

Responding to the turmoil in global grain markets

The core mission of our portal is to facilitate grain exports to overseas markets through direct-sales channels, from production sources to end-users. Most of our overseas exports, close to half of what we produce, go through bulk-channels. Based on long-established practices, producers have been conditioned to accept this as the most secure, if not the only way to export grains overseas. In many ways, they take it as a sort of *celestial dictum*, but we contend that there are much better ways.

In fact, direct-sales are prevalent in domestic and transborder grain-trades that make up the other half of what we produce. Corporate-purchases through direct-procurement channels set price-benchmarks for intermediaries to follow – grain companies that add value to supply-chains as well as opportunistic traders. This dynamic imposes the necessary discipline for grain markets to function competitively across North America, allowing producers to claim their fair share of trade-margins.

There is no reason not to strive for the same dynamic in overseas export-trades. We attribute the lack of direct-sales in this domain partly to the market power bulk-traders possess, but more importantly, to the *information-gap* between producers and overseas buyers. Our focus is on bridging this gap to facilitate direct-sales to overseas markets, which we believe could be done, diminishing the market power of bulk-trade interests without having to revert to any regulatory measures.

We have previously outlined a strategy to migrate our website, an *information-portal*, to a *trade-platform*. We started this with a series of farm and regional profiles that will be migrated to our new platform, *Prairie Grain Mall*, later this year with a *trade-facilitation* layer built into it. This core strategy has not changed, but now we are compelled to introduce an “interim-initiative” into our plans to respond to today’s global grain-market conditions and the market opportunities they present.

In view of these changing market conditions, we decided to modify our plans to try to create sales opportunities this year. We did not change anything that was already on our agenda but tightened up our plans to make them more results-oriented, before even launching our new platform later in the year. However, we are not betting on huge early results and will proceed with our core strategy regardless of what we achieve in the interim – thus, no fundamental change in strategy.

Here we start with a discussion on our global grain market outlook, which presents a promising window of opportunity. We then outline our efforts to kick-start direct trades, where we seek guidance and participation from producers. These trades will give rise to a volume-consolidation imperative, requiring more collaboration. Finally, we wrap up with the implications of this slight diversion from our original plans.

Grain-market outlook

Last year's harvest was drought-stricken, not as bad as the drought in 2002 but still resulting in much lower volumes to export. For very different reasons, actual export sales to mid-January were also much below the same time the year before – wheat 45%, durum 35%, and canola 40% – surprising to many industry-watchers but not to us. This was a natural outcome of complacency, taking bulk grain export volumes for granted and not paying enough attention to the yield increases being achieved in emerging grain regions, particularly in the vast territory stretching from Eastern Europe to Central Asia, a long-neglected region we had coined the *New Grain Belt*.

If these trends had not reversed, we would have been in trouble, with large carry-over stocks into this year. At the time, we did not think there was much hope on the horizon to clear these stocks before this year's harvest. But all that changed with the Russian invasion of Ukraine. Global markets went into turmoil, hiking up prices with even more increases on the horizon due to lower export volumes from Ukraine and Russia. Also, in fear of global grain-shortages, exaggerated in our view, a speculative hoarding-wave got underway. Thus, we entered a period of grain price inflation.

With extremely volatile weather conditions, drought in some areas while others still flooded, it is difficult to predict what this crop year is going to yield, but we expect that there will be more to export than last year, perhaps not as much as 2020 (51 MT) but higher than 2019 (41 MT). With the feared supply-shortfalls on the world stage, prices are almost certain to be favorable, thus it will be a good time to be exporting, as well as a good time to be introducing new export channels.

Looking out to the rest of this year and into next, the main beneficiaries of rising prices will be the custodians of our bulk-trades. They are sitting on unsold stocks from 2021-22 crop-year, and if the 2022-23 crop output is as we expect, there will be 45 MT more to export (after domestic consumption). Thus, grain-companies will have plenty to export into tight global markets at favorable prices, as both Ukrainian and Russian export volumes will be below normal levels – former due to lower output and clogged shipping channels, and latter due to trade sanctions or boycotts.

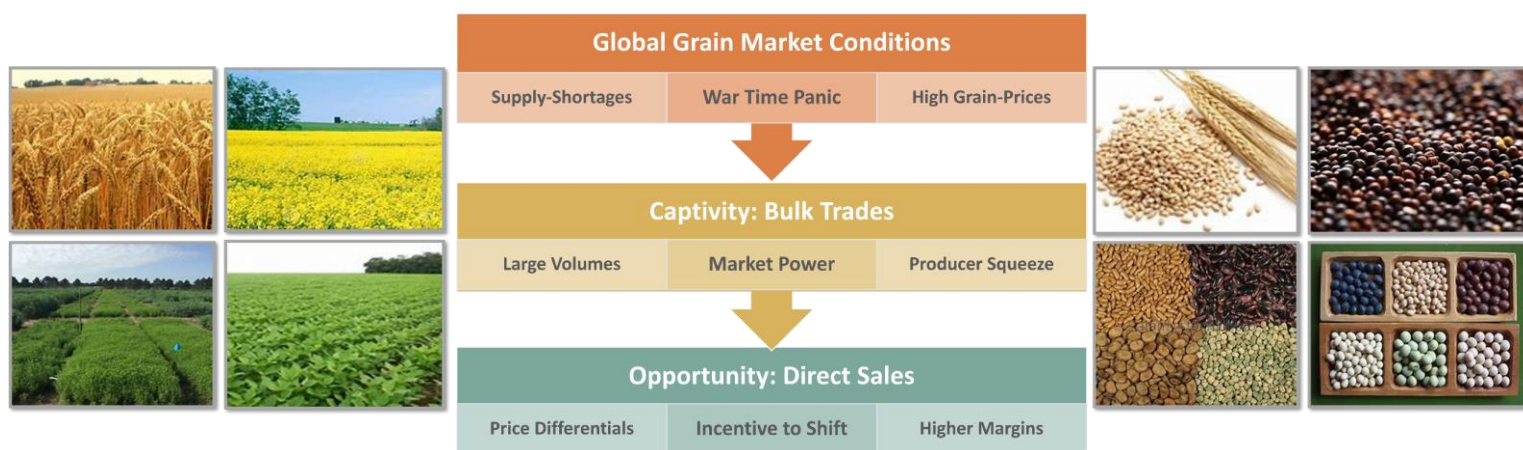
Whether these price rises will trickle down to producers or not, and in what share, are different matters. The grain companies that control bulk-trades are price takers from global-markets and will naturally realize higher revenues commensurate with rising global grain prices. On their carry-over stocks, which they would have paid last year's prices, they will enjoy windfall profits. On this year's crop-output, at least in theory, producers should receive higher prices commensurate with increases in global prices. Their actual share of export proceeds, however, will be dictated by market realities, not theory. In this regard, we should keep two factors in mind.

First, grain-companies hold more power over producers, derived from the control they have over the gateways to the bulk-system that producers are largely captive to in overseas exports – same argument we advance in postulating the margin-squeeze producers are under. The second factor to consider is differentials between export and domestic prices. In theory these should move in tandem, but in the short term there could be significant differentials. In North America we do not expect grain shortages of any kind, thus grain prices may lag global norms, at least for a while.

Our overseas exports are in a way a residual-category, surplus from what producers cannot sell into domestic and transborder markets. With the market power they hold, and in the absence of competing direct-sales channels, custodians of bulk-trades will have no reason to offer a penny more than producers can get from sales into North American markets. This in our opinion will motivate producers to explore alternative export channels outside bulk-trades; they can follow global price trends as well as anybody, with knowledge of what trickles down to their own accounts.

More than just global price increases at large, it was the anticipation of these price-differentials that motivated us to kick-start our trade-facilitation efforts at this juncture. We were going to wait for the introduction of our new platform, designed not just for promotional but also trade-facilitation purposes. But when global grain-markets were thrown into turmoil, we realized that there was a unique time-window to push for direct-sales channels that producers would be more motivated to try.

As we display in the exhibit below, our fundamental platform strategy has not changed – preparing individual-farm and regional-attribute profiles, migrating all these profiles to our new *Prairie Grain Mall* platform as virtual stores and pavilions, and adding a trade-facilitation layer to it. With the onset of the global grain-market turmoil, if not crisis, we realized we would miss a unique window when producers might be particularly motivated to try alternative export-channels. Thus, we introduced the “interim initiative”, not a diversion from our strategy, but an effort to jump-start trade-facilitation efforts with a focus on short-term results.



Our trade support role

It has been 50 years since all grains, but wheat and barley, were freed from CWB's monopsony, and 10 years since wheat and barley as well. But direct-sales channels to overseas markets have not materialized in any serious way, leading many to conclude that this was not in the nature of grain-trades. Contrary to this conclusion, however, direct sales were happening routinely in domestic and transborder trades.

Along the way, there were efforts to kick-start new channels, not among producer ranks, but by opportunistic trading interests trying to buy cheap from the farm end and sell with a profit to end buyers. This was the antithesis of "direct-sales" meant to cut out intermediaries and leave higher margins behind for producers. They were efforts to compete with already established grain-companies, which of course were doomed to fail without proper handling, logistics, and trading channels in place.

These efforts were not widespread, but with enough unscrupulous traders among them to leave a bad track record. For slightly higher prices, producers had to wait for payment to release a container load or two. Even worse, when they were paid for those, larger volumes were left in their bins ready to ship many more container-loads that the trader had promised to purchase but never did. Naturally, these were not viable sales channels to ever consider as alternatives to contract-sales.

We do not have any trading intentions whatsoever, let alone opportunistically. We are here to facilitate grain trades, to connect end-buyers and producers so they may enter trade-contracts without middlemen, other than value-add service-providers needed to fulfill orders. We have no plans to impose any fees or commissions on the trades we facilitate, as buyers or sellers that connect on our platform can take their contract negotiations off-line to conclude. We will only get involved on a fee-for-service basis if needed and asked for due-diligence or contract-support purposes.

We are here to serve producer interests but not altruistically. Like any internet platform, we will have revenue sources to tap through advertising, promotions, or contract services, be it market-research, project-management, or other fee-for-services. To this end, we must grow our audience, producers who can see the higher-margin export prospects through direct-sales, and similarly buyers who can see the benefits in procuring the crops they need from production sources.

Accordingly, we are determined to not just grow our audience like a social-media stage but as a value-add platform in generating actual trades. However, direct-sales volumes are not going to grow organically one container load at a time. We must pursue a strategy of sustainable contract-sales to achieve large trade-volumes that benefit both buyers and sellers, and for this, we need to develop a viable framework.

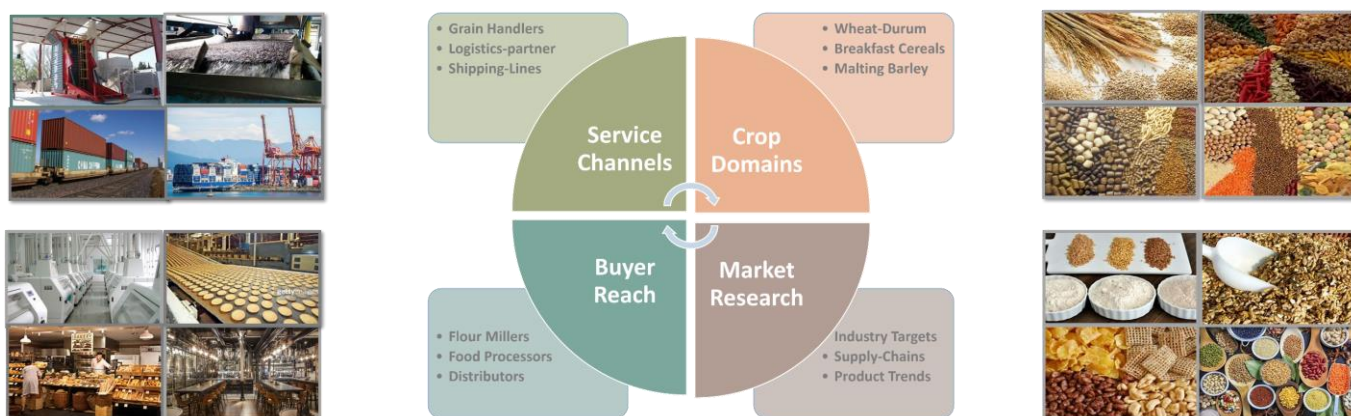
This will fall into place once we launch our *Prairie Grain Mall* with an additional *Trade-Facilitation* layer, but our latest plan is to try to facilitate trades in advance of this launch, at least bring them to a “prospective” stage, helping the new platform gain quick traction with signs of early trades. This slight course-diversion is also motivated by the global market conditions that the Russian invasion of Ukraine gave rise to – creating turmoil but also highly favorable conditions for exporters, with rising prices in fear of supply shortages. In the next 6 to 8 months, we will attend to the following tasks while also pursuing our platform-development efforts:

Crop domains: At these early stages, we do not believe it is wise to cast the net too widely to all crop-domains where we see potential for direct-sales. We have some ideas as to where to focus our early efforts to get results, which we touch in the next section, but more important than our ideas are suggestions coming from producers. They know their soil-conditions and growth-conditions best to guide our efforts more wisely to achieve quick results, perhaps even in time for this year’s harvest.

Market research: Once these priorities are determined, we will formulate a market-research strategy to better understand end-market conditions to target prospective buyers. These early market-research efforts – industry-structure and supply-chain studies – will require external funding until we start generating internal sources. We will lean on producers to mobilize support behind these fund-raising efforts, aimed at all relevant departments, agencies, institutions, associations, or commissions.

Buyer reach: In each of the selected crop-domains, buyers will be identified through market-research, in all cases targeting industry leaders with known grain-import needs. We will also rely on country representatives that we have already selected to suggest targets. To clarify, we are trying to avoid intermediaries, but at these early stages we will need help to open doors, as marketing advisers, not agents with territorial rights – our policies in this regard will be guided by producer-interests.

Service channels: Once we gain visibility into market opportunities we target, we will start formulating service-channel plans – cleaning, grading, processing, storage, and most importantly container supply. As we have indicated in the past, we do have tentative plans in this regard, through our start-up logistics partner or third-parties. Specific service arrangements cannot be finalized until crop types, grades and volumes gain clarity, but we know the challenges and how to tackle them.



Supply-side initiatives

In our previous articles we discussed the barriers that stand in the way of direct-sales channels in overseas export trades, in contrast to domestic and transborder trades where they formed more naturally. At the root of the problem is an *information-gap*. Overseas buyers know very little about our grain-economy, particularly primary-production sources, farms, where they can procure a huge variety of quality crops directly, and get those crops shipped to their doorsteps in container loads.

At the same time, our producers know very little about buyers in overseas markets. They are accustomed to selling to grain-companies, be it CWB in the past and now private ones; they do not even know who end-buyers are, let alone anything about their crop needs. Producers get price-signals from markets and contract-incentives from grain companies, make their production decisions accordingly, and part with their output at farm-gates or grain-elevators, with no idea of what happens beyond.

In the age of the Internet, building information-bridges has become a lot easier. Even if direct grain-sales may not lend themselves to one-click-solutions, a portal like ours can go a long way to connect buyers and sellers to pursue mutually beneficial trading relations, at least pave the way to contract-negotiations. As we know from domestic and transborder trades, these types of direct-sales benefit producers and buyers alike, by limiting the role of intermediaries to value-add services as needed.

We laid out our platform development plans in previous articles, how our current *information-portal* will be transformed into a *trading-platform*. To this end, we are building a virtual *Grain Mall*, which will be a “window” into the Prairies for overseas buyers to learn more about our grain-economy, and to connect with producers who can meet their needs, paving the way to contract-negotiations. As this initiative gets underway, there is a lot that can be done in the interim to kick-start the process.

The scope for direct sales is vast, not just what we already grow but also new crop grades or varieties that we can shift to if we can see evidence of demand from end-users. The shift from bulk-trades to direct-sales will not only increase producer margins in exiting trades, but also pave the way for what we call *value-driven-diversification* to elevate our grain-economy to a higher plateau. But at these early stages it is best to adopt a targeted approach, to avoid casting the net too widely.

To this end, we have tried to identify crop-domains where we see potential for immediate export prospects. This will help us concentrate our limited market-research resources, target prospective buyers, and initiate trade contacts, even before our *Grain Mall* platform becomes functional towards the end of this year. Below we take a first cut at a short-list of promising domains, but we want input from producers as they are in a much better position in prioritizing target domains.

Wheat-flour: We always exported wheat in bulk, while European wheat-trades were becoming much more specialized and containerized. Now across Asia Pacific, flour markets are growing modestly but specializing rapidly, requiring much higher quality wheat grades. There is export potential for durum and other varieties, delivered directly to flour-mills in containers – large mills that need specialty wheat to achieve specific flour-attributes, or boutique-mills catering to niche markets, like in Europe.

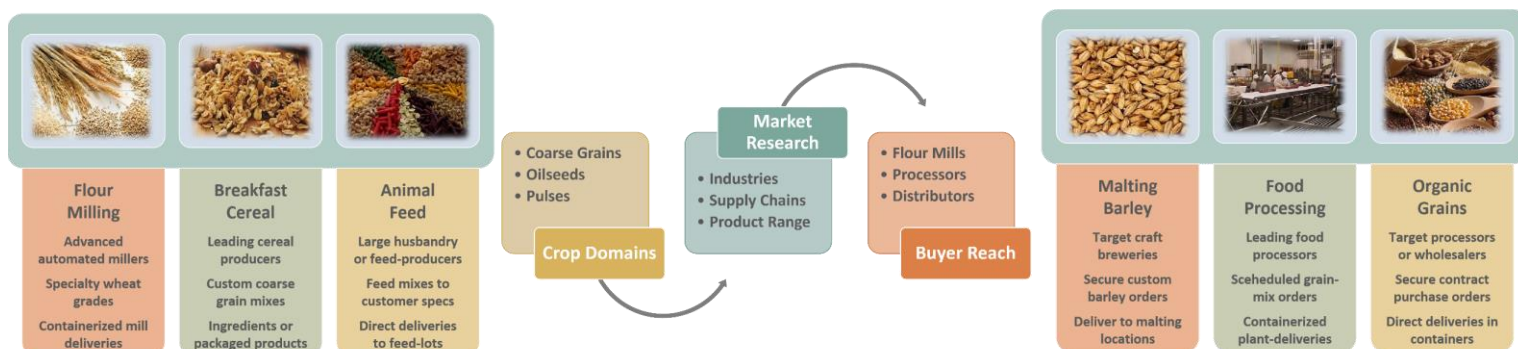
Breakfast-cereals: Cereal products emerged more than a century ago, but since, the industry has gone through waves of transformation, eventually shifting to direct procurement practices. Now we have a rapidly growing market across Asia Pacific, with a population many times the US, presenting direct-sales prospects to leading cereal companies. Weather for oats, other cereals, or custom-mixes, we must take export opportunities seriously, with containerized deliveries to production-plants.

Malting-barley: Farms sell malting-barley to malting-plants directly across North America; overseas barley exports are modest but mostly in bulk and feed-grade. We have not paid much attention to brewing or malting trends across Asia Pacific, which is a much larger market, still in the process of restructuring and specializing, with brewers or distillers going upscale, and new trends like brew-pubs taking hold.

There is growing demand for a variety of barley grades, delivered in containers.

Specialty-crops: We can cite many more crop-domains like these, but instead let us switch to specialty crops. We have made huge progress with soybean grades suitable to edible markets, much higher-value than major producers focus on, mainly for feed, but we are still only scratching the surface of the Asian market potential. Similarly, we have a variety of grains now in demand in Asia following vegetarian or vegan diets. Also, there is demand for organic-of-everything, but all these and other specialty-crops are traded in relatively small quantities, requiring containerization.

These are some examples we can cite but it would be foolish of us to prioritize crop choices based on our limited production knowledge of individual producers. To make market-research and buyer-targeting efforts more effective, we need guidance from all producers with an interest in pursuing direct-sales opportunities. You know your own soil and growth conditions and can guide our efforts much more wisely. To this end, we are ramping up our *trade-forum* to solicit ideas and suggestions at these early stages of trade-facilitation efforts – we hope that you will all participate.



Volume-consolidation imperatives

Some producers may be curious about what our mission is, and to this end may want to test our capacity, to see how we handle the logistics of exporting a small amount from their storage-bins and test how we perform. This is neither a fair test of our capacity, nor a focus of the business we are trying to build. Firstly, it is difficult to find overseas importers for these types of sporadic exports. If such opportunities come your way, they would be originating from an agent or an opportunistic trader.

Even if you are paid in advance, and all the export-logistics burden is on the agent, we can assure you that there will be difficulties. Even if we think we can help, we will be upfront with the challenges, the most important one being container-supply, not just finding one in the Prairies but also getting clearance for its release to the desired destination. In time, as our platform becomes fully functional, we will have a section focusing on these types of sales, but it will not be part of our core business – nor should producers put much stock to these types of one-off exports.

Our trade-facilitation focus is and will remain on *contract-sales* that can generate sustainable-volumes – as we said earlier, grain-trades to overseas markets cannot be developed one container at a time. There are thresholds that determine the viability of containerized-trades between given origin-destination pairs. Also, shipping-lines (SLs) are always concerned about sustainability of volumes over time. Their greatest nightmare would be containers getting stuck or delayed at origin, which would disrupt the flows across the ocean, their most important planning consideration.

We know that the empty containers returning from the West Coast can handle 10-15 million tons/year. All SLs operating across the Pacific are motivated to generate revenue-business, instead of repositioning empty containers on the other side (eastbound, head-haul on these routes) on their own account. For all of them the most important considerations are container-volumes and reliability of returns, and as evidence of both they need to see a convincing operational-plan. This is the only way to pull containers inland into the Prairies, working with SLs, not begging or incentivizing railways or port-authorities to increase inland container-supply.

In our tentative operational plan for this crop-year, 2022-23, to get the attention of SLs, we set minimum thresholds of 20-25 TEUs a week from each of the 5 major Prairie gateways – 100-125 containers/week or 100,000-125,000 tons/year. But more than the initial base-load, what interests SLs even more is our strategy to ramp up these volumes 10-fold within 2-3 years. At the growth rates we are forecasting, we can generate enough grain-exports to start turning these Trans-Pacific routes into “balanced” shipping-lanes, at least to/from Vancouver as well as Prince Rupert – SLs are willing to cooperate since they can relate to the viability of these projections.

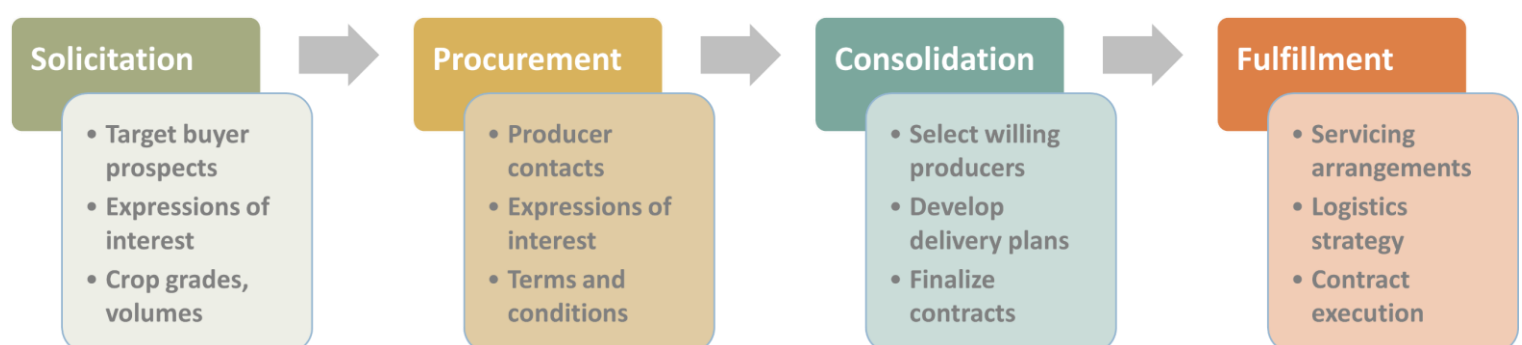
We are not grain-producers to achieve all this on our own; we need your help to accomplish our mission. Even the start-up volumes we are targeting from any one Prairie-center is 20,000-25,000 T, perhaps within reach of some of the largest farms, but no single farm is going to commit its entire output to any one containerized grain-export contract. We must work through multiple channels, and with multiple farms participating in any one channel – we believe this is ambitious but still feasible.

We identified the tasks we will shoulder in the next 6 months: selecting crop-domains, conducting market-research, and targeting prospective buyers for this initial phase. We will then turn our attention to how to consolidate the likely export volumes, to meet the contractual commitments if they were to materialize. In order not to introduce intermediaries, as they would be eating into contract margins, we will go back to the interested producers for another round for consultations.

We know “consolidation” or “collaboration” are not popular words these days in the Prairie farm-culture, thus we will do everything we can to streamline the process without imposing collective requirements or risks to individual producers. Let’s say we have a serious expression of interest for 10,000 T/year of durum, about 10 container-loads a week, and we are looking for 20 producers to take up 500 T each.

Obviously, commitment from each producer will depend on price, terms, and conditions, but we will post these details in our *Trade Forum*. Once we reach a quorum of producers interested in the opportunity, we will hold calls to discuss the details, together with requests for further due diligence into the buyer. Once we reach a tentative consent from the participating producers, we will put together a service-plan with cost estimates for all post farm-gate handling and logistics.

Once the buyer consents to the terms-and-conditions, we will proceed with the legal details, and hopefully finalize the contract with payment terms (cash or LOC). Some contracts will be smaller or larger, with fewer or more participants, less or more handling requirements, but in simple terms this is how the process will unfold. As we move to our *Trade Facilitation* platform, most of these efforts will shift online.



Recapping our expectations

As we tried to describe above, in view of the current turmoil global grain markets have been thrown into, we modified our plans somewhat by adding an interim step to our agenda: to generate early contract opportunities to take advantage of the current market conditions. But let us make it abundantly clear that this slight diversion is not going to distract us from our core mission. We will proceed with our development efforts to introduce our much-enhanced platform by year-end.

We have an ambitious plan to migrate our portal from its current state, basically an *information-portal*, to a *trade-facilitation-platform*. The center piece of this will be our *Prairie Grain Mall*, with *virtual-stores* and *virtual-pavilions*, a “window” into our grain-economy with all its virtues on display – production-sources, crop-variety, research-capacity, quality-assurance, grain-handling, logistics-capacity, and many other aspects that make the Canadian Prairies stand out on the global-stage.

Aside from all the region’s collective virtues, however, the most important elements are primary-production sources, farms, which we are trying to bring attention to through the *Grain Mall*. These are the hidden-treasures of our grain-economy where, if they knew more about them, overseas buyers would reach out to procure their grain needs. There is a huge variety of quality crops that can be bought directly from Prairie farms, and even ordered to be grown under contract with the desired attributes to meet specific end-user needs. But we must put all this across.

Accordingly, the main building blocks of our *Grain Mall* platform are *farm-profiles*, which we are in the process of preparing. Many producers have already stepped forward to participate in our farm-profile program, but we need many more to do justice to our region’s capacity. The plan is to migrate these profiles to the *Grain Mall* and display them as *virtual-stores*. This will not impose any further effort on participants, but we will need their consent to be displayed on the new platform.

Now we are introducing an interim step to our plans, not to distract us from our core-mission but to take advantage of the turmoil in global grain-markets. Primary beneficiaries of higher prices and volumes will be the established grain-companies through bulk-trades. But we felt there may also be opportunities through direct-sales channels, though they are not yet established. To this end, we formulated an interim strategy to kick-start trade-facilitation efforts through these new channels:

- Select promising crop domains where we see immediate export-prospects
- Conduct research into targeted end-markets focusing on selected domains
- Reach out to prospective corporate-buyers to solicit purchase-interests
- Establish service and logistics channels to fulfill early contract orders

Our efforts in this vein would greatly benefit from producer input, not by making any sales commitments or taking any trade-risks but participating in trade-facilitation efforts in advisory or consultative capacities. Through our *trade-forum* you can provide ideas or suggestions on what to focus on, participate in exploratory efforts, and when prospects crystalize, partake in contract negotiations and fulfillment:

- Lend guidance to prioritizing crop-domains to focus on
- Provide insights into your grain-stocks, now and post-harvest
- Participate in discovery efforts and contract-negotiations
- Partake in consolidation initiatives in fulfilling early contracts

We must confess that we embarked on this interim initiative with trepidation. With the *information-gap*, a real hindrance to the formation of direct-sales channels, still standing in the way, our reservations were warranted. Our solution is the new platform, *Trade Mall* with a trade-layer built into it, but we had no way of rushing its launch much before the year-end. Thus, we had to engage in a great deal of soul-searching whether to pass on the immediate opportunities or modify our approach.

The turmoil in global grain-markets and the export opportunities it presents could not be overlooked, not just to grain-companies through bulk-trades but also to producers through direct-sales. But the more compelling reason to proceed was the fact that the effort involved would not be wasted, in fact, it would help our transition to the new trade-facilitation platform. Thus, we had little to lose if we tampered our expectations for quick results. If we could facilitate contract sales, even modest ones, it would strengthen our hand in launching the new platform; if not, we would proceed as planned, with no collateral damage to worry about let alone suffer from.

The extra work-load we are choosing to take on in the coming months – crop-domain targeting, end-market research, and buyer reach-out – was already part of our agenda, but now we must make these efforts more results-oriented. This slight course-correction will necessitate even more producer participation, which we are confident will be forthcoming. What we are asking from producers will not just bring long-term benefits but immediate contract rewards. Even if sales prospects do not materialize right away, participating producers will gain real insights into the direct-sales process and see the potential for higher margins and diversification prospects.

In closing we want to reiterate a critical point, that the trade-facilitation process is collaborative in nature; we can't accomplish much without your input and guidance. Thus, we urge you to participate through our *trade-forum*, which we will activate shortly to support this "interim-initiative". In addition to guiding us through early discovery efforts, when you see a real potential, engage in contract discussions. We know that on top your worries are *trade-risks*, which is the topic of our next article.