ACIDF
Alberta Crop Industry Development Fund Inc.

AARI
Alberta Agricultural Research Institute

Cereal Competitiveness

ACIDF Board Meeting
June 12th, 2007

C & N Partners Inc.

Background….

- Two main issues identified
  - Feeders *losing* their competitive position
  - Producers *moving away* from cereals
- Research perspective
  - Not about a particular cereal crop – rather overall cereal crop platforms (wheat, barley, Oats, Corn, Rye and Triticale)
    - *Meet* existing / new market opportunities
    - *Improve* domestic value added opportunities
    - *Increase* cereals productivity and production profitability

Initiative objectives

- Short term:
  - The identification and prioritization of investment opportunities to:
    - provide lower cost energy in feeding rations
    - Feedstocks for the emerging biofuels industry.
- Longer term:
  - The identification and prioritization of initiatives to catalyze cereal industry competitiveness.

Revitalize the Cereal Industry moving from a *mature* industry to a *growth* industry

Defining Cereal Competitiveness….

Food

Feed

Industrial

- *Functionality, quality and cost* to primary processor is *equal to* competitive feedstocks (domestic or imported) from other sources in those markets *you choose* to participate in, and
- Providing producer gross margin returns *equal to or better* than competitive crop options and provide a minimum of $ XX / acre gross profit over fixed and variable costs.

Discussion outline

- Overview of cereal production / market situation
- The Competitiveness issues
- Market opportunities perspective / discussion
- Moving forward
- General discussion

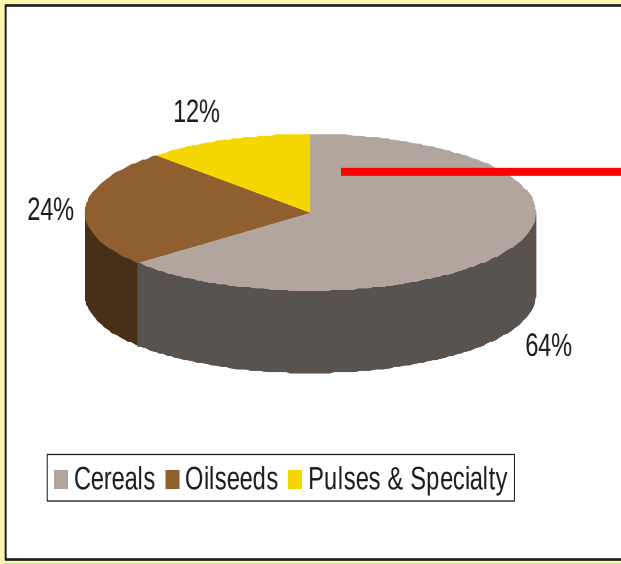
In my report I tried to gather the views / opinions of industry and research those their points to allow decisions based on facts

Western Canadian Seeded Area & Cereal Production Utilization

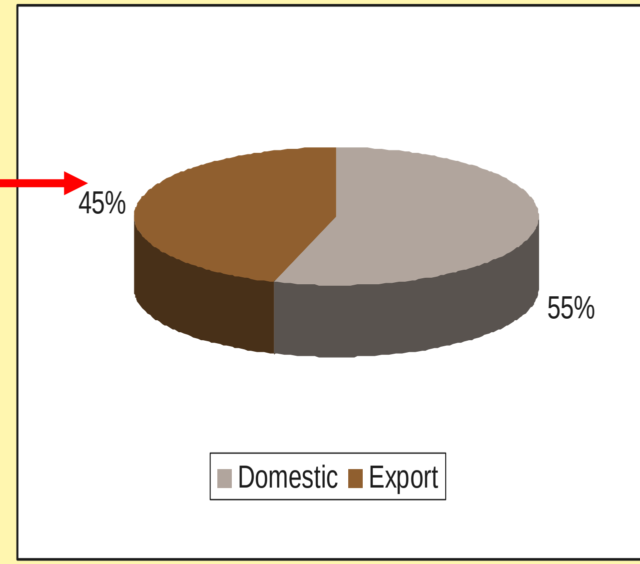
W. Canada – 5 yr average
Cereals Prod. = 38 MT
Domestic = 22 MT
Exports = 16 MT

Alberta – 5 yr average
Cereals Prod. = 12.1 MT
Domestic = 6 MT
Exports = 6 MT

Average of 04/05 and 05/06



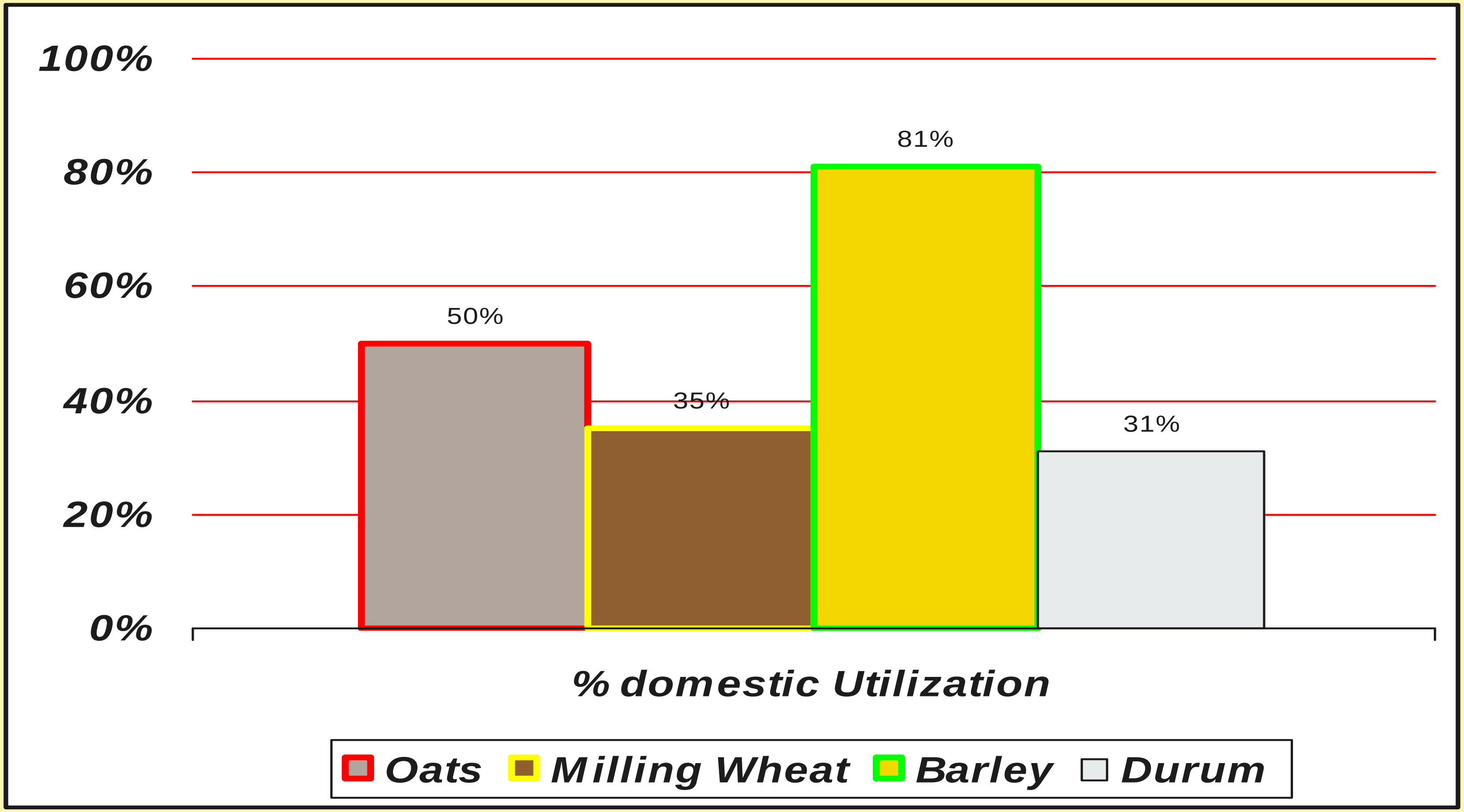
Cereal Utilization 04 / 05 - 05 / 06



Production / utilization of wheat, barley, oats, rye, corn & triticale

Source: Stats Canada / AAFC / Alta Ag.

Domestic utilization by crop



Production less food, feed, industrial, seed, dockage and waste.
Average of 04/05 and 05/06 crop years

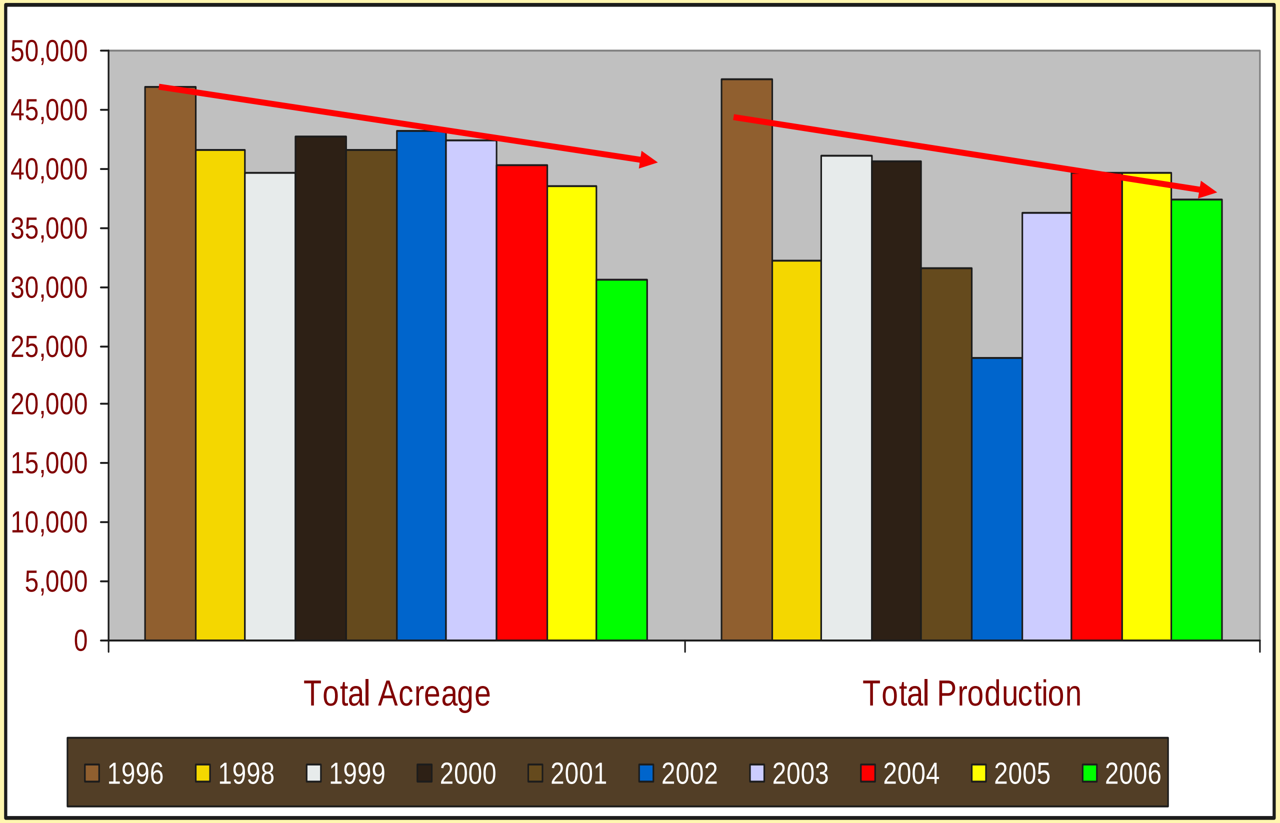
Source: AAFC

W. Canada total cereal *acreage* and *production* trends…

Alberta – 5 yr average.
13.3 M acres cereals
6.7 M acres wheat
5.0 M acres of barley
1.5 M oats
Corn, triticale, rye < 150 k

Alberta – 5 yr average
Cereals = 55 % of annual crop production
12.1 MT production
6.5 MT wheat
4.9 MT barley
.75 MT oats
Corn, Rye, triticale < 100 k

Alberta, Sask. and Mb. 000's



Acreage / Production of wheat, barley, oats, rye, corn & triticale

Source: Stats Canada / Alta Ag

Livestock on farms in Mb, Sask and Alberta trends…

Alberta - Beef

6.7 M Cattle and calves

38 % of CDN total

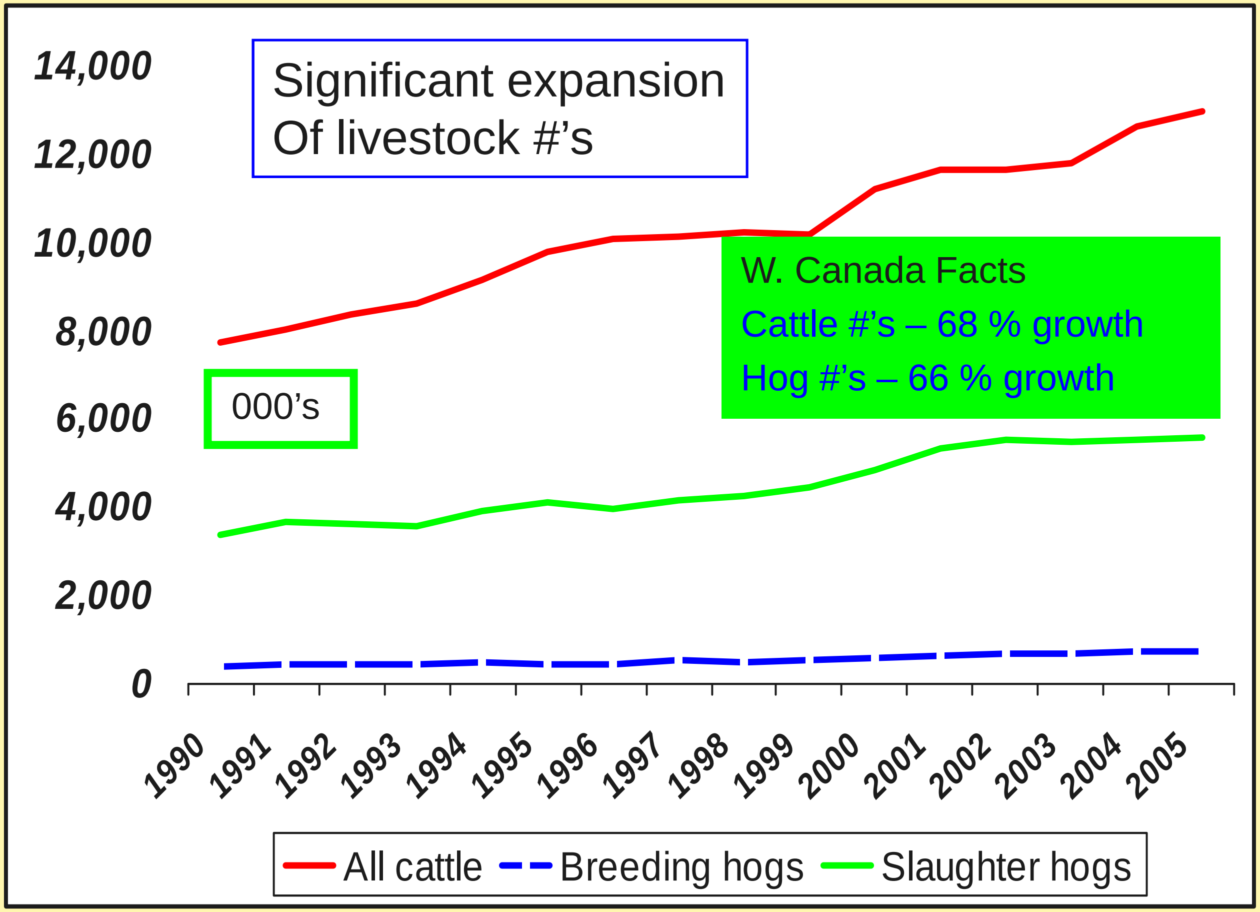
52 % of W. Canada total

Alberta - Hogs

2.0 M hogs

13 % of CDN total

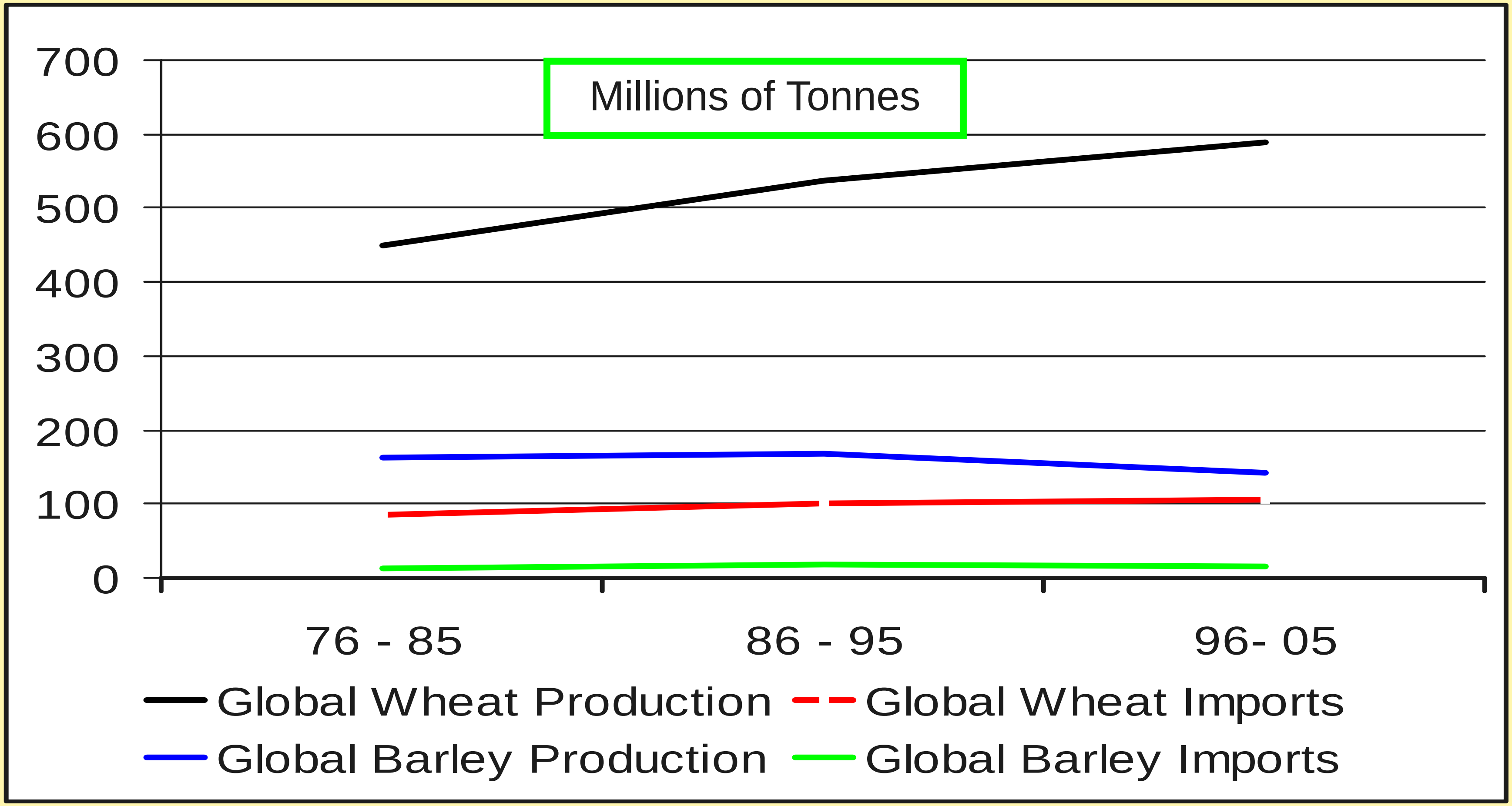
31 % of W. Canada total



As of July 1st for cattle, Dec. 31st for hogs

Source: Stats Canada / Alta Ag.

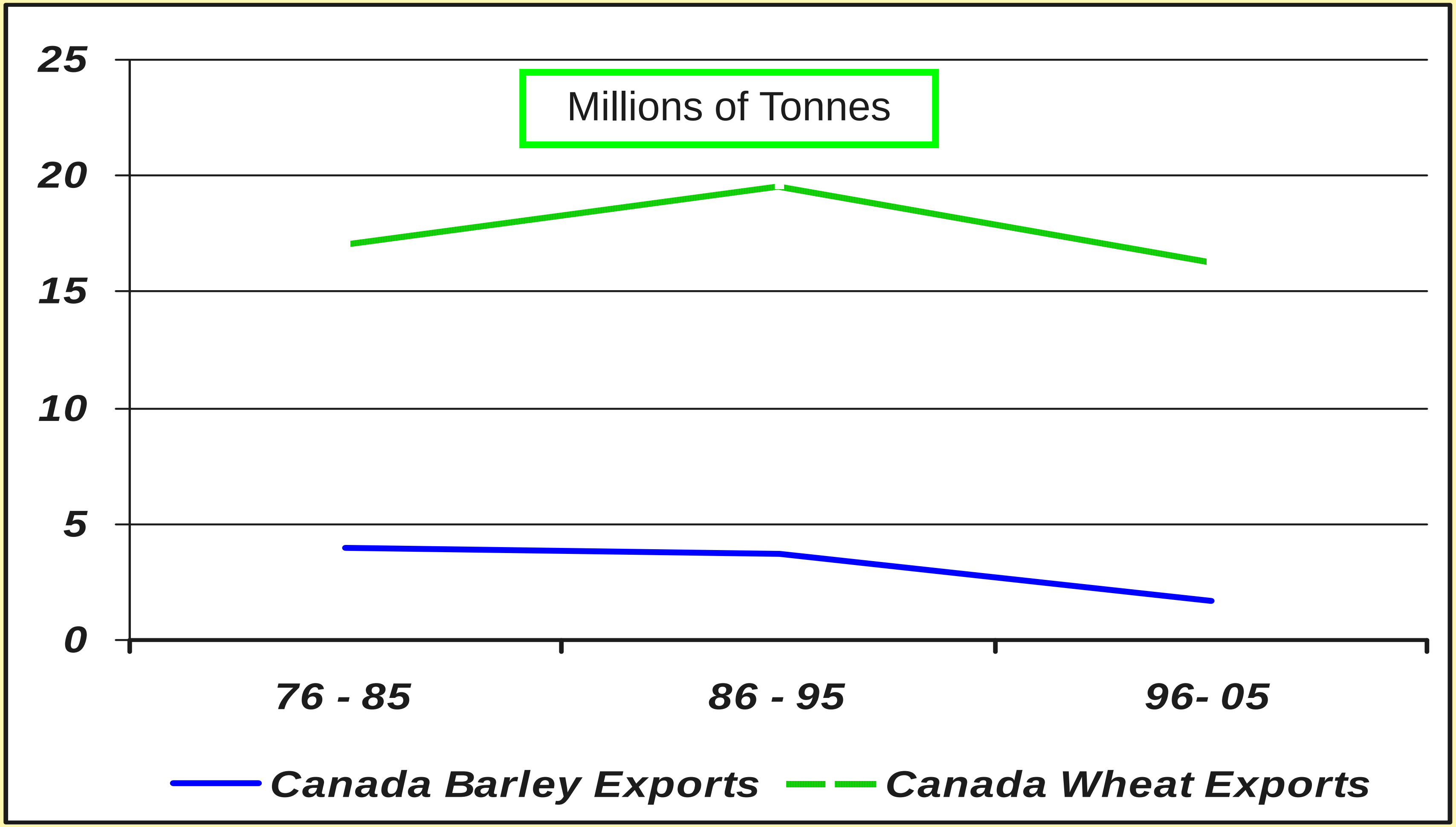
International Wheat and Barley Dynamics



Average of time periods

Source: USDA

W. Canadian Wheat and Barley exports…

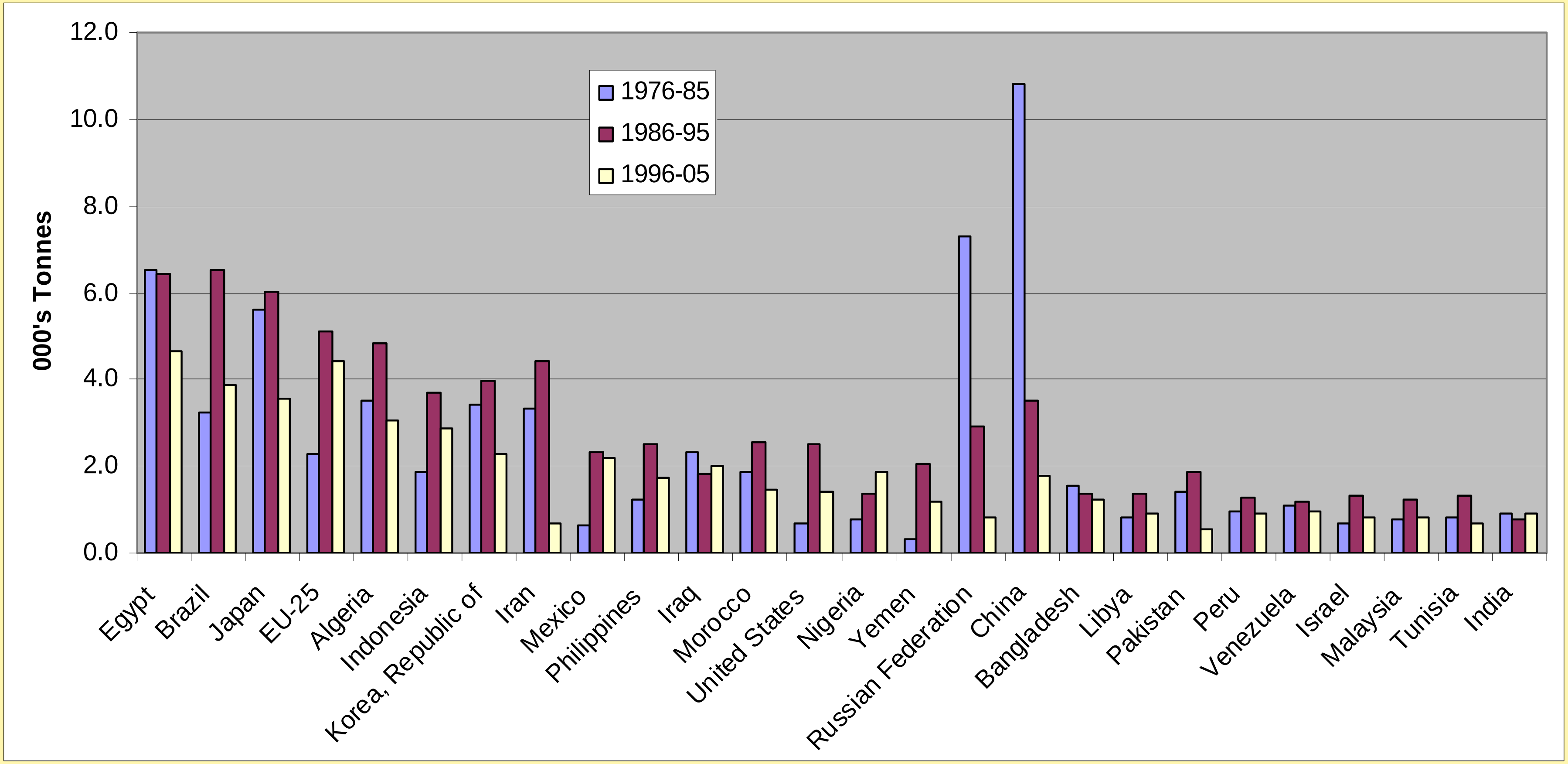


Source: USDA

Average of time periods

Global wheat importers…

Highly fragmented / differentiated market for wheat imports

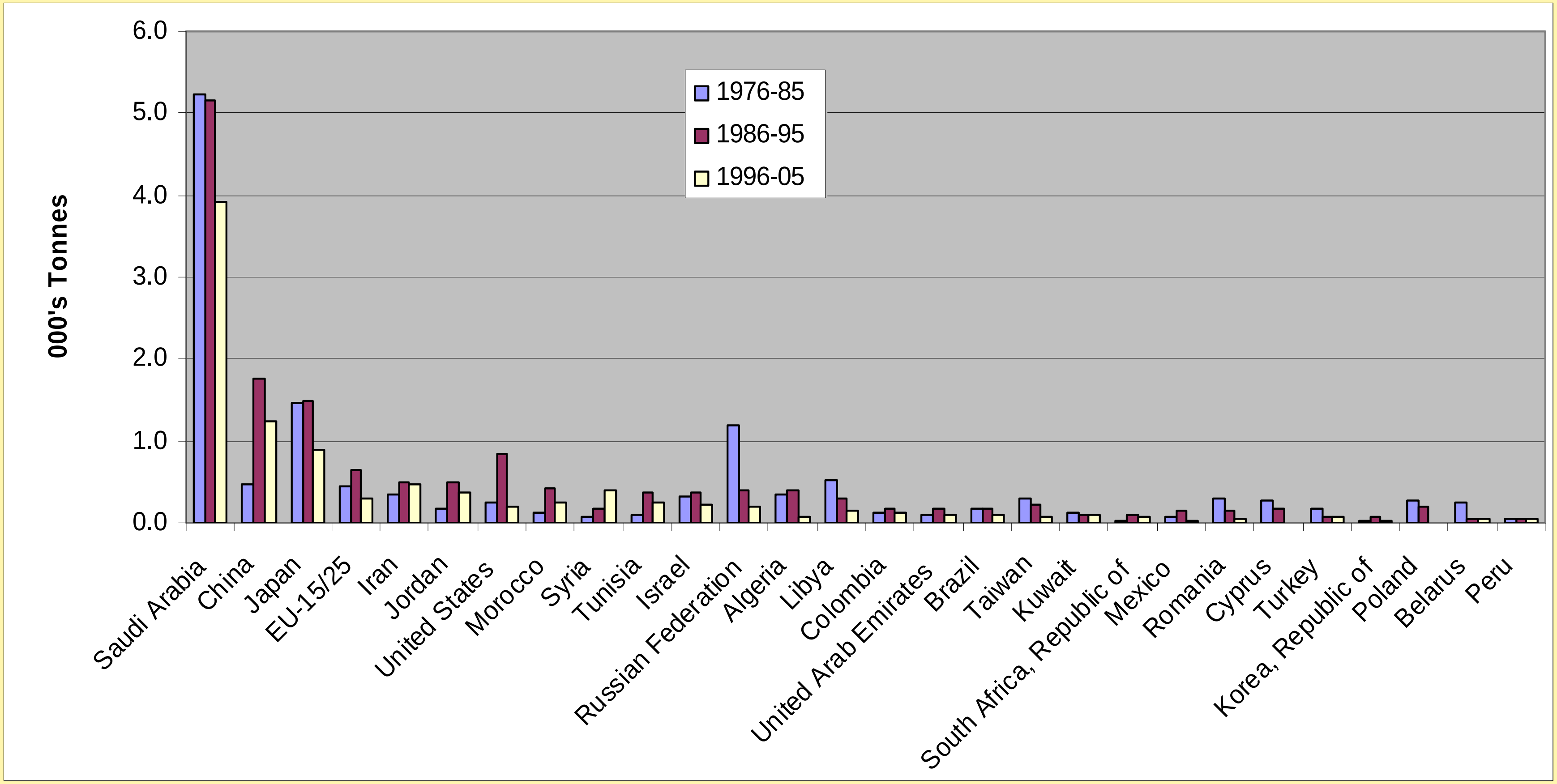


Average of time periods

Source: Stats Canada / USDA

Global Barley importers…

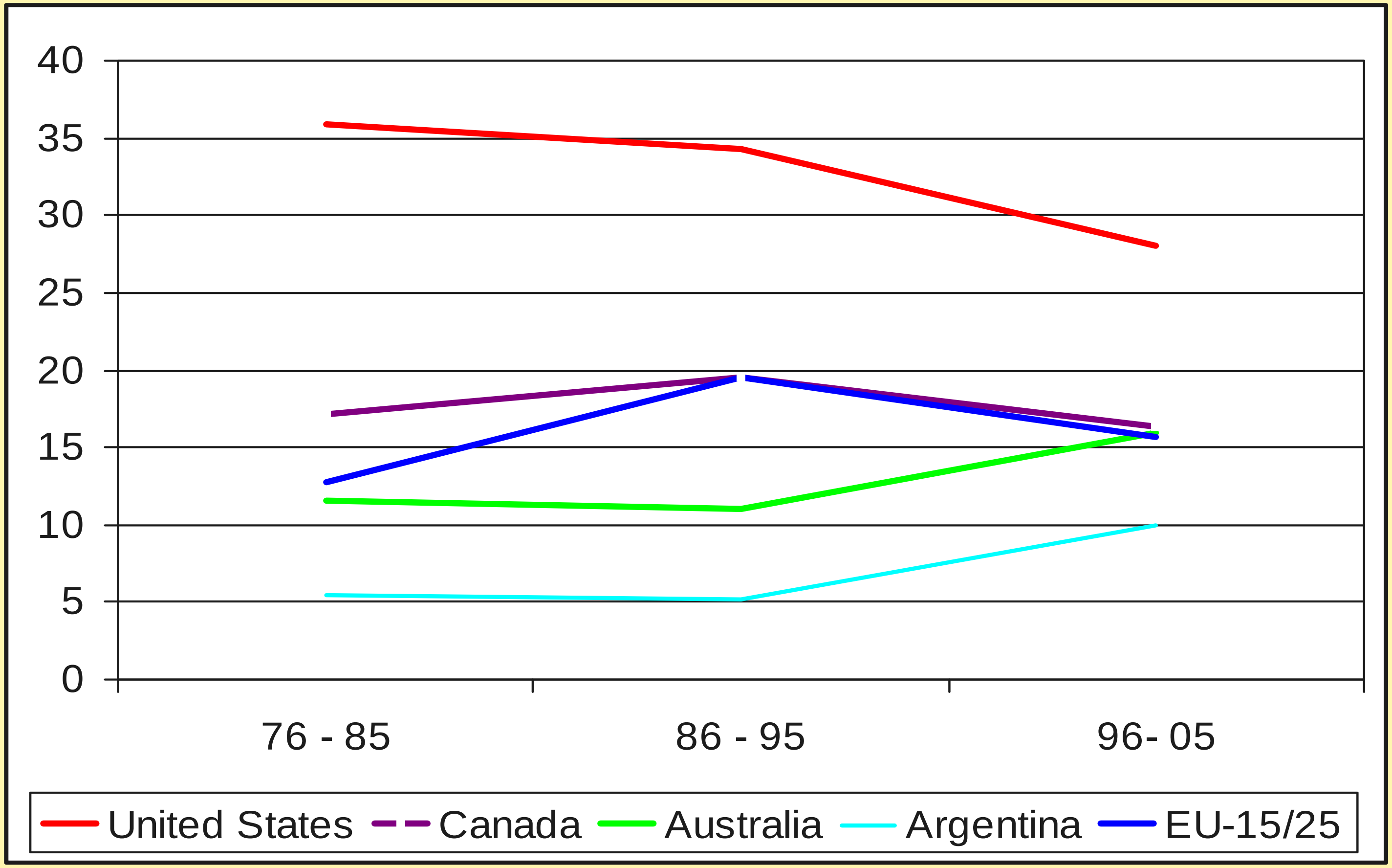
Less fragmented market for barley imports



Average of time periods

Source: Stats Canada / USDA

Global wheat exports by major exporter



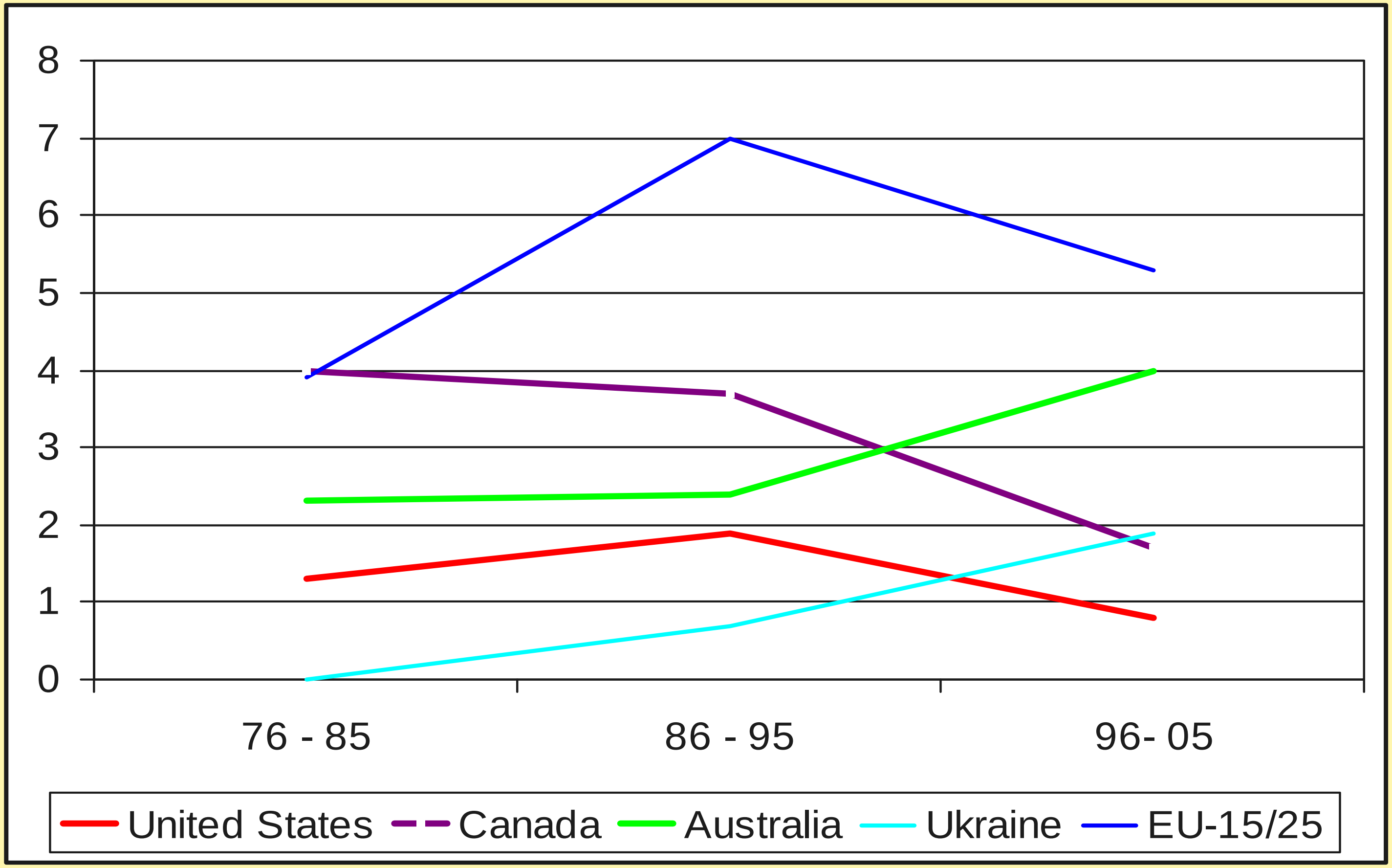
Millions of Tonnes

Average of time periods

Source: USDA

Global barley exports by major exporter

Millions of Tonnes

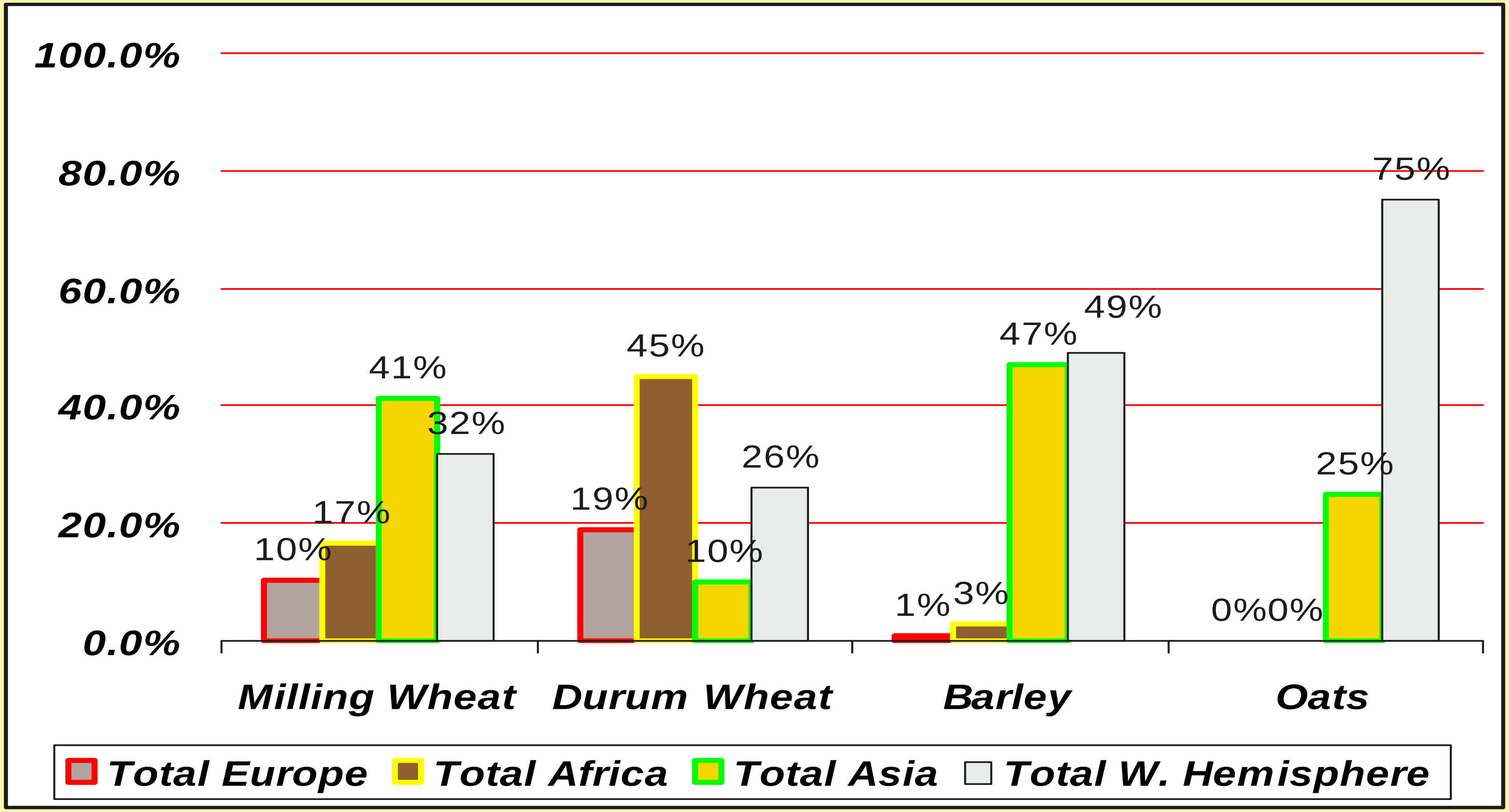


Average of time periods

Source: USDA

W. Canadian Bulk Exports by World Region

10 Year Average – 1996 / 97 – 2005 / 06



Source: CWB Statistical Handbook (oats estimated)

W. Canada total utilization of Cereals - directional

000's Metric Tonnes (MT)

Alberta Feed Facts

Total feed needs = 8.5 M tonnes

Alta production utilized = 6.0 MT

Alta imports = 2.4 MT

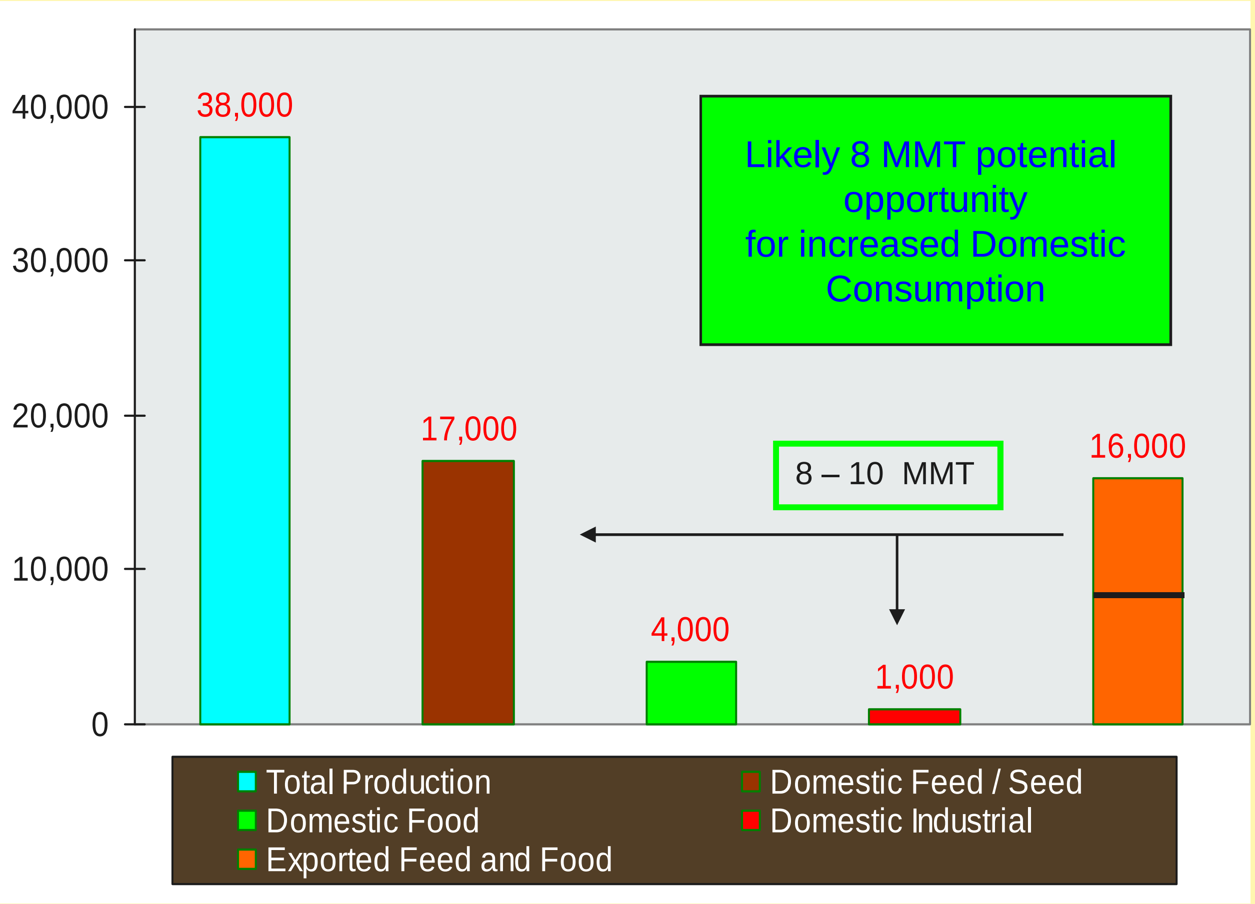
Barley = 2.2 MT

Corn = .2 MT

Alta imports ~ 30 % of feed requirements

Alberta - Net

3.5 MT surplus production (if all feed supplied in the province)



Source: Stats Canada / AAFC / Alta Ag. (total production average of 2003 – 2006)

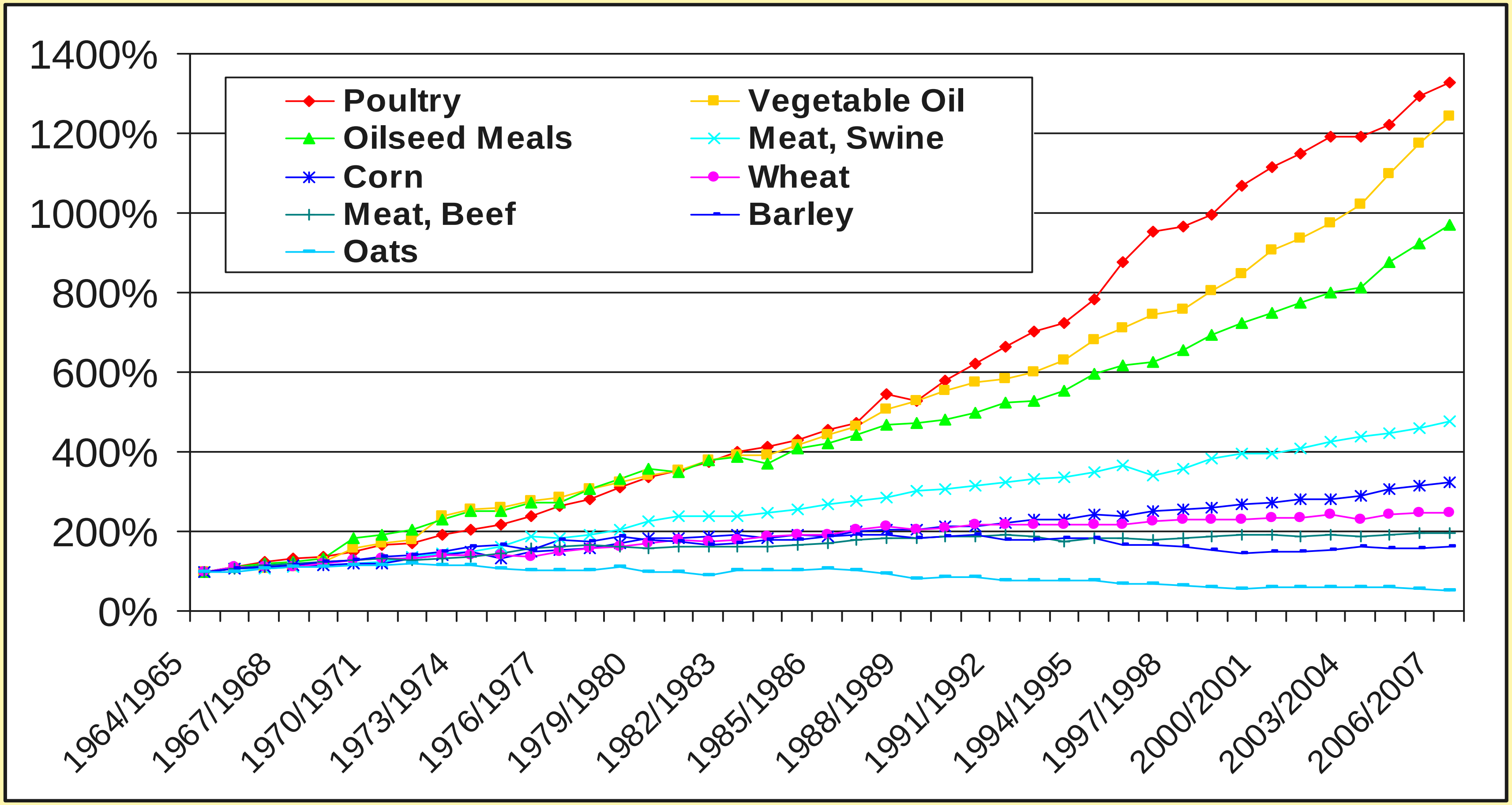
Production / Utilization summary….

- Cereal production is *trending down*
- Focus of the industry has largely been on *food markets and exports*
- Domestic feed supplies largely a consequence of:
  - Unselected barley (Malt selector heaven)
  - Poor harvests – reduced quality
- Markets are fragmented and W. Canada losing market share.

Historically cereal production was export commodity based, trending over time to more domestic utilization

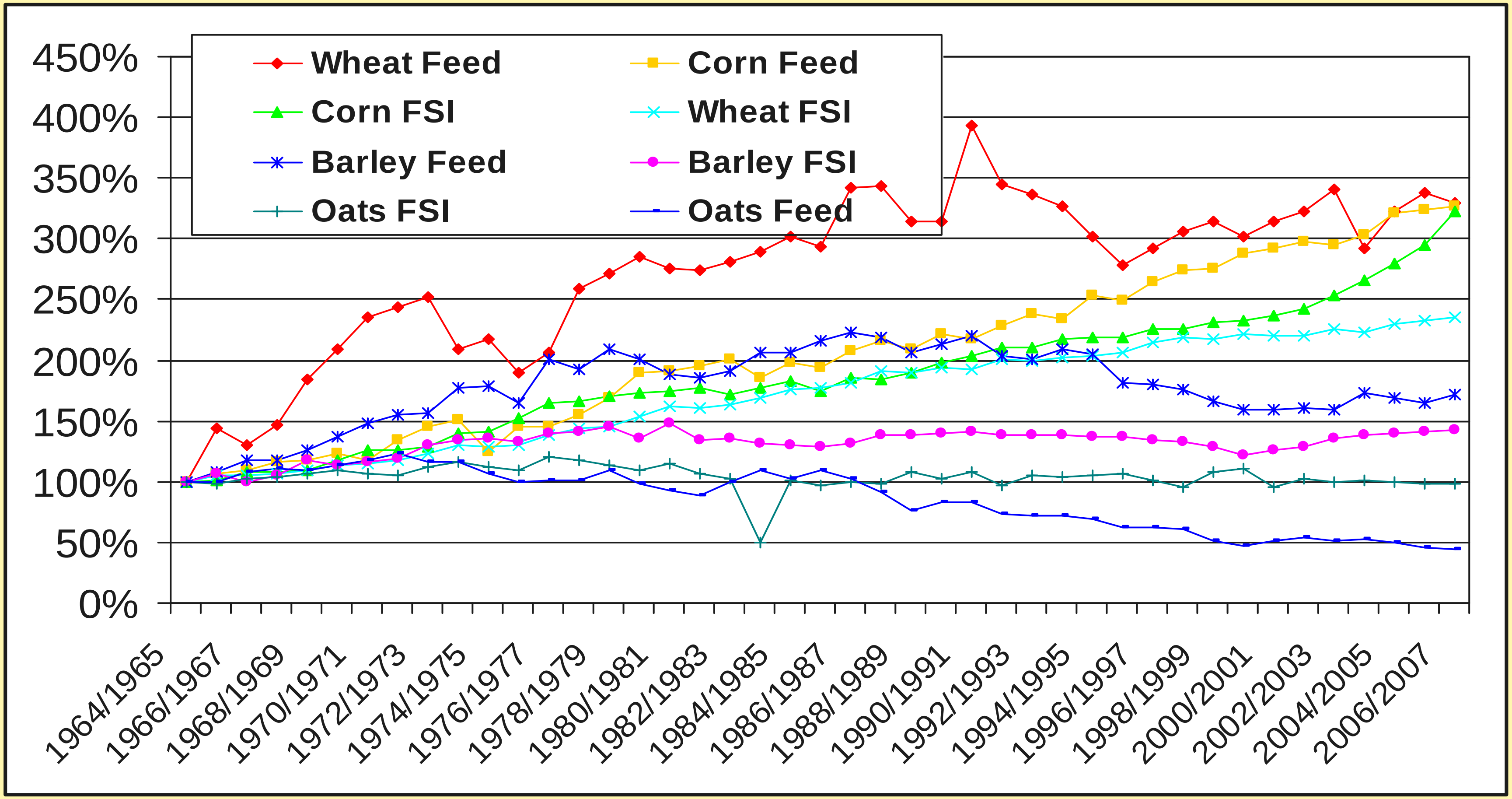
Competitiveness Issues…

Relative World Growth in Ag. Demand Sectors (1964=100%)



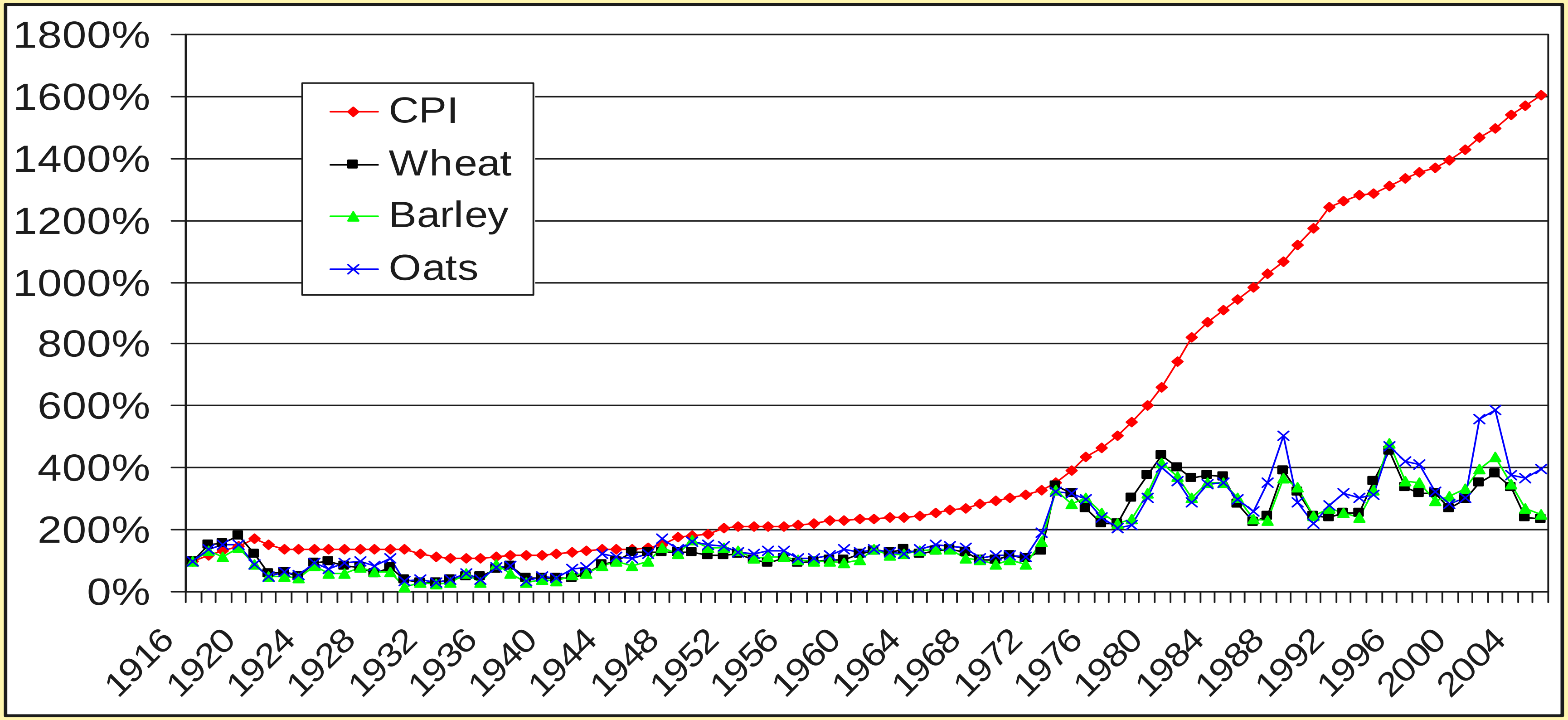
Source: USDA PS&D View

Relative World Demand Growth of Cereal Sectors (1964=100%)



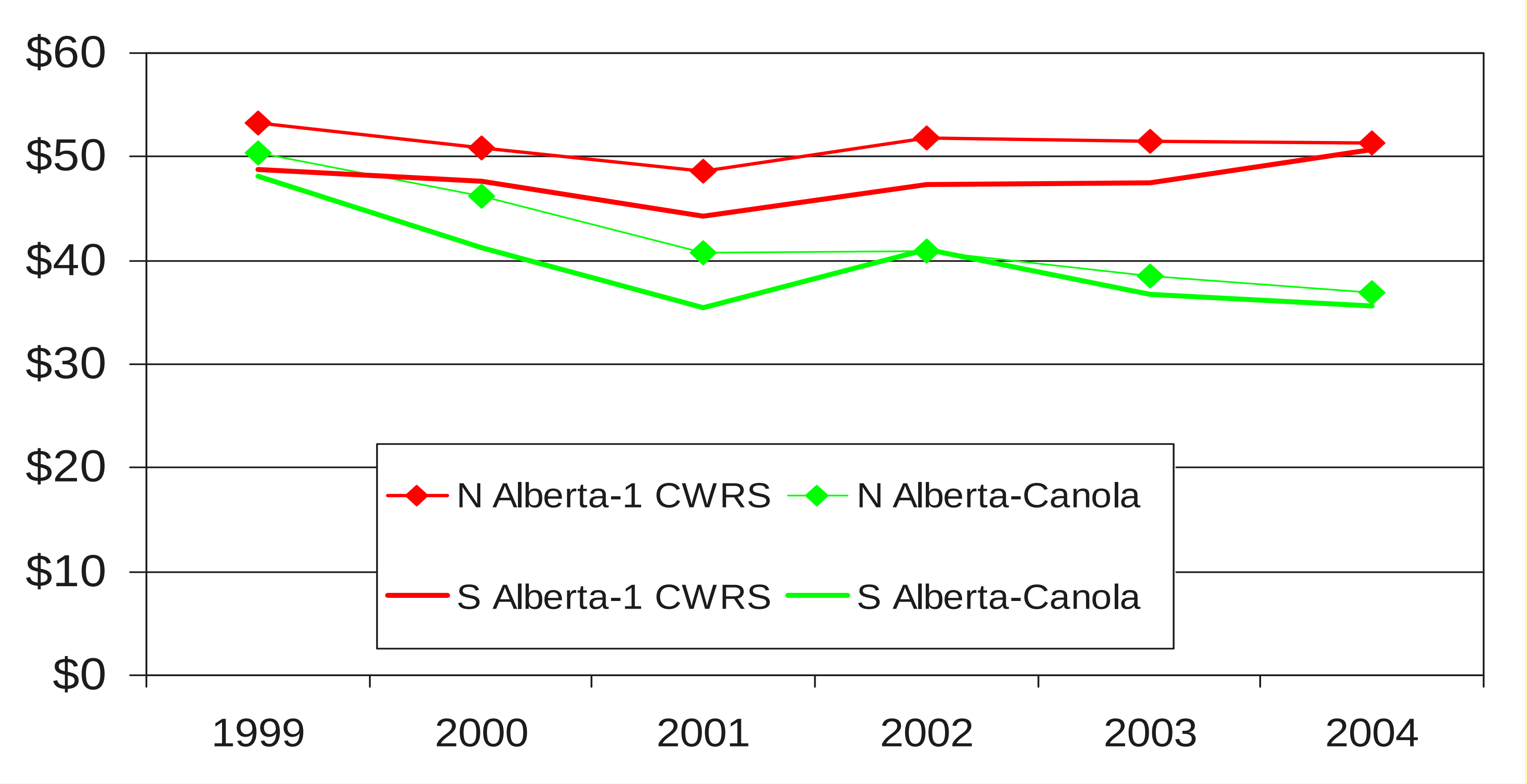
Source: USDA PS&D View
"FSI" Stands for Food, Seed and Industrial

Cereal Price Index Vs Inflation



Source: Statistics Canada and Sask. Ag & Food Average Farm Prices

Alberta Historical Basis costs to Port $/t



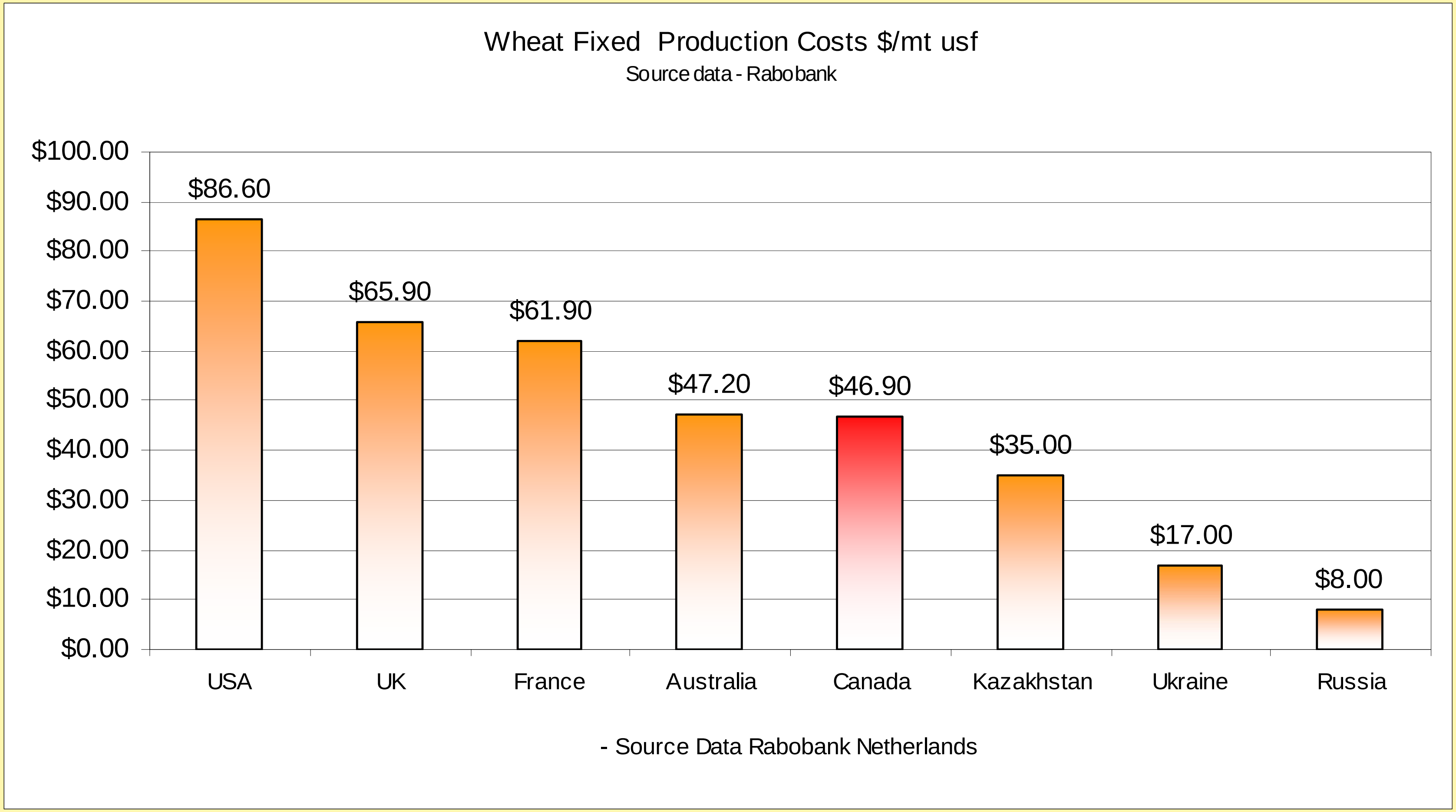
Source: Monitoring the Canadian Grain Handling and Transportation System Annual Report

Grain Monitor – Export basis

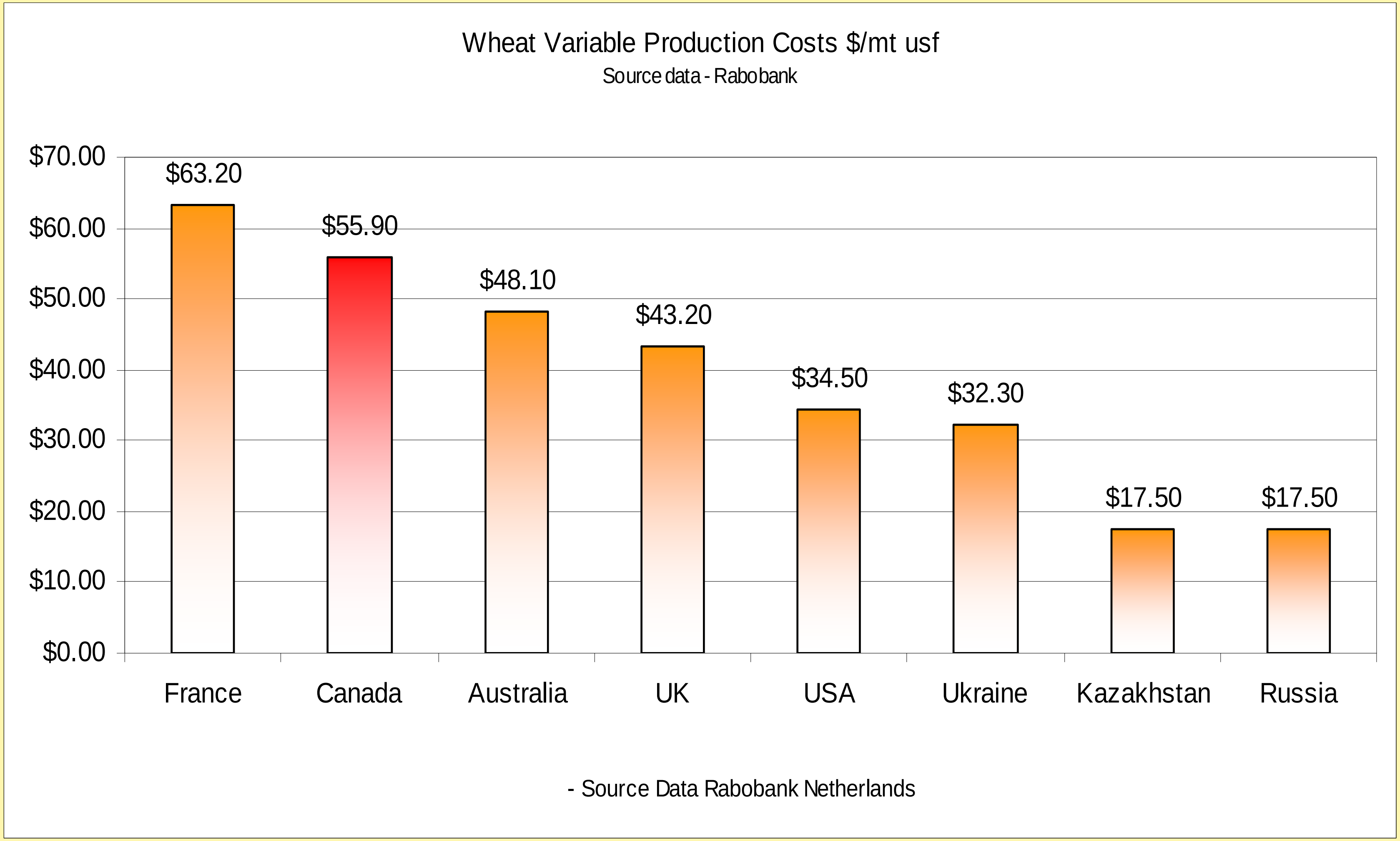
Time Frame	99/00 - 04/05 average					
Region	**Northern Alberta**		**Southern Alberta**		**Peace River**	
Crops	1 CWRS Wheat	# 1 Canola	1 CWRS Wheat	# 1 Canola	1 CWRS Wheat	# 1 Canola
Price	$217.47	$340.73	$217.47	$340.73	$217.47	$340.73
Total export basis	$51.23	$42.29	$47.66	$39.70	$53.62	$44.61
Visible netback to producers	$166.24	$298.44	$169.81	$301.03	$163.85	$296.12

Source: Monitoring the Canadian Grain Handling and Transportation System Annual Report – 2004 – 2005 crop year

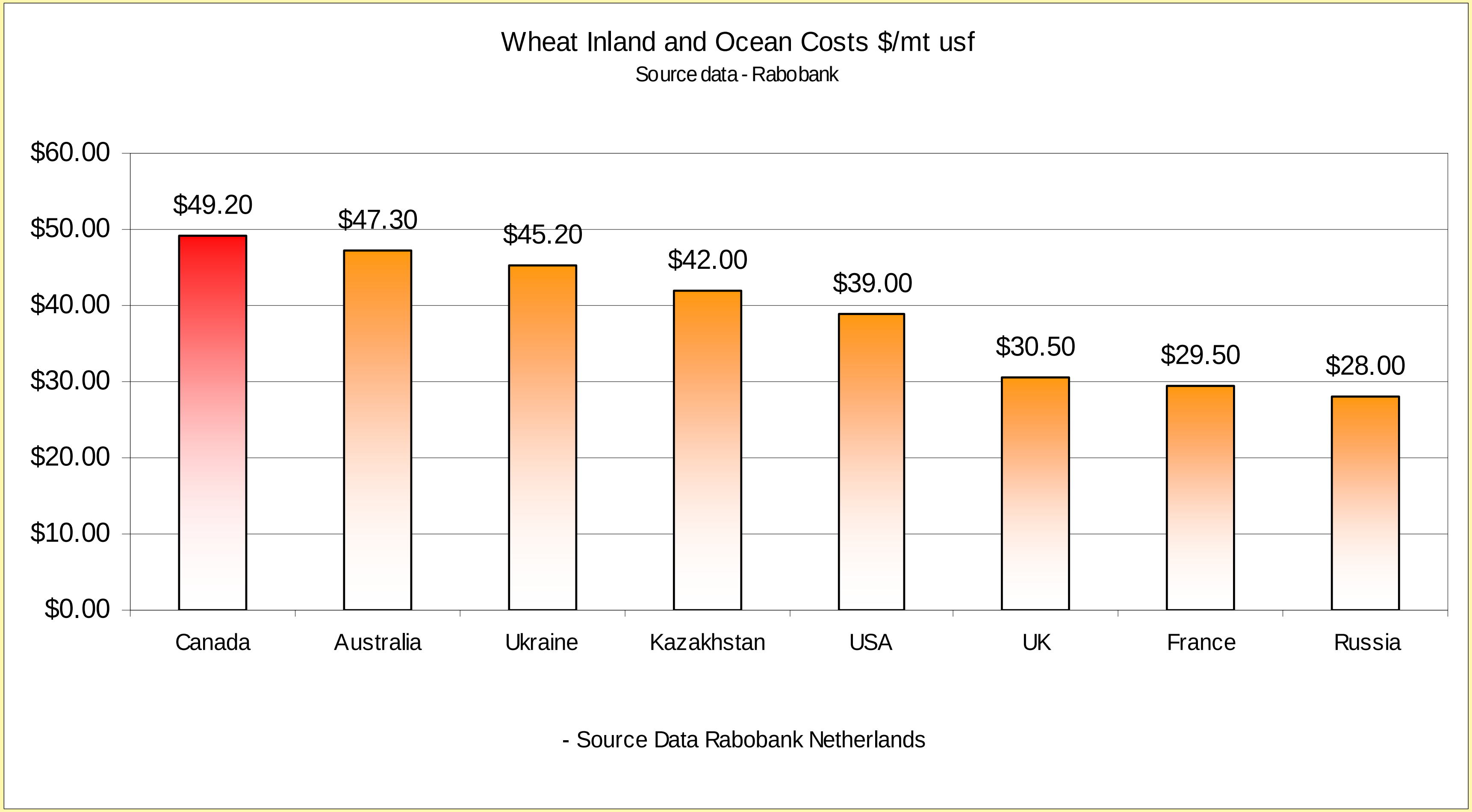
Wheat fixed cost of production…



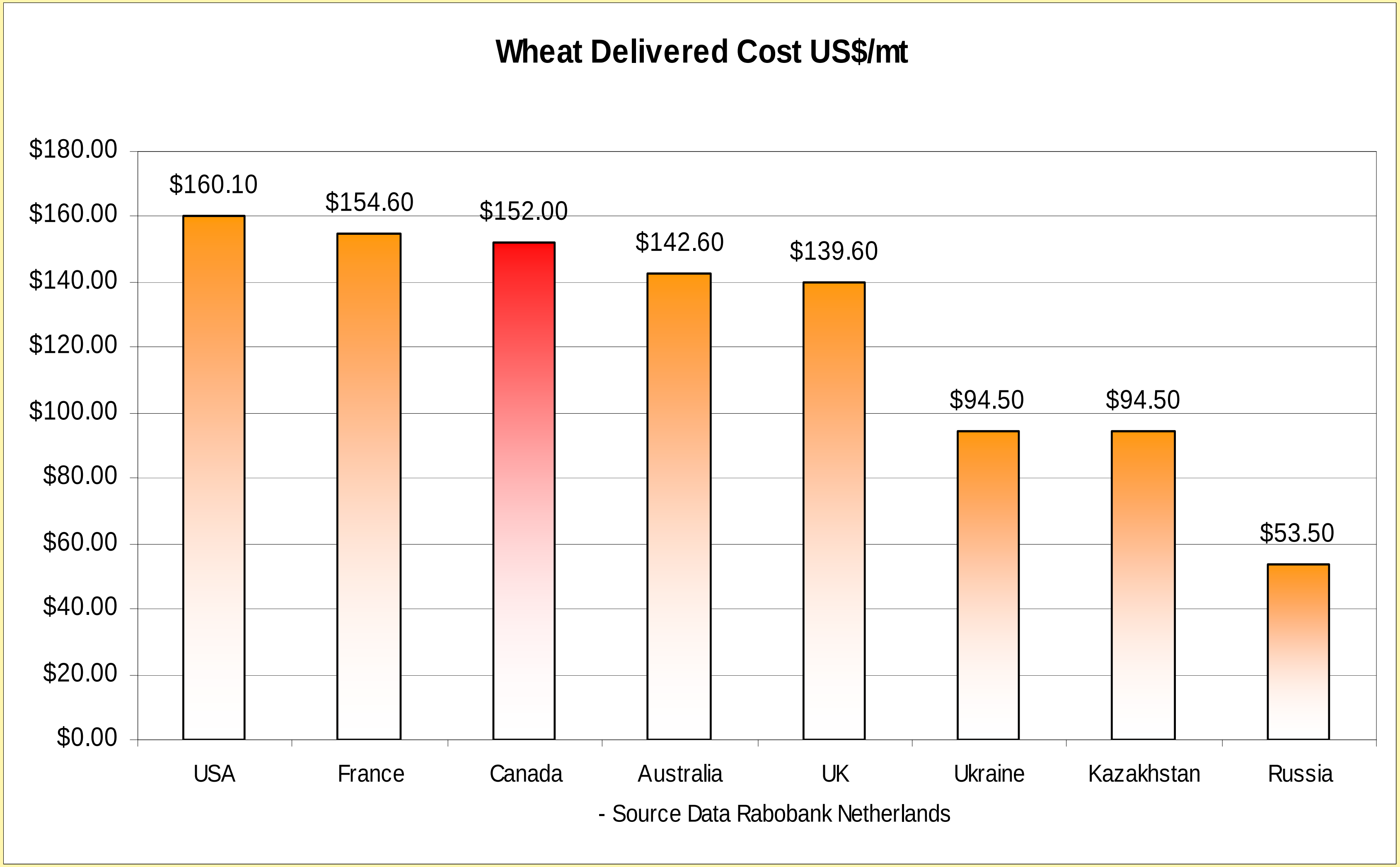
Wheat variable cost of production…



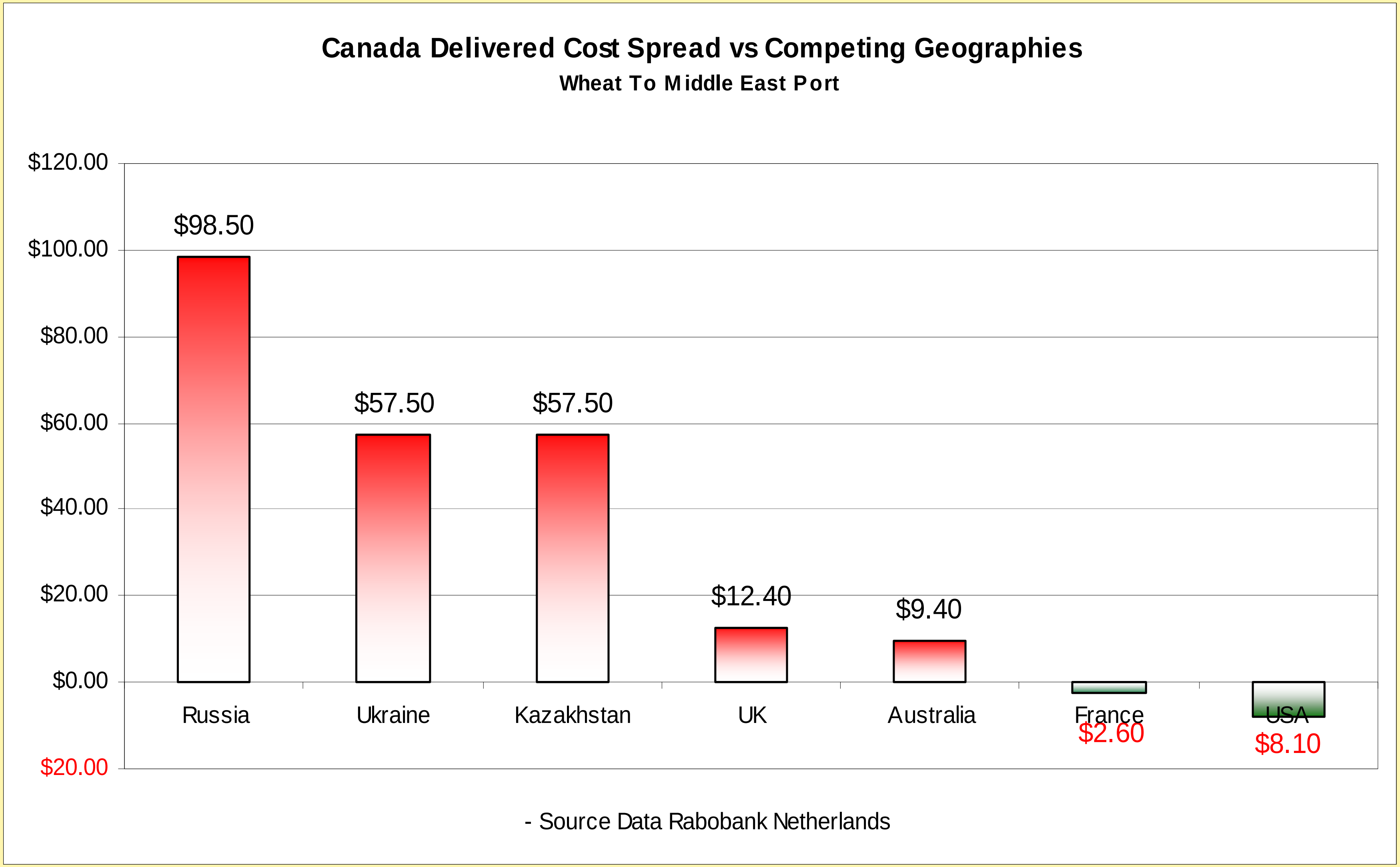
Costs to middle east market



Wheat delivered cost to middle east market



Wheat delivered cost to middle east market

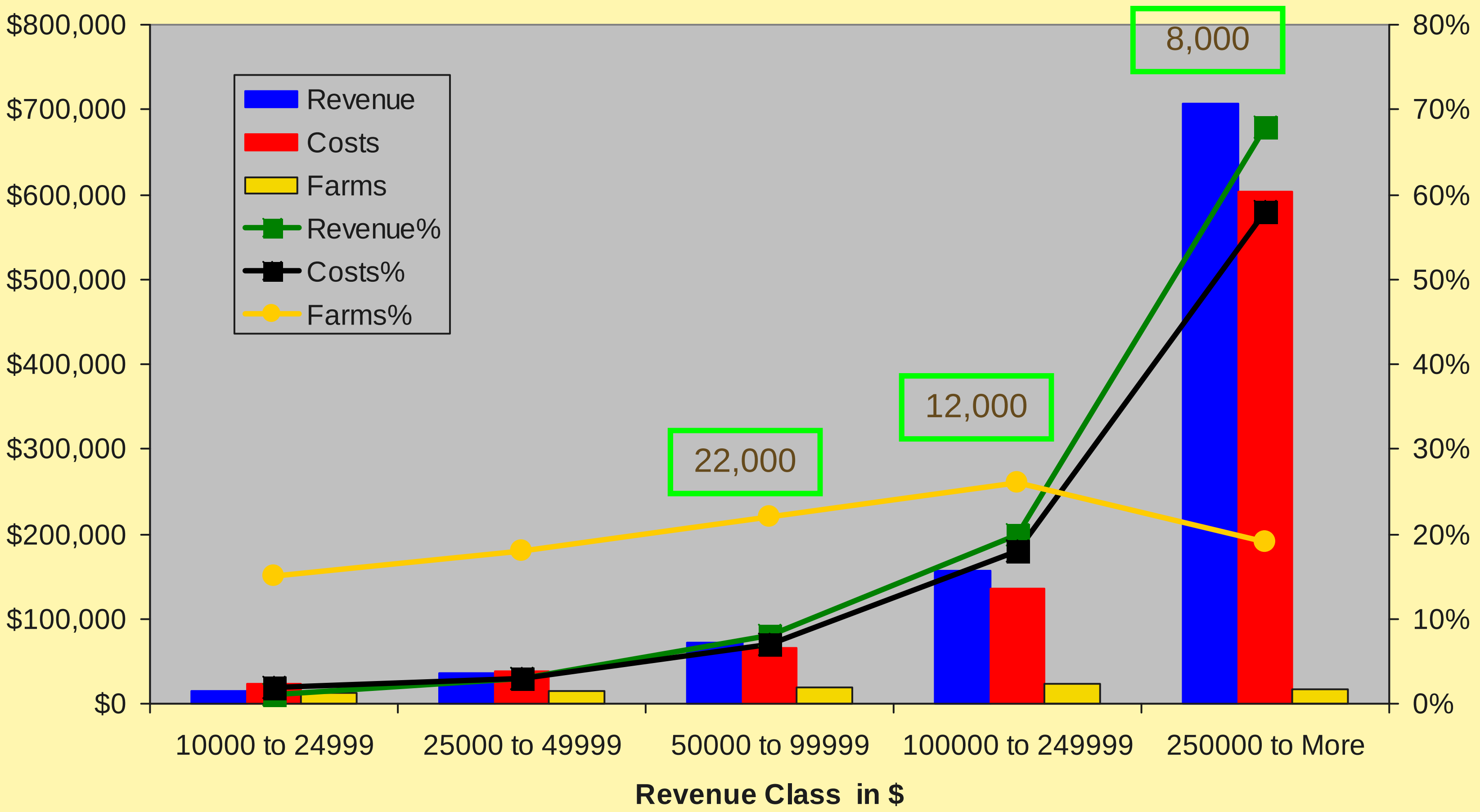


Historical Performance of Average W. Can Grain & Oilseed Farms $000

	2002	2003	2004	2005		Average
Number of farms	43,225	42,445	41,225	41,225		42,030
Current Assets	127.5	128.4	128.6	163.4		137.0
Long Term Assets	852.6	855.2	869.6	937.7		878.8
Total Assets	980.1	983.6	998.2	1,101.0		1,015.7
Current Liabilities	34.6	45.8	48.1	45.9		43.6
Long Term Liabilities	117.5	126.2	126.8	125.1		123.9
Total liabilities	152.1	172.0	174.9	171.1		167.5
Equity/Net Worth	827.9	811.6	823.4	929.9		848.2
Farm Sales	158.4	155.3	177.8	167.4		164.7
Program Payments	29.7	30.7	20.4	36.7		29.4
Total Revenue	188.1	186.0	198.2	204.0		194.1
Interest Expenses	9.2	9.3	9.9	10.4		9.7
Family Wages From Farm	6.8	5.8	6.6	10.2		7.3
Other Expenses	133.7	142.9	149.7	151.6		144.5
Total Expenses	149.7	158.0	166.2	172.1		161.5
Net Cash Farm Income	38.4	28.0	32.2	31.9		32.6

Source: Statistics Canada: Farm Financial Survey

Averages by Revenue Class for All Farms in Western Canada



Source: Statistics Canada: Farm Financial Survey

General Competitiveness Issues…

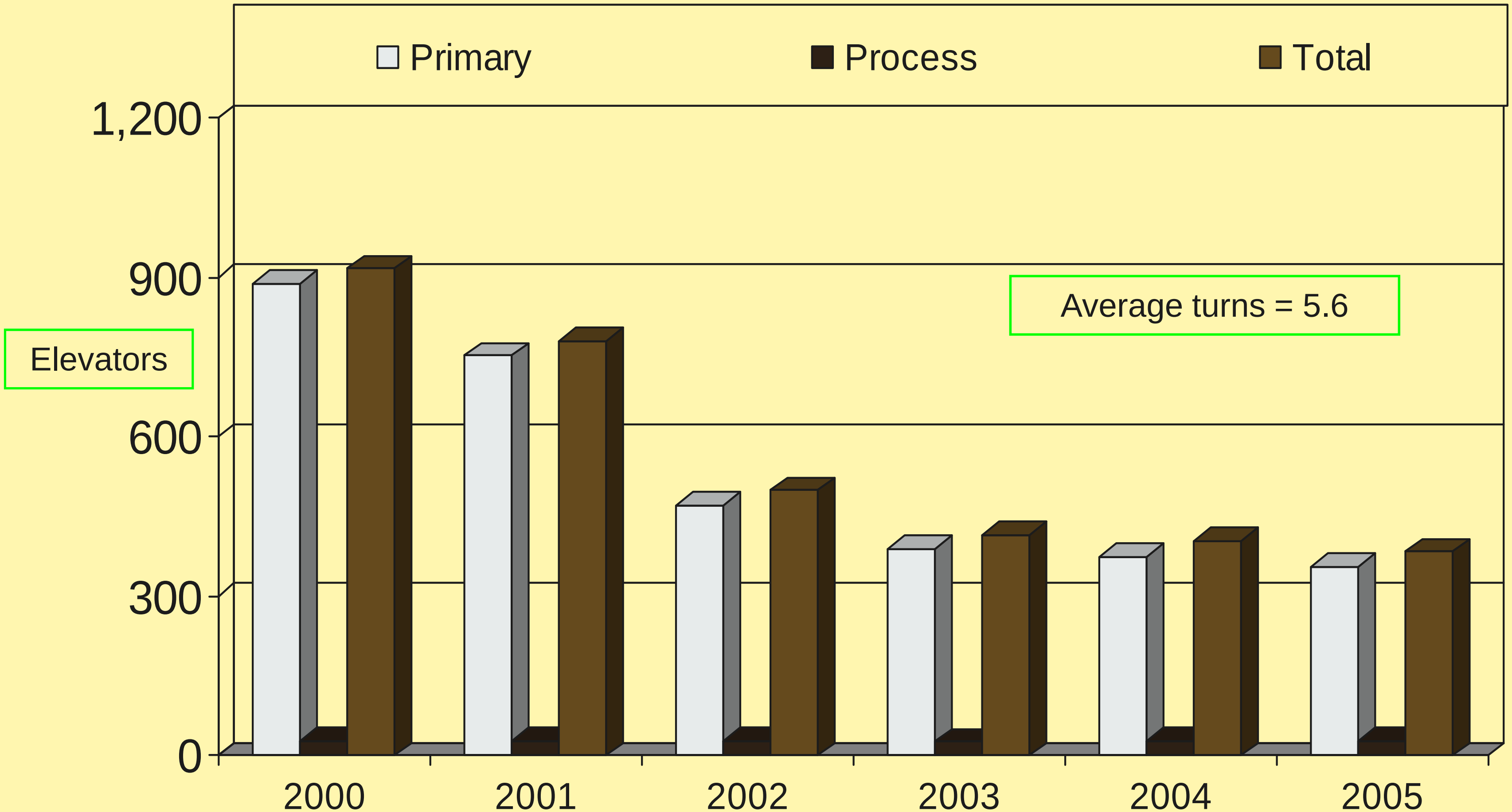
Issues	*Domestic Utilization*	*Exports*
Crop value / movement / production costs	*Competition within crops*	*Competition from international competitors*
Market access	*Cross border trade?*	*Significant issues / WTO / Regulatory issues / Trade barriers*
Crop Productivity gains	*An issue if global production can more cost effectively meet end use needs*	*Significant issue to stay competitive in the lack of differentiation*
Currency fluctuations	*Less impact – pricing more dependent on supply*	*Significant impacts depending on fluctuation – huge individual sector impacts*
Increasing export market competitors	*Pressure on domestic supply / prices*	*Increased need for differentiation and price competitiveness*
Shifting market needs / preferences	*Higher value associated with functionality*	*Commodity and functionality markets – highly fragmented*
Infrastructure	*Critical – across crop platform development, production, handling, transportation and market development*	*Critical across crop platform development, production, handling, transportation and market development*

Other factors impacting Cereal Competitiveness

- Restrictive *regulation*
  - KVD (kernel visual distinguishability) -wheat,
  - Trait definition – all crops
- Lack of leadership / consensus versus other crop sectors (Canola, Pulses)
- Core technology development capacity
- Lack of significant *private sector* investment

Symptoms of a Mature Industry…

Primary and Process elevators in W Canada…



Source: Monitoring the Canadian Grain Handling and Transportation System Annual Report – 2004 – 2005 crop year