Agricultural Services

Potato Industry Outlook
October 2015

The 2014/15 marketing season has been a challenge. The price pressures of 2013/14 not surprisingly resulted in a decrease in the area planted in 2014 to just under 120,000 hectares compared to over 122, 000 hectares in 2013. However, good growing conditions resulted in a crop of some 5.74milliontonnes - up 3% or some 150,000 tonnes - which has proved challenging to the market with wastage/reject levels having to increase. Production in northern Europe was also good resulting in price pressure in the domestic market. Low prices have been the norm. As the marketing season drew to a close some uplift in prices was experienced as a prolonged spell of colder weather held back new season crops and stimulated demand from consumers.

The first estimate as to planted area and potential production was released by AHDB potatoes in early July, with an estimated 113,100 hectares planted down 6.6% on the year. Confirming anecdotal reports that growers have cut back the acreage planted. Using the five year average, yield production is forecast at 5.05milliontonnes - down 700,000 tonnes on 2014 and the second lowest production since 2010. The season saw planting in good conditions, however, crop development has been slow due to lower than normal temperatures. In early July as summer landed crop growth started to accelerate, ensuring a correct water regime proved challenging with the consequent impact on quality. All factors so far suggest that 2015 will not be a bumper year for yield with prices perhaps more buoyant than the 2015/135 season – only time will tell.

The volatility seen in the industry over recent years - both in terms of production and price - is likely to remain a feature moving forward. Much of this volatility will be weather dependant with this being a key determinant of yield, the other will be the area planted.

UK total potato consumption has been falling with household purchases of fresh potatoes down almost 17%. Consumption in 2012 was 90kg per annum compared to a figure of 108kg 20 years earlier. Just over 40% are currently consumed as fresh potatoes down from over 60% as consumers switch to other forms of carbohydrate (rice, pasta). This is not a problem of the UK alone with France, Germany and Spain all reporting falls in fresh consumption in the last few years. In contrast, the consumption of processed potatoes has increased by over 20% to 51kg per head per annum.

World potato production is however steadily increasing; rising from 267milliontonnes in 1990 to 368milliontonnes in 2012 (FAOSTAT). Approximately two thirds of production is consumed as food with the balance being used for animal feed, or for potato starch in products including pharmaceuticals, textiles and adhesives etc. Until the early 1990s, most potatoes were grown and consumed in Europe, the USA and in USSR. Since then production has doubled in Asia, Africa and South America. Asia now accounts for around half the world's production, with China and India accounting for over a third. Since 2005, the developing world's potato production has exceeded that of the developed world.

Closer to home the EU-5 – Belgium, Germany, France, Holland and the UK produce some 35million tonnes. The UK is the seventh largest producer in Europe, typically contributing 5.5-6.5milliontonnes per annum depending on the season. When viewed on a global perspective, the UK is a relatively small producer being ranked 12th in terms of production in 2013; behind Germany (6th at 9.9milliontonnes) and the Netherlands (9th at 6.8 m tonnes). Perhaps surprising is the fact that Iran is in 13th place producing 5.5milliontonnes. China and India occupy the top two spots producing 86milliontonnes and 45milliontonnes respectively in 2012.

Domestic production is valued at £947million at the farm gate and £3.8 billion at consumer level (Potato Council 2011), potatoes continue remain an important crop in Great Britain.

There continues to be challenges within the sector both at home and abroad. With a market which is always looking for product and service innovation, change is inevitable.

Challenges to the industry include:
- Climate change – a warmer climate may lead to a longer growing season, but warmer winters and wetter summers could also encourage pests and diseases.
- In some areas drought stress will increase, leading to a greater need for irrigation. However as water availability lessens and demand from the general population increases along with an increasing awareness of the need to protect ecosystems, a tightening of the abstraction scheme is inevitable. Growers should assess their future irrigation needs and

consider putting in place measures to "future proof" their business e.g. winter storage reservoirs, entering into water trading agreements with neighbours, etc
- The withdrawal of some of the long standing pesticides used in the sector
- The perceived healthiness of the potato – in some instances potatoes have been portrayed as "unhealthy" which has encouraged younger consumers to turn to alternative sources of carbohydrate e.g. rice and pasta. The relative ease of cooking rice and pasta also appeals to the younger consumer
- The quick adoption by the market of new cultivars
- The political issues around the potential use of GMO technology e.g. to deliver benefits of blight resistance in some countries.

The potato crop in the UK still has the potential to deliver high returns to growers. However, the production of a high quality crop that fully meets the market requirement is paramount - regardless of whether the crop is grown for ware, processing or seed. The whole of the "value chain" needs to continue to strive for excellence in terms of production and processing, bringing new marketing innovation to the fore along with a continuing education of consumers.

There is a continued drive for rationalisation in the sector, with production units generally becoming larger and more specialised as they seek to improve efficiency and spread costs against a backdrop increasing capital demand. More sophisticated machinery and storage is required to ensure potatoes of the requisite quality are produced.

From 1960 to 2014 the GB planted area has fallen from 287,200 hectares to 121,000 hectares - a fall of 58% according to the Potato Council. From 1960 to 1990 maincrop yields doubled, with slower growth since then, with yield gains levelling off in the last 10 years. Average yields are currently around 45-47 tonnes per hectare. Rationalisation is also occurring in the grower numbers. In 1960 there were almost 77,000 growers. Today that number has fallen to 2,190. Since 2001 grower numbers have fallen 61% and are now 3% of the number in 1960. Over the same time period the area of potatoes grown has fallen by 20% , a total of 30,000 hectares.

The sector is now made up of professional growers who have strong relationships with packers and processors. In 1996 there were 175 growers growing more than 100 hectares of potatoes, accounting for 22% of the area planted and 3% of grower numbers. In 2014, 14% of growers (301) planted 54% of the potato area. 80% of the GB crop is grown on a pre-season contract or for a committed buyer, bringing a greater degree of market stability.

The pre-pack and processing sectors account for the largest proportion of the crop area, 35% and 28% of the total production, respectively. Fresh chipping and seed production account for a further 12 and 14% respectively with the bag and other ware accounting for the remaining 11% (Potato Council).

The consolidation at production level is also mirrored in the supply chain, resulting in fewer but much larger customers buying from producers. 54% of the UK potato crop is grown by 300 growers and is handled by less than ten processors or packers - to be sold primarily through four supermarket chains. In total 80% of the tonnage is traded by 20% of the largest purchasing businesses.

The bulk of import trade is in processed potatoes (typically 75% or1.3milliontonnes), with fresh potatoes accounting for 20% or 340,000 tonnes and seed imports 30,000 tonnes. Imports out weigh exports by a factor of around 3.5 : 1 in most years

The contraction in the industry is being felt most acutely by seed producers, as the number of growers and area of potatoes grown diminishes, coupled with a move towards the integration of seed supply within the grower contract.

An increasing number of processors are also developing and controlling their own varieties. Some of these varieties are, in turn, being marketed as a brand by these processors, e.g. 'Rooster' potatoes. The markets are adopting these quickly, despite only accounting for 1.5% of the planted area.

The top 50 most common varieties account for 85% of total GB area with the top ten accounting for 47% of the area. The multipurpose variety Maris Piper remains the dominant variety, accounting for 16% of the planted area and is used in the pre-packing, fresh-chipping and processing sectors. The other varieties in the top five (Markies, Maris Peer, Lady Rosetta and Estima) are unchanged from last year and account for 35% of total plantings. Varieties moving up the rankings in the last five years include Agria, Innovator, Melody, Maris Peer and Markies. Those appearing to lose favour include Saturna, Premiere, Maris Bard, Saxon, and Accord. The market has a requirement for a diverse range of varieties, but before growing any variety growers should ensure they have an outlet.

The recession brought about changes in consumer's buying habits, leading to an increasing demand for value packs and a fall in the amount of organic potatoes being purchased. Yet at the same time, sales of regional lines have been increasing. As economic conditions start to improve it remains to be seen whether consumers will revert to their previous purchasing habits or not. It would seem probable that the current purchasing trends will continue through 2015.

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