

## Initiating direct-sales when markets are in turmoil

After providing a long history of grain-trades that detailed how the Prairies became our primary grain producing region, our last two articles focused on two themes: how producers got trapped in bulk-systems, and how they could free themselves from that trap through containerization. In this article we come back to direct-sales and detail our plan to kick-start trade-facilitation efforts while grain markets are in turmoil, a period when we expect global prices to be above North American ones.

Higher global prices will benefit grain-companies, but with no reason or incentive to pay any more than prices producers get from domestic or US sales. Foreign buyers, on the other hand, will be prepared to pay global prices, making this short-term window an opportune time to be exploring overseas direct-sales prospects. Also, this is a time when producers are ridden with a whole range of anxieties about the state they are in, thus may welcome a chance to explore new export-channels.

Before we get into direct sales, however, we first want to touch on a few topics our regular followers may be familiar with from past articles, but not new ones. We start with a brief discussion on how our bulk-systems developed and why producers are still captive to them in exporting to overseas markets. Then, we draw comparisons between the Americas and Asia Pacific region, to show how the latter is shifting to containers in grain-trades. Also, we briefly discuss the resistance our own grain-companies and railways put up to containerization of grain-trades in self interest.

Against this background, we turn to our trade-facilitation efforts, which we label “interim” before our *Prairie Grain Mall* is introduced. We are embarking on these efforts to give producers a chance to capitalize on export opportunities presented by the current state of global grain-markets, highly volatile but with high prices. There may not be enough time to close contracts right away but at least producers will get to see what prospects there are in overseas markets through direct-sales channels.

In this vein, we provide a summary of the type of opportunities we are targeting in the Asia Pacific region, aimed at specific industry or market segments for specific types of crops – including wheat-durum, breakfast-cereals, feed-mixes, malting-barley, soybean, and canola. Our targets are leaders in their respective industry segments, known as reputable corporations, ones that we are familiar with. They all engage in direct-purchases and are experienced in receiving containerized deliveries.

We conclude this article with a plea to producers to participate in these early trade-facilitation efforts, guiding our targeting priorities with comments and suggestions. We outline the way we hope to receive their input through *anonymous* postings on our online *Trade Forum*. In this manner, producers can make crop-suggestions, and if they wish, also give us some idea of the crop-volumes they expect to have once they harvest – without revealing their identity, with no commitments or obligations. If they are interested, we are also open to confidential phone-calls or emails.

### Anxieties facing most producers

Though often overlooked, producers face all sorts of challenges and uncertainties in growing crops, and deal with matters beyond their control. Weather conditions in production and market uncertainties in sales are just the obvious ones, and we must recognize how dramatic this past year has been for all producers in the Prairies:

- You left behind a drought-stricken crop year, not as bad as the one a decade ago but still with some damage – some of you got hurt even more mainly due to future contract commitments, but the grain-economy at large survived.
- As if that wasn't enough, you faced huge price hikes in input prices – many were all stocked up already for next year, but everybody must face next year's challenges with higher production costs and the anxieties they bring.
- Early into 2022, war broke out between Russia and Ukraine, two major grain producers, together exporting double the volume we do – anxieties over supply shortages threw markets into a tailspin, initially with huge price hikes.
- Seeding also turned out to be quite turbulent, some areas were flooded while others too dry to seed – it was not free of anxiety, but most of you got over it, and after facing considerable delays, are now hoping for quick growth.
- Now you are watching crops grow, with some trepidations as usual, given strange weather patterns, but it looks like prospects are not bad – certainly better than last year, and for some of you, it may turn out a rather good year.
- Aside from yield uncertainties, you do not know what to make of volatile prices, spiking earlier in the year but now crashing – despite all the expert-pronouncements, we do not know if, and when or where all this will settle.

Aside from spraying and all the other chores you need to attend to in the coming months, and the weather to worry about – as if that were not enough on its own – you must also be preoccupied with sales prospects. Price differentials across crop varieties are inexplicable, and daily fluctuations feel almost random, while self-proclaimed market experts are passing judgment on war-effects, though some do not even know what crops warring factions grow, or where and how they export.

Still, barring any disasters like another drought, probably most of you know roughly what you are going to have in stock at the end of the harvest. For security reasons or to cover immediate cash needs, you have probably presold some of your crop through advance-contracts (hopefully not as much as last year) and depending on your trading knowledge and risk appetite you may have also sold options – be it “calls” or “puts”, obligations you must take into consideration when you harvest.

In a few months hopefully you are going to have much more to sell. You know what direct-sales possibilities are, in your vicinity or elsewhere in Canada or across the border – flour-mills if you are growing wheat, crushers if canola, or cereal-makers if oats, to give a few examples. You might have committed some of your crop in advance to these direct-buyers, and probably have some sense of what more you can sell. Also, you know that all the grain-companies around you are going to knock on your door to buy more to consolidate and trade in bulk on their own account.

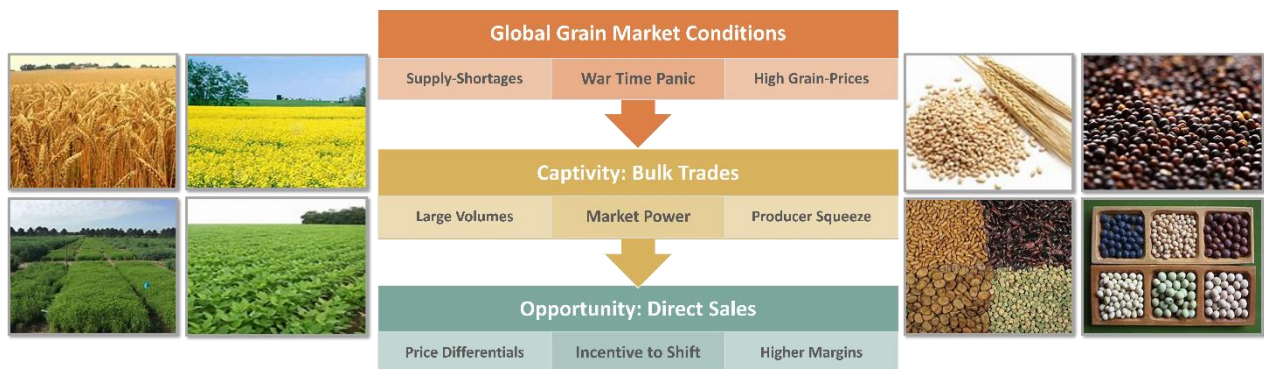
There is also another option, direct-sales to overseas buyers, which we firmly believe you should give some consideration to, as they are likely to yield higher margins than the grain-companies to which you are accustomed to selling. Our mission is to facilitate the development of these direct-sales channels, as they currently are very limited if existing at all. Though our platform is not quite ready to go into high gear in this regard, this year’s war-triggered turmoil in global grain-markets enticed us to explore an interim strategy to kick-start the process earlier than we had planned.

In a recent article we advanced the hypothesis that this year North American grain-prices may lag world-prices, mainly due to fears of shortages globally but with steady supply in North America. Grain companies that trade in bulk will benefit from higher export prices but are unlikely to offer you much more than what you would get from domestic or US sales. Overseas buyers would be motivated to procure directly, offering you higher prices while they themselves realize savings. But can these types of channels be activated quickly to respond to the current market conditions?

To be honest about it, we do not know whether we can put any concrete export opportunities in front of you for this year’s crops. But given the prevailing market conditions, we decided it was worth an effort. As our regular followers know, our online platform is not yet in a mature enough state to properly promote the virtues of the Prairie region and attract credible corporate buyers like the ones you have across North America. But the extra effort required for this diversion is modest, and we thought it would help the launch of the full-blown platform we have in mind later this year (or early next) and could potentially provide immediate value to you.

Part of our motivation is to capitalize on this window of opportunity presented by the turmoil in global grain markets, higher prices in fear of supply shortages. The other part is to alleviate the anxieties we sense you feel in these uncertain times. If these prospects materialize this year, you will be comforted by the opening of new direct-sales channels that we are certain would provide you with higher margins.

If not, we will still benefit from having reached out to end-markets and would pave the way to attracting reputable buyers to our new platform. Also, this will give you a chance to be exposed to these new channels as well as foreign buyers and see how you could benefit from them. This will pave the way to our mission of bringing you higher-margins now, and in time open diversification options to higher-value crops.



### Captivity to bulk-trades revisited

As we keep reminding our readers, our overseas grain-exports are highly captive to bulk-trades, as much as 85% of our exports through the west coast are in bulk. This is detrimental to producer interests: squeezing margins from current sales and an obstacle to value-driven diversification in the long run. The roots of the captivity of our overseas exports to bulk-trades are historical but perpetuated by recent trends:

- Historically, the only means of transporting grains was a primitive form of break-bulk – bagging grains, moving by horse-drawn carriages to rail heads, hauling in box cars to export-ports, and shipping to markets by vessels.
- In the early 20<sup>th</sup> century, with the introduction of motor-trucks and grain-elevators, consolidation and direct box-car loadings became possible, moving to ports where the vessels of the time could now take grain into bulk-bins.
- Market havoc of the early 1930s forced our hand into the single-desk system that took charge of advancing the bulk-system – larger elevators, unit-trains of hopper-cars, coastal terminals, and a new generation of bulk-vessels.
- Through market liberalization efforts, and the abolition of CWB, assets relating to grain-trades and consolidation were privatized, but the bulk-system stayed intact in the hands of a handful of private grain-companies.
- In the absence of other channels, staple-crop exports to overseas markets remained captive to bulk-trades, with only pulse and other specialty crops being containerized, as they were not suitable to consolidation in bulk.

In the post-WW2 era, with all our grain-sales in the hands of CWB, wheat had been our primary export crop (as it had been going back a century more) with relatively modest volumes of barley in the mix. With CWB's single-desk powers being curtailed to wheat and barley in the 1970s, canola became another major export crop. Wheat export volumes held their own, but their share of the total declined to about half, while canola exports increased to as much as a quarter. These two crops, together with barley and others handled in bulk, account for roughly 85% of our grain exports.

Though we have become a prime source of pulses that are mostly containerized, on the world stage we are still mainly known as a source of bulk grain-exports, not a place where buyers could reach out to procure the specific types or grades of grains in quantities they need. This is how we promote ourselves in overseas markets; this is how we did business going back to CWB, our single-desk grain-seller, but continue to this day, only now with the market in the hands of private grain-traders. We look at grains as commodities to consolidate, and ship to exports markets in bulk to be received by our trading counterparts to distribute through wholesale channels.

This has always been evident, in fact reinforced, by the promotional material grain companies used or displayed on their websites, with images of giant grain terminals for consolidation, long unit trains carrying grains, huge port-side terminals, and bulk-vessels moving grains to end-markets. Except for pulses and specialty crops, you would not come across any mention of containers or direct deliveries to end-users – as we will get into next, these are the prevalent trends in grain-trades worldwide.

You would be hard pressed to find any reference to the crop varieties we grow and could export, advanced farms where crops are grown with latest technology and agronomy in action, storage bins to fulfill orders from farm-gates, grain-handling or logistics services, quality assurance or identity preservation, let alone any desire on the part of producers to sell direct and/or engage in grow-to-order contracts. Thus, we are not known for what we really are, a premier source of a huge variety of high-quality crops end-users can reach out to procure directly from production sources.

Global grain-trades have changed greatly in recent years and continue to change. Grain movements are highly containerized across EU, and so are exports from East Europe and Central Asia to Asia Pacific markets, with receivers enjoying the distribution and inventory cost savings. If exporters fail to reach out to markets, end-users engage to procure on their own account from grain sources. We, on the other hand, are still stuck in a bulk-warp that perhaps was the only way of handling grains until intermodal-systems developed to pave the way to containerization.

Our grain companies have the knowledge and the capacity to shift more attention to containerized exports, but not the willingness to move in that direction. They are heavily invested in bulk-assets and naturally are not willing to divert volume away from those assets. Moreover, while they have a lock on bulk-systems, containerized trades are more contestable, where they can easily be cut out of those trades by direct-sales – buyers extending their reach or producers getting more active in sales.

Our mission is to do exactly what grain companies are not willing to do, and we are confident the platform we are going to introduce later this year, with a virtual *grain-mall* and a *trade-forum*, will attract droves of corporate buyers from the regions we are targeting. The big question is whether we can attract overseas buyers sooner, as early as for this year's harvest, while global markets are still in turmoil, with world prices above North America and an appetite to buy from the Asia Pacific region.

As we will get into below, however, we will be extremely cautious in our reach-out efforts to avoid opportunistic trade interests for the sake of quick results. We will target specific market segments like wheat-flour, breakfast-cereals, feed-mixes, soy-products, and malting-barley. To avoid undue trade-risks, we will limit our efforts to industry leaders that are reputable corporate buyers. If successful, these early scouting efforts should pave the road to much larger volumes next year and beyond.



### Global references: Americas and Eurasia

Our overseas exports are dominated by two staple crops, wheat and canola that take up close to 75% of our total grain-exports; the share of our exports through bulk-trades is even higher, roughly 85%. Our neighbor to the south, US, exports 3.5 times more grains, with three crops (soybean, corn, and wheat) that account for 95% of its exports. The US is also quite bulk-dependent, but we tend to overlook a few critical differences, which give us huge advantages in being able to containerize our exports:

- A much higher share of US grain exports is for feed, particularly soybean and corn (75% of exports) that are more suitable for bulk-shipments to fewer destinations, from which they are distributed to processing or mixing plants.
- Our wheat exports account for 50% of our total (less than 20% for the US) but our more finely graded/classified varieties can be shipped to flour-mills, more conducive to direct-sales, containerization, and even identity-preservation.
- Our canola exports are also more conducive to direct-sales in containers, destined to crushing plants that produce the more valuable part, edible oils, leaving the residual, meal, to be distributed to feed-plants or feed-lots.
- Aside from supply-chain structures that give us an advantage to containerize, the US grain export industry is more competitive, with many more players, while we are captive to a handful of traders that also control the bulk-system.
- Also, while our system is linear (to the West Coast or Lakehead) the US has multiple routes and ports for export trades to be more competitive, with many more trading-companies exporting through different routes/channels.

Thus, though our export-crop mix is more conducive to direct-sales in containers, we are just as dependent on bulk-trades as the US. Even worse, a handful of grain companies with considerable market power and control over bulk-system assets limit our producers' access to trading and transport channels. This in turn not only squeezes their margins on what they now grow, but also limits their diversification prospects to higher value crops that require containerized export channels.

We should also note that Canada and the US are not the only grain-exporters in the Americas that are highly dependent on bulk-trades. Brazil and Argentina, 2<sup>nd</sup> and 4<sup>th</sup> largest grain exporters in the world, each with larger export volumes than Canada and combined as much as the US, are also highly bulk-oriented. Here there are two factors to consider: their exports are more conducive to bulk-handling, and their intermodal systems are not very developed to allow much containerization.

It may be easy to reach conclusions about the suitability of bulk-systems to grain-trades based on the Americas, a huge grain-production region where more than half the global grain-exports originate. But there is yet another vast region that stretches from Europe to the Pacific Ocean, where very different trends prevail. The eastern end of this region, we refer to as Asia Pacific, is the largest grain-importing block in the world and the largest export destination for not just us but also all the other and more significant grain exporters – top two, the US and Brazil, 4<sup>th</sup> largest Argentina.

World’s largest population masses are in this region, India and China. The former is the 4<sup>th</sup> largest producer and a net exporter but with a modest surplus. The latter is the 2<sup>nd</sup> largest producer but by far the largest importer, more than 120 MT/ year, almost as much as the US exports. There are also other grain-importers; Japan, Korea, Indonesia, Vietnam, Philippines, Thailand, and Malaysia, combined import another 100 MT – regional imports are about 70% of Americas’ exports in total.

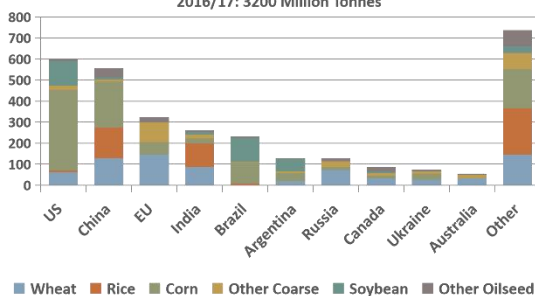
To the west of this region, there are Ukraine and Russia together exporting a total of 90 MT; EU to their further west exports another 30 MT. There is yet another vast region across Central Asia that is achieving rapid yield increases and export growth; though we do not have a good handle on volumes, this is an emerging grain-region that needs to be taken seriously. We do not pay much attention to grain-trades in this region (unless a war breaks out to destabilize grain markets!) but developments across the region pose a serious competitive threat to imports from the Americas.

The bloc of eight countries we define as Asia Pacific, the main target of our portal’s efforts, is already a huge export market but still with increasing and refining grain-needs. This may not go unnoticed to exporters from the Americas, including us, but we have not been paying attention to two trends. First, the region is turning to its west for grain imports, not just Ukraine, Russia, and even EU, but also Central Asia where yields are increasing rapidly, with notable crop quality improvements.

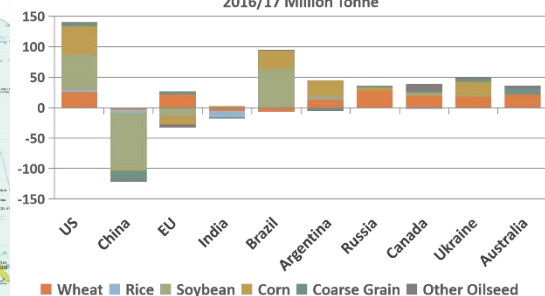
Second, with the development of intermodal transport systems, not just rail but also ports, we see notable shifts from bulk-systems to containerized grain trades – the main driving force here is China’s *Belt and Road Initiatives*. China is not only discovering cheaper grain-imports (especially from Central Asia) but also benefiting from containerization with huge distribution cost savings with direct deliveries of grain to processing plants. These benefits are not going unnoticed to others in the region, which are also turning to the same sources with containerized grain imports.

Only a short hop across the Northern Pacific, Canada is particularly guilty of ignoring these trends. Container delivery times from the Prairies can be as short as a couple of weeks to most parts of this region, with the added advantages of empty container capacity returning to Asia. Looking at the map, we may think this region is a short hop from Australia, but the world is not flat – their container shipping times to most parts of Asia Pacific are measured in weeks, compared to days from our west coast.

Major Grain Producers  
2016/17: 3200 Million Tonnes



Exports-Imports Major Producers  
2016/17 Million Tonne



### Sources of resistance to change

North America produces close to 700 MT of grains, and exports about 30% of that – Canada as much as 50%, the US about half that share. In both cases, bulk-exports are dominant, about 85% of export volumes. As we pointed out above, Canada’s grain exports are more conducive to containerization, but we fail to capitalize on that advantage, and thus we remain as bulk-dependent as the US, a much larger exporter. Before getting into the resistance to change, let us look back in history:

- When we started exporting wheat more than 150 years ago, we carried it to the nearest rail-station in wagons, transferred to rail-cars to move to the nearest port, to be loaded on to vessels – what we would call break-bulk.
- Then we discovered the virtues of grain-elevators, started consolidating, loading onto rail-cars directly, and transferring them to ships, not in bags but in bulk, at least onto those vessels that had bins to stow grain in that form.
- After all our grain-trades came under CWB in the post-WW2 era, country-elevators became increasingly large, hooper-cars replaced box-cars, even larger coastal terminals were built to load grains onto bigger bulk-vessels.
- CWB controlled wheat-barley trades until 2012, but as of the 1970s other crops escaped its net, and canola became a major export-crop, consolidated on the same bulk-system, but traded by coops or private grain-companies.
- Assets on the bulk-system were always owned by others, not CWB, and in time all grain-export trades became highly captive to a handful of grain-companies that consolidated their ownership of the bulk-system assets.

Principal custodians of the bulk-system – handling, consolidation, transportation, storage, and trading – would take an exception to it, but we do not believe this system serves the interests of either grain-producers or the grain-economy at large. Firstly, producer-margins are squeezed by grain-traders, who are price takers from global markets but with considerable market-power over producers, who have few options exporting through alternative channels. Second, the custodians of the bulk-system are primarily driven by “volume”, and thus have a vested interest in sticking to staple-crops, thereby limiting producers’ ability to diversify to higher-value crops.

Our solution to this dual problem of low-margins and diversification-barrier is direct-sales and containerization. If producers are willing to try these new export-channels that we shoulder the burden of facilitating, there is nothing that can stop them, as unlike in the CWB era, they can export through any trade or logistic channel they want. They are as free to choose how they export as they are in picking what crops to grow. Given that we have developed an audience of more than 10,000 in just a few months, there is clearly strong interest in the *paradigm-shift* we are calling for.

Given that these exports have been captive to bulk-channels for so long, it is natural to see some hesitation on the part of producers. First and foremost, we must attract credible overseas buyers to the Prairies with serious intent to procure directly from production-sources. Second, producers must be convinced that their margins from



these direct-sales are going to be higher than those they get through bulk-trades. Third, we must show that trade-risks and logistics-challenges can be overcome. All these burdens are on us, and we shoulder them as part of our core-mission. Here, however, let us turn to an equally formidable challenge: resistance from vested interests that gives rise to a great deal of misinformation and fear-mongering.

Grain companies did not inherit the bulk-system like some would argue they did with trading-rights from CWB. They invested in them; some of them had built the assets (inland elevators and coastal terminals) and still own them, while others bought them through acquisitions. Now they must utilize these assets to realize returns on their capital through the trade-margins they generate. Thus, they are going to resist losing any business to new trade and logistics channels, a perfectly natural response.

Aside from the arbitrage that many engage in, and the timing both producers and grain-companies try to get right, the core fundamentals of this business is largely driven by “volume”. Sellers are limited in this regard to what they produce, but buyers have more flexibility in handling larger volumes; even if their handling capacity is limited, they quicken their facility-turnover and/or rent more from third-parties. Thus, they go for as much as they can buy, but to this end, they cannot do so on price, as their trading margins are thin and cannot afford to outbid each other, as they all face the same global market prices when it comes to selling their stocks.

Thus, competition between grain-companies at farm-gates is not driven by price, but all sorts of intangibles: on the positive side what they can offer in customer service and loyalty, and on the negative, they refrain from putting down each other fearing reciprocal action and focus on trashing alternative channels instead, like direct-sales in containers. The usual arguments are reliable payments as opposed to the trade-risks that foreigners would bring, as well as efficiency of huge bulk-systems as opposed tiny boxes that must change multiple hands getting to final destinations.

The railways engage in similar propaganda in trashing containers; producers are not their customers, but they have a vested interest in seeing everything move in bulk. Even with revenue-caps, grain is the largest volume commodity they handle with secure margins. Containers pose operational challenges to them and are more easily contestable by the competing railway or trucks. Some of us are old enough to remember the nonsensical arguments in favor of box-cars over containers in moving general-freight; now it is the efficiency of unit trains of grain-cars over containers.

We are not interested in engaging in these self-serving debates. We will continue to focus on attracting credible corporate buyers; producers can compare farm-gate offers they get from overseas buyers to what they get locally from grain-companies. As to trade-risks, global practices are standard: cash payments or secure LOCs at farm-gates, at worst at export-gates, with added export-insurance provisions. On our part, we will put more effort into drawing comparisons between containerized supply-chains and bulk-systems that are wrongly believed to be so much cheaper.

### Targeting crop-domains and end-buyers

In embarking on our mission, we were naturally convinced of the virtues of direct-sales channels and their benefits to producers, in the way of higher margins as well as diversification opportunities. But we were aware of the challenges, thus took a staged approach: initially warming up producers to the concept, while developing a more elaborate platform to attract overseas buyers. Canada is known to the world as a prime source of grains delivered to export markets in bulk, but not as a place where buyers can procure a huge variety of crops directly from production sources.

Having worked and lived in the Asia Pacific region, our primary export destination, it was striking for us to see how little overseas buyers knew about the Prairie grain-economy. Many end-users did not even know that the grains they had bought to process were grown in Canada, let alone aware of the possibilities of procuring them at source and getting them shipped to their door-steps in containers. Most, at least major corporate-buyers, were accustomed to scouting different grain-growing regions around the world, but Canada was hardly on their radar screen to buy direct. Let us cite a few examples from Asia Pacific, particularly the world's largest grain importer and our largest grain-export destination, China, to make our point.

The affluence effect had made China the world's largest meat and dairy producer, almost double the US. The first dollar-billionaire family was born in the agricultural sector, to become the largest vertically integrated giant in the world in dairy and meat industries (pork, beef, and chicken) and by extension also the world's largest feed producer. It had extended its grain procurement network all over Asia, setting up feed-plants to ship containerized feed-mixes to multiple husbandry operations.

We are not a mass exporter of feed-grains like the US, Brazil, and even Argentina, but can leverage our crop-variety to pursue containerized exports in this domain. We see an opportunity to export custom-order feed-mixes to buyers' specifications, including crop ingredients as well as desired additives, delivered to feed-lots in multiple container-loads at regular intervals – weekly or monthly quotas depending on buyers' volume requirements. Naturally, the feed contents will vary depending on the type of operation – poultry, chicken, beef, or dairy. We have all the variety, and the buyers will realize significant distribution cost savings at their end.

China's breakfast staple has always been congee, boiled rice from left-overs. With the affluence effect, Chinese developed a taste for breakfast-cereals, still modest but rapidly growing market. The leading breakfast-cereal maker emerged from a small province, Guizhou, and the owner sent his daughter to Australia to set up a plant to procure and ship container-loads of cereal-mixes. Unlike the cereal market in North America, where top-10 producers have more than \$1 billion in revenue each, this is still an emerging market where this leader will grow and many more will emerge.

Leading North American breakfast-cereal companies are also engaged in this market, competing with locals. They may also have an interest in procuring cereal mixes

from the Prairies, where we do not lack in varieties and offer a short-hop to fill empty containers across to Asia Pacific – even with shelf-ready packaged products to save distribution costs. As to Australia’s proximity to this region, it is a mere mirage; as we pointed out, we are much closer, and have the variety and quality to compete.

A huge population used to be content with noodles and dumplings that could be made from primitive flours milled in the countryside. With dual culinary-revolutions, breads-pastries and pastas-pizzas, now there is huge demand for higher-grade flours, and milling is highly advanced with the latest technology to produce them. Together with advancing technology, now on par with the world leader, Buhler, the flour milling industry is rapidly consolidating, now with three industry leaders – the largest is double the size of Ardent, and the other two about the same size. Primitive rural mills are still around, but modern ones have daily grind capacities of 5000 T or more.

China is self-sufficient in wheat but not in the varieties for high-grade flour. Mega flourmills across the country need specialty wheat delivered in container-loads to blend with local grades. But another advantage of the latest technology is its modularity that allows much smaller boutique-mills to specialize in high-end special-purpose flour varieties, with much higher-standard and even all-imported wheat grades. These are the destinations we should be exporting wheat to in containers, amber-durum and red-spring, but there is no evidence that we have tried to date.

Another area we would like to direct our focus is malting-barley. We note that domestic prices for malting-barley are now well below what feed-brokers offer, a sign of a mature or stagnant brewing industry. Across Asia, particularly China, growth in demand for beer has slowed down but is going through a shift to high end brews, like North America has already gone through. Large brewers are shifting their product lines while brew-pubs are popping up everywhere. There is demand for malting-barley but in container loads to specific malting or brewing destinations.

A crop variety we have had recent success with is soybean, not what the US and Brazil exports in vast quantities for feed, but finer varieties for food. Now soybean accounts for 7-8% of our grain exports, with further growth potential. Asia Pacific is the prime market for soybean, not just for soy sauce, but as a key ingredient for a variety of food-products. Trying to turn this into a bulk-export item is futile; the potential is in containerized deliveries to processing plants, leveraging our advantage in the excellent grading systems we have developed, as well as identity-preservation.

Another crop we intend to pay attention to is canola, always hostage to bulk-trades, but oddly with containerization prospects. The end users are generally crushing plants, where once the primary value is realized in canola-oil, the meal is distributed to feed-lots. Perhaps when we were exporting as much as 4 MT to China, 40% of our total canola exports, bulk-shipments might have made sense. But this is a domain where we should consider shipping direct to crushing-plants in container-loads, to China or elsewhere – Asia Pacific already imports canola in containers from its west.

### **Calling for producer guidance and input**

As we discussed earlier, there appears to be a short-term window while global grain markets are in turmoil that we can take advantage of to kick-start direct-sales efforts to Asia Pacific. Our online platform is not ready to launch a full-blown promotional campaign to attract overseas buyers, but given the state of the global grain trades, we thought it might be worth trying to test the market for direct-sales prospects.

Global grain markets are in turmoil with fears of supply shortages due to an all-out war between two major grain exporters, Russia and Ukraine, that together export twice the volume we do, and only a quarter less than the US, world's largest grain-exporter. Global grain prices are volatile but with all the uncertainty and anxiety, they are likely to stay on the high side through this year and into next. With steady supply, however, North American prices are likely to remain below global levels.

Our grain companies have a lock on bulk-channels and are likely to benefit from high prices in export markets; however, they will have no reason to pay producers any more than prevailing North American prices. These price differentials will be short-lived, but while available, there may be a window of opportunity for producers to try out direct-sales channels, when overseas buyers are prepared to pay global prices.

Even under normal circumstances we believe producers would get higher farm-gate prices from direct-sales than what they get from local grain-traders. Furthermore, even after leaving behind higher margins to producers, there will also be net benefits to overseas buyers, from cutting out intermediaries along bulk-chains as well as from distribution and inventory cost savings. Thus, the short-term price-differential that we see because of current shocks is not necessary for direct-sales to be viable but will provide an added incentive to both sellers and buyers to kick start the process.

Above, we provide a brief discussion on where we see opportunities based on our own market and industry knowledge of the region we are targeting, Asia Pacific. In pursuit of these opportunities, we are already sending out feelers to prospective buyers. These are not just abstract prospects, but actual import needs that are being met from other grain-producing regions, opportunities that we are citing based on our familiarity with the region. But there are many other grain-needs across the Asia Pacific region that we have not even touched on, like pulses and specialty-crops.

In these early trade-facilitation efforts, even more important than our views on the matter based on limited knowledge of crop-choices or grain-trades, is the guidance and suggestions we hope to get from producers who are in this business – many with years if not decades of experience. We view producer-participation in this process as being as vital as the buyer-interest we hope to generate from overseas. We must stress that these early efforts are exploratory; we are not looking for commitment from buyers or sellers, just expressions of interest to pursue direct-sales discussions.

When we first launched this portal, we did not expect a flood of interest, but in just a few months we have attracted an audience of more than 10,000, social-media and web-visits combined – in the latter, more than 600 hours of visitor engagement. We take this as a sign of widespread interest, but we know very few producers are ready to jump on board to start trading, as there are valid concerns and reservations that still need to be addressed. At this stage, since we are not asking anybody to make any commitments, we ask that they put aside the types of concerns we hear most:

- Don't worry about trade-risks, and assume that you will be paid in cash or by LOC before you release anything at farm-gates, or, at worst, export-gates
- Leave aside all the worries about container-supply or grain-service problems, as we will look after them in the hands of reliable logistics-service-providers
- Assume that the price offers you are going to get will leave higher margins than you are getting from your regular buyers, local grain-companies

Explore the prospects we are going to bring to you, with no commitment on your part until you are satisfied with all the terms and conditions. At this stage, with no prospects yet to consider, we are still asking for help: guidance and suggestions on what types of crops to focus on, and some idea of crop volumes you would want to commit to direct-sales channels, if all your concerns are alleviated and all your expectations are met. Your response is likely to be that we are already asking too much, but carry-on reading, as we will tell you how we want you to reveal all this.

When we reach out to prospective buyers, we hold confidential discussions; in most cases we know their needs and are looking for confirmation of interest in pursuing preliminary procurement discussions. In a follow up call or email, we ask for specific varieties/grades of crops they are interested in, which they can put in writing or express verbally. Before all this, however, we put it writing that we would keep all the information they provide, together with their personal or corporate identity, in confidence, including the fact that they have an interest in grain-purchases. We all know that if we ever revealed their identity, let alone any details about what they want to purchase, they would be inundated by countless calls from grain-traders.

We offer an even a better “deal” to producers whom we are asking for guidance and suggestions, and if willing, crop-volumes they have for sale, or expect to have at the end of the harvest. In a week, you will see a section in the *Trade Forum* on our portal where you can answer a few questions strictly *anonymously* on the topics we raise here. We have no way of identifying visitors to our website, let alone trace the answers they provide on this forum. We know that the information we collect in this way will not be very reliable, but still provide useful insights into crop-availability.

When we have matching procurement interests from prospective overseas buyers, we will post them on another section of the *Trade Forum* (without identifying the buyer), for you to respond to, again anonymously. If you want direct contact with us on any matter, whether trade related or other, we are always open to discussions. Give us a call or drop an email – naturally we keep all these discussions confidential.