

Our Grain Economy Vision: Path to Producer Prosperity

In our previous featured article we noted the advances made in the Prairie grain-economy, achieving significant yield increases and export growth. Though often attributed to policy reforms, these advances were primarily driven by producer initiatives. But despite all the progress they made, producers could not escape the bulk-trap they were in with squeezed-margins. Our mission is to chart an alternative course to prosperity by opening up new export channels with higher margins.

The policy debate over the grain-economy has always been polarized, one camp defending the virtues of a collective-order and the other advocating privatization. The latter camp won over, which perhaps was an inevitable outcome of market liberalization pressures globally, but the process has gone unchecked without any safeguards. This gave rise to a highly concentrated grain-industry, leaving producers largely captive to bulk-trades with limited options to diversify to higher-value crops.

This same polarization now prevails over future prospects, some nostalgic of a bygone *collective-era* but with no options to claw back, while others sticking to a *laissez-faire* approach in the belief that market forces should take care of the challenges they face. We have a somewhat different vision for the future of the grain-economy: market-driven, but one that serves producer-interests through new export channels, thereby giving them opportunities to diversify to higher-value crops.

Before getting into our vision, let us first emphasize the perils producers face. For many, margins are already too thin to retire the debt-load they are carrying from past investments in pursuit of consolidation and advancement. These margins are going to be further squeezed as bulk-grain prices come under pressure from newly emerging regions that are achieving steady yield-increases. Producers are going to bear the brunt of these added pressures, not the grain-companies or traders.

The good news is that there are plenty of diversification opportunities for producers to escape the bulk-exporting-trap they are currently in, and to increase their margins. Prairies are endowed with some of the best climatic and soil conditions to grow a huge variety of crops. Producers have the most advanced farm-technology and agronomy-knowledge at their disposal, and possess the know-how to apply all these elements to grow higher value, identity-preserved crop varieties that are in demand.

The vision we are presenting here could be deemed radical or disruptive as the necessary trade and logistics channels are not currently in place, or at least not mature enough to give producers sufficient comfort. But they exist in other parts of the world, and all the elements are in place to develop them in our own backyard. This is a mission we are shouldering to give producers more choice in what they grow, together with market-research, trade-support and risk-management functions.

Value driven diversification

Against the background of significant yield increases and export growth it may be difficult for producers, particularly those who have expanded and modernized their operations, to relate to the necessity of an alternative path. Even though some producers may not feel the pinch, the overall debt-burden the farm-economy is carrying should be seen as a troubling sign. Even more worrisome is the future, looming competitive threats posed by increasing yields in emerging grain-regions.

Dwelling on the exuberance of sustained export growth, we tend to forget that 60% of this growth has come from China. Now that China is trying to become more self-sufficient, turning to the *New Grain Belt* to its west for most of its basic needs, one-fifth of our grain exports may be in jeopardy. Even when we mend our badly damaged trading relations with China, export prospects are going to be limited to specialty grades or types of grains, not what we have been exporting in bulk.

Our core mission of value-driven-diversification is not something new to Prairie producers. Even before CWB was dismantled, producers had seen the wisdom in diversifying from wheat to canola. Our wheat-exports did not decline but canola-exports reached half that volume; these two crops now account for 75% of our total grain-exports. Though canola generates higher export-proceeds in value, like wheat it is exported mostly in bulk, thus still yields relatively low margins for producers.

Still, canola added one more major crop to our grain-basket, reducing producers' dependence on wheat and more significantly adding more value to the provincial economies. In Saskatchewan's case (largest producer) in 10 years canola production reached 10 MT (compared to 15 MT wheat) -- increasing 300% in value to catch up with wheat, about \$3 billion, with another \$1 billion from canola-oil. Now with vast crushing-capacity increases contemplated, canola will also become a bio-fuel source.

The more significant value-impact came with the shift to pulses. Even at smaller volumes their value increased to \$3.5 billion, in 10 years 700% growth in lentils and 200% in peas -- now more than either wheat or canola. Most importantly, these crops are handled outside the bulk-systems, opening up new channels for producers.



Pushing the envelope further

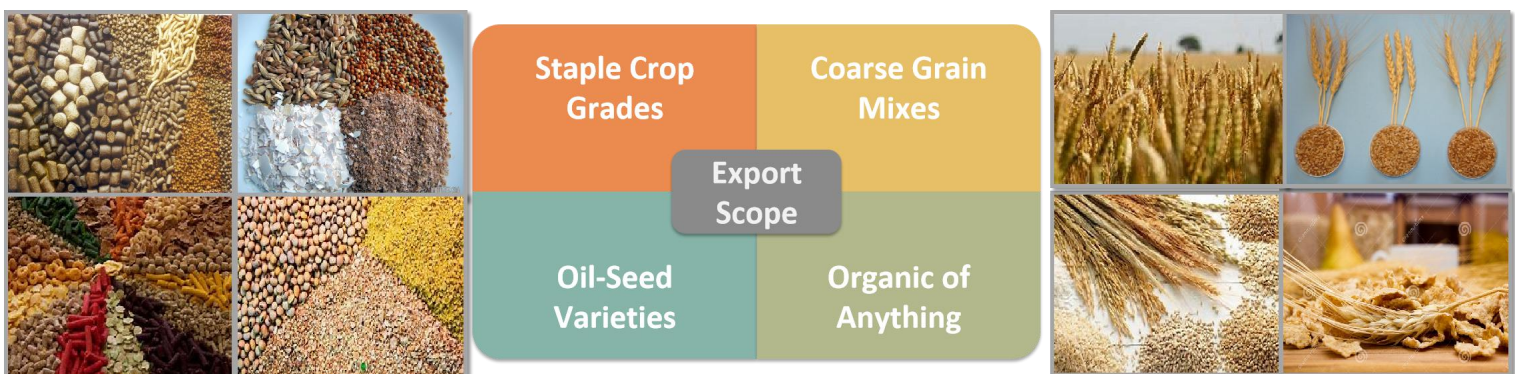
Addition of pulses to our export portfolio was indeed a momentous development, a turning point in value-recognition to diversify outside the bulk-cage. Pulses are still a small share of export-volumes (less than 10%) but in value as large as canola (at least for Saskatchewan) and yield higher producer-margins. Discovery of our virtues in growing these ancient crops was not accidental, requiring considerable research and policy support, but the benefits were indeed significant to the regional economy.

The shift to pulses got underway slowly in fear of market uncertainties on the part of producers, as well as bottlenecks in cleaning, processing and shipping. Early markets were domestic or at best the US, but in time a whole new industry segment emerged to service this domain. AGT, with access to Middle East markets, gave a huge boost to the pulse-sector, and the more recent takeover of a cluster of distressed assets by an old US grain-company, Scoular, will greatly increase our global market reach.

There is still huge growth potential in the pulse segment, but there are plenty of other promising opportunities to pursue in other domains, including varieties and grades of our staple-crops. Our wheat exports in bulk have been holding their own but with no appreciable growth as we have failed to target flour-milling trends for specialty-grades, even in durum that we are known for. Similarly we have missed out on new distilling and brewing trends that could have boosted our barley exports.

Another huge advantage we have is the diversity of our coarse-grains and oil-seeds. We tend to take the easy path of exporting whatever crops we grow in bulk, but there is greater value in targeting end-users, and exporting custom-mixes they need in containers, to create steady export flows into established supply-chains. We cite our past work in this regard in cereal and feed industries in China that had presented immediate export prospects, but there are many more such examples to pursue.

Our mission is to identify sales opportunities for producers to fulfil with specific types or grades of crops they grow, delivered to buyers' doorsteps in containers, be it processing or distribution points. Naturally, these opportunities will also be open to specialized grain-companies, like AGT or Scoular selling pulses or other crops.



Trade facilitation efforts

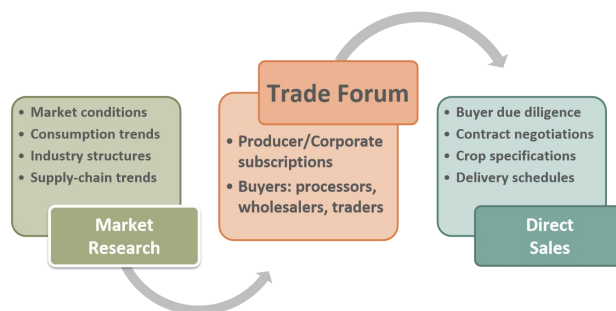
The realities of producer-finances attest to the diversification-imperative, while anybody familiar with the Prairie grain-economy can relate to the prospects of shifting to higher-value crops. But this is easier said than done as trade-channels do not exist to connect producers with potential buyers, let alone confirm sales orders to act on. Our mission is to facilitate these channels, which we firmly believe can be done, but it is going to take time, and moreover, producer engagement at the outset.

Grain-trades do not lend themselves to one-click-transactions; they require trust-building and a consultative approach to nurture to a point where buyers can be trusted with serious intent, and producers can take that intent seriously to enter negotiations to confirm order-details and delivery-conditions. The trade-forum we provide on our portal is just a starting point to get the process rolling, but it is going to take time and commitment on the part of producers to achieve meaningful results.

Initially we will be posting ideas and concepts, and publishing brief papers and presentations on our previous efforts in approaching overseas buyers for contract sales opportunities. But it is critical that we get feedback and further suggestions from Prairie producers, hopefully our primary audience in this portal initiative. Thus, we urge you to get involved in this consultative process to guide our efforts -- we are not looking for any commitment on your part, other than interest and participation.

Direct-sales are often mistaken for spot-sales, but in reality, regardless of their volume or frequency, such sales are not enough for producers to build their future on. Our mission is to turn direct-sales into sustainable trade-flows for producers to turn their attention to in search of higher margins. To this end, we firmly believe in extensive research into end-markets, not just consumption trends but also industry and supply-chain structures, which we will be publishing regularly on our portal.

We urge you to follow what we post or publish in this vein, and provide not only comments on the material we produce but also suggestions on how we should guide and prioritize our future efforts. Thus, our mutual success in creating diversification opportunities hinges as much on your participation as our commitment to the cause.



Grain industry landscape

What we are proposing here, and will be pursuing in the coming months and years, can be characterized as an ambitious strategy in pursuit of transformative change in the Prairie grain-economy, first and foremost guided by producer interests. We believe these changes are necessary for producers to increase their dwindling margins from today's staple-crop-exports, and guard themselves against declining bulk export-volumes under increasing competition from emerging grain regions.

We are fully committed to our mission but expect resistance from vested interests, particularly the incumbents in today's grain-industry that are dependent on bulk-trades. The same way as producers have to diversify their crop-mix to prosper, grain companies have to adjust to increasing specialization in grain-trades, shifts away from bulk to containerized exports. North America had long embraced direct-deliveries in trucks or rail-cars, and the same is now happening globally in containers.

While our mission is to facilitate change in grain-trades, we want to emphasize that we purposely stay away from taking a direct interest in trading. We are trying to open up new sales channels for producers to partake in directly, but these channels are also open to trade or corporate interests, incumbents or new-entrants, whether they pursue them on their own or through our platform. At the end of the day, our primary objective is to create more competition to serve producer interests.

In many respects incumbent grain-companies are better positioned to shift to specialized crop domains than new-entrants, as they have the industry knowledge and global connections. Export growth through containerized channels may come from yield increases across the board, but in all likelihood will also eat into existing bulk-exports. But in our view bulk-exports are already vulnerable; it would be in the best interest of the incumbents to embrace change as early and urgently as possible.

It may sound strange that we are pursuing all this change only to give the mantle to the same grain-companies that now dominate the bulk-trades, but what stands in the way of producer-prosperity is captivity to bulk-trades. Even if the same grain-companies take dominant positions in the new grain-industry, there would be new-entrants creating competition, thus helping producers retain higher margins. Direct sales and containerized channels are inherently more contestable than bulk systems.

The new sales and logistics channels we are trying to open up are aimed at giving producers more freedom and choice to diversify to higher value crops. But as long as grain companies, new or old, bring sales opportunities that allow them to make similar margins, they may opt for farm-gate-sales as they do now. With respect to logistics services we offer, they will be as open to grain-companies (or traders) as to producers; they can utilize our services or opt for their own internal capacities. Our aim is to liberate producers from bulk-trades, so that they can diversify and prosper.