NATIONAL POTATO COUNCIL
2014 NATIONAL TRADE ESTIMATE REPORT
ON FOREIGN TRADE BARRIERS

The National Potato Council (NPC) represents the interests of all commercial potato growers in the United States. The Council assists its potato growers in addressing market access issues for both fresh and processed potatoes in export markets around the world. In this endeavor, the Council coordinates its trade policy objectives with the American Potato Trade Alliance (APTA), which is a trade group representing in addition to growers, many major U.S. potato processors and retailers.

Frozen fries (HS 2004.10) are the industry's primary export product, although fresh, seed and dehydrated potatoes are also exported in increasing numbers. Improved access to international markets for frozen fries is of critical importance. Additionally, improved market access is being sought for fresh and seed potatoes and other processed potato products.

Exports of U.S. 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 in these countries. Exports account for 17% of total U.S. potato production and over 20% of US frozen potato production. U.S. exports of all potato products were valued at approximately $1.8 billion from July 2012 to June 2013. Unfortunately, access to foreign markets continues to be restricted by a range of trade barriers, described herein.

The U.S. potato industry urges increased bilateral and multilateral pressure to achieve liberalization, particularly in the fast-growing markets of Asia and Latin America. The industry continues to support bilateral and multilateral agreements that result in strong market access gains for U.S. exports of fresh and processed potatoes through significant tariff reductions in export markets of interest as well as substantial reductions in trade-distorting subsidies benefiting potato sectors in competitive foreign countries.

This report is one of three that will be submitted by the NPC, and deals exclusively with traditional trade barriers faced by U.S. potato exports, focusing especially on tariffs and quotas. It should be considered along with the NPC’s submissions for SPS issues and standard-measures trade barriers, as well as in conjunction with APTA’s separate submissions on these issues.

A separate page is provided for each country in which trade barriers exist.

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ARGENTINA

I. High Tariffs (Import Policies)

Argentine tariffs on potato products range from 10% to 14%, with a 14% tariff applied to frozen fry imports from outside the Mercosur area. This 14% tariff is significant, as U.S. potato exporters are at an immediate disadvantage when faced with competition from Mercosur countries and other regional producers that have duty-free access.

A significant reduction of this tariff should be sought in potential future trade agreements.

II. Estimated Increase in Exports (less than $5 million)

In Argentina, major Quick Service Restaurants (QSRs) are making inroads and increasing demand for frozen fries. Given market access equal to regional competitors, U.S. frozen fry exports would be expected to increase by several million dollars annually if tariffs were eliminated.

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.

Although we are hearing that the tariff will not be extended, NPC remains concerned about the potential for future tariff increases. Brazil has a 35% bound WTO rate for frozen fries, meaning any tariff increases up to that level are technically WTO-legal. However, such tariff barriers have only made it harder for exports to occur to the market and are counter to the ongoing trade liberalization efforts around the world. Moreover, Brazil is the only Mercosur member to increase its tariff for frozen fries; product entering into Argentina, Paraguay, Uruguay, and Venezuela still face the 14% Mercosur external rate, and frozen fries traded between Mercosur countries continue to enter duty-free.

Should the increased Brazilian tariff on frozen fries be extended, NPC requests that USTR work to ensure that the 25% rate is not extended beyond 2014. In the longer term, the NPC also supports a significant reduction in Brazil's tariffs on potato products in bilateral or multilateral trade negotiations. The National Potato Council supports efforts to liberalize trade in Latin America as long as it results in *immediate duty-free* access for U.S. potato products.

II. Estimated Increase in Exports ($5 to $10 million)

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

CHINA

I. Excessive Tariffs (Import Policies)

Hotel and restaurant management in China report that high Chinese tariffs are the primary constraint to using imported U.S. potato products. A reduction in China's currently-applied 13% tariff on frozen fries (HS 2004.10) is of primary interest, since this is the U.S. industry's leading export product. Reducing China's 15% tariffs on dehydrated potato products (HS 1105.20 and 2005.20) are also of importance because Chinese trade contacts have expressed interest in these products. Regarding fresh potatoes, the potato industry's interest lies in exporting U.S. fresh potatoes to China for both consumption and further processing, but first the phytosanitary ban must be overcome.

China's bound tariffs resulting from its 2004 WTO accession agreement are shown below. Each of the applied tariffs in 2013 reflects the bound rate. To have meaningful competitive access, U.S. potato growers and processors are seeking the elimination of these tariffs for potato products in any trade negotiations.

HS Code	Description	China's Bound Rate as of 2004	China's Applied Rate as of 2013
0701.90	Fresh Potatoes	13%	13%
0710.10	Frozen Potatoes	13%	13%
1105.10	Potato Flour and Meal	15%	15%
1105.20	Potato Flakes	15%	15%
2004.10	Frozen Fries	13%	13%
2005.20	Other prepared or preserved potatoes, including chips	15%	15%
1108.13	Potato Starch	15%	15%

The tariff issue has become more important as China and New Zealand in 2008 concluded a free trade agreement under which the Chinese potato tariffs on New Zealand potatoes will be eliminated over five years. As of January 1, 2013, New Zealand fries enter China duty free, while U.S. fries remain at the 13% MFN rate.

In addition, there is a need for China to make its import policies, including the application of a 17% Value Added Tax (VAT), more transparent. A reduction in the VAT is needed and it needs to be applied consistently to both imported and domestic product.

II. Estimated Increase in Exports ($25 million to $50 million)

Although China is the leading producer of potatoes in the world, Chinese production is largely for local consumption and is primarily consumed in fresh form. U.S. exports of frozen potato products to China have increased significantly in recent years, reaching a total value of over $100 million in marketing year 2012-13. With lower tariffs, it is expected that the market for U.S. frozen potato products could grow to $125 million. The National Potato Council also estimates an immediate increase of up to $5 million in sales of dehydrated potatoes with the introduction of lower tariffs on these products.

COSTA RICA

I. Application of Quotas

With the implementation of DR-CAFTA in Costa Rica in 2009, tariff reductions for potatoes are underway, which is appreciated.

Challenges have emerged in recent years, however, in the granting of import licenses associated with potato quotas. In the past, Costa Rican authorities have opened the application of import licenses to the public, which has resulted in many individuals obtaining a share of the quota who have no intention of importing U.S. potatoes. Instead, their hope is to illegally resell the licenses at a premium to legitimate importers. In the meantime, actual importers do not obtain sufficient quota to meet their needs. This system needs to be addressed.

The U.S. potato industry has approached USDA both in Washington and in the U.S. Embassy in San Jose for assistance. The U.S. government has approached Costa Rica on the quota, and the situation in 2011 was improved, but concerns remain.

A further concern is that due to a quarantine dispute the Costa Rican market was closed from April-October 2012 for U.S. fresh potatoes. While the market was reopened in fall 2012, it was closed again in September 2013 following another dispute on the same quarantine issue. This will affect shipment levels, which could in turn affect the amount of quota offered.

The Costa Rica quota should not be reduced because shipments did not occur due to the market being closed due to a quarantine issue. Quota allocations should remain at previous levels.

II. Estimated Increase in Exports ($10 million)

The U.S. industry exported $6.7 million worth of fries to Costa Rica in 2012-13. Now that DR-CAFTA has been implemented, fry exports have increased to over $6 million, and could expand further in the future. Dehy exports have been limited to date, but reached over $1 million in 2012-13 and could expand further with the elimination of all dehy tariffs.

With full access, fresh potato exports, particularly for processing into chips, could reach over $2 million. Once the market is reopened, Costa Rica's quota system will need to be addressed for this expansion to occur.

DOMINICAN REPUBLIC

I. Application of Quotas

With the implementation of DR-CAFTA, exports of U.S. potato products are increasing given the elimination of the Dominican tariffs applied on U.S. potatoes.

A problem has emerged, however, with U.S. seed potato exports to the DR. Dominican importers of U.S. seed potatoes are not having their full request granted when seeking import permits. Instead, they are told there is a quota on seed potato imports, and only certain amounts can be imported from the U.S. Other countries, such as the Netherlands, are granted other parts of the quota.

Under DR-CAFTA there is **no** quota on U.S. seed or fresh potatoes, and there should be no quantitative limitation on imports of either product.

The U.S. potato industry has approached USTR and USDA on this issue and they are in the process of speaking to Dominican authorities. This issue should be immediately addressed, which will assist with the further expansion of this market for U.S. potato growers.

II. Estimated Increase in Exports ($5 million)

The U.S. industry did not export seed potatoes to the Dominican Republic in 2012-13 because of the unapproved quota restrictions. The DR is one of the largest potential seed potato markets for U.S. seed potato exporters. In order for exports to occur, the DR's quota system needs to be immediately addressed.

ECUADOR

I. High Tariffs

U.S. potato growers and processors are interested in achieving liberalized access to Ecuador and other markets in Latin and Central America. Tariffs and competition from regional producers who benefit from preferential access to Ecuador's market limit the ability of U.S. growers and processors to achieve any meaningful market presence.

U.S. potato exports to Ecuador face a 30% tariff on frozen fries and a 20% tariff on fresh potatoes. These tariffs are significant. U.S. potato exporters are disadvantaged further by competition from regional producers who benefit from preferential tariff access to the market under regional trade agreements.

II. Estimated Increase in Exports (less than $5 million)

In Ecuador and other markets in Latin America, major Quick Service Restaurants (QSRs) are making inroads and increasing demand for frozen fries. Given market access equal to regional competitors, U.S. frozen fry exports could dominate the market.

U.S. frozen fry exports to Ecuador would be expected to increase by several million dollars annually if tariffs and other market access barriers were eliminated.

INDIA

I. Trade Barrier Description - Excessive Tariffs (Import Policies)

U.S. potato growers and processors have identified India as an important growth market for U.S. frozen fry exports based primarily on the expansion of U.S. Quick Service Restaurant (QSR) 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.

HS 2004.10 (Frozen Potatoes): The current tariff is 30%, then a 4% additional duty (ADC), and 3% customs Cess duty is applied.

HS 1105.20 (Dehydrated Potatoes): The current tariff is 30%, then a 4% additional duty (ADC), and 3% customs Cess duty is applied.

HS 2005.20 (Processed Dehydrated Potatoes): The current tariff is 30%, then a 4% additional duty (ADC) and 3% customs Cess duty is applied.

The NPC would like a better understanding of the meaning of these additional taxes and whether they are applied on domestic product, and if not, how they are justified under the WTO. To our knowledge competing or like product from the European Union, New Zealand, Australia and Canada also pay these tariffs and duties.

In recent years, the U.S. potato industry, in coordination with the U.S. Embassy in New Delhi, requested that India significantly lower its 30% duty on frozen potatoes and 30% duty on dehy in annual Indian budget cycles when tariffs are set. Although several commodities had their tariffs reduced in March 2011 through this process, the Indian processed potato tariffs remained unchanged.

The U.S. potato industry also requests that only the tariff (and not the additional taxes) be applied on potato imports. To date, no progress has been made on any of these requests.

II. Estimated Increase in Exports ($25 million)

The U.S. exported $4.2 million worth of fries to India in 2012-13, which is up from just $703,000 the year before. This dramatic one-year increase reflects the huge growth opportunity for U.S. fries and other potato products in the market based on interest in frozen fry products by U.S. quick service restaurant chains in India. The U.S. potato industry believes that the market could reach over $20 million in the next ten years with a lowered fry tariff. Similarly, 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.

INDONESIA

I. Excessive Tariff and Tax

Frozen Fries: In March 1998, as part of the Indonesian government's agreement with the International Monetary Fund, the government temporarily reduced its tariff on all agricultural products to 5%. For most products, tariffs have remained at this level.

Fresh Potatoes: In March 2005, in an effort to protect domestic growers, Indonesia increased the applied tariff on fresh table stock potatoes (HS 0701.90) from 5% to 20%. This move remained WTO compliant because Indonesia's bound rate is 50%; however, such a move runs counter to WTO intentions of not increasing tariffs. Indonesian officials have spoken of increasing this tariff further to protect their domestic growers against a surge of potato imports, most likely from China. To date, however, this has not occurred. The U.S. is seeking market access for fresh potatoes to Indonesia.

Indonesia's bound rates are excessive. Although most applied rates remain at the lower levels, Indonesia could raise the tariffs to their bound rates at any time, as they did with fresh potatoes in 2005. To prevent this possibility, in the context of potential trade talks, the U.S. potato industry urges the U.S. government to press Indonesia to bind its tariffs at the low 5% applied tariff.

II. Import Permit System

Processed Potatoes: In fall 2012, Indonesia established a new import permit system for horticultural products and processed products derived from horticultural products, including frozen fries and dehydrated potatoes. Under these new regulations, importers must register with the Ministry of Trade and obtain approval from the Ministry of Agriculture as prerequisites to obtain import permits. The NPC appreciates USTR's efforts in elevating this issue to the World Trade Organization's (WTO) dispute settlement process and requests that such efforts be continued to have the burdensome import permit system eliminated or made as transparent as possible so the system cannot be used to hinder trade.

III. Estimated Increase in Exports ($25 million)

Indonesia is a promising and fast growing market for U.S. potatoes, with frozen potato exports reaching $14.5 million in 2012-13. Market research indicates that binding the duties at 5% and addressing ongoing quota and other concerns would provide security to exporters and importers and increase annual U.S. exports of frozen fries to Indonesia to $25 million.

If the applied tariffs increase or import permits are used to restrict trade, there will be significant loss in current export sales.

JAPAN

I. Excessive Tariffs

Japan's tariff on frozen fries is 8.5%. Because of the volume of frozen fries sent to Japan, the potato industry pays significant amounts to export to Japan. Japan's tariff on dehydrated potato flakes (HS 1105.20.000.3) is 20%, which is excessive. Japan also applies tariffs on dehydrated products under HS 2005.20 ranging from 9% to 13.6%. Japan’s tariff on fresh potatoes is 4.3%.

With Japan’s official participation in the Trans-Pacific Partnership (TPP), the U.S. potato industry urges U.S. negotiators to seek the immediate elimination of all of Japan’s potato tariffs. The National Potato Council submitted its TPP Japan priorities to USTR in May 2013.

II. Estimated Increase In Exports (over $20 million)

Japan is the largest export market for U.S. frozen fries. In marketing year 2012-13, U.S. exports of frozen potatoes to Japan were $310.5 million and dehydrated potatoes were $29.1 million.

An elimination of the tariffs on frozen fries and dehydrated potato flakes would increase exports to Japan by at least $10 million a year for each product.

KOREA

I. Restrictive Tariffs and TRQs

The National Potato Council is pleased with the implementation of the U.S.-Korea Free Trade Agreement in March 2012. As a result of this agreement, the Korean tariff applied to US fries fell from 18% to 0% immediately. A quota-free shipping window for chipping potatoes was also established, along with a new quota for U.S. table stock potatoes. All of these reductions will significantly benefit U.S. potato exports to Korea. Implementation was especially important as the EU-Korea FTA had been implemented the year before, and European potato producers were beginning to take advantage of their tariff differences over U.S. product.

The implementation of the 3,000 metric ton fresh potato quota was initially confusing and required three attempts to fill the quota. The U.S. potato industry questions the bidding process for duty-free quotas in Korea, but apparently this practice has been used commonly in Korea in the past and ultimately all 3,000 metric tons were allocated. Unfortunately, quarantine issues have prevented usage of the quota in 2013.

The National Potato Council thanks USTR and USDA for their dedicated work on the U.S.-Korea Free Trade Agreement.

II. Estimated Increase in Exports ($50 to $75 million)

Current U.S. shipments of all potato-related products to Korea are valued at $98.2 million. This is up 24% over marketing year 2011-12. The majority of these exports are frozen fries, valued at $79.6 million in marketing year 2012-13 (up 32%). Korea is a strong market for U.S. fry exports because of the high concentration of U.S. Quick Service Restaurants (QSRs).

With meaningful tariff reductions, exports of frozen potato products to Korea should increase to $90 million. The removal of the TRQ on dehydrated potatoes alone will increase trade by about $15 million annually. Additionally, the removal of the quota on fresh potatoes should easily result in increased sales to over $15 million annually for these potatoes.

PANAMA

I. High Tariffs (Import Policies)

Significant potato tariff reductions were achieved in the U.S.-Panama Free Trade Agreement, which entered into force in October 2012. For frozen fries (HS 2004.10), Panama agreed to a 3,500 metric ton tariff rate quota that will expand by 4% a year compounded annually for five years. After that, fries will enter duty-free. The chart below provides the fry duties for the first five years of the FTA, from 2012-2016.

Frozen Fries (HS 2004.10)			
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 dehy flakes, pellets and granules shipped under HS 1105.20 there is be a five-year phase-out of the currently-applied 15% tariff. For processed products shipped under Chapter 20 (HS 2005.20) there are two tariff reductions. For HS 2005.20.10, or “papas fritas” (possibly potato chips), the 15% duty was immediately eliminated upon implementation of the agreement. For other potatoes, prepared or preserved (HS 2005.20.20), there is a five-year phase out of the tariff, which was 15% when the agreement was negotiated but was since unilaterally lowered by Panama to 10%. In 2014, Panama’s tariff for U.S. products under this HS code will be 6%.

U.S. fresh potato exports (HS 0701.90) to Panama have a 750 metric ton duty-free quota with a prohibitive 81% over-quota tariff. The tariff quota volume will be expanded 2% a year compounded in perpetuity.

The U.S. potato industry welcomes this increased market access under the U.S.-Panama Free Trade Agreement.

II. Estimated Increase in Exports ($10 million)

With its close historical and military ties to the U.S., Panama has a large number of U.S. Quick Service Restaurants (QSRs), increasing the demand for frozen fries. Given market access equal to regional competitors, U.S. frozen fry exports could dominate the markets. U.S. frozen potato exports to Panama were $7.7 million in 2012-13, which is an 18% increase over 2011-12. Frozen fry exports are expected to double in volume in the near term with the lowered tariffs under the FTA.

PHILIPPINES

I. Excessive Tariffs and Tariff Rate Quota

The Philippine tariff applied on frozen fries and other varieties of frozen and processed potatoes is 10%. The applied duty is significantly below the bound rate of 35%.

In 2013, the U.S. potato industry gained market access for U.S. table stock potatoes. Access, however, is restricted by the Philippine's 40% tariff on fresh potatoes.

The industry is interested in seeking a reduction of this tariff in the context of any future negotiations in a bilateral or regional agreement. There may even be possibilities to reduce this tariff unilaterally, which should also be explored.

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

II. Estimated Increase in Exports ($25 million)

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' 10% fry tariff would increase demand by approximately $20 million dollars in the short term.

In addition, with a new market access agreement for U.S. table stock potatoes now in place, the removal of the excessive 40% tariff on fresh potatoes would foster new market demand for table-stock potatoes valued at $5 million or higher.

TAIWAN

I. High Tariffs (Import Policies)

The chart below shows Taiwan's current tariffs on potato products that were applied upon Taiwan's entry into the WTO. Although the WTO-negotiated bound tariffs are an improvement, they are still too high for a developed market.

In any future trade negotiations, the U.S. potato industry seeks the immediate elimination of all Taiwanese potato tariffs.

HS #	Description	Taiwanese Tariff based on WTO Commitments
0701.90	Fresh potatoes (table stock)	15%
0710.10.00	Frozen potatoes	15%
1105.10.10	Potato flour	10%
1105.10.20	Potato meal	10%
1105.20.00	Potato flakes	10%
2004.10.11 and 2004.10.19	Potato sticks, frozen (frozen fries) >1.5kg. and Other potato chips	12.5%
2004.10.90	Other potatoes, prepared or preserved, frozen	18%
2005.20.10	Potato chips and sticks >1.5kg.	12.5%
2005.20.20	Potato chips and sticks <1.5 kg.	15%
2005.20.90	Other potatoes, preserved	18%

II. Estimated Increase in Exports ($25 million)

Taiwan is a $62.7 million market for U.S. potato products, $47.4 million of which is for U.S. frozen fries. The elimination of Taiwan's duties would increase U.S. exports by approximately $10 million annually in the short term and up to $25 million in the long term.

THAILAND

I. Tariffs on Frozen Fries and TRQ on Fresh Potatoes

U.S. frozen potato exporters may lose the entire $12.8 million Thai market to competitors. With the U.S.-Thailand Free Trade Agreement negotiations stalled and lack of significant progress at the WTO Doha Round negotiations, importers may shift their fry purchases to Australia and New Zealand, which have 6% tariff due to their 2004 FTAs. Chinese fries also enter the market through their duty-free access granted in the China-ASEAN FTA. Meanwhile, U.S. fries must be imported at the 30% MFN rate. Industry officials believe they have only a matter of years before the entire market is lost for U.S. product.

The National Potato Council, on behalf of the U.S. potato industry urges the U.S. government to either seek a unilateral reduction in the Thai fry tariff to the levels offered Australia and New Zealand in their FTAs or encourage Thailand to join the TPP talks and seek the reduction through that venue.

Reducing the tariff will promote economic growth in Thailand, as it lowers costs for restaurants, which can lead to expansion and additional employment and domestic purchases. Domestic Thai groups are also pursuing this effort with their government.

Should this action not be achieved in 2014, shipments of U.S. fries to Thailand will likely fall significantly.

II. Estimated Increase in Exports ($20 million)

The U.S. exported $12.8 million worth of frozen potatoes to Thailand in 2012-13. In 2013-14, unless the tariff issue is addressed, this number could fall significantly, with the entire market lost in the near future.

If the tariff could be reduced, the U.S. would maintain the market and even expand it to $20 million annually.

VIETNAM

I. High Tariffs

In 2006, the U.S. and Vietnam reached an agreement on Vietnam's accession to the World Trade Organization (WTO). In that agreement, Vietnam agreed to reduce its 40% tariff on frozen fries to 13% over six years and its 40% tariff on potato chips to 18% over five years. As of 2013, both tariff reductions have been achieved, with the Vietnamese MFN tariff for frozen fries now at 12% and the tariff on potato chips under 2005.20 at 18%. The U.S. potato industry welcomed that news and anticipates increased sales as a result.

In the Trans Pacific Partnership (TPP) talks, the U.S. potato industry is seeking to have these tariffs eliminated. These priorities have been provided to USTR and USDA for the TPP negotiations.

II. Estimated Increase in Exports ($25 million)

The U.S. currently exports $2.1 million worth of fries annually to Vietnam. The U.S. potato industry has conducted several trade missions to Vietnam to explore possibilities for additional U.S. 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 U.S. fry exports if tariffs and other import restrictions were lifted.