Barriers to Value Adding in Grain

Presentation to:
Western Barley Growers Association &
Western Canadian Wheat Growers Association
Joint Convention, Canmore, AB
February 17, 2005

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Outline

- Importance of trade & value adding
- How is Canada performing?
- Domestic & international barriers to value adding
- What does the future hold – observations & conclusions

Importance of value adding

- Jobs
- Higher incomes
- Less volatility in prices
- More control in supply chain
- Not an exhaustive list

Importance of the WTO Agreement to Canada

Current status of support and protection:

- Seriously disadvantages Canadian crops
- Harms future best markets most
- The WTO negotiations can deal with both
- This is a **"once in a generation"** chance

Importance of the WTO Agreement to Canada:

- EU recently announced export subsidies of $6.44/tonne on 134,000 tonnes of wheat
- World wheat markets negatively affected
- Canada is directly affected by export subsidies
- WTO Agreement is critical for putting an end to export subsidies

Selected simple average tariffs(%):

	Canada	Japan	EU	US
Wheat	76.5	375.5	100	2.2
Barley	21.3	328.4	122	1.2
Canola	0	0	90	2.7
Canola oil	0	24.9	95	6.4
Poultry	249	8.5	78.9	6.9

Selected simple average tariffs (%):

	North Africa	South Asia	W. Europe Non- EU	N.Am.
Grains	84	103	100	25
Products	82	117	122	19
Oilseeds	53	110	90	18
Oils	106	134	95	17

International Barriers…

- Tariff escalation a serious problem for a number of Canada's export interests including processed grain products, vegetable oils and meat products.
- Level of over-quota tariffs is on average 3.3 times the simple tariff for to countries of export interest to Canada.

International barriers

- Major Canadian agri-food exports face some of the highest tariffs around the world
- Canada's trading partners incl. Japan, S.Korea, EU, India, Columbia and Venezuela apply over-quota tariffs to products of export interest to Canada/Alberta

Implications of the WTO Agreement

Reform: Yearly Net Benefits to Canada

Wheat	Barley	Canola
$422.7 mln	$236.2 mln	$485.6 mln
$16/MT	$17/MT	$69/MT

Source: AAFRD, George Morris Centre

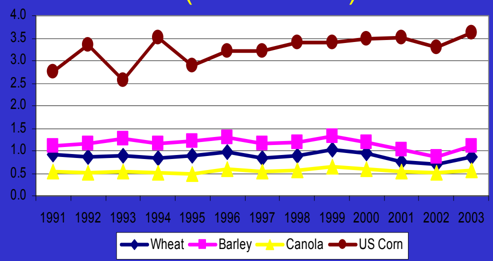
Key for the crops sector

- Opportunities are outside in emerging economies
- New competition for Canadian quality & quantity
- Value added, alternative uses in the West

How is Canada performing?

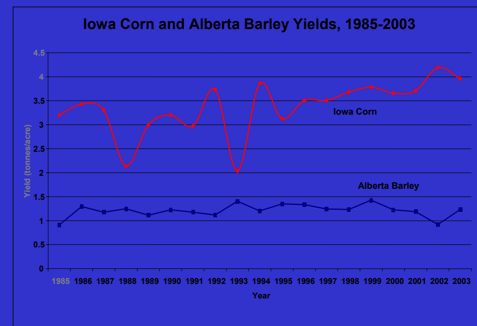
- Productivity problems
- For the period 1991-2003, there has been no noticeable increase in yields, acres or total production in wheat, barley and canola.
- Significant decline in overall western Canadian wheat production
- Barley production variable but no significant increase
- Declining wheat acreage and flat barley acreage over the past 12 years

Western Canadian Grain Yield (tonnes/acre)



Source: Economics and Competitiveness Division , AAFRD

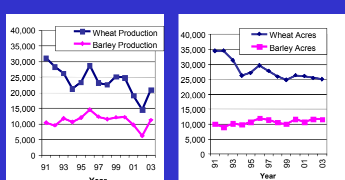
Trends in Iowa Corn and Alberta Barley Yields, 1985-2003



Source: Economics and Competitiveness Division, AAFRD

Western Canadian Wheat and Barley

production/acreage



Source: Economics and Competitiveness Division, AAFRD

Productivity / Competitiveness

- Significant decline in overall western Canadian wheat production
- Barley production variable but no significant increase
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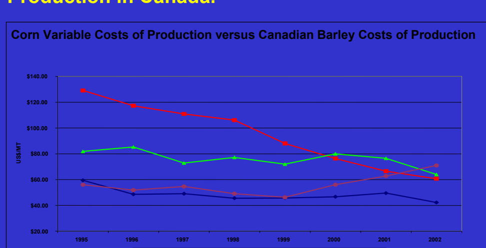
Comparison of Costs of Corn Production in US, Argentina and Brazil Against Cost of Barley Production in Canada.

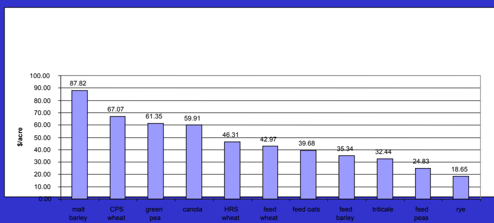


Source: George Morris Centre (9: Figure 5.8, p 51 based on data from CONAB via USDA GAIN Report and US Attaché Reports; USDA, ERS; Agro Mercado; Statistics Canada)

Productivity / Competitiveness

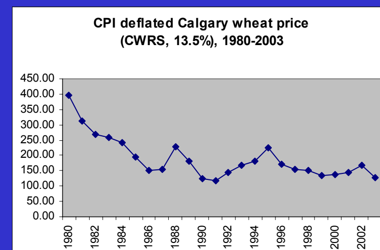
- The trend in variable costs of Canadian barley production is not keeping pace with the trend in variable costs of corn production elsewhere.
- Alberta is losing cost competitiveness relative to US and South American competitors.
- Low yields and higher costs of production lead to vulnerability to declines in prices for barley.

10 Year Average Gross Margins



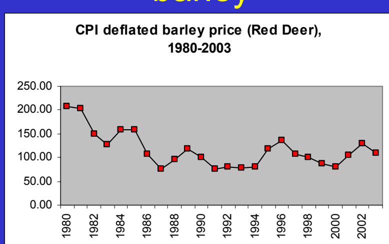
Source: Economics and Competitiveness Division, AAFRD

Decline in real prices for wheat



Source: Economics and Competitiveness Division, AAFRD

Decline in real prices for barley



Source: Economics and Competitiveness Division, AAFRD

Productivity / Competitiveness

- Decline in real prices for wheat and barley over the last two decades and productivity problems are fundamental issues.

Productivity / Competitiveness

- The CWB's forecasts acknowledge that:
  - Real commodity prices will continue to drop.
  - World wheat and durum prices will be under pressure from competition from “minor” exporters.
  - No growth expected in Canadian wheat exports.
  - Average wheat exports for the period 1997-2001 were 17.1 million tonnes.
  - The CWB forecasts that average wheat exports in 2011/2012 will remain the same.
  - Most Canadian feed barley production will be needed for domestic industry.

Global Malting Barley Trade Observations

- Malting barley trade is expected to show steady growth
- Most important demand regions for Canada will be Asia (China) and North America
- China market highly competitive
- Canada well positioned to service North American market
- Australia well positioned to service Asian markets

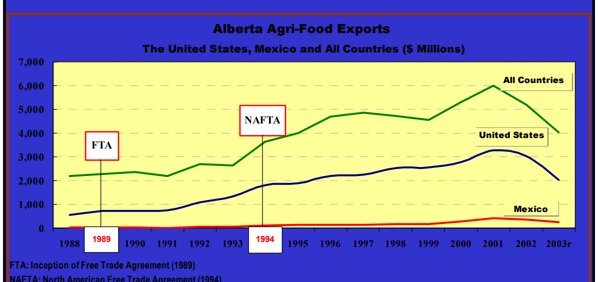
Global Feed Barley Trade Observations

- Barley trade is not growing
- Russia and Ukraine emerging as major exporters
- Most important importing regions are North Africa and Middle East
- Canada will be residual seller to these offshore markets
- No noticeable increase in yields, acres or total production of feed grains in Alberta in past 10 years

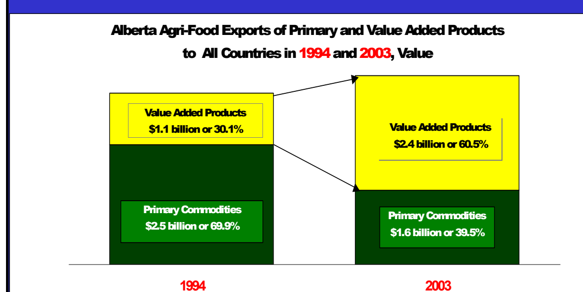
Barley Bottom Line

- Feed barley exports – flat
- Malting barley exports – some growth potential
- Malt exports – good growth potential
- Competitiveness: CWB monopoly is an impediment to expansion of malting industry
- CWB system doesn't work for barley

Value Adding & Market Diversification

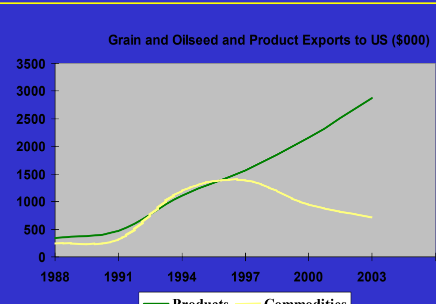


Source: Statistics and Data Development Unit, AAFRD



Source: Statistics and Data Development Unit, AAFRD

Value Added Exports



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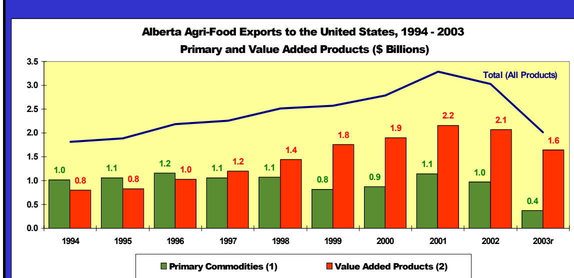

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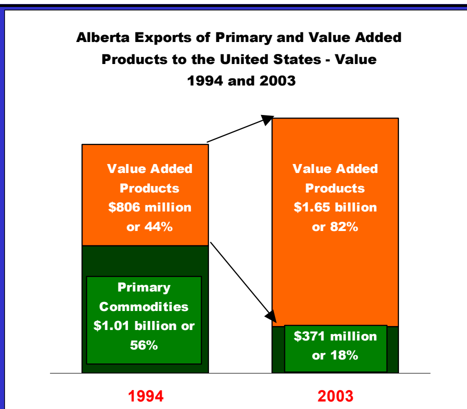

Source: Statistics and Data Development Unit, AAFRD

Domestic barriers to value added processing

Conclusions from the George Morris Centre 2002 study “Benefits and Costs of a Voluntary Wheat Board for the Province of Alberta”…

Domestic barriers…

- Investment in value adding of wheat and barley-based industries in western Canada lags the US and Ontario.
- It lags the equivalent industries in the US northern prairies, while investment has been very strong in the western Canadian oilseed and oat processing industries.

Domestic barriers…

- By 2010, the grains based value added industry in western Canada could be worth between $1 billion and $2.2 billion and employ 7,800 to over 26,000 people, if changes are made to the grain marketing system that provide incentives for value added investments.

Domestic barriers…

- There are strong signs of rising investment in the Australian industry as their grain marketing system is deregulated.
- Privatization of AWB has allowed it to vertically and horizontally integrate expanding into farm supply and value added processing at home and abroad

Domestic barriers…

- CWB single desk – commodity focus
- KVD – no creativity in developing varieties with novel traits
- New wheat product ventures will require segregation and direct involvement with producers.
- Commercialization of new novel uses will gravitate to those areas where processors see the least opposition or involvement with non-essential organizations

Analysis of Growth Potential in the Canadian Grain Based Processing Industry (study in progress)

- Future growth in cereals based processing sector will not come from increasing demand in North America.
- Growth will come from enhanced competition internationally – improved varieties – novel characteristics.

Analysis of Growth Potential in the Canadian Grain Based Processing Industry (study in progress)

- Greatest impediments to growth in value adding:
  - CWB system
  - Inability to resolve KVD issue
  - Lagging research/breeding efforts
  - Tariff & non-tariff barriers – WTO Agreement

Impacts of the WTO Framework Agreement on the CWB…

- Current language leaves some room for interpretation.
- Government financing and underwriting of losses to be eliminated – sense of finality.
- End date to be negotiated – minimum of 5 years to a maximum of 10 years.
- Government financing – could be limited to difference between commercially available interest rates and rates paid by STE – value of subsidy.

Impacts on the CWB…

- Guarantees of initial payments to be eliminated – possibilities of contingency fund.
- Future use of monopoly powers to be negotiated – difficult to modify single desk selling and keep single desk.

Impacts on the CWB…

- Impact on net interest earnings – debt forgiveness could be considered a subsidy. Pool deficits can't be covered by government.
- Loss of guarantee will increase costs of operations of CWB.
- Lack of assets implies CWB is poor risk for credit.
- If Australia gives up its wheat monopoly, Canada will be totally on its own.

What Does the Future Hold…

Alberta's Test Open Market for Wheat & Barley

- Marketing choice gives the farmer the choice to sell wheat or barley to anyone INCLUDING the Canadian Wheat Board
- Choice is about change
- CWB would become a voluntary agency in an open market system
- CWB would compete for farmers' grain

Key Messages / Conclusions

1. Canada needs to be proactive in trade negotiations – free trade agreement critical for grains and oilseeds
2. Protectionism amongst trading partners and within Canada harms Canada and farmers, especially in western Canada
3. We can't continue to be exporters of commodities – need to add value and be able to export higher valued products

Key Messages / Conclusions

4. Farmers, at the bottom or base of the commodity business, have the least advantage - critical for farmers to be active participants in value adding.
5. We have a number of significant developments that will continue to put downward pressure on the profitability of wheat and barley producers.
6. These pressures are both domestic and international in orientation.

Key Messages / Conclusions

7. There is a collective need to acknowledge these pressures and begin to work on solutions.
8. The productivity issue requires immediate attention, allocation of resources and collective western Canadian efforts to stop the slide.
9. Fundamental changes in grain marketing for wheat and barley need to occur expeditiously.

Key Messages / Conclusions

10. The CWB single desk system is unsustainable and counterproductive to the future well-being of the grain industry.
11. Discussion regarding the transition to an open market system needs to begin now.
12. The collective experience and knowledge existing in the grain industry needs to be brought together to begin this conversation in earnest.

Key Messages / Conclusions

13. Importance of the livestock industry and the interface between grain and livestock needs to be acknowledged so that growers and users can work together for mutual benefit.
14. The federal government needs to acknowledge these pressures and begin to formulate policies that will sustain and grow the grain industry.