

Market Research Agenda: What to Expect from Us

Market research efforts in the grain-industry tend to focus on price-volume trends in global markets, which is understandable as they are crucial reference points in guiding crop-choices of producers as well as trading-activities of grain companies. In facilitating direct-sales market research efforts must go much further. Accordingly, our research agenda focuses on changing supply patterns in order to understand market dynamics, consumption-processing trends to target new opportunities.

On the supply-side we are embarking on a study into a vast emerging region we call the *New Grain Belt*, stretching from Caucasia to Central Asia, which will pose the greatest competitive threat to our bulk-exports. We are also compiling our past work under the title of *China Factor*, the largest grain-importer. It is often taken for granted that China will continue to import more of the same, but as its yields increase and supply-chains are restructured, its trading patterns will also change.

We have two more initiatives underway. The first is on the US, the world's largest producer and exporter but still a major export destination for Canada. US producers may follow on our foot-steps in shifting to direct exports, with obvious competitive implications. The second is on EU, another huge grain-block and a major importer as well as exporter. Our primary interest is to understand the recent dynamics of this market, which offers lessons in both containerization and supply-chain integration.

In the months to come we will be sharpening our market-targeting efforts, focusing on Asia Pacific, the fastest growing region and the one we are most familiar with. We will not take our eye off China, still our largest export destination, even with our trading-relations in great jeopardy. While we look into re-export prospects to China, we will focus on the advanced economies in the region, Japan and Korea, and also pay more attention to Indonesia, Philippines, Malaysia, Thailand and Vietnam.

As part of our targeting efforts we will compile reports on grain trades of all markets we will be focusing on, but also crop needs (by grade and type) in specific industries and supply-chains. At the outset our focus will be on flour-milling with specific grades of wheat and durum, craft-breweries with barley varieties, cereals with coarse-grain mixes, and animal-feed with custom-mixes targeted at major feed-companies. We will extend the work we cited earlier on China to other countries.

As we had mentioned before, our research-agenda is ambitious, as this is the only way to facilitate direct export-sales -- identifying market opportunities and more importantly targeting credible importers. But our resources are not unlimited, thus we are on the look out for as much external funding as we can mobilize. Accordingly our priorities may be influenced by our sponsors, but we are still determined to respond to producer wishes -- so, we look forward to your requests and suggestions.

Global trends:emerging regions

As part of its ambitious globalization strategy, China embarked on a major project, *Road and Belt Initiative (BRI)*, with a vast geographical reach -- from its borders to the north (Mongolia, Kazakhstan and Russia), west across Central Asia to Caucasia and beyond to Europe, also along a southern axis from Southeast Asia to Middle East and Africa. The original focus was infrastructure (ports, roads and railways), basically extending what it had done domestically to other regions it could trade with.

Part of China’s agenda was to open up export markets, but even more importantly to satisfy its appetite for natural resources -- natural gas, oil, metals and minerals. Also, of crucial importance was agriculture, particularly in the region stretching from Central Asia to Caucasia. Once largely self-sufficient, China had become the world’s largest grain-importer, having to reach out to Americas, North and South, to meet its food and feed needs, but the region across its border looked even more promising.

There was not much to import yet, other than the Black Sea region that China was relying on, but a great deal of potential to develop from its own border all the way to Ukraine (already a major producer and exporter). As in everything else, rather than half-way measures, China went all-out, investing in not only transport infrastructure but also irrigation projects. The region already had a base in agronomy, but China descended with all the machinery and expertise to kick-start an agricultural revival.

All BRI projects relied on containerized intermodal systems; China drew on its domestic experience in order to replicate the same pattern across Asia to Europe. The potential benefits, and logistics cost-savings from door-to-door shipments, were evident as in its domestic systems. Now most, if not all, of China’s grain-imports from its west are containerized; there also is desire to do the same across the Pacific, with emphasis on high-grade crops, while procuring ordinary ones from its west.

In tandem with the *New Grain Belt* project, we will publish a report, *China Factor*, reflecting on the country’s remarkable achievements in domestic agriculture -- yield-increases and crop-diversification driven by advances in agronomy and technology. Old images you may remember, of poor peasants working the fields with primitive hand-tools, have been replaced by modern-farms, as large and advanced as ours.



Global trends: advanced competitors

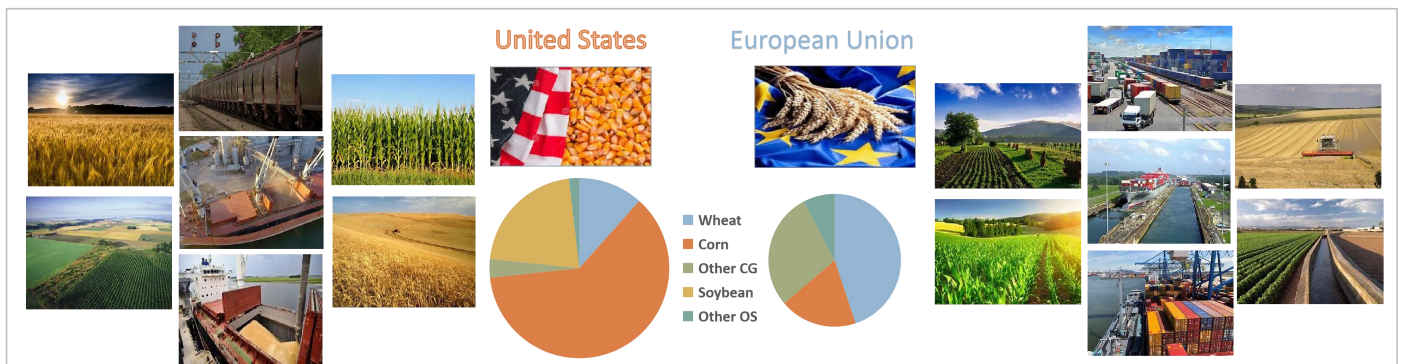
After these China-related reports, we will turn our attention to advanced regions, US and EU. The US is the world’s largest grain producer, 600 MT (65% corn, 20% soybean, 10% wheat) -- about 20% of global production. It is also the largest grain-exporter, about 25% of what it produces -- three staples (soybean, corn, wheat) account for 90% of its exports. We produce about 90 MT (30% wheat, 15% canola, 45% other) but export 45% of what we produce, much higher share than the US.

Despite our dependence on staple-crops and bulk-trades, our crop-base as well as export-portfolio are more diverse, especially with pulses in the mix (10% of export volume but much higher share in value). The US is less export-dependent, but its export volume is much larger and even more bulk-oriented than ours. If the US also follows a value-driven specialization-path, we will face formidable competition. Thus, we must pay close attention to how they are positioning themselves in end-markets.

Behind US and China, EU is the third largest grain producer -- 320 MT, close to half wheat and the rest in other coarse-grains and oil-seeds. Its trading volume (80 MT, 4th largest behind Brazil) is 25% of its production but fairly balanced (only 5 MT more imports) -- net-exports of wheat and other coarse-grains but imports of soybean and corn. Though EU is the largest wheat-grower in the world, it has been a wheat export-destination for us (particularly durum) but with no growth in recent years.

Farms across the EU are much smaller than in North America but equally advanced in agronomy and technology. Also, agriculture is more diversified in both crop varieties and grades, and trades are mostly through direct-channels (producer-to-processor) and containerized -- a model we are aspiring to replicate. More importantly, driven by market forces (albeit with some trade protectionism) grain-food supply chains have reached a very high-level of integration -- offering important lessons for us.

This integrated and advanced agricultural economy is now extending its borders east to Ukraine, Georgia and Turkey -- combined production capacity reaching China’s. In time we may even see a highly integrated market with a huge continental footprint including China. On the surface this may be threatening our position but luckily we are only a short-hop across north-Pacific to become an integrated part of this block.



Target geographical markets

As must be evident from our portal and the articles we publish, we have a great deal already invested in market research into China’s grain-trades and supply-chains. In addition to our *China Factor* report, we will publish more in the coming months. Though the future of our direct trade relations with China are in peril, at least in serious doubt, we will be on standby and continue to pursue re-export prospects through other channels; we already have initiatives underway through Singapore.

Japan is our largest overseas export destination behind China, but still stuck at just below 4 MT/yr with hardly any growth over the last 2-3 decades. Japan is a major grain-importer, 23-25 MT/yr -- 15-16 MT of corn, outside our scope, but 4-5 MT of wheat, 1-2 MT of barley, and 2-3 MT of oilseeds (mostly soybean) within our reach. We have excellent trade-relations with Japan; as direct-sales and containerized channels develop, we should be able to greatly increase our grain-export volumes.

We entered a free-trade agreement with Korea in 2014, boosting both import and export prospects. Korea imports 15-16 MT of grains annually; again more than half of this is corn, but there is potential to grab a larger share of other imports -- 4-5 MT of wheat, 1.5 MT of soybean and about the same in coarse grains, including barley. Korea’s highly advanced supply-chains in all these areas present export opportunities, particularly as we develop our containerized channels to ship specialty grades.

We also see very promising grain-export prospects in Southeast Asia, including the five largest and most dynamic economies, which we will refer to as *Five Asian Tigers* -- Indonesia, Philippines, Malaysia, Thailand and Vietnam -- with combined grain-imports of 35-40 MT /yr. Leaving aside rice (grown in the region) and corn (imports from other parts of Americas) there is 15 MT of wheat and 10 MT of other coarse-grain and oil-seed imports that we could target, many times what we export now.

Leaving aside India -- the largest grain market outside China but fairly self-sufficient and difficult to export to -- these seven countries we cite import more than our total grain exports. Much of what they import may be outside our scope and a large share in the bulk-domain that we have little interest in, but there is at least 10 MT of high-value containerized exports that we could be targeting throughout this region.



	Japan	Korea	Indonesia	Philippines	Malaysia	Thailand	Vietnam
Wheat	4-5 MT	4-5 MT	10-11 MT	6-7 MT	1-2 MT	3-4 MT	4-5 MT
Corn	15-16 MT	7-8 MT	1-2 MT	1-2 MT	4-5 MT	1-2 MT	9-10 MT
Other	4-5 MT	3-4 MT	2-3 MT	2-4 MT	2-3 MT	1-2 MT	2-4 MT
Total Imports	23-25 MT	15-17 MT	13-15 MT	9-12 MT	7-9 MT	5-7 MT	15-20 MT

Target crop market segments

As we keep emphasizing, targeting geographical markets based on import volumes is just the first step. In order to get at the direct-sales potential, we have to focus on specific industry segments and supply chains to identify potential buyers. We will continue to focus on the same prime target-markets we had pursued in China but now we intend to extend these efforts geographically to other Asia Pacific countries.

Given that wheat (including durum) is the largest volume crop we produce, and our largest export item, it will remain a priority in our market research agenda, focusing on flour-milling industries in all the geographical markets we target. We do not expect the industry structures in all these markets to be as conducive to distributed mill deliveries as in China, nor do we expect the industry consolidation trends to be as massive, but we see huge potential for specialty wheat-grades across the region.

Our barley export volumes have never been at the same level as wheat, but they are a fifth of what they were 20-30 years ago. There is no future in this crop as long as we continue to view it as another cheap input into feed-streams, at home or export markets. As direct-sales and containerization channels develop, export prospects will open up (albeit in much smaller quantities than wheat) for suitable grades of barley for malting and distilling, the focus of our efforts in all the markets we target.

As we noted in reference to China, animal feed is becoming a major driver of grain-imports for most countries, but feed-industries are not as developed throughout Southeast Asia as in China, Japan and Korea. There is a huge potential for the type of feed-mixes we had mentioned earlier, not just in advanced but also emerging economies. An often overlooked advantage is containerization of prescribed mixes at production-sources, rather than scrapping together residual grains at feed-lots.

The same advantages apply to many other custom mixes (coarse-grains and/or oil-seeds) in food-chains. We noted this earlier in reference to breakfast-cereals, which we will pursue throughout the region we are focusing on, but there are many other food-processing chains to consider, including bakeries and other prepared foods. As in most other things, China, Japan and Korea are the markets to start with, but the others not to be ignored, as food-chains are restructuring, advancing everywhere.

