Grain export prospects: A promising outlook for producers

As you know from our previous articles, we recently took a slight diversion from our development path by introducing an interim-phase to our trade-facilitation strategy. This was in response to the panic in global grain markets caused by the Russia-Ukraine war, now turning into a prolonged conflict on the world stage: not only disrupting Ukraine's exports from last year's harvest, but also its production capacity this coming year. As tragic as this war has been, with devastating consequences for Ukraine, it has presented Canada with grain export opportunities difficult to pass up.

The cornerstone of our strategy in opening new export channels was our new platform, *Virtual Grain Mall*, now under development scheduled to be introduced at the end of 2022. Without this promotional platform in place, we embarked on these interim trade-facilitation efforts with trepidation, if not serious reservations. The response, however, has been hugely encouraging. The main purpose of this article is to give our followers an early update in the hope of enticing them to participate in our efforts to capitalize on overseas export prospects outside the bulk domain.

Before getting into the crux of the matter, new export prospects, we thought it would be useful to provide some background on what we are trying to accomplish with our core mission, a *paradigm-shift* in overseas grain exports away from bulk-trades to direct-sales fulfilled in containers. We ask our core-followers to bear with us as some of this material will have been covered in previous articles; we will be following up with more information on new export prospects in the coming weeks.

We start with reflections on the 2021-22 crop year: anxieties of a severe drought, the lowest export volumes in 15 years, dramatic increases in farm-input prices, poor weather leading up to the seeding season, but barring any disaster, expectations of a good harvest. Though our exports in 2021-22 are expected to close below 30 MT, our outlook on 2022-23 crop-year exports are above 40 MT, even better, with an expectation of a rapid catch-up in this calendar year while prices remain high.

Then we turn to more familiar territory to most of you, how captivity of our overseas exports to bulk-trades squeezes producers' margins and holds them back from pursuing a value-driven crop-specialization strategy. The next topic is our mission, one of trade-facilitation by attracting overseas buyers to procure grains directly from primary production sources; and by providing support in contract-fulfillment with efforts to improve container-supply, grain-handling, and logistics-services.

Finally, we conclude with good news on export prospects. Contrary to our fears, within a month of embarking on our interim strategy, we attracted several serious procurement agents working for major corporate-buyers in Asia Pacific. We will update you on these efforts with our next article, together with an overview of crop domains where we see the most promising containerized export opportunities.

Anxieties and uncertainties

The 2021-22 crop year was a tumultuous one for producers. They lived through a severe drought, with fear that it might be as bad as the last major one almost two decades earlier. This blow was coming just after the best export year on record, 2020, but the situation could have been far more severe if not for the much-improved drought-resistant crops being grown. Not much was being said about it, but advances in agronomy had paid off. Unfortunately, not all producers were as lucky as others; many were left with little to sell at the end of the 2021 harvest.

In addition to low volumes, there was another dimension to the crisis: the financial consequences of advance-sales. After a long stretch of good crop-years, a sense of complacency had set in; producers had stopped worrying about whether they would be able to meet contractual obligations. For many financially squeezed ones, pre-selling had become a way of survival, to make debt payments or cover pre-harvest costs. Those who found little to harvest at year-end still had liabilities, to pay back their advances or buy crops from elsewhere to cover contractual obligations.

The losses incurred by some were enough to put them under, while others had to take on even more debt to stay afloat. There has not been a fully transparent reckoning of the costs of meeting these obligations, but what you heard on media probably did not reveal the full extent of the suffering. Some are no longer farming, while others are teetering on the verge of bankruptcy, waiting to be pushed over by the next crisis. Ironically, there has been no institutional effort to further investigate farm-finances to see how many may be in line to collapse with the next shock.

As this disastrous harvest was coming to an end, another crisis was brewing: skyrocketing input-prices. Those who had survived the drought with tolerable yield declines, and those with financial reserves, had done most of their purchasing in advance. Those who were barely hanging in had delayed their input purchases, but into the winter they were facing the worst of the price-hikes. Into the next crop-year, however, everybody would have to face these higher input prices, thus all hoping for a good harvest and strong grain prices to cover the price escalations.

While Prairie producers were preoccupied with rising input prices, worried about whether grain prices were going to rise accordingly to leave behind viable margins or not, there was a huge shock to global grain markets in early 2022: Russia's invasion of Ukraine. It was not known at the outset whether this was yet another power-play that would end like other border-skirmishes or the beginning of a long-drawn-out war. Few gave Ukraine any chance of resisting, let alone winning a long war, but still it was a major geopolitical conflict with larger regional and even global implications.

A major economic worry was oil-gas supplies to all of Europe, highly dependent on Russia, but an equally concerning matter was grain-supply. Russia was the world's 7th largest grain producer and Ukraine 9th; together they accounted for roughly 15% of global grain exports, as much as Brazil, and 60% of the US. Fears of any disruption

to exports from this block not only sent shock waves through global grain markets, but also raised global food-security concerns. Whether or not these worries were justified at the time, grain prices went frantic, and the turmoil has been ongoing.

The war did not have any material impact on Russia's grain production levels, nor on its grain exports, other than short-term withholding of sales for geopolitical reasons. Despite devastation in urban areas and the death-toll at large, the war has not greatly affected Ukraine's grain production either. Though its exports were halted for a while, now it seems there is an agreement to resume shipments. The volatility in global grain-markets has resulted largely from predictions being made speculatively, based on limited knowledge of the grain sectors of either country.

The worst was fearmongering over global food-security. The two warring countries together account for 6.5% of global grain production, but their exports represent a higher share, about 15% of the global total. However, their wheat exports, the most critical crop for global food-security, are as much as 25% of all wheat exports. But to put this in perspective, China's wheat reserve-stocks are double the annual volume Russia and Ukraine export – opportunistically or altruistically, China could step up to the plate to release enough from its reserves to alleviate food-insecurity.

Not to diminish the immorality of the invasion, or the tragedy of the brutal war, but the impacts on global grain supply were exaggerated, typical of the sensationalism that engulfs geopolitical debates. This was particularly evident in grain-markets that tend to be driven more by speculative-impulses than supply-demand fundamentals. Markets went into a frenzy pushing all prices up; the turmoil still prevails, but with significant corrections since. Where they will close the year is anybody's guess, but prices are likely to remain on the high side – naturally, music to producers' ears!

We will come back to our price outlook, but first let us turn to how the seeding season got underway in the Prairies in the Spring of 2022. Weather patterns were erratic, some areas flooded while others were too dry to seed. Though delayed, seeding got underway in most parts of the region, anxieties prevailed as delayed seeding had eaten into the growth-season. Into the early Summer, weather patterns improved, if not turned favorable in most parts, but harvest expectations are still uncertain, and will vary by region and crop type. There is no hope for another bumper-harvest like 2020, but yields are expected to be much better than 2021.

Crop-year export outlook

In the calendar year of 2020, following the best harvest on record, our grain exports hit a record of 51 MT. But in 2021 we were hit with the worst drought since 2002, when our exports for that year were below 14 MT. Into the 2010s exports had climbed above 40 MT, before peaking above 50 MT in 2020. The severity of last year's drought was feared to set our exports back to the levels of 2000s, but yields held up much better than expected. Together with carryover stocks from the 2020 harvest, we managed to close the calendar year of 2021 with 42 MT of exports.

However, the full effects of the 2021-drought had not yet cleared the system by the closing of the calendar-year. In January 2022, total grain exports to date in 2021-22 crop-year were only 63% of the same time the previous crop-year, 2020-21. Wheat exports were only 60% of the year before, durum only 48% and canola 58%. These 3 crops accounted for 70% of total grain exports, but the overall figure held out at 63% of the previous year due to better yields from smaller volume crops that made up the remaining 30% – barley 93% of the year before, soybean 83%, and lentils 81%.

Four months on, in May 2022, there had not been much of a catch-up even though in the interim the Russia-Ukraine war had broken out. Global grain markets had gone into a frenzy with fears of two major grain producers not being able to export while at war with each other. Prices were erratic but generally high, with a lot of panic-buying going on in fear of shortages; thus, if there were stocks, we would have been exporting more. Now we expect total grain exports for 2021-22 crop-year to come just shy of 30 MT, average of a decade ago but only 60% of 2020 calendar year.

This year's delayed seeding and erratic weather early in the summer caused fears, but now harvest prospects are quite optimistic, if not across the board, at least for most regions and crops. Total output may not be anywhere near the stellar 2020-harvest, but certainly it will be much better than last year. While high grain prices prevail, with strong appetite to buy in most parts of the world, there may even be prospects to lift exports during this calendar year (2022) above where 2021-22 crop year is likely to close (30 MT), perhaps even closer to 2021 calendar year (42 MT).

While we have been talking about export volumes here, the focus of our efforts is not that, not even what prices those volumes fetch in global markets; we are more concerned about what trickles down to producers' pockets at farm-gates. In this regard, our followers must be familiar with our views: producers get a fair shake from North American grain-trades, as they tend to function competitively under the market discipline imposed by corporate-purchases by cutting out intermediaries (traders or consolidators) where they have no value to add to grain-chains.

Overseas exports, however, is a different matter; they are largely captive to bulk-trades, with too much market power in the hands of a few grain companies that are the gate-keepers of bulk-systems. This captivity not only squeezes producer margins but also holds back diversification to higher value crops. Simply put for our new

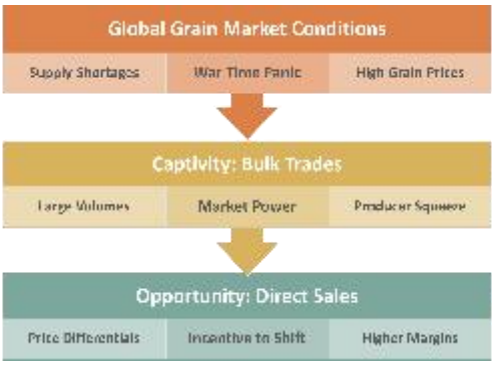
followers, our mission is to open direct-sales channels to overseas markets, which currently are limited, if they exist at all. If successful in our mission, we will give rise to the same conditions in overseas exports as those in North American grain-trades.

Ironically, the better the crop-year, the more producers suffer from their captivity to bulk-trades. North American demand for grains is mature with little growth; in a bumper-crop year like 2020, a much larger share of total grain output must be exported, and in the absence of alternative channels, it is mostly exported in bulk. In years like that, producers are generally euphoric with the volumes they grow, thus do not realize what they are foregoing. But these are the years to put away excess profits to cover the inevitable bad crop-years when even costs cannot be covered.

A year like the one we are foreseeing is the time to be looking for alternative export channels. Generally, these good crop years come with lower prices, an excess supply-effect, but this one is different in that there is an external-shock to global grain-trades with two major exporters at war with each other, stoking fears of supply-shortages. Our platform feels the global-supply situation is not as severe as most fear, but that does not matter in the short run, as perceptions are as powerful a market influence as reality, thus high grain prices are likely to prevail.

In our recent articles we laid out our "divergence-hypothesis" between North American and global grain prices, with the former likely to be lagging due to stable supply-demand, but many global buyers are carried away with supply fears, thus willing to stock up at high prices. These opportunities do not come by very often, thus we adjusted our priorities to kick-start direct-sales initiatives earlier than we had intended. Our plan was to wait for the launch of our new trade-facilitation platform, but now we are pursuing an interim strategy, which we will get into below.

At the outset, however, we want to clarify our motivation in rushing into direct sales initiatives. We see Prairie export volumes picking up for the remainder of this calendar year, even if they remain captive to bulk-trades; under prevailing global market conditions, there is no danger of unsold grain stocks building up. But our concern lies elsewhere: what producers are going to get in the absence of alternative channels? The answer is obvious: they will not receive their fair share. Input costs have risen considerably last year, and we expect this trend to continue into next, but we fear that farm-gate prices will fail to increase at the same rate.



Alternative export channels

When we first embarked on our trade-facilitation initiative with this portal, we knew that there was demand for Prairie grain exports from the Asia Pacific region, a region where we had lived and worked for more than a decade. Consumption was on the rise, both through feed and food chains, with significant dietary shifts taking place that boosted demand not only for the crops that we were known for, but also higher grades and new varieties that producers could be shifting to for higher margins.

On the supply-side, Prairies had made advances in agronomy, farming-practices, and technology-applications, with significant yield increases and export growth. Also, they had achieved considerable crop-diversification, first canola and later pulses, as well as high grades of soybean, while our traditional wheat export volumes had held their own but naturally declined in share with faster growth in other crop volumes. All these developments were noteworthy, but our grain economy was still under-performing its full potential, particularly from the producers' perspective.

In the last three decades, the grain industry profile had changed beyond recognition through liberalization and privatization initiatives, but one thing remained the same, an obsession with bulk-systems. Early in the 20th century this was a necessity, the only way to move grains to market, and throughout that century we achieved a great deal in improving the efficiency of our bulk-systems with much larger, high through-put elevators and terminals, and of linehaul rail operations with unit-grain-trains.

However, we got trapped in a bulk-syndrome believing that it was the most efficient, least cost, if not the only way of moving grains. We were ignoring the intermodal-revolution taking place in most global-trades, moving freight in containers that were easy to transfer from one mode of transport to another (truck to rail to ship) through terminals (coastal or inland) equipped to facilitate intermodal transfers. But we kept deluding ourselves that this was for high-value goods, not commodities like grains.

In the meantime, grain-movements across Europe were rapidly containerizing, a trend that was spreading to Eurasia, across Central Asia, all the way to the Pacific. Shippers were experiencing lower transport costs while end-users were realizing storage and inventory cost savings from regular container-load deliveries, directly from grain sources to avoid third-party costs and margins along distribution chains. Our grain-companies seemed oblivious to these realities, or at least pretended in self-interest as their systems were more suitable to high volume bulk-exports.

Most importantly, end-users realized that crops were not just commodities collected from the fields, like ores or minerals dug out of the soil, but agricultural products grown with specific attributes that were of value in milling or processing. Producers were aware of the value proposition behind specializing in specific types or grades of crops, delivered to end-users with crop-integrity intact in containers. They could see the diversification potential, but neither direct-sales nor containerized-export channels were there to enable their escape from the bulk-trap they were stuck in.

Some of the most lucrative diversification initiatives had involved crops that did not lend themselves to bulk-consolidation, among them pulses and specialty crops. But with entrenched beliefs in the efficiency of bulk-systems, containerization was seen as a necessary evil for things that could not be handled in bulk, thus never embraced as a method universally applicable to all types of crops. Thus, it is not surprising that only 15% of our grain exports from the West Coast (Vancouver and Prince Rupert combined) are containerized, with the remaining 85% still exported in bulk.

Containerization opportunities are not limited to crops we consider to be captive to containers. There is a much greater potential for containerization among our staple-crop exports, but we are led to believe they can only be exported in bulk: old board-grains (wheat and barley) as well as the new addition to that staple-crop category, canola. In a normal export-year, let us say 40 MT, these 3 crop-exports typically add up to 30-32 MT. At least one-third, perhaps even one-half, can be containerized at lower cost to end-users while also leaving behind higher margins for producers.

The biggest obstacle in this regard is not cost or container-supply, but a handful of grain-companies, the custodian of bulk-trades that condition producers that the bulk-path is the only way. The conditioning takes different forms, but all are pursued in the same vein, to dissuade producers from looking at alternative channels. The first sounds logical but is not true, that history tells us bulk is the most efficient and least cost means of transport to end-markets. The reality is that most of the world is taking the containerized path, at least where intermodal systems exist.

The second is that there is no container-supply, but there are enough containers returning empty from our West Coast that could carry 10-15 MT of grain exports as backhaul. The counter argument is that grain exports originate much further inland, but grains can be repositioned to the coast, or empty containers pulled inland, alternatively intercepted on their way back from Central Canada. These are logistics challenges that can be overcome if there is a will to containerize grain trades.

The real challenge is attracting overseas buyers to procure grains from the Prairies. In this regard, we do face a formidable challenge, as on the world stage we are known as a source of grains sold through bulk-channels and delivered in bulk-vessels. First and foremost, we must recast our global image as a premier source of a huge variety of quality crops that can be procured from primary production sources.



Our trade-facilitation model

The Prairie Grain Portal is a trade-facilitation platform with the principal aim of promoting the Prairies as a leading source of quality grains on the world stage. Our primary mission is to attract overseas importers to the region to procure the types and grades of grains they need from production sources, and get them shipped to final destinations in containers – crop-integrity intact, and as necessary, identity-preserved, from a country that is known for its quality-assurance and IP regulations.

We make it clear at the outset that we are unabashed advocates of grain producers, who are largely captive to bulk-trades in overseas exports. The custodians of bulk-trades, a handful of grain-companies, have too much market power over producers, and thus tend to squeeze producer-margins and hinder their diversification prospects. This is the legacy of a system under a single-desk public-agency, CWB, that was deregulated and privatized with no consideration to the competitive implications for the grain-sector and its overseas export prospects at large.

We had no allegiance to CWB as it was constituted in the post-WW2 era, and even less sympathy to how it was dismantled to give rise to a distorted industry structure that now is not working in the best interests of the principal stakeholders of the grain-sector, producers, otherwise known as farmers. But rather than calling for a new set of regulatory remedies, we advocate market-driven solutions by opening alternative trade channels through direct-sales and containerized-shipments.

Our trade-facilitation mission is in this cause, one could say producers' cause, by creating export opportunities that yield higher margins in the short-run, and foster value-driven crop-diversification prospects in the long-run. But let us first clarify what that mission is, or what it is not. We are not creating a trading-platform, be it an ecommerce platform like Amazon or a grain-exchange where options are traded. There are too many of the latter, while there is no room for the former – grain exports take the form of negotiated-contracts, not one-click sales-transactions.

The platform structure we developed and will introduce online is designed to attract overseas buyers, not traders but end-users procuring for their own needs. To this end, we developed and designed a *Virtual Grain Mall*, where everything our region has to offer will be presented online through *virtual-stores*, farms where crops are available for sale, and *virtual-pavilions* that extol the virtues of the Prairie grain economy along themes like quality-assurance, sustainability, export-procedures, grain-handling, and container-logistics capacities, among many other attributes.

On top of this platform, there will be a *trade-facilitation* layer, where overseas buyers attracted to the region can post *purchase-requests*, offers to buy or just to explore supply options. Similarly, producers interested in pursuing direct-sales can post *crop-offerings*, what they have in their bins or expect to have after harvest. Parties interested in each other's posts can then connect online to pursue contract discussions, basically agreeing to exchange information to do business together.

As you can see from this brief description, our platform is designed to provide connectivity between overseas buyers and producers who have an interest in pursuing export opportunities through direct-sales channels that can be fulfilled in containers. But anybody familiar with grain-trades can relate to the fact that these types of sales cannot be concluded online to be shipped on purchase-orders; interested parties must take further contract negotiations off-line to conclude.

Part of this process can take place online, but we have no way of dictating the conclusion of sales on or through our platform, thus no way of imposing trade-commissions as some of our critics claim. If asked, however, we are there to help all parties to contract negotiations in a facilitation capacity, and beyond in fulfilment and logistics capacities. Moreover, our platform will have a section where third-party service providers can promote themselves in any of these capacities.

This is a summary of what we intend to be, a trade-facilitation platform, but how did we get here? We had an interest in this field for quite a while and decided to act on it a year ago, but before investing in actual platform design and development efforts, we wanted to test producer sentiments to see if there would be sufficient interest to participate in alternative export channels that could free them from their state of captivity to bulk-trades, which we knew were not serving their interests well.

We went online last Fall with an information-portal, which presented the concept of direct-sales and containerized-exports, with all the opportunities and challenges that came with them. It took some time to gain traction but into this year our following reached a level far greater than what we had anticipated. As producers were getting ready for the seeding-season, we decided that our concept was validated, and we should proceed full speed ahead. We had already done the conceptual-design of our new platform and decided to proceed with the actual design-development efforts.

Our plan was to remain low-key with trade-facilitation efforts until the new platform was ready, scheduled for later in 2022 or early 2023. But in the interim the Russia-Ukraine war had broken out, throwing global markets into frenzy with fears of grain-shortages. Global buyers seemed willing to pay higher prices than those likely to prevail in North America, and this was going to coincide with a good harvest in 2022. Thus, we introduced an interim step into our plans to get into a trade-facilitation mode through our information-portal, rather than wait for our new platform.

Early results to report

Our decision to embark on interim trade-facilitation efforts was a slight diversion from our chartered path. We had made this decision with trepidation, fearing that we were not quite ready for the challenge. The core piece of our strategy, *Virtual Grain Mall*, still had at least six months before it could be introduced online to attract end-users. Our current portal had succeeded in attracting producers who were familiar with their home turf. But we were not sure whether it would have the same effect on overseas buyers to procure grains from a turf they knew little about.

The window of opportunity in export markets was too compelling to pass up. Also, expectations from the upcoming harvest were quite promising. In the absence of alternatives, producers would be compelled to sell into bulk-channels with low margins, since their custodians would have little reason to pay anything more than North American prices. This would be yet another sad outcome of captivity to bulk-trades, as there is the appetite to pay more on the part of overseas buyers.

Without an effective promotional platform, like the one we had designed and are developing, the only way we could reach overseas-buyers was through conventional ways, email and telephone campaigns. We already had a portal to promote through Google and Facebook, but these could not even reach the largest market, China. We first decided to expand the scope of our existing *Trade Forum* with both producer and buyer posts to get traction. These were supposed to be ready to go online last month, but the delay was for good reason that we are happy to update you on now!

Before we could even embark on the intended email and internet campaigns, we were confronted with an unexpected turn of events. Instead of us trying to reach overseas buyers, we started receiving inquiries from local sources, agents or scouts claiming to represent overseas buyers. We were very reluctant to respond with any serious intent since our explicit objective was to avoid speculative traders. After all, our mandate was to establish direct contacts with corporate-buyers, not agents that we knew there were plenty of across the Prairies scouting speculatively for grains.

However, we realized not all these types of inquiries should be ignored. We took a few weeks to conduct *due diligence* to confirm their legitimacy and that they were coming from *bona fide* agents of reputable overseas corporate-buyers. We are not ready to report on the status of any of these prospects, but we already have half a dozen under consideration, and one more advanced than that, working out fulfilment details. In scale, these are not just a few thousand but hundred-thousand tons of monthly volumes. But all these projects will start with pilot-phases and expand as container-supply and handling-processing details are worked out.

To alleviate the concerns that are on top of all producers' minds, trade-risks, let us state our non-negotiable condition: we will not touch, let alone promote a purchase inquiry unless the ultimate buyers' funds are confirmed in a Canadian bank account,

and no grain will leave your possession (at farm-gate or processing/loading facility) without cash transferred to your account for that load (one or multiple containers).

Moreover, to alleviate your concerns over pending sales, we insist that any buyer using our name or endorsement develop a detailed logistics-plan for handling (including cleaning, grading, testing, etc.) and shipping (including container-supply and export/import arrangements). We will closely monitor this plan and report back to you so that you do not get stuck with grain in your bins due to logistics-delays.

Even before you declare your intention to sell to a buyer with our endorsement, we will reveal to you our due diligence findings, and our review of procurement-logistics plans. If we are retained by the buyer in any capacity, we will build clauses to our engagement contract, explicitly allowing us to share our findings with producer-sources, to give you confidence that you are not wasting time with speculators.

The price and volume clauses are for you to negotiate with the buyers. Our blanket recommendation to *buyers* is not to waste any time bargaining with producers anywhere near let alone below what producers expect to get from bulk-channels or corporate-sales in North America. In fact, our advice to buyers is to offer generous bonuses over these price benchmarks. Our advice to *producers* is not to expect windfall margins from early direct-sales, but as our platform's scope expands to attract more overseas-buyers to compete, their margins are likely to increase.

We will be addressing some of these issues in subsequent articles to keep you abreast of the progress we make in bringing and vetting more buyers. Also, our revised *Trade Forum* will be online on our portal before Aug 8, 2022, where you will find more regular updates and insights into new prospects. At the same time, we encourage you, producers, to provide comments, suggestions, and even insights into your crop-availability, in a manner that satisfies your confidentiality conditions.

To give you an idea of the type of purchase interests coming from buyers, they include soybean (high-grades for food), canola (different oil-grades, and meal-grades for food processing), and wheat (all types grown across the Prairies, including durum, destined to mills or processing-plants in containers). From other channels, we are also pursuing containerized custom-mixes of breakfast-cereals and feed-grains, as well as malting-barley. We will provide more details in this vein in our next article, together with an update on the prospective contracts we are working on.