USDA Foreign Agricultural Service

GAIN Report

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Voluntary - Public

Date: 2/26/2010

GAIN Report Number: TH0039

Thailand

Post: Bangkok

Update on Frozen Potatoes

Report Categories:

Potatoes and Potato Products

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Report Highlights:
TH0039 Despite domestic efforts to increase potato production, Thailand cannot produce frozen potatoes and relies on imports. The United States has been a large supplier. However, third country competitors, specifically China, are making large in-roads into the market on the strength of their free trade arrangements.

Potato Production in Thailand

Potatoes are grown for chipping almost exclusively. Most domestic potato production is concentrated in northern Thailand with some production in the northeast part of the country. Potatoes are often used as a rotational crop, following rice and preceding corn. In 2009, Thailand produced 126,386 tons of potatoes, with the greatest amount of production in Chang Mai and Tak Provinces. The optimal growing season in the area is about 90 days, between the end of the rainy season in November or December until the beginning of the very hot season in February or March.

Seed Potatoes

Potatoes are often contracted by major chip producers which provide the seed potatoes to the farmers. Potato chip manufacturers import and distribute seed potatoes to the farmers along with a large amount of technology transfer and assistance in obtaining appropriate seed potato varieties. Furthermore, potato growers enter into a contract with processors to sell the crop that result from these same seed potatoes. There are currently three potato processing companies that are importing seed potatoes and potatoes for processing. They are Pepsi-Cola, Berli Jucker Foods and Unichamp.

Table 1: 2010 TRQ for Seed potatoes in MT:

Pepsi-Cola (Thai) Trading Co. Ltd.	1,008
Berli Jucker Foods Co., Ltd.	375
Unichamp Co., Ltd.	47
Total	1,430

In 2009 the United States completed an Import Health Standard for seed potatoes into Thailand. Seed potatoes from Washington, Idaho, California and Oregon are permitted entry.

Potatoes for Processing

Chippers do buy other potatoes beyond the contracted potatoes provided the quality is suitable. However, even with the contracted quantities and the non-contract potatoes there still are not enough potatoes to keep the chippers’ facilities running throughout the year, let alone produce enough excess potatoes for other uses. Although there are potatoes being grown in Thailand, these potatoes are not suitable for French fry production. Domestic potatoes are mainly used for chipping. Even if there was a domestically grown raw product available, there is currently no commercial manufacturing of frozen potatoes in Thailand.

Table 2: 2010 TRQ for Potatoes for Processing in MT:

Pepsi-Cola (Thai) Trading Co. Ltd.	28,000
Berli Jucker Foods Co., Ltd.	5,800
Unichamp Co., Ltd.	2,200
Total	36,000

The United States completed an Import Health Standard for potatoes for processing in 2009. Potatoes for processing must be processed in facilities that are approved and inspected by the Thai Department of Agriculture (DOA).

The only source of French fries and other frozen potatoes for the retail and restaurant sectors is outside of Thailand where the appropriate potato varieties and technologies exist. Currently, Thailand is importing potatoes mainly from the United States, Belgium and New Zealand.

Table 3: Thailand's Frozen Potato Imports

Frozen Potato Imports 2007-2009 (In U.S. Dollars)

	2007	2008	2009	
Country	Value	Value	Value	% Market Share
United States	$10,505,890	$12,759,360	$10,362,756	53.64
Belgium	$637,891	$2,528,144	$3,591,533	18.59
New Zealand	$2,375,953	$915,848	$2,227,211	11.53
Canada	$120,303	$749,942	$1,115,140	5.77
Egypt	$815,410	$491,904	$670,309	3.47
Netherlands	$275,241	$735,296	$622,148	3.22
China	$963,919	$569,840	$580,822	3.01
Australia	$148,476	$41,685	$0	0
All Other	$382,981	$100,096	$150,623	0.77
Total	$16,077,587	$18,850,430	$19,320,541	

Frozen Potato Imports 2007-2009 (In KG)

	2007	2008	2009
Country	Quantity	Quantity	Quantity
United States	10,385,615	12,454,222	9,440,004
Belgium	650,543	2,834,983	4,482,749
New Zealand	2,626,490	947,058	2,268,430
Canada	108,401	666,788	1,116,519
Egypt	1,162,512	591,240	823,200
Netherlands	252,120	766,818	701,680
China	996,478	583,538	603,777
Australia	122,400	21,600	0
All Other	251,958	79,849	145,559
Total	16,556,517	18,946,096	19,581,918

Source: World Trade Atlas, HS Code 200410

Tariff Treatment

The Royal Thai Government attempt to encourage domestic production by providing tariff protection. Yet, the tariff imposed on frozen potatoes does not support domestic production because domestic potatoes cannot be used to make frozen potato products. The high tariff rate is the largest problem facing U.S. frozen potato exporters. Frozen potatoes can enter Thailand relatively readily (without quota) but the applied duty is 30 percent or 25 baht/kg – whichever is higher. Countries that have free trade agreements with Thailand enjoy an advantage over the United States in terms of tariff rates. The Thailand- New Zealand Closer Economic Partnership set the tariff rate for frozen potatoes at 18 percent in 2009 and is on a decreasing schedule until its elimination in 2015. The ASEAN- China Free Trade Agreement eliminated the tariff for Chinese frozen potato products in 2010.

Table 4: Frozen Potato Import Tariff Table

Country	**2009 Tariff Rate**		**2010 Tariff Rate**		**Notes**
	%	**baht/kg**	**%**	**baht /kg**	
United States	30	25	30	25	WTO rate
New Zealand	18	N/A	15	N/A	Thailand-New Zealand Closer Economic Partnership; tariff ends in 2015.
China	5	4.17	0	0	ASEAN-China Free Trade Agreement

Full Service and Quick Service Restaurants

Demand for frozen potato products is growing as Thailand experiences growth in the consumer food service industry. Frozen potatoes are mainly used in quick service restaurants (QSR), full service restaurants and sold at retail locations.

Quick Service Restaurants include KFC, McDonalds, The Pizza Company, Black Canyon, Chester’s Grill and Pizza Hut. These operations are selling mainly French fries and import 80 percent of Thailand’s frozen potatoes each year. QSR is a major employer of Thai people as it accounts for 7 percent of total employment. The quick service sector runs on a low profit margin, causing these companies to be price sensitive. Additionally, these companies may import lower quality products than retail or full service restaurants. Frozen potatoes can also be found at full service restaurants. These entities face similar issues as QSR sectors but are not as price sensitive. This sector demands middle to higher quality products than QSR. Both QSR and full service restaurants require a consistent product for their respective costumers, something that Chinese producers have not been able to provide in the past. Currently, there is more research going into the consistency of Chinese frozen potato products, especially by the QSR industry.

Table 5: Number of Leading Quick Service Restaurants in Thailand

Restaurant Name	2007	2008	No. of Outlets (as of November 2009)
KFC	314	339	339
The Pizza Company	168	209	209
Black Canyon	188	207	207
Chester's Grill	150	148	148
McDonald's	100	110	110
Pizza Hut	76	83	83

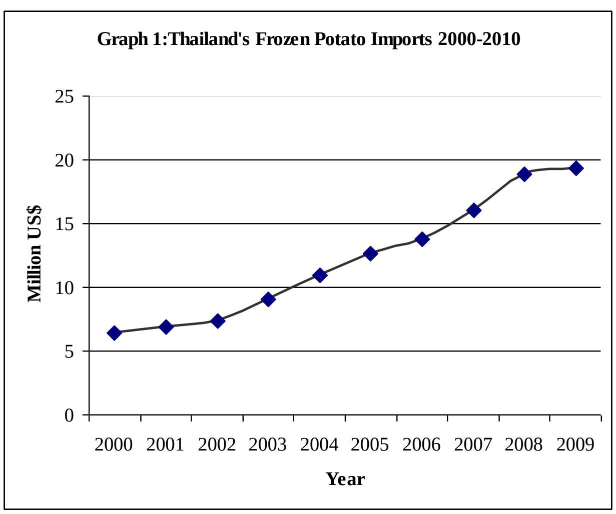
Source: Euromonitor International

Retail Distribution

Retail sales alone accounted for 16.5 percent of Thailand's 2008 GDP and the industry accounted for 15 percent of total employment. This highly competitive market needs access to highly competitive products. Stores like Tops, Villa Market and Foodland sell a wider variety of frozen potato products ranging in the middle and higher quality categories this includes French fries, seasoned wedges and more. With low profit margins, retail outlets are more sensitive to prices, thus making it difficult for America's frozen potato products to be competitive on the shelf with the current tariff rate.

Prospects

Demand for frozen potato products will continue to increase as western-style food becomes more available in the Thai market. An increasing population in urban areas and a trend toward convenience food are also feeding the demand for frozen potatoes. With this increased demand, companies will evolve to provide consumers with suitable products from the most cost effective source. Without a tariff reduction for U.S. frozen potato products, restaurants and retail outlets will find other suppliers. It is likely that the U.S. market share could erode quickly, particularly if China produces a more consistent product. From 2000 to 2009, Thailand had an average 13% increase in the value of frozen potato imports.



See FAS GAIN Report, TH0031 "Thai FTA Partners Enjoy Tariff Advantage over U.S. Suppliers"

2/10/2010

See FAS GAIN Report, TH0020 “Potato TRQ for 2010 Announced”, 2/9/2010

See FAS GAIN Report, TH9028 “2009 Potato TRQ and Domestic Absorption”, 10/9/2008

See FAS GAIN Report, TH8157 “Potato TRQ Expanded”, 10/2/2008

See FAS GAIN Report, TH8025 “2008 Potato Import Quota Allocations”, 2/12/2008

End of Report