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Potatoes and Potato Products

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Report Highlights:
After storms decimated Japanese potato production in marketing year (MY) 2016/17, FAS/Tokyo forecasts a substantial recovery of Japanese potato production in MY 2017/18 to 2.315 million metric tons (MT), largely restoring production to pre-typhoon levels. Strong growth in Japan's fast food and restaurant sectors drove increased demand for frozen potato products such as french fries. Accordingly, FAS/Tokyo forecasts a six percent increase in Japan's import and consumption of frozen potato products in MY 2017/18 (to 385,000 MT).

Keywords: JA7134, Japan, potato, french fries, chips

General Information:

Fresh Potatoes:

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Fresh Potatoes - Japan Market Begin Year	MY 2015/2016 August 2015	MY 2016/2017 August 2016	MY 2017/2018** August 2017
Area Planted (ha)	77,330	77,200	76,000
Total Supply (MT)	2,406,800	2,199,000	2,350,000
Production (MT)	2,378,000	2,159,600	2,315,000
Import	28,800	39,400	35,000
Total Consumption (MT)	2,406,800	2,199,000	2,350,000
Table Potatoes (MT)	636,000*	580,000*	600,000
Processed potato products (MT)	590,000*	530,000*	620,000
Potato starch (MT)	846,000*	700,000*	800,000
Others (MT)	334,800*	389,000*	330,000
Export	0	0	0

Source: Ministry of Agriculture, Forestry and Fisheries, Global Trade Atlas
Note: Asterisk indicates FAS/Tokyo estimates. Double asterisk indicates FAS/Tokyo forecasts.

Planted Area and Production

Hokkaido, located 600 miles north of Tokyo, is Japan's major producing region for fresh potatoes, and its share accounts for about 80 percent of domestic production. The potatoes produced in Hokkaido are stored and distributed all over Japan until the harvest the following year. Kyushu, the southern-most of Japan's four main islands, is the second leading production region, but its share is only about eight percent. However, Kyushu's warmer weather allows its farmers a second harvest in the spring, and these potatoes are considered fresher and provide Kyushu farmers with extra market value from their "Shin Jaga" (meaning "New Potatoes"). Japan's dependence on Hokkaido for domestic potato production contributes to the instability in Japan's supply chain, a risk that became apparent when typhoons caused flooding in marketing year (MY; between August to July) 2016/17 (see JA6033 and JA6041 for more details).

Japan's fresh potato planted area decreased marginally to 77,200 hectares (ha) in MY 2016/17 compared to the previous MY. Structural problems in Japan's agriculture, such as lack of successors, labor market constraints, and the aging of Japan's population continued to decrease planted area for potatoes marginally. However, the typhoons that reached Hokkaido in the summer of 2016 reduced Japan's potato production 9.2 percent to approximately 2.16 million MT.

The government of Japan (GOJ) reported that 9,960 ha of Hokkaido's potato fields (approximately 20 percent) were damaged in MY 2016/17. The GOJ and local governments have contributed to efforts to rebuild, yet some areas have not recovered. In large part, due to extensive media coverage of potato chip shortages in spring and summer 2017 (see JA7052 more details), the GOJ encouraged farmers to plant chipping potatoes on land that had yet to fully recover, as well as on land that would have grown fresh table potatoes. Moreover, as the 2016 typhoons also damaged Japan's seed potato production, farmers were encouraged to stretch their available seed potatoes by planting portions smaller pieces (i.e.,

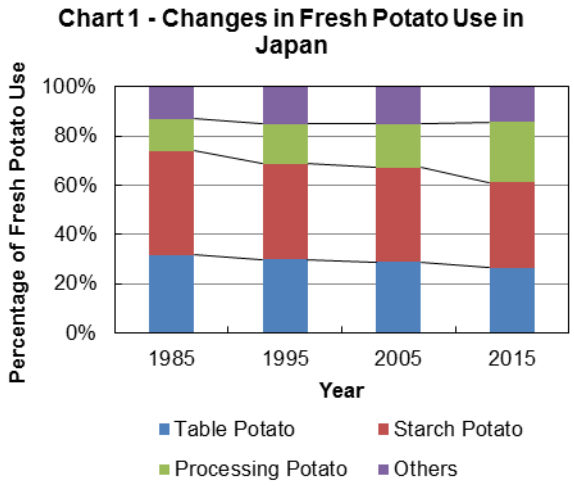
below the recommended minimum of 40 grams). These efforts, however, were insufficient to restore planted area to pre-storm levels. Accordingly, FAS/Tokyo estimates that Japan's potato area decreased 1.6 percent to 76,000 ha in MY 2017/18.

Despite a reduced planted area in MY 2017/18, FAS/Tokyo forecasts Japan's fresh potato production to recover substantially to 2.315 million MT, an increase of 7.2 percent from MY 2016/17, but 2.7 percent less than MY 2015/16. Much of the recovery can be attributed to the planting of off-standard seed potatoes, which allowed farmers to stretch the available seed potatoes. Japanese farmers were concerned that these seed potatoes would perform poorly, especially during their initial growth. However, favorable weather through July contributed to tuber development, while cloudy weather in August slowed growth, resulting in a reduced yield of smaller potatoes that prevented total production in MY 2017/18 from fully recovering to pre-MY 2016/17 levels.

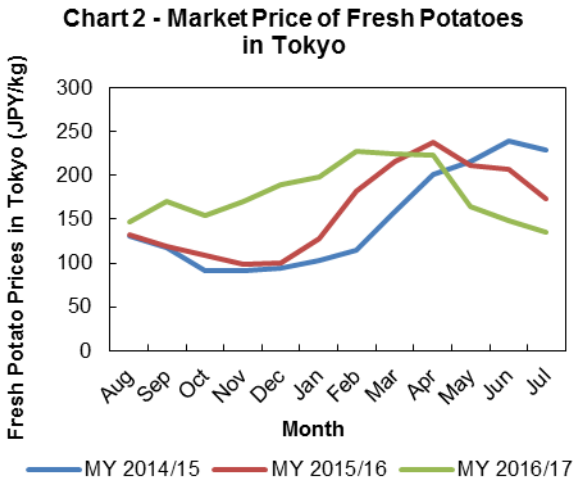
Consumption

Japanese consumption of fresh potatoes has been changing over the years, shifting from fresh table potatoes to processed potato products (see Chart 1). Demand for processing potatoes (particularly chipping potatoes) has been increasing, while demand for table potatoes and potato starch has been on a continuous decline since 2012. However, reduced production and supply shortages decreased the consumption of each category in MY 2016/17. Consumption of table potatoes fell 9 percent, in part because market prices were considerably higher than normal throughout the MY (see Chart 2). Market prices of fresh potatoes in Tokyo remained high (up 90 percent compared to the previous MY) until a strong harvest of spring potatoes came into the market in March. Additionally, consumption of processing potatoes declined 10 percent to 530,000 MT in MY 2016/17 given the supply limitations. The lack of chipping potatoes caused major potato chip companies to suspend or terminate a number of their products (see JA7052 more details). Overall, Japan's fresh potato consumption in MY 2016/17 was approximately 2.2 million MT, 8.7 percent lower than in MY 2015/16.

MY 2016/17 was an extraordinary year that does not reflect the long-term demand for processed potato products. The restaurant and ready-made food sectors have been expanding year on year, and demand for potato chips continues to steadily grow. The consumption of table and starch potatoes, however, is in decline at a pace that exceeds the increase in demand for processing potatoes. The consumption of fresh potatoes as a whole is therefore decreasing slightly. FAS/Tokyo forecasts that Japan's fresh potato consumption in MY 2017/18 will significantly recover (to 2.35 million MT), although this level is still 2.5 percent lower than in MY 2015/16.



Source: Ministry of Agriculture, Forestry and Fisheries



Source: Tokyo Central Wholesale Market

Trade

The GOJ restricts the import of fresh potatoes to designated production areas, during limited portions of the year, and to only two approved ports (see "Policy" section). However, the GOJ permitted the import of fresh potatoes five weeks earlier in MY 2016/17 to compensate, in part, for the shortage. As a result, fresh potato imports in MY 2016/17 rose to 39,400 MT, an increase of 36.8 percent compared to the previous MY. Although demand for chipping potatoes is increasing annually, FAS/Tokyo notes that increased import volume in MY 2016/17 was temporary due to the domestic shortage. Therefore, FAS/Tokyo forecasts fresh potato imports to total 35,000 MT in MY 2017/18, 11.2 percent lower than MY 2016/17, but 21.5 percent higher than in MY 2015/16 (and the second highest on record after MY 2016/17).

Policy

Eligible States: Japan limits the import of U.S. fresh potatoes to chip manufacturing. Under the current protocol, 16 U.S. states are eligible to ship potatoes to Japan under certain conditions, and are limited to enter the market between February and July. The eligible states are: Arizona, California, Colorado, Florida, Idaho, Maine, Michigan, Minnesota, Montana, Nevada, New Mexico, North Dakota, Oregon, Texas, Washington, and Wisconsin.

Potatoes from Idaho were among those originally permitted when the market was opened in 2006. Market access for Idaho potatoes was suspended months later following the discovery of pale cyst nematode (PCN). On September 12, 2017, Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) lifted the suspension on the import of fresh chipping potatoes from all counties in Idaho except for Bingham and Bonneville counties, which remain under quarantine for PCN.

Shipping season: Starting in 2012, MAFF extended the shipping season to include the month of July. As a result, the United States exports potatoes to Japan from February through July.

Overland transportation: According to the 2006 import protocol, MAFF did not allow overland transportation of U.S. potatoes from the port to the chipping facilities due to phytosanitary concerns. As a result, only chipping facilities located in the port were allowed to request MAFF approval to import and process U.S. potatoes in Kagoshima and Hiroshima. Unlike the Hiroshima Port, the Kagoshima Port (where the most recently approved facility is located) is a local port that cannot handle large-size vessels. Consequently, U.S. potatoes needed to be loaded onto lighter coastal vessels at the nearest port in Shibushi, which is approximately 100 kilometers east of Kagoshima. As the smaller vessels are not equipped to keep the cargo refrigerated, the eight to nine hour travel time to Kagoshima can cause premature sprouting and adversely affect the quality of the potatoes. Additionally, Japanese chipping manufacturers found this means of transportation extremely inefficient and costly. Thus, chipping manufacturers requested MAFF to allow overland transportation by truck from the Shibushi port directly to the chipping facility. The Shibushi port has the capacity to handle containerized cargo and is equipped with electricity, which allows the potatoes to remain refrigerated. In addition, the shorter overland travel time would reduce the risk of quality deterioration.

In March 2015, MAFF completed its technical review and approved overland transportation subject to the following condition: 'Overland transportation is allowed only for approved heat processing facility located in port area where port facilities are limited to receive lighters and where large size vessels are unable to berth, therefore, it is considered that importing U.S. potatoes directly from ocean going vessels is impossible.' This condition applies to the overland transportation between Shibushi and Kagoshima, since the Kagoshima Port facilities are insufficient to receive ocean going vessels at their berths.

Proposed 2018 budget to increase potato production: On August 31, 2017, MAFF announced a budget request of 3 billion Japanese Yen (approximately $27 million) for Japanese fiscal year 2018 (April 1 to March 31). MAFF explained that the purpose of this proposed budget is to: 1) increase production of seed potatoes; 2) increase production of processing potatoes; and 3) improve the environment for farmers to include potatoes in their crop rotation. To achieve these goals, MAFF's proposed supports are to be used to set up new farms (especially pest-free seed potatoes), a soil improvement program, transition to pest-resistant varieties, and the introduction of more efficient heavy machinery. MAFF has set benchmarks for this support at 1) a 10 percent increase in the production of seed potatoes to 160,000 MT by 2021 (compared to 145,000 MT in 2016); and 2) a 30 percent increase in the production of processing potatoes to 770,000 MT by 2021 (compared to 590,000 MT in 2016).

Frozen Potato Products

PS&D

Frozen Potatoes - Japan Market Begin Year	MY 2015/2016	MY 2016/2017*	MY 2017/2018*
	August 2015	August 2016	August 2017
Production (MT)	33,510	27,912	35,000
Import (MT)	338,927	369,180	385,000
Total Supply (MT)	372,437	397,092	420,000
Domestic Consumption	372,437	397,092	420,000
Export	0	0	0
Total Distribution (MT)	372,437	397,092	420,000

Source: Ministry of Agriculture, Forestry and Fisheries, Global Trade Atlas, and the Japan Frozen Food Association
Asterisk indicates FAS/Tokyo forecast.

Production

Japan's production of frozen potato products was constrained in MY 2016/17 by reduced domestic supplies caused by a series of typhoons. Domestic production was reduced 16.4 percent from the previous MY to 27,912 MT. This volume is less than 10 percent of Japan's domestic consumption of frozen potato products (397,092 MT in MY 2016/17) where the leading product is french fries (see Chart 3). Only 3.5 percent of Japan's fresh potato production is used to make frozen potato products, 60 percent of which is used to make potato croquette. The frozen potato product industry's access to imported potato supplies (such as dehydrated potato, potato flakes, mashed potatoes, and frozen whole potatoes) contributed to the industry's robust growth in MY 2016/17, leading to a 7.5 percent production increase (to 183,914 MT) in frozen croquettes in 2016.

Considering the continued growth in demand for ready-made frozen potato products, FAS/Tokyo expects Japan's use of potatoes for frozen food production to exceed MY 2015/16 by 4.5 percent to 35,000 MT.

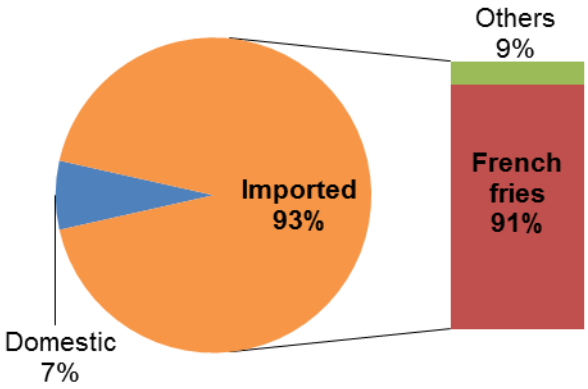
Consumption

Japan consumes frozen potato products largely as french fries, and therefore hamburger restaurants are the largest retailers of frozen potato products. Accordingly, their sales are the most important factor in determining the consumption of frozen potato products in Japan. In MY 2016/17, most of Japan's hamburger chains reported increased sales compared to the previous MY. In addition to hamburger chains, "family restaurants", diners, and even sushi restaurants served french fries as a side dish and contributed to increased consumption (see "Market trends"). Given the growth in fast food and family restaurant sales, Japan's consumption of frozen potato products increased 6.6 percent to 397,092 MT in MY 2016/17. FAS/Tokyo expects frozen potato consumption to continue to grow in MY 2017/18 and forecasts another 5.8 percent increase to 420,000 MT.

According to the Japan Food Service Association, the number of fast food and family diner restaurants increased 6.5 percent in 2016. Although these outlets are the leading retailers of frozen french fries, other food establishments are also increasing their sales of french fries. One such example is conveyor-

belt sushi restaurants. With approximately 3,000 restaurants in Japan and a market size of 65 billion Japanese Yen (approximately $5.9 billion), sushi restaurants represent an additional outlet for french fries equivalent to 25 percent the size of the fast food industry. Another example is the sale of french fries at convenience stores. Although some convenience stores were forced to source from Europe during the West Coast port dispute, U.S. french fries are still the benchmark in Japan and U.S. potatoes are gaining most of the growth in the market.

Chart 3 -
Frozen Potato Products in Japan



Source: Global Trade Atlas and Japan Frozen Food Association

Trade

Japan imports more than 90 percent of its frozen potato products. Total Japanese imports of frozen potato products (including both HS 2004.10 and HS 0710.10) increased 8.9 percent to 369,180 MT in MY 2016/17 over the previous MY. As domestic production is unlikely to keep pace with consumption, FAS/Tokyo forecasts a further 4.3 percent increase in imported frozen potato products to 385,000 MT in MY 2017/18.

French fries:
Japan imported 336,548 MT of french fries (HS 2004.10) in MY 2016/17, an increase of 7.4 percent from MY 2015/16. Of Japan's imported frozen potato products, 91 percent is frozen french fries. As noted above, the retail of french fries is diversifying in the Japanese restaurant industry and contributes to the expectation that consumer demand for french fries will continue to grow in the Japanese market in MY 2017/18.

The United States is the leading supplier of frozen french fries to Japan, but the west coast port labor dispute and past declines in fast food sales contributed to a drop in the U.S. market share in MY 2015/16 (from 79.6 percent in MY 2014/15 to 71 percent in MY 2015/16). However, U.S. french fry exports increased 8.8 percent to 253,560 MT in MY 2016/17, capturing much of the recovery in french fry sales

and restoring U.S. market share to 75 percent. Competitors such as Belgium and Netherlands maintained the same market share at approximately 15 percent combined.

Policy

There have been no changes in Japan's policies for frozen potato products since the 2016 annual.

Tariffs on Potato and Potato Products

Category		Product Tariff Line (HS Code)	Current Tariff (Percent)
Fresh / Chilled		Seed Potatoes 0701.10.000	3.0
		Other than Seed 0701.90.000	4.3
Flake / Mashed		Potato Flour 1105.10.000	20.0
		Potato Flakes 1105.20.000	20.0
		Mashed Potatoes 2005.20.100	13.6
Frozen		Uncooked 0710.10.000	8.5
		French Fries 2004.10.100	8.5
		Mashed Potatoes 2004.10.210	13.6
		Other 2004.10.220	9.0
Others	Dried	Dehydrated 0712.90.050	12.8
	Processed	In airtight container 2005.20.210	12.0
		Sugar added 1905.90.314	9.0
		Not sugar added 1905.90.323	9.0
		Other 2005.20.220	9.0

Source: Japan Customs (last updated on May 16, 2017)
Note: All duties are charged on a CIF basis