

AMERICAN POTATO TRADE ALLIANCE

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October 14, 2013

Mr. Douglas M. Bell
Trade Policy Staff Committee (TPSC)
Office of the US Trade Representative
600 17th Street
Washington, DC 20508

Dear Mr. Bell:

This document is in response to the US Trade Representative's (USTR) request for assistance in identifying traditional trade barriers to US exports for inclusion in the 2014 National Trade Estimate Report on Foreign Trade Barriers (NTE).

The following comments, submitted by the American Potato Trade Alliance (APTA), pertain to significant trade barriers for US processed potatoes, especially frozen fries (HS 2004.1), and dehydrated potato (HS 1105.2/HS 2005.2) exports to Japan, Korea, China, Taiwan, Thailand, Vietnam, the Philippines, India, Panama, and Brazil. This report focuses primarily on foreign tariff and quotas on frozen and dehydrated potatoes.

Formed in 1997, APTA includes potato grower organizations from Idaho, Washington, Oregon, Maine, and Wisconsin; two national potato organizations; six major potato processing companies; an exporting company; and several quick service restaurant chains. The purpose of APTA is to utilize the entire potato industry value chain – from grower to end-user – in an effort to speak with a unified voice to increase processed potato exports by eliminating trade barriers. This submission is complementary to the National Potato Council's NTE submission.

Exports of US frozen fries to foreign markets such as Japan, Korea, China, and Mexico have increased in recent years due in part to our industry's promotional efforts. Exports account for 17% of total US potato production and over 20% of US frozen potato production. US exports of all potato products were valued at approximately \$1.8 billion from July 2012 to June 2013.

Despite an active APTA trade policy program designed to eliminate obstacles in foreign markets, a number of significant trade barriers remain for APTA's products. This submission will be one of three submitted by APTA. APTA respectfully requests that information in all three submissions be included in USTR's final NTE report.

Sincerely,

/s/

Matt Lantz
American Potato Trade Alliance Coordinator

YUM! BRANDS INC. (KFC, PIZZA HUT, TACO BELL)

J.R. SIMPLOT CO. * CONAGRA FOODS/LAMB-WESTON INC. * MCCAIN FOODS INC. * KELLOGG'S * BASIC AMERICAN FOODS INC.
IDAHOAN FOODS * NATIONAL POTATO COUNCIL * IDAHO POTATO COMMISSION * MAINE POTATO BOARD * OREGON POTATO COMMISSION
WASHINGTON STATE POTATO COMMISSION * WISCONSIN POTATO & VEGETABLE GROWERS ASSOC.* PACIFIC VALLEY FOODS

JAPAN

I. Tariffs: Frozen Fries (HS 2004.1)/Dehydrated Potatoes (HS 2005.2/HS 1105.2)

Japan's tariff on frozen fries is 8.5%. Due to the large volume of frozen fries exported to Japan, this is a significant expense for the US potato industry.

Japan's tariff on dehydrated potato (dehy) flakes under HS 1105.20 is 20%, which is excessive. Japan also applies tariffs ranging from 9% to 13.6% on dehy potato products under HS 2005.20.

APTA urges US negotiators to seek a total elimination of Japan's frozen fry and dehydrated potato tariffs in the ongoing Trans-Pacific Partnership (TPP) talks. APTA provided its TPP priorities for Japan in May 2013.

II. Estimate of Potential Increase in Exports if Barriers Were Removed

Japan is by far the largest market for US frozen fries, with \$310.5 million worth of exports during marketing year 2012-13 (July-June). The US also exported \$29.1 million worth of dehydrated potatoes to Japan over that same period.

In order to sustain growth, APTA seeks the immediate elimination of these tariffs in the ongoing TPP talks.

SOUTH KOREA

I. Tariffs: Frozen Fries (HS 2004.1)/Dehydrated Potatoes (HS 2005.2/HS 1105.2)

APTA welcomes the implementation of the US-Korea Free Trade Agreement in March 2012. As a result of the dedicated efforts of USTR and the USDA, significant potato tariff reductions were achieved.

In the agreement, Korea agreed to immediately eliminate its 18% tariff on frozen fries. This elimination has provided US fries an 18% advantage over many international competitors. This is welcome news and increased exports in US frozen potatoes have already occurred as a result.

South Korea also agreed to phase out its 20% tariff on processed dehydrated potato products falling under HS 2005.2 over seven years.

For dehydrated flakes (HS 1105.2), 5,000 metric tons enter duty-free under a tariff rate quota (TRQ), which will expand by 3% annually over the course of the tariff phase out. The 304% over-quota tariff will be eliminated over 11 years in non-equal stages. This duty-free quota allows significant market access for dehydrated flakes without requiring blending to avoid the over-quota tariff.

The US potato industry thanks USTR and USDA for their efforts in the KORUS talks on behalf of potatoes and supports passage and implementation of the agreement.

Given the EU-Korea FTA which was already in place, the prompt implementation of the US-Korea FTA was considered vital to ensuring US potato products continue to dominate the Korean market.

II. Estimate of Potential Increase in Exports if Barriers Were Removed

South Korea is now the fifth largest export market for US frozen fries. US frozen fry exports to South Korea amounted to \$79.6 million in marketing year 2012-13, which was up 32% over the previous year. US dehydrated potato exports were \$8.1 million over that period, up 15.7%.

Eliminating Korean processed potato tariffs and tariff rate quotas (TRQs) through the US-South Korea free trade agreement could see the market for US processed potatoes grow to over \$100 million.

CHINA

I. Tariffs: Frozen Fries (HS 2004.1), Dehydrated Potatoes (HS 1105.2/HS 2005.2)

China currently imposes a 13% tariff on US frozen potato products, which was negotiated under China's entry agreement into the WTO in 2000. China's tariffs on dehydrated potatoes are 15%. These tariffs have been in place for over a decade. Given the development of China and the size of the Chinese market for US processed potatoes, APTA would like to see these tariffs eliminated.

APTA requests that these tariffs be eliminated in any future trade negotiations between the US and China.

II. Estimate of Potential Increase in Exports if Barrier Was Removed

China is a major market for the US processed potato industry. In the 2011-12 marketing year (July-June), US frozen fry exports to China were valued at \$92.9 million, making China the fourth largest export market. US dehy exports reached \$9.8 million during this period.

Developing the Chinese market remains one of APTA's highest priorities. Should China's tariffs be eliminated, it is expected that this current \$104 million market could grow to \$125 million within five years.

TAIWAN

I. Tariffs/Taxes

The chart below shows Taiwan's current tariffs on processed potato products that were applied upon Taiwan's entry into the WTO. While the WTO-negotiated bound tariffs are an improvement over previous tariffs, they remain high.

HS Number	Description	Current Taiwanese Tariff based on WTO Commitments
0710.10.00	Frozen potatoes	15%
1105.20.00	Potato flakes	10%
2004.10.11 (a)	Potato sticks, frozen (frozen fries) >1.5 kg.	12.5%
2004.10.90 (b)	Potato sticks, frozen (frozen fries) <1.5 kg.	18%
2004.10.90	Other potatoes, prepared or preserved, frozen	18%
2005.20.10 (a)	Potato chips and sticks >1.5 kg.	12.5%
2005.20.10 (b)	Potato chips and sticks <1.5 kg.	15%
2005.20.90	Other potatoes, preserved	18%

In ongoing WTO global agriculture negotiations or in any potential US-Taiwan FTA, APTA seeks the immediate elimination of all Taiwanese processed potato tariffs.

II. Estimate of Potential Increase in Exports if Barriers Were Removed

Taiwan is an important export market for US processed potatoes. In 2012-13 (July-June), the US exported \$47.4 million worth of fries (up 9%) and over \$3.6 million worth of dehy (up 71%) to Taiwan.

The reduction of Taiwan's duties on processed potatoes would increase US exports by \$10 million annually in the short term and \$25 million in the long term.

THAILAND

I. Tariffs on Frozen Fries (HS 2004.1) and TRQ on Fresh Potatoes (HS 0701.9)

US frozen potato exporters are at risk of losing their entire \$12.8 million Thai market to competitors.

With the US-Thailand FTA negotiations halted almost a decade ago and lack of significant progress at the WTO Doha Round negotiations, Thai importers are shifting their fry purchases to US competitors. Australia and New Zealand currently face a 6% fry tariff in Thailand due to their 2004 Thai FTAs. Chinese product enters duty-free through the China-ASEAN FTA.

Meanwhile, US fries must continue to be imported at the 30% MFN rate. Industry officials believe they have a limited amount of time before significant portions of the market are lost for US product to the lower priced competitors.

Although there is a domestic effort within Thailand this year to have the new Thai government unilaterally eliminate or significantly reduce the Thai tariff on frozen fries, it remains unclear whether this will occur.

On behalf of the US potato industry, APTA urges the US government to either seek a unilateral reduction in the Thai fry tariff to at least the levels offered Australia and New Zealand in their FTAs or to encourage Thailand to join the TPP negotiations, where tariff reductions could be negotiated.

Reducing the tariff will promote economic growth in Thailand, as it lowers costs for restaurants, which can lead to expansion through additional employment and domestic purchases.

Should this action not be achieved in 2014, there will significant loss of market share for US fries in Thailand.

II. Estimated Increase in Exports if Barriers Were Removed

The US exported \$12.8 million worth of frozen potatoes to Thailand in 2012-13. In 2013-14, unless the tariff issue is addressed, this number will fall significantly and competitors will gain market share at US expense because US fries will be imported with a 30% tariff while competitor product will enter between duty-free and 3%.

If the tariff were reduced, the US would maintain its strong presence the market and even expand exports to \$20 million annually.

VIETNAM

I. Tariff Reduction: Frozen Potato Products (HS 2004.1)/Dehydrated Potatoes (HS 2005.2)

Vietnamese tariff reductions on frozen potatoes were negotiated in Vietnam's WTO accession negotiations. According to the agreement with the US signed on May 31, 2006, Vietnamese officials agreed to gradually reduce the current 40% tariff on frozen fries (HS 2004.1) to 13% over a six year period. In addition, Vietnamese tariffs on dehydrated potatoes (HS 2005.10) were also negotiated for reduction as Vietnamese officials agreed to reduce the 40% tariff to 18% over a five year period.

These tariff reductions were fully implemented in 2013, with Vietnam's current tariffs on frozen fries now at 12% and on dehydrated potatoes at 18%. APTA thanks USTR and USDA for their effort to obtain lower processed potato tariffs in Vietnam.

APTA would like to see these tariffs completely eliminated in the Trans Pacific Partnership (TPP) talks. These priorities have been shared with USTR through *Federal Register* comments.

II. Estimate of Potential Increase in Exports if Barrier Was Removed

The US currently exports \$2.1 million worth of fries annually to Vietnam. The US potato industry has conducted several trade missions to Vietnam to explore possibilities for additional US potato exports.

Given the rapid expansion of Quick Service Restaurants in Vietnam, the country could develop into an important and growing market worth \$25 million or more for US fry exports if tariffs were lifted.

PHILIPPINES

I. Tariffs

The Philippine tariff applied on frozen fries and other varieties of frozen and processed potatoes is 10%. This applied duty is significantly below the bound rate of 35%. Although there are higher fry tariffs in ASEAN, the Philippines is a major market for US fry exports and eliminating the 10% tariff in future trade talks, perhaps through the Philippines joining the TPP, will help to further expand the market.

In 2010, as part of an internal review of Philippine tariff policies, the US potato industry petitioned for the elimination of the Philippine potato tariffs. To date, no response has been received.

II. Estimated Increase in Exports

The Philippines is the United States' eighth largest market for frozen fries by value, with exports in 2012-13 at \$37 million. Elimination of the Philippines' tariffs would increase demand by approximately \$20 million dollars in the short term.

INDIA

I. Tariffs/Taxes: Frozen Fries (HS 2004.1), /Dehydrated Potatoes (HS 1105.2/HS 2005.2)

US potato growers and processors have identified India as an important growth market for US frozen fry exports based primarily on the expansion of US quick service restaurant chains in the country. India currently applies a 30% duty on imported potato products.

This applied rate is lower than India's bound rate, but the reduction has been nullified to some extent by the addition and occasional repeal of a variety of "taxes" in addition to the ad valorem tariff. A list of the current tariffs is below:

HS 2004.1 (Frozen Potatoes): The current tariff is 30%, then a 4% additional duty (ADC) and 3% customs Cess duty is applied.

HS 1105.2 (Dehydrated Potatoes): The current tariff is 30%, then a 4% special additional duty (ADC) and 3% customs Cess duty is applied.

HS 2005.2 (Processed Dehydrated Potatoes): The current tariff is 30%, then a 4% additional duty (ADC) and 3% customs Cess duty is applied.

The ultimate impact of such additional charges is to drive up the effective duties paid on fry imports. Although the Indian tariffs and duties are below India's bound rate committed to the WTO, APTA believes that only the ad valorem tariff should be applied to imports. Furthermore, APTA questions whether these taxes are also being paid by domestic producers. If not, there is a WTO compliance issue.

APTA would like to see the Indian frozen potato and dehydrated potato tariffs eliminated during the WTO agricultural trade negotiations or through India's annual budgeting process. The US Embassy asks annually for the elimination of these tariffs through the budgeting process. To date, the requests have not succeeded.

II. Estimate of Potential Increase in Exports if Barrier Was Removed

The US exported \$4.2 million worth of fries to India in 2012-13 (July-June). This is up from just \$703,000 the year before. The US potato industry believes that there is huge potential for future growth in exports of US fries and other potato products, possibly worth \$5 million in sales in three years and \$20 million in ten years with the lower tariffs.

This estimate is based on interest in frozen fry products by US quick service restaurant chains in India. A lower tariff on dehydrated potatoes could yield \$2 million in sales, with quick growth to over \$5 million, due to the growing snack food industry in India.

PANAMA

I. High Tariffs: Frozen Fries (HS 2004.1), /Dehydrated Potatoes (HS 1105.2/2005.2)

In the US-Panama FTA, significant Panamanian potato tariff reductions were achieved. For frozen fries (HS 2004.1), Panama agreed to a 3,500 metric ton TRQ that will expand by 4% annually, compounded. The quota will last five years, and fries will enter duty-free thereafter.

The chart below provides the fry duties for the first five years of the US-Panama FTA.

Frozen Fries (HS 2004.1)			
Year	Quota (in MT)	In-Quota Duty	Over-Quota Duty
One (2012)	3,640	0%	10%
Two (2013)	3,786	0%	10%
Three (2014)	3,937	0%	8%
Four (2015)	4,095	0%	4%
Five (2016)	N/A	0%	0%

For dehydrated potato flakes, pellets and granules shipped under HS 1105.2 there is a five-year phase out of the currently applied 15% tariff. For processed products shipped under Chapter 20 (HS 2005.2) there are two tariff reductions proposed. The 15% duty on HS 2005.20.10, or “papas fritas” (possibly potato chips in Panama), was immediately upon implementation of the FTA. For other potatoes, prepared or preserved (HS 2005.20.20), there is a five-year phase out of the 15% tariff (which has since been unilaterally reduced by Panama to 10%). As APTA has communicated to USTR and USDA, an acceleration of the elimination of the fry TRQ similar to the duty-free status obtained by Canada in their Panama FTA would be greatly appreciated.

II. Estimated Increase in Exports if Trade Barriers Were Removed

With its close historical and military ties to the US, Panama has a large number of US Quick Service Restaurants, increasing the demand for frozen fries. Given market access equal to regional competitors, US frozen fry exports could dominate the market. US frozen potato exports to Panama were \$7.7 million in 2012-13 (July-June) and are expected to double in volume in the near term with the lowered tariffs under the FTA.

BRAZIL

I. High Tariffs (Import Policies)

Effective October 1, 2012, Brazil unilaterally increased its tariff applied on frozen fries from 14% to 25%. This rate currently valid through October 1, 2013, but may be renewed for a second year through December 31, 2014.

Why frozen fries were singled out to be included on the list of 100 is not clear. The tariff increase is still below Brazil's bound WTO rate for frozen fries, meaning that it is not technically WTO-illegal. That being said, the increased tariff has only made it more difficult for exports to occur to the market and is counter to trade liberalization efforts around the world.

Although we are hearing that the tariff may not be extended past October 1, APTA still requests that USTR monitor the issue and address such unilateral tariff changes in the future.

II. Estimated Increase in Exports

Brazil's large economy offers opportunities for US potato exports. Tariff access equivalent to that received by Mercosur countries, for which fries enter duty-free, would allow US exports to be competitive with lower-priced imports from Argentina and elsewhere. US exports to Brazil of frozen fries would be expected to increase by several million dollars annually.