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Report Name: New to Market Report - Chipping Potatoes

Country: China - Peoples Republic of

Post: Guangzhou ATO

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Prepared By: ATO-Guangzhou

Approved By: Michael Francom

Report Highlights:

Chipping potatoes from Idaho, Oregon, and Washington were among several U.S. agricultural products that received new and expanded access under the U.S.- China Economic and Trade Agreement signed on January 15, 2020. This report briefly mentions the market access parameters for U.S. chipping potatoes, discusses key market conditions, and offers market-entry recommendations to consider when exporting to China.

Product Description and Access Overview

Under the U.S.-China Economic and Trade Agreement, which was signed on January 15, 2020, China agreed to implement a phytosanitary protocol to allow imports of U.S. chipping potatoes.¹ On February 21, 2020, China's General Administration of Customs (GACC) published the [formal notice](#) that granted market access for U.S. chipping potatoes from Idaho, Oregon, and Washington. GACC has registered 10 U.S. facilities from these three states as approved to export to China. Other U.S. establishments interested in exporting chipping potatoes to China should contact their [state APHIS office](#) to initiate the facility registration process.

Market Overview

China is the world's leading producer and consumer of fresh potatoes. The country's 2019/20 (September-August) potato crop was estimated at 98 million metric tons (MMT), of which 60 percent was expected to be consumed as table stock potatoes at homes and restaurants. The processing and animal feed sectors were each projected to consume another 15 percent.

The reduced HRI demand for potatoes during the COVID-19 lockdown was likely offset by households using more potatoes in home-cooked meals. Similarly, demand for snack foods, such as potato chips and other potato-based snacks, likely grew during this period as consumers spent more time at home and turned to their favorite snack foods for comfort.

China's production of fresh potatoes has been declining in recent years for different reasons, such as rising labor costs, limited mechanization, storage challenges, fluctuating potato prices, and the lack of new potato varieties. Meanwhile, a growing portion of fresh potato production is being used to manufacture processed potato products, like frozen french fries and chips. The demand for processed potato products is expected to increase as the country's middle class grows.

Many potato processing facilities are in Northern China where most of the country's production is concentrated. Most potatoes grown in this region are harvested in the fall, with limited supplies available from March to August. The shortage during this six-month period reportedly forces some processing factories in this region to shut down for months at a time.

For more information on China's potato market situation, please refer to the [FAS-China Voluntary Report - Good Weather Boosts Struggling Potato Industry \(December 8, 2019\)](#).

Competitors

Domestic potatoes are the major competitor for U.S. chipping potatoes. However, limited supplies of local potatoes are suitable for chipping. About 10 percent of China's potato production in 2019 was used for chips, FFF, dehydrated potatoes, and starch. Prices for fresh potatoes (which includes those going for processing) range from about \$0.20 to \$0.40 per kilogram, depending on the quality and variety of the potato. Foreign competition is not expected to be a major factor for the time being since the United States is the only country currently eligible to send fresh chipping potatoes to China.

¹ [USTR Phase One Agreement Commodity Fact Sheet - Horticulture](#)

According to a 2019 industry report, the value of China’s puffed snack food market, most of which is potato chips, is estimated at \$5.7 billion. Demand for processed potato products (and other snack foods) is expected to continue climbing as the economy grows. Some of this projected increase in snack food demand will come from the rising second and third-tier cities in China.

In addition to the MFN rate, imports of U.S. fresh potatoes are subject to various retaliatory tariffs. See table 1 below for specific tariff details. Since March 2020, Chinese importers can apply for a waiver of the 25 percent retaliatory 301-tariff. With the tariff exclusion, the applied duty on U.S. fresh potatoes is 18 percent. While U.S. fresh potatoes are not among the approximately 150 products specifically listed as eligible for tariff exclusions, all imported commodities may apply for a tariff exclusion.

For more details on the tariff exclusion process, please refer to the following GAIN reports: [China Announces a New Round of Tariff Exclusions](#), [China Publishes Step-By-Step Tariff Exclusion Guide](#), [China Publishes Frequently Asked Questions Document on Tariff Exclusion Process](#)

Table 1. Import Tariff on U.S. Fresh Potatoes, Including Chipping Potatoes (HTS 07019000) a/				
MFN Rate as of Jan 1, 2020	Section-232 Retaliatory Tariff (Apr 2018)	Section-301 Retaliatory Tariff (Jun 2019)	Add'l Tariff (Adjusted on Feb 14, 2020)	Total Applied Tariff
13%	-	25%	5%	43%

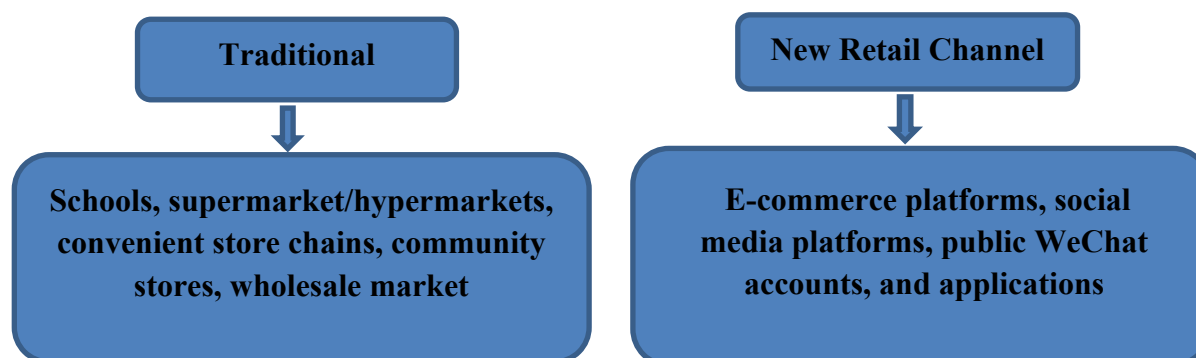
a/ HTS 07019000 – Potatoes, Fresh or Chilled, Not Seedlings

Regulations

Shipments of U.S. chipping potatoes must comply with the phyto-sanitary requirements, as outlined in [GACC’s notice #32 from February 21, 2020](#), and be accompanied by a USDA APHIS-issued phyto-sanitary certificate. Only potatoes from eligible facilities in Idaho, Oregon, and Washington are permitted to export to China. U.S. exporters are advised to check with their Chinese importer to determine additional import requirements.

Distribution Channels

Potato chips are a popular snack food throughout China, and are available in most cities, surrounding suburbs, and even in many rural areas. Potato chips are commonly sold through both traditional and new retail channels, as shown in the diagram below. The traditional channel is still by far the largest, but the new retail channel is growing rapidly.



The primary buyers of U.S. chipping potatoes will likely be the major potato chip manufacturers, especially those firms that are looking to produce premium chip products (Table 2).

Table 2. Top 5 Potato Chip Brands in 2019			
Rank	Brand Name	Company	Market Share
1.	Lay's	Pepsi Group	37%
2.	Shuyuan	Haoliyou Foods	27%
3.	Copico	Dali Foods	19%
4.	Oishi	Oishi	10%
5.	Pringles	Kellogg's	1%

Source: www.hibor.com.cn

Market Entry Recommendations and Industry Outreach

Packaging, flavor, and texture are three important characteristics that drive potato chip sales in China. The most common package sizes are relatively small at 60, 70, and 104 grams.

New flavors are key to attracting continued consumer interest. Consumers are constantly looking to try new, unique flavors that may not be common in Western countries. Tomato, spicy, and barbeque are common flavors, while some of the newer flavors include cucumber, seafood, and meat.

Wealthier consumers, especially those in the first-tier cities, are more discerning when it comes to texture and taste. They are looking for a higher quality chip and are generally willing to pay more. Furthermore, consumers are increasingly health and food safety conscious. They are interested in chips (and other snacks) that have lower salt and oil content, and a lighter flavor profile than traditional fried potato chips.

An important first step in building a market for U.S. chipping potatoes is technical training for Chinese chip manufacturers. The training could focus on the cooking and processing characteristics of different U.S. chipping potato varieties. In addition, it is recommended to work with local chip makers to develop flavors and recipes that bring out the taste profile and texture of U.S. chipping potatoes.

As a general reference, the [China Exporter Guide \(2019\)](#) contains practical information for U.S. agricultural, forestry, and fishery exporters interested in doing business in China. The report includes,



among other things, useful information about local business practices, consumer preferences, food standards and regulations, and import inspection procedures.

Trade Shows

There are a couple trade shows that could be useful in promoting U.S. chipping potatoes. As these shows could be delayed or canceled because of the COVID-19 situation, exhibitors and attendees are encouraged to periodically check the show website for the latest scheduling.

[SIAL China](#), Shanghai, September 28-30, 2020: SIAL is the country's largest food trade show, and an excellent opportunity to showcase new-to market food products and make new business contacts.

[Food Ingredients China](#), Shanghai, March 16-18, 2021: FIC is the largest food ingredient trade show to showcase new ingredients and products to the country's food processing industry.

Major Chinese trade/industry associations

Developing connections with the listed associations may offer an avenue to gain insights on industry trends and regulatory matters, while also providing an opportunity to develop business-to-business linkages with association members.

[China Association of Bakery & Confectionery Industry](#) (CABCI) is the leading national association in snack food and processed food industry. The association responsible for providing the government industry information and guidance for policy and regulations as well as organizing trade show, industrial training and business communication activities on national level.

[China National Food Industry Association](#) (CNFIA) is the national association organized by Chinese Economic Committee responsible for food industry development planning, policy and standard making as well as food safety and security monitoring.

Additional Considerations

According to the April 28, [2016 Foreign Non-governmental Organization \(FNGO\) Management Law](#), China requires all FNGOs, including agricultural trade associations, to register before undertaking certain marketing activities (e.g., public gatherings, promotions, trainings, conferences). The requirements include securing a Chinese sponsoring organization and registering a permanent office or filing for a temporary activity permit. This typically takes up to six months to complete. Certain activities may exempt from this law, and it does not apply to for-profit businesses and governmental organizations. For more information about the Law, see the [USDA GAIN report China's Foreign NGO Management Law: A Review for U.S. Agricultural Trade Associations](#).

For more information about this report, please contact:

Agricultural Trade Office in Guangzhou

U.S. Consulate General Guangzhou

Phone: (86-20) 3814-5000

atoguangzhou@fas.usda.gov

This office covers Guangdong, Guangxi, Fujian, Hunan and Hainan Provinces

Attachments:

No Attachments.