

THE STATE OF AGRICULTURE

Someone recently asked me about the state of agriculture. It's in good shape relative to others in Alberta, although most consumers pay little attention, and take it for granted.

Before expanding, I want to point out that farmers, one of the first links in the agri-business value chain, in Alberta and across Western Canada are currently seeding their crops. Osborne Interim Management (OIM™) wishes them and all the businesses that support them, good weather and conditions for planting and the many tasks to follow, which bring us and our families the healthy food we eat.

If we narrow agri-business's definition to "food production", demand in the agri-business sector is solid, with a growing population and diets demanding more protein. Unfortunately the 30% of production, which gets wasted, is part of the equation. Agri-business goes beyond food production though, and the bio-fuel sector is having challenges with the low price of oil, which impacts biofuel's price.

These are exciting times in agri-business and the pace of change continues to accelerate and create opportunities. Competition is healthy at all links of the value chain with consolidation a continuing trend. M&A activity has increased amongst the Life Science players with DOW and Dupont merging, and ChemChina beating out Monsanto for Syngenta.

How crops are marketed is evolving since the CWB lost its single desk position. Farmers now have marketing opportunities not previously available. Technology has connected them with others along the value chain, and they're able to make personal and business relationships not previously possible. Who thought a generation ago a farmer could be selling direct to brewers in another country, or running their own micro malt operation, or even taking their malt barley right to their end consumer via a micro brewing operation.

Many growers have complimentary businesses in addition to their farming operation, and are constantly looking for new business development opportunities. A family processing operation I called on in 1983 is now a global player in their sector.

Companies participating in Alberta's agri-business sector appreciate its relative stability, compared to the energy sector. As opposed to the loss of almost 20,000 jobs in the Alberta energy sector in 2016, demand for farm labour is strong. Although the fluctuation in the price of oil and the Canadian dollar impact both the energy and agri-business sectors, consider some additional "moving parts" those in the food production sector must monitor.

- Inputs prices for chemistry have generally flattened, while fertilizer prices have developed new patterns.
- Growers employ a range of models to manage equipment costs.
- Farm sizes continue to optimize as farmland prices increase.



- Weather is a constant factor. In 2013, the creek I live on was part of a major flood incident. Today, the same creek is dry, and there's a complete fire ban across Alberta, as fires in Northern Alberta continue to burn. In recent weeks markets have reacted to flooding in Argentina and drought persisting in Brazil.
- Companies have been created to offer new risk management tools, and agri-business managers are employing different models to manage margins.
- On the consumer front, Earl's decision to employ a marketing tactic effectively cutting out Alberta beef producers is one of the more recent examples of the impact changes in consumer preference can have, often based on perceptions. A plethora of new and ambiguous language including "sustainable, ethical, and humane" is replacing established guidelines based more on reality and science. Fortunately, after significant backlash, Earl's wants to "fix it and make it right".
- Policies continue to change with governments and examples include the CWB (grain marketing), UPOV (intellectual property rights for breeders), AB Farm Worker WCB, and ALMA (AB Livestock and Meat Agency) being eliminated in Alberta. How ag research is funded will also change.
- Technology advances, although international markets can make its adoption difficult. China appears to be warming to GM which many felt they used as a trade barrier, while expert opinions vary on whether growers should use quinclorac herbicide on their canola, and much smaller niche products like Ontario's ginseng producers are learning a hard lesson from dealing with the same nation on a non-GM front.

Those in agri-business have much to be optimistic about, and it's still a "people's business", where relationships can have significant impact. Participants should not hesitate to try new approaches if they do their due diligence, assess and manage costs and risks. Trialing concepts using interim or fractional management services such as those offered by OIM, is a great option. Our broad team of industry-proven experts works together to help businesses, whatever their challenge or opportunity is.

Norm Dreger (click to see Norm's profile)

Principal

May 10, 2016

© 2016 Osborne Interim Management