

**“MAKING WHEAT WIN”  
NOTES FOR A SPEECH BY MAYO SCHMIDT  
TO  
WESTERN WHEAT AND BARLEY GROWER ASSOCIATIONS  
FEBRUARY, 2005**

Thank you for inviting me to join you.

It has been great to break bread with you this evening - especially in a country where we pride ourselves on our ability to supply wheat to make that bread. And here I am among the people who grew that wheat – and the barley to make some of other the products we enjoyed a little earlier, too!

I want to share with you the realities that are changing the cereals markets: the trade factors that are impeding our ability to access markets, and the changes in production in those global markets. I also want to highlight the opportunities that exist for Canada to reposition the way it delivers wheat and barley and to learn from successes in other crops.

As members of the Wheat Growers and the Barley Growers Associations, you take great pride in growing wheat and barley. But not every farmer takes much interest in his cereal crops these days; and that’s a shame. For a country that was founded on wheat in many ways – certainly here in the Prairies – wheat just doesn’t get the same respect anymore.

With the development of Marquis (*mar-kwis*) wheat by Charles Saunders at the turn of the last century, Canada began to open up the West to wheat production. Over time, we came to take pride in the quality of Canadian wheat and our role as a bread basket to the world. However, over the past few decades something has changed. Now farmers are more likely to take pride in the development of canola and the export of peas than they are to talk about Canada's role as a global supplier of wheat.

It is great for farmers that there are more options. There isn't a farmer here who isn't a canola grower as well as a cereal grower. And there's no mistaking that canola is a vital part of the mix for prairie farmers. What I'm talking about is having wheat be just as vital a part of the mix. Instead of it being a crop most farmers use to get rotation; we want to make wheat win. You should be able to make a profit on wheat, just like on canola and peas.

Please make no mistake – that is not an easy task in the current environment. There are many impediments that stand between Canadian producers and a robust wheat sector.

## **No More Bread Basket**

Let's consider that there has been almost a twelve-fold increase in the demand for oil around the globe over the past forty years – with similar increases in the demand for oilseeds and meal. Clearly, Canada has been responsive to world markets by moving into canola and pulse production. During the same period, the demand for meat has grown about five times. However the demand for cereals has barely doubled.

The challenges for cereals aren't just about limited growth. We have also seen other countries become self sufficient in growing wheat. INDIA is now a net exporter of wheat. ARGENTINA has tripled its wheat production.

The former Soviet Union is taking a long time to live up to its past role as the bread basket of the world, but recently it has managed to export wheat. However the progress has been slow. Almost twenty years after the fall of the Soviet Union, yields are still erratic and former Soviet countries have only been major exporters in 2002.

But perhaps the real story is that there will not be a bread basket for the world again. Production capacity is increasing from all points. China is producing more wheat than ever before. Plus if disease pressures like soybean rust force the Brazilians to rotate their crops more often, Brazil has the capacity to dramatically affect any market it enters.

The effect of South America is likely to be felt this year. Argentina normally exports 2 million tonnes of wheat to Brazil, but demand is down in Brazil and with a great deal of export traffic already taking soybeans from South America to Asia, it is likely Argentine wheat will be making its way to Asia soon.

Don't assume that South America is the new bread basket, though. Production technology and government policy is encouraging increases in wheat production in virtually every market. Wheat self sufficiency remains a relevant goal in evolving world markets.

## **Subsidies**

I know you have heard a lot about the challenges the ag negotiations face at the World Trade Organization. The goal to eliminate all agricultural export subsidies is critical to Canada's success as an exporter. The importance of seeing progress in this area cannot be overstated. Trade organizations also must tackle agricultural support programs in key markets that lead to overproduction and reduce prices.

We must also tackle import duties that are harming exporters. Canada's wheat industry has been a particular victim of duties, especially in the United States. It is costing us money and markets in the wheat business.

Addressing these issues is absolutely essential to making wheat win in the years ahead.

Unfortunately, our assessment of the situation is that it may get worse before it gets better. I hope for a quick resolution to the subsidies and tariffs that damage world wheat trade. But there is a lot to be done in the Doha round, and the tenor of world attitudes seems to be running in the opposite direction.

Whether it is softwood lumber disputes with the United States or EU dogmatism about subsidies, we appear to be in a period of protectionism that is harming trade. Even the best work of our negotiators may mean that it will be some time before we see a more level playing field for trade.

Making the Canadian position clear on international grain trade is important and the government needs to take a pro-trade stance. I know our government is finally considering some counter-vail duties and I think it is important we address U.S. protectionism head on.

### **Biosafety**

That includes a very careful assessment of the consequences of the Biosafety protocol. This international agreement could have a very powerful effect on trade. As it now stands, the government - and ultimately the exporters of grains and oilseeds - could be held liable for even the smallest amount of genetically modified product in a shipment. In Canada, where genetically modified canola represents a huge proportion of production, a single canola seed in a wheat shipment could create an enormous liability.

Of course, best measures are taken to limit the presence of unintended amounts of GMO's in any shipment, but absolute liability with no proper tolerance levels is impossible. The risk is too great and its ability to land on the doorstep of farmers is not implausible.

Canada must avoid ratifying the Biosafety Protocol unless appropriate, achievable tolerance levels are put in place.

We also can't ignore the fact that many countries are using the biotechnology issue as a non-tariff trade barrier. Eventually, I believe the scientific debate will win, but in the interim the debate for the hearts and minds of consumers will continue. It may affect agriculture more over the sale of canola, but I believe this debate must be resolved or it has the potential to affect other parts of the food production business: Either because we will lose the opportunity for advancements like fusarium-resistant wheat delivered through biotechnology or barley that's higher in beta-glucan, or because these non-tariff barriers will impede movement of all commodities.

## **Research**

At the same time, we have to focus on all the scientific tools that can help us compete globally.

Canadian wheat yields are a little more than 2 and a half metric tonnes per hectare. This is about a tonne higher than Canadian yields were forty years ago. At 2 and a half tonnes per hectare that puts Canadian yields in line with those in Argentina and India. It is well ahead of the yields of about 1.8 tonnes per hectare in the former Soviet Union but well behind the yields of 6 tonnes per hectare in the EU.

Far more interesting, though, is the fact that Chinese yields are in excess of 4 tonnes per hectare. The wheat production in that country is on a trajectory that will see their average yields double our yields in Canada.

Add to that the fact the Australia has just dedicated tens of millions of dollars to wheat research and we now have a serious situation in terms of competitiveness in the long haul.

We are hearing comments that Ag Canada is exiting varietal development. For wheat and barley, that has serious consequences. Especially as we are seeing Harrington barley phased out of malt standards, we must have more research on new varieties.

The ability to lead the way in productivity gains and new wheat classes is a factor in the global competitiveness of Canadian wheat.

Let's consider the investment China is making. The Chinese government is focusing on the rapid development of new varieties of rice, corn, rape, soybean, and wheat. Already, 100 new varieties have been developed and they are importing the newest technologies, including biotechnology to achieve rapid advances. (Currently, China is a big producer of biotech cotton.) Add to that access to over 9000 pieces of foreign germplasm, and you realize they are creating a research machine. And they are already ahead of Canada in yields.

We must get serious about supporting the efforts to develop new products, or we will not be able to gain the production efficiencies we need, nor enter new markets. As wheat and barley farmers, you will feel these effects severely and so far there are no good plans about how to fund research and support innovation. One hurdle is our ability to attract private sector investment to fund innovative new varieties and products with some reasonable hope for a return on investment.

### **Unique Products**

For our part, Saskatchewan Wheat Pool has been more engaged than most companies in supporting innovation in wheat and barley. This season we are beginning to market the first herbicide-tolerant wheat – a Clearfield variety which is not the product of biotechnology and will give farmers some options for weed control.

More than that, we have also been leaders in specialized wheat products. We helped develop and market AC Navigator – a durum wheat with a high gluten strength that is prized for its dark yellow colour. We find that growers appreciate the ease of harvest of the dwarf variety and its yield advantage. We must be attentive to needs on the farm, and needs in the marketplace. We have good markets in Italy, Poland, and Venezuela, and I believe there are more markets to be tapped in the U.S. and Latin America.

We are increasing our production target for this variety in the coming crop year and farmers are getting the benefit of markets that weren't previously being served.

We are also bringing another high gluten variety on stream called AC Commander. Its strength is such that it can compete with desert durums like those from Arizona. As we work with the Wheat Board to develop markets, we see the potential for 30,000 acres in 06/07, hopefully growing to a quarter of a million acres in the next five years.

We also see real potential for hard white wheats. This segment of the global wheat market is primarily supplied by Australia to serve Asian noodle markets. The few varieties already registered are finding a good fit on Canadian farms.

Part of our ability to compete in the long run is to re-tool our industry to serve specific markets. Western Canadian wheat has always been “streamed” into classes to meet specific market needs. Every one of you understands the differences between hards and softs, whites and reds, extra strongs, and durums. All these classes, including the grades within them, have created opportunities for Canada to supply world wheat markets effectively.

I believe there is more opportunity to “stream” products for specific uses and even to use full identity preservation techniques on some of them.

### **Quality Mix**

If you consider that about 30% of Ontario wheat is already being sold in identity-specific programs, and less than 1% of western wheat is sold that way, there is tremendous room for growth. Look at the canola business that is already moving toward 10-15% identity preservation.

**The fact is, the western Canadian wheat sector can't just keep doing what we're doing and expect to succeed globally. Places like South America can win the cheap production game. They get to acquire land at a fraction of the price you pay for an acre, pay little for labour, and have the benefit of the same technology and mechanization that you do.**

**You must create new ways to compete and that means tapping into high quality, and trait specific markets.**

There will always be a portion of world wheat and barley markets that are based on commodity sales. There are customers that are not shopping for quality: either because they can't afford it or because they don't need it due to modern blending and milling techniques.

In Canada, I expect that a portion of the market will always remain focused on this commodity business. However, if we want cereals to be a vital part of our farming mix, we need to shift our production systems to meet evolving needs. Demands are there for niche products. Sask Wheat Pool is demonstrating it - and there are more markets to be tapped. In a world of specialty beers, there are opportunities to supply specialized barleys. Everyone is looking for differentiation in the marketplace. It can start on your farm and end on grocery store shelves with cookies high in beta-glucan or quick cook wheat cereal.

## **Food Safety**

It is also true that food safety protocols are a mechanism to differentiate in some markets. Markets want additional assurances and documentation of the measures taken. These are the high end markets. Realistically – it is those with the greatest ability to pay that are also those demanding the highest standards for production and traceability. Canadian farmers have advantages to respond to these demands.

Our livestock farmers are already positioning themselves on these issues - admittedly for some tough reasons – but their learning and actions can influence the cereals business.

Processors and consumers are demanding greater evidence of safe and proper handling of commodities through systems like ISO and HACCP. If you can start this process on your farm and work with grain handlers like us to put these systems in place, you will have a competitive advantage in the longer term – maybe even the near term.

There may no longer be a single bread basket for the world, but the fact is we are still in the business of making bread. People care passionately about their daily bread (even an Atkins dieter misses their daily bread!) It would be a mistake to think that trends that are affecting every other portion of the food business will pass cereals by – and food safety is a big factor in today's food processing decisions. It is here to stay - a lot longer than Atkins.

By the same token, our ability to document will be part of addressing demands in the U.S. for biosecurity - which is also here to stay. Following 9/11, the U.S. has implemented a number of measures to ensure food and other products being shipped into the U.S. are safe and sealed before being sent. We have the capacity to do both in western Canada.

### **Transportation**

The ability to seal rail cars is an edge in serving the American market. We also need to play to our strengths in terms of transportation infrastructure in other markets. Of course there are lots of stories about the challenges South America faces: ports not functioning – no storage capacity – lines of trucks 60 miles long waiting to deliver. We must make the most of our transportation system.

At the Pool, we utilize unit trains to a greater degree than any other grain handler in Canada. 92% of the grain we ship goes by unit trains. We share these efficiency benefits with farmers.

I know our transportation systems can provide us an edge in competitive world.

### **Alternate uses**

We also need to consider the role of cereals in a bio-based economy. Other than uses for ethanol, cereal crops are receiving relatively little attention as the source of carbohydrates for other bio-based developments. You look at the work going on to make plastics out of safflower and potatoes; or the efforts to make flax fibres into car panels and other materials; or work in corn to create specialized fabrics...

There is so much underway; but it concerns me how little of these efforts are going into cereals.

I can tell you there are possibilities to increase the speed of cooking barley, and to make breed low phytate barley that would be more desirable to the animal feed business. There's been a minimal amount of work on oat oils and not nearly enough on health traits or starch and energy components of wheat. Sure we use wheat to make flour and noodles, even some ethanol now. But what else can wheat make? These opportunities are relatively unexplored.

We need to use our innovative capacity to tap all the possible markets.

### **SWP Changing Too**

You know, it is not really any different for us at the Wheat Pool. We are being proactive and changing the way we operate so we are ready for the future. With our market capitalization program we have developed a model for the co-op of the future. We are reissuing our stock into a single class of shares that will significantly reduce our debt down to 30%. Already the market is responding well with a sharp rise in our stock in the past week.

We will still maintain the Pool's connection with its heritage, its Prairie roots and its unique relationship with its farmer customers – through the creation of a new member cooperative. This independent cooperative will have its own membership consisting of current Saskatchewan Wheat Pool members and new customers. The cooperative would encourage leadership in agriculture in Western Canada through professional development and education and training programs. The Pool, through this new cooperative, will develop the future leaders in our Canadian agricultural industry.

Learning how to change and when to change is the key to success in industry. It holds true for the Pool and it holds true for you as wheat and barley farmers.

## **Making Wheat Win**

It is not all bad news today. Wheat markets are larger than they were. While more and more countries are proving themselves capable of producing wheat, they are also developing a wealthier populous ready to eat. **There are wheat markets out there.**

The learning from other aspects of the agri-food business needs to be applied in the cereal business. We know we have to be efficient producers; have to be highly skilled. Our edge is our ability to meet the needs for niche markets, secure markets, and traceable products.

Growers and handlers must be ready to respond to these demands; and to use research to meet the needs for production efficiencies and specialized markets.

Ultimately it is about innovation. It was innovation that made wheat king in the west and it will take innovation to make wheat a winner once again for western farmers. It will also take dedication to foster change and direct resources where they are needed. As wheat and barley growers, who better to lead the charge to **make wheat win?**

Thank you for breaking bread with me.