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Report Name: China's Frozen French Fries Production Expands

Country: China - People's Republic of

Post: Beijing

Report Category: Potatoes and Potato Products

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Report Highlights:

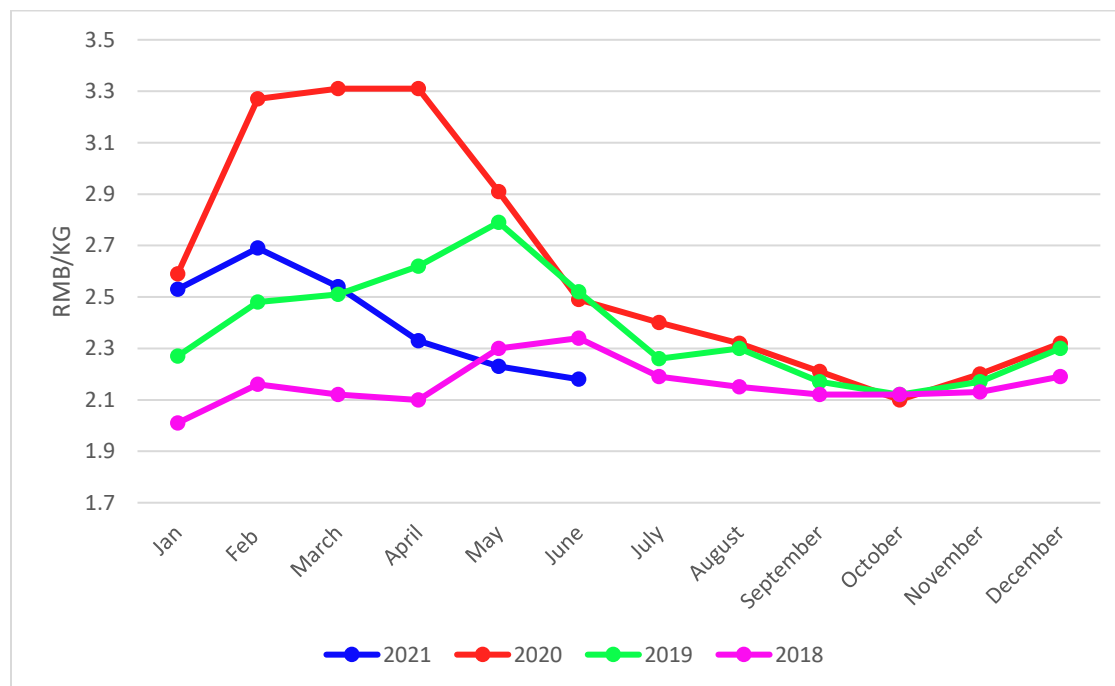
China's marketing year (MY) 2021/22 fresh potato production is forecast at 94 million metric tons (MMT), a 5 percent decrease over MY2020/21 primarily due to decreased acreage. China's MY2021/22 frozen French fries (FFF) production is forecast higher by 20 percent at 420,000 metric tons (MT) in response to international logistics disruptions that led to lower imports and increased export demand by China's neighbors. China's MY2021/22 FFF imports are forecast higher by 5 percent at 84,000 MT assuming international logistics improve by the middle of calendar year 2022.

Production

Marketing year 2021/22 (September to August) fresh potato production is forecast at 94 million metric tons (MMT), a 5 percent decrease from the estimated 99 MMT produced in MY2020/21, a result of decreased acreage. According to industry sources, potato planting area decreased in the northern single crop zone (see Image 1, below) due to very high corn prices that led farmers to switch between the crops. Many farmers shifted to corn production incentivized by strong returns. Additionally, the potato area sown from September to November 2021 in the southwestern mixed crop zone is also expected to decrease due to low potato prices (see Figure 1, below). Industry sources shared that potato prices decreased over 25 percent in the first half of 2021 from the same period in 2020, due to increased production. The increased production in 2021 was due to high potato prices in 2020, which supported increased planting acreage.

According to the 2021 China Agricultural Outlook Report, on average, the wholesale price for fresh potatoes in 2020 was RMB 2.62/kg (U.S. \$0.18/lb.)¹, an increase of 9.2 percent over 2019, which is the highest level in the past ten years. The potato price in the first half of 2020 was particularly high for two reasons: 1) 2019 stocks were low; 2) In the spring of 2020, potato production areas (mainly the southwestern mixed crop zone, including Yunnan province) suffered unfavorable weather conditions (i.e., freeze damage), which resulted in lower-than-normal production levels and higher potato prices. The price of potatoes fell in the second half of 2020 due to an abundant supply from the northern single crop zone.

Figure 1. China: Average Wholesale Prices of Potatoes



Source: Ministry of Agriculture and Rural Affairs

¹ This report uses currency rate of US\$1=RMB6.45

According to the 2021 China Agricultural Outlook Report, over the next ten years, China's potato acreage will increase by an average of 0.7 percent annually and the potato yield will increase by an average of 0.7 percent annually with improvements in seed potatoes and the use of better-quality land and land management practices. As a result, the report estimates potato production will increase by an average of 1.4 percent annually for the next ten years. These estimates are higher than the 2020 report, as China estimates that improvements in seed potato quality will continue to be realized.

The top six potato producing provinces in China are Sichuan, Guizhou, Gansu, Inner Mongolia, Hebei, and Yunnan. These provinces account for over 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 Zones



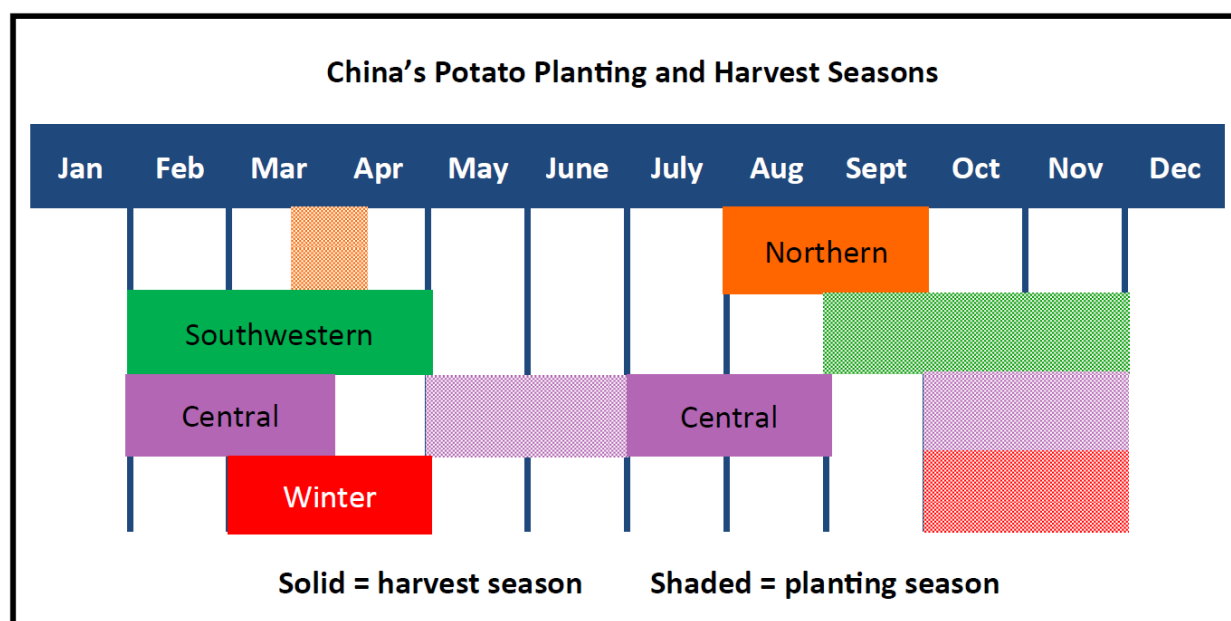
1) The Northern Single Crop Zone – This region accounts for 50 percent of China's total potato area. The potatoes produced in this area are used for seed potatoes, direct consumption, and processing. Potatoes in this zone are usually planted between late April and early May and harvested from September through October. This zone includes Hebei, 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 for direct consumption. Potatoes in this zone are usually planted 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 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 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 MY2021/22 FFF production is forecast at 420,000 metric tons (MT), a 20 percent increase from the estimated 350,000 MT in MY2020/21 for two major reasons: 1) According to industry sources, a new FFF production line will be put into production in MY2021/22 in Inner Mongolia; 2) FFF producers will expand their production as much as possible to make up for the reduction of imports (see trade section). Industry contacts also believe FFF production capacity expansion may happen in next few years to meet increasing domestic market and export demand.

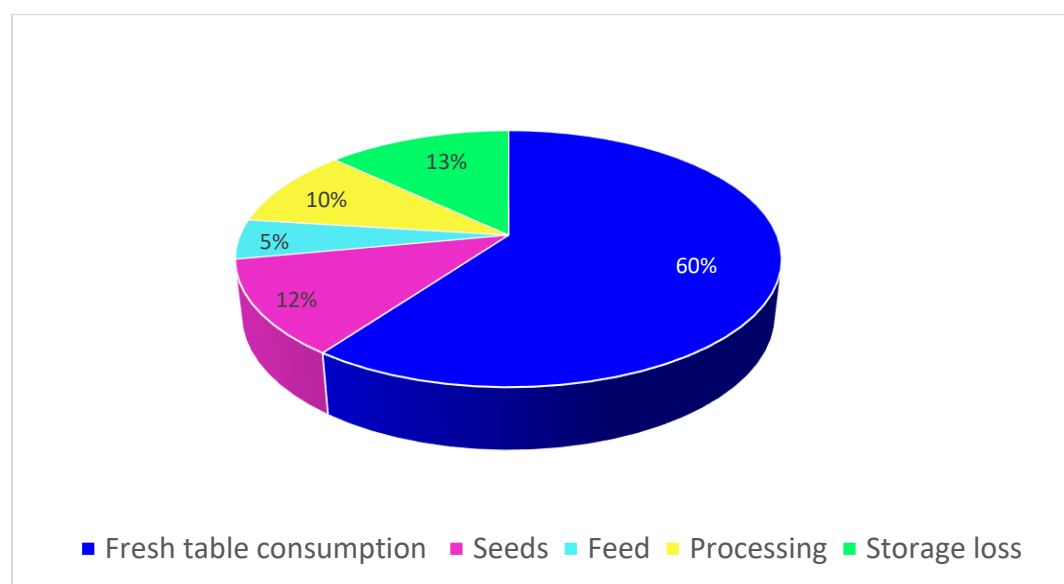
Consumption

China’s overall fresh potato consumption remains stable, but a gradual increase is forecast over the next decade. The China Agricultural Outlook forum has not revised estimates for fresh potato consumption from 2020. Industry estimates 60 percent of domestic potatoes are consumed fresh at home or in restaurants. 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 (see figure 2 below). According to the China Agricultural Outlook Report 2021, China's potato consumption structure will remain relatively stable over the next 10 years.

Industry contacts indicate FFF consumption will increase at a moderate pace over the next decade, due to continued urbanization of China's rural areas, which brings greater exposure to FFF and related products, along with an increasing number of fast-food restaurants opening in China that carry FFF products for sale. The rapid development of delivery food service in China is also contributing to the FFF consumption. Industry sources report that the sale of FFF at convenience stores, supermarkets and through online retailers is expected to increase exposure and allow for greater consumption.

Figure 2. China: Estimated 2021 Fresh Potato Consumption



Source: China Agricultural Outlook Report 2021

Trade

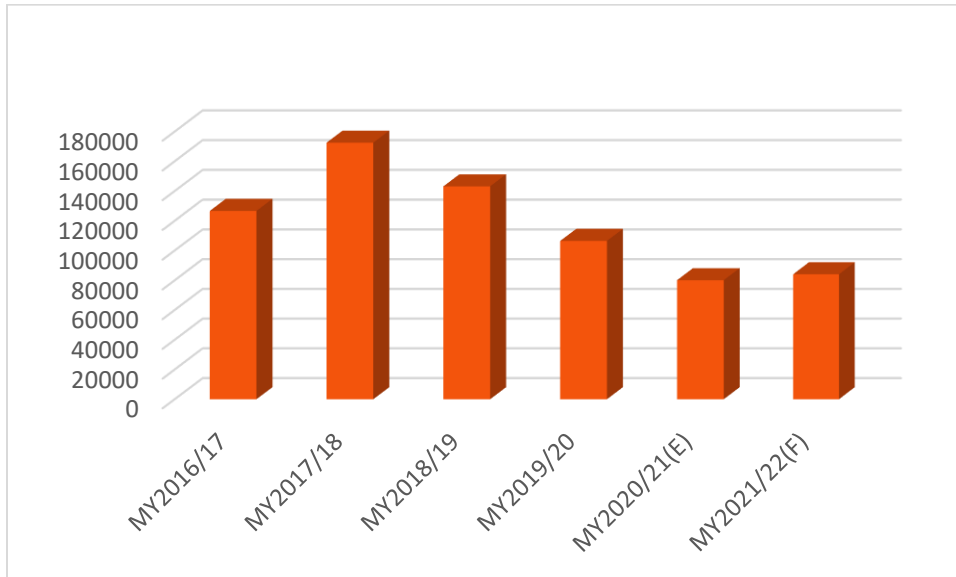
Imports

China's MY2021/22 FFF (HS Code: 20041000) imports are forecast at 86,000 MT, about five percent higher than the estimated 82,000 MT imported in MY2020/21 because of expected improvements to international logistics. In the first 11 months of MY2020/21, China imported 76,797 MT of FFF, almost a 25 percent decrease from the same period in MY2019/20, mostly due to disruptions in international shipping. Importers shared with FAS China staff that there have been difficulties reserving containers. Also, even importers who held reservations, many shared with FAS China staff that many experienced cancellations and delays. Industry members anticipate that logistics difficulties and container shortages will continue until the early or middle part of 2022.

China's average FFF imports in the past five years (MY15/16-MY2019/20) averaged around 140,000 MT. Industry contacts indicated that even if the international logistics capacity returns to normal, China's FFF import volume (see Figure 3) may not return to previous levels because of domestic industry expansion.

The United States remained the largest FFF exporter to China in MY2020/21, accounting for nearly 45 percent of China’s total FFF imports in the first 10 months of MY2020/21. The next largest suppliers, Turkey, the Netherlands, Belgium, and Argentina together accounted for 52 percent of China’s FFF imports in the first 10 months of MY2020/21. China’s FFF imports are year-round with the heaviest volumes typically occurring between April and July, coinciding with the domestic potato-growing industry’s “off-season.” However, MY2020/21 imports differed from previous trends because of the delayed arrival of goods caused by the disruptions in international logistics.

Figure 3. China: FFF imports (MY2016/17-MY2021/22)



Source: Trade Data Monitor (Chinese Customs data) MY2020/21 is Post’s estimated data and MY2021/22 is Post’s forecast data.

U.S. Chipping Potatoes:

During the implementation of the U.S. and China Economic and Trade Agreement, U.S. chipping potatoes acquired market access through a phytosanitary protocol that would allow potatoes from registered shippers in Idaho, Oregon, and Washington to ship chipping potatoes to China for processing. However, market entry has yet to be realized due to China’s domestic regulations which seem to require importers and processing facilities to be registered with China’s competent authority prior to issuance of import permits. Tariff exclusion for U.S. agricultural commodities impacted by the retaliatory Section 301-tariffs is still valid. Importers can be exempted from the Section 301 retaliatory tariffs (see table 1 below) by applying for a tariff exclusion.

Exports

China’s MY2021/22 FFF exports are forecast at 40,000 MT, about a 10 percent decrease from the estimated 45,000 MT in MY2020/21 (see figure 4 below). According to China Customs data, China’s FFF exports in the first 10 months of MY2020/21 totaled 39,929 MT, about a 75 percent increase from the same period the previous year, mainly driven by the strong demand from the Philippines. As one of

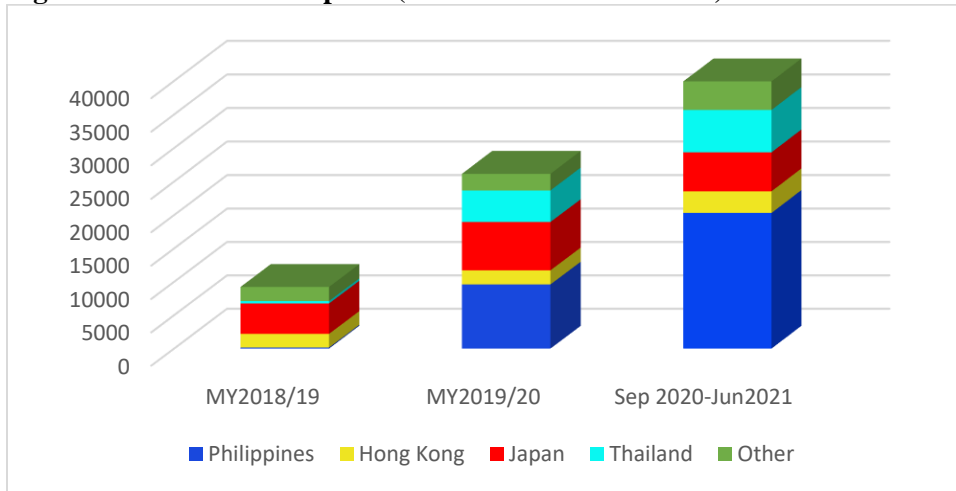
the largest FFF importers in the world, the Philippines used to import FFF mainly from the United States and Europe. According to trade sources, the impact of the COVID-19 pandemic and disruptions to international logistics supply chains has made it difficult for the Philippines to import from Europe and the United States. Industry members shared that those importers are thus turning to other neighboring countries such as China (see figure 5 below). Traders report that China's FFF is price competitive with U.S. and European FFF. According to the Philippine Statistics Authority (Trade Data Monitor), the average FFF import price from China was U.S. \$689/MT during the first four months of 2021; while the price from the United States and Belgium was U.S. \$974/MT and U.S. \$773/MT, respectively.

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

HS Code (8-digit)	Description	MFN Tariff Rate	Section 301 Retaliatory	Total Applied Tariff
	Implementation Date	Jan 1, 2021	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	Prepared Potatoes, Not By Vinegar, Frozen****	5%	10.0%	15%
20052000	Prepared Potatoes, Not By Vinegar/Frozen	5%	25.0%	30.0%

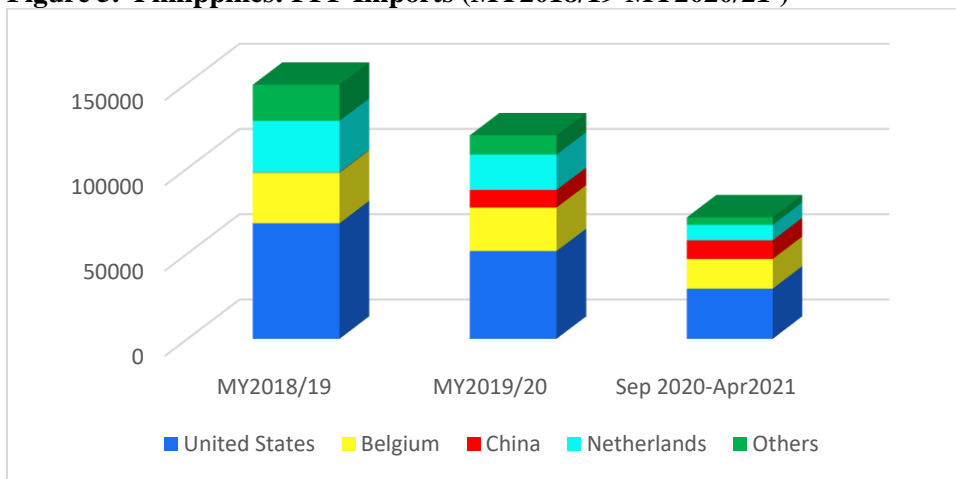
****Products enumerated in China's March 2, 2020, tariff exclusion announcement (CH2020-0017)

Figure 4. China: FFF Exports (MY2018/19-MY2020/21²)



Source: Trade Data Monitor (Chinese Customs data)

Figure 5. Philippines: FFF Imports (MY2018/19-MY2020/21³)



Source: Trade Data Monitor (Philippine Statistics Authority)

Fresh Potatoes

China’s exports of fresh potatoes (H.S. code 07019000) have stayed stable at 400,000-500,000 MT annually since MY2013/14, a negligible amount considering the size of China’s annual production. Vietnam, Malaysia, and Hong Kong are major buyers of China’s fresh potatoes. Combined these markets accounted for about 80 percent of total Chinese fresh potato exports in MY2020/21.

Attachments:

No Attachments.

² MY2020/21 data only includes the first 10 months of MY2020/21 (September 2020-June 2021).

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