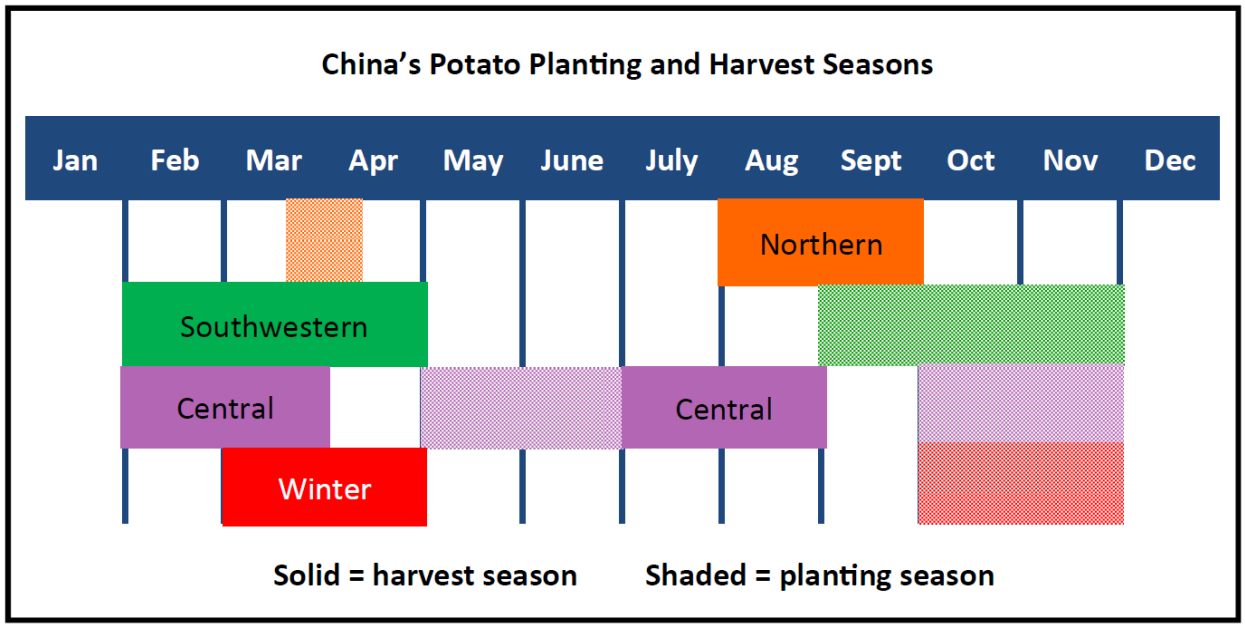
1) The Northern Single Crop Zone – This region accounts for 50 percent of China's total potato area. The potatoes produced in this area are mainly used for seed potatoes, direct consumption, and processing. Potatoes in this zone are usually planted in late April to early May and harvested from September through October. This zone includes Heilongjiang, Jilin, Liaoning, Inner Mongolia, Gansu, Xinjiang, Qinghai, Ningxia, Shanxi, and Shaanxi provinces.

2) The Southwestern Mixed Crop Zone – This region accounts for 35 percent of China's total potato acreage. The potatoes produced in this area are mainly used for direct consumption. Potatoes in this zone are usually planted in September through November and harvested from February through April. This zone includes Sichuan, Guizhou, Yunnan, Tibet, Chongqing, and part of Hunan and Hubei provinces.

3) The Central Double Crop Zone – This region accounts for 10 percent of total acreage. Spring potatoes are planted in February through March and harvested during May or June. Autumn potatoes are planted in July through August and harvested in October and November. The potatoes produced in this area are mainly for export and direct consumption. This zone includes Jiangxi, Jiangsu, Zhejiang, Anhui, Shandong, and Henan provinces.

4) The Winter Crop Zone – This region accounts for 5 percent of total acreage. Potatoes in this zone are planted in October through November and harvested in February and March. The potatoes produced in this area are mainly for export and direct consumption. This zone includes Guangdong, Fujian, Guangxi, and Hainan provinces.

Inner Mongolia, Gansu, Sichuan, Guizhou, and Yunnan are the largest potato producing provinces, accounting for nearly 60 percent of total fresh potato production.



Potato industry faces challenges, despite good harvest year

China's potato industry faces significant challenges. Production and planted area has declined for years. Despite potato's status as one of the five nationally recognized "staple grains", potato farmers receive considerably lower support subsidies than other staple crops (i.e., soybean, corn, wheat, and rice). Additionally, potatoes are mostly grown in hilly areas where it is difficult to employ mechanized production tools. As a result, potato harvesting is labor intensive. With an increasing shortage of farm labor due to urbanization, rising labor costs are a significant challenge for the industry. Industry sources reported that labor accounted for about 50 percent of production costs in 2018; that number has doubled since 2010. Also, unlike other staple grains, potatoes do not store well, making it difficult to balance supply and demand with seasonality, putting additional financial stress on potato farmers.

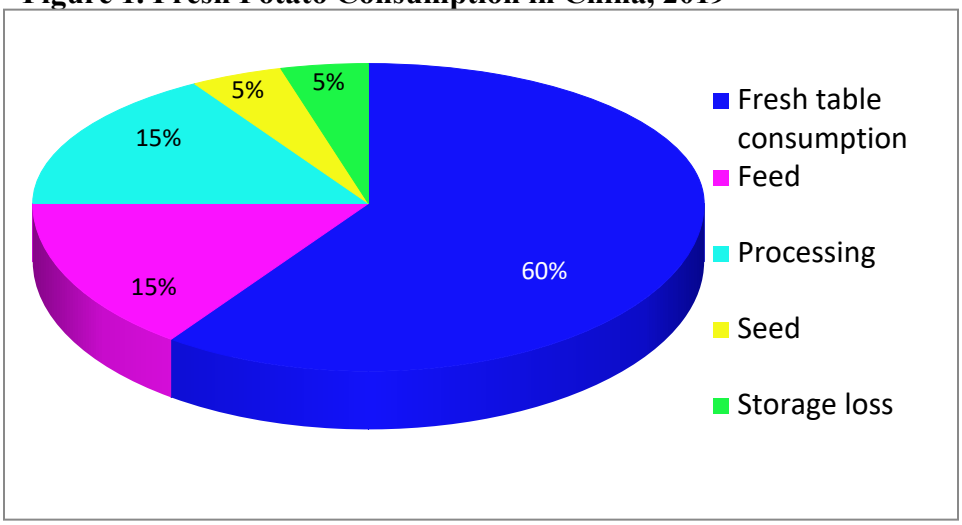
Another major challenge has been the slow development of potato varieties suited to China's growing conditions. Industry reports that many popular potato varieties have been planted in China for a very long time. For example, the Atlantic variety was introduced in 1978; Shepody introduced in 1987; and Favorita was introduced in 1981. To address this issue, China launched the "Better Potato Plan" in 2018 to improve potato breeding through modern genomics and synthetic biology. If successful and commercialized, the new varieties will greatly increase efficiency and reduce the required planting area, reduce loss during transportation and storage, and decrease risks of pest and disease. According to industry sources, China's virus free seed potatoes only account for about 30 percent of total seed potatoes usage because of its relatively high costs (about US$430-640/hectare).

Consumption

China's overall potato consumption remains stable. Industry estimates that 60 percent of domestic potatoes are consumed fresh in households and restaurants. The processing and animal feed sectors each consume another 15 percent. Seed potatoes and storage loss each account for 5 percent.

Processing potatoes account for 10-15 percent of total potato consumption and include frozen french fries (FFF), chips, starch, and dehydrated potatoes. According to industry sources, many potato processing facilities in China only run four to six months a year due to the limited supply of suitable fresh potatoes and inadequate or outdated storage facilities. A significant amount of potatoes spoil in storage, which then shortens the number of days potato processing lines are able to operate. Many potato processing factories are located in the Northern Single Crop Zone, where potatoes are harvested in September and October. As a result, the processing potato supply is very limited during March to August.

Figure 1. Fresh Potato Consumption in China, 2019



Source: Chinese Academy of Agricultural Sciences

Frozen French Fries

China's MY2019/20 FFF production is forecast at 310,000 metric tons (MT), a 10 percent increase from MY2018/19 as a result of this year's increased fresh potato production. FFF production has strict quality and condition requirements, such as shape, starch content, sugar content, and color. Therefore, processors usually contract with farmers to produce potatoes that can meet these specific quality conditions. Higher yields due to favorable weather conditions generally translates into more fresh potatoes that can meet these FFF processing requirements.

Industry contacts believe FFF consumption in China will continue to increase in the future at a moderate pace. Continued urbanization and the increasing number of fast food restaurants (the primary channel for FFF), are major contributors to consumption growth. Industry sources also report that the sale of FFF at convenience stores and supermarkets has increased rapidly in recent years with more and more Chinese consumers cooking FFF at home as a result of food safety and health concerns.

Potato Starch

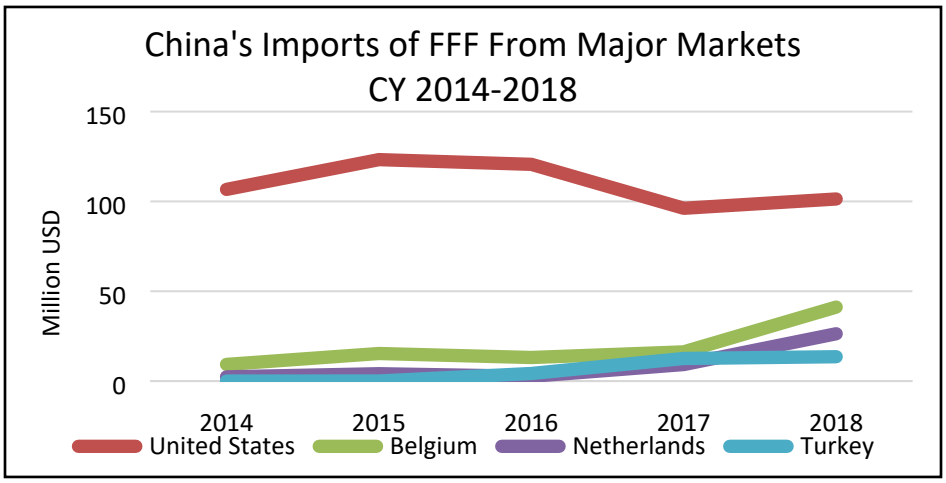
China's MY2019/20 potato starch production is forecast at 450,000 MT, roughly 10-percent decrease from 500,000 MT in MY2018/19, due to increased consumption in other sectors, leaving fewer fresh potatoes available for starch production. According to industry sources, starch production consumes small, irregularly shaped, or bad quality potatoes. The good weather conditions not only increased yield, but also generated good quality, which reduced potatoes available for potato starch production. Heilongjiang, Ningxia, Gansu, and Inner Mongolia are the primary potato starch producing provinces in China, accounting for over 70 percent of China's total production.

Trade

China does not allow market access for fresh potatoes imports (for consumption) from any country due to phytosanitary concerns. While China does allow seed potatoes to be imported, the amount is very small. Seed potatoes from Alaska are currently the only fresh potatoes the United States exports to China.

Imports

Over 90 percent of the potato products imported by China are FFF. China imports the majority of its FFF (HS Code: 20041000) from the United States. However, due to the additional tariffs China has levied on many U.S. agricultural products, the U.S. FFF market share fell from 64 to 53 percent from MY 2016/17 to MY2018/19. As a result, Post forecasts China's overall MY2019/20 FFF imports will decrease by 10 percent, to 129,000 MT.



Source: Trade Data Monitor (Chinese Customs data)

The next largest suppliers, Belgium, Turkey, and the Netherlands, together accounted for 40 percent of China's FFF imports in MY2018/19. According to China's customs data, the average import price of U.S. FFF was 36 percent higher than Belgium in MY2018/19. China's FFF imports continue year-round with the heaviest flows occurring during April to July coinciding with the domestic potato-growing industry's "off season."

Exports

Frozen French Fries (FFF)

China's MY2019/20 FFF exports are forecast at 8,400 MT, about a 10 percent decrease from MY2018/19, due to lowered imports of U.S. FFF. China regularly imports U.S. FFF, repackages them, and then re-exports them to third countries, mainly Japan. Japan continues to be the largest destination market for China's exported FFF, although its market share declined to 49 percent in MY2018/19 from 71 percent in MY2016/17. China's MY2018/19 FFF exports to Hong Kong more than tripled driven by

strong demand. Industry contacts report that of the Chinese FFF processed and exported to Hong Kong, a majority of the raw materials were sourced from the United States.

Fresh Potatoes

China's exports of fresh potatoes have held stable at 400,000-500,000 MT annually since MY2013/14, a negligible amount considering the size of China's annual production. Malaysia, Vietnam, and Hong Kong are major buyers of China's fresh potatoes, which combined accounted for over 70 percent of total fresh potato exports in MY2018/19.

Policy

Additional tariffs on U.S. potato products cut U.S. market share

On June 1, 2019, an additional import tariff of 10 percent was levied on U.S.-origin potatoes and potato products. On August 23, 2019, the People's Republic of China's Ministry of Finance (MOF), State Council Tariff Commission (SCTC) announced new tariffs on certain U.S. products, including an additional 5-percent import tariff on U.S. FFF exports effective December 15, 2019. As a result, a total of 15-percent additional import tariff will be levied on U.S. FFF effective on December 15, 2019. Traders reported that the existing additional tariffs erode the competitiveness of U.S. FFF and an additional 5percent tariff would further reduce U.S. market share in China.

Chinese government extends 2019 staple crop subsidies to potatoes

In July 2019, China's Ministry of Agriculture and Rural Affairs (MARA) announced a policy to extend subsidies originally given to corn and soybean producers, to also include potato producers within four northeastern provinces: Heilongjiang, Jilin, Liaoning, and Inner Mongolia. The specific potato planting subsidies are determined independently by the respective provinces. Industry sources reported that the policy has had very little impact on 2019 potato production due to its late announcement. The policy was announced in July, but potatoes from that region were planted from April to May.

Anti-dumping measures against imports of EU potato starch

On February 2, 2019, the People's Republic of China's Ministry of Commerce (MOFCOM) issued Announcement No. 4, announcing that China would continue levying anti-dumping duties on imports of EU-origin potato starch (HS code 11081300) for five additional years, beginning from February 6, 2019.

.**Attachments:**

No Attachments.