Diversify Your Wheat Markets
"How to Establish Identity-Preserved Channels Using Containers"

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South Dakota Wheat Commission
U.S. Department of Agriculture

Seminar Overview

Farmers, elevator personnel, and shippers recently met in Pierre, SD, to discuss opportunities and challenges of identity-preserved (IP) grain production and marketing.

"Diversifying Your Markets," a seminar jointly sponsored by the South Dakota Wheat Commission and the United States Department of Agriculture (USDA), included information on and examples of markets for IP grains and trends of containerized grain movements. Experts from USDA's Agricultural Marketing Service (AMS) and Foreign Agricultural Service (FAS), the South Dakota Department of Agriculture, and the private sector provided information on and examples of the current IP marketing trends and containerized transportation.

Heidi Reichert, an economist with USDA's Transportation Services Branch in Washington, DC, explained that increased demand for specialized and higher valued grains domestically and internationally is creating a growing interest in IP production, marketing, and transportation. However, the current bulk system is not designed for IP marketing in terms of the commingling of grain and transportation. To meet this demand, container shipments may be the best alternative to enable farmers and other grain handlers to keep specialized crops separate from other crops. "Once the product is in the container and the door is sealed, it isn't handled again, maintaining the integrity of the shipment throughout its transport," noted Reichert. U.S. producers have been shipping food grade soybeans in containers since the mid-1960s. Both Australia and Canada are active in containerized wheat shipments. "Delivery by container, versus bulk shipment, is the best means of identity preservation, but it is expensive," said Reichert. "However, as specialty grain markets grow, containerized shipping should also increase, thus reducing costs in the long term." USDA's Web site, www.ams.usda.gov/tmd/ipgrain, provides resources and information on IP markets and containers.

"As the world moves to products with specifications, the American farmer's greatest challenge is to shed the 'commodity mentality,'" according to South Dakota Wheat Commissioner Bill Ferguson. "If you don't know what you produced, it's just a commodity." Specific attributes and intrinsic quality factors of grain are becoming more important for marketing than the current USDA standard grade factors. There is a significant difference between grade and the functionality of grain. Ferguson further

noted that the United States may no longer have the most competitive position in bulk commodity grain markets. In today's global market economy, any country can deliver bulk commodity grains. To be competitive in domestic and export trade, farmers are going to have to provide specialty attributes to their customers. "Competition will drive people to IP--to know the quality of grain before they get it," said Ferguson.

For IP to reach its full potential, producers need a system to make it easy to identify specialized traits and to make that information and the product available to the market, according to Americrop President, Ben Handcock. America's Quality Crop Network, more commonly known as Americrop, is a farmer-controlled, nonprofit corporation dedicated to identifying all of the different crop characteristics buyers are now demanding. Farmers test their grain for grade as well as a full battery of intrinsic characterization including mineral content. Organic certification as well as genetically modified (GM)/non-GM classifications can also be listed. The Americrop integrated software system maintains a database which stores tested crop information.

Buyers enter the type of grain and as many quality characteristics as they might be looking for. The site compiles a list of the grain in the database that meets those specifications. At the click of a mouse, the buyer can automatically e-mail all owners of the specified grain. Buyers and sellers contact each other and privately negotiate the terms of price, delivery, etc. "We are primarily working with wheat, but eventually Americrop will be capable of listing all crops," said Hancock.

Doug Stengle, owner and president of Stengle Seed, Milbank, SD, markets organic grains domestically as well as internationally. Stengle Seed ships 300 containers of grain per year to international markets. Stengle provided examples of containerized shipments, including premiums and segregation procedures. "Despite success stories, it is by no means a get rich quick scheme," said Stengle. "There are considerably more costs involved in marketing grain this way, and you need to price accordingly." He cited several hurdles to overcome such as the customer changing the specifications upon arrival. "There's much involved in the logistics. It's not that easy when your customer is 3,000 miles away." Stengle emphasized marketing the product and the services, not just a selling grain. "Get to know your partners and your customers…and get all of the details of the transactions in writing."

Jerry Cope, transportation manager of the South Dakota Wheat Growers Association Cooperative, presented an overview of the current grain marketing system, which is built on efficiencies--bulk handling and transportation--and use of the entire crop by blending. According to Cope, elevators are already segregating wheat by class and in some cases by protein. However, further segregation for specific trait demand is increasing. The advent of GM crops has also heightened segregation. Cope cited examples of attribute-identified grain markets in which the South Dakota Wheat Growers Association has been involved. With smaller mills, processors, and specific end users wanting IP grain, containers certainly make sense. Currently, elevators are not capable of handling them. It will take coordination with the entire industry to find a way to efficiently handle containers. For IP or attribute-identified markets to be viable, farmers need to accept the

concept and buy into it. As potential to move toward higher value grain marketing evolves, consideration must be given to additional logistics and risks. "It won't be a 'quick fix,' but the potential exists," according to Cope.

Scott Sigman of the Indiana Port Authority described developments among ocean carriers and leasing companies as enabling movement of containers more efficiently and less expensively. The number of containers to move freight increased from 270,000 worldwide in 1969 to nearly 12 million in 1999. Sigman described different types of containers and delivery systems as well as advantages of using containers, including less potential for contamination, less handling of grain, greater consistency, reduced storage loss, just-in-time scheduling, and electronic data interchange allowing product traceability. Containers can also provide storage from the farm to anywhere along the transport route and the ultimate destination.

As grain purchasing in foreign countries moves to privatization, development of export markets holds great potential for IP grain markets and the use of containers. Chris Wojtowicz, with the consulting firm of Pluto International, LTD., discussed topics on planning successful entry into international markets. Wojtowicz' presentation emphasized the commitment of significant time and resources necessary to avoid common mistakes made in exporting. Once potential export markets are determined, it is advisable to develop a qualified team of export advisors to assist with financial, distribution, and transportation logistics as well as foreign law practices and cultures.

South Dakota Department of Agriculture Grain Marketing Specialist, Robert Wyerich, indicated that some South Dakota grains provide unique quality traits that need to be exploited for specific quality and end use characteristics. Wheat high in selenium content is one example of grain that is being marketed in containers. Wyerich outlined programs available through the South Dakota Department of Agriculture for market development of value-added grains and products as well as financial assistance and resource personnel.

"Exporting and marketing services and assistance are available for branded products through Mid-America International Agri-Trade Council (MIATCO)," according to Michelle Rogowski. MIATCO is a nonprofit organization made up of 12 midwestern States, including South Dakota. MIATCO can provide exporter education and training, assistance with market access, and market promotion of value-added and branded agricultural products.

A major concern of anyone involved in exporting agricultural products is payment terms. "When and how will I get paid?" is the question often asked by exporters. Larry Powers, marketing specialist with FAS, explained U.S. Government credit programs that are available to facilitate export grain marketing. The GSM-102 Export Credit Guarantee Program guarantees 98 percent of payment. The Supplier Credit Guarantee Program covers 65 percent of payment but is less expensive and often more conducive to smaller transactions after trust and relationships have been developed. USDA also has a Facility Guarantee Program to assist with equipment and facilities for exporting U.S. agricultural products.

One way of reducing costs involved in IP grain marketing and transportation is to outsource the logistical management to a freight forwarder. A freight forwarder is familiar with foreign import requirements, export documentation, various shipping methods, and finding the lowest rates for an export shipment. Minneapolis, MN-based C.H. Robinson Worldwide, Inc., has been in the freight forwarding business since 1905, according to firm representative Duane Blaine. C.H. Robinson is the largest third party provider of logistics in North America. A 1995 USDA study indicated that almost 90 percent of agricultural exporters use freight forwarders for their shipments. Blaine noted that the current imbalance of U.S. trade is making ocean shipping cheaper. Containers from predominantly Asian markets are arriving in the United States filled with components but leaving only 34-40 percent full. This may provide opportunities for efficient IP transportation.

Although some U.S. commodities already travel via containers, widespread use for grains is still in its infancy. However, at a time when the need for traceability and segregation and specific trait demand are increasing and the need to add value to the farmer's crop is growing, there is a role to be played by containers in moving grain. The increased interest in IP markets and traceability will determine the extent of its evolution. Demand will encourage the development of technology, equipment, and facilities to accommodate this type of grain trade.