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Report Name: Market Overview - Alfalfa Hay and Other Forages

Country: China - People's Republic of

Post: Beijing ATO

Report Category: Grain and Feed

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Report Highlights:

With the expansion of China's dairy industry in recent years, demand for forages continues to increase. Demand in China for U.S. alfalfa hay is growing steadily. In the same period, Australian oat grass exports to China experienced a sharp decline. Non-tariff barriers and bilateral relationships with China are a growing concern among Chinese importers and users of forage products.

Executive Summary

Driven by strong consumer demand for dairy products, China's dairy farming industry is experiencing rapid expansion and increasing herd size. Demand for forage products is rising as large, modern dairy farms use more high-quality forages such as alfalfa, timothy hay, and oat grass. Imports of alfalfa hay and other forage products have been increasing in 2021, but oat grass imports have decreased. In the long run, China's demand for high-quality U.S. forage products will continue to grow.

China's Increasing Demand for Imported Forages

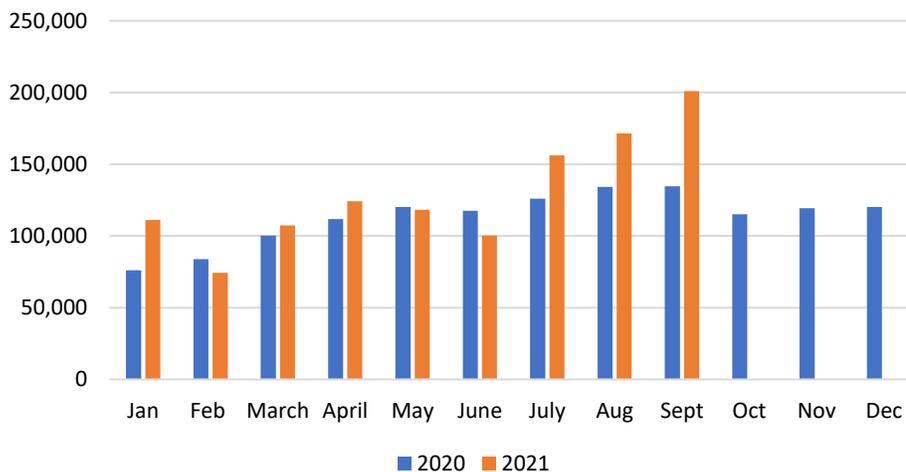
Statistics show that China had nearly 10.5 million dairy cattle in 2019. In the last two to three years, increasing investments of dairy farms in China's north and northwest regions have resulted in a rapid expansion of dairy herds. Corn silage, mainly produced in China, is the major forage used for dairy. China also produces other forages such alfalfa, sheep grass, and oat grass, but output is insufficient to satisfy demand, leaving room for imports.

Import statistics from the General Administration of Custom of China (GACC) show that China imported over 1.3 million tons of grass hay in the first nine months of 2021, an increase of 6.1 percent. Total import value reached \$484 million, an increase of 7.6 percent. The average CIF price of grass hay was about \$365 per ton.

Imports of Alfalfa Hay

China imported 1.16 million tons of alfalfa hay in the first nine months of 2021, an increase of 10.7 percent. The United States exported nearly 1 million ton to China in the same period, accounting for 84.1 percent of China's total imports, with a value of \$430 million. Average cost, insurance, and freight (CIF) price of U.S. alfalfa hay was \$379.58 per ton. Spain is the second largest source of dehydrated alfalfa on the market, with a total quantity of 109,200 tons, followed by Canada, South Africa, Sudan, Bulgaria, and Lithuania.

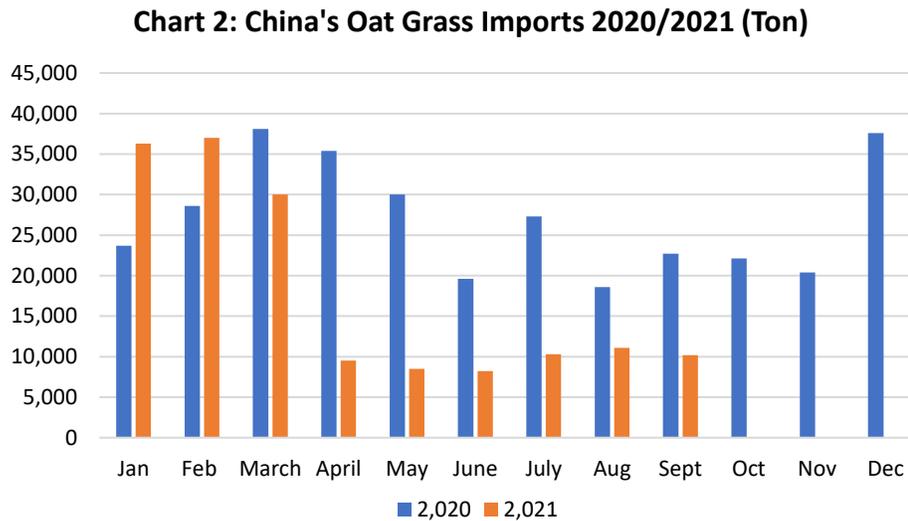
Chart 1 - China's Alfalfa Hay Imports 2020/2021 (Tons)



Source: GACC Statistics

Decreasing Imports of Oat Grass in 2021

China is also a major importer of oat grass, and all imported oat grass is of Australian origin. In 2020, China imported over 320,000 tons of oat grass, and the average CIF price of oat grass was about \$332.80 per ton. However, in 2021 most export permits for Australian oat grass facilities expired and were not renewed. Currently only three facilities are eligible to export oat grass to China. GACC statistics show that China imported 161,100 tons of oat grass from January to September 2021, a decline of 34 percent.



Source: GACC Statistics

Imports of Other Forage Products

China also imports other forage products, such as timothy hay and alfalfa pellets.

Timothy hay is mainly used for horses, rabbits, sheep, goats, and dairy cattle. This year, increasing exports of timothy hay may be caused by decreased oat grass imports. Timothy has strong potential for expanded marketing in China as people are becoming aware of its nutritional value. U.S. timothy hay also gained market access in early 2020. Although there are no official statistics on China's timothy hay imports, several U.S. exporters have stated that they have begun exporting U.S. timothy hay to China. U.S. exporters are expected to supply an estimated 100,000 tons of timothy hay to China in 2021.

Swine farms are increasingly using alfalfa pellets as feed ingredients for pregnant sows. Farmers in China predict strong and growing demand for alfalfa pellets in the coming years. China imported \$8.36 million of Spanish alfalfa pellets from January to September 2021, representing a 95 percent increase over the previous year. Although U.S. pellets gained market access in early 2020 through the Phase One Trade Agreement, there are no U.S. exports to China to date.

Tariffs on Major Imported Forages

China imposes a 7 percent tariff on U.S. alfalfa hay, which is in addition to the 25 percent Section 301 retaliatory tariffs. However, importers are eligible to request 301 exclusions through an online application. The procedure is simple, and importers have never reported a failure to receive a 301 tariff exclusion. Tariff rates vary by country, product, and amount, with some countries' exporters enjoying zero tariffs because of free trade agreements.

Table 1: Summary of tariff rate of selected products in selected countries

Country	Product	Tariff Rate	Remark
U.S.	Alfalfa Hay	7%	25% 301 tariffs can be excluded
	Timothy	9%	
Australia	Oat Grass	0%	Free Trade Agreement
Spain	Alfalfa Hay	7%	
Sudan	Alfalfa Hay	0%	Free Trade Agreement
South Africa	Alfalfa Hay	7%	
Spain	Alfalfa Pellet	5%	

Impact of 301 Tariffs on U.S. Alfalfa Exports

In July 2018, China levied 25 percent additional tariffs on U.S. alfalfa, directly increasing the cost of U.S. alfalfa hay. In addition, traders were concerned that the bilateral relationship would further deteriorate, at which time importers started to seek other sources of alfalfa such as Spain, Sudan, and South Africa. Meanwhile, the Chinese government opened the market to alfalfa imports from additional countries. However, importers and users soon realized that the quality of alfalfa was not as high as U.S. alfalfa, and supply was insufficient.

U.S. alfalfa exports were only slightly affected by additional tariffs due to customer preferences for high quality alfalfa hay and sufficient supply. Demand for high quality alfalfa hay is somewhat inelastic; although some Chinese dairy companies and farms tried to use more corn silage or other forages in daily rations, doing so affected milking performance. Large dairy farms or companies prefer premium grade U.S. alfalfa.

Impact of Non-Tariff Barriers to Trade

Companies in China are increasingly concerned about the impact of non-tariff barriers to trade. For example, widespread concern arose when China did not reissue licenses for processing facilities in Australia, halting nearly all Australian exports of oat grass to China. Importers, exporters, and end users alike are anxious about instability in bilateral relationships that has the potential to directly affect input supply.

China's Dairy Industry and Demand for High-quality Forage Products

In recent years, due to increasing demand for dairy products and increasing milk prices, the dairy farming industry in China experienced rapid expansion. Many new, modern, and large dairy farms were built, and many are currently under construction. To maintain new farms, farmers had to not only keep more calves than usual, but also buy more calves from other countries. According to GACC, China imported 257,000 heads of live cattle in the first eight months of 2021, an increase of 45 percent compared to the same period in 2020.

China produces alfalfa hay mainly in Ningxia, Gansu, Inner Mongolia and Northeastern China and its use is primarily in this area and the surrounding provinces. Other dairy production regions such as Shandong, Henan, Hebei, Shanxi, and some parts of northeastern China require imported alfalfa.

Rapid expansion of dairy farms and increasing of dairy herds will affect the dairy market in China. In the last one to two years, the number of cows in Ningxia increased 30 percent, which led to a 30 percent increase in milk production. Other major dairy production regions experienced similar changes. The summer season in July and August are traditionally the time when milk supply is in shortage, but in the summer of 2021, dairy companies processed more fresh milk to milk powder. China predicts an oversupply of milk in 2023. China's demand for alfalfa hay may also be affected, but in the long run, large, and modern dairy farms will likely continue to use high-quality forages.

Major Shows and Events

- China Dairy Conference and International Dairy Expo, an annual event organized by the Dairy Association of China (DAC) in early July
- China Ruminant Animal Development Conference, an annual event organized by the China Animal Agricultural Association
- China Grass Development Conference, an annual event organized by China Animal Agricultural Association

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Attachments:

No Attachments.