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The Impact of Ethanol on the Western Canadian wheat economy

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Thank you for that introduction and thank you to the Renewable Fuels Association for the invitation to share my thoughts with you on the ethanol industry and its impact on the western Canadian wheat sector.

The Western Canadian Wheat Growers Association is a prairie-wide voluntary farm organization. Our board of directors consists of 11 farmers who have a passion for agriculture and a determination to make farming more profitable. It's our optimism about the future of our industry that keeps us energized.

Grain prices are currently strong in western Canada so that's helping to fuel our optimism. We know however that good grain prices can be fleeting, so that's why we are always seeking policy solutions that will help make farming more profitable on a long-term basis.

In our view, biofuels and bioproducts represents a great opportunity to create a more sustainable future for our industry. Over the next few minutes, I want to talk about the value of ethanol to prairie grain farmers and some of the challenges we face in building a strong and viable ethanol industry.

I thought I would start by giving a quick overview of the ethanol industry in western Canada.

Slide 2 Ethanol plants, Western Canada

Currently, there are 4 commercial ethanol plants in operation including Husky at Lloydminster, Permolex in Red Deer, NorAmera in Weyburn and Pound-Maker in Lanigan. Husky's new plant in Minnedosa is expected to become operational any day now. Another large plant, Terra Grain Fuels in Belle Plaine is under construction and is expected to open next spring. Combined capacity of these plants will be 475 million litres, which in total would consume 1.3 million tonnes of wheat, or about 6% of average wheat production in western Canada. Of course, these plants won't be using wheat exclusively – corn and other cereals will be part of the mix.

While ethanol has been produced on the prairies for more than 25 years, we really are in the early stages of a large-scale biofuels industry in western Canada, so it is difficult without a crystal ball to predict the full impacts.

However, I do wish to talk about five reasons the Wheat Growers are glad to see an ethanol industry develop in Western Canada.

Slide 3 **Benefits of an Ethanol Industry**

- Increased ethanol production will help reduce our dependency on foreign grain markets. There's a number of risks when you are exporting most of your grain offshore – it means you are vulnerable to tariff and non-tariff trade barriers, labour disputes, railway service disruptions and high ocean freight rates. In the past year alone, the grain pipeline has been disrupted by two railway strikes and a trucker walkout at Vancouver port. Having more grain processed locally allows us to avoid such grief.
- Increased local processing reduces our dependency on shipping grain by rail. In western Canada, our industry continues to be constrained by service and performance issues in the rail sector. In western Canada, the two main railways haul about 65% of the grain we produce. Legislation now before the House of Commons will hopefully lead to improvements in rail service, but in my view, the best way to improve rail service is to increase the amount of grain we market elsewhere. This is especially important given the increasing demands on the rail system, particularly container traffic.
- The ethanol industry will provide farmers with another local outlet for marketing our grain. As we have discovered in the canola, oats and pulse sectors, there's nothing like a local user of grain to help support local prices. The more buyers there are for our grain, the better.
- Create jobs and economic activity in rural areas. Our farm is close to the community of Mossbank and shortly after moving back to my hometown, I was hired on as the Economic Development Officer. Now, I can tell you with absolute certainty that the old pioneer spirit that our ancestors are known for, still exists. Folks living in small towns on the Prairies these days are generating enthusiasm for rebuilding their communities. Local grain processing facilities are an ideal way to support economic growth and prosperity in Western Canada. For those farmers who invest in these facilities, it also gives them an opportunity to capture a greater share of the value chain.
- Environmental – I'm no David Suzuki and certainly no Al Gore! I'm not qualified to comment on the environmental benefits of ethanol and its role in reducing greenhouse gases. Nor am I qualified to weigh in on the debate over the energy balance, even though I believe the weight of evidence is on our side. No, I'll leave it to the scientific community to sort out those questions, although maybe the real debate around biofuels is who really is the expert. I don't pretend to be one, but I will say this. Having local markets for our grain means we're using less fuel to ship our grain to market. Processing more of our grain locally also helps ease the growing congestion on the rail lines and at ports. Rather than shipping our grain long distances, I think it makes more economic and environmental sense to process as much of it closer to home.

In recent weeks, there have been some who have suggested that the growth of an ethanol industry is negative for the livestock industry. I think it might be too early to draw any conclusions about the impacts, but I do want to share these thoughts with you.

One of the oldest ethanol plants in Western Canada is the Pound-Maker facility at Lanigan, which happens to be located in that little province that just won the Grey Cup. Yoo-hoo!

Pound-maker started in 1970 as a 2,500 head feedlot. In 1991, the feedlot was expanded to 10,000 head and a 10 million litre ethanol plant was built. Today, the company has a feedlot capacity of 29,000 head and an ethanol capacity of 12.5 million litres.

In fact, the Company bills itself as “Canada’s First Integrated Feedlot / Fuel Ethanol Facility”. So I pose the question ... does that sound like a company that thinks ethanol and livestock are competing industries, or complementary?

In fact, here’s a quote from the company’s website:

Slide 4 Pound-Maker Agventures company statement

Pound-Maker's initial goal, to provide local area farmers an alternative market for their grain, to provide employment for their children and to enhance their community continues to be the guiding force in day-to-day operations.

I don’t know about you, but that doesn’t sound too sinister to me.

Studies in the U.S. have shown that livestock operations have flourished around ethanol plants, so I hope that will also be the case in Canada. If we can deregulate major aspects of the wheat industry, we may see some dynamic synergies between grains and livestock.

Speaking of deregulation....

Slide 5 Wheat Acreage, Western Canada, 1980 - 2007

Wheat acreage has been declining, due to its lack of profitability relative to other crops in western Canada. Ethanol might help reverse that trend, although I think most farmers and industry experts would agree that canola, oats, peas, and other specialty crops have very bright futures, so wheat will continue to fight for acres. As well, other countries, such as Argentina, Australia, Ukraine and Kazakhstan have the potential to grow significant supplies of wheat at a lower cost per bushel – so I think that will limit our upside on wheat acreage in Canada.

In a typical year, 15 to 20% of wheat in western Canada is either grown as feed wheat or is downgraded to feed quality because of weather. So while the ethanol industry will use up only 6% of total wheat supplies in western Canada, it could represent as much as 30% of wheat that is available for feed and ethanol use.

On the bright side, there has been a rapid increase in winter wheat production, growing from 200,000 tonnes ten years ago to over 1 million tonnes today. There has also been a trend toward increased production of soft white wheat on the prairies – both winter wheat and soft white wheat represent good and growing sources of feedstocks for ethanol plants.

Many farmers see a number of agronomic and marketing advantages in growing winter wheat and soft white wheat, so the demand from the ethanol industry represents a good fit on many farms. My husband and I are among the latest converts. Last year, our farm grew winter wheat for the first time ever, and we signed a contract to deliver our production to Terra Grain. This year our intention was to double our winter wheat acres, although poor fall seeding conditions limited how much we put in.

For many of us who need cereals in our rotations, selling our wheat into the ethanol market is also a good way to avoid having to sell our wheat through the Canadian Wheat Board monopoly.

I know what you're thinking...typical wheat grower uses every excuse to wave the marketing freedom flag.

But I'm convinced that making the CWB a voluntary marketing agency would be beneficial to the ethanol industry ... it would undoubtedly increase acreage and research dollars in the wheat industry, resulting in a larger source of supply for ethanol plants.

One other way the federal government could help the western Canadian grain, livestock and ethanol industry would be to ease the restrictions that impede the development of wheat varieties that are specifically geared for the ethanol or livestock markets. For example, wheat breeders are currently limited by the kernel visual distinguishability (KVD) constraint.

In western Canada, for a new wheat variety to be registered, it has to be visually similar to all other wheat varieties registered only for that particular class. Wheat breeders are finding it very difficult to introduce new varieties, especially in the winter wheat class, because the new varieties look too much like varieties in the main milling wheat class.

This past spring, a winter wheat variety with an 8% yield advantage over existing varieties was submitted for registration and yet it was rejected because it looked too much like varieties in the Canada Western Red Spring class. Removing the KVD constraint would lead to the development of more varieties that are better suited to the ethanol and livestock industries, and would lead to an increase in both the acreage and yields of wheat grown specifically for these end use markets.

The wheat industry desperately needs more research dollars, in both the public and private sector, directed toward the development of wheat varieties, including transgenic varieties, whether that's for the food, feed, ethanol, health or industrial markets. A survey by the Canadian Seed Trade Association this year found that private investment in seed research last year amounted to only \$3.3 million for cereal grains, or 6% of the total, compared to 74% for canola. For greater research to happen, we need to make sure the investment climate is improved and regulatory constraints, including the CWB monopoly, are removed.

Before I conclude, I want to address one other issue that has been raised as a concern in western Canada. Last week, a reporter was asking how I felt about ethanol plants importing corn instead of using wheat. To be honest, I can't really object. The reason that ethanol plants sometimes turn to corn is because either they can't afford wheat, or we have had good harvest weather and feed wheat supplies are low. As a wheat producer, how can I possibly consider good prices and good quality

to be a bad thing? In western Canada if wheat is priced out of reach as a feedstock for ethanol plants because other users are willing to pay more, then who am I to complain?

So until that beautiful day arrives when I can grow **ethanol specific** wheat, the real value of these ethanol plants is that they will provide another ready market for low-quality wheat – wheat that was downgraded for weather or disease reasons.

As well, these local plants will help underpin the market when production subsidies or bumper crops elsewhere in the world drive down international wheat prices. In the canola industry, our domestic crushing goes a long way to supporting canola prices when international oilseed prices are down – similarly, I believe more facilities that process wheat on the prairies – whether that's flour mills or ethanol plants – will help support local wheat prices when international prices fall.

I see tremendous benefits for the western economy from the development of an ethanol industry.

It will help support prices for grain farmers, it will create jobs and economic activity in rural communities, it will help save us from being at the mercy of the railways, it will reduce congestion at port, and it will help provide livestock producers with a good source of feedstock for their operations.

Farmers and community leaders in western Canada are excited about the potential of ethanol, biodiesel and bioproducts.

This is a good news story that promises to provide significant benefits throughout the Canadian agricultural economy.

And as a farmer, I look forward to being a vital link on this value chain.



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Ethanol plants, Western Canada

Annual capacity	Litres (million)	Grain usage* ('000s tonnes)
Husky, Lloydminster, SK	130	350
Husky, Minnedosa, MB	130	350
Permolex, Red Deer, AB	28	75
NorAmera, Weyburn, SK	25	67
Pound-Maker, Lanigan, SK	12	33
Terra Grain, Belle Plaine, SK	<u>150</u>	<u>400</u>
Totals	475	1,275

* Wheat-based



Benefits of an ethanol industry to prairie grain farmers

- **Reduces dependency on foreign grain markets**
- **Reduces dependency on shipping grain by rail**
- **Provides another competitive market alternative**
- **Creates jobs and economic activity in rural areas**
- **Offers environmental benefits**

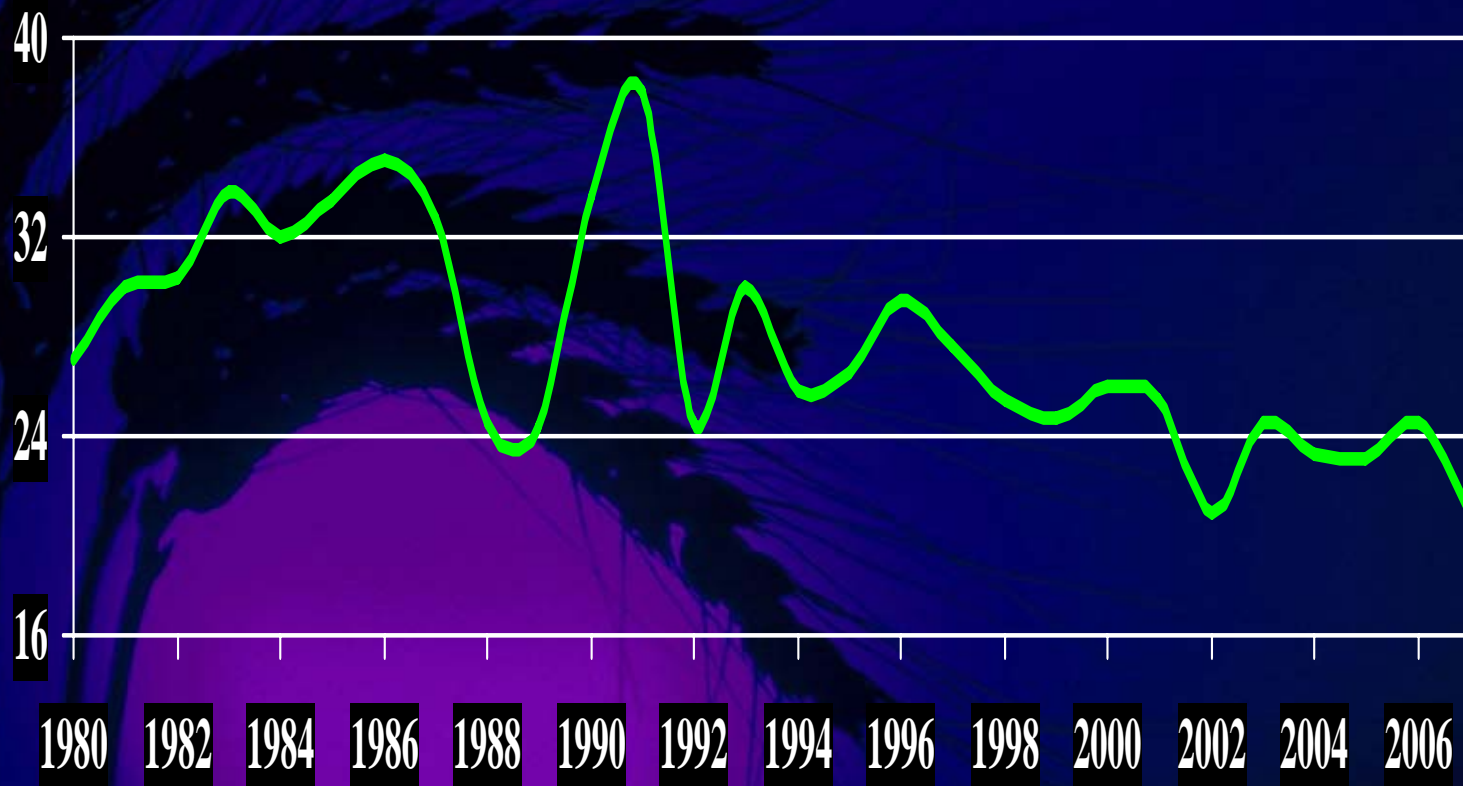


Pound-Maker Agventures Ltd. company statement

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Source: Company website

Wheat acreage, Western Canada, 1980 – 2007 (million acres)



Source: Agriculture and Agri-Food Canada, harvested acreage