Producers in peril: margin relief through direct-sales

In opening our 5th volume of articles, this being our 51st, we thought we would step back and recap our mission. What motivates us to pursue this venture is the *margin-squeeze* producers are under, which largely stems from the captivity of our overseas exports to *bulk-trades*. The solutions we offer are through *direct-sales* channels like the ones we have across North America. We have dealt with some of these issues before, but here we are trying to tie them together, diving into the most pressing problems, where they are rooted and where producers should turn for relief.

We start with the concept of margin-squeeze as viewed by agricultural economists, largely attributed to the high share of fixed-costs in farming, which we think is rather misguided. Instead of waiting for input-prices to adjust, which seem rather sticky if not stuck, we suggest that farmers look for salvation in end-markets, by selling into competitive channels where cost-increases can be passed onto end-users in higher grain-prices – like domestic or transborder trades that function quite competitively.

Then we turn to the root of the problem, overseas exports where producers are captive to bulk-systems, where the surplus from domestic and transborder must go, now roughly half of what we produce but growing with further yield-improvements. These bulk-channels are riddled with structural problems, where a handful of grain-companies are tied-at-the-hip with little incentive to engage in price-competition. This not only squeezes producer-margins but also suppresses total export-proceeds.

Rather than trying to fix these structural problems through government regulations or controls, we advocate a market-driven approach. Here we take our cues from domestic and transborder grain-trades, which function quite competitively with corporate-buyers procuring what they need directly from production-sources. The key here are direct truck or railcar deliveries; the same can be done to overseas in containers, claimed to be infeasible but quite practical and even more cost-effective.

Then comes the obvious question: why are these market-driven direct-sales are not happening? Producers are quite open to idea if they receive a premium over what they get from local grain-companies, and if trade-risks and logistics-burdens can be looked after. Buyers, however, are nowhere to be seen, not that they are not into these procurement practices elsewhere, but they know little about the virtues of our grain-economy, where a huge variety of quality of crops can be procured directly from production sources, our farms, and shipped to their doorsteps in containers.

This poses a huge marketing-challenge in promoting our region as a prime source of grains that is open to business. It is to this end that we are developing our new platform, *Virtual Prairie Grain Mall*, for promotional as well as trade-facilitation purposes. We are pressing ahead with this project with our own resources, but unfortunately with no support so far from either producer-associations or public-agencies – a gripe we raise at the end of this article and will return to in the next.

On the nature of the margin-squeeze

The *margin-squeeze* is a recognized phenomenon in agricultural economics, studied by researchers using simple production-models – if you do a web-search for the phrase, you will find lots of references. Economists postulate that farming is highly susceptible to a margin-squeeze due to its cost-structure: higher fixed-costs (land, facilities, equipment, etc.) than variable-costs (seeds, fertilizers, chemicals, etc.). These studies suggest that fixed-costs take longer to adjust to market conditions than variable-costs, thereby making farming highly susceptible to this phenomenon.

Farmers' take on their production-model is rather different. They recognize the value of the land they own, which allows them to farm, but this value does not enter their operational decisions or concerns. The land is viewed as a nest-egg that mainly concerns their retirement; its only operational relevance is as an asset to borrow against when they cannot cover their current operating costs or next year's input costs. They are happy these days that land-prices are on the rise, but these asset values seem to have little to do with the profitability of their farming operations.

Aside from land values, farmers would have difficulty relating to economists' view of variable-costs, as what is generally defined as such are not so variable in practice. A manufacturing firm, for example, starts with fixed-costs and incurs variable costs (labour, materials, energy, etc.) as it produces units-of-output (widgets, machines, tools, etc.). Farmers, on the other hand, buy inputs (seeds, fertilizers, chemicals, etc.) in advance and use them in quantities mostly proportional to land-size, not output – even equipment and fuel costs are generally a function of land-size.

There are skills and methods involved in farming, but a more significant factor that determines output is weather – rainfall and its timing. While most costs are fixed to land-size, what is variable is output, and it is mostly dictated by weather that farmers have no control over – a common oversight on the part of agricultural economists doing research in this domain. Also, most of the significant cost rises farmers have been suffering from are in the input category (seeds, fertilizers, chemicals, etc.) with no signs of relief in recent years despite economists' claims of quick adjustment.

Instead of waiting for adjustments on the supply-side, farmers ought to be looking for *margin-relief* in end-markets. Increases in equipment, input, service, or other operating costs, as well as in debt-charges, taxes, or levies, all elevate the cost-base. If markets were functioning properly, farmers should be able to pass cost increases on through higher grain prices to their buyers, who would then pass them on to their customers. Thus, for practical solutions we focus on how end-markets function: whether producers can get higher grain prices to compensate for cost increases.

Domestic trades: With CWB's monopsony coming to an end – a decade ago for non-feed wheat-barley but earlier for other crops – domestic and transborder grain-markets started functioning quite competitively. The key to this has been corporate procurement practices, direct purchases from production sources fulfilled by truck or railcar deliveries to processing facilities. These practices eliminated intermediaries that were adding no value to grain-chains, thereby reducing consolidation and distribution costs, and leaving behind higher margins for buyers and sellers to share.

For any fairness to prevail in this margin-sharing, there had to be competition among grain-buyers. Proponents of CWB had argued that a single seller could extract higher prices from buyers than thousands of producers competing to sell crops. This was a fallacy since CWB could not extract higher prices than market norms, across North America or even the world. For example, domestic flourmills were not going to pay any more than their American counterparts that had plenty of wheat grown in their own country to mill. Instead, Canadian millers would import wheat from the US or move across the border to mill; to prevent this from happening, our government would have to ban imports of both wheat and flour, in violation of trade-rules.

Another argument in defense of CWB was that thousands of producers would become price takers from much fewer buyers, but this was also a misguided concern since markets do not require an equal number of buyers and sellers to function competitively. Even a handful buyers – be it millers, processors, or crushers – would have to compete among themselves to procure the crops they needed from dozens if not hundreds of producers, unless they openly colluded through unlawful means.

Little effort has been made to monitor prices producers get through different sales channels – willful neglect on the part of the proponents of trade-liberalization due to their unfettered belief in free markets. There may not be enough empirical data to analyze, but there is plenty of evidence that the abolishment of CWB has served producer interests well in North American grain-markets. Producers who sell their crops directly to flourmills, cereal-makers, food-processors, or crushing-plants would confirm this. Then why are we still so obsessed with the *margin-squeeze?*

Export imperative: We consume less than half of the volume of grain we produce; thus, the surplus must be exported. Only a small share of our exports is to the US – net of imports, just a few million tons a year. The rest, half of what we produce as a nation, must be exported overseas, where we run into the margin-squeeze. Also, domestic grain demand has been growing only modestly, while crop-yields were increasing much faster. Thus, the export share has been on the rise, 20-25 MT in the late 1990s and this year likely to be in the 40-45 MT range. This growth is expected to continue with further yield-increases, thereby increasing our export-dependency.

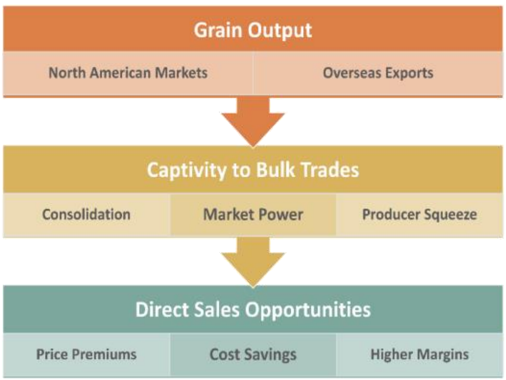
Some suggest reducing output, which will not only be bad for the economy, but also impossible to impose. Others suggest consuming more domestically, but exports would not go away until we double domestic consumption, a highly unrealistic prospect. If we face problems exporting overseas, some suggest we should export more to the US, but they also have a sizeable surplus, about a quarter of their output – producing 7-times more than us, and even with a larger domestic market, still exporting 3.5-times more. Thus, given our production volumes and limited domestic consumption, we have no choice but to export our surplus to overseas markets.

Over the years we never had to worry about our grain-surplus, as global demand was on the rise, driven by population growth as well as increasing affluence. China alone was a huge factor in this regard; a relatively small grain importer 50 years ago, now it takes close to a fifth of all global grain imports. We have been patting ourselves on the back over growing export volumes, but not been paying much attention to whether we were getting enough value commensurate with the quality of what we were exporting. We do not even track export proceeds on a per ton basis, let alone by crop type or variety. Even worse, there is no one tracking what producers get from export proceeds, whether they cover their increasing production costs or not.

Margin differentials: With little empirical data, it is difficult to reach definitive conclusions about the prices producers get from overseas export channels compared to domestic or transborder sales. Even more difficult to gage is whether these prices leave behind adequate margins to sustain the viability of farm production across the region, while also ensuring advancement in farming technology to get as much out of our farm-land as possible. If we go by producer sentiments and our hunch that motivated us to embark on this mission, it is evident that we are faced with problems, luckily problems that can be fixed without reverting to a regulated system.

In the one year that we have been online with our portal and social-media page, we attracted a sizeable following from the producer community. Their sentiments speak loudly: almost universal discontent with the state of farming in general and their own wellbeing. In the acrimonious debate over CWB, producers were sharply divided over whether to retain, reform, or abolish the single-desk system. The latter camp won but discontent with the outcome is still widespread, spewing anger and frustration but with no consensus on how to bring about much needed change.

A big part of the problem is the captivity of overseas exports to bulk-systems, which we refuse to acknowledge, believing that this is the only way. This might have been the case in the past, but now with advances in intermodal systems, we have the option of containerization – already underway across Europe and Asia. Like in North America, overseas buyers can also procure directly from production sources and get crops delivered to their doorsteps. Like in North America, this would reduce consolidation and distribution costs and allow grain markets to function much more competitively, increasing our export-proceeds overall as well as producer-margins.



More on the bulk-captivity conundrum

The origins of bulk-systems go back to the late 19th century. As the railways were being built across the region so were country-elevators to collect and consolidate grains from their vicinity. With all grain-trades coming under its control, CWB also became the bulk-systems' central-coordinator. Although terminal-assets were owned by producer-coops or private interests, and transport was in the hands of railways, CWB's control helped streamline and consolidate the entire grain-handling system. With advances in truck-transport, country-elevators got much larger, and branch-lines were abandoned – expanding capacity and improving system-efficiency.

The single-desk system under CWB prevailed over all crops for four decades but even with its jurisdiction being curtailed to wheat and barley, not much changed on the export front as these two crops represented most of our exports. As diversification got underway to other crops, most notably to canola and in time to other oilseeds and pulses, the landscape started to change. Pulse and specialty-crop exports were escaping the bulk-net in containers, but canola exports, like wheat and barley, became captive to bulk-systems. The year CWB was abolished in 2012, we were exporting 18.5 MT of wheat, 7.2 MT of canola, and 1.2 MT of barley, all in bulk, together 82% of total grain-exports – with other crops exported in bulk, 85-90%.

Faith in free-markets: Liberalization of grain-trades and privatization of industry-assets changed the Prairie grain economy notably. We acknowledge the benefits these changes brought to North American trades, where corporate procurement practices from production sources reduced consolidation-distribution costs and facilitated these markets to function more competitively. However, the other half of our grain economy, overseas exports, remained captive to bulk-systems. Policy makers believed this was dictated by cost realities; they assumed that with trades in private hands, the system would work competitively, protecting producer interests.

Obsession with the CWB, one camp trying to retain it while the other determined to eliminate it, blinded everybody to other problems, most notably producers' captivity to bulk-systems in overseas exports. Believing that the source of all evil was the CWB, its protagonists thought trade-liberalization and privatization would cure everything else in its aftermath. Issues like industry structure and its competitive implications were not in the vocabulary of politicians or their policy-servants, in the firm belief that market competition would quickly take care of all these problems.

The fact that CWB's monopsony applied to only two crops, wheat and barley, and only to their non-feed varieties, had given its foes comfort, but this was still 45% of our grain-output, and close to 60% of our grain-exports. With the single-desk system's curtailment to wheat and barley, considerable crop-diversification had taken place, with private grain companies taking over the new crop-trades. With wheat-barley going the same way, it was taken for granted that even more grain-traders would emerge creating a highly competitive environment. The grain industry structure, however, was changing in a very different way, rapidly consolidating.

Let us start with wheat-barley exports at the time of CWB's abolishment, 60% of our total exports. During 75 years of this single-desk system, crop-prices had declined significantly in real terms (roughly by half) but yield-increases had compensated for this. Critics of CWB were claiming that it was not very effective in marketing and that its costs were too high, but producers were receiving all the surplus from wheat and barley trades. The expectation was that private traders would cut costs and fetch higher prices in world-markets, thereby increasing not only export-proceeds but also the margins left to producers, but there is no evidence so far that they have.

Another major export crop that fell captive to bulk-trades was canola, the second largest volume behind wheat with 20% of total grain-exports. This had spread like wildfire across the Prairies, making both producers and its exporters very happy. By cultivating this rapeseed variety to local soil and weather conditions, with huge public funding, we had become its largest exporter. It was getting higher prices in world markets and leaving higher margins for producers than wheat. Canola's success had become a strong argument for what private trading channels could do compared to wheat still stuck in the hands of CWB. But nobody had bothered to see if producers were indeed getting their fair share from bulk canola exports.

Consolidation obsession: The moral of this story is *not* that a public-monopsony is better than a private-trading system. The real problem is that the bulk-system that overseas grain-exports are captive to, is a system that is not conducive to market competition like the proponents of free-markets believe. Markets cannot ensure that all parties to grain-trades that are captive to the system get their fair-share. Without getting too theoretical about it, let us look at the system's evolution into what it is today – a system in the hands of a handful of grain-companies with too much market power over producers, and little incentive to compete on price.

At the source of the problem lies the *consolidation-imperative*. This goes back to country-elevators that started being built in the late 19th century, shifting market-power in favor of trading interests. Farmers were freed from having to bag their grains but became captive to nearby country-elevators: they were price-takers from elevator owners with no negotiating power. In the coming decades producer-coops started to build and own their own elevators, gaining the upper-hand, but the *Great Crash* brought that chapter of grain history to an end, bankrupting producer-coops.

We will not go into the details of institutional and regulatory gyrations during the interwar years, but with CWB taking over all grain-trades in 1935, power-wars came to an end. A new system emerged whereby producers got all the surplus from grain-sales, domestic or export – revenues less the costs incurred by CWB and the coops for their services, all non-profits. Over the next half a century not all producers were content with the system, many believing that they could get more for their crops by selling directly to end-users – feed-lots, flour-mills, or food-processors. At the same time, pressures started to mount from end-users in the belief that they could save costs by eliminating intermediaries and buying direct from production sources.

Industry structure: Even before CWB was abolished, producer-coops had seen the writing on the wall and believed the salvation was in corporatization to compete effectively in grain trades. It started with Saskatchewan Wheat Pool (SWP), largest among them, becoming a publicly traded company, with the blessing of its members seeing more wealth in stock-ownership than pool-membership. Manitoba and Alberta pools followed suit, soon after merging with SWP's. This gave rise to a giant grain-company, Viterra, that would go on a global expansion binge bringing it down to its knees, in turn leading to a takeover by a global commodities giant, Glencore.

In the meantime, several other private companies had positioned in grain trades with sizeable stakes, first in non-board grains and later wheat and barley as well. They dabbled in domestic and transborder trades, but their focus was export trades where they saw the greatest profit potential. Together with Viterra, a handful of grain-companies dominated all our grain export trades, which would not have posed any problems to producer interests as there were enough of them to compete if they had their own channels. But they were *tied-at-the-hip*, sharing capacity on the same bulk-system – a *cartel* some would say, but more generously we label an *oligopsony*.

They have inland-terminals where they consolidate crops from nearby farms. They should be competing on price to accumulate as much volume as possible, but they know this would be self-destructive, and thus shy away from it. Instead, they offer similar prices that everybody gets to know as soon as they are offered, to collect from their respective catchment areas, knowing that crops are going to be further consolidated at coastal terminals, where they are all going to get similar prices from bulk-sales to global markets. Producers have little negotiating power, with nowhere else to sell their surplus, thus settle for whatever meager margins they get.

This integrated system does not only squeeze *producer-margins* but also limits our *export-proceeds*. Bulk-exporters are driven by volume and sell whatever they can consolidate to bulk-importers, with our crops going into grain-stocks at the receiving end. Despite all the talk about our classification-systems and crop-quality, little effort is made to market specific grades or varieties to targeted end-users who would be willing to pay a premium. As a result, these trading practices not only leave value on the table for what is already grown and exported, but also fail to incentivize producers to switch to higher value crop types or varieties in the future.

BULK-GRAIN LOGISTICS CHAIN

CONTAINERIZED-GRAIN LOGISTICS CHAIN

A market-driven solution: direct sales

As you would know from all our writings, which this article is a synopsis of, we have a *dual* grain-trading system – one across North America (domestic and the US), and another reaching out to overseas markets. Though they both draw crops from the same primary production sources, their trade channels function very differently. Both were born from the same single-desk system, CWB, but the North American part works as intended, competitively, but the overseas part is highly concentrated, suppressing our overall export-proceeds and leaving narrow margins to producers.

The overseas part is where our surplus goes, what we cannot consume domestically or export to the US, which itself has a big surplus, thus is not in need of imports. In today's volumes (ignoring last year's drought) these two parts are about equal but driven by yield-improvements our production is increasing faster than domestic consumption, thus the growing surplus we must sell overseas, making us increasingly more export-dependent. Though there does not seem to be the political will to recognize let alone address the problem, there is too much at stake to be ignoring it.

Conundrum revisited: At the root of the problem lies the captivity of overseas exports to bulk-systems, which works well for the interests of a handful of grain-traders, but not for the good of the grain-economy or the interests of individual grain-producers. As in any industry, where there are structural problems that prevent markets from functioning competitively, there are always regulatory remedies to improve things. But with our regulatory heritage, there is no appetite for invoking such remedies, and in any event, there is no reason to do so when more effective market-based solutions can be found to make trades more competitive.

We went through more than 50 years of a highly divisive struggle to get rid of CWB, first limiting its domain to wheat and barley, and finally getting rid of it altogether. Advocates of CWB would never believe it, but free-trade worked in domestic as well as transborder markets. End-users started buying directly from producers, thereby eliminating intermediaries and consolidation-distribution needs, leaving higher margins to be shared. Despite much fewer buyers than sellers, market-competition prevailed to ensure a fair split of the cost-savings without any rules or regulations.

End-users, particularly large corporate-buyers, were familiar with production sources to know where to find the types of grains they needed, and they set up procurement plans to buy the quantities they required from multiple sources. Also, producers knew where the end-buyers were – like feed-lots, flour-mills, food-processors, or crushing-plants – to take their crops to and sell at pre-negotiated or posted prices. These direct deliveries could be made by truck or over longer distances by rail, with no need for intermediaries, CWB or private-traders to consolidate or distribute.

The same trading patterns did not take hold in overseas sales, leaving them captive to bulk-trades, mainly for two reasons. First, unlike corporate buyers across North America, overseas buyers were not familiar enough with our production sources to start procuring directly. Second, there were fulfillment challenges as direct truck or rail deliveries could not be made across oceans. Ironically, the *familiarity* problem is much more difficult to overcome, but let us first deal with *fulfillment* challenges.

Containerization: Enormous advances have been made in intermodal transport systems, facilitating the containerization of freight movements. Shippers could send goods directly to customers in containers that could be transferred from truck to rail to ships through inland-terminals and coastal-ports, without handling the contents. Initially, there was resistance from transport-carriers and terminal-operators due to high costs. But with container-ships getting much larger and terminals becoming more efficient in handling containers, the intermodal-revolution gained momentum, changing global transport-systems as well as trading-patterns beyond recognition.

Early in this transition, containerization was quick to take hold of most manufactured and consumer goods, but in time also of break-bulk segments like forest-products. Going back more than 30 years, we had also seen the potential in containerizing grain trades, but none of the initiatives we pursued bore fruit. This was happening in many parts of the world, from Europe to Asia, but here in Canada resistance from vested interests was too strong to overcome, be it from railways, ports, or grain-companies that were heavily invested in terminal-assets geared to bulk-systems.

We spent good part of the next two decades working in intermodal projects in many parts of the world, particularly in China where we were involved in various coastal and inland container-port projects. We saw transport systems being transformed as fast as the country's industrialization, together with grain-imports from their west, Europe and Eurasia, being containerized. This was resulting in huge distribution cost savings, enticing grain-users to shift to direct-procurement practices fulfilled by containers. However, all of China's grain imports from the Americas was in bulk.

Returning to Canada a few years ago, we were keenly interested in getting involved in containerized grain trades. Based on our experience in China and elsewhere, we knew that containerization of grain-exports was not only viable but preferable both cost and quality wise. We knew we were up against fallacies propagated by vested bulk-interests of grain companies, but we could ignore all that since we would be creating new export channels. The railways and ports had come a long way in their biases since they were already into container-movements in a big way. The biggest problem producers faced was squeezed-margins from bulk-trades; surely they could be brought on side if they got higher prices at farm-gates without any trade-risks.

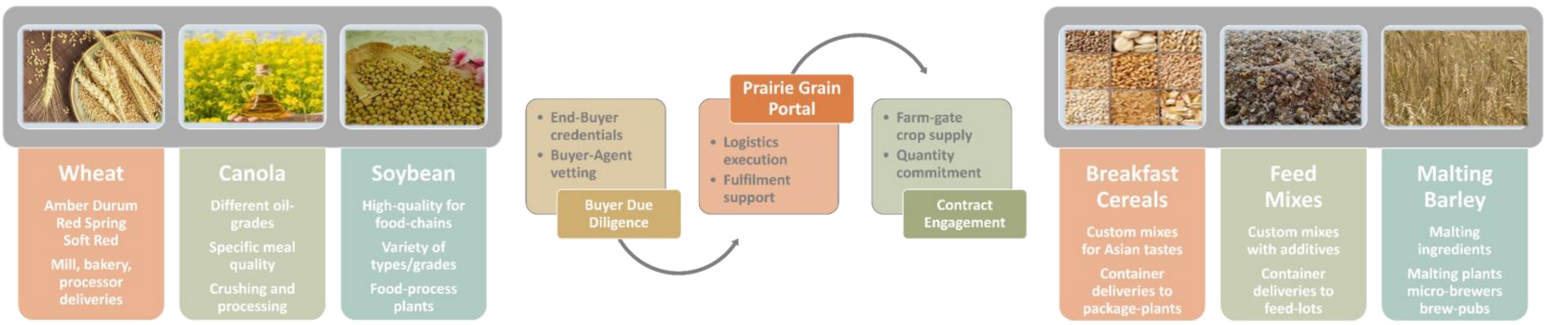
Cost savings: We will get into the costing-details in upcoming articles, but the realities are easy to relate to. The entrenched belief is that the least cost means of grain-transport is in unit-trains of hopper-cars, which is true, but only by a much smaller margin than generally assumed. In bulk-systems there are inland-terminals to consolidate and even more expensive coastal ones to transfer to bulk-vessels. Containerization at or near farms eliminates this consolidation burden, thus terminal costs. Grain companies are heavily invested in these assets, but that is their problem.

The cost savings at the receiving end of bulk-exports can be even more significant by eliminating storage and distribution costs from the supply-chain. Asian importers are as aware of these cost savings based on their grain procurement practices from elsewhere in the world in containers, as North American corporate-buyers are from buying what they need in quantities they require through direct-purchases delivered in trucks or railcars. Containerization is not just more cost-effective but also allows buyers to source the specific varieties or grades in quantities they need, with crop-integrity intact – making identity-preservation a reality with every container-load.

Remaining challenges: If containerized direct-exports are in the interests of both local-producers and overseas-buyers, why are they not taking place already? Simply put, though overseas buyers engage in these types of procurements practices from elsewhere, they know little about the virtues of our grain-economy. Even those who may be receiving our grains from local distributors often are not even aware that grains they are processing are *grown-in-Canada*. We are known as a source of bulk-exports delivered in ship-loads to shore up the grain-stocks of bulk-importers, not a place where a huge variety of quality crops can be sourced from production-sources.

This is the marketing challenge we face in attracting overseas-buyers to our region to look after their own procurement needs. To tackle this challenge, we described our platform initiative, *Virtual Prairie Grain Mall*, in previous articles and in some detail in our last one. This will promote our virtues – like advanced-farms, crop-varieties, science-technology, quality-assurance, logistics-services, etc. – through virtual stores and pavilions that overseas buyers with procurement intentions can visit online and be attracted to our region. The platform will also provide a trade-facilitation layer for overseas-buyers to get in touch with producers and pursue contract negotiations.

In the meantime, we are working on the logistics challenges that come with direct-sales, which you will hear more about in upcoming articles. The perennial problem in this regard is container-supply in the interior, which many do not believe can be overcome. For us, this is an operational challenge, not one that will hold our mission back. There are enough containers returning empty from the west coast to handle more than 15 MT of exports. We have ways of pulling these containers inland, and as necessary, moving grains to reload-centers where containers can be intercepted more easily, with measures to protect crop-integrity to buyers' satisfaction.



A wake-up call to grain-sector institutions

In many of our past articles, as well as in the above sections here in this article, we discussed the margin-squeeze that hurts grain producers, where it is coming from, bulk-trades that our overseas exports are captive to, and our solutions that will bring relief to producers, direct-export channels that can be fulfilled in containers.

- **Problem:** Grain producers suffer from very thin operating margins, a problem that can only be fixed by selling through competitive channels where they can get fair prices, not by battling cost-increases they have no control over.
- **Cause:** At the root of the problem lies their captivity to bulk-channels, where they have no choice but sell their surplus, where they are price-takers from grain-companies with too much market power to be competing in price.
- **Solution:** Rather than regulating bulk-trades, our solution is attracting overseas buyers to compete like North American ones do in buying directly from production-sources, grain-exports that can be fulfilled in containers.

In a nutshell, our mission is quite straightforward: open new export channels to overseas markets, thereby introducing more competition for producers to get higher prices, thus higher margins than they do from what they are currently captive to, bulk channels. The key to this is to attract more overseas buyers to procure grains directly from primary production sources like corporate buyers do across North America to eliminate intermediaries and reduce consolidation-distribution costs.

Our new platform, *Prairie Grain Mall*, a virtual marketplace, will be introduced next year to promote the virtues of the Prairie grain-economy and facilitate direct-trades between overseas-buyers and producers. The *information-portal* we introduced last year was meant to be a validation exercise, to gauge the level of interest on the part of producers, how dissatisfied they were with the current situation and how willing they were to try the type of direct-exports channels we were trying to open.

Our expectations were modest, but in one year more than 15,000 people visited and spent more than 1000 hours on the site, not counting the material they download and read on their own time. Our social-media page also attracts a lot of attention, with a large membership base, posting comments, likes, and referrals. Through the online-portal, social-media-page, and follow-up consultations, we assessed the response to our trade-facilitation initiative from key stakeholder-groups as follows:

<u>Grain producers:</u> Based on the feedback we get from our portal and social-media followers, there is strong endorsement of our mission from producers. Though we had encountered some reluctance or ambivalence at the outset, now there is more than just interest in our mission. There is a keen desire to participate in direct-sales if they can get a “price-premium” paid in full at farm-gates, without any exposure to trade-risks or logistics-challenges beyond farm-gates – all reasonable conditions.

<u>Overseas buyers:</u> As part of our interim trade facilitation efforts, we are reaching out to prospective buyers in selected market segments. The initial reaction is as we had expected: an expression of serious interest if supply-sources can be identified,

and logistics challenges looked after. However, we are not expecting a rush until our new platform is launched to provide more visibility into our grain-sources, as well as crop-varieties, grain handling-logistics infrastructure, and quality-assurance systems.

Producer associations: At the outset, given that our initiative was in the interests of grain-producers, we had expected to get some attention from their associations, also known as crop-commissions. All we got was silence, not even responses to emails or phone-calls. We could only assume that they did not see any problems with the farm-economy, let alone be concerned about the distress we hear every day from their members struggling to stay afloat with meager margins from export-trades.

Government agencies: The response we got from provincial and federal government agencies was much of the same, though some were at least courteous enough to take calls and review our mission statements. The leading ministry's response was that they could not favor or support any particular "channel" over others. It was lost on them that we are not another trade-channel; we facilitate the formation of others with an online platform to promote our grain economy in overseas export markets.

We are thrilled by the response we are getting from producers, far exceeding our expectations, and still growing and strengthening even before introducing our new platform. But we cannot remain silent to the lack of attention paid to our initiative by producer-associations and government-agencies, provincial or federal, all funded by producers through the taxes and dues they pay. One would expect all these institutions to pay more attention to the economic wellbeing of grain-producers.

The problem is simple: much of our overseas exports are captive to bulk-trades, which function neither efficiently nor competitively, suppressing our overall export-proceeds, while also squeezing producer-margins. The root of the problem is *structural* and dates to the CWB days; it was assumed that this problem would go away with CWB's abolishment, but it did not. All our surplus, roughly half of our grain output, destined to overseas markets is consolidated through an integrated bulk-system, where all bulk-traders or grain-companies are *tied-at-the-hip*, with little incentive to compete on price in procuring crops from production sources, farms.

What we are calling for is not government intervention or regulation, but trade-facilitation through new exports-channels. To this end, we must attract overseas buyers to our region to procure grains from primary production sources, thereby opening direct-sales channels. These types of channels used by corporate buyers keep domestic and transborder trades competitive but do not exist in overseas trades. Curiously, this void is ignored by producer-associations and public-agencies that are funded to provide oversight and support to the grain-economy – whether due to political sensitivities or influence of vested interests, we will not speculate.

We take it for granted that the world knows Canada as a major exporter of grains, but we are a *black-box* to the rest of the world. Since we export most of our grain in bulk, other than the parties to those bulk-trades and government agencies that oversee them, nobody else knows much about our grain economy. In direct-sales, the audience we must reach are end-users – millers, processors, crushers, feed-lots, cereal-companies, bakery-chains, etc. We must attract end-users to Canada to procure the grains they need directly from production-sources, our farms. As we often cite, most overseas end-users do not even know that the grains they are buying from local wholesalers or distributors to process are *grown-in-Canada*.

As we also often cite, there is a wealth of information on our grain-economy on the Internet, but if you are a buyer of grains looking to procure your specific needs, you would not know where to turn. For sales-marketing purposes, there is no single source of information aimed at overseas buyers, displaying our advanced-farms, farming-methods, crop-varieties, research-capacity, classification-systems, quality-assurance programs, export-procedures, handling-logistics capacity, together with many other attributes and virtues of our grain-economy and its support eco-systems.

Therefore, we felt the need to build our new platform, *Virtual Grain Mall*, not only to promote our grain-economy but also to facilitate direct-trades between overseas-buyers and local-producers. Grain trades do not easily lend themselves to one-click solutions like *Amazon*, but a great deal can be achieved online to connect buyers and sellers and pave the road to contract negotiations. In this vein, we modelled our approach not after e-commerce platforms, but Ali Baba's earlier incarnation in trying to plug small to medium size enterprises into global supply-chains, which had been hugely successful – in a way, we are trying to become an *Ali Baba* for farmers.

In view of the obvious need for a platform like this, be it for promotional or trade-facilitation purposes, it is ironic that our governments, federal or provincial, are reluctant to lend support to it. This is particularly perplexing for our governments that have not shied away from supporting the production-end of the grain-economy for more than a century and continue to do so with billions of dollars every year even at its current mature state. We would never oppose this support but cannot help but ask why prop-up production when the marketing side of the grain-economy is not working to realize the full benefits from crop-quality or yield improvements.

Our curiosity goes even beyond to the long and treacherous debate over CWB, whether to retain, abolish, or reform the much loved or hated institutions from different sides of the political spectrum. We were never supporters of a single-desk system but would not have opposed CWB's retention on a voluntary basis or in a marketing capacity. Now it seems that in fear of further controversy, our public institutions try to stay away from any discussion on grain-exports, including their captivity to bulk-trades and the structural problems underlying the bulk-systems.

We will come back to these issues in our next article – *An inexplicable record of institutional denialism* – with highly critical perspectives on the lack of attention paid to the marketing-side of our grain-economy by government-agencies and producer-associations. Many of our followers may be dismayed since they no longer want to hear about *institutions*, but our problems are not going to go away, and need attention if we want to improve our export-performance. This is of paramount importance to not only the grain-economy at large but also individual producers.