U.S. FORAGE EXPORTS 2018

John Szczepanski[1]

In late 2018, the U.S. forage export industry remains on pace for over $1 billion in sales, despite serious constraints. Until recently, China was a strong and growing market for U.S. alfalfa, approaching $400 million in annual sales. Over the past five years, sales to China grew 183%, driven by dairies seeking high-quality feed to improve yield, and to supply 1.3 billion consumers with domestically-made milk, cheese and ice cream.

That market is in danger now. Retaliatory tariffs announced in July 2018 are hampering U.S. forage sales to China. Exporters report that forage sales are down 20-40%, with many Chinese customers "walking" from existing orders. Across China, dairies have been rationing U.S. alfalfa, mixing available inventories with lower-quality domestic forage and other imports. Necessity is driving these dairies to make short-term adjustments, but as these changes take hold there's a risk that these new systems will solidify, impacting U.S. exports for years to come.

Unlike growers and seed suppliers, forage exporters are dependent on global markets. By the nature of their business models, they have invested in machinery, inventory and customer networks that are geared for overseas sales; selling domestically is not an option. By virtue of its size and market share, China has helped develop the infrastructure to source, inspect, store and sell product in all markets around the world. The loss of the Chinese market may have a destabilizing effect on the entire industry.

Forage shippers look to traditional markets to maintain sales. Japan and Korea remain dependable, representing half of all forage exports. The USDA characterizes as "other" all non-alfalfa forage, including Timothy, Sudan Grass, Rye Grass, Fescue and others. On pace to exceed $400 million in sales this year, the "other" category is dominated by Japan (54% of the total) and Korea (29%).

Given the importance of the Japanese market, growers are asked to pay particular attention to the chemical clopyralid, a common herbicide featured in products like Stinger and Curtail. Clopyralid can pass through a cow's digestive system and ultimately impact vegetable composting. Although not prohibited in Japan, this chemical is being closely monitored by industry and government, and growers are asked to strictly follow label instructions.

Forage exports to Saudi Arabia have increased significantly. For 2018, KSA is expected to represent 20% of all alfalfa sales, an increase from 1% in 2014. More than matching gains to Saudi Arabia, sales to the United Arab Emirates have fallen, demonstrating changing dynamics in the Middle East as customers adjust inventories and seek supply from other countries.

Forage suppliers are based on every continent today, improving quality standards that compete well with U.S. product. Among other countries, Spain has been increasing sales of alfalfa to China,

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[1] John Szczepanski, Director, U.S. Forage Export Council, National Hay Association. In: Proceedings, 2018 California Alfalfa and Forage Symposium, Reno, NV, Nov 27-29. UC Cooperative Extension, Plant Sciences Department, University of California, Davis, CA 95616. (See http://alfalfa.ucdavis.edu for this and other alfalfa conference Proceedings.)

which recently granted market access to Bulgaria as it widens its supply base. China is also a major market for Australian oaten hay, which doubled sales from 2016 and is expected to reach 300,000 MT in 2018. By producing high-quality forage, the U.S. has earned its position on the world's premier supplier, but in today's marketplace it is no longer alone. While high standards of safety and quality cannot be compromised, U.S. exporters need to develop new markets and more than ever rely on transportation system that is efficient and reliable.

India presents a long-term but challenging opportunity for U.S. forage exporters. As noted by Mitsui & Co. Global Strategic Studies Institute, "At 150 million tons (2016), India's milk consumption is the highest in the world and accounts for 26% of world consumption." Despite its overall size, the Indian market is characterized by small farms and weak infrastructure. The University of Delhi sums up the need for quality forage: "India has approximately 600 million livestock, which requires almost 1000 million tons of hay or green fodder to sustain present level of productivity. However, nearly 230 million tons of green fodder is available, and the livestock has to struggle with the devastating scarcity of approximately 800 million tons of green fodder."

In response to retaliatory tariffs, the U.S. Department of Agriculture announced programs to help exporters, although the bulk of financial aid was in the form of direct payments to growers of program crops like corn and soybean. The U.S. Forage Export Council, through its parent organization, the National Hay Association, has applied for funding through the Agriculture Trade Promotion (ATP) program, designed to develop new markets to offset losses in China.

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