
THE ASIAN FEED MARKET; OPPORTUNITIES FOR FEED PEAS

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Pulse Canada is the national industry organization that represents pea, lentil, bean and chickpea growers, processors and exporters across Canada. Established in 1997, Pulse Canada's members include pulse grower organizations in Alberta, Saskatchewan, Manitoba and Ontario as well as the Canadian Special Crops Association.

Pulse Canada has the responsibility of:

- Being the voice of the pulse industry.
- Building the quality of Canadian pulses and improving the quality image of pulses both at home and abroad.
- Exploring and developing new uses for pulses.
- Promoting the benefits of pulses both as a healthy food and environmentally friendly crop.
- Improving access to world markets.
- Market promotion and development.

This paper focuses on the final two items on the above list. Specifically, it will discuss Pulse Canada's efforts in the areas of market access and market development and promotion for Canadian feed peas in Asia.



Opportunities in Asia for Feed Peas

The Asia feed market is the largest new potential market for Canadian feed peas. The feed industries in China, Japan, South Korea and Taiwan import roughly 135 million tonnes of feed each year. Gaining even 1% of this market would require all of the feed peas produced in Canada in a given year. Pulse Canada has been working to turn this opportunity into real sales since 1997.

Markets for feed peas move through various stages of maturity and each of our target markets within Asia is at a different stage. Each stage on the timeline has a unique set of challenges and requires a unique approach by Pulse Canada to overcome these challenges.



1. **Market Access:** The Market Access stage is characterized by tariff and non-tariff barriers that must be overcome before it is even feasible for feed pea sales to take place. The major competitive ingredients for feed peas are corn and soy. If either corn or soy has a tariff-rate advantage it is unlikely that feed peas will fit into a feed ration economically. Pulse Canada works with the Canadian Government and feed industry representatives within target markets to achieve tariff parity with other major ingredients such as corn and soy. This process is made easier by conducting feeding trials with influential feed companies so that demand for policy change comes from within the country as well as from Pulse Canada and the Canadian Government. In some cases the barrier is not a tariff rather an import requirement that must be met before Canadian feed peas can be imported. This may mean that the Canadian Government through the Canadian Food Inspection Agency (CFIA) has to reach an agreement with their counterparts in the importing nation to allow for a treatment such as fumigation. Pulse Canada represents the industry when such discussions are taking place to ensure that agreements do not place unrealistic demands upon pulse producers, processors and exporters.
2. **Market Development:** Once tariff and non-tariff barriers have been eliminated a market is considered to be in the Market Development stage. This stage is characterized by the need to educate the feed industry within a target market on the benefits of including feed peas in rations and generally building awareness of feed peas as an alternative ingredient. Traditionally, this stage involves feeding trials with leading feed manufacturers and technical feed seminars aimed at animal nutritionists within a target market. At this stage, Pulse Canada often partners with the Canadian International Grains Institute (CIGI) and other feed consultants across the prairies to deliver the message to the target audience.
3. **Market Opportunities:** If Pulse Canada and partners have been effective in the market development stage, Market Opportunities often begin to present themselves. Market Opportunities come in the form of increased requests for price quotes, requests for milling information, increased interest in conducting feeding trials to obtain first-hand experience with feed peas and trial shipments of anywhere up to 1000 metric tonnes.
4. **New Sales:** New Sales will come as a result of success in handling the opportunities in stage 3. Having the right price, good trial results and a high level of comfort with milling the peas and including them in rations will translate into New Sales. However, having all of these factors line up together takes a great deal of time, effort and luck.

In Asia, our target markets tend to be in stages 1 through 3 with some reverting back from the Market Opportunity stage into Market Access. Juggling the demands of markets at various stages of development is



time consuming and requires innovative thinking in order to ensure we are capitalizing on opportunities when they present themselves.

China

Lester R. Brown first asked “Who Will Feed China” back in 1995 and the question has never been more relevant. At its current rate of growth, China may soon join Japan, South Korea and Taiwan in the club of nations that have lost between 40 and 50% of their grain-harvested areas. Dwindling resources and rising incomes present new challenges that must be addressed in countries such as China where food security concerns have re-emerged as political priorities. China’s Prime Minister, Wen Jiabao recently urged peasants to boost production, warning that grain security is a matter of social security. After years of declining grain production, China has for the first time in its history become a net importer of food.

The enormous vacuum that has been created in China has sucked up record volumes of soy from the U.S. and South America. Even with government incentives to produce more soy and corn it is unlikely that China will reduce its dependency on imports. And this dependency is placing unprecedented pressures on feed ingredient supplies for neighboring net importers such as South Korea, Taiwan and Japan. Further complicating matters is the fact that China is dropping off the map as the world’s second largest corn exporter. Earlier this spring, Zhu Chang-Guo, Deputy Director General of China’s State Bureau of Grains warned that exports of corn could drop to 2.5 million tonnes – down from over 16 million tonnes in 2003. With some of the largest livestock populations in the world and rapidly expanding appetites for meat, affordable feed ingredients are fast becoming the top priority throughout the region.

Of course, the challenges faced by countries in the East represent enormous opportunities for Canada. At a recent Canadian Feed Pea Seminar hosted by Pulse Canada and the Canadian Embassy in Beijing, Deputy Secretary General Qiao Yufeng of the China Feed Industry Association told nearly 60 invited guests that China’s feed requirements will more than double by 2015 to reach 177 million tonnes. He followed this projection by stating that China’s growing feed industry represents huge potential for Canadian feed peas.

Since 1997, Pulse Canada and the Canadian Government have successfully worked through the Market Access stage – achieving tariff parity with corn and soy. Six successful feed pea trials were conducted in 2004 throughout China and small commercial sales were made this summer. Successful education and awareness programs have moved China beyond the Market Development stage. Significant Market Opportunities are present in China and if we can continue to provide answers to questions and feed peas come in at the right price relative to corn and soy we will see a shift into the New Sales stage; our ultimate goal.

South Korea

Although the path through the market stages in South Korea required a unique strategy, the story for feed peas is similar to China. Again, Pulse Canada’s work in the Market Access stage dates back to 1997. The tariff applied to peas in South Korea at that time was 30%. After a number of successful feed trials with high profile companies and the development of a strong relationship with the Korean feed industry associations a significant policy change came about late in 2003. With the assistance of the Canadian Embassy in Seoul and the Korea Feed Association, the tariff on peas was reduced from 30% to 2%. In addition the Korean authorities opened a quota for peas of 450,000 tonnes.

This change in policy coupled with record high corn and soy prices moved Pulse Canada’s focus from Market Access to Market Opportunities; bypassing the Market Development stage altogether. In the summer of 2004, Pulse Canada hosted the purchasing committees of South Korea’s feed buying organizations for a tour of Canada and Market Opportunities looked as if they would quickly become New Sales.

However, as experience has shown us time and time again, the full story had yet to unfold. As quickly as we developed a strategy for our movement into the New Sales stage, we found ourselves back in the Market Access



stage with a significant non-tariff barrier blocking exports. South Korea requires that imported products are free of host species of Hessian fly. Host species include a number of grass species, including wheat, barley, rye, quack grass, wheat grasses etc. Unfortunately, with foreign material levels of 6-8% in Canadian feed peas, it is impossible to ensure that export shipments do not contain host species of Hessian fly. The result is that we are back in the Market Access stage, working together with the CFIA, the Canadian Embassy in Seoul and the National Plant Quarantine Service of South Korea to find a solution that will allow Canadian exporters to make sales into the 15 million tonne feed market of South Korea.

Taiwan

As an importer of nearly all of its feed requirements, Taiwan also represents excellent potential for Canadian feed peas. The market demands anywhere between 7 and 10 million tonnes of feed each year and is largely dependant on corn and soy from the United States. In times of short supply and high prices, Taiwan will turn to China for cheaper corn imports; however they are very reluctant to rely on imports from their neighbor to the North. Taiwan also has the distinction of being one of the highest cost hog producing nations in the world so access to ingredients that allow competitiveness in the hog sector will always be of great importance.

Pulse Canada and the Canadian Government successfully lobbied for an elimination of pea tariffs when Taiwan was negotiating its accession to the WTO. The tariff currently is being phased out each year until 2007 when it will be at zero. This does not mean that we have completely moved beyond the Market Access stage as we have generated enough interest over the past year in Taiwan to warrant a request to fast-track the tariff elimination.

Again, as a result of record high corn and soy prices, Pulse Canada established 3 major feeding trials with 3 of



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the top four feed manufacturers in Taiwan. The increased interest and awareness has opened the door for discussions about reducing the tariff to zero prior to 2007. This effort becomes more difficult as the market is flooded with corn and soy and prices have returned to average levels in the region. However, there is significant momentum behind feed peas and Pulse Canada will continue to push Taiwan's Council on Agriculture to consider a policy change that will allow its feed industry access to an alternative ingredient.

Pulse Canada will conduct a technical feed seminar in Taiwan in 2005 to promote the results of the trials in 2004 and to generate even more interest in gaining access to peas at a zero percent tariff rate.

Japan

Japan is the Asia-Pacific region's second largest importer of feed behind China. The overall demand for imported feed is fairly stable at roughly 25 million tonnes per year. Japan also represents a premium market as they tend to diversify their supply sources and pay higher prices for good quality ingredients.

Japan is still very much in the Market Access stage for Pulse Canada. Japan has an import quota set for peas and beans and a prohibitive over-quota tariff of 354 yen/kg or \$3.40 USD/kg. Recent technical feed seminars in Tokyo have generated a lot of interest and the Japanese feed manufacturers and trade associations are supportive of our efforts to lobby the Japanese Ministry of Agriculture, Forestry and Food (MAFF). However, MAFF is still unwilling to change the tariff applied to peas for fear of the impact it may have on the local snack pea producers. Pulse Canada continues to emphasize the difference between food and feed peas and will work to highlight the fact that access to Canadian feed peas means alternatives for feed manufacturers and does not threaten local pea production.

We look forward to resolving these issues in 2005 and taking directing our efforts at Market Development in Japan.

Signals for Change

Each target market within Asia presents new challenges to Pulse Canada and its efforts to develop new sales of feed peas. Each market is also sending important signals to us and our response will determine our level of success as we attempt to push our markets along the timeline towards the New Sales stage.

"If you keep doing what you've always done, you'll keep getting what you've always got."

China

Years of hard work on the Market Access front and successes in the Market Development stage have produced Market Opportunities in China. Recent visits with feed manufacturers and meetings with Embassy and Consulate staff from across the country have revealed a need for a change in the way we are approaching the market if our industry is to make New Sales.

Our competition at the American Soybean Association, the U.S. Grains Council, the Australian Grain Pool and many others has been on the ground providing technical marketing support to Chinese feed manufacturers for years. The result is success. For example, China will import a record 20 million tonnes of soy in the 2004/2005 year. Their feed requirements continue to grow at an alarming pace and our competition has positioned itself to capitalize on the growing list of opportunities.

Pulse Canada is listening to the feed manufacturers and Canadian Government staff in the market. There is a clear need to commit to the market if feed peas are going to penetrate even a small portion of the rations. We have been told we need to move beyond education and awareness and consider on-the-ground technical marketing support. We are responding by hiring a Feed Industry Representative for 2005/2006. The Feed Industry Representative will be a joint project between Pulse Canada and the Canola Council of Canada, supported by the Canadian International Grains Institute.

The following are proposed projects that will be considered for 2005/2006 in China.



1. Bi-weekly communication of least-cost formulations to Chinese feed manufacturers using local ingredients and pricing. This exercise will train the nutritionists to routinely check to see if feed peas and canola meal fit into the ration at a cost-savings.
2. Small-scale seminars in targeted regions. A comment in a recent edition of the Economist encouraged exporters not to think of China as one country. You would never approach 17 countries in Europe as one – why would you do it in a market as large and diverse as China? We would like the feed industry consultant to work in specific areas that represent the greatest potential for our ingredients (e.g. Guangdong province and eastern provinces near Shanghai). Further, the seminars need not be large – rather focussed at specific companies and their clients who must get used to the idea of using new ingredients.
3. Targeted technical marketing support visits. A few companies represent huge potential for our ingredients. Success with a handful of large companies would help us get a foot in the door and at the same time utilize a significant tonnage. We would aim to visit these companies regularly and continually provide new information and support in order to develop a relationship that could evolve into sales.
4. Attendance and presentations at key feed industry conferences in China. A number of feed industry associations hold regular meetings and annual conferences. Our aim is to have our Consultant on the agenda of as many meetings and conferences as possible throughout 2005/2006.
5. Market intelligence for the Canadian trade. Canadian exporters will be asked to develop a template of information that they would like to receive on a regular basis. In addition, company profiles based on above activities will be developed and sent to industry in Canada. The goal of this project is to ensure that the intelligence gathered from the marketplace does not reside solely with the Consultant rather is shared regularly with the Canadian industry.

South Korea

The South Korean market holds enormous potential for Canadian feed peas. The key importers of nearly 15 million tonnes of feed per year are familiar with the product, are comfortable that it will fit economically into rations and are ready to displace other traditional ingredients to realize the benefits of using feed peas.

However, the barrier to entering the New Sales stage will not be easy to overcome. With the rejection of the first commercial shipment of feed peas due to the presence of host species of Hessian fly, we received a strong signal. Other feed grains, including feed wheat have historically entered the market from the U.S., Canada, Ukraine and China without problems. This is not because the grains are 100% free of host material of Hessian fly; it is because the level of foreign material has been low enough so as to not cause concern.

Current levels of foreign material in Canadian feed peas that may reach 8% will not allow exports to markets such as South Korea and Japan who have restrictions on presence of species that may host the Hessian fly. The message we are receiving is that these markets will not accept these levels of foreign material. In the short term, an agreement to allow fumigation of feed peas may resolve the problem, however long term goals of capitalizing on opportunities and making new sales of feed peas into these countries may require a change in our export practices. The industry is currently debating the pros and cons associated with reducing the level of foreign material in exports of feed peas and Pulse Canada will be there to bring an important perspective to the discussion.

The Korean Feed Association has indicated that if no imports of feed peas are registered for the calendar year, we risk losing the preferential tariff rate of 2% and quota of 450,000 tonnes. A new feed ingredient may take the place of feed peas on the list of ingredients to which Korean feed manufacturers want access. At the time of the creation of this document, no clear decision had been made on how the industry will proceed. Further, Korean plant protection authorities had not accepted Canada's proposal to fumigate exports of feed peas.



The decision on how to proceed and the eventual solution to this problem will play a role in how we address the Japanese market as well.

Japan

The current challenges in the Japanese market relate to the problem of distinguishing feed peas from food peas. This issue is very sensitive as the Japanese Government is very protective of its agricultural producers.

As a result of this unique challenge, we will not only continue to pursue our traditional approach of creating demand for feed peas within the Japanese feed industry, but also for the first time we will work with the World Customs Organization to develop a new code for feed peas that officially distinguishes them from food peas. This could prove to be a very long and arduous process; however it is necessary to develop parallel approaches to solving market access problems to ensure that when one door closes you have your foot lodged in another.

Conclusion

With a combined feed requirement of 135 million tonnes in China, Taiwan, Japan and South Korea; Asia is the largest new potential market for Canadian feed peas. Canadian peas are attracting the attention of some of the region's largest feed manufacturers. Awareness and interest is gradually evolving into demand in Asia, creating opportunities for continued expansion of pea acreage across western Canada.

These opportunities do not come without challenges. Whether it's a need for a Chinese consultant, a change in export practices regarding foreign material or working with the World Customs Organization to have feed peas officially distinguished from food peas – we must begin to think of innovation not only as it relates to a product, but how it can relate to the way in which we market it. Success in Market Access, Market Development, Market Opportunities and New Sales requires new ways of thinking.

So who will feed Asia? With sustained market access and market development efforts and capitalization of market opportunities; Pulse Canada sees new sales of feed peas becoming part of the solution to feeding Asia's voracious appetite.