

flaxfocus

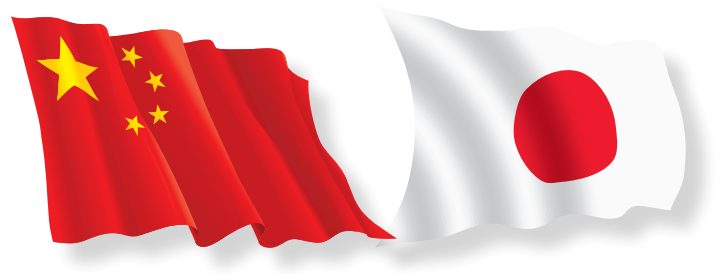
October 2015



FLAX COUNCIL OF CANADA

Flax Delegation to China and Japan

August 6th – 18th, 2015



Market Demand Overview

CHINA

Our health claim linking consumption of ground flax with lowering cholesterol endorsed by Health Canada is based on the consumption of 40g of flaxseed per day. Since this is quite a large intake for an average person, our literature proposes a more realistic consumption of 16g each day or 2 tablespoons. This can be done by adding 2 tablespoons to your yogurt each morning and can also be taken in various other products such as bread or muffins in fact the alternatives are many.

If the total population of China was to consume 16g of flax per day this would equate to 20,800 mt of flax per day or 7.6 million metric tons of flaxseed per year. This is not realistic although it tends to add some perspective to the enormity of this market and speaks to the potential for not only flaxseed but also virtually any product being consumed in China.

During our week in China we heard from several different sources that the current demand for flax is deemed to be about 600,000 mt per year consisting of approximately 300,000 mt of domestic product and 300,000 mt of imports. Estimating import demand is typically a moving target because domestic production at least to some extent is

consumed in the local community by small processors using hand press methods and therefore exists outside of the commercial system.

This year 2014/15 Chinese imports of flax will be almost all Canadian seed although China will also import linseed oil which is U.S. origin. Much of the discussion while we attended the 5th Annual Pea and Linseed Conference in Tianjin in August was around the fact 400,000 mt of imports was too high and the result was a build-up of excessive stocks at the Port in the range of 100,000 mt. The importers who were present and obviously who owned some of the stocks were very concerned over the impact this quantity may have on future movement and particularly on the local price. It is very difficult to determine whether these concerns were valid but this is worth mentioning as a potential market factor.

According to Statistics Canada, 850,000 mt of flax will be produced again this year. However, increases in production in both the U.S. and Kazakhstan/Russia will ultimately affect our sales to the second and third largest markets. Therefore, we will rely heavily on the Chinese market again this year.

The catastrophic explosion which occurred at the Port of Tianjin may have consequences as well on the general access to the Port not to mention the effect the

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Don Kerr, President of Flax Canada, presenting at the 2015 China Peas & Linseeds Conference, along with a delegation from the Canadian Flax industry. Tianjin, China.

subsequent toxic air contamination may have on existing stocks. The Port of Tianjin is the main point of entry in to China for flaxseed and handles approximately 90% of Canadian imports so restoring normal access to the Port is critical.

Flax in China has been traditionally used for industrial purposes but the growing demand appears to be driven by an increased awareness by the consumer towards healthier diets and omega-3 related benefits in flax. The food application, however, unlike the North American diet is more geared toward oil than on milled product when it comes to the general consumer. Most Chinese households simply do not have things like ovens for making bread but instead much of the daily intake at home is from steamed or fried food. The higher end consumer who is accustomed to a more western style diet, which includes bread, can have an effect on commercial production of these types of products using flaxseed. This is a small percentage compared to the general household. In terms of ground flax, we find it a challenge in North America to educate the consumer on how to include flax in the diet and in a market like China these challenges are certainly much more daunting.

There appears to be an established feed usage for the meal and research being conducted on the production of enhanced omega-3 meat products. This research seems to be focused on the pork and dairy industries.

SUMMARY

The Chinese market is a vast and unique environment which is full of surprises and a good degree of uncertainty. With over 50% of flax exports going to this market the fact that we are so dependent on one buyer and basically one Port highlights the need to diversify our markets to spread out the risk associated with any disruption in activity.

We were told that over the course of one or two years the number of traders participating in the market had increased from 6 main companies to 60 due to changing dynamics in other markets and a more attractive trading environment for flax. This makes it very difficult for a delegation like ours to really target who the main players are and focus any market development activities toward specific companies.

A more realistic approach would be to make more information available to not only the food sector but also the feed industry. We can do this by providing some of the research papers and other data to the Government Embassy's and other key participants but the key would be to apply some funds toward determining the right data and providing translation in to Mandarin. This could also be made available on our websites and this could attract more attention to the sight than we are currently seeing.

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In terms of food focus there is opportunity in developing products which are more acceptable to a wide range of consumers. Noodles are a staple so work could be done to produce a flax enhanced version. Any steamed product like buns dumplings or even rice may be a possible link to the mainstream consumer. A Mandarin specific version of a recipe book with these products may be something to consider in future. It is a huge market and to cover every aspect would be impossible. We would need to target certain areas and make our resources work to the most efficient manner possible.

We made at least one very large contact with a state owned cooperative who were interested in our research into feed applications so translation of pertinent research data needs to be considered and sent as a follow-up.

JAPAN

The Japanese market is a very small market for Canadian flax but a market with very large potential.

Current imports in total amount to about 6,600 mt of flaxseed and 4,400 mt of linseed oil. These imports are from a wide range of origins including Canada, the U.S., Kazakhstan and even New Zealand.

During a meeting at the Canadian Embassy the delegation reviewed the issues effecting Canadian flaxseed imports, in particular the GMO restrictions relating to food imports and the cyanogenic glycoside standards. It was quite reassuring to discover that the Embassy people were very well versed in both issues and seem to be working with the Ministry of Health on finding some common ground which would allow the potential of this market to be realized.

However, flaxseed is only one issue the Embassy needs to cover so any help we can provide in supplying assistance through data and information is essential. It was clear that the Japanese market is a difficult one in that changes simply take time but also there was some reassurance in the view that once the Government has taken measures to move toward a specific goal then there will usually be an ultimate conclusion. Patience and perseverance is the approach.

**SUMMARY**

Progress is being made toward introducing more products in to this marketplace although for the most part it is oil based which means that it could come from a number of different origins.

The key to the market in Japan for Canadian suppliers is to overcome the obstacles relating to GMO and CG. To do this we need to focus on supplying the Ministry of Health with enough evidence to induce change in regulations and standards effecting each one. We need to have a protocol for GMO in food shipments, the same as what we have negotiated for feed and industrial which allows for a 1% threshold on all shipments. We need to have a standard on cyanogenic glycosides that is in harmony with the same standard as the rest of the World endorses.

The best way to work toward these goals is through our Government contacts and looking at different ways to produce both scientific and practical evidence that the flax we produce is safe for human consumption in the Japanese market. If we can accomplish this, it will open the door to the marketplace for Canadian seed and then we can look at ways to promote products which are Canadian origin based.



Flax Council Levy and the Producer Check-Off

WHAT IS THE DIFFERENCE

There is some confusion within the industry over the fact that two distinctly different systems are in place to allow for the collection of much needed Flax Industry funding.

One system is the **Producer Check-Off** mandated by the Provincial Governments in Saskatchewan and Manitoba. There is currently no similar legislation in place governing the Province of Alberta; although, this could change in the future.

The Producer Check-Off is collected at the time flaxseed is delivered from the farm to an elevator or processing plant. Exporters and processors are obligated to deduct this Check-Off from the payment to the farmer and a third party administrator is responsible to ensure the money flows back to the Provincial Grower Organization. This funding is used in part to finance the administration costs of the Growers Organization but for the most part the funding is used to advance Agronomic Research and Market Development initiatives which benefit not only the grower but the industry as a whole.

The second system is a **Flax Council of Canada LEVY** contribution by exporters and processors and unlike the Check-Off, which is assessed on the inbound product, this LEVY is based on outbound flax and flax products flowing into consumption. The LEVY therefore is completely separate from the Provincial Grower Check-Off.

Exporters currently pay a rate of \$1.50 per tonne based on tonnes shipped and processors pay a rate of \$2.00 per tonne on tonnes processed. This funding is used as well to finance the administration of the Flax Council of Canada but again most of the funding goes towards Agronomic and Market Development initiatives planned and executed in conjunction with the Growers Organizations.

WHAT IS THE BENEFIT OF THIS FUNDING TO THE FLAXSEED VALUE CHAIN

Agronomic research focused on crop development would be in serious jeopardy if the Producer Check-Off and Flax Council Levy were eliminated. Flax is a relatively small in relation to other oilseed crops but we still need to compete for the same acres. The competitive factors influencing

the decision to plant one crop over another take into account many components. Certainly crop rotation is one but overall returns per acre also factor in and a major component in this calculation is yield. According to the recent Stat Canada production report soybean production in Manitoba has increased from 414,000 mt in 2011 to 1.243 million metric tons this year; flaxseed production from 55,000 mt to 87,000 mt. Soybeans obviously have much better competitive factors than flaxseed so unless we can improve the agronomics related to flax this trend is most likely to continue.

The Flax Council of Canada, the Saskatchewan Flax Development Commission, the Manitoba Flax Growers Association and Agriculture and Agri-food Canada are jointly involved in 1.6 million dollars in funding toward several initiatives to improve yield. This involves active test plots focused on weed control, disease management and genetic improvements. The data compiled through this research will be used to develop Best Management Practices which can be conveyed to growers on our www.flaxcouncil.ca website.

Agronomic research contributes to the rest of the value chain by providing processors and exporters with a more secure access to supplies and compliments our Market Development initiatives. A good deal of effort has been placed on various programs dealing with promoting our Health Claim along with the related health and nutritional benefits of flaxseed. Together we have finished developing our website www.healthyflax.org dedicated toward advancing the consumer awareness in these health benefits and providing information on ways to access the necessary daily requirements through recipes and other ideas.

In other areas we have commissioned the Food Development Centre to develop four flax related products; a bread, a muffin, an energy bar and a smoothie all with the recommended daily requirement of flax. Omega-3 enhanced eggs are a widely recognized product and there is good progress being made with respect to dairy as well as a variety of omega-3 enhanced meat products.

Flax Council Levy... con't

Agronomic research with the transfer of data along with market development initiatives will need to be continued in the future and we are already planning for the next funding opportunity provided by Government programs. With the proper strategic plan we can effectively leverage Check-Off and Levy contributions to build a better future for the entire flaxseed value chain.

Many companies are involved in exporting and/or processing flax, but unfortunately there are only a small number of these Companies who contribute to the Flax Council Levy. The companies that are contributing are duly recognized for their support on the Flax Council website as Levy contributors.

In some cases we believe companies are not contributing because of the confusion over Check-Off and Levy so we would hope that this effort in explaining the difference clears the way to include a broader scope of our industry. If any exporters or processors currently not contributing would like to participate in the growth of our industry and be included on our website, please contact the Flax Council and we would be happy to facilitate the request.



Flax Council of Canada Appoints New Extension Agronomist

Flax Council Strengthens Resources in Flax Production

On September 8, 2015 Rachel Evans joined the Council. Her focus will be on improving yield and

yield stability of flax production through sound agronomic practices and integrated ecological solutions. Rachel brings both academic and professional expertise to her new role.

Her strong communications skills and diverse technical background uniquely position her to work with numerous stakeholder groups to enhance partnerships, advance flax agronomy projects and strengthen the flax industry overall.

"We are very pleased to welcome Rachel to our team. With the agronomic initiative the Flax Council, along with the grower organizations have undertaken, Rachel will play a very important part working with all sectors of research, crop inputs, trials and disseminating information for best production practices. We believe significant improvements on yield and consistency can be achieved, a more profitable crop for growers, as well strengthening Canada as a reliable and top supplier." Says Brian Johnson, Chair.

Rachel has a Master of Science in Plant Science from the University of Manitoba. Her research focused on reduced tillage management of cereal cover crops in organic dry bean production. Prior to pursuing her M.Sc., Rachel completed a Bachelor of Science in Agriculture with a major in Agroecology and minor in Soil Science. For the last year and half, Rachel has worked as a project manager for Native Plant Solutions, a fee-for-service division of Ducks Unlimited Canada, which constructs and installs a variety of native tall grass prairie/wetland projects throughout Canada.

"Having a qualified and engaging individual like Rachel working in conjunction with grower organizations will contribute to the harmonization of our common agronomic initiatives and ultimately benefit the entire flaxseed value chain" says Don Kerr, President.

During her time as a student, Rachel spent her summers working with Agriculture and Agri-food Canada. In 2013, Rachel received a Canadian International Development Agency Internship to investigate food security issues as they relate to maternal and child health in rural Kenya. The Flax Council is excited to have Rachel as part of the team and is confident that she will assist in growing the sector and bringing new opportunities to all stakeholders.