DDGS Exports to China: Traders Navigate New Requirements; Other Countries Find Buying Opportunities

In June, traders received word of significant new restrictions on imports of distiller’s dried grains with solubles (DDGS) into China. While a formal statement from the government in China was not forthcoming, conversations with officials in China indicated that China would begin to more strictly test incoming shipments for the presence of biotech events not yet approved in China. It was also reported that China was considering a moratorium on new DDGS import permits, although existing permits would continue to be valid.

These changes have major implications for both U.S. exporters and end-users in China, as China was the leading export market for U.S. DDGS in 2012 and 2013, and was on a similar pace through the first half of 2014. The potential for disruption produced a vigorous response at all levels from traders, end-users in China, the U.S. Grains Council and the U.S. government. The situation continues to evolve rapidly.

Current Situation Update

Existing import permits continue to be valid, contracts are still being written, and DDGS continue to arrive in China, where they are subject to inspection. Shipments that pass inspection continue to enter China. Based on trade reports and recent discussions with government officials in China it seems that approximately 200,000 metric tons of U.S. DDGS have failed inspection and are stranded in ports in China. The re-export of these shipments to other markets that accept the traits in question is a high priority. The Council is hard at work on the ground in China with traders and government officials to facilitate this process.

Current reports also indicate that new import permits will be issued to companies that either have no report of unapproved biotechnology in their imports over the last year or that have dealt with (i.e. re-exported or destroyed) any previously rejected cargos within two months. These traders must also obtain certification that any new imports will not contain any unapproved traits. Since the inadvertent presence of such events at trace levels is difficult to avoid, and since testing can often yield false positives, the exact nature of the testing protocols are important. Policy and practice continue to evolve in these areas, which has produced ongoing uncertainty and increased commercial risk. This is expensive both for traders and Chinese buyers, end users, and consumers – a situation that highlights once again the importance of achieving greater synchronicity in the biotech approval process and a workable protocol on low level presence of unapproved events.

Opportunities for DDGS Importers throughout the World

Since China is currently the leading export destination for U.S. DDGS, any disruption of trade with China will create new buying opportunities in other importing countries.
Highlights from the International Grains Council Conference

U.S. Grains Council officials attended the International Grains Council Conference on June 10, 2014, in London. At the conference, traders, industry representatives and policy makers from around the world met to discuss the grain trade.

The Future of Corn Trade in China

As a key presenter at the conference, Feng Jilong, general manager of the Dalian Northern International Grains Logistics Company, spoke about the need for corn imports in China to feed a growing middle class. While China’s yields and domestic production continue to grow, they are outpaced by China’s rapid economic growth and burgeoning food demand.

Recognizing the political sensitivity surrounding biotechnology acceptance, Feng proposed an alternative strategy in which China could import commodity corn, and then produce its own ethanol and distiller’s dried grains with solubles (DDGS). This would allow China to trim its oil and DDGS imports, reduce environmental pollution and logistical costs, and cut prices for consumers in China.

As a solution to the current restrictions in China, the alternative could prove to be beneficial to both China and corn exporting countries if the government in China would allow for this reallocation of resources.

“The United States is happy to export corn in all forms,” said Ron Gray, USGC vice chairman and representative at the conference. “The government in China will act in its own perceived best interest, and whatever their choice, U.S. producers have the capacity and flexibility to meet China’s growing demand.”

Industry Discussions of Grains Production

Attendees at the conference had the opportunity to discuss current events in major grain production areas, including challenges to increasing world production. One of the topics often discussed was the growing grain production in the Ukraine and the uncertainty surrounding exports, especially out of ports near the Russian border.

Industry professionals also had conversations about the production potential of major Southern Hemisphere grains producers, and the logistical and political hurdles that need to be overcome to reach their growth potentials.

By attending, the Council hopes to use information learned at the conference to better serve its markets worldwide.
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Chinese export sales accounted for 46 percent of total U.S. DDGS sales in 2013, leading to concerns that China would crowd out other buyers if they continued purchasing on this scale. However, the current disruption is slowing trade, making more U.S. DDGS available to other importers.

“China’s massive purchasing has led to concerns about availability in a number of other countries,” said Julius Schaaf, USGC chairman. “We want a quick resolution to the situation in China -- but we also know that any disruption of exports to China will create opportunities for other buyers.”

The current disruption in trade is costly for all concerned. The costs, however, will be felt most by consumers in China, who will be forced to incur higher prices caused by more expensive feed ingredients.

Update: Brazilian Corn Prices Drop with Harvest

As the summer corn harvest ends, total corn production in Brazil has exceeded initial expectations, causing prices to drop. Many traders believed, however, that prices would increase, which resulted in fewer sales made at the beginning of the year. As such, export volumes are low as a large corn crop enters the market.

Production for the summer crop is nearly complete at 32.2 million metric tons, with 100 percent of the crop harvested in southern and central parts of the country. Total production expectations are now estimated at 75 million tons.

Despite ample production, export volumes for shipments from July through September are considerably lower than previous years because of the higher initial price expectations.

“Some foreign trading companies had forecasted, at the beginning of the year, that the Brazilian crop would be around 66 million metric tons,” said Alfredo Navarro de Andrade, U.S. Grains Council consultant in Brazil. “Those who believed that information thought the market was bullish and decided not to sell their crop. Now, however, there is a confirmed crop of over 75 million tons.”

Because of the low sales volume at the beginning of the year coupled with larger-than-expected production, Brazil will have surplus of corn in the coming months. Whether this surplus can make it to market quickly will depend on government subsidies and logistics. Despite talk about the new northern corn shipping ports, little corn is being shipped from those areas. Ultimately, with strong corn production expected in the United States as well as in other exporting countries, import demand will be the factor that can change export volumes in Brazil for the rest of the year.
MAIZALL Conducts First Mission to the European Union

During the first week of June, members of MAIZALL (the international maize alliance) traveled to Europe on a mission to discuss their message with grains producers, consumers and European Union officials. The alliance – comprised of corn producer representatives from the United States, Brazil and Argentina – emphasized the importance of modern agricultural practices, including the acceptance of biotechnology.

“We’re introducing the European Union to the fact that this coalition has formed,” said Nathan Fields, director of biotechnology and economic analysis at the National Corn Growers Association, a member organization of MAIZALL. “We need a more predictable and timely regulatory system to adequately supply this diverse market.”

Working Toward Global Food Security

MAIZALL’s goal in emphasizing modern agricultural practices is to work toward feeding a growing world population. To accomplish this, the alliance understands that synchronized biotechnology approvals and uninhibited trade will be required.

“We are competitors in a global market with a common desire for an open and transparent corn trading system that allows our surpluses to move unobstructed around the globe,” said Julius Schaaf, U.S. Grains Council chairman and MAIZALL president.

In doing so, MAIZALL aims to work with all importing countries to ensure that each of their biotechnology approval processes is timely and scientifically-based.

“We didn’t go to the EU to change their philosophy or their legislation on approvals. We wanted to encourage them to follow the timelines of their approval process according to their legislation,” stated Pam Johnson, NCGA chairwoman.

Reaching out to EU Officials and End-Users of Corn

During the mission, MAIZALL members met with many groups, including corn and livestock producers in Portugal and Spain. These end-users were receptive to the mission’s message, as lagging biotechnology approval has hindered their businesses. In the Spanish livestock industry in particular, growth was thwarted by the high costs of feed corn, since producers have to pay 30 percent more for non-genetically modified feed.

The alliance also met with Ministry of Agriculture officials in Portugal and Spain as well as the U.S., Brazilian and Argentine embassies in those countries.

The mission concluded with discussions at several European Commission offices, European agribusiness groups and EU member state delegations in Brussels. These meetings gave MAIZALL corn producers a chance to share their viewpoints and positive experiences with modern farming technologies to key EU audiences.

In this mission to the EU, MAIZALL members expressed the need for transparent, synchronous biotechnology approvals to feed a growing world population. The alliance will continue to build on the relationships established during this mission and seek ways to collaborate with the European farm and livestock industries. MAIZALL will continue to bring its message to Europe and the world to pursue the goal of global food security. ♦
Monsoons Arrive Late for India, Affecting Summer Crop Predictions

With the onset of summer, hot and dry conditions swept across many of India’s key agricultural areas. Due in part to the El Niño weather phenomenon, monsoons essential to Indian agriculture are not coming as quickly as expected, leading to speculation over production and prices for summer crops.

Late Monsoons Delay Planting

The southwest, or summer, monsoon provides vital rains to farmland throughout India where more than half of the country has no access to irrigation. As the monsoon moves northward throughout the season, the heavy rains cool the stifling heat and provide water for a variety of different summer crops.

In June, pre-monsoon rains reached India and brought relief to the dry weather in some parts. However, the rains were up to a week late in their movement northward in some areas, delaying the planting of various crops and the transplanting of rice. Rainfall predictions for the entire season are below average, with areas in northwestern India expected to receive the least rain at only 85 percent of the average.

Late planting, along with a drier season, will likely lead to decreased production in rice, cotton, soybeans and corn. Indian officials have recommended that farmers use short-duration seeds of cotton, corn and soybeans this year to help alleviate these concerns.

Implications of a Dry Year

If below average production is seen in Indian summer crops, prices for these commodities will increase accordingly, affecting costs for Indian consumers and exports of these goods.

"India continues to export rice, particularly Basmati rice," said Amit Sachdev, U.S. Grains Council consultant in India. "If the production of rice is affected, the country may consider a trade embargo or export duty."

These production concerns highlight the need for access to irrigation in many parts of the country. As a result, officials are planning to grow irrigation coverage by a tenth by 2017 to allow these areas to be less reliant on seasonal rains.

As the summer monsoon begins its late move through India, farmers are forced to wait for good soil moisture to plant their summer crops and are expecting less rain overall as a result of an El Niño year. The dry conditions may affect the production ability of these farms, leading to increased prices for consumers locally and abroad. However, the severity of these potential shortages will only be seen as the summer season progresses.