

RMJ

Rural Minnesota Journal

The Agriculture and Forestry
Issue:
Looking to the Future

2009



CENTER *for*
RURAL POLICY
and DEVELOPMENT

Seeking solutions for Greater Minnesota's future

Minnesota Agriculture in the Global Market

Kurt Markham

Overview

America's agriculture sector is undergoing dramatic changes. The driving forces of change include expanded global production and expanded and diversified global demand. While the current economic crisis has caused a global economic slowdown, exports have continued to provide jobs and economic activity for Minnesota's agriculture industry.

When you consider that 95% of the world's population and two-thirds of the world's purchasing power is located outside of the United States, it only makes sense to encourage Minnesota producers and companies to make their mark in the export arena. The U.S. Department of Agriculture (USDA) estimates Minnesota farm exports make up 30% of annual farm receipts.

Minnesota is the seventh largest agricultural exporting state in the United States. Minnesota farmers sold nearly \$6 billion in

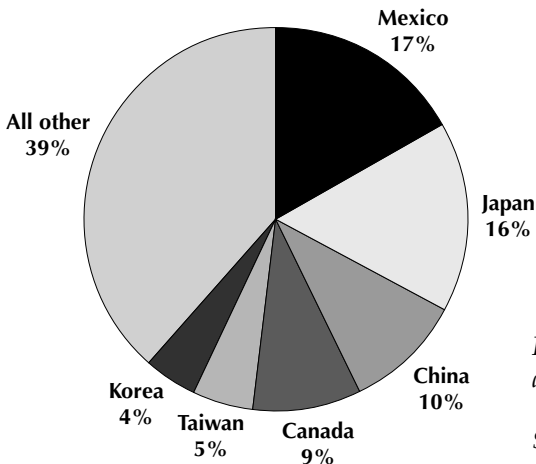


Figure 1: Minnesota top ag export markets (2007).

Source: MDA/AMS

soybeans, corn, livestock, wheat, and other food to foreign markets last year, a 50% gain in five years.

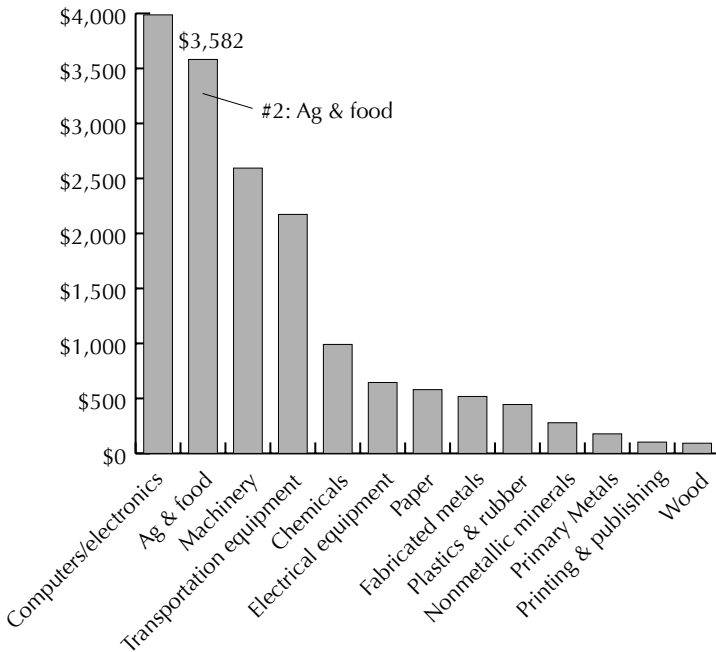
Agricultural exports help boost farm prices and income, while supporting about 38,365 jobs both on the farm and off the farm in food processing, storage, and transportation.

Minnesota's agricultural and statewide economy is increasingly dependant on exports. Agriculture is the second largest exporting sector in Minnesota (after computers and electronics), contributing 19% of the state's total exports.

Minnesota's top agricultural export commodities include soybeans and soybean products, corn, livestock/meat, wheat and wheat products, processed vegetables, dairy, feed/fodder, and poultry.

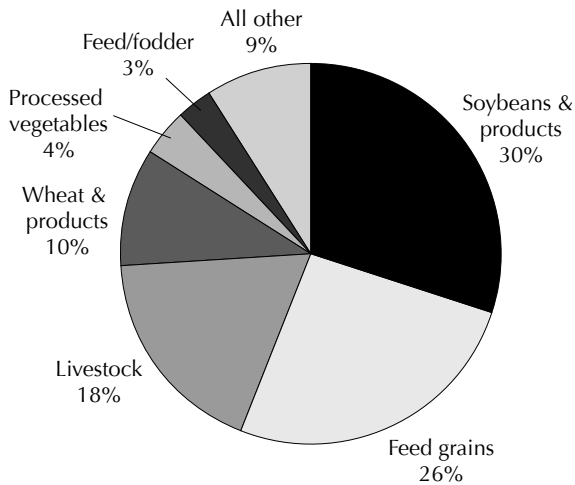
Global demand is increasing, and with that is increasing competition among suppliers. Minnesota producers are ready to meet the growing foreign demand for food and feed. In the top ten

Figure 2: Minnesota manufactured and ag exports: 2007 ranking (in millions of dollars).



Source: MDA/AMS

Figure 3: Minnesota agricultural exports by commodity (2007).



Source: USDA, MDA/AMS

of livestock producing states, Minnesota is in a prime position to provide plenty of raw and processed export products.

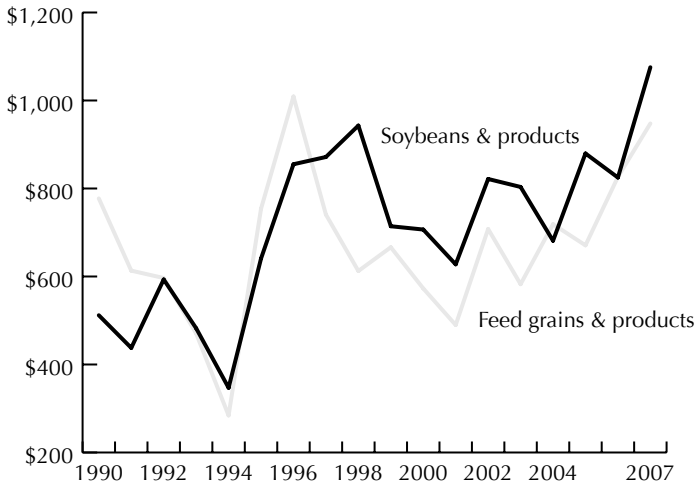
Minnesota exports more soybeans than any state but Iowa and Illinois, \$1.08 billion worth last year (Figure 4). This was up from \$825 million from the previous year, a 30% growth. About one third of the state’s soybean crop is exported in the form of raw soybeans (38%), meal and cake (34%), oil (17%), and flour (11%). In addition, exports of feed grains went up 15% during the same period, to \$948 million.

In 2007, wheat and wheat product exports totaled \$355 million, and increase of 29% over the previous year (Figure 5).

All livestock and livestock products accounted for \$641 million in 2007, up 13% from the previous year (Figure 6). Of all meat exports, poultry comprises 20%, pork 32%, and beef 2%.

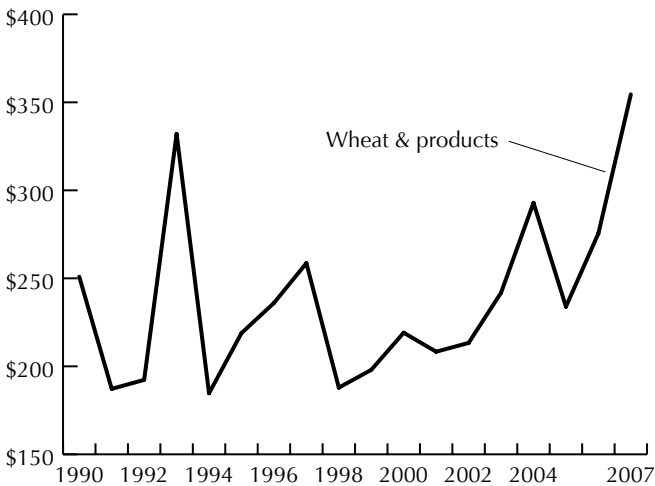
In 2007, Minnesota exported \$92 million in poultry products, up from \$79 million the previous year (Figure 7).

Figure 4: Minnesota soybean and feed grains export trends (in millions of dollars).



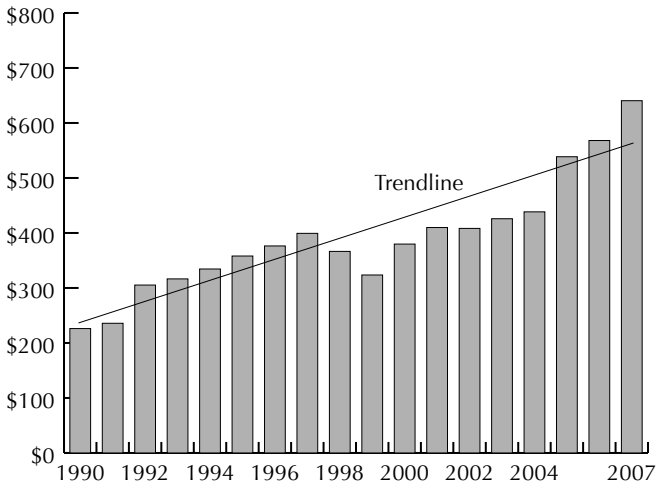
Source: USDA/NASS

Figure 5: Minnesota wheat export trend (in millions of dollars).



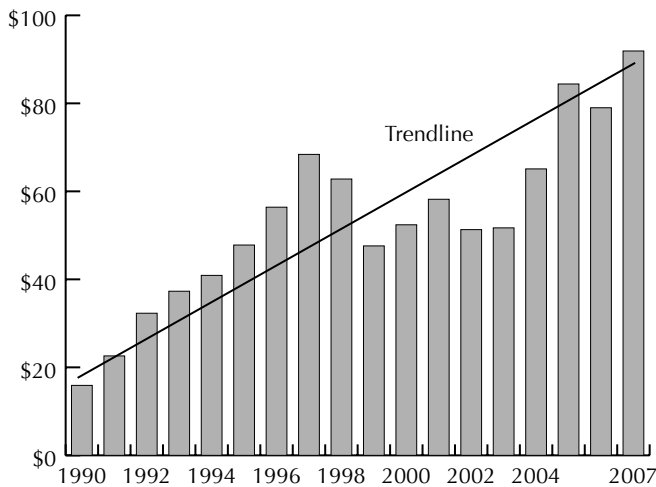
Source: USDA/NASS

Figure 6: Minnesota livestock export trend (in millions of dollars).



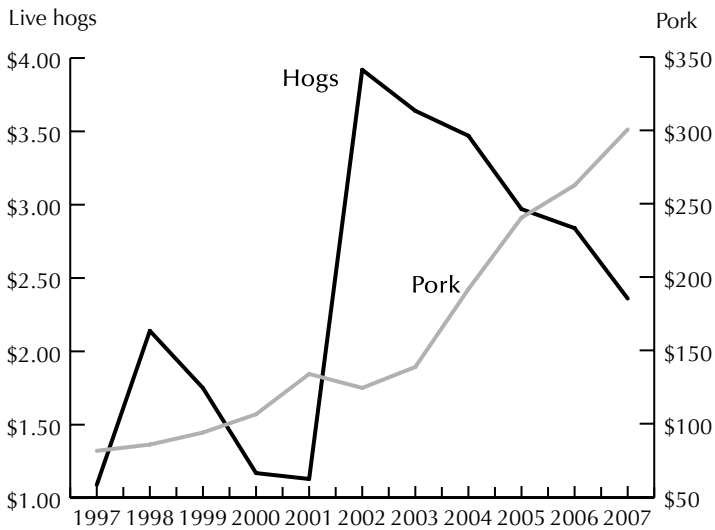
Source: USDA/NASS and MDA/AMS

Figure 7: Minnesota poultry export trend (in millions of dollars).



Source: USDA/NASS and MDA/AMS

Figure 8: Minnesota hog and pork export trend (in millions of dollars).



Source: USDA/NASS and MDA/AMS

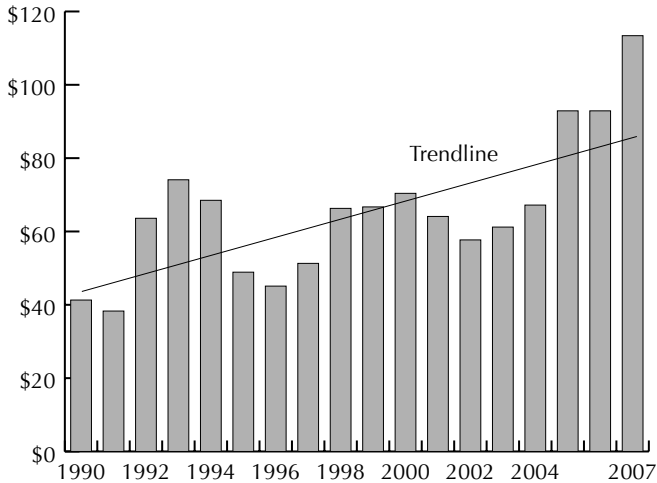
Minnesota is the third largest pork producer and exporter in the United States, with about 14% of the state’s pork exported (Figure 8). Six primary markets — Japan, Canada, Mexico, China, Russia and Korea — represent an 87% market share.

Minnesota is the sixth largest dairy producer and fifth largest dairy exporter among all U.S. states. In 2007, Minnesota dairy exports reached a record-high of \$113 million. Dairy exports include cheese (23%), whey (18%), milk powder (13%), buttermilk (13%) and butter (4%).

Minnesota’s largest dairy export markets are Mexico, Canada, Japan, China, Philippines, Indonesia, Malaysia and Korea, with a combined market share of 68%.

The Minnesota Department of Agriculture (MDA) is committed to promoting Minnesota products in international markets and to finding new opportunities to add value to these products. If Minnesota’s farmers, ranchers, and food processors are to compete successfully in the 21st century, they will need more open access to growing global markets. MDA recognizes this and has strong, established trade relationships with China, Mexico, Canada, and Japan.

Figure 9: Minnesota dairy export trends (in millions of dollars).



Source: USDA/NASS and MDA/AMS

China Partnership

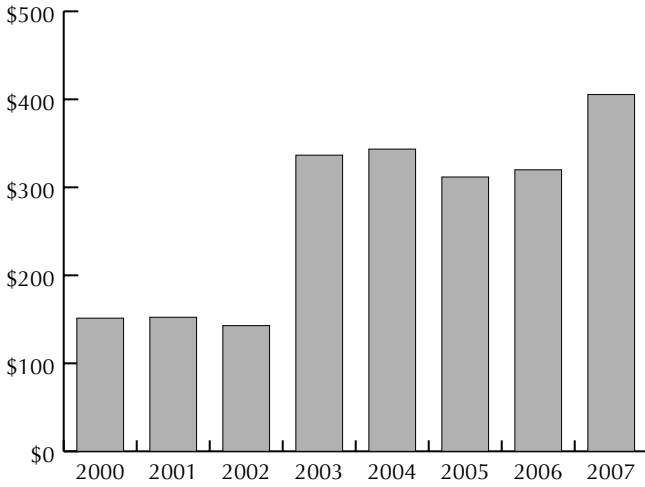
One of Minnesota's greatest export success stories is our trade relationship with China. China is the fastest growing market in the 21st century. In 2004, China's population was 1.3 billion with a gross domestic product equaling \$1.65 trillion. The following year, Minnesota Governor Tim Pawlenty launched the Minnesota-China Partnership to strengthen and broaden Minnesota's relationship with China. The Minnesota Trade Office (MTO) in St. Paul established an office in Shanghai, China, that same year to provide services designed to help Minnesota companies do business in China (Figures 10 & 11).

Likewise, MTO and Minnesota Department of Agriculture staff began working together to help Minnesota agribusiness companies export their products or services to China.

Since then, China has become an attractive market for not only agriculture and processed foods, but other business sectors as well. Today, China is Minnesota's fourth-largest trade partner, purchasing more than \$400 million worth of Minnesota products every year.

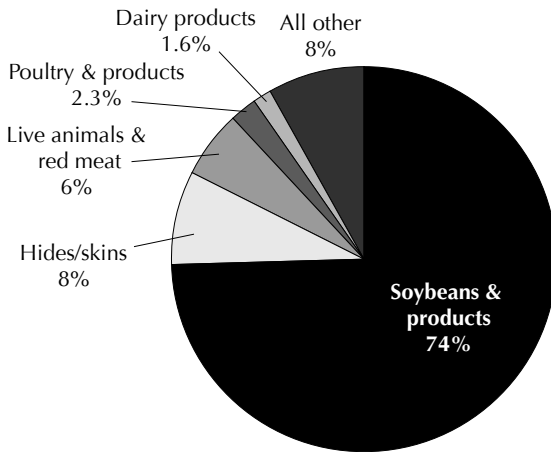
The Minnesota-China Partnership (www.Minnesota-China.com) continues to create new opportunities and increase the economic activity for both entities through annual trade missions, international business development programs, strengthening existing relationships with Chinese government and business leaders, and promoting greater understanding of U.S. – Chinese relations.

Figure 10: Minnesota ag exports to China (in millions of dollars).



Source: MDA/AMS

Figure 11: Minnesota ag exports to China (2007).



Source: MDA/AMS

Taiwan Partnership

MDA has also developed a very deep-rooted relationship with representatives of Taiwan's food and agriculture industry. Taiwan is an ideal market for small and medium-sized business, as its business climate is very friendly to international visitors, its businesses are well-versed in the import process, and it provides a great opportunity to branch into Mainland China with the assistance of a Taiwan partner. MDA staff and Minnesota businesses have visited Taiwan once each year since 2006, and in return USDA's American Institute in Taiwan has brought buying delegations to Minnesota. Taiwan has remained an essential export business partner for the state, ranking as our fifth largest export market in 2008.

Small companies can be big fish in international ponds. In emerging markets, often the first companies to establish a presence are rewarded with brand loyalty from customers. Many buyers in emerging markets want to purchase smaller volumes of product that multinational companies prefer not to serve. A small or medium-sized supplier that has a quality product with attractive labeling and a proper price point for the market can step up to supply the customer and grow the brand as the consumer market grows. Investing early in a market can often pay dividends in the long term.

Aggressive Marketing

The Minnesota Department of Agriculture Marketing Services (AMS) Division works to discover and develop potential markets for Minnesota's farmers and agribusinesses. AMS international trade experts assess prospective global markets and aggressively pursue them. AMS staff provides assistance to farmers and agribusinesses in evaluating market entry methods, understanding and obtaining regulatory requirements, finding partners, arranging shipping and financing, and many other activities.

MDA also works closely with the Food Export Association for the Midwest USA, a private, non-profit association that offers services to help companies promote their Midwestern food and agricultural products in foreign markets. MDA is one of 12 state Departments of Agriculture or agencies working with the Food Export Association. The Association offers partial reimbursement of export marketing expenses as well as numerous trade events that link U.S. suppliers with foreign buyers. The strong relationship between MDA and the Food Export Association is one reason why Minnesota continues to be a national leader in the agri-trade industry.

In 2008, Minnesota companies reported \$15 million in export sales as a result of MDA-sponsored trade missions to four countries:

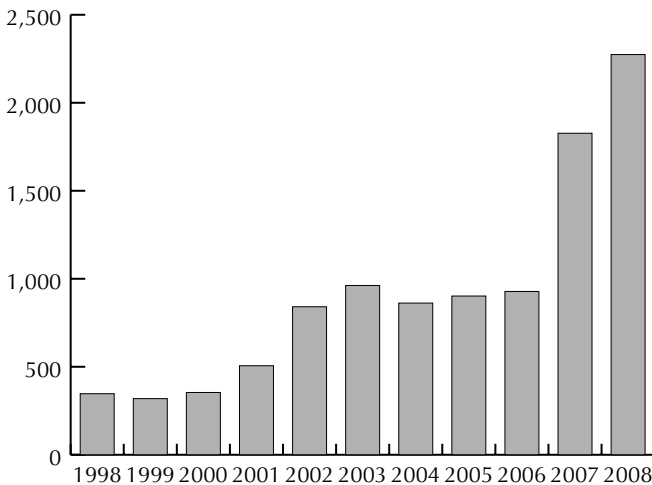
China, Taiwan, Cuba and Vietnam. For these trade missions, the MDA reports a return on investment (ROI) of \$633 for every \$1.

Emerging Markets

Through the MDA's aggressive international marketing program, more trade opportunities are opening up in Cuba and Vietnam. A major factor contributing to these emerging export opportunities is the expansion of the biofuels industry, in which Minnesota is leading the way. The potential use of biodiesel in transportation has seen significant development worldwide. While several states, including Minnesota, have mandates for blending biofuels into vehicle fuels, at least 17 countries have also implemented similar mandates at a national level. Minnesota has more than enough production capacity to meet its biodiesel mandate, creating an export opportunity.

With 17 ethanol plants in operation in Minnesota, the supply of ethanol's bi-product, dried distiller's grains (DDGs), is abundant and readily available as a feed supplement to livestock producers. In 2008, DDG exports were 4.5 million metric tons or about one fourth of all U.S. produced DDGs — and nearly double over the previous year. Mexico, Canada, Turkey and Southeast Asia were the top markets importing DDGs from Minnesota.

Figure 12: Minnesota DDG production trend (in 1,000s MT).



Source: PRX

Minnesota is the leader in sales of DDGs, livestock, and dairy products to Cuba, a market viewed as both lucrative and largely untapped. Since 2002, Minnesota has actively been pursuing trade relations with Cuba in preparation for the lifting of the U.S. trade embargo. MDA hosted trade missions to Cuba that year and had a major presence at the island's largest trade event, Feria Internacional de la Habana. This was the first year U.S. companies were allowed to participate in the expo since the embargo was imposed.

As a result of these efforts, says MDA Commissioner Gene Hugoson, Minnesota has a very positive reputation in Cuba for the quality of agricultural products we have to offer.

He believes the solid relations that have been established will help Minnesota companies negotiate future sales contracts.

Total U.S. sales of agricultural goods to Cuba reached a record high of \$431 million in 2007, up from \$321 million in 2006. Minnesota exports to Cuba were valued at \$18.3 million. Although the recent Congressional discussions of lifting trade restrictions to Cuba have cooled, Minnesota will continue to strengthen its relationships with Cuban officials.

Minnesota producers also have their eyes on another emerging market: Vietnam. MDA has launched a three-year market development plan for Vietnam. Again, establishing trade relationships with this budding region of Southeast Asia is extremely important. While worldwide economic factors have slowed exports, Vietnam remains an evolving market that cannot be overlooked. In 2006, the region accounted for \$3.6 billion of food and agriculture imports from the U.S., or about 15% of the total U.S. product sent to Asia as a whole. That's significant considering the large consumer market of China totaled \$6.7 billion, or about 25%, for that same year.

Vietnam is the second fastest growing economy in Asia, posting growth of 8% in 2006 and 2007. Vietnam's per-capita Gross Domestic Product (GDP) reached \$700 million in 2006, a sevenfold increase from 15 years ago, and the government of Vietnam continues to pursue its ambition of becoming a middle-income developing country by 2010. With its accession to the WTO in January 2007, the market will become increasingly more accessible to U.S. exporters by means of lowered tariff rates and quotas. Further, foreign direct investment became possible in the market beginning in January 2009.

These growing markets are suitable to Minnesota suppliers who are willing to visit the market, develop a long-term relationship with a partner, offer smaller less-than-container-load (LCL) shipments to start the market, and offer marketing and education support. Large, global brands haven't been the only success stories in these markets.

Private label brands and brands offered by small- and medium-sized companies are now very well-known to consumers because these companies chose to invest in the market early.

Trade Disruptions

While Minnesota's global market opportunities continue to expand, we cannot neglect the impact food safety concerns have on agricultural exports. This has been painfully evident this spring during the H1N1 novel influenza virus outbreak and its impact on the pork industry. Nearly 20 countries placed restrictions on or banned imported pork as a result of the virus being incorrectly dubbed "swine flu." Although the H1N1 strain is not food-borne, fears that it would spread through animal products prompted restrictions on live pigs, pork, cattle, poultry, livestock, and feed.

The three countries most affected by these bans — Mexico, the United States and Canada — are among the world's top pork exporters, along with the European Union, Brazil, Chile, China and Hong Kong.

As more has become known about the H1N1 virus, restrictions have been lifted. But the ongoing financial side-effects to the pork industry may not be totally known for some time. The situation underscores, however, the importance of strong relationships with countries we do business with and ramped up promotion of our food and agriculture products as being of high quality and safe to eat. From the producer to the consumer, food safety is an issue that needs to be addressed at every level of the food chain *before* it enters the export market. The melamine disaster in China is one example we should and have learned from.

Minnesota will continue to strengthen existing relationships and build new ones around the world. The MDA will maintain its close ties with Taiwan and encourage trade with Vietnam and Cuba. As we look toward our global future, more Minnesota companies will find the opportunity to match their products with the right markets, and MDA will continue to assist them in maintaining a competitive advantage.