

FINAL REPORT

BUILDING THE FOUNDATION FOR THE EXPORT OF U.S. CHIPPING POTATOES TO JAPAN

USDA Federal – State Marketing Improvement Program (FSMIP) Grant Agreement #12-25-G-0327

BACKGROUND

The Northwest United States comprises one of the largest potato growing regions in the world. The majority of chip potato growers in Washington, Oregon, and Idaho are small-scale farmers operating in rural communities. Over the last several years, Northwest U.S. potato farmers have faced numerous challenges that have placed their ongoing commercial survival in jeopardy. For this reason, they are aggressively pursuing alternative markets and direct sales channels for their products.

Japan has a large snack food industry and is a major consumer of potato-based snack foods. Their processing industry relies on domestic potatoes from Hokkaido. However, during the past several years, Hokkaido has suffered from poor crop quality and insufficient volumes. This means that there have been times when the snack food manufacturers have simply run out of raw potatoes to process into snacks – a costly and embarrassing situation. In response, beginning in 2000, Japanese processors began seeking an alternative potato supply. They communicated a pressing need to receive technical information about Northwest U.S. potatoes and their potential processing use.

Despite this urgent market demand, the Japanese government has maintained its long-standing policy prohibiting the importation of fresh potatoes from anywhere in the world. USDA APHIS, the US Potato Board, potato commissions, and state officials have been working diligently to remove this huge obstacle to open trade.

Knowing that the governments were negotiating the trade policy side of this equation, the potato industry and northwest states wanted to use this timeframe to build a foundation for the chipping potato sales that would occur once the ban was lifted. To provide the technical education needed by the Japanese processors, the Washington, Oregon, and Idaho departments of agriculture requested \$50,000 from FSMIP. The three potato commissions, the states, and the US Potato Board pledged an equal amount of cash and in-kind contributions to meet the following three marketing objectives:

- ❑ To prepare and distribute to the snack food processors a Japanese-language technical guide describing the numerous varieties of potatoes available from the Northwest and technical data about shipping conditions, storage, handling, and processing.
- ❑ To organize and conduct technical seminars in two to four Japanese cities, targeting processors of snack foods and processed potato products.
- ❑ To develop “next steps” toward the goal of future exports of US chipping potatoes to Japan.

ACCOMPLISHMENTS

We met all of our objectives for the FSMIP Chipping Potato Project:

Japanese and English Language Technical Guides: Enclosed are 3 copies of the Japanese-language “Technical Guide” and 3 copies of the English version. Five thousand of the Japanese version were printed and 1000 of the English version. The Washington State Potato Commission took the lead on drafting the Technical Guide with major assists from the rest of the Project Steering Group. The Japanese language Technical Guide was used as the basis for the presentations at our seminar in Japan, and was distributed to each seminar participant. In addition, over 400 guides were direct-mailed to the trade in Japan after the seminar, and they will continue to be distributed by the commissions, state offices, and National Potato Promotion Board as needed. The English version has and will continue to be used in discussions with foreign buyers and governments where English is an acceptable means of communication.

The Japanese trade as well as U.S. Embassy personnel in Japan received the Technical Guide enthusiastically for its quality and the specific, detailed information it presented on growing conditions, shipping infrastructure and chipping varieties available from the Northwest U.S. It was found to be particularly important in demonstrating to the Japanese industry and government the commitment that the NW U.S. potato industry is making towards this market. It also helped to dispel the mistaken perception among the Japanese snack food trade that the Northwest U.S. only produces the Russet-Burbank (French fry) variety of fresh potatoes.

Meetings and Seminars in Japan: During the week of April 8 - 12, 2002, the following industry and government representatives participated in a trade mission to Japan:

- *Mr. Garn Theobald, President, R & G Potato, Idaho*
- *Mr. Kevin Thaemert, Owner, Thaemert Farms LLC*
- *Dr. Alvin Mosley, Ph.D., Department of Crop and Soil Science, Oregon State University*
- *Dr. Joe Sowokinos, PhD., Department of Horticultural Science, University of Minnesota*
- *Mr. John Toaspern, Vice President for Marketing, National Potato Promotion Board*
- *Ms. Shannen Bornsen, Marketing Director, Washington State Potato Commission*
- *Mr. Will Wise, Executive Director, Oregon Potato Commission*
- *Mr. John Szczepanski, Assistant Director, Oregon Department of Agriculture*
- *Ms. Meg VanSchoorl, Senior Int’l Mktng. Specialist, Washington Department of Agriculture*

On the Japan side, the trade mission was organized and guided by Washington State’s Agricultural Trade Director in Tokyo, Scott Hitchman. Scott’s 25 years of experience in Japan and his high credibility with the Japanese trade were assets to the project. He held innumerable pre-meetings with the snack processors and government officials. His staff made the logistical arrangements for lodging, transportation, and the technical seminar held in Tokyo during the afternoon of April 10.

The 3-hour seminar featured our two academic specialists, Dr. Joe Sowokinos and Dr. Alvin Mosley, as well as the two growers, Mr. Kevin Thaemert and Mr. Garn Theobald. More than 50 members of the Japanese snack food industry attended the seminar, and as one attendee stated, “everyone who is anyone in the snack food industry was here today.” The seminar was presented in an attractive and technologically well-equipped hotel in downtown Tokyo. The presentations

were done in English using PowerPoint and a lap top computer. Translation was done simultaneously, with participants wearing headsets that had Japanese and English channels.

Initially, we planned to present at least two seminars, one in Tokyo and the other in Osaka. However, interest from the Osaka-based trade was relatively low, and all of the companies that could have attended in Osaka also have offices in Tokyo, so they could access that seminar. We agreed that our limited time and resources would be better spent concentrating on the Tokyo seminar and on private meetings with the snack food trade, USDA and MAFF.

As a result, Scott Hitchman was able to arrange for our delegation to meet with the following government agencies and Japanese companies:

- ❑ *Japanese Ministry of Agriculture, Fisheries and Forestry (MAFF)*
- ❑ *USDA Foreign Agricultural Service (FAS)*
- ❑ *USDA Animal Plant Health Information Services (APHIS)*
- ❑ *Tomen Co., Ltd.*
- ❑ *Koikeya Co., Ltd.*
- ❑ *Mitsubishi Shoji Co., Ltd.*
- ❑ *Tohato Co., Ltd.*
- ❑ *S & B Shokuhin Co., Ltd.*
- ❑ *Toyota Tsusho Co., Ltd.*
- ❑ *Nissho Iwai Co., Ltd.*
- ❑ *Calbee Co., Ltd.*

The three potato commissions and the National Potato Promotion Board held discussions with MAFF, FAS and APHIS centered on how to resolve the market access issues for US chipping potatoes into Japan. The meetings with the Japanese snack food processors focused on the companies' need for fresh potatoes during the February through June timeframe when domestic production is down. Each of the eight companies we met was a leading snack food manufacturer, potato chipper, or their importer. Several points repeatedly arose in these company meetings:

- ❑ Given that lifting the ban on importation of fresh potatoes is a sensitive bilateral issue, Japanese snack food companies are very reticent to publicly state their support for imports. There is essentially no “free trade” lobby in Japan and new imports are viewed as last-ditch alternatives undertaken only under the most trying circumstances. The argument that consumers may benefit or jobs may be created is one that Japanese firms use when they invest overseas; it is not suitable for domestic “consumption”.
- ❑ Despite this sensitivity, the private consensus among the trade was unanimously in favor of importing chipping potatoes from the U.S. However, members of the industry had few, if any, concrete suggestions for proposed pre- or post-entry phytosanitary protocols, only noting that a low-cost approach is best.
- ❑ The Japanese snack food industry hopes that the U.S. will be very aggressive in pressing MAFF to open up the market for American potatoes. They are also concerned that the U.S. might allow MAFF to set in place an onerous, high-cost protocol similar to what was done in relation to U.S. apples. In that case, the market was nominally “opened”, but in reality, imports were blocked due to the high cost of the protocols MAFF required.

NEXT STEPS

Washington State's Governor Gary Locke and Director of Agriculture Valoria Loveland led a trade mission to Japan and Korea in July 2002. Accompanied by Washington State Potato Commission representatives, among others, they were able to advocate for fresh chipping potato exports with government officials and snack food processors in both countries. In fact, they reported back that the Japanese snack food companies were now more eager to take an advocacy role for opening the chipping potato market than they had seemed in April.

There are several other "next steps" that we are considering as a result of this initial effort.

- 1. The Taiwan/Japan Connection:** After our visit, a Japanese trading company contacted our two growers and proposed that one container of NW chipping potatoes per month be sent to Taiwan for testing. The purpose of the trial shipments would be to assess the quality of fresh potatoes at different times of the year and how they endured the shipping and storage process. The potatoes would be shipped to the Taiwanese plant of one of the Japanese snack food companies we had met with, at their expense. This concept is still in the talking stages. However, it has a lot of appeal since it would honor the existing Japanese prohibition on fresh potatoes yet enable samples to be tested. We also may want to invite potential potato buyers and/or MAFF officials to visit the NW on a reverse mission in 2003. We may also consider presenting further seminars in Japan.
- 2. Potential in Korea:** During one day of our visit to Japan, the Oregon Department of Agriculture and the Oregon Potato Commission representatives flew to Seoul, and met with several snack food companies about importing NW chipping potatoes. They found that like Japan, Korea experiences annual shortfalls of domestic potatoes used in snack food manufacturing. Like Japan, the Koreans lack knowledge of our varieties and the growing, storage, and shipment techniques that maintain high product quality. Unlike Japan, Korea allows the importation of fresh potatoes, but limits imports to certain times of the year, imposes a tariff rate quota, and raises issues related to soil residues. Korea is already receiving Australian chipping potatoes. However, the shipping time from Australia is comparable to that from the Pacific NW, and our product quality is much higher. Governor Locke and Director Loveland corroborated this high degree of interest in our potatoes during their trade mission to Korea. We are considering whether to translate the Technical Guide into Korean. Another potential is to invite Korean snack food processors to visit the NW before planting in 2003, introduce them to the growers, and give them a technical seminar similar to the one in Japan.
- 3. Continue pressure to end trade barriers:** As states and commissions, we will continue supporting the work of the USDA and industry principals who are pushing for an end to the Japanese prohibition on fresh potato imports. Much to our chagrin, the Japanese government does not seem fully engaged in the market access issue. The US Trade Representative pressed the issue during a meeting of the US-Japan Trade Forum in July 2002, as did USDA Undersecretary Hawks during a trip to Tokyo in August. The industry has asked the US Trade Representative to officially take up the issue again at the Geneva WTO meeting this month. Last week, six Pacific Northwest Senators wrote to USDA Undersecretaries Hawks and Penn asking USDA to raise the issue "with your Japanese counterparts at every appropriate opportunity", stating that "this issue remains among the highest international priorities for the potato industries of our states."

CONCLUSION

This FSMIP grant was a timely and important contribution to the Pacific Northwest potato industry. Combined with industry resources, the grant enabled us to create high quality technical guides in Japanese and English, and a targeted seminar featuring academic and industry experts who gave us credibility with the Japanese trade. The working level partnership that developed between the three states, commissions, and the National Potato Promotion Board was also a significant outcome. Thank you for giving us this opportunity.