

FORAGE EXPORT DYNAMICS 2014

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This will be an informal and personal assessment of today's forage export market, and it begins by looking to the past. The industry that today represents over a billion dollars in sales is based on a generation-old model that is being challenged with new markets, technologies and economics.

I'll refer to the Japan Model, though in large part it reflects Korea as well as Japan. Developed over the 1970's and 1980's, the Japan Model has been characterized by visual quality and small bales, reflecting a large degree of "coziness" which influenced business transactions. If not handshake deals there was an informality to contracting that influenced negotiations over pricing, scheduling and claims. Japan's unique sense of coziness extends to the choice of animal feed, where some forages like Timothy are fed to promote livestock longevity.

The Japan model built this billion-dollar industry, but much of it no longer applies in emerging markets, requiring of exporters new muscles not exercised before. Although a few exporters today continue to focus primarily on Japan and Korea, the numbers reveal a dramatic shift. In 2007, Japan and Korea represented 91% of all forage exports. By 2013, with nearly the same volume, these two markets represented just 51% of exports. Volumes to these markets are expected to decline, in part because of populations that themselves decline and age, and with governments encouraging greater consumption of domestic forage through subsidies to growers and end-users. In Korea, quotas restrict imports of US forage as the government there promotes locally grown forage. Global economics plays a role as well, with the weak Japanese yen and the weaker Korean won making imports more expensive, which of course encourages dairies and ranches to pursue cheaper options.

As these traditional markets contract, a new global forage export model has emerged, with the Middle East and China requiring a different mindset and a different set of tools.

Today's forage export market is driving the need for new services, including credit reporting, third party certification and insurance programs such as liability coverage. These reflect an international market where buyer and seller are less familiar with each other. Unlike the Japan Model we're seeing exporters dealing with unknown or relatively unknown buyers. Credit reporting protects the exporter. Third party certification verifies a product's intrinsic value and protects the buyer. Liability coverage can protect both buyer and seller, creating clear guidelines when things go wrong.

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The concern is and should be that these tools will drive up the cost of U.S. forage products. Every new test and every new procedure has a cost implication. A change in sampling for one market could complicate business in all markets. The burden will not always fall on the exporter; growers may become reluctant to provide product for international markets when asked to comply with more regulations. The U.S. Forage Export Council, representing thirty exporters and over three-quarters of U.S. forage exports, understands these implications and seeks to lead the discussions on new processes so that they are reasonable for exporter and grower alike.

The emerging markets of China and the Middle East account for the rapid rise in forage exports over the past seven years. In the past year those markets have cooled a bit, and opinions differ as to whether they will regain their previous heat. Like Japan and Korea, China and the Middle East are impacted by recent developments, two of which will be briefly covered here.

The more important of the pair is transportation. For a high-volume, low-margin product, access to reliable and low-cost transportation is critical, and the situation in West Coast ports threatens all U.S. agricultural exports. USFEC has worked closely with the Agriculture Transportation Coalition (AgTC) to lobby our elected officials and president to take action.

Another concern of recent focus has been the presence of unapproved GMO alfalfa in China, which recalls the axiom, "Trust but verify." Exporters need to test their purchased hay, growers need to test their purchased seed and seed companies shouldn't release product that hasn't been approved yet in major export markets. The forage export business was built on the basis of providing what customers want, with careful buying, testing and segregation. The rise of new technologies and their race to market makes this difficult to accomplish; exporters who bear the risk with suspension from the Chinese market need others in the supply chain to take ownership and responsibility, too.

The forage export market of 2014 can be reviewed with the *Four P's* of marketing. *Place* is of critical importance and we are failing to provide customers with reliable delivery. *Product* is in shorter supply, and exporters must go to greater lengths to find it. *Promotion* is taking a new turn: "Safe" is no longer a selling point; it is an expected condition. "Best" isn't necessary; customers want product that's "good enough" and increasingly have options to buy cheaper product from other parts of the world. Each of these three P's impact *Price*, making it more difficult for the U.S. to compete favorably on the world stage.

Today's global forage market no longer offers the coziness of the Japan Model. And though diminished, the Japan Model represents values that we need to succeed going forward. With a long history of feeding different varieties for different purposes, Japan offers ideas how to market forage in emerging markets, particularly in beef markets. And Japan has created the expectation that seller should know the end user. There's a healthy skepticism of dealing

through middlemen who understand neither hay nor horse. In that gap of knowledge problems happen that hurt the whole industry - product gets misrepresented or misused.

In short, the Japan Model has kept forage from becoming a commodity. It is a lesson that emerging markets, while slow to adapt, are also recognizing. As we contemplate the next generation of U.S. forage exports, bringing greater value to U.S. forage products is an idea to embrace and protect. And, since no one exporter can go it alone, the efforts of USFEC members working collaboratively in all of our markets will be vitally important.