

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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**Potatoes and Potato Products Annual**

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**Report Highlights:**

For MY2013/14, EU exports of frozen pre-fried potato products are expected to be slightly higher compared to last year's.

## **Executive Summary**

For MY2013/14, EU exports of frozen pre-fried potato products are expected to be slightly higher compared to last year's, driven by a somewhat higher potato production in the largest EU exporting countries. The U.S. will continue to compete with the EU in Australia, India and some markets in Latin America.

## **Report**

This Potatoes & Potato Products report is an Annual report. For the purpose of this report, the focus is on EU exports of Frozen Potato Products (HS 200410). Valuable contributions were made from the following Foreign Agricultural Service analysts:

|                  |                                                    |
|------------------|----------------------------------------------------|
| Xavier Audran    | FAS/Paris covering France                          |
| Tania DeBelder   | USEU/FAS Brussels covering EU policy               |
| Mira Kobuszynska | FAS/Warsaw covering Poland                         |
| Marcel Pinckaers | FAS/The Hague covering the Netherlands and Belgium |
| Leif Rehder      | FAS/Berlin covering Germany                        |

## **EU Policy**

Fruit and vegetables were incorporated in the Single Common Market Organization (CMO) by Regulation 361/2008, during the previous reform of the Common Agricultural Policy (CAP) in 2007. The shift from production support to direct aid to producers was designed to improve the competitiveness and market orientation of the fruit and vegetable sector, reduce income fluctuations resulting from crises, promote consumption, and enhance environmental safeguards. Producer Organizations (POs) are the key elements in the EU's CMO for fruit and vegetables. POs are legal entities established by producers to market commodities. EU subsidies are not paid to individual producers but they are channeled through POs. In order to qualify for EU subsidies, POs must submit an operational program financed through an operational fund. The EU's financial contribution is paid directly into the PO's operational fund. All the implementing rules of Council Regulation 1234/2007 have been incorporated in Commission Implementing Regulation 543/2011.

Commission Implementing Regulation 701/2012 amended the crisis adaptation measures in Commission Implementing Regulation 543/2011 since August 2012 and was introduced as part of the ongoing CAP reform. The Commission improved the functioning of the crisis management system in the fruit and vegetable sector in the run-up to the entry into force of the CAP reform expected in 2015. The regulation also aims to make rules more flexible on green harvesting and non-harvesting.

The Commission has agreed to add compensation payments for withdrawing certain products. The amounts of aid per kilo paid to POs for products withdrawn from the market have been increased for certain products. These amounts have been set at levels that guarantee withdrawals become an effective instrument in times of crisis, whilst avoiding these kinds of withdrawals being made in normal market situations.

The implementation of the Common Agricultural Policy (CAP) has been delayed until January 1, 2015. However, there are transition arrangements that will apply from January 1, 2014. Some aspects of the CAP are relevant to potatoes for human consumption including promotion and quality policy. Although potatoes for human consumption are not covered by the Single Common Market Organization (CMO) except for community state aid rules, the sector may benefit from the EU funding for promotional and quality marketing campaigns to tap new and existing market opportunities both in the internal market and third countries. The legal framework for these actions is laid down in Council Regulation (EC) No 3/2008 of December 17, 2007 on information provision and promotion measures for agricultural products on the internal market and third countries. For more information on CAP after 2014, please see: [http://ec.europa.eu/agriculture/cap-post-2013/index\\_en.htm](http://ec.europa.eu/agriculture/cap-post-2013/index_en.htm).

## **EU Exports and Outlook**

The 5 largest EU exporting countries of frozen pre-fried potato products (mainly fries) are the Netherlands, Belgium, Poland, France, and Germany. Their combined production of ware potatoes for this year is expected to

be similar. However production in the Benelux countries is expected to be somewhat higher compared to last year's. Therefore despite production remaining constant, EU exports are forecast to increase by 10 percent.

Table 1: Ware potato production in selected EU Member States, million MT

|                 | *2010 | *2011 | *2012 | **2013 | Change (2013 – 2012) |
|-----------------|-------|-------|-------|--------|----------------------|
| The Netherlands | 4.5   | 3.9   | 3.4   | 3.4    | 0                    |
| Belgium         | 3.6   | 4.2   | 3.1   | 3.7    | + 0.6                |
| Poland          | 3.6   | 3.9   | 4.1   | 3.6    | - 0.5                |
| France          | 5.0   | 5.7   | 4.8   | 5.4    | + 0.6                |
| Germany         | 6.7   | 7.5   | 6.8   | 6.1    | - 0.7                |
| Total           | 23.4  | 25.2  | 22.2  | 22.2   | 0                    |

Source: FAS European Posts

\* Revised figures

\*\* NEPG, FAS European Posts' Forecast

Trade in frozen pre-fried potato products is still dominated by trade between the EU member states. Member states' exports to third (often emerging) markets continue to grow and represent a quarter of total exports. EU exports of frozen pre-fried potato products to non-EU countries more than doubled in past four years. The main markets include Brazil, Saudi Arabia, Russia, Chile and Australia, covering almost half of total EU exports. Other growth markets are to be found in the Middle East and Asia.

Of all EU Member States, the Netherlands is the leading exporter of frozen pre-fried potato products to third markets, followed closely by Belgium. In MY 2012/13 the Netherlands' exports to third markets totaled 400 thousand MT, up by 13 percent, while Belgium's exports totaled almost 350 thousand MT, up by 11 percent. Together, the Netherlands and Belgium are responsible for almost 80 percent of total EU exports. Their combined leading export markets continue to be Saudi Arabia and Brazil.

Poland, France and Germany are also active on third markets, exporting respectively 96 thousand MT, 56 thousand MT and 49 thousand MT in MY 2012/13. Polish exports continue to increase year after year, driven by growing demand from its leading export market Russia. Due to its geographical location, Poland is also an important supplier to the fast food industry in the Ukraine, Serbia and Belarus.

Table 2: EU Exports of Frozen Potato Products, MT

|                           | MY 2010/11 | MY 2011/12 | MY 2012/13 | *MY 2013/14 |
|---------------------------|------------|------------|------------|-------------|
| -Brazil                   | 109,479    | 125,262    | 143,846    | 166,000     |
| -Saudi Arabia             | 108,417    | 133,579    | 133,677    | 149,000     |
| -Russia                   | 66,758     | 75,799     | 86,586     | 88,000      |
| -Chile                    | 27,275     | 34,058     | 49,630     | 58,000      |
| -Australia                | 29,972     | 54,360     | 43,874     | 47,000      |
| -South Africa             | 30,156     | 24,532     | 33,373     | 38,000      |
| -United Arab Emirates     | 27,372     | 32,522     | 33,013     | 35,000      |
| -Malaysia                 | 23,183     | 27,656     | 28,324     | 31,000      |
| -Japan                    | 14,937     | 18,034     | 26,240     | 28,000      |
| -Kuwait                   | 18,235     | 23,657     | 23,931     | 26,000      |
| -United States of America | 4,636      | 17,845     | 22,172     | 23,000      |
| -Other                    | 232,003    | 282,358    | 330,155    | 361,000     |
| Total                     | 692,423    | 849,662    | 954,821    | 1,050,000   |

Source: Global Trade Atlas

\* FAS The Hague's Forecast

The demand for both fresh and processed potato products in the EU is fairly stable, growing demand for frozen pre-fried potato products is coming from emerging markets. Export opportunities for EU frozen pre-fried potato products are primarily determined by developments of the HRI sector (mainly fast food) in emerging markets. EU exporters have been able to profit from growing demand in target markets in South East Asia, Middle East and Latin America. The further development of these economies continues to offer additional opportunities. The U.S. will continue to compete with the EU in export markets like Australia, India and some markets in Latin America.

At the moment prices for potatoes are similar to last year's. The price of finished products is therefore not expected to change. Freight costs and exchange rate all continue to impact trade opportunities as well. EU trade has benefitted from lower freight costs due to overcapacity in freight shipping and this is expected to continue in MY 2013/14. It is also important to note that less than half of potatoes are sold against day prices while the remaining is sold under contract.

The production of ware potatoes in the Benelux will be somewhat higher compared to last year. For MY2013/14, it is expected the Benelux countries will continue to dominate EU exports of frozen pre-fried potato products and exports to third markets are expected to be slightly higher. For MY2013/14, the Polish potato processing industry is forecasting stable growth of exports to Russia and Ukraine, although the rate of growth is expected to diminish.

Previous reports from FAS/The Hague on this subject can be found on <http://www.fas.usda.gov/scriptsw/attacherep/default.asp>. Below you will find a selection of related reports from FAS/The Hague.

| Report Number | Report Title              | Date Released |
|---------------|---------------------------|---------------|
| NL9034        | EU Potato Products Annual | 12/22/2009    |
| NL0025        | EU Potato Products Annual | 10/22/2010    |
| NL1020        | EU Potato Products Annual | 10/03/2011    |
| NL2028        | EU Potato Products Annual | 09/27/2012    |

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