

## EXPORT MARKET POTENTIAL FOR CALIFORNIA ALFALFA PRODUCTS

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Generally when we refer to the export market for alfalfa products we are all thinking in terms of shipments to Japan. Therefore I will devote most of my presentation to this market.

I am cautiously "optimistic" with regard to the growth of this market. However, I do believe that we will see a relatively slow growth in the next few years for cubes, bales and suncured meal. Unfortunately we may even see a decline in the quantity of pellets exported to Japan. Pellets are generally re-ground in Japan and blended into compound feeds. As some of the other ingredients used in these feeds have become price competitive with pellets they have been substituted.

Japan will no doubt remain our number one market for alfalfa products for a number of years to come. However, we must stop and review the last few years if we are to increase our market "potential" and actual sales.

It is vitally important that we understand why the Japanese are importing our alfalfa bales and cubes. Historically the Japanese dairy/beef farmer has been trading or buying rice straw from local farmers in exchange for manure. Grazing land is almost non-existent in Japan. The rice straw was used almost exclusively as a fiber. However as the Japanese economy grew and consumers began to purchase more beef and dairy products, while at the same time eating less rice, the demand for rice straw exceeded local supply. In order to meet this demand, some of the larger Japanese trading companies began to import rice straw from Taiwan and Korea (Japan will allow the import of rice straw only from these two countries). Again demand exceeded supply. A number of years ago they began to import alfalfa bales followed by pellets and cubes. Herein lies the real problem to the potential growth in exporting alfalfa products. The Japanese beef/dairy farmer still buys cubes and bales for their fiber content. Therefore it is very difficult for the American alfalfa grower to consider selling his high test alfalfa at the same low price he will receive for lower testing hay, if he is selling to the export market. We here in the U.S. know what is considered to be a U.S. No. 1 cube. But this is not the case in Japan. When the Japanese want this grade, they mean:

- Bright green color.
- Reasonably firm.
- Protein between 16%-17%.
- Moisture not to exceed 12% at the time the cubes are being loaded into the ocean container.
- Very few fines.

So now we can see that all too often we have been comparing the proverbial apples and oranges with regard to what constitutes a top quality cube. We can, however, do something about this. More on this later. To repeat, the biggest obstacle we face in exporting bales and cubes lies in definition and utilization by the end-user.

It will be helpful to review the last three to four years with regard to the export of alfalfa products to Japan. As the Japanese economy increased, the demand for beef and dairy products grew. The Japanese farmer began to add to their herds which resulted in a greater need for more feed. Supply of these feeds either approximated or was slightly less in some cases than demand. At this time a number of smaller Japanese trading companies became involved in the import of feedstuffs, including alfalfa products. The larger Japanese trading companies had offices here in the U.S. and made their buying inquiries from these offices. However, the overseas trading companies did so initially through American companies. As the price continued to go up to

the end-user and was accepted, a number of the Japanese trading companies began to purchase on a speculative basis. This worked well for a few years. Then a number of events took place. First the economy in Japan began to slow. During the last two summers Japan experienced below normal temperatures. There was a growing uneasiness with regard to the stability of the oil producing countries. Simply stated, the Japanese consumer began to purchase less beef and dairy products almost overnight. However, many of the Japanese trading companies had purchased ahead on the basis of continued growth. American farmers had planted additional acreage to alfalfa. Due to the entry of inexperienced trading companies into the U.S. market, it often appeared that there was a greater demand for alfalfa to be exported to Japan than was actually the case. By this I mean to say that a Japanese trading company would request price quotes from a number of American companies at the same time. Let's assume that the request was for 1,000 tons. However, if we have three American companies all seeking 1,000 tons for the same buyer, often as not it appeared that 3,000 tons was required. In any event, as the consumer demand for beef and dairy products declined, the supply of feeds began to build-up in Japan. It is estimated that they had a carry-over of approximately 15%-20% of old crop alfalfa products in March/April of this year. The speculators in Japan who had purchased at higher prices began to sell their inventories at reduced prices. This in turn made it very, very difficult to establish 1981 crop year prices. Unfortunately this news was a bit slow in reaching the American alfalfa farmer. He or she had already planned on either the same acreage or possibly expanding.

This then is one of the reasons why I believe we will not see any substantial growth in the export of alfalfa products in the next few years.

Figures vary, however we do know that we saw a decline in the quantity of alfalfa products in general exported between 1979 and 1980. It appears that the quantity shipped in 1981 (crop year) will approximate 1980.

Some of you many be interested in what happens to cubes and bales once they leave the farm. The following is fairly typical:

- 1) Cubes or bales are either loaded directly into ocean containers which have been brought from the port to the farm and then returned directly to the port or are loaded into bulk carriers and taken to a trans-loading facility near the port.
- 2) Cubes or bales taken to the transloading facility are transferred into ocean containers and then delivered to the port.
- 3) Either way, containers must first be fumigated with an approved fumigant before they can be loaded.
- 4) The Japanese generally require: certified weight certificates, fumigation certificates and a independent lab analysis indicating the protein and moisture content at the time of loading. A Phytosanitary certificate is needed for bales.
- 5) Ocean transit time varies between 15-21 days depending on the ocean carrier used.
- 6) Upon arrival in Japan the containers are inspected by the Japan Plant Quarantine officials who determine whether or not the product contains any forbidden items. If not, they are released to Customs.
- 7) If passed by customs, the containers generally go one of two ways.
- 8) Those containers which are to be delivered directly to a major warehouse or to the end-user (rarely), are taken immediately from the port.
- 9) In the last few years most of the cube containers are taken to a location either at or near the port and there de-vanned.
- 10) The de-vanned cubes are then put in 45 kilo (<sup>112</sup>~~20.41~~ pound) bags and then placed in storage until a customer order is received.

Generally speaking, the Japanese importer is responsible for much of the following:

- 1) Import fees
- 2) Landing fees (port charges)
- 3) Devanning charges, if necessary
- 4) Bagging charges, if necessary
- 5) Warehouse charges (very expensive as there is a premium on space)
- 6) Domestic delivery charges from the warehouse to the farm.
- 7) Wholesaler and broker commissions
- \*8) And last but certainly not least, the cost of their money.

\*If the alfalfa product is purchased by a company in Japan, they will have had to generally have paid for their order before the product reaches Japan. In addition, they usually extend very favorable credit terms to the farmer.

While approximately 80% of the alfalfa products end up on farms owned by farmers who belong to one or the other of the two major farmers cooperatives, it is enlightening to know how the distribution works in general:

- 1) Grower (non-cuber)
- 2) Custom Cuber and/or grower
- 3) U.S. broker or American exporter or American based Japanese trading company
- 4) Japanese importer which is either the direct buyer from the American exporter or the parent company of the Japanese based trading firm.
- 5) Commissioned Japanese wholesaler
- 6) Commissioned Japanese broker
- 7) Beef/dairy farmer

While it may seem that there are too many steps in the distribution channel, we will be wrong in expecting it to change overnight. Rather we should seek new ways to expand the market growth for California alfalfa products both in quantity and in dollars.

WHAT CAN BE DONE TO INCREASE THE EXPORT POTENTIAL FOR CALIFORNIA ALFALFA PRODUCTS?

I believe we can and must at least consider some of the following:

#### ONE

We can collectively request assistance from our local, state and federal agricultural agencies in contacting their counterparts in Japan with regard to developing a better understanding of the true nutrient value of alfalfa, especially the higher testing grades. I am afraid that if we do not and continue to sell our alfalfa primarily as a fiber, we may find that other products will be substituted due to their lower costs. It is to our best interest that we upgrade the value of alfalfa in the minds of the Japanese farmer. This will take some time, but it will be well worth the effort.

#### TWO

If we are not successful with suggestion one, we can seek to determine if we can add nutrients to cubes as they are being processed and sell them at prices which will be competitive in Japan. The nutrients may have to be in a liquid form if they are to be applied while field cubing.

#### THREE

We are shipping relatively few bales to Japan for basically two reasons:

- 1) Higher ocean freight per ton than for cubes or pellets.
- 2) High risk of rejection by Japan based upon restricted materials being found in the container with the product.

With regard to item one, the ocean freight can be reduced if the standard bale has been reduced in size (double-compressed). However there are but a few facilities where this is being done. We need more such facilities.

I believe that some accord has been reached between our country and Japan with regard to using approved fumigants to fumigate baled hay prior to shipping them to Japan. We must be certain that such is the case. It is very costly when the baled hay is rejected in Japan. Generally speaking they are returned to the U.S., fumigated again, and then sold domestically. In the past rejection has been primarily because foreign materials are found in the bales. The Japanese are afraid that the Hessian Fly will be allowed to enter into their country if the bales contain oat straw or Quackgrass, among other materials.

#### FOUR

Whenever and wherever possible, American farmers who are not presently involved in the export of their cubes should look into the possibility of cooperating together with such an objective in mind. Now that there are a number of transloading facilities near the various ports, the cubes or bales can be delivered in bulk form to these operations. There are a number of exporting companies available who can work closely with the farmers in developing this business. The following is very important: If we must continue to sell cubes and bales as fiber for the Japanese market, then the American farmer should make every attempt to segregate their lower testing hay from their higher testing hay. This is not meant that we will try to ship poor quality to the export markets, but rather sell the correct product to the correct buyer. If higher testing hay receives a higher price domestically, then sell it here whenever possible. Remember, the Japanese farmer is not going to pay a higher price just because the hay tests high. The lower testing hay which meets the requirements of the Japanese farmer will then be sold at a price more approximating its true domestic value.

#### FIVE

Finally, we must seek out new foreign markets for our alfalfa products. This can be done by we exporters, our overseas government offices and our local cooperatives and associations.

Thank you for your attention.