

USDA Foreign Agricultural Service

# GAIN Report

Global Agricultural Information Network

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## China - Peoples Republic of

**Post:** Guangzhou

### **Alfalfa cube report**

**Report Categories:**

Market Development Reports

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**Report Highlights:**

Given China's limited domestic feed supplies creating pent up demand for high quality feed products from the growing livestock and aquaculture sectors, the prospects for U.S. alfalfa products in South China have never looked more promising.

## General Information:

### Overview

*H.S. code:* 1214.1000 (*Note: alfalfa hay bale code is 1214.9000*)  
*Tariff:* 5 percent (*Note: alfalfa hay bale tariff is 9 percent*)  
*Value added tax (VAT):* 13 percent on CIF prices with tariff, but could be **exempted**  
**Important note:** ingredient must ONLY be alfalfa hay, and should NOT include any other additives (such as clay as a binding agent) or other foreign substances.

The success in promoting U.S. alfalfa compressed baled hay in the China dairy feed market has paved the way for other alfalfa products (cube, pellet, and meal) geared toward the swine, poultry, and aquaculture sectors. ATO Guangzhou rallied the U.S. hay industry to have a greater presence in the South China market and by the end of 2010, it is estimated that China will import over 200,000 tons of alfalfa valued at \$54 million, an explosive increase given the market was just opened in 2006.

After opening the dairy market to imported alfalfa bales in 2006, ATO Guangzhou has been promoting U.S. alfalfa pellet/cube exports for the swine sector. According to customs data, from January to September 2010, China imported 2,460 tons of alfalfa meal/pellet/cube from the States, a notable increase from 65 tons in 2009, 60 tons in 2008, and 4 tons in 2007. In October and November 2010, there were two container shipments totaling 500 tons of alfalfa cubes from Idaho arriving in Xiamen, Fujian Province in South China. This new trade is a direct result of ATO Guangzhou's facilitation. Moreover, this shipment is quite possibly the first ever U.S. alfalfa cube export to China for swine feed manufacturing, as previous shipments were for horses. According to the importer, there were no problems clearing Customs and CIQ (quarantine and inspection) at port.

The cubes, will be ground by swine farms or feed mills and mixed it into hog feed compound. After this trial run, the potential demand for larger and regular U.S. alfalfa shipment is tremendous and estimated at one million tons annually. However, the U.S. hay industry must increase processing capacity and ATOs must continue the aggressive trade facilitation campaign initiated by ATO Guangzhou.

### Who are the buyers?

The largest potential buyers are large vertically integrated swine operations, feed millers, and feed brokers/distributors (the later group will significantly contribute to strengthening pricing as well as expand the market):

1. **Large vertically integrated swine operations** have their own feed mills, breeder swine farms, fatten hog farms, and purchasing departments handle orders, importation, logistics, and distribution.
2. **Feed millers** specialize in supplying commercial feed stuffs for swine farms; some manufacture pre-mixed feed.
3. **Feed brokers/distributors** specialize in importing and distributing feed ingredients to millers, swine farms, and other end users.
4. **Other identified potential end users by sector:** Poultry (chicken/duck layers, broilers); Aquaculture

(freshwater fish); Horse (racing, leisure, equestrian teams); Cattle (beef and dairy); Sheep (fur and meat); Rabbit (fur and meat); Pets (pet food industry).

### **How to market**

Because alfalfa cube/pellet/meal has never been applied on a large commercial scale either in the States or in China, greater market research and promotion is crucial.

1. *Identify target sectors:* Based on preliminary market research, the most viable market is the swine sector, particularly for gestation sow feed. China has over 40 million sows. If sows in China consume the recommended 0.25 pound (three percent of ration) alfalfa daily, China would need over two million tons of alfalfa hay products yearly to meet the demand. However, it is difficult for Chinese swine farmers to source domestic alfalfa, particularly in the South. Imported hay is one solution.
2. *Technical research:* Some U.S. studies indicate that sows can successfully consume high-fiber (such as alfalfa meal) diets during gestation with positive effects evident in litter size (0.2 to 0.6 pigs/litter) and sow lactation feed intake [1]. Feed trials featuring imported U.S. alfalfa should be conducted at China's commercial breeder swine farms to confirm such findings and develop recommended feed formulae.
3. *Market promotion:* Given the lack of awareness regarding U.S. alfalfa products among China's swine farmers, technical seminars to promote usage are necessary to educate farmers, feed millers and the trade. For individual U.S. suppliers, face to face communication with Chinese farmers and millers via site visits or trade show attendance are crucial to understanding market and consumer preferences.
4. *Mid- to long-term strategies:* The U.S. industry and USDA/FAS needs to blueprint a three to five year plan to for technical and market research as well as marketing promotions geared toward other livestock sectors such as poultry (particularly chicken/duck layer) and aquaculture.

### **Competition**

The main competition to U.S. alfalfa is domestically grown alfalfa in China. Xinjiang, Ningxia, and Gansu provinces in Northwest China and Shandong province in Northeast China are key producers. Annual estimates of domestic processing volumes range from 150,000 – 200,000 tons of alfalfa including bale, cube, pellet, and meal. Such volume falls far behind the potential demand from the swine sector (or any other sector) which requires stable supplies.

While domestic alfalfa production has been declining due to low profit margins and government incentives to plant grain, if a subsidy is provided domestic hay growing and processing capacity may be increased. However quality and sustainable supply would remain key challenges. According to multiple sources, it will take more than five or ten years for Chinese alfalfa to reach U.S. quality standards at comparable costs. China's farmers also have concerns that domestic alfalfa hay products with lower protein content and digestible fiber might contain foreign substances such as other weeds or even "fake protein substances" like melamine or urea. Furthermore, high land (trucking) transportation costs also make Northwestern (inland) hay products less competitive than those imported in South China and eastern coastal regions.

Canada exports small amount alfalfa pellet to China, less than 140 tons yearly (69 tons in 2009, 137 tons in 2008, and 67 tons in 2007). Insiders claim that the supply is not stable but since the quality is inferior to U.S. alfalfa, prices are less competitive in some cases.

**Extended helpful information**

China's livestock report, Briefing on South China, Emerging South China cities, How to do business in China, Tax exemption on imported feed, Labeling requirements, Major livestock exhibitions

<sup>[1]</sup> Data source: Nebraska Swine Report (2008), by Animal Science Department, University of Nebraska

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