Distillers Dried Grain Exports Surge On Chinese Demand

Exports of distillers dried grain (DDG) have seen impressive growth over the past several years but are particularly strong this fiscal year. Exports over the first 6 months of the year are up 53 percent over the first half of last year and if the present pace continues exports for the entire year could reach $1.2 billion (7.0 million tons). China’s emergence as a key growth market for U.S. DDGs in 2010 and continued strong demand from Mexico, Canada, and Turkey are important drivers behind the surge in shipments.

As ethanol production has increased over the past five years, so has the supply of DDGs, which are a byproduct of the ethanol production process as starch is removed from corn. Roughly one-third of every ton of corn used in ethanol production returns as livestock feed in the form of DDGs, which have a higher protein, fat, and fiber concentration than corn. Though lower than corn in calcium, phosphorus, starch, and some amino acids, DDGs are estimated by some feed industry sources to have 120 to 135 percent the feed value of corn. With an expanding supply in the United States, DDGs have gained a foothold in dairy and beef rations and to a lesser extent in poultry and swine rations. Along with domestic incorporation of DDGs, an increasingly available supply and competitive prices compared to other feeds, has lead international livestock feeding operations to incorporate DDGs into rations. Extensive marketing efforts by the U.S. Grains Council have also been key in the growing acceptance internationally of DDGs as a viable feed ingredient.
While Mexico continues as the top DDG destination, no market has seen more growth in DDG imports this year than China, where U.S. exports have soared through the first half of the fiscal year totaling 686,000 tons compared to just 5,000 tons during the same period last year. Though DDGs represent a small portion of the overall U.S. agricultural export forecast to China ($14.0 billion forecast in FY 2010) they are a new and potentially significant growth product. One reason for the surge in exports, which are focused in Southern China, is that the price of corn is currently very high in China and thus DDGs are a cheaper feed source. In some rations, DDGs also substitute for soybean meal, thus strong meal prices have also supported increased DDG use. Favorable container rates have also been a positive factor though a recent increase in these rates is causing some Chinese importers to explore non-containerized bulk purchases.

![Graph showing rise in Chinese meat consumption supports continued feed imports](image)

As it takes approximately three tons of corn to produce one ton of DDGs, the corn equivalent of the DDG exports to China thus far in the year is about 2.1 million tons. Ironically, while sales of U.S. corn to China have attracted much attention, this significant surge in DDG exports has gone mostly unnoticed. If the current pace holds up, DDG exports to China this fiscal year could total more than $250 million. Improved DDG transportation infrastructure in the United States along with a U.S. DDG quality advantage over competing DDGs produced in Northern China (which often contain mycotoxins), support future sales. Chinese importers report that U.S. DDGs are primarily being used in fish feed rations in southern China, poultry feed in the north, and pork feed in the southwestern region of the country. With demand for pork and poultry on the rise in China (see chart above), the country could become a permanent large-scale importer of U.S. DDGs.

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