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Potato and Potato Products Annual Report

Report Categories:

Potatoes and Potato Products

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Report Highlights:

China is the world's largest potato producer, accounting for roughly a quarter of worldwide fresh potato production. China's MY2018/19 fresh potato production is forecast lower at 94 million metric tons, a two-percent decrease from MY2017/18. This decrease is due to low potato prices which pushed Chinese farmers in the major production region to replace potato acreage with corn. In terms of processed potatoes, frozen french fry (FFF) production will jump to 290,000 MT in MY2018/19, a 15-percent year-on-year increase resulting from added FFF processing capacity. Conversely, China's FFF imports in MY2018/19 are forecast to decrease 10 percent to 115,000 MT because of additional tariffs placed on U.S. FFF exports to China, reduced European supply, and growing domestic FFF production.

Production:

Farmers in Northeast China switch potato acreage to corn acreage due to low potato prices

China’s MY2018/19 (September to August) fresh potato production is forecast at 94 million metric tons (MMT), a three-percent decrease from the estimated 97 MMT production in MY2017/18, due to a decline in planted acreage. In 2016 and 2017, a large number of Chinese farmers switched from growing corn to planting potatoes, pulses, and other smaller commodities. However, in MY2017/18, Chinese industry reported that abundant harvests led to low potato prices, spurring many farmers—especially in Northeast China—to shift planting area back into corn production in MY2018/19. According to industry sources, the average wholesale price of fresh potatoes from January to April 2018 was \$0.14/lb., or 16 percent lower compared to the 2017 price. On the other hand, corn prices are expected to remain strong, due in part to new mandatory ethanol initiatives and decreased soybean imports.

China has four main potato producing zones. Sichuan, Gansu, Guizhou, Yunnan, and Inner Mongolia are the largest potato producing provinces in China, accounting for about 60 percent of China’s total fresh potato production.

Map of Mainland China’s Potato Growing Zones



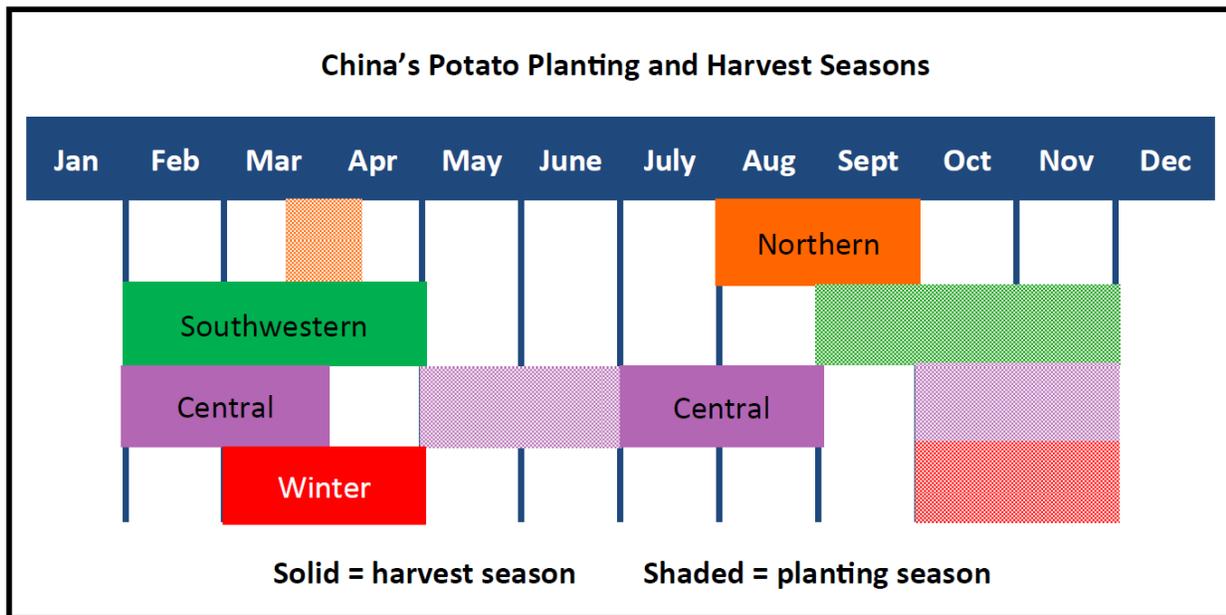
1) The Northern Single Crop Zone – This region accounts for 50 percent of China’s total potato area. The potatoes produced in this area are mainly used for seed potatoes, direct consumption, and processing. Potatoes in this zone are usually planted in late April to early May and harvested from

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 – August and harvested in October – 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 – November and harvested in February – March. The potatoes produced in this area are mainly for export and direct consumption. This zone includes Guangdong, Fujian, Guangxi, and Hainan provinces.



Processed Potatoes

Processing potatoes account for about 15 percent of total production and include such products as starch, dehydrated potatoes, chips, and frozen french fries (FFF). According to industry sources, many potato processing machines only run from mid–August to late–March due to the limited supply of suitable fresh potatoes and inadequate or outdated storage facilities.

Many potato processing factories are located in the Northern Single Crop Zone, where potatoes are harvested from September to October. The potatoes produced in other zones are generally not suitable for processing. As a result, China’s processing potato supply is very limited from March–August.

Frozen French Fries

China's MY2018/19 FFF production is forecast at 290,000 MT, a 15-percent increase from 250,000 MT in MY2017/18. Due to increasing demand for FFF, China's potato processing industry is building additional processing capacity in Inner Mongolia. In China, there are less than ten FFF processing lines and the addition of a new line will noticeably increase capacity. This new line is expected to begin production in MY2018/19.

Potato starch

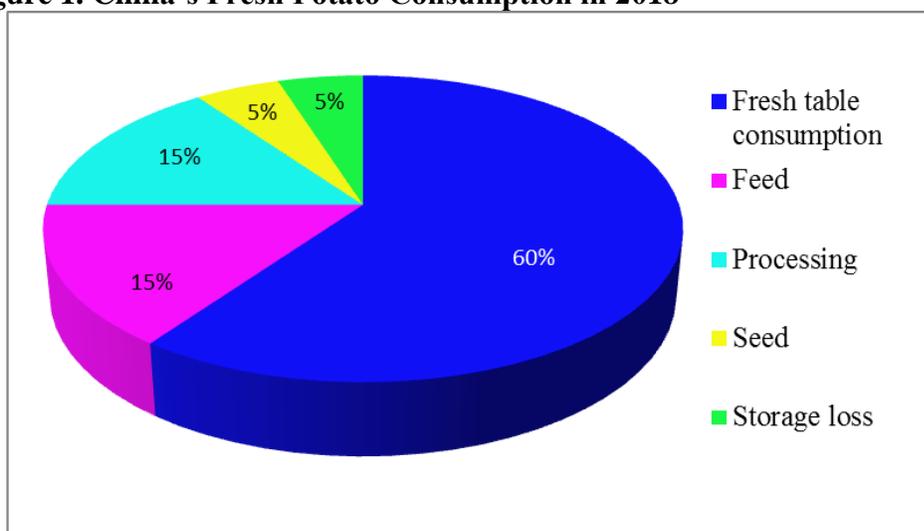
China's MY2018/19 potato starch production is forecast at 400,000 MT, about a 25-percent decrease from 540,000 MT in MY2017/18, resulting from decreased fresh potato production and strict environmental requirements. Due to the amount of water used to produce potato starch, waste water discharge can be significant pollution source. Industry reports that many small and medium potato starch manufacturers closed in 2018 because they could not meet the stricter environmental protection requirements. 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.

Consumption:

FFF will account for a larger share of China's overall potato consumption

The majority of China's fresh potatoes are used for table consumption. Industry contacts estimate 60 percent of Chinese potatoes are consumed fresh in households and restaurants. The processing sector consumes another 15 percent, animal feed 15 percent, seed potatoes 5 percent, and storage loss the remaining 5 percent (see Figure 1 below). Industry sources believe the share of processing potatoes will increase in the long term with the continuing development of new potato products and marketing.

Figure 1. China's Fresh Potato Consumption in 2018



Source: Chinese Academy of Agricultural Sciences

Industry contacts also believe China's FFF consumption 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.

Policy:

Potatoes remain one of China's 5 staple crops, but lack of policy support continues

In 2016, China's Ministry of Agriculture (now the Ministry of Agriculture and Rural Affairs) announced that potatoes would join wheat, rice, and corn as a staple crop. Ambitious targets for production and consumption increases were set. However, industry reports that without any sort of concrete policy support, similar to what the other staple crops enjoy, it would be difficult to achieve any significant production or consumption increases. Indeed, nearly three years later, industry reports that there have been no new policy changes to encourage potato production or consumption.

Chinese anti-dumping duties on European potato starch continue during review

Last year, China extended anti-subsidy duties on European Union (EU) exports of potato starch for another five years (see FAS GAIN Report [CH17068](#)). This year, on February 5, China's Ministry of Commerce (MOC) initiated an expiry review to determine whether the termination of the antidumping duty measure on potato starch imported from the EU would likely lead to a continuation or recurrence of dumping. MOC will issue its determination in the expiry review by February 4, 2019. This antidumping duty measure was first imposed on February 5, 2007. During the expiry review, current antidumping duties (ranging from 12.6 percent to 56.7 percent) will continue to be assessed.

China approves seed potato exports from the United Kingdom

On September 17, 2018, China’s General Administration of Customs (GACC) approved and published the Plant Quarantine Requirements for Imported British Seed Potatoes, granting market access to British seed potatoes. With this new market access, the UK joins the United States (Alaska only), Canada, and the Netherlands in having access to the China seed potato market. However, the trade volume and value is very low due to high SPS concerns. China’s total seed potato (HS code: 070110) imports in 2017 were USD \$11,054.

Trade:

China does not allow market access for fresh potato (other than seed potatoes) imports from any supplier due to SPS concerns. U.S. government agencies continue to work with their Chinese counterparts on negotiating market access of U.S. chipping potatoes to China.

China lowers FFF VAT and MFN tariff, but levies supplemental tariffs on U.S. FFF exports

On May 1, 2018, China cut the value-added tax (VAT) for certain products. The VAT rate for processed products (including FFF) was reduced to 16 percent from 17 percent and for agricultural products, it was reduced to 10 percent from 11 percent. On July 1, 2018, China reduced the most-favored-nation (MFN) tariffs for 1,449 HS product lines, including FFF. The MFN tariff was reduced to 5 percent from 13 percent. Please refer to FAS GAIN Report [CH18030](#) for detailed information on this tariff reduction.

	HS Code	Import Tariff (%) for MFN		VAT (%)	
		2017	2018	2017	2018
Fresh potato	0701	13	13	11	10
FFF	20041000	13	5	17	16

Source: China Customs Import and Export Tariff

However, on September 24, 2018, China implemented supplemental tariffs on \$60 billion of U.S. imports, including an additional 5-percent import tariff on U.S. FFF exports. Traders in China indicated that the supplemental tariff has not immediately impacted trade given that the VAT and MFN tariff were recently reduced. However, industry anticipates that in the longer term, the additional tariffs will slowly erode U.S. market share.

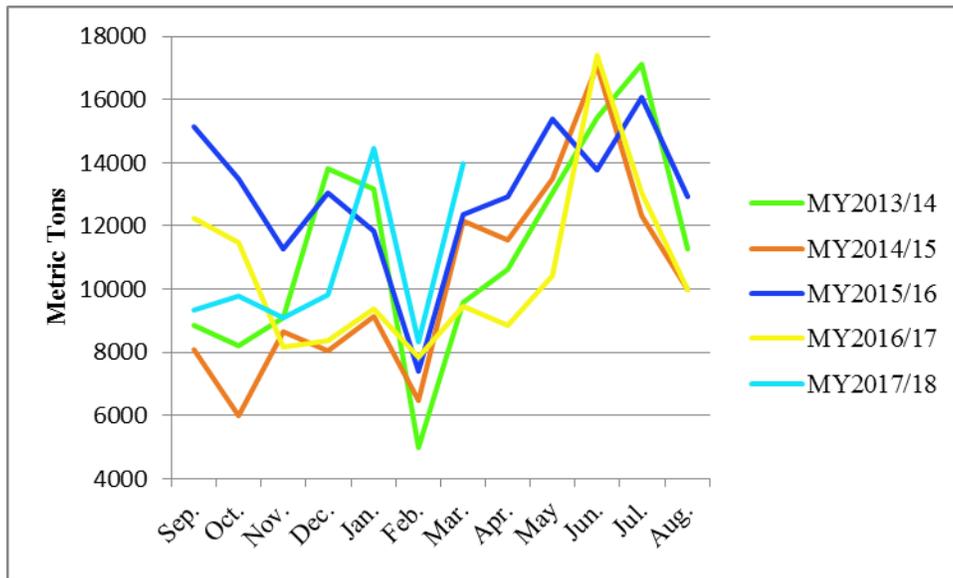
Increasing FFF imports from the EU forecast to cut into U.S. market share

China’s MY2018/19 FFF imports (H.S. Code: 20041000) are forecast to increase to 115,000 MT, a 10-percent decrease from MY2017/18. This decrease in imports is due to two factors. First, China’s additional tariffs on U.S.-origin FFF imports will likely lead to a noticeable decrease in U.S. FFF exports to China in MY2018/2019. Second, European FFF exports to China are also expected to decline due to limited European supply.

Although the United States continues to be the largest FFF exporter to China, its market share is declining due to the competitive pricing of European FFF imports. According to China Customs, the United States accounted for 43 percent of China’s total FFF imports during September 2017-March 2018. This is down substantially from the past three marketing years where market share was 65, 71, and 70 percent, respectively. On the other hand, the market shares of FFF imports from Belgium and the Netherlands increased to 20 percent (from 12 percent) and 16 percent (from 4 percent), respectively, during September 2017-March 2018. According to China Customs, Belgium’s FFF imports were priced about 32 percent cheaper than U.S.-origin FFF imports in the first quarter of 2018, which was prior to the imposition of additional Chinese import tariffs.

China’s FFF imports continue year round with the heaviest flows occurring during April to July (see Figure 2 below), coinciding with the domestic potato-growing industry’s “off-season.”

Figure 2. China's FFF Imports by Month



Source: Global Trade Atlas

Fresh potato and FFF exports

China's exports of fresh potatoes have held stable at 400,000-500,000 MT annually since MY2013/14, a negligible amount considering China's annual production of about nearly 100 million MT. However, in MY2018/19, China's fresh potato exports are forecast up to 650,000 MT, an 8-percent increase from MY2017/18. Industry reports that China's "One Belt, One Road" initiative will boost China's fresh potato exports to the surrounding markets of Malaysia, Vietnam, and Russia, which combined, account for approximately 60-70 percent of China's total fresh potato exports.

China's MY2018/19 FFF exports are forecast at 7,000 MT, about a 12-percent decrease from the estimated 8,000 MT in MY2017/18, due to predicted lowered supplies. China regularly imports FFF, repackages them, and then re-exports them to third-countries. Japan continues to be the largest destination market, accounting for 63 percent of China's total FFF exports in the first seven months of MY2017/18.