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Will open markets bring investors?

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By SEAN PRATT, Saskatoon Newsroom
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The developer of a proposed \$50 million pasta and pulse processing facility in Regina says the pending demise of the Canadian Wheat Board's single desk factored into the decision.

"Marketing choice allows a value added processor to buy directly from farmers. That is a critical element of our investment decision. It is one of the elements that made this announcement imminent," said Alliance Grain Traders Inc. president Murad Al-Katib.

The federal government jumped on the Oct. 7 announcement of plans to build a durum mill and pasta plant in Saskatchewan as proof of its long-held view that the open market it intends to create for wheat, barley and durum will lead to more value added processing on the Prairies.

"I think the fact that Murad and the business community is making this investment tells you that the change we're making is a significant change to the business environment for secondary food processing in this part of the country and I think it's a great development," said prime minister Stephen Harper, who attended the Alliance news conference in Regina.

Groups such as the Western Canadian Wheat Growers Association and the Alberta Barley Commission, which have long felt the wheat board is an impediment to processing, were thrilled with Alliance's plans to build the first commercial-scale pasta plant on the Prairies in decades.

"I'm already planning to increase my durum acres next year," said Cheryl Nagel, past-president of the Wheat Growers.

The organizations think it will be the first of many such announcements.

Larry Martin, senior research fellow with the George Morris Centre, said the wheat, durum and barley processing sector has been restrained by the single desk, which forces processors to pay more for board grain than if they bought the crops directly from farmers.

"You end up paying a premium in Western Canada as if you were an importer for product that is produced in a surplus region," said Martin.

"We haven't had investment in Western Canada in the grain processing industry, and I think that will change."

CWB chair Allen Oberg doesn't agree that charging processors more for their raw material is a bad thing.

"I certainly don't make any apologies for the Canadian Wheat Board getting the best price possible for farmers and I've never been of the belief that value-added processing should be built on the backs of farmers," he said.

He denied allegations that the CWB has blocked the creation of milling and malting businesses on the Prairies.

"There is more value-adding on a per capita basis in Western Canada than there is in the western United States, where there never has been a single desk," said Oberg.

Gordon Harrison, president of the Canadian National Millers Association, agreed that the amount of milling activity in Western Canada compares favourably with the states directly below the border.

"There is substantial wheat milling capacity in Western Canada. There has been substantial new investment in facilities in Western Canada and modernization of older plants."

According to Grain & Milling Annual 2011, seven wheat and two durum milling plants operate on the Prairies. They account for 30 percent of Canada's total wheat milling and 49 percent of its durum milling capacity.

Wade Sobkovich, executive director of the Western Grain Elevator Association, said eliminating the wheat board's monopoly will create a friendlier environment for projects such as Prairie Pasta Producers, which blamed the board for thwarting its plans to build a \$120 million durum mill and pasta plant in Western Canada.

"It paves the way for those types of things to happen," he said in an interview before the Alliance announcement.

"How quickly they're going to happen remains to be seen."

Sobkovich doesn't expect a plethora of major processing investments on the Prairies immediately after the wheat board's monopoly is removed, but he sounded prophetic about what might eventually happen.

"Over time it would make sense that we would see other ventures get started like a pasta plant or something like that," he said.

Martin agreed that it may take a while for wheat, durum and barley processing to catch up with canola.

Canadian flour mills processed 2.9 million tonnes of wheat in 2010-11, compared to the record 6.3 million tonnes of canola processed last year.

Martin said there has been no new investment or plant expansions in Canada's malt industry since the mid-1990s, and he doesn't expect that to change soon because of new capacity south of the border.

Harrison said the trend in the flour milling industry is for destination plants that provide just-in-time delivery to food processors within a 200 kilometre radius of the mill. Those plants want to be close to the big population centres, which are not in the West.

"Those economics of primary processing suggest that Western Canada's share of milling capacity might not change very much."

He said the North American market will dictate Canadian wheat milling capacity, particular in the U.S. market where the demand for wheat flour is on the decline.

"The export market is unlikely to drive huge growth because most countries are almost self-sufficient in milling capacity," he said.

Two-thirds of the population of the U.S. is located directly south of Eastern Canada, which is why most of the milling activity takes place in Ontario.

Al-Katib is convinced that's the wrong model for his company.

"We are an origin-based processor. We like to locate assets at the raw material supply."

Alliance has successfully used that model with its red lentil splitting plant in Regina and its durum milling and pasta production plants in Turkey.

"It's absolutely a clash of ideologies," said Al-Katib.

"We are convinced that Canada can be competitive in exporting our finished products around the world and we've proven that with the pulse business that we've built."

The Alliance business model is to leave the waste byproducts of the processing plant in local feed markets and ship the finished product to customers around the world.

"We don't want to ship waste around the world. We want to ship Arbella branded pasta around the world," said Al-Katib.



The company planning to build a pasta plant near Regina looks forward to developing relationships with farmers. | File photo



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