

DEMAND FOR ALFALFA CUBES AND PELLETS IN THE ORIENT

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Japan is by far our best market for alfalfa and hay products. Japan has a population of 120 million people compared to 238 million in the U.S.A. Their agricultural population is 20 million versus our 5 million. Japan cultivates 6 million acres versus our 1016 million acres. In 1977 Japan had 1.9 million head of dairy cows on 137,000 farms and they now have 2.1 million dairy cows on 75,000 farms. In 1977 they had 2 million beef cows on 424,000 farms whereas they now have 2.6 million head on 270,000 farms. Their milk production in 1977 was 10,765 pounds per cow and that has changed to 13,900 pounds at 3.2% butterfat today. The U.S.A. had a milk production of 11,000 pounds per cow in 1977 and produces an average of 13,300 today at 3.5% butterfat. California is doing better than the average as they produce 16,000 pounds per cow.

Japan has had a surplus of milk production just like our country and they have had a program to reduce their milk production also. They report that their reduction program has been successful and they are now in a comfortable position.

We started shipping alfalfa pellets to Japan in 1959. The pellets were produced here in Brawley by Russ Fudge. This business grew and in 1973 there were about 15 pelleting plants in southern California and our company alone moved about 100,000 ton that year. We dropped to 81,000 in 74; 77,000 in 75; 29,000 in 76; 27,000 in 77; 500 in 78; 300 in 79 and has been nil ever since. Today Canada has 96.8% of this market and the U.S. has only 3.2%.

In October of 1968 we made the first shipment of hay cubes to Japan. It was 26 ton that we placed, in square of a ship's hatch, on top of a cargo of alfalfa pellets using a tarp as a divider. We ended up shipping 732 ton that year and our shipments increased as follows: 15,466 ton in 1969; 36,400 in 70; 10,000 in 71; 22,300 in 72; 47,000 in 73; 60,000 in 74; 26,000 in 75 (embargo); 60,000 in 76; 68,000 in 77 and continued to grow slowly until about 1981 when it started tapering off while total shipments to Japan continued to increase by about 10% per year.

California is not keeping pace with the Pacific North West (PNW) shippers of alfalfa hay cubes. This is particularly true for southern California shippers. Although the Japanese buyers agree that the PSW has as good or better quality than PNW, they must still look at their cost delivered to Japan and they find the PSW is always much higher. The reason for this imbalance is simple. The State of California highway laws are so tough with regard to allowable weights axlewise, container lengthwise, and overall weightwise that they are putting their own farmers out of business. In the Los Angeles/Long Beach harbor areas the police are waiting within a block or so of the entrances to the container ship loading terminals. They have even trained more police to put on the streets in the terminal areas so they can write more tickets -- they have learned what a hay day really is.

The Japanese shippers tell us that we cannot compete because we in the PSW leave too much empty space in the containers we load. They say in the PNW that the shippers load from 26.5 to 29.8 ton in a 40-foot container, whereas we are lucky to load 22 ton. With the freight rates per container from the west coast to Japan at \$600 to \$700 per container, whether you put in 1 ton or 30 ton (per container), let's look at the numbers. Using \$650 as an average price and an average weight of 28.15 ton out of the PNW:

\$650 divided by 22 ton (PSW)	= \$29.54 per ton
\$650 divided by 28.15 ton (PNW)	= \$23.09 per ton
Savings by shipping from (PNW)	= \$6.45 per ton

We expect them to take 660,000 ton this year so if they could take it all out of PNW they would save:

660,000 ton X \$6.45 per ton = \$4,257,000 this year.

There is a steady decline in the PSW's share of the Japanese market and a steady increase in the PNW share of the total market and from the above figures it is easy to see why. The PSW port people, police and other people involved have had meetings to discuss the problem but nothing is ever done. In the meantime the producers in the PNW are putting in more and more processing plants and are gradually taking away our customers.

Japan feeds their cows rice straw as roughage with the usage being about 2 million ton per year. The rice straw is being replaced with sudangrass so this probably accounts for the large amount of sudan that is moving their way now.

In 1981 they bought 525,000 ton of beet pulp pellets, 260,000 ton of alfalfa pellets, 240,000 ton of hay cubes, and 100,000 ton of various baled hays. In 1986 they bought 725,000 ton of beet pulp pellets, 360,000 ton of alfalfa pellets, 660,000 ton of hay cubes, and 375,000 ton of baled hays. The increases have been generally gradual except for baled hays which from 1981 with 100,000 ton had gradually increased to 180,000 ton in 1985 and then in 1986 were about 210% of what was exported in 1985.

When we look at the first nine months of 1987 we find that hay cube wise Japan has taken 99.4% of that same period in 1986 and 142.3% of the baled hays they took in this same period in 1986.

At this time the U.S.A. enjoys 86.5% of the baled hay business to Japan with China next with 7.2%, and Australia with 5.7%. The country we must watch is Australia especially since ACX from Long Beach has just set up compressing, handling and shipping facilities in Australia. Remember it is summer there when it is winter here.

Something we must always remember is that corn and grains are much cheaper in Japan than hay. Corn delivered to Japan is about \$80 per ton whereas hay cube delivered to Japan is around \$160 -- nearly double. The compound feed usage in Japan is called 20 million ton per year.

Taiwan is a growing market but a tough market. I think they have about 45,000 head of milk cows. Their specifications are usually "Give me your cheapest price". We visited there this spring and went to one of the leading dairies where we met with many other dairymen. This particular dairyman was feeding hay cubes and I swear that 7 out of 10 of the cubes were moldy, some solid mold. We asked the dairyman what he paid for the cubes and he seemed very proud and replied \$120 per metric ton delivered to Taiwan which amounts to \$108.86 for our ton (2000 pound). We showed them samples we had taken along that were number 1 cubes with 19 or better protein. They liked them and agreed that if our shipments were like the samples they would change their ways and pay more for top quality. We wanted to introduce our top quality in the worst way so we sold them 40 containers at what was a \$15,000 loss to us. This was in April of this year, the farmer, Norman Laub, was along when we made the deal. He had about 2000 ton of beautiful first cutting 20 protein cubes stored in his barn. We shipped them the 40 containers and today when their telexes come in they always read, "Give us your cheapest price".

There always seems to be some problem with the letter of credit with them or something causes a delay in their making payment.

Korea appears to be on the verge of opening its doors and we believe it will be a good market. Their feed business appears to be about one-third as big as the Japanese market so this will be a good market.

We visited Korea this spring and took along 16 of the U.S. farmers who supply us. We found big, modern, clean cities, underground subways, and generally good roads. The hotel where we stayed had 1000 rooms, several fine restaurants, and was first class all the way.

We visited a couple of dairies there and they were quite modern and appeared to be well-managed. We handed one dairyman a small sack of cubes and after he felt, smelled, and tasted them he took a few to a manger where he was feeding rice straw. He took a few cubes and buried them under the rice straw then backed off a couple of steps. In a few seconds a couple of his Holsteins were back to the manger. One rooted into the hay and came out with a hay cube and ate it without hesitation. The dairyman was ready to buy. We gave him a price of \$165 per metric ton delivered to Seoul. He said he could afford that, however, politics would not allow him to buy from us. The Korean government does

not allow hay cubes to come into their country at this time.

We visited with the government officials and they feel that they will open their door in the near future. Since we have been there they opened a tender for a trial lot of alfalfa pellets from our country and they tried another lot from Canada. They reported to us that they bought alfalfa pellets out of the Pacific North West at \$87 per ton FOB vessel. I didn't find out whether that was per short ton or per metric ton, however, in either event there was no way we could even come close from California.

We do believe that Korea is going to be a good market when they get their political problems solved.