

**Voluntary Report** – Voluntary - Public Distribution

**Date:** November 12,2020

**Report Number:** CH2020-0149

**Report Name:** 2020 Potato and Potato Products Annual

**Country:** China - Peoples Republic of

**Post:** Beijing

**Report Category:** Potatoes and Potato Products

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**Report Highlights:**

China's MY2020/21 fresh potato production is forecast at 99 million metric tons (MMT), a 3 percent increase over MY2019/20 primarily due to expanded acreage. China's MY2020/21 frozen french fries (FFF) production is forecast higher by 10 percent at 330,000 metric tons (MT) in response to increased domestic demand. China's MY2020/21 FFF imports are forecast lower by 10 percent at 96,000 MT due to importers concerns regarding testing for Covid-19 on imported frozen foods.

## Production

Marketing year 2020/21 (September to August) fresh potato production is forecast at 99 million metric tons (MMT), a 3 percent increase from the estimated 96 MMT produced in MY2019/20. This is a result of increased acreage that is fueled by higher prices for potatoes and favorable weather conditions in major potato producing provinces in northwest and southwest China. However, heavy rain and typhoons in early September 2020 in northeast China caused significant delays to the potato harvest. On average, the wholesale price of fresh potato in 2019 was RMB 2.4/kg (\$0.16/lb.), about an 11 percent increase over the previous year, and the highest in the past 6 years. Industry experts contribute the high prices to two reasons: 1) in 2019 China's vegetable prices, on average, increased, and this pulled prices higher and 2) the quality of the potato crop improved.

According to the 2020 China Agricultural Outlook Report, over the next ten years, China's potato acreage will increase by an average of 0.4 percent annually. The report states potato is an important cash crop to improve farmers' income, especially in less developed hilly areas; potato yield will increase by an average of 0.5 percent annually because of improving field management technology and expanding application of virus-free seed potatoes. As a result, the Report estimates potato production will increase by an average of 0.9 percent annually for the next ten years.

Inner Mongolia, Gansu, Sichuan, Guizhou, and Yunnan are the largest potato producing provinces, accounting for nearly 60 percent of total fresh potato production. There are four major potato growing zones in China: 1) the northern single crop zone; 2) the southwestern mixed crop zone; 3) the central double crop zone; and 4) the winter crop zone.

**Image 1. China: Map of Potato Growing Zones**



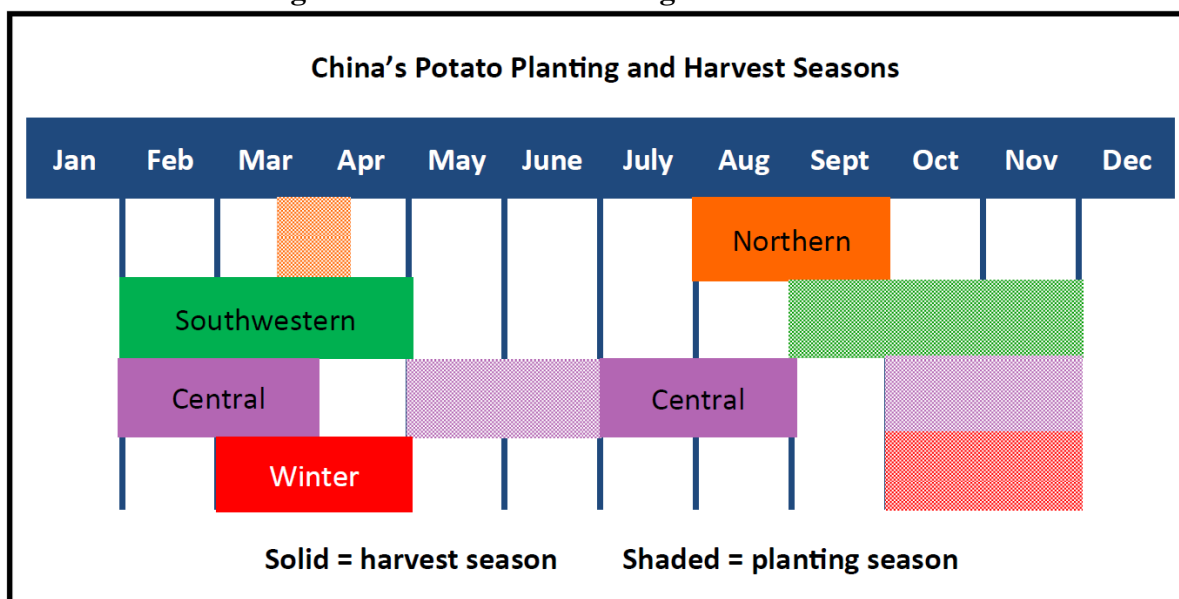
**1) The Northern Single Crop Zone** – This region accounts for 50 percent of China’s total potato area. The potatoes produced in this area are used for seed potatoes, direct consumption, and processing. Potatoes in this zone are usually planted in late April to early May and harvested from September 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 used mainly 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 parts 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.

**Image 2. China: Potato Planting and Harvest Seasons**



Frozen French Fries

China’s MY2020/21 FFF production is forecast at 330,000 metric tons (MT), a 10 percent increase from the estimated 300,000 MT in MY2019/20. Importers of FFF who also produce FFF domestically, are

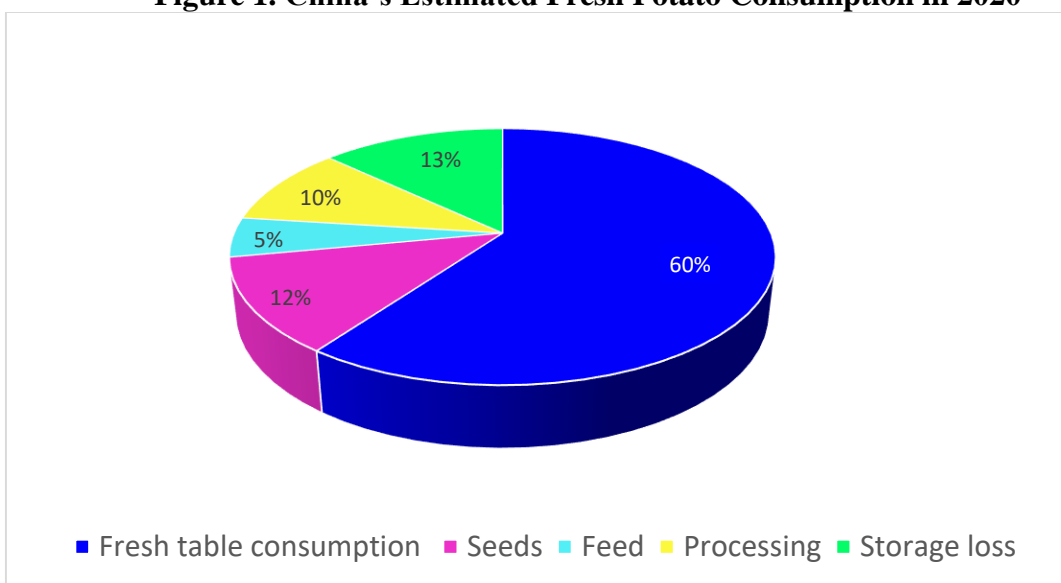
temporarily relying on domestic fresh potatoes to produce FFF products as a consequence of uncertainty caused by China’s largescale testing of imported frozen products and product packaging for Covid-19. For this reason, the import of FFF products in MY2020/21 is expected to decline. (see Trade section).

### Consumption

China’s overall potato consumption remains stable but a slight increase is forecast over the next decade. Industry estimates that 60 percent of domestic potatoes are consumed fresh at home or in restaurants. This is unchanged from prior years as potatoes remain a staple product for Chinese consumers. The processing sector accounts for about 10 percent of China’s total fresh potato consumption. About 12 percent of potatoes are used for seed potatoes, 5 percent for feed use, and storage loss accounts for 13 percent. According to the China Agricultural Outlook Report, fresh consumption is forecast 0.3 percent annual increase; processing 1.3 percent annual increase; feed use 0.5 percent increase; seed use and storage loss 1.1 percent annual increase respectively.

Processed potatoes account for about 10 percent of total potato consumption in China, and include products such as FFF, potato chips, potato starch, and dehydrated potatoes. According to industry sources, many potato processing facilities in China run four to six months a year due to the limited supply of suitable domestic fresh potatoes and inadequate or outdated storage facilities. Industry sources state this is the major reason for the 13 percent storage loss. Many potato processing factories for FFF are located in the Northern Single Crop Zone, where potatoes are harvested in September and October. As a result, the processing potato supply is limited during April to August. On the other hand, facilities for processing potato chips and other products using higher quality and imported potatoes are dispersed across the country. Additionally, even some FFF processing facilities may demand imported potatoes for processing, during the off season for domestically produced potatoes, where the cost of transporting these products is less of a factor for producers.

**Figure 1. China’s Estimated Fresh Potato Consumption in 2020**



Source: 2020 China Agriculture Outlook Report

China's seed potato usage is 1.8-2.3 metric tons per hectare, and total seed potato usage is around 10-12 million metric tons. Total fresh potato consumption is around 95-100 million metric tons. As a result, seed potato usage accounts for over 10 percent of total potato consumption.

Industry contacts indicate FFF consumption in China will increase at a moderate pace over the long run, thanks to urbanization and the increasing number of fast-food restaurants. As an example, as of February 2020, there were more than 3,500 McDonald's restaurants and 6,600 KFC's restaurants in China. The western-style fast food restaurants are one of the major consumers of FFF in China. Industry sources report that the sale of FFF at convenience stores, supermarkets and through online retailers will increase.

## **Trade**

Following the implementation of the U.S.-China Phase One trade agreement, China's General Administration of Customs (GACC) on February 21, 2020 released [Announcement 2020 No. 32 Inspection and Quarantine Requirements on Importing Chipping Potatoes from the United States](#), which grants import access to U.S. chipping potatoes from Idaho, Oregon, and Washington. The approved list of [U.S. chipping potato facilities](#) is available at this embedded link.

On July 1, 2020, GACC published the [Interpretation of Quarantine Requirements of U.S. Chipping Potatoes](#). Please refer to [New to Market Report - Chipping Potatoes](#) for more information on the new market access received by U.S. chipping potatoes. The United States is the only country with market access for chipping potatoes. Although the United States has access for potato products to China, U.S. potato products continue facing retaliatory Section 301 tariffs (see Policy section for additional details).

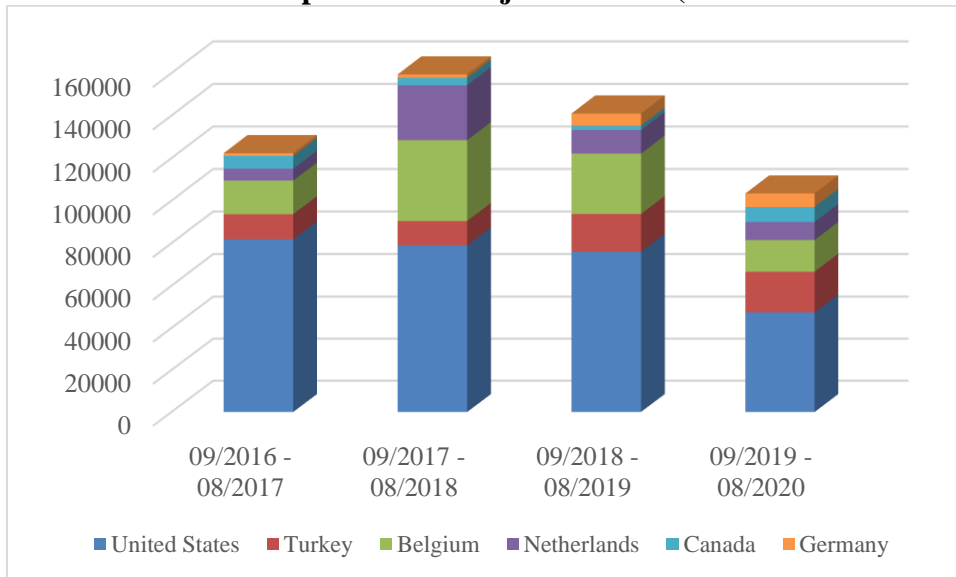
## *Imports*

China's MY2020/21 FFF (HS Code: 20041000) imports are forecast at 96,000 MT, about 10 percent lower than the 106,623 MT imported in MY2019/20. This decline continues the trend seen in MY2019/20 from the previous year where FFF imports decreased nearly 26 percent. As noted above, declines in FFF imports were exacerbated by the Covid-19 economic slowdown, an increase in higher quality domestic potatoes, and largescale testing for Covid-19 on imported frozen products which caused merchants to switch to locally produced products to reduce risks. Industry experts suspect this trend may continue to persist so long as importer uncertainty remains.

The United States continues to be the largest FFF exporter to China in MY2019/20, although its market share declined to 44 percent in MY2019/20 from 66 percent in MY2016/17 (see figure 2). This is due to price competition from the European Union following the application of Section 301 retaliatory tariffs on U.S. FFF. Industry sources indicate a preference for U.S. FFF because of quality and consistency. For additional information on Section 301 retaliatory tariffs see Policy section below.

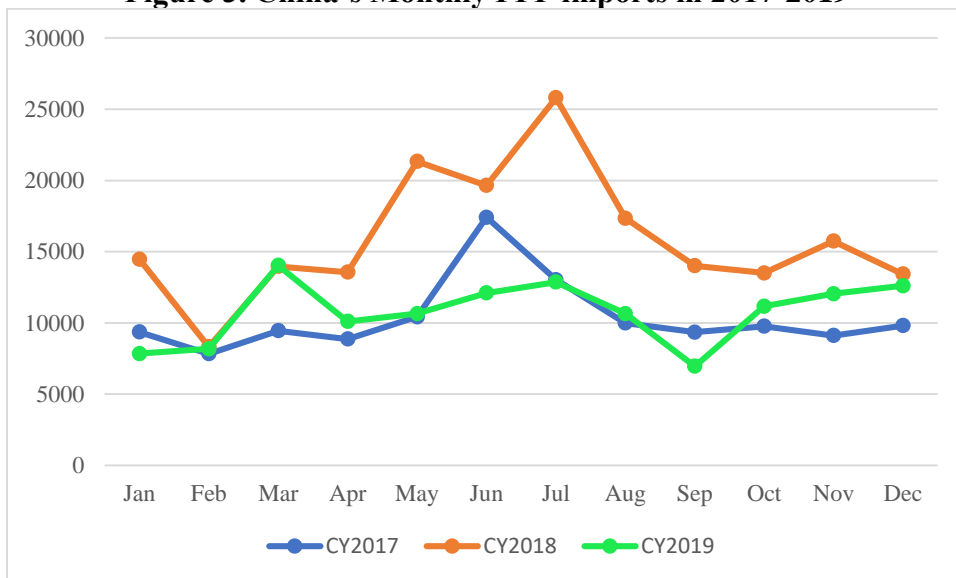
The next largest importers, Turkey, Belgium, the Netherlands, Canada and Germany together accounted for 52 percent of China's FFF imports in MY2019/20. China's FFF imports continue year-round with the heaviest flows occurring during April to July coinciding with the domestic potato-growing industry's "off-season." (see figure 3).

**Figure 2. China's FFF Imports from Major Markets (MY2016/17-MY2019/20)**



Source: Trade Data Monitor (Chinese Customs data)

**Figure 3. China's Monthly FFF imports in 2017-2019**



Source: Trade Data Monitor (Chinese Customs data)

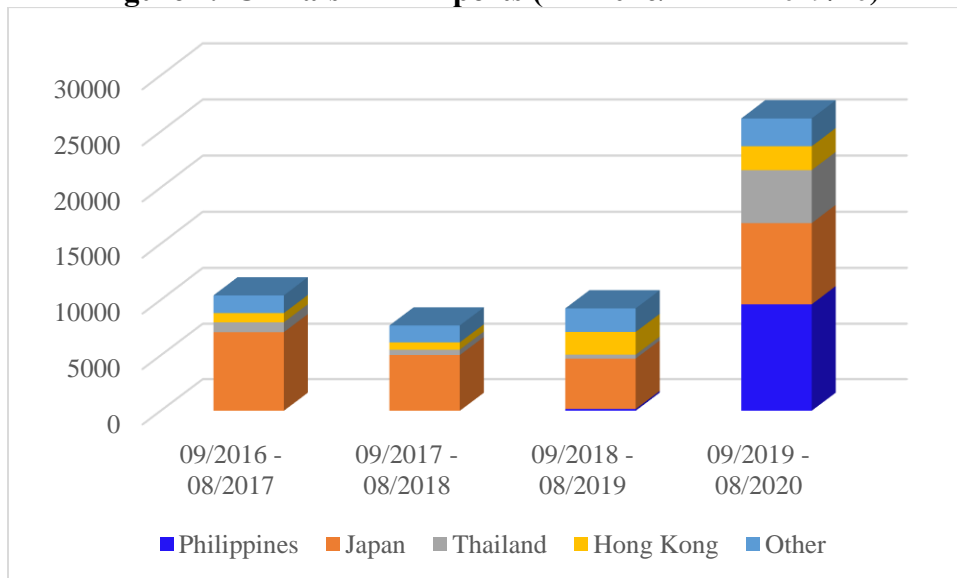
*Exports*

Frozen French Fries (FFF)

China's MY2020/21 FFF exports are forecast at 15,700 MT, about a 40 percent decrease from MY2019/20, because of exceptionally high exports in MY2019/20 (see figure 4 below). MY2019/20 was an anomaly and industry sources indicate that export levels on that scale are unsustainable. Prior to MY2019/20, China would primarily import U.S. FFF in order to repackage these items for export to

other markets, such as Japan. On the other hand, demand for Chinese produced FFF has soared to price sensitive markets like the Philippines and Thailand.

**Figure 4. China’s FFF Exports (MY2016/17-MY2019/20)**



Source: Trade Data Monitor (Chinese Customs data)

**Fresh Potatoes**

China’s exports of fresh potatoes (H.S. code 07019000) 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, Hong Kong, and Vietnam are major buyers of China’s fresh potatoes, which combined accounted for over 80 percent of total fresh potato exports in MY2019/20.

**Policy**

*FFF is included in the second batch of tariff exclusions*

On February 18, 2020, China announced a new round of tariff exclusions for U.S. agricultural commodities impacted by the retaliatory Section 301-tariffs levied by China. Qualified importers could begin applying for these exclusions on March 2, 2020. FFF was included in the exclusion list. Importers who successfully apply for a tariff exclusion can be exempted from the 10 percent Section 301 retaliatory tariffs. Please refer to [GAIN CH2020-0017 Tariff Exclusion](#) and consolidated [GAIN CH2020-0106](#) for more information of tariff exclusions (see Table 1 below).

**Table 1: Table of Additional Tariffs on U.S.-Origin Potato Products**

HS Code (8-digit)	Description	MFN Tariff Rate	Section 301 Retaliatory Tariff	Total Applied Tariff
		Jan 1, 2020	Feb 14, 2020	Feb 14, 2020
07011000	Seed Potatoes	13%	27.5%	40.5%
07019000	Potatoes, Fresh Or Chilled, Not Seedlings	13%	30%	43.0%
07101000	Potatoes, Frozen	13%	15%	28.0%
11051000	Potato Flour, Meal & Powder	15%	12.5%	27.5%
11052000	Potato Flakes, Granules & Pellets	15%	25.0%	40.0%
11081300	Potato Starch	15%	25.0%	40.0%
20041000	Prprd/Prsrvd Potatoes, Not By Vinegar, Frozen*	5%	10.0%	15%
20052000	Prprd/Prsrvd Potatoes, Not By Vinegar/Frozen	5%	25.0%	30.0%

\*Products enumerated in China's February 18, 2020 tariff exclusion announcement (CH2020-0017)

**Attachments:**

No Attachments.