World Frozen Potato Fry Situation and Outlook

SUMMARY

In 2001/02, frozen potato fry exports from the three major-exporting countries, the United States, the Netherlands, and Canada, are forecast at a record 2.4 million tons, 8 percent above the previous year's shipments. The United States and the Netherlands are expected to register smaller export gains for 2002/03, while Canada's exports are anticipated to increase by double digits.

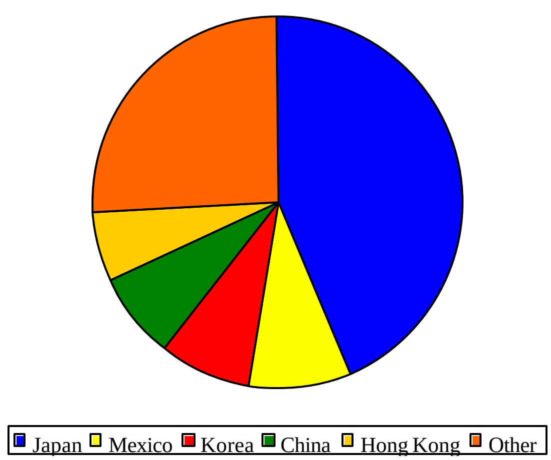
United States

After a decade of record gains, exports in 2001/02 were 494,045 tons, slightly down from last year's level. The growth in frozen potato fry exports has slowed in recent years and exports for 2002/03 are expected to increase to 525,000 tons. The economic and political problems that have plagued Asia have had a dampening effect on the demand for U.S. potato products. Product safety issues such as the emergence of GMO and acrylamide concerns have created a negative reaction to frozen potato products. While there has been little problem yet, the industry believes this could be a future issue. The growing concern with health and beauty in Asia and the perception that potatoes are fattening are beginning to reduce consumer interest. The expansion of western dining is slowing down in some markets, particularly Japan. In most markets, potatoes are still not seen as a staple food item but rather are viewed as a treat or specialty product. However, western style dining and snack manufacturing are growing extremely fast in China, Mexico and parts of South East Asia.

The top five U.S. frozen potato fry markets accounted for nearly 74 percent of 2001/02 shipments. These markets were Japan with 45 percent of the total exports, Mexico at 9 percent, Korea at 8 percent, China at 7 percent, and Hong Kong at 6 percent.

While Japan continues to be the largest market for U.S. frozen potato fries, exports in recent years have leveled off, largely due to the aging population, a slowdown in the expansion of the fast food industry, and Japan's worsening economy. The continued spiral of Japan's recession has created a price sensitivity among consumers, restaurants, and retailers, which has perpetuated price wars in the Japanese food service industry, where lower-cost side dishes are

Top Five Markets for Frozen Potato Fries



being substituted for potato fries. This situation is exacerbated by the continuing strong dollar. Product safety issues are also having a negative impact on demand for potato fries. The United States is still well positioned with a market share of 83 percent, down 2 percent from the previous year.

Long-term growth in the demand for frozen potato fries is expected to continue in Mexico, however, as in most of the rest of the world, Mexico is seeing the impact of the global economic turndown. Most opportunities for frozen potato fries lie in the growing restaurant sector, although the supermarket industry may hold potential for the future. Although the United States dominates this market (90 percent market share), competition is strong and growing stronger.

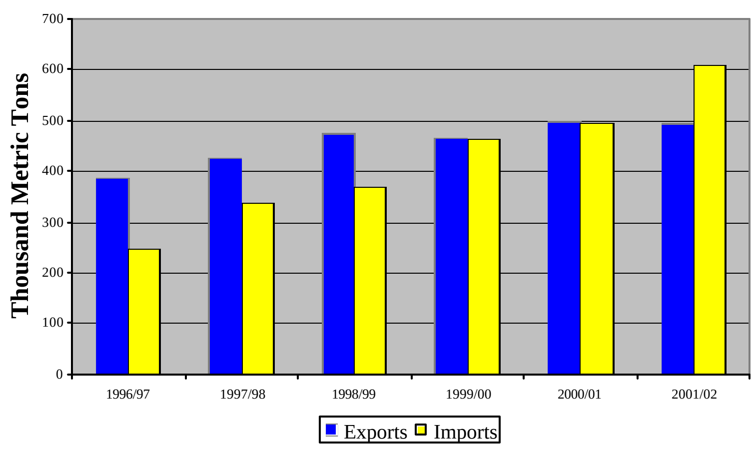
Opportunities for export expansion for frozen potato fries are strong in Korea as hotel, restaurant, and institutional (HRI) sales continue to grow. The HRI sector is also increasingly diversified with a greater variety of different types of restaurants. This expands the demand for frozen potato fry opportunities outside the traditional venues of western-style dining restaurants. Also, demand for potato fries is starting to develop in secondary cities, including Busan and Daegu.

China is an emerging market with enormous potential. The combination of a booming economy and market reforms is generating strong demand for a variety of convenience food products. Major restaurant chains– the primary venue for frozen potato fries – continue to expand with an estimated annual growth at 20 percent. The United States has a market share of 97 percent in China.

The U.S. potato industry is facing increasing competition from Canada, New Zealand, Australia, and the EU. The globalization of the frozen processing industry makes it easier for customers to switch to different countries of supply while retaining their business relationship with the same supplier. Although the United States is known for producing a superior product, it is, for the most part, the highest-cost supplier in most markets due to exchange rates and transportation costs.

U.S. Imports of frozen potato fries were 608,000 tons in 2001/02, up 103,000 tons from last year's level. Imports have risen consistently for the last several years and it is expected the United States will remain a net importer of frozen potato fries. Canada essentially accounts for all of U.S. imports of frozen potato fries.

US Trade Balance in Frozen Potato Fries



The Netherlands

The Netherlands is by far the largest exporter of frozen potato fries. In 2001/02, the Netherlands' exports totaled almost 990,000 tons and for 2002/2003, exports are forecast at 1.050 million tons. The industry depends largely on export demand, as almost 97 percent of production is sold in foreign markets. Over 90 percent is exported to the EU, mainly the United Kingdom, Germany, France, Italy and Belgium, which account for 75 percent of Dutch exports. The strong growth of American fast food chains in Europe continues to help drive exports of Dutch potato fries. While shipments to non-EU countries are very small, they continue to grow. Russia, Brazil and the Middle East are the largest export markets outside the European Union.

Industry expansion and new processing capacity has been occurring outside the Netherlands due to the high cost of transporting potatoes. As a result, new facilities are being built in France and Belgium to supply the growing demand in the Mediterranean countries.

Imports of frozen potato fries into the Netherlands have remained small, accounting for less than 5 percent of the total Dutch supply.

Canada

Canadian frozen potato fry producers increasingly depend on exports for additional sales. Exports in 2001/02 increased by more than 16 percent to 735,867 tons compared to a 3-percent increase a year earlier. Exports to the United States during this period were 653,438 tons reflecting increased production capacity in Canada, a lower-valued Canadian dollar, as well as the potato crop shortfall in the United States. The United States is the primary export market for Canadian fries, consistently accounting for about 87 percent of total frozen fry exports. Exports to the United States are expected to advance strongly for the next several years due to industry expansion and new processing capacity. Other Canadian export markets include Japan, Venezuela, Korea, and Taiwan. Industry sources do not expect significant increases in Canadian exports to these markets for the upcoming year. Exports are anticipated to increase to about 820,000 tons for 2002/03.

Although there was an increase in frozen potato fry imports from the United States in 2001/02, the demand for fries will be weak, given Canada's modern and expanding frozen potato fry industry, which is a "producer-for-export" oriented industry. The major share of the imports was to Ontario, British Columbia, and Manitoba.

Australia and New Zealand

Although newcomers to the world potato fry trade, Australia and New Zealand have increased exports of frozen potato fries. In 2001/02, the two countries exported approximately 75,000 tons, up from the previous year's level of 35,000 tons. They export primarily to the Southeast Asian region.

Frozen Potato Fries

PSD Official Statistics (MT)

	Beginning Stocks	Production	Imports	Total Distribution	Exports	Domestic Consumption	Ending Stocks
Canada							
1998/1999	110,000	910,000	23,984	1,043,984	516,240	407,744	120,000
1999/2000	120,000	1,020,000	13,673	1,153,673	618,978	399,695	135,000
2000/2001	135,000	1,050,000	17,120	1,202,120	634,297	432,823	135,000
2001/2002	135,000	1,080,000	31,268	1,246,268	735,867	370,401	140,000
2002/2003 /F	140,000	1,160,000	50,000	1,350,000	820,000	380,000	150,000
Netherlands							
1998/1999	190,000	1,075,000	65,000	1,330,000	965,000	225,000	140,000
1999/2000	140,000	1,100,000	85,000	1,325,000	930,000	235,000	160,000
2000/2001	160,000	1,175,000	105,000	1,440,000	1,030,000	230,000	180,000
2001/2002	180,000	1,150,000	75,000	1,405,000	990,000	240,000	175,000
2002/2003 /F	175,000	1,200,000	75,000	1,450,000	1,050,000	245,000	155,000
United States							
1998/1999	470,008	3,565,812	367,502	4,403,322	473,238	3,491,931	438,153
1999/2000	438,153	3,497,555	464,966	4,400,674	463,886	3,515,028	421,760
2000/2001	421,760	3,664,031	495,067	4,580,858	496,407	3,592,990	491,461
2001/2002	491,461	3,161,137	607,576	4,260,174	494,045	3,340,689	425,440
2002/2003 /F	425,440	3,400,000	700,000	4,525,440	525,000	3,550,440	450,000
TOTAL							
1998/1999	770,008	5,550,812	456,486	6,777,306	1,954,478	4,124,675	698,153
1999/2000	698,153	5,617,555	563,639	6,879,347	2,012,864	4,149,723	716,760
2000/2001	716,760	5,889,031	617,187	7,222,978	2,160,704	4,255,813	806,461
2001/2002	806,461	5,391,137	713,844	6,911,442	2,219,912	3,951,090	740,440
2002/2003 /F	740,440	5,760,000	825,000	7,325,440	2,395,000	4,175,440	755,000

Sources: This information was prepared or estimated on the basis of official statistics of foreign governments, other foreign source materials, reports of Agricultural Attachés and Counselors, results of office research, FAS/USDA estimates, and related information.

1/ July-June Marketing Year

2/ PS&D figures are arithmetically derived.
3/ Ending stocks data from the USDA/National Agricultural Service Cold Storage Report.
4/ Export and import data from U.S. Bureau of Census with 2002/2003 forecasts from industry sources.
5/ Production figures are derived from USDA/National Agricultural Stat. Service Potatoes 2001 Summary Report. A conversion factor of 0.55 is used to estimate frozen potato fry production based on the potatoes utilized for processing.

F = Forecast