



**NATIONAL POTATO COUNCIL**  
1300 L Street, NW, Suite 910  
Washington, DC 20005  
(202) 682-9456 phone · (202) 682-0333 fax  
[www.nationalpotatocouncil.org](http://www.nationalpotatocouncil.org)

**NATIONAL POTATO COUNCIL**  
**2019 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 growers, in addition to many major U.S. potato processors and retailers.

Frozen fries (HS 2004.10) are the industry's primary export product, although fresh (HS 0701.90), seed (HS 0701.10) and dehydrated potatoes (HS 1105.20, HS 2005.20) 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 18% of total U.S. potato production and over 20% of U.S. frozen potato production. U.S. exports of all potato products were valued at approximately \$1.8 billion from July 2017 to June 2018. 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 fast-growing markets within Asia and Latin America. This is particularly pressing in light of free trade agreements negotiated between key export markets and competitor potato growing nations. 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 challenging non-tariff barriers such as unjustified phytosanitary restrictions.

Each report covers the significant trade barriers faced by U.S. potato exports in the specified market, focusing especially on tariffs and quotas, sanitary and phytosanitary measures, and technical barriers to trade. It should be considered in conjunction with APTA's separate submissions on these issues.

A separate report is provided for each country in which trade barriers exist: Burma (Myanmar), Canada, China, Costa Rica, Cuba, the Dominican Republic, Egypt, Indonesia, Japan, South Korea, Mexico, the Philippines, Taiwan, Thailand, and Vietnam.

Sincerely,

John Keeling  
Executive Vice President/CEO  
National Potato Council  
1300 L Street, NW, Suite 910  
Washington, D.C. 20005  
Phone: 202-682-9456  
Fax: 202-682-0333  
[johnkeeling@nationalpotatocouncil.org](mailto:johnkeeling@nationalpotatocouncil.org)

## **BURMA (MYANMAR)**

### **I. Import Permits**

In June 2018, Myanmar government officials informed importers that they would not issue the necessary import permit for U.S. chipping potatoes destined for the country. The reason given was that Myanmar has its own domestic potato crop. This is the first time U.S. shippers have encountered a problem with exports to Myanmar since the market was officially opened in the summer of 2017.

Domestic production is not an excuse for not allowing imports and the U.S. potato industry has engaged the U.S. Embassy in Rangoon on this matter to prevent similar issues in future. Discussions between the Embassy and the government of Myanmar clarified that Myanmar had denied import permits due to a surge in imports of low-grade potatoes from China. While the U.S. potato industry understands that Myanmar's actions were not intended to deny U.S. shippers access to the market, ultimately this was the result. Looking forward, the U.S. potato industry hopes that transparent policies are put in place to ensure that Myanmar upholds its international obligations with respect to trade and does not engage in future acts of protectionism.

### **II. Food Safety Standards**

Myanmar is in the process of overhauling its food safety laws. In 2016, Myanmar announced that a health certificate would be required for imported foods. Such certificates are not available for fresh and processed vegetables, such as potatoes. The U.S. government does not issue such certificates. The U.S. potato industry requests that USDA and USTR push back against this requirement that cannot be met by shippers.

### **III. Estimate of Potential Increase in Exports if Barriers Were Removed (\$5-\$25 million)**

The U.S. exported \$514,000 worth of potato products to Myanmar in 2017-18. The U.S. potato industry has conducted several trade missions to Myanmar to explore additional possibilities for U.S. potato exports in this growing market, especially for U.S. seed potatoes, fresh potatoes and fries.

Given the rapid modernization of the Myanmar economy, the country could develop into an important and growing market worth \$5 million or more for U.S. potato exports if future import restrictions are avoided.

## CANADA

### **I. Modernization of NAFTA**

The U.S. potato industry welcomes the modernization of the North American Free Trade Agreement (NAFTA) and strongly supports improving conditions for trade with Canada and Mexico.

The current NAFTA agreement has been extremely beneficial to the U.S. potato industry. Canada is currently the second largest export market for U.S. potatoes by value with approximately \$318 million in exports in 2017-18. This is up 192% from the \$109 million worth of potatoes exports to Canada in 1993, the year prior to NAFTA's implementation.

The size and value of U.S. potato exports to Canada rely on the tariff-free access afforded by NAFTA. As such, the National Potato Council is pleased that the revised NAFTA agreement, or US-Mexico-Canada (USMCA) agreement, retains the duty-free access to both Canada and Mexico. The NPC also supports the strengthening of provisions on the development and implementation of science-based SPS measures, and improvements pertaining to certification processes and transparency for import checks.

The NPC looks forward to the timely ratification of the USMCA agreement.

### **II. Canadian Standards: Ministerial Exemptions for Bulk Shipments**

Canada's Standard Container Law (part of the Fresh Fruits and Vegetable Regulations of the Canadian Agricultural Products Act) prohibits the importation of U.S. fresh potatoes to Canada in bulk quantities (over 50 kilograms), unless a special Ministerial Exemption is granted. The exemptions are granted on a case-by-case basis and only if "there is no domestic (Canadian) production" to supply the order.

Under a U.S.-Canada bilateral agreement reached on November 1, 2007, some of the commercially onerous elements of Canada's Ministerial Exemption process were revised over a three-year period. These changes provided that a contract made 60 days prior to scheduled delivery between a U.S. seller and a Canadian buyer was evidence of a shortage and would automatically result in the issuance of a Ministerial Exemption. The changes have proven inadequate to eliminate significant barriers to trade for some fresh potato sales. Fresh potatoes traded on the spot market are still largely unable to obtain Ministerial Exemptions in a timely manner. The U.S. potato industry seeks further changes in the Ministerial Exemption process for potatoes that would exempt fresh potato transactions that occur close to delivery dates from the Ministerial Exemption requirement. Until Ministerial Exemptions are eliminated, buyers in Canada and sellers in the United States will continue to be subject to unnecessary government intervention to conduct trades.

### **III. Estimated Increase in Exports (\$20 to \$25 million)**

Canada is the largest export market for U.S. fresh potatoes. In 2017-18, \$101 million worth of fresh and seed potatoes and \$204.3 million on processed potatoes were exported to Canada. With the quarantine issues addressed and requirements for forward contracts eliminated, it is estimated that U.S. fresh potato exports to Canada could increase by \$20 to \$25 million annually.

Should quarantine or other issues emerge as a significant trade barrier, much of this market could be adversely affected.

## CHINA

### **I. Fresh Potato Market Access**

Market access for fresh potatoes from the United States is one of the potato industry's highest international priorities and one that has been sought for almost twenty years. The states of Washington, Oregon, and Idaho are strategically located to benefit from access to China for fresh potatoes.

APHIS and industry first requested market access for fresh potatoes in July 2000, and in response, the Chinese quarantine division (AQSIQ) agreed to conduct a required pest risk assessment (PRA). AQSIQ's response and a draft PRA for U.S. fresh chipping potatoes from the Pacific Northwest was finally provided to APHIS in October 2013. Many meetings and exchanges have occurred since then, and in August 2017, the U.S. potato industry hosted Chinese officials in the Pacific Northwest for a technical visit to address any remaining quarantine concerns.

As a result of the visit and subsequent discussions at the U.S.-China plant health bilateral meetings, a series of mitigation measures for the pests of concern to China was drafted and sent to AQSIQ in April 2018. Unfortunately, subsequent developments were curtailed following the heightened trade tensions between the U.S. and China. As a result, the status of the overall market access request is unclear.

The National Potato Council urges APHIS and USTR to continue to engage with China to ensure a market access agreement for U.S. fresh potatoes is negotiated, finalized, and implemented within the coming year. After 18 years, it is time that an appropriate, science-based market access agreement for U.S. fresh potatoes is finalized and implemented.

### **II. Retaliatory Tariffs**

On July 6, 2018, China responded to the U.S. Section 301 tariffs by imposing additional retaliatory tariffs of 25% on U.S. fresh and seed potatoes. This was followed on September 24 with the imposition of an additional 10% tariff on U.S. dehydrated potatoes and an additional 5% on U.S. frozen fries. These tariffs are on top of the high most favored nation (MFN) tariffs that China imposes on U.S. potato products which are outlined below.

The U.S. does not currently have market access for fresh potatoes to China but does export a large and growing amount of processed potatoes to China. These were valued at \$96 million in 2017-18. As such, the additional tariffs on processed potatoes will cause considerable harm to U.S. processed potato exports to China, and allow market share to be taken by competitors such as Canada, the EU, Australia, and New Zealand.

The National Potato Council recognizes the basis for the U.S. Section 301 investigation and subsequent tariff action. However, it is the hope of industry that progress can be achieved on the related issues, namely China's unfair trade practices and technology transfer violations, without the imposition of damaging retaliatory tariffs.

The National Potato Council seeks constructive discussions between the U.S. and China to ensure that the relevant issues are addressed and China's retaliatory tariffs on U.S. potato products are removed as quickly as possible.

### **III. High Tariffs**

High tariffs continue to be the primary constraint on the growth of exports of U.S. potato products to China. Notwithstanding the additional tariffs that China has imposed on U.S. potato products in response to the Section 301 action, China's most favored nation (MFN) tariffs remain prohibitively high.

China's bound tariffs resulting from its 2004 WTO accession agreement are shown below. Most of the applied tariffs in 2018 reflect 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 2018*
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%
1108.13	Potato Starch	15%	15%
2004.10	Frozen Fries	13%	5%
2005.20	Other prepared or preserved potatoes, including chips	15%	15%

\*Applied rate does not include additional tariffs resulting from China's response to Section 232 and Section 301 action

In June 2018, China reduced its MFN tariff on frozen fries (HS 2004.10) from 13% to 5%. This was a welcome development, although one that was short-lived following China's imposition of the additional 10% tariff on frozen fries in August 2018. Frozen fries are the industry's leading export product, but to remain competitive with other potato-exporting nations such as Canada, the EU, Australia and New Zealand, it is important that China's tariff on U.S. frozen fries is reduced and ideally eliminated as soon as possible. Similarly, securing reductions on China's 15% tariffs on dehydrated potato products (HS 1105.20 and 2005.20) and 13% tariff on fresh potatoes (HS 0701.90) would also benefit domestic stakeholders in China, including potato chip processors who will see lower input costs if the aforementioned reductions are achieved.

The tariff issue has become more important as China has now implemented separate free trade agreements with both New Zealand and Australia. In 2008, China concluded an FTA with New Zealand under which the Chinese potato tariffs on New Zealand potatoes were eliminated over five years. As of January 1, 2013, New Zealand fries enter China duty-free, while U.S. fries still face the 5% MFN rate. China and Australia implemented an FTA in December 2015, under which the Chinese tariff on Australian fries will also be eliminated over five years (by 2020). To remain competitive in this important and growing market, it is critical that similar tariff reductions are secured for exports of U.S. potato products to China.

#### IV. Food Safety Standards – Certification Requirements

With the implementation of China's new Food Safety Law on October 1, 2015, a number of new food safety provisions have been established in China. These include draft implementing regulations and measures related to the monitoring and testing of imported foods; violation policies for various infringements; responsibilities of Chinese authorities, traders, and importers; and the inspection of offshore enterprises.

In June 2017, China notified the WTO of a draft measure on a new certification requirement for imported food products. This notification outlined requirements that all food products imported into China be accompanied with an official certificate, issued by a government authority or government-authorized institution, affirming that the food is "fit for human consumption," and produced under the supervision of the "competent authority or the specified institutions of the exporting country."

The NPC is concerned with the proposed Chinese document requirements and fears exports will be negatively affected as a result. The NPC strongly questions the need for additional documentation for imported processed foods entering China.

Unlike seafood or meat products, there are NO official U.S. government documents that can serve as a health certificate or attest to the safety of U.S. processed food products. These documents simply do not

exist, and therefore cannot be generated to meet the proposed Chinese requirements. Creating such a certificate would be challenging both logistically and cost-wise.

For these reasons, NPC members are strongly opposed to the adoption of these new certificate requirements for imported food products. The National Potato Council welcomes the two-year delay of this issue announced by China in late September 2017, and urges the U.S. government to firmly oppose the implementation of any new documentation requirements for imported processed food products.

#### **V. Estimated Increase in Exports (\$25 to \$50 million)**

Although China is the leading producer of potatoes in the world, Chinese production is largely in fresh potatoes for local consumption. Meanwhile, China has been among the fastest-growing major market for the U.S. processed potato industry. U.S. exports of frozen potato products to China in 2017-18 were \$91.2 million, which is down from the previous year.

To remain competitive and to ensure continued growth in this priority market, it is essential that China's high retaliatory tariffs imposed on U.S. potato products are quickly removed and that efforts are undertaken to lower China's high MFN tariff on imports of U.S. potato products. With lower tariffs and consistent and transparent import regulations, it is expected that the market for U.S. frozen potato products could continue to grow up to \$140 million. The NPC also estimates an immediate increase of up to \$5 million in sales of dehydrated potatoes with the introduction of lower tariffs on these products. As for fresh potatoes, the NPC estimates that once the chipping potato market opens, sales would quickly reach \$5 million and grow to \$30 million within five years.

## **COSTA RICA**

### **I. Phytosanitary Standards on Fresh Potatoes**

Market access for U.S. fresh potatoes to Costa Rica continues to present a challenge for the U.S. potato industry. In April 2012, Costa Rica closed the market to imports of U.S. fresh potatoes (both table stock and chipping potatoes) due to the presence of zebra chip disease in the United States. USDA-APHIS worked with Costa Rica to reestablish access of chipping potatoes destined for potato chip plants in June 2012. While this was a welcome development, Costa Rica has rejected several loads over recent years due to the report detection of zebra chip. Costa Rican authorities did not provide clear evidence of their test results to confirm the presence zebra chip, and the U.S. industry strongly questioned the legitimacy of the find.

The Costa Rican government officials have a history of using quarantine restrictions to protect domestic potato growers and has been disinclined to reopen the market. Such statements were made to the local press in 2015. This is not appropriate behavior for a free trade agreement partner. While the situation has improved over the last year, the National Potato Council asks that USTR continue to monitor this issue closely as more challenges may emerge. Costa Rica is opening the market reluctantly, and should be held to a higher standard; one that takes the least trade-restrictive actions and is not influenced by the presence of domestic competitive product in the market.

### **II. Market Access for Table Stock Potatoes**

The U.S. potato industry remains interested in reopening the Costa Rican market for table stock potatoes following the closure of the market in 2012 for questionable quarantine reasons. Costa Rica should not be able to use unfounded quarantine measures to protect domestic growers. As a signatory of the DR-CAFTA free trade agreement with the U.S. it is important that Costa Rica upholds the spirit of the agreement and does not impose unwarranted and unjustified barriers to trade. The National Potato Council calls on USDA to initiate constructive discussions with Costa Rica on market access for U.S. table stock potatoes and seeks meaningful progress by the end of 2018.

### **III. Import Permits**

On February 1, 2016, the Costa Rican government published an official announcement confirming that the market had been reopened to U.S. chipping potatoes, but it was not until May 2016 that the Costa Rican government began issuing import permits for U.S. chipping potatoes. The first shipment of U.S. chipping potatoes to the reopened market successfully occurred in summer 2016.

Throughout Central America and the Dominican Republic, import permit issuance can be a challenge for potatoes, with permits being delayed, not granted at all, or issued for amounts differing that what was requested. Often these actions are used to protect domestic growers. Ensuring import permits are issued on time for the proper amounts should continue to be a focus of U.S. agricultural policy to the region.

The National Potato Council asks that USTR address this issue with Costa Rica's authorities and urge the prompt issuance of import permits.

### **IV. Estimated Increase in Exports (\$5 million)**

The U.S. industry exported \$6.3 million worth of frozen fries to Costa Rica in 2017-18. Dehydrated potato exports have been limited to date (approximately \$200,000 in 2017-18), but could expand further now that DR-CAFTA has been fully implemented and dehydrated potato tariffs have been eliminated.

During the 2017-18 shipping season, the U.S. exported \$640,000 worth of chipping potatoes to the market. This is well above zero from the year before when the market was closed, but half of the height of the market after DR-CAFTA was completed. Exports could reach five million dollars if shipments were allowed to enter unfettered and even more if the table stock market were reopened.

## CUBA

### **I. Market Access for Fresh Potatoes**

The U.S. potato industry continues to seek market access for U.S. seed and fresh potatoes to Cuba. While good progress was achieved in 2017, over the past year progress has stalled as political relations between the United States and Cuba have declined.

The U.S. potato industry originally explored export opportunities to Cuba in 2001 and then again in 2009, when USDA-APHIS sent the Cuban government a draft market access protocol for U.S. fresh potatoes. After several years without progress, following an industry visit to Cuba in March 2017, a newly updated draft market access protocol for U.S. seed potatoes to Cuba was forwarded to the Cuban government in September 2017.

Progress on this market access request was hampered following the loss of the USDA agricultural attaché in September 2017 and the considerable reduction in Embassy staff that occurred in March 2018. Further feedback from Cuba was received in August 2018, however this included a range of market access requirements and stipulations for exported product that would not be feasible to industry.

The National Potato Council is hopeful that positive and constructive progress can be made following this latest correspondence and requests that USDA and USTR continue to engage the Cuban government to seek progress on a market access agreement for both U.S. seed and fresh potatoes to Cuba.

### **II. Estimated Increase in Exports (\$5 million)**

As a new market in close proximity to the United States, the potential for U.S. potato exports to Cuba is significant. With an established market access protocol for U.S. fresh potatoes, the NPC estimates that U.S. fresh potato exports to the market could quickly reach over \$5 million, with additional growth expected once the market is established.



## **DOMINICAN REPUBLIC**

### **I. Application of Import Quotas for Seed Potatoes**

The largest challenge when exporting to the Dominican Republic (DR) is the politicization of import permits. IPs can be difficult to obtain, and, when issued, typically are delayed and are not for the requested amount.

Dominican importers of U.S. seed potatoes have also reported not having their full import volume 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 United States. Other countries, such as the Netherlands, are granted other parts of the quota.

Under U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) there is no quota on U.S. seed potatoes (HS 0701.10). While there is a tariff rate quota (TRQ) established for U.S. fresh potatoes (HS 0701.90), for seed potatoes, there should be no quantitative limitation on imports of the product. This issue has been brought to the attention of U.S. government officials overseeing the implementation of CAFTA-DR on several occasions.

More recent reports suggest that the DR has ended this unjustified restriction, however this will only be apparent over time as industry monitors the import volumes permitted entry. In the meantime, the National Potato Council asks to USDA and USTR to continue to challenge the DR import authority to address this issue and to ensure that import permits for U.S. seed potatoes are granted for the full amount requested and without delay.

### **II. Varying Phytosanitary Import Requirements for Seed Potatoes**

In February 2018, the DR announced formalized market access requirements for U.S. seed and fresh potatoes (including processing and table-stock). This has been a long-standing request since 2011 and the announcement followed extensive work and engagement with DR quarantine officials by both USDA and the U.S. potato industry.

The NPC is grateful for the work of USDA in securing the formal market access requirements and asks for USDA's continued engagement with the DR quarantine division to ensure that the market access requirements for U.S. seed and fresh potatoes are fully adhered to, including the issuance of import permits.

### **III. Estimated Increase in Exports (\$5 million)**

In 2017-18, the U.S. exported more than \$254,000 worth of seed potatoes to the Dominican Republic. Although the DR is one of the largest potential seed potato markets for U.S. exporters, shipments in recent years have been restricted by these permitting issues. For U.S. exporters to fully take advantage of the preferential tariffs under DR-CAFTA, the DR's quota system needs to be immediately addressed, and an agreement needs to be established to ensure that the DR is applying consistent and transparent phytosanitary requirements for imports from all seed-producing states.

NPC estimates that U.S. seed potato exports to the DR will be able to reach over \$5 million once stabilized market access is achieved and additional states are approved.

## **EGYPT**

### **I. Phytosanitary Import Ban: Seed Potatoes**

Egypt is one of the largest importers of seed potatoes in the world and is a U.S. potato industry priority for seed potato access. Since 2009, and as a result of interest from the Egyptian government and growers in the country to import U.S. seed potatoes into the country, the U.S. potato industry and APHIS have undertaken extensive efforts with the goal of opening the Egyptian market for U.S. seed potatoes.

A draft market access protocol was sent to the Egyptian government in 2009 and several bilateral negotiations have occurred in Cairo. Groups from the U.S. have traveled to Egypt for training and the U.S. potato industry has hosted Egyptian government officials on two site visits, once in 2013 in Montana and Colorado and another in 2014 in California. On both occasions, positive discussions occurred and commitments were made by the Egyptian government to sign the market access protocol for U.S. seed potatoes from all U.S. states.

However, these promises have not resulted in any substantial opening of the Egyptian market. While the clearly stated position of APHIS and the U.S. potato industry is that market access is sought for all U.S. states, Egyptian officials proceeded to sign and publish a market access protocol for California seed potatoes following the visit in 2014. Thus far however, Egypt has yet to issue any import permits for California seed potatoes and so growers continue to be restricted from shipping to the market.

The U.S. potato industry remains committed to securing market access for all remaining U.S. seed producing states and has dedicated significant resources to this effort. However, the position of the U.S. potato industry remains that market access must be granted for all U.S. seed producing states.

The National Potato Council appreciates the efforts of APHIS and other U.S. agencies on this issue and will continue to work proactively to seek a market access agreement, with approval for all U.S. seed varieties.

### **II. Estimated Increase in Exports (\$15 million)**

Once the market access agreement is finalized the U.S. potato industry expects seed potato exports to Egypt could grow to \$15 million in a matter of years.

## **INDONESIA**

### **I. Import Permits for Fresh Potatoes**

In June 2018, the U.S. and Indonesia signed a market access agreement for fresh potatoes (both table stock and chipping potatoes). Although small volumes of chipping potatoes had been exported to Indonesia previously, the new agreement formalized market access requirements and was aimed at providing exporters with the necessary assurances to ship to the market.

With 160 million citizens, Indonesia is the largest market in Southeast Asia. It was also the only major Southeast Asian country which did not have a quarantine market access agreement with the United States. As such, the new market access agreement was a positive development and one that should facilitate increased trade to the market.

Unfortunately, Indonesia continues to restrict trade by refusing to issue import permits to U.S. shippers. As of August 2018, no import permits have been issued by Indonesia to allow for the import of fresh table stock potatoes. Indonesia is issuing a limited number of import permits for chipping potatoes, however such imports are only permitted on the basis that the potatoes are used directly by the processor.

Indonesia's refusal to issue import permits for fresh potatoes is unacceptable and in clear violation of both commitments made in the recent market access agreement and its broader international trading obligations.

The NPC asks that USTR and USDA address this issue with Indonesia and, if necessary, take appropriate measures at the World Trade Organization to ensure that Indonesia does not continue to restrict trade in this manner.

### **II. New Import Requirements and Licensing System**

Indonesia's constantly changing imported food regulations have caused concern among U.S. potato exporters. Since early 2012 Indonesia has issued a number of regulations amending the requirements to import certain fresh and processed horticultural products, including frozen fries (HS 2004.10), processed whole potatoes (HS 0710.10), and processed dehydrated potatoes under HS 2005.20.11 and 2005.20.19. Fresh potatoes (HS 0701.90) are also affected by the regulations, as noted above concerning the denial of import permits for imports of fresh potatoes.

Indonesia's regulations have established a complex import licensing system whereby importers must obtain an import recommendation document called an 'RIPH' from the Ministry of Agriculture every semester. An importer must have an RIPH to request import permit (otherwise known as import approval) from the Ministry of Trade. Updated import rules issued in October 2015 reestablished that import allocations would be set by the Indonesian government, and also formalized a requirement that import quantities would be subject to limitations based on the capacity of the importer's cold storage. Although Indonesia removed the requirement for processed potato products to obtain an RIPH in November 2017, importers continue to face restrictions obtaining the associated import permit, both for fresh and processed product.

The regulations also require each shipment to undergo inspection by an authorized company prior to export. This requirement further complicates the export process and again adds unnecessary expense. With the U.S.-Indonesia food safety recognition agreement currently in effect, U.S. companies should be exempted from this requirement.

The NPC welcomed the November 2017 ruling of the World Trade Organization that determined that a range of Indonesia's import licensing regulations were trade restrictive and thus non-compliant with WTO rules. This included restrictions pertaining to the issuance of import licenses and permits, end-use restrictions, and the use of import allocations tied to an importers cold storage capacity. Despite the November ruling, Indonesia has yet to initiate any substantive and positive changes to its import licensing system to eliminate the restrictive practices employed. As noted, Indonesia continues to deny import permits for fresh potatoes and restrict their issuance for imports of chipping potatoes.

The NPC urges USTR to continue to address Indonesia's trade restrictive practices, by in bilateral discussions and via the WTO, and to work with USDA agencies to ensure that Indonesia upholds the commitments made in the market access agreement.

### **III. Estimated Increase in Exports (\$5 to \$10 million)**

Indonesia is a promising and fast-growing market for U.S. potato products: in marketing year 2017-18, U.S. exports of dehydrated potatoes to Indonesia reached \$3.4 million, with frozen fry exports reaching \$20.4 million in this same period. Ensuring the new import regulations are implemented in a way as to not restrict trade will help increase annual U.S. exports of frozen fries and dehydrated potato products to Indonesia by \$10 million annually. Additionally, fresh potato market access will begin at \$5 million and grow to \$20 million once the market is established.

## JAPAN

### **I. High Tariffs**

Japan's tariff on frozen fries is 8.5%. Because of the volume of frozen fries sent to Japan, this poses a significant cost to the U.S. potato industry. Additionally, 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%.

Japan made concessions in the Trans Pacific Partnership (TPP) to eliminate these tariffs in four to six years. This was welcome news and greatly appreciated. Failure to implement the TPP hurt the U.S. potato industry.

Japan's high tariffs on U.S. potato products represent a significant and growing challenge to the U.S. potato industry both because of the volume of product sent to Japan, but more pressingly because of free trade agreements signed between Japan and competitor potato-growing nations.

Over the last year, Japan has signed free trade agreements with Europe and with the TPP-11 members under the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). CPTPP members include major potato exporting nations such as Australia, New Zealand and Canada. As a result of these agreements, Japan's tariffs on fries and other potato products from the EU, Australia, New Zealand and Canada will be reduced and eventually eliminated. This means the U.S. will be the only major fry exporter to Japan without duty-free access and U.S. exports could well be up to 8.5 percent more expensive than our competitors. Similarly, U.S. frozen and dehy exports could be as high as 20 percent more expensive than competitors. This will harm U.S. potato exports to our largest market.

The National Potato Council welcomes the announcement in September 2018 that the U.S. and Japan will begin talks on a free trade agreement. This is positive and important news. As part of any FTA negotiations, the NPC seeks similar concessions from Japan to those offered in TPP; namely the elimination of Japan's high tariffs on all U.S. potato exports. It is essential such tariff concessions are secured to ensure that U.S. market share in Japan is not lost.

Separately, the National Potato Council is concerned that Japan might include U.S. potato products on a possible retaliation list in response to the U.S. steel and aluminum tariffs. Any additional tariffs would harm sales of U.S. potato products to the market. The NPC continues to monitor developments and hopes that discussions between the U.S and Japanese governments will avoid the imposition of any retaliatory tariffs.

### **II. Table Stock Market Access**

The highest priority for the U.S. potato industry is to secure market access for table stock potatoes. Japan has denied market access for table stock potatoes for more than 50 years. Japan has already conducted a thorough review of U.S. potato pests when it opened the market for chipping potatoes in 2006. This should assist with progress on table stock market access.

In February 2018, a letter was sent to USDA-APHIS formally outlining a request to pursue market access for table stock potatoes. While positive developments with regard to chipping potato market access will continue to be sought, it is felt that declining table stock production in Japan, combined with a shift in domestic production toward chipping potatoes, will strengthen the market access request for table stock. In consideration of the high priority of this issue, it is hoped that significant progress can be made on table stock potato market access in 2018 and 2019. Should a U.S.-Japan Free Trade Agreement be considered, the National Potato Council anticipates that this request should be high on the U.S. agenda.

### **III. Processing Potato Market Access Issues**

A market access protocol for chipping potatoes to Japan has been in place since January 2006. The requirements for market access are very strict, despite the fact the potatoes are destined for processing.

While the U.S. potato industry is grateful to USDA for its efforts in advancing market access for U.S. chipping potatoes to Japan, there remain a number of priority market access issues that need to be addressed. These include an expansion of the shipping window to year-round market access for U.S. chipping potatoes; the approval of additional, inland processing facilities, and securing amendments to the chipping protocol to permit potato salad production.

Currently, U.S. chipping potatoes are only allowed to arrive in Japan between February 1 and July 31. There is no valid justification for this restriction. Informally, Japan has acknowledged that expanding the shipping window for U.S. chipping potatoes is not a technical issue but is politically sensitive domestically.

Due to typhoons in December 2016, Japan agreed to open the market six weeks early. Significant exports occurred during this period and the action highlighted Japan's unsubstantiated position with respect to the limited shipping window. Unfortunately, at the September 2017 bilateral, Japan continued to refuse to expand the 2017 shipping window and was reluctant to address the issue.

To grow the Japanese market, the U.S. potato industry needs year-round access. There is absolutely no quarantine or scientific reason not to allow year-round access. After ten years, it is time to allow year-round market access of U.S. chipping potatoes to Japan and this is a high priority for the U.S. potato industry.

The NPC also seeks the approval of additional potato chip processing facilities. Currently, there are only two factories in Japan that are approved to receive U.S. chipping potatoes. Both facilities are in port areas. To enhance supply to the growing Japanese market, the U.S. potato industry requires additional facilities to be approved in Japan. These facilities will not be in port areas but pose minimal risk to Japan as they are not in potato growing areas and the product is processed.

Japan's current position on this issue is costly and trade prohibitive, and the government has been subject to increasing domestic pressure over recent years to approve additional facilities so as not to be seen as favoring one company over another. Given these dynamics, the U.S. potato industry believes it is an ideal time to leverage the domestic pressure and secure additional processing facilities in Japan.

Finally, the U.S. potato industry has received contact from several companies in Japan interested in importing fresh potatoes from the United States for use in the production of potato salad. The broad range and high quality of U.S. fresh potatoes make them ideally suited for such an output and there exists growing demand in Japan for potatoes for use in potato salad.

The current chipping protocol is specific to fresh potatoes for chipping only, so the language would need to be amended slightly to allow for other processing uses. However, amending the protocol for such a purpose should not be difficult given the current chipping protocol should already address any relevant phytosanitary concerns. As such, the National Potato Council expects that such a change should be accommodated by Japan's quarantine agency and anticipates good progress on this matter in 2018.

#### **IV. Japan Approach to Market Access Issues**

More broadly, the National Potato Council is concerned at Japan's reluctance to address U.S. potato market access issues on a constructive basis. Japan continues to overlook, obfuscate and delay progress on the aforementioned market access issues without due justification. This is not an acceptable from a U.S. trading partner and prospective FTA candidate. The National Potato Council seeks substantive progress from Japan on U.S. potato market access issues in 2019. NPC respectfully requests that USTR stress to Japan the need for constructive engagement and progress on U.S. potato market access issues.

#### **V. Estimated Increase in Exports (over \$50 million)**

Japan is the largest export market for U.S. frozen fries. In marketing year 2017-18, U.S. exports of frozen potatoes to Japan were approximately \$300 million, and dehydrated potatoes were \$32.7 million. An

elimination of the tariffs on frozen fries and dehydrated potato flakes would increase exports to Japan by at least \$20 million a year for each product.

Exports to Japan of fresh potatoes for processing totaled \$16.1 million during the 2017-18 shipping season. With year-round access and additional facilities approved, exports could reach \$30 million. Opening of the market to fresh table-stock potatoes could increase sales by \$10 million the first year and \$50 million in three years.

## SOUTH 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. Under this agreement, the Korean tariff applied to U.S. 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. These reductions have significantly benefited 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. Moreover, in September 2014, the Canada-Korea FTA was finalized, which provides tariff reductions for competitor Canadian product in the Korean market. With this in mind, the National Potato Council was pleased that the revised KORUS agreement continues to retain the current market access for U.S. potatoes to Korea.

However, issues have emerged with the two major potato tariffs negotiated under KORUS. The first is the 3,478 metric ton (growing 3% annually) fresh table stock potato quota. This quota has not been filled in prior years because of the quarantine restrictions outlined below. The second is the 5,628 MT (also growing by 3% annually) duty-free quota for dehydrated potatoes under HS 1105.20. It is unclear why this quota is not being fully used, but trade numbers indicate that shippers are exporting under HS 2005.20 with a currently applied 4% tariff. Exporters have been made aware of the duty-free access option. If they have challenges obtaining permits to use the quota, the U.S. potato industry will inform the U.S. government.

### **II. Table Stock Market Access**

In December 2017, agreement was reached with Korea to reopen the market for table stock potatoes from the Pacific Northwest, effective for the 2018 crop. Korea closed the market for fresh potatoes from the Pacific Northwest in August 2012 due to concerns about the presence of zebra chip in the region, despite the fact that Korea does not have the vector necessary to spread the disease.

Following exchanges of information throughout 2016/17, in June 2017 Korea's quarantine ministry (APQA) provided a proposed market access agreement to reopen the market. However, this agreement unexpectedly applied to both chipping potatoes and table stock. Although the U.S. potato industry remained opposed to any amendment to the chipping protocol, following consultation with USDA-APHIS, it was agreed that limited changes to this protocol would be agreed to in order to secure market access for U.S. table stock potatoes. These changes included trapping for the potato psyllid (the vector for zebra chip), and requirements that exported chipping and table stock potatoes be grown from certified seed.

An agreement to reopen the market for U.S. table stock from the Pacific Northwest was reached at the U.S.-Korea plant health bilateral meetings in Gumi, Korea in September 2017, and officially implemented as of December 2017. Subsequently, and as a requirement of the market access protocol, in June 2018 the U.S. potato industry hosted an official from APQA who was present to review the Pacific Northwest potato industry. Following the successful conclusion of the visit, the U.S. potato industry anticipates the first shipments of table stock potatoes to Korea to occur in the coming months.

The NPC is grateful to USDA for its work in securing the market access agreement for table stock potatoes. Looking forward the NPC seeks enhanced access for U.S. growers through the approval of additional states to export to Korea. Further details are provided below.

### **III. Approval of Additional Seed Supplying States**

Recognizing the concessions made to Korea to secure market access for U.S. table stock, at the 2017 U.S.-Korea bilateral meetings it was communicated to Korea that the U.S. potato industry would seek the prompt approval of additional states as seed suppliers to the Pacific Northwest. This was to follow changes to these states' official seed certification standards to include language on zebra chip similar to that of the



Pacific Northwest. In April 2018, Montana and Colorado completed these changes and a letter notifying Korea of this change and requesting approval of Montana and Colorado was sent in July 2018. It was anticipated that Korea would approve these two states at the August 2018 U.S.-Korea plant health bilateral.

Despite earlier acknowledgements from Korea that approval of the additional seed states would follow amendments made to the seed certification rules, at the 2018 bilateral meetings Korea adopted a different position and stated that the approval of Montana and Colorado seed would require a pest risk assessment. Such a request is unwarranted as the seed potatoes from Montana and Colorado are not intended for direct export to Korea but would be used in the approved PNW states. As such, the exported product from the Pacific Northwest would be subject to the phytosanitary measures agreed with Korea as part of the export program workplan. Korea's position on this matter is unsubstantiated.

Korea's refusal to approve Montana and Colorado seed following the required changes to the states seed certification rules represents a clear barrier to trade. A significant amount of seed is sourced from these two states and it is essential that Montana and Colorado are approved as seed sources as soon as possible to allow growers to utilize seed in the fall for the 2019 crop.

The NPC asks that USTR seek to address this obstructive position with senior levels of the Korean government and to urge Korea to recognize and approve the changes made by Montana and Colorado to their seed certification rules. It is not acceptable that progress on such market access issues should be subject to such considerable delay. The NPC awaits Korea's timely approval of these states as seed suppliers.

#### **IV. Reinstatement of Midwestern and Northeastern States**

A high priority for the U.S. potato industry is the reinstatement of the Midwestern and Northeastern states that Korea prohibited in 2009 due to a questionable pest find. The pest in question, potato spindle tuber viroid (PSTVd), has not been detected in U.S. potatoes for over 30 years and the major international pest databases recognize that this pest is not present in U.S. potato production.

At the bilateral meetings in September 2017, Korea continued to refuse to recognize the absence of this pest in the U.S. potato industry and in December 2017, Korea requested that a pest risk analysis (PRA) be conducted for the 7 states suspended due to PSTVd.

The NPC believes that such an analysis is unwarranted. However, any PRA to be conducted must also cover the additional states that the U.S. potato industry is seeking approval to export to Korea. The NPC is assisting in the provision of this PRA information and seeks significant progress on this issue in 2018.

#### **V. Korea's General Approach on Market Access Issues**

More broadly, the National Potato Council is concerned at Korea's reluctance to engage in constructive market access discussions on a range of potato market access items, including those noted above. This is not an acceptable position for a free trade agreement partner. The NPC is aware that Korea's unwillingness to broach multiple market access items has already been highlighted by USTR as an issue. The NPC agrees with this assessment. The NPC asks that USTR continue to address Korea's obstructive position on market access requests and stress to Korea the need for constructive engagement and solid progress on the market access items noted above.

#### **VI. Maximum Residue Levels**

Korea plans to implement a national pesticide maximum residue level (MRL) list for all commodities by January 1, 2019. Korea is within its right to do this. Japan, Hong Kong, and Taiwan have all implemented such policies. Currently, Korea uses a deferral path that covers most crop protection products for U.S.

exports, especially because that decision tree uses Codex MRLs. The new system will only use national Korean MRLs.

The National Potato Council appreciates the multi-year transition that Korea is undertaking, but it has concerns that trade could be affected once the new system is implemented. Registrants are reporting challenges with submitting data to obtain Korean MRLs, and Korea is charging per MRL, which could result in fewer MRLs being sought. Generic products with multiple registrants may not have the data or resources to seek MRLs in Korea, leaving gaps that are currently covered by Codex MRLs.

The U.S. potato industry has dedicated significant resources to establishing as many MRLs as possible in Korea prior to this transition. As a result of these efforts, many necessary potato MRLs have been established or are currently at acceptable levels. However, concerns remain about the possible disruption to trade following the implementation of this system on January 1, 2019. The NPC continues to advocate for some form of transitional period to mitigate any potential disruption to trade and has been working collaboratively with USDA to engage Korea's Ministry of Food and Drug Safety (MFDS) on such measures.

The NPC understands that MFDS are considering possible options toward approaching the implementation of the new MRL system. The NPC encourages these transitions to be made apparent early so the industry can assess if there remain potential issues.

As the implementation of this new system will be critical, the National Potato Council requests that USTR, EPA, and USDA continue to work cooperatively with Korea's Ministry of Food and Drug Safety (MFDS) to ensure this transition occurs smoothly and there are no trade disruptions.

#### **VII. Estimated Increase in Exports (\$25 million)**

Current U.S. shipments of all potato-related products to Korea are valued at \$106 million. Frozen fries account for most U.S. exports to this market, at a value at \$86.2 million in marketing year 2017-18. Korea remains a strong market for U.S. fry exports because of the high concentration of U.S. quick service restaurants.

The removal of the TRQ on dehydrated potatoes and proper implementation of that tariff will increase trade by about \$15 million annually. Additionally, reopening the market for all U.S. fresh potatoes and eventual expansion of the quota should easily result in increased sales to over \$25 million annually.

## MEXICO

### **I. Phytosanitary Restrictions on Fresh Potatoes**

Expanding fresh potato market access into Mexico is the U.S. potato industry's highest international market access priority.

In May 2014, after 11 years of effort by USTR and USDA, Mexico agreed to open the market to U.S. fresh potatoes beyond the 26-kilometer border region to cities over 100,000 in population. The U.S. industry greatly appreciated the significant technical and political effort undertaken by the U.S. government to reach this agreement.

Unfortunately, three weeks after the market opened, Mexican growers, opposed to the new market access, filed a series of legal injunctions called *amparos* against the new access. They restated old quarantine concerns that had been thoroughly addressed through an international mediation panel in 2011. The *amparos* resulted in the closing of the new market much to the frustration of the U.S. government and the U.S. potato industry.

The issues raised in the *amparos* have already been thoroughly addressed by non-partisan international experts to which Mexico agreed. The efforts by the Mexican growers are simply protectionism to keep their monopoly on the Mexican potato market.

To keep some trade flowing, exports are being allowed to the Mexican border region under the old agreement, but shipments are being rejected for pests which have been removed in the new agreement. These rejections are causing frustration among shippers.

The National Potato Council requests the continued strong support of USTR and USDA in providing the necessary information needed to counter these court cases against the legitimate opening of the Mexican market. As a NAFTA trading partner, Mexico should be held to the highest international standards, and a dismissal of these cases against U.S. potatoes should be forthcoming.

### **II. Tariffs on U.S. Frozen Fries**

On June 1, 2018, Mexico imposed a 20 percent tariff on U.S. frozen fries (HS 2004.1) in response to the 232 U.S. steel and aluminum tariffs. This was a disappointing and unwelcome development. Mexico is the second largest export market for U.S. fries, with approximately \$161 million worth of produced exported to the market in 2017-18. The imposition of a 20 percent tariff on U.S. fries threatens to negatively impact exports to the market and see valuable market share lost to Canada, which enjoys duty-free access to Mexico under the North American Free Trade Agreement.

Moreover, Mexico recently reached agreement with the European Union on an updated trade agreement. While specific tariffs schedules have yet to be published, it is likely that this agreement will see tariffs eliminated on product from the EU.

In light of the duty-free access to major competitor nations, it is important that the 20 percent tariff imposed by Mexico on U.S. fries is removed as soon as possible to ensure valuable market share is not lost. The NPC urges further constructive and positive discussions with Mexico following the successful conclusions of NAFTA negotiations to ensure the 20 percent tariff on U.S. fries is removed as soon as possible.

### **III. Modernization of NAFTA**

The U.S. potato industry welcomes the agreed reached with Mexico and Canada in September 2018 on a modernized North American Free Trade Agreement (NAFTA), or U.S.-Mexico-Canada (USMCA) agreement as it is to be called.

The current NAFTA agreement has been extremely beneficial to the U.S. potato industry. Mexico is currently the third largest export market for U.S. potatoes with over \$237.2 million in exports annually. This is up 1000% from shipments the year before NAFTA was implemented.

The size and value of U.S. potato exports to Mexico and Canada markets rely on the tariff-free access afforded by NAFTA. As such, the NPC is pleased that under the modernized USMCA agreement, tariffs on agricultural products between the U.S. and Mexico will remain at zero. The NPC also welcomes the agreement with Mexico to strengthen science based sanitary and phytosanitary (SPS) measures by including provisions on the development and implementation of SPS measures, improving certification processes, and improving transparency for import checks. As such, the with Mexico represents a positive step forward.

However, as noted above, the NPC is disappointed that the Section 232 tariffs were not addressed in this agreement. The NPC urges further discussions with Mexico to ensure this tariff on U.S. fries is removed as quickly as possible.

### **III. Estimated Increase in Exports (\$100 million)**

The market for U.S. fresh potatoes in Mexico is significant, reaching nearly \$51.1 million in 2017-18 to the border region. It is estimated the market could grow to at least \$100 million annually with removal of all phytosanitary restrictions and if expansion was allowed throughout Mexico. Such changes could significantly assist U.S. potato growers. Mexico is also the second largest market for U.S. fries and in 2017-18, approximately \$161.2 million worth of fries were exported to Mexico. To sustain the current strong growth, it is essential that Mexico's retaliatory tariff on U.S. fries is removed.

## **PHILIPPINES**

### **I. High Tariffs**

*Fresh potatoes:* In 2013, the U.S. potato industry gained market access for U.S. table stock potatoes, which was a significant and promising development. However, this access is currently restricted by the Philippines' high 40% tariff on fresh potatoes, which is both the bound and applied tariff rate, with one exception.

Beginning June 17, 2017, a tariff rate quota (TRQ) of 1,550 metric tons was established for fresh potatoes for processing into chips (chipping potatoes) at a reduced applied duty rate of 3 percent. Out-of-quota tariffs remain at 40 percent. This TRQ and duty reduction is only guaranteed for 3 years until 2020 and only covers a fraction of the chipping potatoes exported from the United States.

The U.S. potato industry seeks a permanent reduction of the Philippines' fresh potato tariff in the context of any future negotiations in a bilateral or regional agreement.

*Processed potatoes:* On May 24, 2017, the Government of the Philippines signed an Executive Order that was to maintain several tariffs at zero duty for the next three years. Among the tariff lines was 2004.1 (frozen potatoes including fries). These concessions were linked to an agreement between the World Trade Organization and the GOP in exchange for maintaining some domestic support for Philippine rice farmers.

The NPC has learnt that the Government of the Philippines is moving closer toward scrapping this program of domestic support. As a result, the status of these tariff concessions is now unclear. One possible outcome may be the reinstatement of the 10% tariff on frozen fries, however this is not certain.

The Philippines is the fifth largest export market for U.S. fries, with approximately 58,000 metric tons exported in 2017-18 with a value of \$62.8 million. The potential reinstatement of the 10% tariff on frozen fries would hurt sales and undermine the continued growth of exports to this market. The National Potato Council respectively requests that USTR, USDA and the U.S. Embassy in Manila continue to work with the Government of the Philippines to ensure frozen fries can continue to be exported to the market with zero tariffs.

Tariffs on other types of frozen and processed potatoes range from 7% to 15%. However, these applied duties are significantly below the bound rates of 35% and 40%. These Philippine tariffs, while lower, have similar high bound tariff rates, and could become an issue in the future should the Philippines decide to implement the bound rates. The NPC is aware that the Philippines has been identified as a strong candidate for free trade negotiations. With this in mind, the NPC asks that USTR push for the continuation of the zero-duty on fries and the reduction of the 7% duty on frozen and processed potatoes in any free trade negotiations.

### **II. Estimated Increase in Exports (\$25 million)**

The removal of the excessive 40% tariff on fresh potatoes would foster new market demand for table stock potatoes, with an expected increase in value of \$15 million or higher.

The Philippines' unilateral lowering of its applied tariff on frozen fries from 10% to 0% in 2014 helped to facilitate the import of U.S. frozen fries into the market. Ensuring that the Philippines tariff remains at 0% could further increase sales of U.S. fries to this market by as much as \$5 to \$10 million.

## TAIWAN

### **I. Phytosanitary Challenges for Fresh Potatoes – Breakdown of Product**

Taiwan has rejected several shipments of U.S. chipping potatoes for breakdown of product over the course of the year. This action is completely unwarranted as such breakdown is not a quarantine issue nor a health issue. Breakdown occurs when potatoes get wet due to soil removal requirements for Taiwan. The issue can easily be addressed by removing the small number of broken-down potatoes from the shipments and allowing the remaining unaffected potatoes to proceed. Moreover, the potatoes in question are not going direct to consumers but are shipped to processors for heat processing into potato chips, with the processed product subject to quality control procedures. As such, any deteriorated product would be sorted out and removed from the production process.

Unfortunately, Taiwan's Food and Drug Administration (TFDA) have adopted an unreasonable position on this issue and have rejected several containers of perfectly acceptable chipping potatoes. This causes great expense to the shippers and importers and threatens industry confidence in the market.

To prevent further disruption to trade, it is essential that Taiwan adopts a reasonable and science-based approach to this issue. The National Potato Council respectfully requests that USTR address TFDA's approach to the presence of small amounts of broken-down product and ensure rejections of shipments cease. The NPC also asks that USTR remind Taiwan of its WTO Sanitary and Phytosanitary obligations and urge TFDA to adopt clear and consistent formal policies with regard to broken-down product. Shipments found to contain some breakdown should be allowed to be reconditioned to remove affected potatoes. The remaining unaffected potatoes in the shipment should be allowed to proceed.

### **II. Phytosanitary Challenges for Fresh Potatoes – Potato Greening**

Taiwan's approach to the presence of greening on a small number of imported potato products has also been an issue of considerable concern over the past year. This issue first arose in August 2017 after a consumer in a quick service restaurant in Taiwan took a photo of a green fry and posted it to social media. The posting was forwarded and eventually picked up by the mainstream news media.

Greening on potatoes is a natural occurrence and results from chlorophyll production in the tuber when it is exposed to sunlight. The green indicates an increase in the presence of glycoalkaloids, and specifically in potatoes, the compound solanine. The presence of solanine is not a food safety concern and most markets treat greening as a quality issue which affects grading, and not as a food safety issue that needs to be regulated. Some countries have set standards for glycoalkaloids in potatoes, including Canada, which has a maximum level matching the advisory level in the United States of 200ppm.

Despite the accepted science with respect to potato greening, TFDA responded forcefully and announced policies of new inspections for potato products, where green product would result in shipments being returned. TFDA also announced that inspections would also occur at quick service restaurants to make sure green product was not served to customers. There were several incidents reported of TFDA officials inspecting product at quick service restaurants and distribution centers.

In conjunction with USDA in Taiwan, the U.S. potato industry has spent considerable time and resources to address TFDA's approach to this issue. Letters from USDA and USTR were both sent to TFDA urging Taiwan to establish a solanine standard in line with the widely accepted level of 200ppm, which would add some science to the issue and provide additional options should a green potato be detected. After concerted pressure, in December TFDA moved forward with proposals to establish a new solanine standard at 200ppm and on May 8, 2018, TFDA announced that this standard would be implemented from January 1, 2019.

The priority of the U.S. potato industry now is to ensure that this standard is established without delay, and that when in place, TFDA test against this new standard in all cases, and particularly at the store level.

Concurrently, the U.S. potato industry is supporting efforts in Taiwan to educate consumers about potato greening in the hope of alleviating and minimizing any future concerns.

The National Potato Council respectfully requests that USTR urge TFDA to issue formal direction to ensure inspection officials cease unwarranted visual inspections of potato products both at the border and in stores. This is particularly important at the local level. Taiwan should also be reminded of its WTO Sanitary and Phytosanitary obligations and the importance of clear, consistent and science-based inspection policies with respect to greening. In this regard, it is important the solanine standard is implemented as soon as possible and applied in such a manner to facilitate trade and eliminate the occurrence of the unwarranted visual inspections.

The greening and breakdown issues are serious and a high priority for the U.S. potato industry. Restrictive greening policies on processed products will significantly affected the \$51 million in fry exports to Taiwan. Likewise, greening and breakdown policies are threatening to eliminate all fresh potato exports to the market, which are currently worth \$20 million. The National Potato Council calls on USTR and USDA to address this issue with the Taiwan government and ensure trade is not affected as a result.

### III. High Tariffs

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

HS Code	Description	Taiwan Tariff
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%

Taiwan has announced its desire to join the Comprehensive and Progressive Trans-Pacific Partnership (otherwise known as TPP-11). Should that occur, Taiwan would likely lower its potato tariffs on some of the United States' largest potato competitors creating a disadvantage for U.S. potato (and other U.S. agriculture) exports to the island. In any future trade negotiations, the U.S. potato industry seeks the immediate elimination of all Taiwanese potato tariffs.

### IV. Maximum Residue Levels

Taiwan has a limited but expanding national pesticide maximum residue level (MRL) list. The United States has over 130 MRLs established for potatoes, of which Taiwan has approximately 103. Although this is a significant improvement over where the industry started, violations on potato products continue to occur due to missing or restrictive potato MRLs in Taiwan, most recently in July 2018. Such a situation makes exporting to Taiwan a risk. Many U.S. commodities are in this situation. It is the NPC understanding that the Taiwan system for establishing MRLs is not working efficiently and it can now take years to set new standards. This must be improved to avoid trade issues.

### V. Estimated Increase in Exports (\$40 million)

Taiwan is a \$82 million market for U.S. potato products, \$58.5 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. Improvement of access for fresh potatoes could take exports from the current \$15.5 million export value to over \$20 million over the span of a few years. Should the greening and breakdown issues continue to grow, the entire market is threatened.



## THAILAND

### **I. High Tariffs**

Thailand is a growing market for exports of U.S. frozen potatoes, which were valued at \$17.1 million in 2017-18. However, such growth is threatened by Thailand's prohibitively high tariffs on U.S exports and by competitor free trade agreements that place the industry at a considerable disadvantage. With the U.S.-Thailand Free Trade Agreement negotiations halted over a decade ago and the lack of significant progress at the World Trade Organization (WTO) Doha Round negotiations, Thai importers are shifting their fry purchases to U.S. competitors which have preferential or duty-free tariff access.

Under the respective FTAs that Australia and New Zealand each implemented with Thailand in 2004, frozen fries from Australia and New Zealand enter Thailand duty-free as of 2015. Chinese product also enters duty-free into Thailand under the China-ASEAN FTA. Meanwhile, U.S. fries must be imported at Thailand's 30% MFN rate. This is a huge discrepancy, and means that U.S. product is 30% more expensive than that of its competitors. Moreover, the NPC understands that Thailand is exploring the option of joining the Comprehensive and Progressive Trans-Pacific Partnership (otherwise known as TPP-11), which includes Canada. If and when this is realized, it would likely result in Canadian fries entering Thailand at reduced or duty-free tariff rates.

The National Potato Council urges the U.S. government to seek a unilateral reduction in the Thai fry tariff to the levels offered Australia and New Zealand in their FTAs and to pursue this issue as a priority in future bilateral trade talks.

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.

### **II. Estimated Increase in Exports (\$20 million)**

The U.S. exported \$17.1 million worth of frozen potatoes/fries to Thailand in 2017-18. However, exports may fall in the coming years as competitors gain market share at the U.S.'s expense as a result of the tariff discrepancies; U.S. fries will be imported with a 30% tariff while competitor product from Australia, New Zealand, and China enters duty-free. If the tariff could be reduced, the U.S. would maintain the market and could even expand it to \$20 million annually.

## VIETNAM

### **I. High Tariffs**

Vietnam currently imposes a 13% tariff on US frozen fries and an 18% tariffs on potato chips (2005.20). Vietnam is an important and growing export market for the U.S. potato industry, particularly for the export of frozen fries. To ensure the continued growth of the market, the NPC seeks the reduction of these high tariffs in future free trade discussions with Vietnam.

Under the Trans-Pacific Partnership (TPP), Vietnam agreed to eliminate all potato tariffs within six years. Unfortunately, these concessions were lost following U.S. withdrawal from the TPP in January 2017. The loss of these important tariff concessions was a blow to the U.S. potato industry and one that threatens to place the industry at a competitive disadvantage over the coming years. This is particularly the case in light of the signing and ongoing ratification of the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) FTA – also referred to as TPP-11, of which Vietnam is a member along with competitor potato-growing nations such as Canada, Australia and New Zealand. Under this agreement, Vietnam will eliminate all tariffs on potato imports from signatory states within six years. As a result, the U.S. will be the only major potato-exporting nation facing the high import tariffs noted. To mitigate the potential loss of exports to this important market, the National Potato Council urges a bilateral agreement with Vietnam to eliminate all potato tariffs, as agreed to in the TPP.

### **II. Food Safety Standards**

Vietnam is in the process of overhauling its food safety laws. U.S. officials have been working with Vietnam to encourage them to adopt transparent and international standards. As Vietnam is expected to be a growing market for U.S. potato exports, both fresh and processed, the NPC supports the U.S. government's efforts and is looking forward to the opportunity to provide further comments on Vietnam's food safety laws.

As a separate but related issue, in the last several years, Vietnam has requested phytosanitary certificates for processed potato products. This is not an appropriate request for a processed product. Discussions between the U.S. Embassy in Hanoi and Vietnam occurred on this issue, and the issue appeared to have been temporarily resolved in mid-2015, only to reemerge in late-2015 and in 2016. Vietnam should be encouraged to not seek phytosanitary certificates for processed products and use a more appropriate document.

### **III. Estimated Increase in Exports (\$20 million)**

The U.S. currently exports \$11.6 million worth of fries annually to Vietnam. This is up from \$3.5 million in exports in 2015, representing a 43 percent increase in three years. Such growth underlines the importance of Vietnam as an export market. Given the rapid expansion of quick service restaurants in Vietnam, the country could develop into an important and growing market worth \$20 million or more for U.S. fry exports if tariffs and other import restrictions were lifted.