Update on our trade facilitation and fulfillment efforts

It has been a while since our last article, but we have been busy revamping our portal to display the new features necessitated by the interim trade-facilitation efforts we had decided to embark on. These efforts will continue for the next few months as we not only have to inform our followers in the Prairies where the most promising export opportunities can be found, but also must attract prospective buyers with the special features we post, like the one this week on malting-barley.

We had embarked on these interim efforts with trepidation at first, as our trade-platform was still under development, not yet functional. It was going to be challenging to reach out to overseas buyers and entice producers to participate, but it turned out to be a gamble worth taking. There will be plenty of grain to export this year and grain prices are strong. Also, there is interest on the part overseas buyers with their agents scouting for import prospects through all available channels.

Here, we start with an outlook for this coming year: the harvest is well underway, and it looks like yields are better than anticipated. There is going to be 40-50 MT to export, not quite as high as 2020 but close – a great relief after last year's drought. Given prevailing global market conditions, which are quite favorable for grain exporters, there is no doubt that all this surplus will move before the next harvest, but what will producers end up getting after exporters have claimed their share?

Given how bulk-trades work, there is no reason to expect producers to get much more than what they do at farm-gates from domestic sales. Generally, we can expect higher prices this year than last to compensate for production cost increases, but certainly not commensurate with what producers could get from alternative direct-export channels. This brings us to our mission: attracting overseas buyers to purchase directly from production sources, yielding higher margins than bulk-trades.

After a brief section on trade-facilitation, we turn to contract-fulfillment. This will take a very different form once our new platform is introduced, but here we describe the support functions we will offer in the interim: consolidation, grain-servicing, logistics-services, container-supply, and contract-management. In its final form, our platform will provide much greater online functionality and attract 3PLs to take on fulfillment, allowing us to retreat to mainly procurement and consolidation.

In the next few months, through the interim trade-facilitation phase, our resources are going to be limited. Thus, we must prioritize the crop-domains we focus on, where we can achieve quick results: malting-barley, specialty-wheat, breakfast-cereals, and custom-feed-mixes. We will introduce new sections on our portal, like the section on malting barley we posted this week, with the goal of bringing attention to all these priority domains from producers and overseas-buyers alike. Also, we will be posting articles on each of these domains in the coming weeks.

Crop-year outlook revisited

Over the last 25 years the grain sector has displayed a stellar performance in terms of both output and export growth. There were a couple of crippling drought years, but driven by advances in agronomy and technology, crop-yields increased steadily and quite significantly. Annual production increased by more than 40% from the late 1990s to 2020. Domestic grain consumption was on the rise, but only modestly, leaving larger surpluses to export; export volumes doubled over this period.

In the first 5 years, from the late 1990s to the early 2000s, annual exports were in the 20-25 MT range, until a severe drought struck, pulling exports down to mere 13 MT in the 2002-03 crop year. The recovery was quick, with annual exports reaching above 30 MT into the latter half of 2000s and into the next decade. During the 2013-14 crop-year, exports reached 40 MT for the first time and stayed above that until the 2019-20 crop-year when there was a slight dip. The next harvest in 2020 pushed annual output in that crop-year above 100 MT, and exports above 50 MT.

After decades of steady yield increases, crop diversification, and marketing freedom, the mood across the Prairies had become one of comfort and confidence. Memories of hardship seemed to have faded since the last drought almost 20 years ago in 2002, but the summer of 2021 turned out just as dreadful. The harvest, however, was not as bad as anticipated, with 70 MT of output, only 30% below the previous record high and almost at par with the previous decade's average. There was still 30 MT of surplus to export in the 2021-22 crop year that just closed – more than double during the last drought, about the same as the norm through late 2000s.

These better-than-expected crop volumes, however, concealed the stresses Prairie producers came under through 2021. After decades of trade liberalization and privatization, producers had become highly exposed to market risks, which were now further accentuated by a severe drought. Many had not realized the risks that came with advance-sales to private traders, who were not going to be as forgiving as producer-cooperatives or CWB had been in the past. These risks came to light with the devastating consequences of advance sales-contracts that many producers, particularly those in financial difficulty, had come to rely on just to stay afloat.

These types of contracts had become widely used financing tools but came with obligations to deliver specified crop volumes yet to be produced. Failing to do so, sellers had to make cash payments, or purchase crops from elsewhere to meet their obligations, a hopeless proposition during a drought. In 2021 some producers went under for failing to meet their contractual obligations, while many more had to take on more debt just to hang in. It was a serious wake up call to all to avoid advance sales as much as possible, and this crop year most stayed away from such practices.

As the 2021 harvest was ending another crisis was brewing, skyrocketing farm input prices. Those who had closed this year on relatively strong footing were largely stocked up with farm supplies. However, those still reeling in the financial woes of

the bad crop-year they had left behind were going to pay the higher prices, and into the winter, they did. Early in 2022 it was not clear that what would be left behind at farm-gates from prevailing grain prices would cover the full costs of production, a worry even for those who had bought supplies earlier before the input-prices had hiked, as they would be facing the higher prices going into the next crop season.

Then in February 2022 a tragic event, Russian invasion of Ukraine, radically changed the outlook on global grain markets. Fears of a prolonged war between these two major grain producers, as well as major exporters, gave rise to fears of supply shortages, throwing global grain markets into frenzy with significant price increases. There was no doubt about the tragic consequences of this war, but as we discussed in previous articles, the doomsday scenarios over supply shortages were largely based on a flimsy understanding of global grain supply-demand patterns. Still, perceptions were as powerful as realities in swaying markets to push up prices.

Against this tumultuous background, there appeared a window of opportunity to make up for the pains producers had to endure through 2021-22 crop-year. Though the 2022 seeding season had gotten underway with worrisome delays, compounded by erratic weather conditions over the summer, the growing season progressed quite favorably. By the close of 2021-22 crop-year in August, harvest forecasts were in the range of 90-95 MT, which would leave a surplus of close to 50 MT to export in the 2022-23 crop-year, almost as good as the record export volumes in 2020-21.

Even better, global demand for grains was and still is strong at high-prices due to the anxieties caused by a prolonged war between Russia and Ukraine. In the coming months, and into the next calendar year, market conditions may become even more favorable for grain exporters, as many parts of the world are stricken by droughts or floods. This is the case across Asia, particularly in China, the world's second largest producer but also by far the largest grain importer. China sits on huge stocks of what is important to it strategically, but still, may be forced to increase its imports.

Under these circumstances, there is no doubt that the grain-companies that dominate our grain-trades will be able to move 50 MT of exports through their consolidated bulk channels, and at high prices. But given the captivity of producers to these channels, and the market power their custodians possess, the perennial problem will prevail. Little will trickle down to producers in the way of margins; they are not likely to get any more than prices that prevail in North American markets, well below what overseas buyers are willing to pay in panic stricken global markets.

This brings us to our core mission: opening new export channels for producers to earn higher margins from the crops they grow and sell. Our launch of the *Prairie Grain Portal* last fall coincided with the worst year producers had in two decades, and thus generated considerable interest in what we were trying to do. Now a year later, the timing of our trade-facilitation efforts will coincide with the favorable global market conditions producers face to take advantage of direct export channels.

Our trade-facilitation mandate

As most of our followers would know, we embarked on our mission a year ago with an information portal. We were fully cognizant of impressive yield-increases and crop-diversification achieved through advances in agronomy and technology. But the grain-economy was not living up to its full potential, and moreover, producers were not getting their fair share from overseas export proceeds. Through the portal, we articulated the problems we saw and presented an alternative path for producers to earn higher margins: direct-sales to end-users fulfilled in containerized-deliveries.

Over the years domestic grain trades, and even cross-border exports to the US, had become market driven to function competitively. Trade liberalization, freeing crop-sales from CWB's single-desk system, had achieved the desired objectives by cutting out unnecessary consolidation and distribution functions. This paved the road for corporate buyers to procure directly from production sources, thereby eliminating intermediaries unless they had legitimate value-add functions along supply-chains.

However, the same has not been achieved in overseas exports left largely captive to bulk-systems inherited from the CWB era. This had been the only way of moving grains from farm-gates to export-markets – consolidate at inland-elevators, move to coastal-terminals by rail, and ship in bulk-vessels to export-positions to be distributed to end-users. But in recent years the advent of intermodal-systems had provided alternative means of transporting grains in containers; so far Canada has failed to embrace containerization, taking the bulk-imperative as a *celestial dictum.*

We had seen this neglect going back to our studies in the late-1980s and early-1990s, but resistance from vested interests in bulk-systems was too powerful to overcome. Since then, grain-trades have been containerized in many other parts of the world, not only in EU but across Eurasia to Asia Pacific. The main obstacle in holding back further containerization is lack of intermodal infrastructure at either origin or destination, but as a leading grain-origin, we certainly do not have this excuse.

We not only have all the necessary infrastructure, but also large volumes of empty containers returning from the West Coast that could otherwise be filled with grains to our prime export destinations in Asia Pacific. The failure to pull these empty containers inland, or move grains to the coast to transload, is due to a lack of initiative from producer interests or logistics service providers in the region. This is not an easy challenge, but it can be overcome with a flow-management approach.

Before we deploy our logistics capacity, however, we need sales to materialize. In this regard, it is often cited that producers prefer to sell to local grain-companies that they are familiar with to avoid trade-risks. But our findings from the response we get to our portal and social-media page are to the contrary; producers know that the margins they get from bulk-trades are too low, and they are keenly interested in selling directly to overseas buyers who offer higher prices – provided that they can avoid trade-risks by getting paid before crops leave their possession at farm-gates.

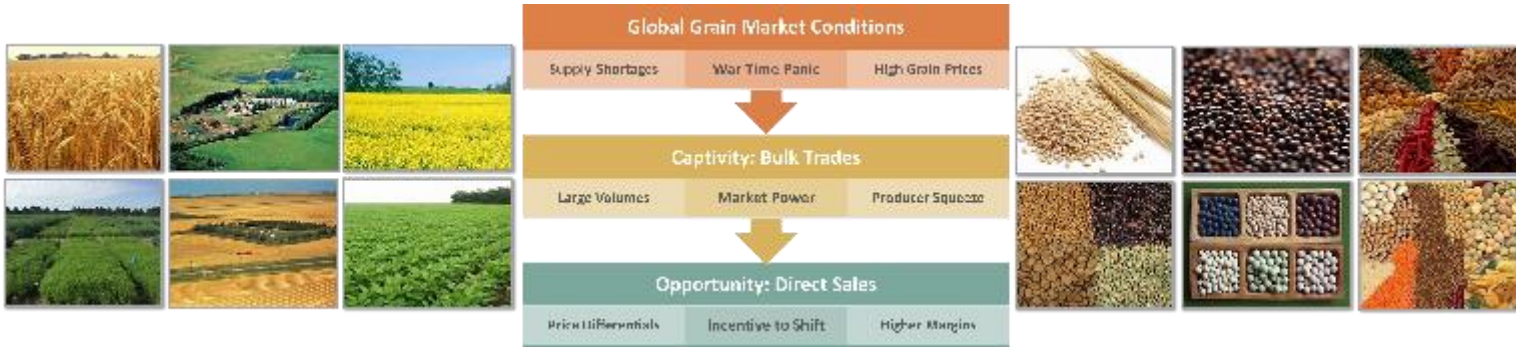
Some skeptics wonder what would entice overseas buyers to pay any more than local grain-companies, as they have been conditioned to think that the best way to get grains from farm-gates to end-markets is in bulk. But this is a fallacy; there are significant savings associated with containerization, particularly at the receiving end by lowering distribution and storage costs. Also, direct purchases, like across North America, allow buyers to procure the grains they want in quantities that they need.

Then, what is stopping them from engaging in direct purchases? We are known as a source of fine grains, but only by traders – the counterparties to grain-companies that export in bulk. End-users often do not even know that they are milling or processing grains that are grown in Canada, let alone think of reaching out to our production sources to procure specific grades or varieties of grains they need. As a country, we have never bothered marketing the grains we grow in this vein; CWB had exported in bulk, and now private grain-companies are following the same path.

This is the real challenge in facilitating direct-sales to overseas markets: promoting the virtues of our grain economy to a global audience, with a focus on production sources, advanced farms where end users can reach out to procure the grains they need to be shipped to their doorsteps in containers with crop-integrity intact and, if necessary, identity preserved. For this purpose, we designed and are in the process of developing a *Virtual Grain Mall*, a platform accessible online that grain-buyers from all around the world can visit and initiate trading discussions with producers.

We were planning to introduce this new platform later this year or early 2023, but the market conditions distracted us from this path. Coming out of a dreadful crop-year, worst in 20 years, producers were eager to consider alternative paths to more lucrative export prospects in overseas markets. Then, the Russia-Ukraine war broke out, throwing global grain markets into frenzy with fears of supply shortages driving up grain prices. It was a unique window of opportunity that could not be missed in embarking on our trade-facilitation mission. Thus, we had to do what we could with our existing platform that was already in use to reach out to export markets.

Luckily, in the last couple of months we stumbled on a few contract opportunities and identified several promising market segments. With some modifications to our existing portal, already underway, we now believe we can find direct-sales prospects to capitalize on for this year's harvest, expected to yield about 40-50 MT to export.



Contract fulfillment functions

Our mandate involves not just trade-facilitation but also contract-fulfillment. Once we identify a serious intent to purchase on the part of an overseas buyer, we put together a *procurement-plan* for the type of crops and volumes they need. Then we prepare a *service-plan* to clean, grade, test, and containerize grains from multiple sources. We also develop a *logistics-plan* to move containers from farm-gates to final-destinations – farm-pickup, rail, port-handling, shipping, and final-deliveries.

At these early stages, fulfillment functions will take the form of project-management on buyers' behalf, making handling and logistics arrangements through third-party service providers, us acting in a 4PL capacity. Moving forward, our new platform will facilitate many of these functions with online-tools. Once buyers and sellers contact each other, they will be able to find service-providers on our platform, relying on us on an as-needed basis, we suspect mostly for marketing and procurement support.

Consolidation: There is a tendency to view containerized grain orders as one off or at best a few loads at a time. But our aim is to develop regular flows of substantial volumes, the only way to meet the requirements of reputable corporate buyers, and to secure steady supply of containers. This in turn necessitates consolidation from multiple farms, no matter how large they may be. Most serious contract volumes will require thousands of tons of grain a month, dozens of producers to fulfill.

At these early stages, our efforts involve pilot projects with the promise of expanding to larger weekly or monthly orders. But even the pilots involve dealing with multiple sources, something we are trying to shoulder through established local contacts. Once our new platform is operational, much of the consolidation burden will shift online, but in the meantime we would appreciate producers to participate in our existing *trade-forum* with expressions of interest to contract-opportunities we post.

Grain servicing: Handling and servicing requirements will vary by crop type, but generally, before loading containers, all crops are going to require cleaning and grading, some more than others. Our goal is to perform these functions with mobile service units so that we can load containers on or near farms, but container-supply difficulties are going to complicate these arrangements, in many cases requiring transloading, making grain handling and servicing more difficult to plan and execute.

An important part of this pre-loading process is getting each export-load tested with a report for the buyer's approval to ship with the contents bagged and sealed – to ensure payment before leaving farm-gates. There are no mysteries to this process, but we will not have the luxury of holding up containers awaiting test results. For this purpose, we have mobile testing solutions in mind, naturally buyer-approved. If grains must go through transloading, this routine will become more complicated.

Logistics services: Under ideal circumstances, export-loads are going to be ready to be shipped in containers – cleaned, graded, tested, documented, buyer-approved, and paid for. Then, transport arrangements come into play: trucking to intermodal-rail terminals, movement by rail to export-ports, and onto a container-ships. But the journey will not end at the port of arrival; arrangements must be made to move the container to the buyer's facility and return the empty container for its next trip.

At the start, when our volumes are limited and container-markets are in a mess, we must plan for transshipment-contingencies by moving grains to coastal-ports. For example, for one of the pilot projects we hope to secure in the coming weeks, working together with our principal logistics partner, we have designed a system to move grains by rail to a port-side transload facility – not an ideal set-up but still cost-effective from the buyer's perspective, delivered in containers to final-destinations.

Container supply: Today's container-supply problems do not deter us from our core mission. There are droves of empty containers returning empty from our ports, but shipping-lines do not release them inland because they are never returned to ports reliably. Instead, they return them empty to Asia to serve the head-hauls on these trade-routes. If they could trust the return-commitments from the interior, they would much rather be earning revenue instead, from grains or other commodities.

We will work with shipping-lines, as well as freight-forwarders or corporate-shippers that have their own containers and slot-bookings, to pull containers inland where we need them for grain-exports. The key is to fulfill release and return commitments in accordance with reliable operating schedules that the custodians of those containers can trust. The cost of additional containers is not a constraint as the price of a new container can be recovered from the revenue of a one-way trip across the Pacific.

Contract management: We outlined the main service-elements involved in fulfilling containerized grain exports, which will come with a contract-management burden. Our platform is prepared to shoulder this burden to validate our direct-sales-model, to demonstrate that this model is worth pursuing by producers for the sake of higher margins. Initially, as in handling and logistics, contract management costs will fall on buyers – the producers should only worry about the prices they get at farm-gates.

Once our online platform becomes fully functional, the nature of both these service and project-management arrangements will change, as there will be many more buyers at the table to connect with producers and work out both contract and fulfillment details. Also, we hope to attract as many service-providers to our platform as buyers and sellers – in essence, an online market-place that will work in everybody's best interest, with lower costs and higher proceeds for producers.

This is a summary of the fulfillment functions we are prepared to take on to kick-start direct-sales, but our role in the process will change with the introduction of our online platform. Buyers and sellers will be able to take on these functions with the help of third-party service providers, while we shift our priorities to expand our platform's reach to new export markets, to attract buyers for a broader range of crop varieties.

Our crop domain priorities

As we outlined in several of our previous articles, instead of waiting for our new platform to be introduced, we embarked on our trade-facilitation efforts earlier than we had planned. Global market conditions presented a unique window: this year's harvest looked quite promising with plenty to export at higher prices than those prevailing in North American markets, and through direct-sales channels, producers were likely to receive higher margins than they typically do through bulk-channels.

As we were formulating our interim strategy, several procurement agents surfaced, some representing major Asian importers, not because we had announced our initiative, but their clients were hungry to import, even at higher prices than those prevailing across North America. We did not get carried away with all the prospects but one of them seemed promising enough to stage a pilot-project with. We also filtered a few more to further assess the agents' intent and the buyers' credibility.

Aside from these rather speculative initiatives, however, we retreated for a few weeks to assess end-market prospects based on our own knowledge, and where we could leverage our resources to narrow the vast crop domains for quick results. We came up with two – malting-barley and specialty-wheat – and two more domains that we will devote more attention to prove the viability of direct sales channels – breakfast-cereals and animal-feed, both promising export prospects in Asia Pacific.

Here, we will briefly introduce the crop-domains we are focusing on, mainly to provide our followers with an overview; in the coming weeks we will post longer articles on each of these four domains. The one that we have made most progress on is malting-barley; while there is a huge potential in Asia, in domestic markets producers cannot even get the same prices as they do for feed-barley. You will find a new section on this domain on our portal posted concurrently with this article.

Malting-barley for craft-brewing: We are a major barley producer and exporter on the world scene, 5th largest on both counts. Moreover, we stand out with the quality of our malting-barley varieties uniquely suited for brewing. But recently producers can barely get a meaningful premium for malting-barley over feed-barley prices, not surprising given stagnant demand for malting and brewing in North America.

In the meantime, there is a much larger beer-market in Asia Pacific, China being the world's largest one. Also, there is a rapid shift to craft-breweries and brew-pubs, not just in China but also as rapidly in Korea and Japan, with a desire to malt their own or rely on craft-maltsters. These trends naturally give rise to demand for malting barley varieties delivered to a multitude of malting-destinations in containers, which we believe will yield much higher prices for producers through direct-sales channels.

High-grade wheat for flour milling: We are the world's 4th largest wheat exporter, known for the quality of our wheat varieties, but have been stuck in a bulk-warp, content with moving whatever surplus we produce in bulk. We are missing out on market opportunities for specific varieties of wheat delivered to end-users – all these years we have not sold any durum to what is now the largest durum market, China.

There are direct wheat-export opportunities to a variety of sectors – flour-milling, food-processing, bakery-chains, all growing in double-digits annually across Asia Pacific, and in need of various wheat grades to improve product-quality. Initially, we are targeting flour-mills quipped with advanced technology to intake specific wheat varieties to produce purpose-specific flours. We are targeting all major flour groups in Asia Pacific to deliver wheat varieties in weekly container-loads directly to mills.

Custom breakfast cereal mixes: Another domain where we are seeing rapid changes in dietary habits is breakfast venues, a shift away from traditional congee (basically boiled rice) to grain-based-cereals. What we witnessed in North America a century ago is now underway, not just in China but across Asia Pacific – double digit annual growth, like pasta and baked-goods, but without the grain variety to meet demand.

A few years ago, a small start-up in the interior became a cereal-giant in China and set up a cereal procurement plant in Australia to ship container-loads of cereal mixes to its processing-packaging plants on the mainland. We are situated a lot closer to these markets with just as many cereal varieties as Australia. We can meet all the needs of not only this company, but also many others across the region with custom-cereal-mixes shipped directly to processing-packaging plants in container-loads.

Custom animal-feed mixes: Even more significant is the growth in meat-dairy, with China joining the much more affluent Japan and Korea in dietary habits. In volume, China now needs as many grains for feed as for food; if we leave rice aside, in fact more grains are needed to feed animals, making China the largest grain importer. Similarly, Japan, Korea, and others in the region import as much for feed as for food.

There are cross-overs between feed and food, like in canola and soybean, to import grains to process for different purposes. But we also see the largest feed-producer, regionally and globally, setting up procurement plants in grain growing regions to ship feed-mixes in containers directly to feed-lots. We see the potential to do the same from our end. We have all the grain varieties for feed-mixes customized for cattle, dairy-cows, hogs, and poultry, shipped with all the additives and nutrients.

As noted above, you will soon find more detailed articles on each of these 4 domains. In the meantime, our priority is to reach out to end markets to identify sales targets. In the malting-barley domain, we are trying to identify as many micro-breweries and brew-pubs as possible to assess their barley and/or malt needs. In the specialty-wheat domain, there are fewer targets, but still at least a dozen industry leaders we are trying to contact. In the breakfast-cereal and animal-feed domains, we decided to first work with selected strategic-targets, likely one in each domain to begin with.