

Market Price Discovery for Forages in Saskatchewan

As of January 15, 2008



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1) Recap of 2007 Growing Season in Relation to Forage Production

At the time of the July Price Scan concerns were mounting in the eastern and central portions of the province with regards to the abundance of moisture and precipitation possibly causing a downgrade in the quality of forages. July heat struck across the province and many of these worries dissipated. Overall across the province producers were happy with yields and the quality of forages harvested. The July heat and general lack of moisture province wide limited a second cut of forages in areas where it is generally expected. Fall moisture was variable and to-date the winter snow fall has been equally variable by area.

According to the 2007 Saskatchewan Agriculture and Food (SAF) Final Crop Report, the average dryland alfalfa/brome production was 1.53 imperial tons per acre. The ten year average is 1.07 imperial tons per acre. It is interesting to note that yields were above the provincial average in all regions, ranging from an average high of 1.79 imperial tons per acre in the north east to an average low of 1.26 imperial tons per acre in the southwest. 90% of SAF Crop Reporters rate 2007/2008 on-farm winter feed supplies as adequate to surplus. As expected, the southwest has the highest rating of inadequate hay, greenfeed, straw, and feed grains.

With above average production numbers one may ask why the forage prices are elevated across the southwest and south central portions of the province. Pastures began growing later this spring, and then a hot dry July combined with localized gopher or water quality/supply issues, and a lack of fall rains for regrowth on harvested fields added up. The result for many south western producers was that feeding began extremely early, and will likely continue late into the spring to try to let pastures recover from a hard 2007.

Table 1. 2007 Saskatchewan Dryland Hay Yield Estimates

2007 Saskatchewan Dryland Hay Yield Estimates				
tons per acre				
Alfalfa	Brome/ Alfalfa	Other Tame	Wild	Greenfeed
1.60	1.53	1.39	1.16	1.81

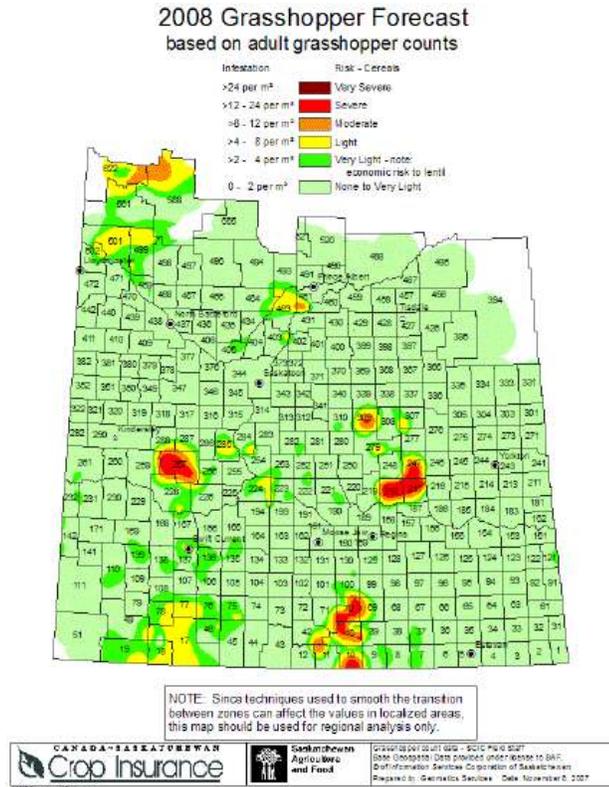
Source: SAF Final Crop Report, 2007

2) Field Pest Impact and Projections for Forages

Gophers (Richardson Ground Squirrels) were a huge issue in many localized areas within the province- particularly in the south west. Phostoxin was registered for use and utilized by a large number of producers. However, according to one of the Richardson Ground Squirrel Task Force members, expected results were not achieved and risk to human health surfaced even under proper usage. Large, but statistically unknown acres of forages were affected by the gopher population and there is not expected to be a decrease in numbers for the spring. 2% Strychnine has been reissued and distribution for use in the spring of 2008 has been steady. Much research is needed to determine the appropriate plan of action against these pests.

There is an optimistic forecast for grasshoppers in 2008 across the province. The majority of the province is expected to have a very low level of infestations this upcoming growing season. Grasshoppers can effect perennial forage production through defoliation if spring moisture conditions are low and the temperature is warm.

Saskatchewan Agriculture and Food also reports that the alfalfa weevil has moved from the south eastern portion of the province in a northward direction and across the Qu'Appelle Valley. The lesser red clover weevil continues to decrease red clover seed yields in the north east (SAF Final Crop Report, 2007).



Source: SAF Final Crop Report, 2007

3) Current Saskatchewan Transportation Costs

The transportation industry across the whole province has indicated that the price of trucking feed has increased significantly. The northern region of Saskatchewan has adjusted their rates to \$5.00/loaded mile for hauling hay. Short hauls of less than 70 miles are running at \$110.00/hour in the northern region. These rates have climbed \$0.50 to \$1.00 a loaded mile from this time last year. The short hauls have increased approximately \$20 dollars/hour since last year. The southern region of Saskatchewan has relatively similar rates for hauling hay. Trucking companies are charging \$4.50 to \$5.00/loaded mile. Short hauls of less than 70 miles run from \$90.00 to \$110.00/hour.

The general consensus from the trucking companies is that they needed, and still may need, to increase their rates due to the rising cost of clear diesel. Firms in the north have found that producers are leaving their feed stacked in the field until they need it. Firms in the south have found that producers are looking for tri axle trucks or split trucks for hauling so that they can spread the transportation cost over more bales. Producers feel that the rising cost of transportation has limited them significantly to locally produced feed. Producers in need of feed do realize that feed located over 70 miles away will likely be less expensive than feed in their area, but when factoring in the trucking cost it works out to be relatively similar priced feed.

4) Current Saskatchewan Forage Prices

Table 2. Saskatchewan Forage Prices as of January 15, 2008

<u>Forage Type</u>	<u>Condition</u>	<u>Asking, Buying, or Settled Price</u>	<u># of Traders</u>	<u>Quantity</u>	<u>High</u>	<u>Low</u>	<u>Weighted average</u>
Grass	Round baled	asking	1	109 T	\$55.00/T	\$55.00/T	\$55.00/T baled
1st cut Alfalfa	Round baled	asking	29	9211.5 T	\$88.00/T (Denzil)	\$29.40/T (S'toon)	\$52.56/T baled
1 st cut Alfalfa	Small squares	asking	4	Unknown*	\$132.00/T (Dalmeny)	\$44.00/T (S'toon)	\$104.5/T baled
2 nd cut Alfalfa	Round baled	asking	2	523 T	\$73.50/T (Duck Lake)	\$55.00/T (Kamsack)	\$67.06/T baled
Alfalfa/grass	Round baled	asking	37	9070 T	\$66.00/T (Kerrobot)	\$30.00/T (Simpson)	\$49.88/T baled
Alfalfa/grass	Delivered, round baled	buying (feedlots)	9	1.0 million T ++*	\$45.00/T	\$77.00/T	\$55.11/T delivered
Greenfeed	Round baled	asking	2	545 T	44.10/T	44.10/T	44.10/T
Straw	Round baled	asking	4	Unknown*	\$22.00/T (Forget)	\$33.00/T (Pilot Butte)	\$29.25/T baled
Straw	Delivered, round baled	buying (feedlots)	8	250,000 T ++*	freight only (Rhein)	\$45.00/T	\$36.56/T delivered
Clover	Round baled	asking	2	540 T	40.00/T (Scout Lake)	\$43.80/T (Wapella)	\$42.40/T baled

* indicates that the price in the weighted average category is actually a simple average when the T being offered or purchased was inadequate to weight the average.

- These numbers were derived from the Dec 20th Saskatchewan Agriculture and Food Feed and Forage Listing Service and the feed listings in the Western Producer from September 13th, 2007, weekly through January 3, 2008. The large feedlots in Saskatchewan ranging from a lot capacity of 5,000 to 30,000 head were also surveyed.

Grass- Straight grass forage is difficult to come by. Generally, fields across the province of nearly straight grass are conservation lands (Ducks Unlimited Canada, Saskatchewan Watershed Authority, Sask Power, various mines) that were seeded without a legume component initially or must be left in permanent cover. These fields are tendered out yearly in the spring to be custom hayed. The standing price from the July 2007 Price Scan indicated that an average price was \$14.01/T, with a range between \$3.85/T and \$15.00/T. Older stands of straight grass (where the legume has died out over the years)

in the south to south west of the province were more than likely not hayed this year as heat impacted production. Many herds were turned out to graze these fields instead.

Clover- Overall, clover is a weakly demanded forage in the province. The Canada-Saskatchewan Farm Stewardship Program may have increased seeded clover acres, however that clover had to be incorporated as green manure and not used as a feedstuff. Clover is generally underutilized as an inexpensive short term feedstuff in the province.

Standing Forages- The July 2007 price scan accurately captured standing forage prices within the province. With grain prices steadily climbing and being projected to hold strong within the next year or two, the SAF Forage Specialists all project a decline in forage acres. Some breaking of fields has already taken place. There is potential for an increased demand for standing hay in areas where breaking of forages is strong (such as in the eastern portion of the province). SAF Forage Specialists indicated that mixed producers are calculating the cost of buying their needed hay supplies baled or standing from other sources rather than on farm and concentrating land resources on grain production. Many of the producers or organizations that sell standing forages are in the eastern portion of the province.

Certified Organic Hay- There was very little indication of the price of certified organic hay. Two prices were discovered- \$56/T at Kerrobert and approximately \$70/T at Woodrow. In speaking with organic producers, demand for organic hay is generally met by on farm supplies through seeded buffer strips and areas generally unfit to grow organic field crops. Issues with organic livestock certification and what criteria are demanded of the operation often leave these producers asking more questions than receiving answers. The general consensus is that once the federal organic standards are revised and implemented, organic livestock production will become clearer. The demand for certified organic forages may then increase which may cause prices to rise.

Green feed- Very little green feed was found on offer across the province. SAF Forage Specialists from all areas indicate that producers generally seed annual crops such as oats late with hopes of a long growing season so that it can be combined. Sometimes it does not reach grain potential and is then harvested as green feed. This year with strong grain prices and a generally warm, dry July and August the majority of these “iffy” fields were combined instead of baled as green feed. SAF Forage Specialists indicate that in all of their areas very little green feed is planned for the 2008 crop year.

Silage- The price of silage was tough to narrow down across the province. The nine feedlots surveyed varied in lot capacity from 5000 to 30000 head. At the present time they are paying \$45.00-\$55.00/Ton. Feedlots feel that the price of silage will increase as the price of feed barley continues to rise. The price of silage is generally determined by: the average over the set time period (year) for the equation:

$$10 \times \text{the price/bushel of feed barley} + \$4 = \$ / \text{dry ton of silage.}$$

A producer who supplies a field for silage then receives payment throughout the year.

Dehy Alfalfa- At first glance one would say that the dehy alfalfa industry is floundering, just as it was this summer. But, on closer examination and in conversations with industry representatives optimism has surfaced. Mr. Dale Pulkinen of the Canadian

Dehydrators Association explains that: 1) the demand in the EU for pellets has risen, hence less subsidized pellets are moving to Japan resulting in more Canadian pellets being sold at a feasible price for the Canadian seller; 2) this year the plant in Laird did not run, resulting in a 25% reduction in Canadian production- other processors were able to capitalize; 3) the demand for ethanol in the US and elsewhere has driven up grain prices, resulting in sun-cured alfalfa products being competitive with feed grains. Mr. Dale Pulkinen's report to the Canadian Forum on Forages and Rangelands can be found in Appendix A.

The alfalfa processing plants that are still operational in Saskatchewan are 1) the Elcan Forage Inc. plant at Broderick which processes sun-cured (baled) alfalfa, 2) Arborfield Dehy with a plant at Arborfield and one that operates seasonally at Zenon Park which processes dehy alfalfa and sun-cured (baled) alfalfa, and 3) Western Alfalfa Milling at Norquay which produces sun-cured products and only uses there own dehy alfalfa for processing. In Alberta there are four alfalfa processing plants operational with varying combinations of actual dehy processing and sun-cured processing.

Standing alfalfa prices were in the range of \$20-25/T in the field. Prices for sun-cured good quality alfalfa averaged \$60/T.

Export Timothy- There is very limited activity within the province in the export timothy market. The reasons for this include:

- 1) The Alberta Timothy Company of Airdrie, AB (a large western Canadian player) does not purchase timothy from SK due to the high cost of freight from SK to AB. They pay Airdrie area producers \$60-\$130/T at the farm for timothy,
- 2) the hassle with shipping overseas to the main markets (Japan) has become prohibitive as there is a lack of available containers and rail freight to Vancouver has nearly doubled recently,
- 3) timothy is a risky crop with any amount of rain or discoloration dropping the grade and profit margin drastically,
- 4) the transportation costs for a producer to get the baled timothy to the plant limit the radius from the plant that the timothy can be economically grown in,
- 5) US export timothy costs the buyer 1/3 to 2/3 less than Canadian export timothy, hence it is near impossible to compete with US pricing, and
- 6) the rise in grain prices are turning producers away from timothy back to grain production on suitable acres (i.e.- you can make more money with less risk on a field of irrigated canola than you can with timothy).

There is one main grower of timothy in Saskatchewan, but they are not buying from other producers. Currently, the going rate is \$160/T for premium timothy delivered to the plant, and down to \$152/T for low quality timothy delivered to the plant. With producers in the area opting for other crops, timothy acres were short this year in the plant vicinity but quality was generally good. The price for 2007 Choice is about \$130/T. One other exporter of timothy was discovered this year who previously sold into the overseas market, but now sell primarily small square timothy hay bales into the US horse market. They do not purchase from other producers.

5) Regional Forage Pricing Trends

South West: Switzer Auction Services provides hay auction services across the southwest. The average price that they are seeing is \$65-90/T for good quality alfalfa or alfalfa/grass hay and \$40-50/bale for straw. The Regional SAF Forage Agrologist feels that the region's going rate is about \$71/T, with \$66-\$77/T common. Trucking prices are limiting the distance forages can be transported from, but trade is strong regionally. Straw is in generally short supply.

South East: The Regional SAF Forage Agrologist feels not a lot of hay is moving within the region. Trade for good quality alfalfa or alfalfa/grass hay is about \$25/bale or \$40-44/T. Trucking costs are limiting movement out of the region. Straw is in good supply.

East Central/North East: The Regional SAF Forage Agrologists note that there is an abundant supply in the area and plenty for sale still. Movement and trade are slow. Trade for good quality alfalfa or alfalfa/grass hay is approximately \$40-55/T. Straw is in good supply.

West Central/ North West: The Regional SAF Forage Agrologist and Saskatchewan Watershed Authority Range Agrologist note that virtually no hay is moving in the area except for producers who always purchase their feed. Trade for good quality alfalfa or alfalfa/grass hay is about or \$50-60/T. Straw is in good supply.

6) Current Alternative Feedstuff Prices

As an alternative to forages, other feedstuffs, generally derived from annual crop production, often fill the void left by a shortage of perennial forages for small producers or help to make up a more complete ration for feedlots and backgrounders. The general story across the province is high grain prices and transportation costs have pushed all alternative feedstuff prices up.

Screenings- Grain merchants & large terminals have screenings contracted with feedlots or large producers well in advance, and state that they rarely have any for sale on top of these prior commitments. Prices are strong due to strong grain prices.

Canola meal & Canola pellets- The price fluctuates daily with the price of soybeans and soybean meal. Brokers only foresee this commodity climbing, as it regularly takes daily runs of \$10/T.

Alfalfa pellets- The price is steady on this commodity due to the more stable price of perennial forages. A standard dehy pellet, geared towards beef production, is in fine supply, but trucking costs limit their economic sense.

Fortified grain screening pellets- With grain prices strong, screenings are costly; hence, the price of fortified grain screening pellets is higher than previous years. All processors of this commodity indicate that although prices are high, the demand is very strong and supplies are short. Short supply is compounded by the fact that screenings are more valuable added back into grain shipments at an acceptable level than sold as screenings/pellets.

Table 3. Alternative Feedstuff Prices and Availability

Commodity	Location	Price	Asking or Buying	Details	Availability
Screenings	Gull Lake, Assiniboia, Swift Current	\$4.10-\$4.90/ bushel	asking	#1 cracked wheat of durum	Short; already contracted with buyers
Screenings	Gull Lake, Assiniboia, Swift Current	\$0.68/ bushel	asking	Light screenings, mainly chaff	Short; already contracted with buyers
Screenings	Yorkton	\$80/T	asking		Short
Canola meal	Nipawan	\$268/T	Asking		Fair
Canola meal pellets	Nipawan	\$268/T	asking	35% protein	Fair
Alfalfa pellets	Norquay	\$168/T	asking	15-16% protein; 60% TDN	Good; still processing to date
Fortified grain pellets	Humboldt	\$207/T	asking	14 % protein, with minerals, 66% TDN	good
Fortified grain pellets	Wilkie & Wosley	\$180/T & \$22-30/T trucking	asking	14% protein, with mineral, 72% TDN	Short in Wilkie; fair in Wosley
Fortified grain pellets	Wilkie & Wosley	\$167/T & \$22-30/T trucking	asking	13% protein, with mineral & monensin, 70% TDN	Short in Wilkie; fair in Wosley
Grain pellets	Weyburn	\$ 110/T	asking	10-14 % protein & 70% TDN	None to short
Fortified Grain pellets	Central Butte	\$148/T	asking	14% protein & 68-74% TDN	Short; order now, 1 month until delivery
Fortified Grain pellets	Central Butte	\$171/T	asking	17% protein, with mineral & monensin 68-74% TDN	Short; order now, 1 month until delivery

Feed Barley (and other grains)- The price has increased significantly over the past year. Feedlots, a major consumer of feed grains, have had to raise the prices paid to be competitive with other purchasers, including maltsters and the US ethanol industry. The majority of feedlots surveyed are concerned with daily availability and long-term supply. Pipestone Feeders in the southeast is feeding corn (\$215.00/T) due to the extreme shortage of barley in their area. Their fears are that even corn will not be feasible shortly. The feedlots across the province (nine surveyed) are paying in a range of 3.50 to 4.80 per bushel (48 lb) for barley delivered to the feedlot with an average of \$3.80 per bushel.

The Winnipeg Commodity Exchange cash prices for feed grains for December are as follows:

Feed Barley- December cash price, Lethbridge- \$199.37/tonne (\$4.42/bushel)

Feed Wheat- December cash price, Lethbridge- \$205.53/tonne (\$5.59/bushel)

7) Adjoining Jurisdictions Forage Price Trends

As transportation costs continue to grow and as the cattle cycle troughs the supply and demand for forages from the adjoining provinces and states has appeared to have a lesser effect on the Saskatchewan forage market as a whole. Occasionally, demand from the northern US states dictates the forage prices in Southern Saskatchewan. It is likewise for the eastern and western areas of the province when demand is high in Manitoba and Alberta.

Table 4. Forage Prices in Adjoining Jurisdictions*

	Alberta Gov't listing service (asking \$)	Manitoba Gov't listing service (asking \$)	Montana State listing service (asking \$)
Alfalfa	\$50.00/T (2 offers)	\$99.00/T (2 offers)	\$75.35/T (5 offers)
Alfalfa/grass	\$64.00/T (8 offers)	\$72.60/T (5 offers)	\$73.97/T (8 offers)
greenfeed	\$40.00/T (1 offer)	\$12.00/bale (1 offer)	-
Grass	\$60.00/T (1 offer)	\$55.00/T (1 offer)	-
Certified weed free alfalfa/grass	-	-	\$93.50/T (2 offers)

*- As of December 31, 2007; the listings taken from Alberta were for the eastern portion of the province only. Manitoba listings were for the western portion of the province only. Montana listings were from the northern portion (counties of: Hill, Blaine, Phillips, Valley, Daniels, Sheridan, Roosevelt, Fergus & Garfield).

Vold, Jones and Vold Auction Co Ltd. of Ponoka, AB trade a significant amount of hay within Alberta. Weekly sales from their auction house (Nov 7th 2007 through Jan 9th 2008) averaged 36.56/large round hay bale, \$2.57/small square hay bale, \$1.82/small square straw bale, and \$22.50/large round straw bale. Currently, trucking from anywhere in Saskatchewan to Ponoka for the sale or purchase of hay would wipe out any profit to be had, or alternatively nearly double the price of the forage purchased.

The USDA weekly hay reports monitor the settled price of hay across auction houses in individual states. For the week ending January 11, 2008, prices this week were as follows (www.ams.usda.gov/mnreports/):

Montana- prices are steady as supplies are limited; fair quality alfalfa round bales- \$80.00/ton (\$88.00/T); premium timothy small squares- \$150.00/ton (\$165.00/T).

Eastern Wyoming- good supply and demand; fair quality alfalfa round bales- \$95.00-\$115.00/ton (\$104.50-\$126.50/T); premium grass small squares- \$140.00/ton (\$154.00/T)

Central and Western Wyoming- supply is limited; fair quality alfalfa round bales- \$100-\$110/ton (\$110.00-\$121.00/T); good alfalfa/grass round bales- \$70.00/ton (\$77.00/T).

Western Nebraska- fair to good quality alfalfa round bales - \$100.00 to \$125.00/ton (\$110.00-\$137.50/T).

Western South Dakota- supplies are good; fair quality alfalfa round bales- \$60.00 to \$70.00/ton (\$66.00-\$77.00/T); alfalfa/grass round bales - \$60.00 to \$75.00/ton (\$66.00-\$82.50/T).

Alcester, South Dakota- good demand; prices up \$2-3 from last sale; good quality alfalfa round bales-\$87.50-105.00/ton (\$96.25 -\$115.50/T); premium grass small squares-\$140.00/ton (\$154.00/T).

Rock Valley Hay Auction, South Dakota- good quality alfalfa round bales- \$95.00-\$107.50/ton (\$104.50-\$118.25/T); good quality alfalfa/grass round bales - \$107.50/ton (\$118.25/T); premium grass small squares- \$152.50-\$180.00/ton (\$167.75-\$198.00/T).

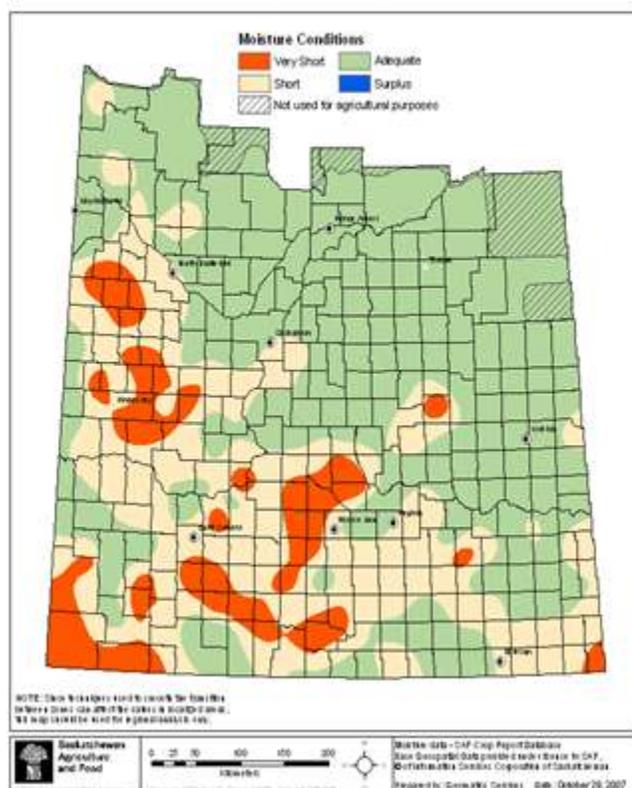
Overall the USDA indicates that supply and demand are good for forages across the northern states. They do not indicate a large pull of forages from Canada. However, the Yorkton SAF Forage Agrologist indicated that there is some forages moving from his area south to South Dakota, but trade between this seller and buyer has occurred in the past. All other SAF Forage Agrologists do not note any significant amounts of hay moving to the US from their areas.

8) 2008 Provincial Forage Market Projections

According to Saskatchewan Agriculture and Food, pasture and hayland topsoil moisture rates as 56% adequate, 29% short and 15% very short going into freeze up. This year only 2% of the north east hay and pasture has a surplus of moisture, but 38% of the southwest is rated as being very short on topsoil moisture. See the diagram to the right.

Saskatchewan Agriculture and Food Forage Agrologists across the province have not received many calls about seeding forages this year. In the past couple of years a call a day during the fall is expected. All have noted that they have only fielded 1-2 questions all fall regarding seeding forages. Forage seeding inquiries at the Agriculture Knowledge Centre have been limited to questions about very marginal land. These calls have also been very slow. The feel from producers in all areas is that marginal land seeded to forages in the past will remain in perennial forage production, but good crop land will likely be reclaimed as crop land on mixed operations. In the Yorkton area breaking of forages has already been seen. On irrigated land in the Outlook area breaking is also taking place, but dryland forage fields

Hay and Pasture Topsoil Moisture Conditions
October 21, 2007



Source: SAF Final Crop Report, 2007

have remained in-tacked to date. Perennial forage acres in the southwest and the southeast are expected to remain fairly steady- in the southwest due to the overall supply issues that occur yearly, and in the southeast due to the fact that perennial forages have really only been grown on marginal land to start with. A provincial net loss of forage acres can be expected.

All Regional SAF Forage Agrologists agree that there will be very little greenfeed planted in this upcoming field season due to high grain prices and low cattle prices. Later seeded crops that do not make grain by fall frost may be made into greenfeed as a last resort to utilize the crop.

Currently, all Regional SAF Forage Specialists, with the exception of the south west Agrologist, indicate adequate to above adequate baled forage supplies. The south west Forage Agrologist feels that although prices are high, demand for baled forages in the region are being met within the region- primarily due to transportation costs. Within the other regions, the Forage Agrologists note that the majority of the forage that is trading hands is being purchased by producers who have opted to always purchase needed baled feed instead of growing their own.

To date, the winter feeding progressing is:

South west- majority of producers are feeding baled forages already, have been for some time, and will need to continue late into the spring. The majority of producers grazing native prairie are supplementing their herd right now.

South east- majority of producers are currently feeding baled forages. Some producers are still grazing crop residue and supplementing their herd as needed. Very little swath grazing was done this year.

West central/ north west- a fair number of herds are still out grazing corn or swathgrazing. Bale grazing is also taking place in large numbers this year- particularly in the north west.

East central/north east- a fair number of herds are still out swath grazing. Bale grazing has increased in popularity and is occurring across the region.

For winter feeding 2008/2009 there is an expected decrease in swath grazing acres across the province. Bale grazing is gaining in popularity. Seed companies and SAF Forage Agrologists are expecting an increase in corn acres. Although historically considered somewhat costly, corn affords a producer the ability to grow a considerable amount of feed on a small acreage. If the acreage used to feed a cow can be decreased a mixed produce may feel that they are able to seed more grain acres, hence capitalizing on both ends of their operation. Prior to the rise in grain prices, this scenario was not economically sensible in most cases. The Agriculture Knowledge Centre has begun to see a trend of producers who do not put up their own forage, but instead purchase it as needed.

9) 2008 National Forage Market Projections

Mr. Ed Shaw of the Canadian Hay Association has a good handle on the national issues that influence the greater forage markets. Mr. Shaw was kind enough to share his insight into what he feels are the major factors that will play into the 2008 national hay markets.

1. Asia markets/Middle East markets. The strength of the Canadian Dollar or rather the weakness of the US dollar is making the Canadian exports uncompetitive. The shipments to Asia are in the lower quality range since the high quality products are too highly priced. This results in lower demand and lower pricing on the quality products and average price on the lower quality products. Since the Japanese farmers are at an all time record production levels, and there is a surplus of milk and milk is being dumped. Consumption levels are dropping due to the demographics changing due to an aging population, milk prices are down. Result is demand for milk is down, production is high, prices are down and the Japanese producers are squeezed and can not or will not pay more for quality fibre, and may reduce imports. This market is currently at somewhat of a risk.

2. US equine markets. The fact that there is a shortage of quality equine products in the US means the American customers have had to pay more for the product. If this shortage continues Canadian exporters to this market will be ok, but if there is an abundance of equine hay in the US, this market will be seriously eroded and at risk.

3. The price of cereal grains and oil seeds are very high & farmers are switching from forage to more attractive returns crops. Thousands and thousands (maybe in the 100 thousands) of acres are being taken out of forage production. This is also occurring in the US production markets as well

However there could be an up side to the forage markets:

- 1. With less production and demand in the North American and Middle East markets increasing, the prices could also increase in the forage products*
- 2. Increased fertilizer and fuel prices make some of the legume products attractive since they do not require the high fertilizer inputs*
- 3. There is some perceptions that forage crops may be more environmentally friendly and a carbon sink.*

I know that the above sounds like a politician's statement that is a little vague. But this is my feeling and only my feeling.

- 1. Prices will increase for the alfalfa and legume products since the US market is in high demand and shortage of production*
- 2. The US equine markets will continue strong in both demand and price since the same pressures on the Canadian market is going on in the US. (acres being taken out of production for higher wheat and corn pricing.)*
- 3. The Asian markets will continue to be pressured and the demand for the timothy products will decrease as the farmers accept lower priced products such as oaten hay. There may be an opportunity for Canadian farmers to get some of this market if the drought and its devastating effects continue.*

Appendix A: Report to Canadian Forum on Forage and Rangelands

Report to Canadian Forum on Forages and Rangelands

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December, 2007

Industry Update – The fortunes of the alfalfa processing industry have improved in recent months. Reduced dehy pellet production in Europe and a strong demand for dehy within the EU have resulted in diminished exports of subsidized EU dehy to Japan. This has brought about a good demand for Canadian dehy in the Japanese market. Combined with a general buoyancy in commodity prices, the selling price of Canadian alfalfa pellet exports have strengthened; although offset in part by a stronger Canadian dollar. Japanese demand for Canadian cubes has also increased as a result of Japanese acceptance of Canadian quality arising from a significant increase in the price of US cubes.

In spite of this recent turnaround, Falher Alfalfa in northern Alberta, one of western Canada's largest alfalfa processors, ceased operations in 2007. The Harvest Green pilot cubing plant near Outlook, Saskatchewan has now been dismantled; as has been the cubing plant at Lomond, Alberta which has been idle for a number of years. This leaves four plants in western Canada producing alfalfa pellets for export (one company owns two pelleting plants) and four cubing plants. By comparison, over 20 alfalfa processors were operating in western Canada during the mid-80's. Some of the companies still operating or currently closed are examining or have entered into diversification opportunities and/or new ventures.

In Eastern Canada, Green Life Proteins of Brantford, Ontario closed its plant after 63 years in business. It is believed to be Canada's oldest plant, and its closure leaves 3 plants in Ontario and one in Quebec.

Forage yields in 2007 were generally average. Abundance of rainfall early in the season provided good first cut yields throughout much of western Canada and especially in Ontario and Quebec. Second cut yields were average in Quebec; although a bit short in western Canada and Ontario due to hot, dry weather. Dehy quality was generally very good. Quality of hay for sun cure pellet and cube production was surprisingly good in spite of wet harvesting conditions for much of the first cutting. Timothy hay quality in the irrigation district of Saskatchewan was excellent.

Issues of Interest to Alfalfa Processors

a) Federal government policies on forages and forage processing – There continues to be a lack of federal government recognition of forages and forage related industries in policy and program development. Furthermore, there appears to be an underlying lack of recognition of the potential role of forages in environmental sustainability and in mitigating the effects of climate change.

b) Rail Transportation – Unsatisfactory rail service and high freight costs continue to be a major issue facing our industry. The Coalition of Rail Shippers (CRS) has been actively lobbying the federal government for the past two years asking for changes to the Canada Transportation Act (CTA) that will bring about an improvement in rail transportation. Bill C-8 is now before Parliament; with the hopes that it will pass both Chambers before Christmas. A review of rail service that was earlier promised by the Minister of Transport is expected to take place shortly after passage of this Bill. The CDA is a member of the CRS which represents over 80% of Canada's rail freight business.

c) The EU Subsidy on Alfalfa – Although exports of subsidized EU dehy to Japan will likely be reduced at least for the foreseeable future, the Canadian government must continue to push for elimination of agricultural subsidies; especially when support for subsidized agriculture within the EU appears to be waning.

d) Feed Safety and Product Traceability - Feed safety continues to be an important issue with Japanese buyers of Canadian alfalfa. Fortunately, however, protocols have now been established to allow for smooth and orderly compliance to meet their requirements.

e) Stakeholder input on government agency decision making – There appears to be a dearth of opportunity for stakeholder input on policies and decisions taken by government agencies. A process should be established to facilitate stakeholder input on issues as they arise.

f) GMO alfalfa – The recent US federal court injunction banning the growing of Roundup Ready alfalfa in the US has diminished Japanese buyer concerns over the potential shipment of North American/Canadian alfalfa containing genetically modified material to Japan. This injunction is pending on an environmental impact study which is expected to take two years.

g) New Markets – Identification of new market opportunities for specialized forages or forage based products are of ongoing importance. Investigations are also required into other opportunities that could utilize existing forage processing capacity.

h) Strength of the Canadian Dollar – As is true for all exports, the strong Canadian dollar has impacted negatively on export price competitiveness of processed Canadian products.