

THE EXPORT HAY MARKET: Present and Future Potential

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Abstract: The export market is in a period of transition from growth to maturity in Japan. Japanese buyers can source from a wide geographical area and have the ability to shop for the best price and conditions. Also, their quality requirements are becoming increasingly stringent. New sales potential is developing in Korea but actual sales results are in the future. At the same time overcapacity for cube and double-compress bale production will cause numerous business failures and reorganizations in the United States. We at ACX feel the export market is an excellent market for a limited number of players who can meet the market demands for quality and price and have a well financed organization to service the daily needs of the market.

Keywords: Japanese market, Korea market, overcapacity for cube and double-compress bales quality

INTRODUCTION

The export hay market is often portrayed to be a mysterious, inscrutable business arena with possibilities of capturing endless wealth from rich Japanese and Korean buyers. Local and state agricultural officials often promote the export market as a salvation for distressed growers and as a limitless outlet for surplus production. Hay buyers constantly extoll the virtues of the market as an endless outlet for summer hay. Yet the same market takes at most 5% of western United States production. Everyone talks about how "good" Japanese money is compared to domestic receivables. On the other hand, we recently hear horror stories about cancelled contracts, broken deals, excessive quality claims, etc.

In this presentation, I would like to paint a realistic picture of the current and future export market as seen by ACX Trading. From very modest beginnings 10 years ago, the export hay market today represents a significant outlet market for selected western United States growers. In excess of 1.5 million tons of hay and grass products are purchased by Japan, primarily from the United States. The government of Korea has committed to a liberalization policy on forage imports and has the potential of importing one-third of Japan's volume or more. And there is always the prospect of mainland China with it's tremendous potential demand for dairy products and the resulting requirement for quality forage products.

MARKET OVERVIEW

Quantities

In calendar year 1988 Japan imported over 1.4 million tons of forage products. This was the highest amount recorded since they started forage imports. The following is a brief history of Japan's imports (metric tons):

	1982	1983	1984	1985	1986	1987	1988
Hay cube	283,311	402,848	405,259	464,795	576,266	575,883	668,388
Baled hay	61,613	96,829	118,428	163,209	341,018	427,625	752,776
Combined	344,924	499,677	523,687	628,004	917,284	,003,508	1,421,164

If we annualize 1989 results through September, Japan should import approximately .6 million tons this year.

Geographical Origins

Product	1988 Import Results		
	U.S.A.	Others	Comments
Cubes	83%	17%	In 1982 U.S.A. share 95%
Bales	92%	8%	China/Canada up 385%

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To date the bulk of Japan's imports have come from the United States but that situation is rapidly changing. Canada and Australia in particular are aggressive competitors with the potential to produce large quantities of forage products. Both countries benefit from the support of their governments. Mainland China is also becoming a factor and is always in the position to subsidize production with cheap labor in order to gain hard currency.

Product Types

1988 Results	
Product	Percent of Imports
Alfalfa hay cubes	40%
Alfalfa bales	15%
Sudan bales	20%
Timothy bales	8%
Grass/straw bales	17%

Japan's imports are used for both the beef and dairy industries. Straw imports in particular are used almost exclusively by the feedlots and are imported in large quantities when there is a problem with the domestic rice straw production (normally caused by typhoon-induced rain damage).

Compound feed prices in Japan are relatively low and are normally lower than imported high quality roughage products such as alfalfa bales, cubes and sudan. Many Japanese dairymen feel that they can satisfy their protein needs through lower priced grains and therefore look at roughages as a source of fiber only. Therefore, we at ACX see a much greater emphasis on grass-type hays compared to the U.S.

MARKET CHARACTERISTICS

Japan has an animal population of 2 million dairy cows and 2.6 million beef cows. The average size dairy in Japan has 28.6 cows and has a daily milk average of approximately 41 pounds with 3.5% butterfats per cow. The current milk price equates to \$28.60 per cwt based on today's exchange rate. You must keep in mind that this high milk price is balanced off against very high production costs due to high land cost and feed cost. There is a slow move toward consolidation of dairies into larger and more efficient units.

Over 50% of the dairy animals are located relatively near the cities of Tokyo, Nagoya and Osaka/Kobe. These dairymen are using extremely high priced land and tend to buy a large percentage of their feeds and use available land for higher return crops such as vegetables. Dairymen in more remote areas such as Kyushu and Hokkaido produce most or all of their forage requirements.

Currently milk supply and demand are fairly well balanced. Two years ago the Japanese government instituted a minimum 3.5% butterfat requirement for producers as a tool to control production. A side benefit of this program was an increased per capita usage of milk products due to the superior flavor of the higher butterfat product.

Japanese dairymen face serious competition from imported products in the near future. In 1991 Japan will totally liberalize beef imports and it is expected that imports of milk products will be liberalized thereafter. Japanese dairymen must either become more efficient in production or lose large parts of their domestic market to imported milk products leaving them with only the market milk sector.

Japan's distribution system is inefficient and expensive. Imported products pass through several hands before they reach the end user. Until recently most hay products were unloaded from containers and stored in port warehouses. Deliveries were then made from the warehouses to local warehouses and end users by small 2 to 4 ton trucks. The warehouse would also bag hay cubes in 40 kilo bags and arrange for their distribution. The warehouse also served a quality control function, sorting out damaged products and arranging for insurance inspection. Today, warehouse space for forage products is at a premium. Warehousemen would rather handle more lucrative and clean package goods and the forage

importer is forced to find local warehouse space or other solutions for his distribution problems.

Cultural characteristics play a big role in the type of product imported, the quality standards expected for those products, and the commercial practices associated with those imports. Japanese consumers attach a great deal of importance to the physical appearance of their goods. This includes good color, uniformity in appearance and size and the matching of quality to "norms". These criteria work well for manufactured goods but obviously conflict with agricultural goods such as hay. Adding fuel to the fire is the fact that many of the people in the distribution system and in many cases the end users themselves, do not understand animal nutrition and therefore tend to overemphasize the superficial aspects of the products. Japan's cumbersome distribution system tends to magnify problems once they occur.

FUTURE TRENDS

In discussing the future trends in the export market there are several factors to consider: market potential in Japan, new market possibilities, and supply trends.

Japanese Market

1. The Japanese market has expanded steadily for several years and has grown to the point where imported roughage accounts for roughly 20% of total estimated roughage demand. The dramatic increase in imports has put severe strains on Japan's logistical system. Today, importers cannot find adequate warehouse space and warehousemen cannot find enough domestic trucks to move the product to the end users. Due to excessive holding periods for their containers in Japan caused by the warehouse shortage, steamship lines are reluctant to carry hay products to Japan. These logistical bottlenecks have been partially responsible for the dramatic price and market swings we at ACX have seen the last few years.

2. During the growth phase of the market, Japanese traders and end users were little concerned with the feed value of their imports and placed primary weight on the physical appearance and color. Recently we have noted an increasing demand for "high protein" "high test" and similar type descriptions for alfalfa products. Even for the grass hay products, buyers are now demanding fine stemmed, leafy products. These demands, coupled with Japanese demands for product appearance, are making the supplier and exporter's job far more difficult and risky.

3. Japanese buyers are much more attuned to the U.S. domestic market trends and status than they were a few years ago. Japanese imports of hay products only amount to approximately 4% of our west coast production of alfalfa products. This gives the Japanese a great deal of leverage in their price negotiations and gives them maximum flexibility to shop for the exact quality and price product they want.

In conclusion, we at ACX see three basic trends in Japan: (1) a maturing market environment with less growth potential; (2) a short- to mid-term logistical bottleneck; and (3) more informed buyers with the ability to shop the entire west coast for their price and quality needs.

Other Markets

The Korean market is scheduled to open for "free" imports of hay cubes from 1990 although no actual date is established yet. To date there have been limited sales of cubes and dehydrated pellets by tender to the government sponsored farming coops. The liberalization will allow sales through normal commercial channels. The potential size of the Korean market is one-third of Japan's based on their population and the number of cows. Keeping in mind it has taken several years for the Japanese market to develop, we do not expect Korea to be a significant market for three to five years.

There have been some small sales to the Middle East, Hong Kong, other countries in the Far East and Europe, but no significant tonnage has moved and there is no indication that these markets will take our products in significant quantities on a steady basis. We do not expect to see any major development in new markets other than Korea for the next several years.

Export Supply Trends

The export market started from the Pacific Southwest area and our area was the main supply source for several years. Also, the market was primarily a hay cube market with limited movements of speciality type baled hays. Now, however, the market is evenly divided between bales and cubes on a product basis with over 40% of the supplies coming from the Pacific Northwest. Additionally, we can see alternative supply sources developing in Canada, Australia, China and Southeast Asia.

At the same time there has been a dramatic increase in export facilities: cubers and double compressors to serve the market. We estimate that there is 50 to 100% overcapacity in both cubers and double-compressors. Many people have rushed into ill-conceived and poorly financed operations. Many of these operations are located in marginal production areas in terms of price competition and target the wrong type of products. We expect a sizable number of business failures and reorganizations in the export sector. Strong price pressure from the Japanese buyers in forcing even the best organized and financed operations to cut costs and become even more competitive.

CONCLUSION

The export market is in a period of transition from growth to maturity in Japan. Japanese buyers can source from a wide geographical area and have the ability to shop for the best price and conditions. Also, their quality requirements are becoming increasingly stringent. New sales potential is developing in Korea but actual sales results are in the future. At the same time overcapacity for cube and double-compress bale production will cause numerous business failures and reorganizations in the United States. We at ACX feel the export market is an excellent market for a limited number of players who can meet the market demands for quality and price and have a well financed organization to service the daily needs of the market.