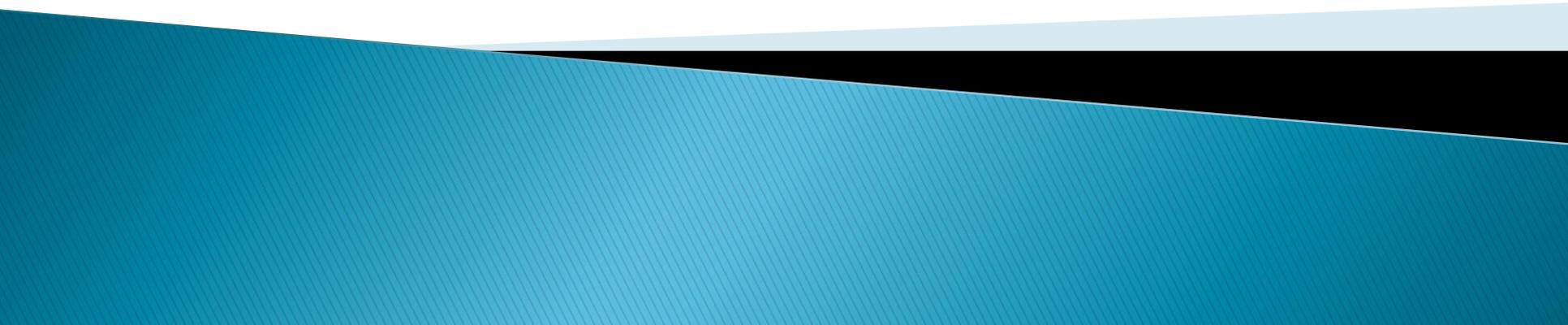


Exporting Hay to China: Opportunities and Challenges

CANADIAN FORAGE AND GRASSLANDS ASSOCIATION
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Growing Forward 2 



Canada 

Current State of Hay Market

- 1.2 million metric tonnes of hay imported annually
 - Alfalfa from the United States represents just over 75% of those imports
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Current State of Hay Market

- Australian oaten hay makes up another 11% of market share
- Spain's hay exports to China slightly surpassed Australian exports in 2015
- Prior to 2015, Spain was a minor exporter to China

Phytosanitary Requirements

- Pure stands of hay only
 - Only pure alfalfa or pure timothy
 - Free of specified insects, animal diseases, and weeds
 - Verticillium wilt and Hessian fly
 - Strict testing for GE alfalfa
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Phytosanitary Requirements

- All hay must be held in segregated storage areas
 - Full trace-back to individual farm
 - Processed in facility approved by the CFIA under the Canadian Hay Certification Program
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Hay Market in China

- Approximately 25,000 tonnes of alfalfa were exported from Canada to China in 2015
 - Only minimal imports of Canadian timothy hay (less than 4,000 tonnes annually)
 - CFIA protocol for such imports has been in place since 2014
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Hay Market in China

- Canadian timothy hay is not well known in China outside of fairly limited academic circles
 - Dairies represent principal market for imported hay
 - Dairies expressed interest in using Canadian timothy based on nutritional properties and performance in dairy ration
 - But...
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Information Requirements

- We have to demonstrate that Canadian timothy hay is cost competitive and provides value for money

Information Requirements

- To convince buyers, Canadian hay exporters will need to:
 - Provide comparative nutritional information on timothy compared to Australian oaten hay

Information Requirements

- Economic value of Canadian timothy compared to Australian oaten hay
 - Specific information wanted about
 - additional milk production and milk fat offered by incorporation of timothy hay into dairy ration
 - cost per additional litre of milk or percentage of butterfat content compared to oaten hay and other feed ingredients
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Lessons

- Conduct prior market research to determine key challenges facing Canadian forage exports in the targeted market
 - Prepare appropriate scientific research documents and financial analysis
 - Show why Canadian forages are a good value proposition for end users
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Chinese Dairy Sector

- 14.8 million dairy cows
- 10.2 million currently milked
- 2015 estimated dairy production
 - 39.2 million tonnes
 - 380 million hl of fluid milk
- Canada:
 - 1.4 million dairy cows
 - 82 million hl

Scale of Operations

- Tremendous rationalisation and consolidation over past 20 years
 - Many dairy farms milking 5,000 to 10,000 dairy cows
 - Logistical and food safety issues associated with smaller dairy farms likely to mean further consolidation and vertical integration
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Scale of Operations

- Inner Mongolia Yili Industrial Group, largest dairy producer and processor, milks 263,000 cows at 32 dairy farms across China
 - Ten companies with dairy herds $> 10,000$ cows, owning about 100 farms with more than 10,000 dairy cows at each farm
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Rotary Milking Parlour



Mengui Dairy Plant



Current Market Context

- Slower growth in consumer demand, although GDP growth in China still runs at 2–3 times that of other major developed economies
 - Expect constrained growth in consumer demand for non-traditional food products, which are considered discretionary or luxury purchases
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Current Market Context

- Chinese consumption of dairy products grew from <10 million tonnes in 2000 to nearly 40 million tonnes today
 - Growth in dairy consumption has occurred in spite of high incidence of lactose intolerance among Chinese people
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Constraints on Growth

- Rising incomes and increasing demand for new consumer goods continue to support further growth of dairy sector, but at a slower pace
 - 2008 melamine scandal affecting infant formula and other food safety concerns has depressed demand for domestic processed food products
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Constraints on Growth

- Major dairies mission visited had all undertaken very credible measures to implement more stringent food safety measures
 - Highly reputable international dairy companies brought in as shareholders and partners
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International Partners



Constraints on Growth

- In spite of implementation of rigorous food safety programs, consumer concern about the safety of domestic dairy products continues to be a significant barrier to the growth of this sector

Constraints on Growth

- Domestic dairy consumption also limited by importation of dairy products, mostly UHT milk and milk powder reconstituted into fluid milk, from New Zealand, Australia, and other low-cost producing countries
 - All of these countries enjoy excellent reputations for food safety
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- Many industry participants claimed the cost of raw domestic milk was approximately 1 / 3 higher than imported milk
 - Estimated 98% of fluid milk consumed in China is UHT milk with six months shelf life
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Constraints on Growth

- Because of consumer acceptance of UHT milk, there is no advantage to domestic producers being better able to deliver fresh milk to consumers
 - Domestic dairy sector could be bolstered by switching consumer preferences to fresh milk
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Constraints on Growth

- Lack of a refrigerated national supply chain appears to preclude this opportunity in the short term
 - Industry participants never mentioned any attempts at shifting consumer preferences from shelf stable to fresh milk
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Constraints on Growth

- Chinese dairies and processors are currently struggling with an excess in raw milk supply
 - Raw milk is being turned into milk powder, with inventories building
 - Cows are being left dry to prevent further surpluses from accumulating inventory
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Constraints on Growth

- Chinese dairies are struggling to compete against imported milk and milk products
 - Fluid milk processors and further-processors need to contain input costs to preserve operating margins
 - Significant downward pressure on raw milk prices
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Constraints on Growth

- Pressure to reduce raw milk prices means dairies must reduce their input costs
 - Automation, consolidation, and rationalisation will continue
 - Feed costs need to be managed carefully
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Constraints on Growth

- Value for money will be key
 - Maximizing performance (litres of milk, volume of butterfat, long-term herd health) may not always be primary objectives
 - With glut of raw milk and idle cows, goal may be simply to produce milk at the lowest possible short-term cost
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Long-term Outlook

- Current glut of raw milk should clear as production drops
 - Dairy herds may decline over the next couple of years
 - Even with reduced economic growth, living standards will continue to improve
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Long-term Outlook

- Trend towards increased dairy consumption can be expected to continue
 - With proper state and private sector action, consumer confidence in safety of Chinese food should be restored
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Long-term Outlook

- Rationalisation, consolidation, and vertical integration of industry will likely reduce production costs allowing Chinese dairy industry to compete on price against imports

What does this mean for Canadian Hay Exports?

- The Chinese market will continue to be very price competitive
 - Canadian exporters need to demonstrate how Canadian timothy and alfalfa provide value for money
 - Price and quality of hay from U.S., Australia, and Spain need to be monitored
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What does this mean for Canadian Hay Exports?

- U.S., Australia, and Spain are all subject to potential price pressures from drought and other factors
 - Canada cannot count on historically low freight rates forever
 - As always, exchange rate is critical
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What does this mean for Canadian Hay Exports?

- And since 75% of hay imports come from the U.S., the evolving trade relationship between the U.S. and China could be interesting....

Details on the China Mission to Follow

