

Export Opportunities: Select Market Insights

In our quest to open direct sales channels for high-margin crop-exports we urge producers to engage in a collaborative process, which we will actively facilitate in the coming weeks and months with new ideas and concepts. To this end, we will embark on new market research projects, but at the outset we wanted to reflect back on our previous efforts to give our followers a taste of the export prospects we had uncovered. The same channels may still be open, or similar ones can be found.

Upon our return from Asia a few years ago, we observed the revival in agriculture with noteworthy increases in export volumes. China had become our largest grain-destination taking 20% of our total exports, but with a huge share of bulk-canola in the mix. Based on our knowledge of China's grain-needs, we knew there were much higher value export prospects that were not being attended to. We focused on three market segments where we saw promising contract-sales opportunities.

Driven by dramatic shifts in consumption trends, China's flour-milling industry had greatly advanced and consolidated, producing a wide range of higher-quality flours. As a result of yield-increases, China's wheat output had increased to become more self-sufficient but there was still a need for specific-grades of wheat, including durum. These were already in our crop-mix but we lacked the containerized logistics capacity to arrange for door-to-door identity-preserved-deliveries to designated flour-mills.

Another trend was a shift away from rice-porridge to breakfast-cereals, with a wide variety of grains in the mix. A relatively unknown private company had emerged as a market leader in breakfast-cereals, and had set up a plant in Australia to source coarse-grains for their leading brands. The market was still growing in double-digits, with potential to source even larger volumes of coarse-grains from Canada, crops already available in the Prairies but held back by lack of containerization capacity.

Much larger grain-export opportunities were in animal-feed, now China imports as much grain for this purpose as for food -- double the crop-volume we export in total. Significant increases in meat-consumption had given rise to a vibrant feed industry, with the industry-leader (integrated feed-meat-dairy company) operating feed-mills across Asia. We had all the coarse-grains and oil-seeds they needed in our crop-mix but again lacked the containerization capacity to ship direct to their feed-lots.

Here we provide brief summaries of these past initiatives, and will be posting more detailed reports and presentations on these subjects under our *Global Markets* tab in the coming months. Given the dire state that our trade-relations with China are in, we are not sure whether these opportunities are still open, but even if not directly they will be there through re-export channels. In any event, these are the types of market opportunities we will be pursuing throughout other parts of Asia Pacific.

Wheat varieties for flour-milling

China produces more than 120 MT of wheat a year, 2nd largest wheat producer in the world behind EU, and sits on huge stocks (more than a year's supply). Though it produces more than it consumes, it still imports high-grades of wheat, about 4-5 MT a year. In the mid-2000s we were exporting as much as 2 MT of wheat to China, but recently this figure had fallen to 10% of that. Knowing that China still needed the types of wheat we produced, particularly durum, we wanted to find out why.

In the last decade the flour-milling industry had undergone huge changes, massive consolidation and technological advancement, now the modern mills grinding as much as 5000 T/day using fully automated technology. Advances were made in all aspects of the milling process -- extraction-rate, ash-control, particle-size, energy-efficiency. The 3 largest milling-groups, all operating mega-mills, now have the capacity to meet mass-demand, still with room for boutique-mills for specialty flours.

Though China's per capita wheat consumption is not much lower than the US, their wheat flour use profile is very different. In the US bread accounts for more than half the flour use, cakes-cookies for another 40%. In China bread accounts for less than 5% of flour demand, cakes-cookies another 25% – steam-bread, dumplings, noodles dominate the market. However, this profile is rapidly shifting in favour of western foods (bread, bakery-goods, pasta, pizza, etc.) changing the type of flours in demand.

These new food trends are giving rise to higher-quality specialty flours that advanced millers are starting to focus on to satisfy market demand. Advanced mills consist of multiple milling-lines, configurable (wheat intake, process, product attributes) for specialty flours. The challenge for millers is the wheat intake; domestically grown wheat is adequate for the types of flour needed for traditional foods, but sub-par for baking, western-style breads, and pastas, requiring imported wheat-varieties.

Among the needed varieties (to be blended with local grades) are hard-red (western style bread), soft-white (cookies and baked goods), and durum (for pastas). These are wheat varieties that we grow, but all our wheat exports are in bulk, while China's major flour-mills want them delivered identity-preserved and in containers, and shipped in regular intervals (weekly container-lots) to avoid keeping large-stocks.



Grain-mixes for breakfast cereals

With growing affluence and a booming restaurant industry, China's eating habits were changing profoundly. Disposal incomes were rising steadily while all segments of society were spending more on food, eating-out as well as home-cooking. While traditional cuisines were being revived and refined, western influences were also evident. These trends were felt across the whole spectrum of food-ingredients, not only wheat-flour, which we touched on above, but even breakfast-cereal contents.

Breakfast is a full-meal in China, followed by not just 2 but 3 more in the course of the day. For many it can be a feast with a variety of dishes, including stuffed-buns, dumplings and even more elaborate ones. But a basic breakfast consists of con-gee, rice-porridge, often with other ingredients thrown in; it can be freshly boiled from regular bagged-rice or left-over cooked-rice. Now there is a trend to replace this staple with cereals mixed with soy or regular milk, tastier and more nutritious.

With a vast new market emerging, a number of new companies have staked out the packaged cereal market. The largest among this new breed of cereal-producers is in Guizhou (south-central China) -- a family-owned private company but with a minority stake held by a global grain giant. In addition to processing-plants and distribution-centres across China, the company has a cereal-plant in Australia, procuring grain varieties and shipping packaged-cereals in containers to be distributed across China.

Australia is known as a major source of coarse-grains, main ingredients for breakfast-cereals, but we are just as good if not a superior source in quality as well as variety. What we produce in this domain is mostly consumed in North America with limited exports, while the main barrier to growing more to export is lack of containerized shipping services. Also, sailing-times from Canada to China are "days" rather than "weeks" from Australia -- just looking at flat-maps may be deceptive in this regard.

Looking into this market we saw a real potential in exporting breakfast-cereal mixes (mainly of coarse-grains) in containers. Just targeting the industry leader in this market, volumes were not as large as specialty grades of wheat but still could reach 50-100 containers a week. There were also value-add opportunities in cleaning, processing and custom-packaging for grain exporters or other intermediaries.



Custom feed-mixes for husbandry

An obvious manifestation of growing affluence was increased meat consumption, making China the largest meat-producer in the world. Poultry, beef and dairy consumption increased 8-10 times; even pork, already high to begin with, increased 3 times. China now accounts for 50% of global pork consumption, 20% of poultry and 10% of beef, but per capita meat-consumption is still below the world-average, particularly in beef far below Brazil or US, with much more growth yet to come.

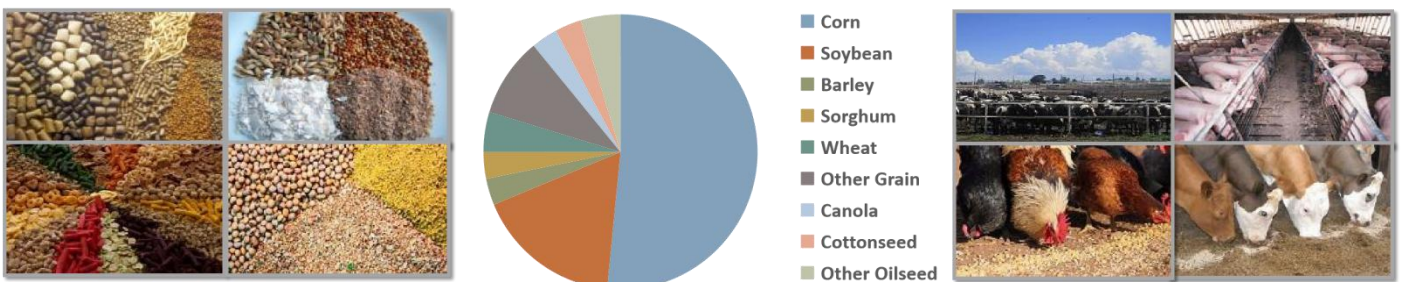
Together with a fairly advanced husbandry and meat segments, a whole new feed-industry was born. Naturally animal-stocks had to be fed; initial reliance on farm-sources and scraps gave way to what USDA calls the manufactured-feed industry -- tripling its output through the 2000s, still growing 10% annually. At the same time, this highly proliferated industry went through massive consolidation with top-10 producers gaining 30% market-share -- the industry leader now with 15-20% share.

USDA estimates that China’s grain-needs for animal-feed is approaching 300 MT/yr, about the same as for food and double the amount US uses for feed. The main feed-staple is corn (50%), followed by soybean (20%), with the rest made up of barley and other coarse-grains as well as oil-seeds (mostly crushed-meals). Corn is domestically grown but the rest have significant import-content. USDA draws attention to the fact that feed-needs will be the main grain-import-engine for US producers to focus on.

The feed-industry leader was among China’s first private sector giants, focusing on agriculture and food sectors along the way. Now it is a sprawling horizontally and vertically integrated conglomerate, with operations extending across Asia, Europe, Africa, Australia, and New Zealand. In addition to its husbandry, meat-processing (pork, beef, chicken) and dairy operations, it is by far China’s largest feed-producer with feed-mills across China as well as other locations in Asia (Russia and Vietnam).

We had targeted this company in the hope of exporting custom feed-mixes to their major feed-lots across China, weekly container loads with the particular grain-mixes at different locations (be it cattle, swine or chicken). This was going to require a new facility in the Prairies, which the buyer would build and operate, with us shouldering the sourcing and logistics components of the chain (including deliveries in China).

China Animal Feed Mix



Many other opportunities to pursue

Our short-lived start-up venture had focused on only 3 buyers, all industry leaders in their respective market segments. Even at this limited scale we were targeting a base-load of 500 containers a week, almost 1 MT of exports, only a fraction of these companies' grain intake. Also, there were other buyers to go after in each of these market segments -- in flour-milling, our target was only one of 3 majors; in feed and cereals our targets were the largest but with many others with similar needs.

As we were pursuing these three targets, there was another under consideration -- malting barley. China had become the world's single largest market for beer, as large as all of EU combined. While the mass market was in the hands of global giants and their Chinese counterparts, a craft-brewery sector was mushrooming, ironically many of them in the hands of Canadian-expats. The supply-lines were difficult to navigate, thus we had left it outside our start-up scope, but it is there to pursue.

Our venture was stalled as Canada-China trade relations deteriorated, with an all-out trade-war pending. However, neither of these companies, nor their grain needs vanished. Canada-China trades may resume, but even if they do not come back as strongly as they once were, the same prospects can be pursued through indirect re-export channels. In any event, our past work could serve as templates for other initiatives, to pursue similar market opportunities across the Asia Pacific region.

Our efforts in the coming months will tackle many more geographical markets, with the two large, mature economies, Japan and Korea on top of our list. These two are eager to containerize their grain-import channels, with many other industry or market segments to target. Also, on our list are Thailand, Philippines, Malaysia, Vietnam and Indonesia; though all these are grain growing countries, and are within reach of Australia, there are many crop niches or grades to identify and pursue.

As we stressed before, trade-facilitation is a collaborative process, where we need the direct participation of our stakeholders, producers -- support our efforts with suggestions and sign-ups to Producer-Profiles. Once these profiles are posted, we will start our campaign across Asia Pacific to attract interest from buyers. Our next featured-article will focus on how we see the trade-facilitation process unfolding.

