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Australia

Grain and Feed

Dried Distillers Grain

2008

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Report Highlights:
Australia recently successfully imported and processed a trial shipment of Dried Distillers Grains with Solubles (DDGS) from the United States. The trial proved that US DDGSS can be successfully imported under strict Australian Quarantine guidelines and can be successfully included in livestock feed rations formulated and manufactured under Australian conditions. Longer term trends are likely to see increased demand for imported stock feed ingredients (such as USDDGS) over time.

Includes PSD Changes: No
Includes Trade Matrix: No
Trade Report
Canberra [AS1]
[AS]

General

Australia recently successfully imported and processed a trial shipment of Dried Distillers Grains with Solubles (DDGS) from the United States, concluding a process which first began over five years ago. The shipment, limited to just two containers, was undertaken in co-operation with a local Australian stock feed manufacturer, a US DDGSS producer (and now exporter), and the US Grains Council (formerly the U.S. Feed Grains Council).

The trial, in the first instance, has proved that US DDGSS can be successfully imported (in containers) under strict Australian Quarantine guidelines. The trial also demonstrated that US DDGSS can be successfully included in livestock feed rations formulated and manufactured under Australian conditions.

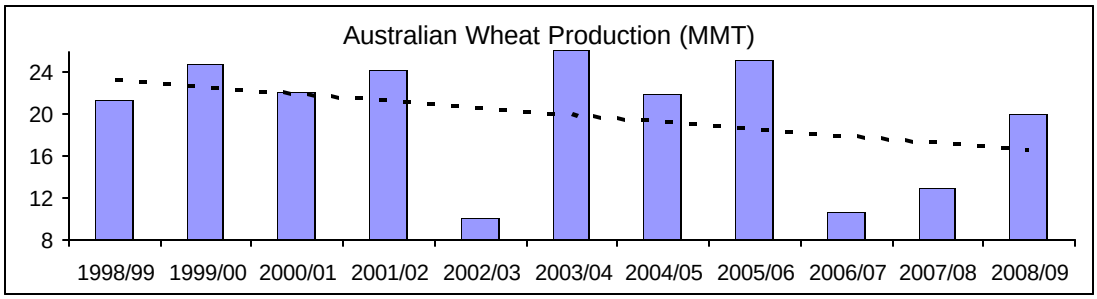
The local livestock feed manufacturer who conducted the trial described US DDGSS as a well presented, clean and consistent product. The rations, which included US DDGSS at levels between 5 and 20 percent, experienced no obvious production difficulties. It is likely that US DDGSS, should it gain wider acceptance with local feed manufacturers, would be used as a protein component in the manufacture of stock feed pellets.

According to the local livestock feed manufacturer that ran the trial, perhaps one of the most important outcomes from the recent trial was to expose local nutritionists, operations experts and sales staff to US DDGSS. These staff had previously only worked with Australian manufactured DDG, derived from winter cereals or sorghum, and varies greatly from that which is imported from the US.

Stock feed pellets (below right), which have been produced using US DDGS (below left), will now be trialed on farm with a view to studying livestock performance. Further results and commentary will likely be provided from the end of January.

Background

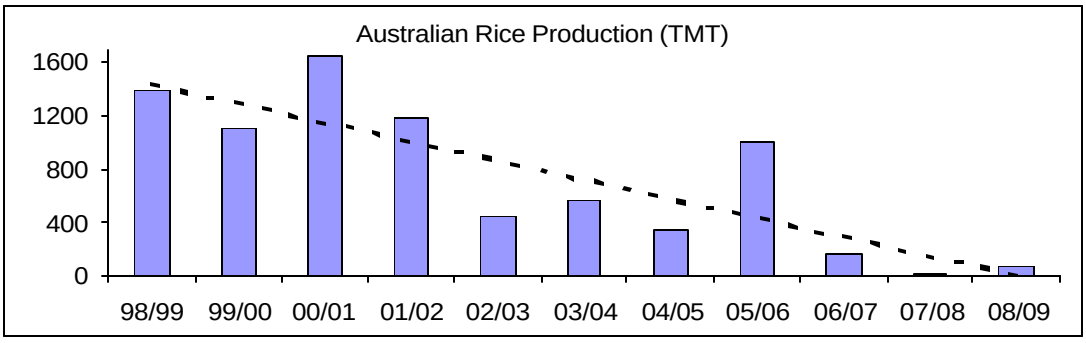
Australian agriculture has yet to recover from a long running and severe drought which began in 2002 and is now acknowledged as the largest drought in recorded history. Despite record high grain prices during this time, production and stocks of Australia's principle grain crops (wheat, barley and sorghum) fell to historically low levels during this time.



Source: ABARE Data (July-June)

Historically low grain production and stocks since 2002 has led to severe shortfalls of fodder for Australia's intensive feeding sector (dairy, lot fed beef, pig and poultry). As an example, numbers of cattle on feed fell to just 584,000 in 2007, down from a record of 940,000 in 2006. Australia's only dedicated feed grain crop is sorghum, which accounts for as little as 10 percent of total grain production. Australia's local intensively fed livestock herds largely rely upon surplus stocks of wheat and barley as well as locally produced bi-products.

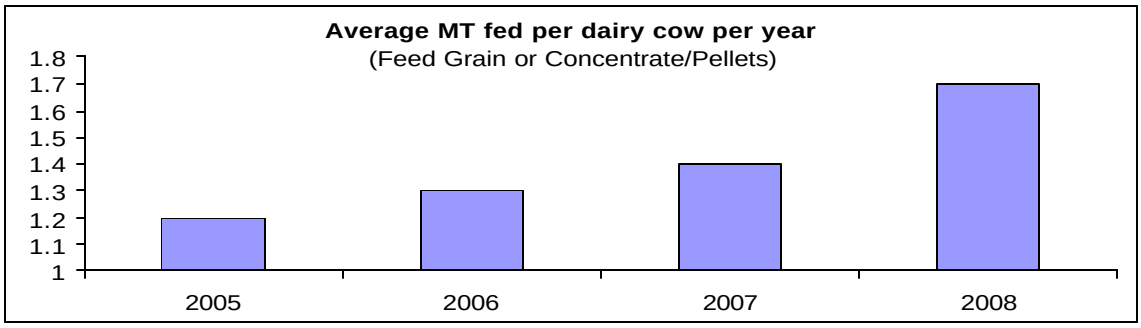
Traditionally, bi-products from local food and fiber crops have also been used in the manufacture of stock feed with rice and cotton being important crops in this regard. However severe drought, and the subsequent depletion of irrigation water supplies, has seen the production irrigated crops such as cotton and rice fall sharply. Industry sources suggest that it could take longer than a decade to fully recharge some water storage systems following such severe drought.



Source: ABARE Data (July-June)

Importation of grain is constrained by Australia's stringent quarantine laws which require the denaturing (processing) of imported whole grain. However, post has closely monitored the increase of imported processed feedstuffs such as soy bean meal and, more recently, palm kernel meal which requires no further processing under local quarantine standards. Processed ingredients such as these have grown in importance to livestock feed manufacturers who have faced dwindling local supplies and spiraling costs.

Drought conditions have also caused severe deterioration of pasture and have increased the demand from broad acre beef and sheep producers who have been forced to supplement poor pasture by purchasing stock feed. This has also hastened the "intensification" of the dairy industry which traditionally only fed to "supplement" the grazing of pasture. More recently, dairy producers have adopted more integrated year round feeding of "formulated rations" on a daily basis. On-farm consumption of purchased feedstuffs has increased steadily over the past decade and this trend has only been hastened by the onset of drought.



Source: Dairy Australia data

Much of the supplementary nutritional intake of Australia's dairy herd is in the form of manufactured pellets. These pellets include a host of ingredients from processed whole grain, milling bi-product and other manufacturing bi-products. According to industry sources, Australia is one of the few countries in the region where the use of feed pellets for livestock is widespread. Feeding of pellets has been widespread in pig and poultry production for some time.

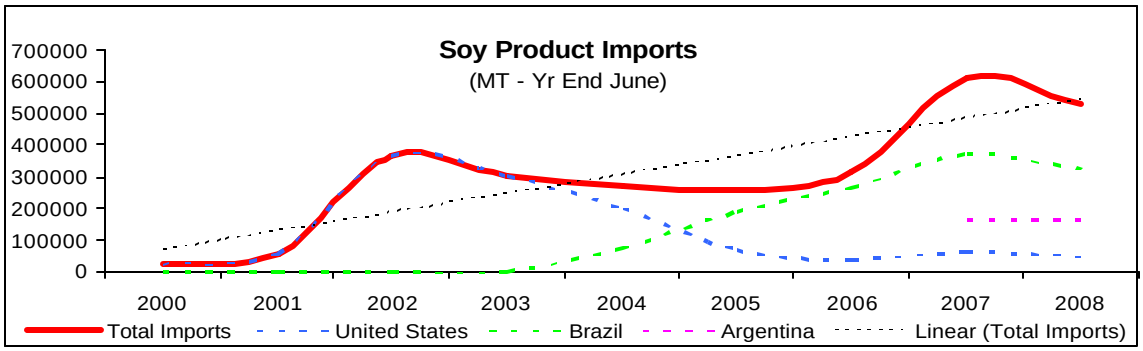
The evolution of Australian livestock management towards more intensive feeding practices, historically low stocks of feed grain following drought, and the widespread use of pellets as a method of feeding Australian livestock readily allows for the inclusion of US DDGS as a regular stock feed ingredient.

The Future

Australian demand for livestock feed ingredients is likely to continue to increase for the foreseeable future. Despite demand fluctuating greatly with drought, longer term trends such as the increase in supplemental feeding in rangeland environments and the evolution towards the feeding of complete rations for dairy cattle are likely to see increased demand (albeit fluctuating) for imported stock feed ingredients over time.

Australia's relatively high animal disease and pest status, combined with the outcomes of a recent quarantine review will likely continue to provide pressure on quarantine authorities to maintain existing stringent import conditions for feed grain and feed ingredients

Imported soy meal has risen in importance as a livestock feed ingredient and post has monitored this development closely. Soy meal, as a processed ingredient, is viewed as having a lower quarantine risk compared with imported whole grains, and therefore its importation is not as constrained by Australian quarantine laws. Importation of this product has risen significantly in recent times in line with increased local demand and dwindling feed grain supplies. US DDGS is imported under the similar protocols as soybean meal.



Source: World Trade Atlas data (Oct-Sept)

Challenges ahead for US DDGS

Despite the success of the recent trial, there remain some short term challenges for the importation of US DDGS. Recent global financial turmoil has seen the value of the Australian dollar fall markedly against the US dollar and this has increased the comparative price imports.

Local production of wheat, barley and sorghum has recently increased from the historic lows experienced throughout the drought and recent poor harvesting conditions have seen significant levels of wheat and barley downgraded to stock feed. As a result, stocks of feed grains have improved significantly from year previous.

The marked difference between US DDGS and locally produced DDG will require US industry to promote the benefits of US DDGS to potential buyers who may not already be aware of the benefits associated with the imported product. This process will likely be ongoing.

Despite some short term challenges, well established long term trends will likely see Australian demand for imported bi-products such as US DDGS increase over the longer term.

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Report Number	Title of Report	Date
AS8059	2008 Wine	12/08/08
AS8058	2008 December Update	12/03/08
AS8057	Cotton Quarterly Update	11/26/08
AS8056	Western Australia lifts ban on GM Cotton	11/25/08
AS8055	Fresh Deciduous Fruit Annual	11/21/08
AS8053	Citrus Annual	11/14/08
AS8052	November Grain Lockup	11/03/08
AS8051	Final IRA for Chicken Meat released by Biosecurity Australia	10/31/08
AS8049	Dairy Annual 2008	10/20/08
AS8048	Grain and Feed October Update 2008	09/26/08
AS8047	Sugar Semi-Annual	09/26/08