

# Knowledge Insider

Where business meets opportunity | **Globalization edition**



**50**  
years/ans  
1959-2009



**Farm Credit Canada**  
Advancing the business of agriculture

Canada





# Insights from FCC

At Farm Credit Canada, we believe in harnessing the power of knowledge to guide successful decision making. Knowledge Insider delivers value-added information beyond the borders of conventional thinking to help you track industry trends and plan ahead to your advantage. We are committed to bringing you knowledge that advances the business of agriculture and the success of your operation.

## **The future is now**

Economists like those at the universities of Guelph and Purdue agree that strategic planning results in better decision making and is essential to a successful agriculture enterprise. While there are many different planning models, all recognize the

need to consider the impact of outside forces on your business.

Farm Credit Canada's Knowledge Insider offers a wide scope of relevant information in digestible bites to help you chart a successful course. We're tracking trends in the international trade of food, fibre and energy, consumer food purchasing habits, labour availability and cost and changes in the value chain.

While you can't know what the future holds, you can prepare for what it brings. How? By understanding global trends, people and their buying patterns and planning far enough out on the horizon so you have time to act. Successful farms, businesses and multi-nationals do it. You can do it, too.





# Globalization

Whether you're lobbying for protection from more free trade or hoping for open access to international markets, you are subject to forces of globalization that impact everything from trade to financial systems, culture, ecology, transportation and travel.

This edition of Knowledge Insider focuses on international trade.

## What impact will shifts in international trade patterns have on your business?

### Major trends in this issue

- There's a new definition of agriculture and it's broader than ever before. Food, fibre, biofuels and bio-products are in play throughout the economies of the world.
- Internationally, the rich are getting richer and the poor are getting poorer. This disparity is challenging globalization within and among countries.
- Spending and trade patterns are affected by a strong shift in wealth between nations.
- For the first time in history, the export of Canada's value-added products exceeds the export of bulk commodities. The pattern will continue to gain momentum throughout the world.

- The United States remains our biggest and most critical trading partner, however, Brazil, Russia, India and China (BRIC) in particular, will be major world forces.
- Brazil and other low-cost producers are growing the volume of their exports.
- Similar to Canada in culture and some agriculture sectors, Australia offers insight to new practices that will help position us in the global arena.
- Trade is concentrated for certain commodities and countries. We examine the type, value, origin and destination of products that deliver billions of dollars in trade.

These trends are reviewed, analyzed and supported with facts and figures. Knowledge offers a Tips and Tools section where producers and agri-entrepreneurs, regardless of sector, size or current operating model, can find ways to plug in to globalization and its major forces.

### Debate

Any discussion about globalization must acknowledge debates at the World Trade Organization (WTO) and in the American political arena. At the heart of these issues is the question whether globalization has been a positive force.



Many economists say yes. With the world's largest and richest economy, thanks to trade and globalization, North America has enjoyed a marked rise in trade since the signing of the North American Free Trade Agreement (NAFTA). In fact, trade and the stability of trading partners is one of the key reasons societies have thrived or failed<sup>1</sup>.

Some of the current debates focus on the distribution of wealth. There is growing discontent with income disparity between countries (Fig. 1) and it is an important topic in the Doha<sup>2</sup> Round of WTO talks. Of particular note is North America, accounting for 5.1 per cent of the population and a disproportionate 32.3 per cent of the world's wealth, while Africa represents 14.1 per cent of the population and 1.8 per cent of the wealth.

The income differences between the rich and the poor within countries is also increasing. Some U.S. congressional representatives believe that globalization will cause job loss in America and have taken a stand against it. While this may be part of the story, increased trade has delivered significant net gains and revenues in many sectors.

### Canadian trade and value-added growth

Trade in food, fibre and energy is growing around the world. Between 1984 and 2003, the value of global agri-food trade grew from US\$222 billion

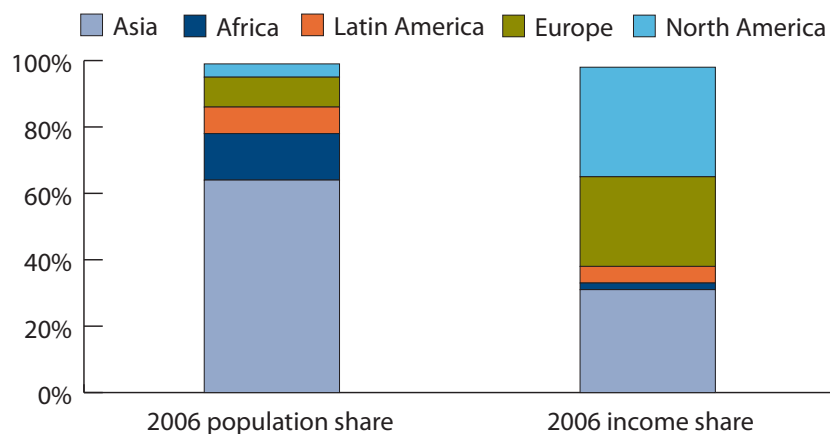
to US\$852 billion<sup>3</sup>. In 2006, Canada's agri-food exports accounted for US\$27.9 billion of that value, making us the world's fifth largest exporter of such products.

The mix of Canada's exports to other countries has changed. The value of bulk exports has remained fairly constant for the past 20 years, while value-added categories have shown a steady climb (Fig. 2). Sales of primary exports are sensitive to currency values and world prices. With a strengthening Canadian dollar and continuous downward pressure on bulk prices, it is unlikely that demand for bulk Canadian products will increase much beyond today's levels.

In North America, recent biofuels activity is increasing demand for feedstock commodities and shifting prices upward from previous long-term trends. These prices and those of feedstock substitutes are likely to stay elevated for the next 10 years.

Value-added food exports that are growing will likely keep growing as consumer lifestyles and preferences change and incomes rise. Trade has evolved from thinking that if we grow it, they will eat it to being increasingly driven by the necessity to give people what they want. Canada's efforts focus purposefully on developing this segment.

**Figure 1: Share of population and share of world wealth – 2006 (as measured by GDP)**

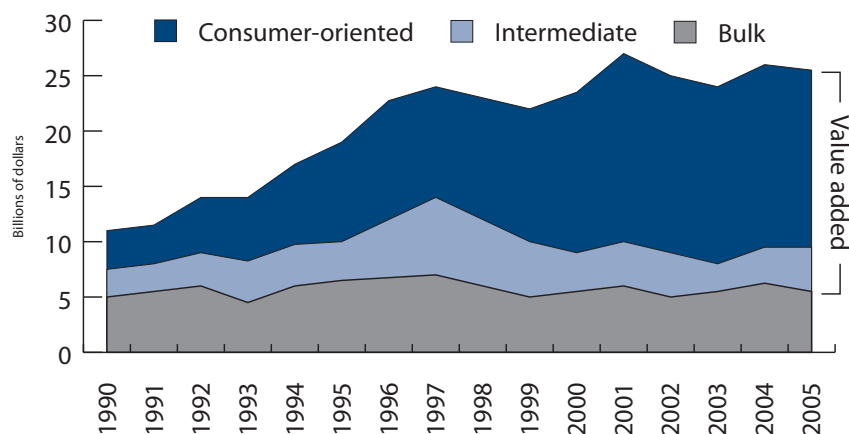


Source: adapted from statistics in OECD-FAO World Agricultural Outlook 2007-2016

<sup>1</sup> New York Times bestseller: Jared Diamond, Collapse – How societies choose to fail or succeed, Viking Press 2005

<sup>2</sup> The Doha Round began in Doha, Qatar in 2001. The WTO is located in Switzerland.

<sup>3</sup> International Trade Statistics, 2006 – www.wto.org accessed October 2007

**Figure 2****Value-added exports increased in importance**

Source: Agriculture & Agri-Food Canada: Long Term Challenges and Opportunities, Feb. 2006

### The U.S. is and will remain our most important trade partner

The U.S. is our biggest market and significantly impacts Canada's participation in the global economy. Having relatively free trade and sharing a border with the largest economy on earth is a real benefit (Fig. 3). U.S. economic dominance will likely remain in place for at least two decades, making their consumer preferences, which account for US\$10.9 billion, a matter of strategic importance to Canada. Understanding and anticipating the demands of this market is key to

meeting their demands and growing this export segment.

Mutual trade is of great benefit to Canada, however, there are vulnerabilities in being tied too closely to one economy. If we are too focused on the U.S., we could miss emerging global opportunities. We are at risk of protectionism and punitive trade actions. The evidence exists. The U.S. has brought a number of actions against Canada, including beef restrictions, softwood lumber issues and applied anti-dumping and countervailing duties against pork, corn and tomatoes.

**Figure 3**

Export type	Value of exports destined for U.S. – 2006 (C\$ billions)	Value of exports destined for all other countries – 2006 (C\$ billions)
Bulk	\$ 1.3	\$ 5.9
Intermediate	\$ 4.1	\$ 2.7
Consumer-oriented	\$ 10.9	\$ 3.0
Total	\$ 16.3	\$ 11.6

Source: Agriculture & Agri-Food Canada: Long Term Challenges and Opportunities, Feb. 2006

When we are close to one economy, we can rise and fall at the same time. The recent downturn in the U.S. housing market and construction industries had a negative impact on Canadian woodlot owners. With the strong Canadian dollar this may be a perfect storm in that industry. Yet, in other markets, construction is skyrocketing and quality building materials are in high demand. Could the Canadian lumber industry have foreseen or prepared for this change?

Canadian exporters may want to consider diversifying markets beyond the U.S. and pay more attention to capturing other global opportunities.

### Shifting patterns of wealth

We will experience dramatic world changes in our lifetime. In the next 40 years, BRIC economies will be a much larger force in the global economy. By 2050, the GDPs of BRIC could be larger than the G6<sup>4</sup> and only Japan and the U.S. may remain

among the top six economies in the world (Fig. 4). One-third of this growth will come from currencies strengthening against the U.S. dollar, and the other two-thirds from real growth. While 2050 may seem a long way in the future, this shift has already started and will have growing importance to trade as these countries invest in infrastructure and education.

Even more remarkable are the changing fortunes of the people in these countries (Fig. 5). People in BRIC countries will experience a huge change in wealth and spending power. Cultural differences will affect how people spend money. Russians were only recently released from central planning and are now experiencing the freedom to make purchasing decisions globally. The Chinese continue to experience limitations under a quasi-communist state. While it is not certain they'll surpass the G6 fortunes, there will be dizzying change. What does it mean for the world and the Canadian agri-food industry?

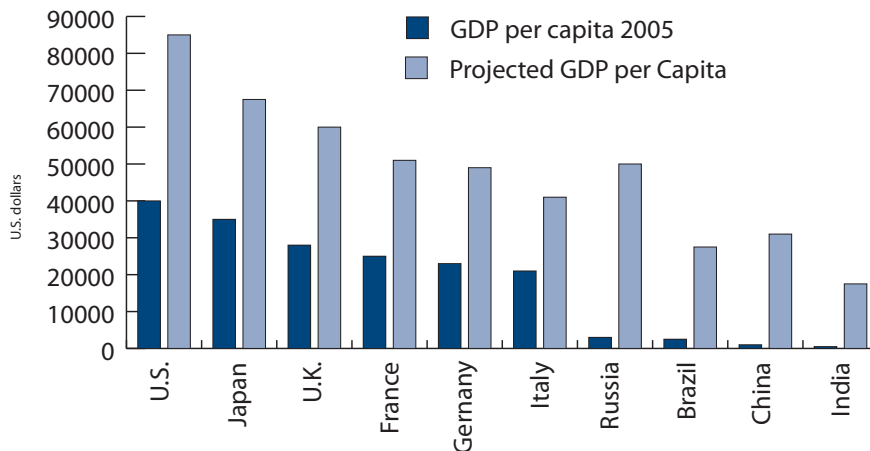
**Figure 4: Wealth distribution in the world is changing**

#### A big shift in the top economies of 2050



Source: Goldman Sachs: Global Economics Paper No: 99 (2003) Dreaming with the BRICs: The Path to 2050 update with a BRIC web tour dated May 2006. Note there is no data for Canada or Spain in 2050 projections as the estimates only included the top 10 economies.

<sup>4</sup> Original Group of 6 major industrialized economies: France, Germany, Italy, Japan, UK, US. G8 includes Canada, Russia and a seat from the EU.

**Figure 5: Per capita income in the world is changing****A big shift in income by 2050**

Source: Goldman Sachs: Global Economics Paper No: 99 (2003) Dreaming with the BRICs: The Path to 2050 update with a BRIC web tour dated May 2006

**China**

When families have little money, their first priority is taking care of basic needs like shelter and food. With more income, the next wave of spending focuses on acquiring value-added and luxury food items. With 1.3 billion people in China and another 1.1 billion in India, even a tiny hike in disposable income has significant implications for exporting nations. The middle class in these countries is predicted to reach 750 million by 2020. Asia will be a powerhouse of purchasing!

Canada's growing value-added export base (Fig. 2) can serve Asia's emerging needs in a bigger way. Companies that deal in value-added products and protein production began taking note years ago.

- Tyson, the world's largest red meat producer, has already set up joint ventures in Asia.
- Canadian pork producer Hytek has begun small-scale operations in China and expects to have 70,000 sows there within the next few years. The company is among Canada's 50 best managed companies and sees beyond the borders of its sizeable operations in Canada and the U.S.

- Fonterra, a New Zealand co-operative, set up a 3,000-cow dairy barn in China and sees room to build between three and eight more facilities.

Though political challenges still exist, advances in property rights laws make it easier than ever to do business in China.

**Brazil**

While import needs are growing in China, another BRIC country, Brazil, has emerged as a force to be reckoned with. Brazil is a low-cost exporter and in the past few years it has surpassed the U.S. as the world's largest poultry exporter. Brazil is also the largest soy exporter in the world and the second largest beef exporter. Australia firmly holds the number one position for beef exports.

Brazil decoupled its currency from the U.S. and then devalued it in 1998. This is one of the reasons that they became a major export force (Fig. 7). Its currency, the real, has varied against the U.S. dollar anywhere from a 1:1 ratio down to 4:1 since the real was introduced. Brazil has lower production costs to begin with, so when currency ratios climb above 2:1 Brazil has an even better advantage in the export arena.





Pudong area, Shanghai, China

Brazil's lower labour costs, massive economies of scale, favourable trade conditions, inexpensive animal feeds and leading technology all contribute to its growing economic power.

The Canadian Food Inspection Agency approved Brazilian poultry processes and facilities in 2004. Consequently, in one year, Brazil provided 20 per cent of the imports Canada allows under its tariff rate quota (TRQ), displacing the U.S. which was providing almost 100 per cent to Canada.

Brazil also delivers poultry products to Canada through a variety of other permits and programs. Based on discussions with producers across the country, it seems that some Brazilian chicken may be entering Canada over the high tariff wall. High tariff refers to the level of tariffs intended to protect Canada's domestic supply. It is important for producers to consider the implications of foreign suppliers who are ready to displace some of the domestic poultry market with any reduction to these tariffs. Table eggs have breached the protective mechanisms several times and this could continue with a strong Canadian dollar.

The trend of low-cost exporters will converge with another consumer trend, the increased demand for ready-to-eat (RTE) healthy meals. Based on this trend, Tesco, one of Europe's largest supermarkets, is piloting multiple entrances into the U.S. market.

An increased percentage of food dollars are being spent on prepared meals containing protein.

We have barely scratched the surface on this trend and the extent to which RTE meals and frozen dinners will displace fresh meat purchases is unknown. Protein producers of all types should keep an eye on the countries of origin with low-cost producers providing innovative products with protein content.

### Australia

Australia's geographic isolation has forced it to be an expert exporter. Today, it is a major world force. Australia invests time and effort in studying and adapting to different cultures. Making trade visits and building partnerships are priorities. Canadian exporters can learn from this approach. Our top exports (Fig. 6) are similar. We have ranch and dryland farming and a comparable culture.

As China's wealth increases, it will be one of the few areas with a growing demand for bulk export commodities and a rapidly growing demand for value-added products. Australia has built solid partnerships throughout Asia. It is close to the Chinese market and enjoys enviable top-of-mind presence. Thanks to the work of the Australian tourism industry, the country is on the list of allowable holiday destinations for the Chinese. Strategic thinkers understand the link between positive exposure to Australian culture and increased trust and desire for their food exports. Exports to China surged by 40 per cent in 2005, compared to negative growth for Canada.<sup>5</sup>



<sup>5</sup> Andrea Mendel-Campbell, author of 'Why Mexicans Don't Drink Molson'. <http://andreamandelcampbell.blogspot.com/>

**Figure 6: Export comparison of Australia and Canada**

	Australian export	Value US \$000		Canadian export	Value US \$000
1	Beef and veal, boneless	\$ 3,296,695	1	Wheat	\$ 2,688,815
2	Wheat	\$ 3,089,044	2	Beef and veal, boneless	\$ 1,385,019
3	Wine	\$ 2,001,889	3	Pork	\$ 1,349,338
4	Wool, greasy	\$ 1,458,348	4	Canola seed	\$ 1,095,566
5	Barley	\$ 957,696	5	Food prepared	\$ 867,877
6	Mutton and lamb	\$ 786,435	6	Chocolate products	\$ 725,886
7	Cotton lint	\$ 713,948	7	Potatoes, frozen	\$ 694,950
8	Sugar (centrifugal, raw)	\$ 665,000	8	Pigs	\$ 541,688
9	Cheese (whole cow milk)	\$ 643,575	9	Canola oil	\$ 521,655
10	Dry whole cow milk	\$ 408,747	10	Bread products	\$ 505,836

\*Source: FAO, the Statistics division, 2004 data

Accessed October 2007, more recent data not available for the country to country comparison. Beef figures would be adversely affected by BSE for Canada.

Wondering what the implication is for Canada?

Low-cost producers are emerging and at least one exporter with a similar profile to Canada is better-positioned in Asia. All participants in the agri-food value chain, including Canadian producers, need to focus on the countries they want to deal with, consider the products those customers want and the competitive advantages they have or can develop to compete on the world stage.

New Zealand is another country with inroads to China in the dairy sector. Consider New Zealand's proximity to China relative to ours. Although New Zealand may appear to be closer to South East Asia, the distance between New Zealand and China

versus Vancouver and China is not as different as one might think. The Port of Auckland and the Port of Qingdao are 5,402 nautical miles apart, while the Port of Vancouver is only 5,123 nautical miles away.

### Trade where the trade is and where it's going to be

Understanding where trade money flows and where import needs exist helps Canadian producers target world markets and focus on being the best and fastest to meet those needs (Fig. 7). Although it's important to know where the markets are today, it's equally important to see where the markets and world demand are headed.





**Figure 7: Seeing where the trade flows – selected commodities**

Exports – 2004 USD \$000's						Imports – 2004 USD \$000's					
Rank	1	2	3	4	5	Rank	1	2	3	4	5
<b>Barley</b>	EU	Australia	Canada			<b>Barley</b>	Saudi	China	Japan	Italy	Belgium
	1300	957	254				534	326	265	214	213
<b>Beef/veal</b>	Australia	Brazil	Canada	N.Z.		<b>Beef/veal</b>	Japan	U.S.	U.K.	Mexico	Italy
	3296	1961	1385	1185			3373	1824	883	718	709
<b>Canola</b>	Canada					<b>Canola</b>	Japan	Germany	Mexico	Belgium	Pakistan
	1095	none other comes close					842	460	362	219	186
<b>Corn**</b>	U.S.	France	Argentina	Brazil	Chile	<b>Corn</b>	Japan	Germany	Mexico	Belgium	Pakistan
	6137	1456	1193	597	324		2931	1431	745	528	460
<b>Pigmeat</b>	Denmark	U.S.	Germany	Spain	Brazil	<b>Pigmeat</b>	U.S.	Germany	Russia	Italy	Mexico
	3099	1675	774	635	612		995	961	552	498	388
<b>Pork</b>	Canada	Netherlands	Germany	Spain	Brazil	<b>Pork</b>	Japan	Italy	Germany	U.K.	France
	1349	815	651	631	566		4713	1308	837	625	481
<b>Poultry</b>	Brazil	U.S.	Netherlands	France	Belgium	<b>Poultry</b>	U.K.	Japan	Russia	Germany	Saudi
	2493	1765	935	623	580		1186	696	601	555	456
<b>Soy</b>	U.S.	Brazil				<b>Soy</b>	China	Japan	Netherlands	Germany	Mexico
	6692	5394					6979	1774	1504	1129	1107
<b>Soy cake</b>	Argentina	Brazil	Netherlands	U.S.	India	<b>Soy cake</b>	Netherlands	France	Spain	Germany	Italy
	3597	3270	1060	1036	530		1142	1121	898	718	704
<b>Wheat</b>	U.S.	Australia	Canada	France	Argentina	<b>Wheat</b>	China	Japan	Italy	Algeria	Indonesia
	5180	3089	2688	2553	1365		1640	1272	1269	1026	841

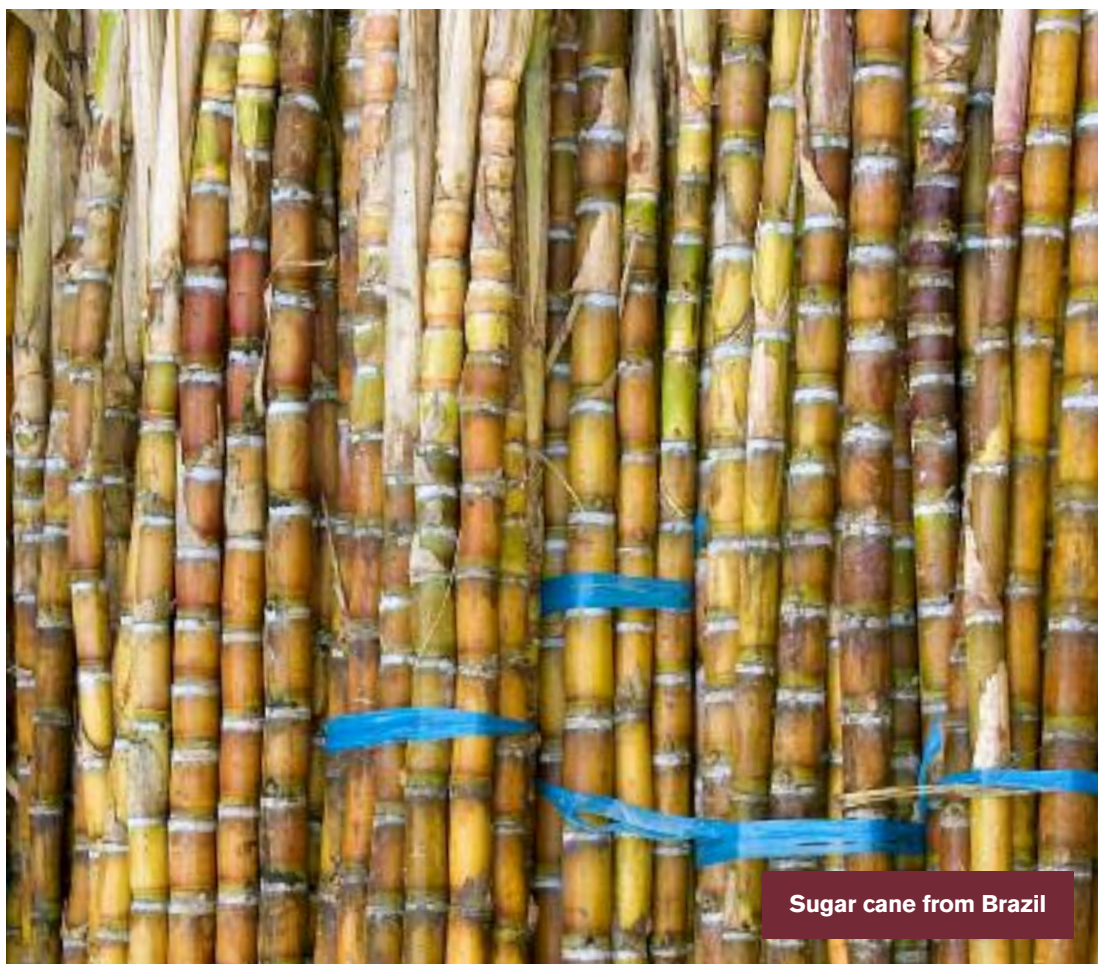
Source: Food and Agriculture Organization (FAO) of the United Nations, the Statistics division. All funds in \$US  
<http://www.fao.org/es/ess/toptrade/trade> Agrifood Trade Service <http://www.atn-riac.agr.ca/stats/stats-e.htm>



**Some observations:**

- High-value trade is concentrated among relatively few importers and exporters.
- Brazil is a leader in a number of categories.
- Japan, as the major importer of beef, canola, corn and pork, is a very lucrative market.
- The ethanol industry competes with livestock producers, food processors and exporters for corn. Countries that have relied on the U.S. for corn will feel the impact of increased demand for this product.
- Barley producers exploring future niche markets need to know that the major import markets for barley are in Saudi Arabia, China and Japan and major exporters are Australia and France.
- While wine is not a major Canadian export, it is a massive industry and the top agri-food trade item worldwide. France exports almost \$7 billion of wine compared to Canada's \$2.7 billion in wheat. This number puts the size of the world trade in wine into perspective!
- Coffee, bananas, rubber, beer, cotton, pastries and cakes each account for over \$2.5 billion in trade. Canada is not a major exporter in these markets, so they were not examined.

In short, it's important to know where and who the end consumers are. Other observations based on trade data are available in the Tips and Tools section of this document.



Sugar cane from Brazil





### Food for thought

Think of the world with your commodity in mind and where it will be ten years from now. Consider different scenarios ranging from a conservative outcome to one radically affected by change. Will the demand for your product be higher or lower? Where will prices be? Will you be better off investing further in what you're doing today or diversifying your sources of income? It's your call. Even if you don't have all the answers, can you afford not to imagine what the future holds?

### Combining imports with domestic products is a recipe for success

Canada successfully exports two types of processed foods – those made with ingredients raised or grown domestically and those made with a mixture of domestic and imported ingredients. Perhaps there's room for imagination and innovation. A vibrant value-added sector can increase domestic demand for ingredients, even if some ingredients need to be imported.

Think about chocolate. Canada does not grow cocoa plants, yet we are one of the world's largest exporters of processed chocolate, to the tune of \$725 million in 2004 (Fig. 6). That figure is similar to the value of all specialty crop and pulse exports combined. Cocoa does not displace Canadian-produced products and it creates a complementary demand for ingredients like sugar, butter and milk.

Will Canada think beyond its bulk export history and continue to grow its research and development know-how, its brand and its manufacturing sector to target more lucrative markets? The sky's the limit for areas where we could establish ourselves as experts. It's an indirect way of increasing demand and diversifying markets.

### Imports: biscuits, wheat, pastas, crackers

Although we're an exporting nation, Canadians consume a significant amount of domestic product. To meet the demand for a wide range of food and beverages, billions of dollars of products are also imported into Canada (Fig. 8).

We are a major producer and exporter of flour and cereal grains, yet ironically we import over \$1.6 billion<sup>6</sup> worth of biscuits, crackers, pasta, breakfast cereals and flour each year. There may be opportunities for more domestic processing and innovation in these products. In fact, there's vast untapped opportunity for product innovation in the cereal grains sector.

Nutritionists support the health benefits of whole grains. They're the good carbohydrates packed with nutrients and are a key ingredient for successful, sustainable weight loss. Yet, there's very little product innovation for whole grains as side dishes, entrées or mixed into frozen or RTE meals. The majority of grains consumed by Canada and the U.S. are refined and bleached white flours, crackers and cookies, pastries and highly processed, sugary cereals. There's been incredible innovation in other food and beverage lines. What are we waiting for?



<sup>6</sup> Statistics Canada, Trade Data Online, Source: AAFC Agri-food trade service. 2000-2007 Export statistics [http://atn-riac.agr.ca/stats/AllCountries\\_product\\_x\\_e.pdf](http://atn-riac.agr.ca/stats/AllCountries_product_x_e.pdf)

**Figure 8: Top 10 individual product imports and exports for 2006 by product**

Import to Canada	Value	Export from Canada	Value
Grapes for wine	1.2B	Wheat and meslin	2.7B
Food preps (final consumer ready product)	898M	Canola seed for sowing	1.62B
Biscuits and crackers	540M	Live cattle	1.04B
Malt beer	474M	Boneless beef	1.04B
Pet food	429M	Durum	895M
Coffee	369M	Fresh pork	873M
Fresh grapes	364M	Frozen pork	861M
Boneless beef	310M	Frozen fries	818M
Tomatoes	259M	Food preps	730M
Corn, chocolate, sugar close for tenth place	300M	Biscuits, crackers, whiskey close for tenth place	500M

Source: AAFC Agri-food trade service. 2000-2007 Export statistics, all funds in Canadian dollars  
[http://atn-riac.agr.ca/stats/AllCountries\\_product\\_x\\_e.pdf](http://atn-riac.agr.ca/stats/AllCountries_product_x_e.pdf)

### The Canadian advantage

Canada's natural resources, large agriculture land base and the application of technology to crop production offers significant competitive advantages. Our strategic location with easy access to U.S., Mexican and South American markets to the south and the Asia-Pacific region from our west coast ports will be important assets in the future. It is unlikely these, alone, will be enough to further advance our export position.

#### Food for thought

To be successful in the bulk arena, producers need outstanding efficiencies, technology, breakthrough yields and large-scale operations or a market niche that distinguishes the business. What is your advantage and how can you exploit it further? What new opportunities can you explore? Where do you want to play in the agri-food value chain?

Advances in information technology will continue to impact trade and the success of Canadian producers. Personal computing, the internet, cell phones and technology-enabled networks are increasingly important to connect buyers and sellers. In Dalian, China, people are learning English, forming industry clusters, ramping up internet knowledge and platforms and creating online business networks. In other words, they are behaving more and more like other open-market economies. Although developing countries are making inroads, Canada's well-established technologies and logistics work to our advantage.

The Canadian brand and the power of our collective identity are highly regarded. We have a positive image and strong reputation in the global business community. We export high-quality products. These advantages will position Canadian exporters to carve out niche markets that meet end-consumer needs. Continued promotion of the Canadian brand is important to our success abroad. Low-cost producers from other countries will not be able to mimic this strategy.



## What are exporters saying?

Here's what we learned through our network of exporters across Canada in a variety of sectors:

- Canada has a positive reputation in the global marketplace and we need to be aggressive in promoting Canadian brands.
- Canada is recognized for the quality of its products. We are a people who react positively, act in good faith and care about the quality of products we export. We are favoured in the eyes of the world and that is a competitive advantage.
- Products like maple syrup, blueberries and lobster are recognized worldwide. Other industries like Saskatoon berries are in their infancy, however, the potential for tremendous gain is there.
- Our work with agricultural machinery is seen as innovative and high-quality. On average, members of the Agricultural Manufacturers of Canada export some 45 per cent of their products, a significant increase from 27 per cent four short years ago.

Some questions exporters are considering include:

- Will the Canadian brand survive the competition when South American exporters can supply wheat of a similar quality for 15 per cent less?
- Can we do better by being more aggressive in our quest to establish Canadian brands in the global marketplace?
- What are the next steps?

## Food for thought

Every commodity marketing group across all agriculture sectors has opportunities to tap the potential of the Canadian brand. A good reputation has been established. By using imaginative marketing and innovative product offerings, you can tap into the potential. If you are not directly promoting your product, you probably have an industry council or marketing organization that is. Are they being diligent about promoting the value of brand Canada?

## From commodities to competencies

Some producers around the world are defining their product in new ways. They've diversified revenue sources and taken advantage of multiple trends to mitigate risks. Some have tried exporting directly. Some have added to their current production by setting up operations in other countries and others have moved from local production on their own land to selling their knowledge and expertise abroad. In our growing global knowledge economy, things will be valued differently. New critical success factors such as high-tech agronomic knowledge, business skills, networks and superior transportation plans will grow in value.



## Final thoughts

Is it possible to create a knowledge economy in agriculture? How can producers go virtual or contribute beyond the tangible assets of land, labour and capital?

- Where does it make the most sense to produce high-quality, affordable food?
- Is Canada competitive in all the factors required to make the products?
- What advantages do new, lower-cost exporters have over Canada?

- What can Canada exploit that others don't have access to?
- Does it make sense for Canada, or any country, to attempt self-reliance in food production and processing?
- Do we have a choice?
- What is the best allocation of resources?

Much of the media coverage about globalization is negative, gravitating toward sensational stories showcasing anti-globalization activists and confrontation. Like any other phenomenon, globalization presents challenges and opportunities for participation. Agriculture is no exception.

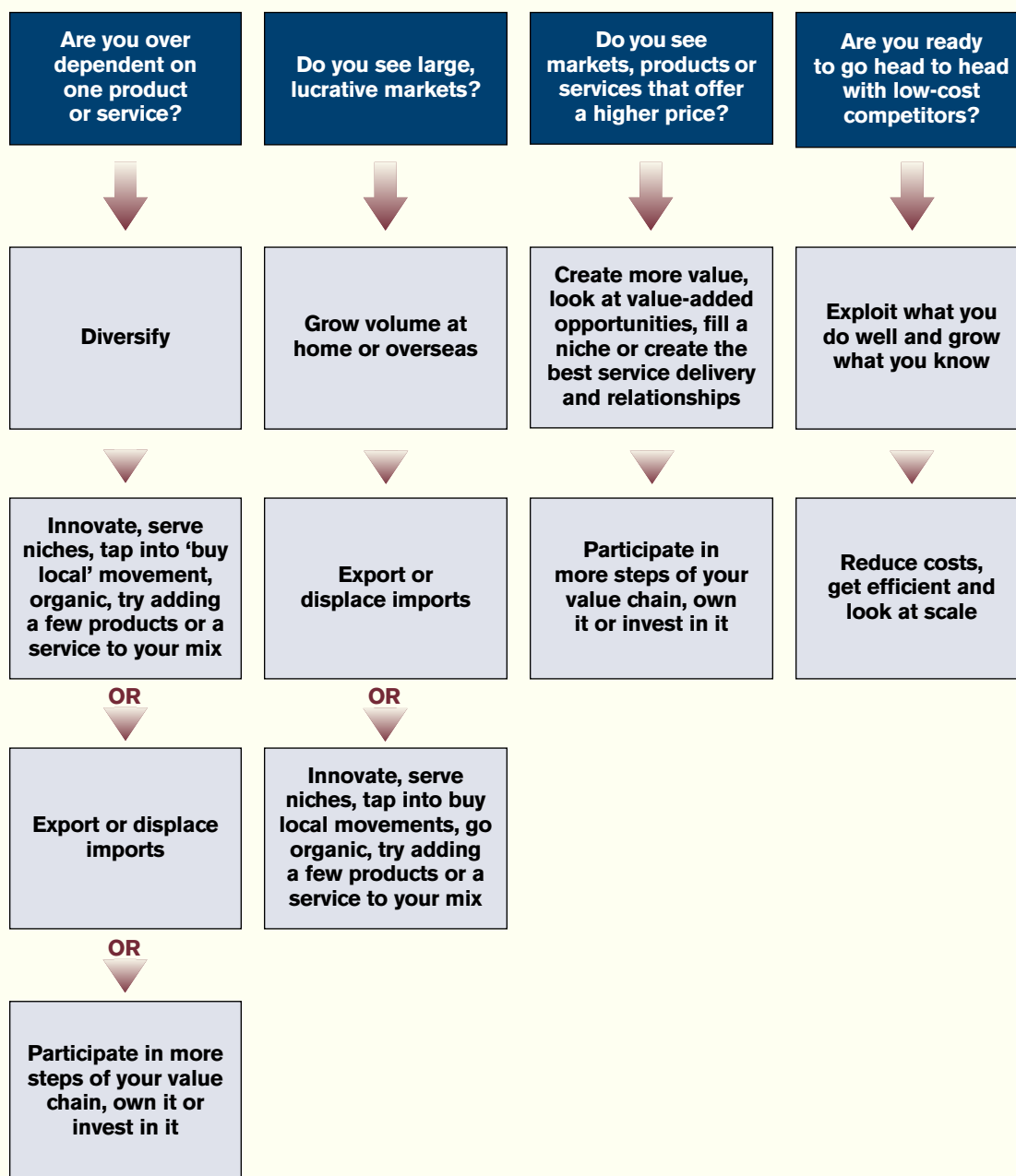


A man with short brown hair, wearing a tan button-down shirt, is shown from the chest up in profile, looking out over a vast rural landscape. The landscape features rolling green hills, a winding road, and a small cluster of buildings in the distance. The sky is a deep blue at the top, transitioning to a bright orange and yellow glow from the setting or rising sun on the horizon. The overall mood is contemplative and serene.

# Knowledge Insider

Tips, tools and strategies | **Globalization edition**

# What does globalization mean to you?



Potential solutions



# Interested in growing your core business?

- Take a snapshot of your business. There are many free tools and consultants who will help, and website links to get you started.
- Assess your business strengths and weaknesses, opportunities and risks.
- Map out your value chain and know where you fit. Assess the whole value chain with the same rigour you used to assess your business. Some bankers evaluate the strength of the network as a predictor of an individual's success. Ask yourself these questions:
  - Is this value chain the best one for your business today and in the future? A strong value chain, involving a contract or alliance, can be a competitive advantage. Watch out. A weak link in any chain represents a risk.
  - Are you a part of a marketing organization? Get involved in the decision-making. Do they know the customer and where the industry is headed? Are they positioning you positively for the future? Can you get access to the same information they use to make decisions? What are they doing to ride the waves of emerging markets? What are they doing when they find

themselves head-to-head with a low-cost commodity producer?

- Maximize asset utilization. Are your assets working for you in the best way possible? Corn or hay? Wheat ethanol or canola? Own or rent? How do you use your equipment, machinery, buildings and land? What capacity do you operate at? What else can be done with your assets? Where is it best to put your knowledge to use?
- If you are a niche provider, how protected is your niche? How long can you keep your margins? Do you have competition?
- Sometimes the best strategy is exploiting your existing core competencies.

## To stay on top of your game, connect with other producers or take a course:

AgriSuccess Farm Management Training  
[www.fcc-fac.ca/en/LearningCentre/training\\_centre\\_e.asp](http://www.fcc-fac.ca/en/LearningCentre/training_centre_e.asp)

Harvard Business School Agribusiness Seminar  
[www.exed.hbs.edu/programs/agb/](http://www.exed.hbs.edu/programs/agb/)

## Making it work

The word canola was invented in 1974 to describe a new, low acid variety of rapeseed. Replacing many acres of wheat, canola has grown from a marginal specialty crop to become one of our major exports in little more than a decade!

## Notes

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# Are value-added opportunities on your mind?

- Do you want to invest in the agriculture value chain through existing operations or own the business yourself?
- Know your options and create business relationships upstream to help manage input risk and reduce input costs.
- Participating in the downstream side helps manage market risk and increases product margins as they undergo one or several transformations.
- Are there new ways to buy that increased profitability? What about web-based suppliers or buying groups?
- Learn from the success of others and watch out for the pitfalls. There's no substitute for solid research and a realistic business plan.
- Consider hiring a consultant or expert team. There are firms in the U.S. that have guided

producer-owned biofuel startups from construction through procurement to marketing the by-products.

## Should you get involved?

<http://www.agmrc.org/agmrc/business/startingbusiness/>

**Money to get you started.**

The PAVE program expires March 31, 2008

[http://www.agr.gc.ca/ren/index\\_e.cfm?s1=cfbas-sceac&s2=pave-pepva&page=intro](http://www.agr.gc.ca/ren/index_e.cfm?s1=cfbas-sceac&s2=pave-pepva&page=intro)

## Making it work

After two years of collaborative effort between local producers, agribusinesses and investors, Kawartha Ethanol recently turned the sod for a new plant. Found east of Peterborough, Ontario, the plant will produce 80 million litres of ethanol per year. It's an exciting development for the producers and will boost the local economy. By using top ethanol management consultants and beginning plans ahead of the curve, Kawartha's founders are confident in their approach and future.

## Notes

This image shows a single sheet of white paper with horizontal blue or grey ruling lines, typical of notebook paper. The lines are evenly spaced and run across the width of the page. There is no handwriting or other markings on the paper.

# Working on new products or services?

- Agriculture serves many industries. Food and fibre are obvious beneficiaries. However, the construction industry, plastics, nutraceuticals and biofuels also rely on agriculture. There's an explosion of niche opportunities and innovation.
- Tap into programs, tax credits and grants for small-scale research and development and on-site innovation.
- Either offer something different or risk being easily replaced and priced like a commodity.
- Buy-local movements offer niche opportunities for producers.
- Consider taking advantage of untapped niches or displacing Canadian imports with a made-in-Canada innovation. Canada imports over \$2 billion in grain-based food products every year.

- Can you be an agile supplier? It's an excellent strategy for domestic markets, especially for businesses that are looking for opportunities to jump into international markets.
- What if you talked with customers to learn about their unmet needs?

## Getting credit for innovation might be easier than you think

<http://www.cra-arc.gc.ca/taxcredit/sred/menu-e.html>

Get connected to others and increase your visibility. Check what social networking is all about.

[http://en.wikipedia.org/wiki/Social\\_networking](http://en.wikipedia.org/wiki/Social_networking)

## Making it work

Everything blue is hot right now, including the health benefits from compounds that give blueberries their colour. Cal-San Enterprises Ltd. serves this market by processing microwave-dried blueberries, blueberry powders and fruit wines. They're reducing their dependence on fresh and frozen blueberry markets and producing something consumers and health food innovators demand.

## Notes

This image shows a single sheet of white paper with horizontal blue or grey ruling lines. The lines are evenly spaced and run across the width of the page. There are approximately 20 lines visible. The paper has a slightly textured appearance and is set against a dark background.

# Thinking of exporting?

- Are you ready to fly solo or do you need to be part of a co-operative or alliance? Consider partnering with an existing exporter to gain access to specific markets.
- Be strong before moving into export markets. Do a self-assessment.
- Find a mentor with experience. Information is key to survive and prosper.
- Personal brand, just like Canada's brand, is priceless. The value of your reputation and credibility cannot be overstated. Choose business associates carefully. Research potential partners and verify their track records.
- Know which markets are inclined to do business with Canada. Be familiar with the language and the culture.
- Tap into your trade commissioner, provincial trade teams and Export Development branches.

- Leverage the benefits of a strong Canadian brand. For example, Canada's style of finishing beef produces a taste, marbling and fat colour that discriminating buyers prefer.

## Find out if you're ready

[www.exportdiagnostic.ca/](http://www.exportdiagnostic.ca/)

## Financing options, tools and tips

[www.edc.ca/freetools](http://www.edc.ca/freetools)

**Talk to a professional for free**

[www.infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp](http://www.infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp)

## Making it work

A Manitoba pork producer, Hytek, is reducing trade risks by raising some hogs south of the border, feeding more pigs to market weight, growing their operations into China and purchasing a slaughter facility in Neepawa, Manitoba. The company has also diversified its revenue and adopted cost-reducing strategies by milling most of the needed feed, managing their vet services and operating a fleet of long-haul trucks.

## Notes

[illegible]



# Notes

This image shows a single sheet of white paper with horizontal blue ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

# Knowledge Insider tools

What you'll find	Web address
<b>Exporting and trade statistics</b>	
Comprehensive information and practical tools for new or experienced exporters	<a href="http://www.exportsource.ca/gol/exportsource/site.nsf/en/es01878.html">www.exportsource.ca/gol/exportsource/site.nsf/en/es01878.html</a>
Find export markets through the Canadian Trade Commissioner	<a href="http://www.infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp">www.infoexport.gc.ca/ie-en/MarketReportsAndServices.jsp</a>
Are you and your partners ready to export? Check it out and get thorough feedback.	<a href="http://www.exportdiagnostic.ca/">www.exportdiagnostic.ca/</a>
Regional export information by province	<a href="http://www.exportsource.ca/gol/exportsource/site.nsf/en/es01956.html">www.exportsource.ca/gol/exportsource/site.nsf/en/es01956.html</a>
Country profiles, trade leads, advice and free tools at Export Development Corporation	<a href="http://www.edc.ca">www.edc.ca</a> and <a href="http://www.edc.ca/freetools">www.edc.ca/freetools</a>
Agrifood Trade Service offers statistics, country profiles and all the right trade shows	<a href="http://www.atn-riae.agr.ca">www.atn-riae.agr.ca</a>
Canadian Business guide to government services for importing and exporting	<a href="http://www.canadabusiness.ca/gol/cbec/site.nsf/en/index.html">www.canadabusiness.ca/gol/cbec/site.nsf/en/index.html</a>
Need specific data? Try: <ul style="list-style-type: none"> <li>• Food and Agriculture Organization (FAO) of the United Nations (UN)</li> <li>• World Trade Organization (WTO)</li> <li>• Statistics Canada</li> </ul>	<a href="http://www.fao.org/es/ess/toptrade/trade.asp?dir=exp&amp;country=21&amp;year=2004">www.fao.org/es/ess/toptrade/trade.asp?dir=exp&amp;country=21&amp;year=2004</a> <a href="http://www.wto.org/english/res_e/statis_e/statis_e.htm">www.wto.org/english/res_e/statis_e/statis_e.htm</a> <a href="http://www.statcan.ca/english/tradedata/tradedata.htm">www.statcan.ca/english/tradedata/tradedata.htm</a>
Check out the FAO publication World Agriculture: towards 2015/2030	<a href="http://www.fao.org/docrep/004/y3557e/y3557e00.htm">http://www.fao.org/docrep/004/y3557e/y3557e00.htm</a>
<b>Assessing your value chain</b>	
Value chain resources from The Farm Centre	<a href="http://www.farmcentre.com/Resources/Default.aspx?sectionkey=Value%20Chain">www.farmcentre.com/Resources/Default.aspx?sectionkey=Value%20Chain</a>
Discover why value doesn't mean lowest price in FCC's AgriSuccess Journal	<a href="http://www.fcc-fac.ca/en/LearningCentre/journal/stories/200609-3_e.asp">www.fcc-fac.ca/en/LearningCentre/journal/stories/200609-3_e.asp</a>
Alberta Agriculture presents value chain exercises, success stories, tools and links	<a href="http://www.agfoodcouncil.com/initiatives/value-chains.aspx">www.agfoodcouncil.com/initiatives/value-chains.aspx</a>
What perspective does a beef producer bring to choosing a value chain and how can they integrate a unique bio-refinery?	<a href="http://www.highlandbeef.com/file.php?file=0af8d736d46ecdeaf1861572fba013df">www.highlandbeef.com/file.php?file=0af8d736d46ecdeaf1861572fba013df</a> ; <a href="http://www.highlandbeef.com">www.highlandbeef.com</a>
Read about Sapporo Breweries value chain	<a href="http://www.farmcentre.com/News/TodaysStory/Article.aspx?id=33b8606e-ce6e-47b4-90a4-50ac3bfd44f7">www.farmcentre.com/News/TodaysStory/Article.aspx?id=33b8606e-ce6e-47b4-90a4-50ac3bfd44f7</a>
<b>Getting into value-added</b>	
You can access funding to develop a value-added plan through Planning and Assessment for Value-Added Enterprises (PAVE), ends March 31, 2008	<a href="http://www.agr.gc.ca/ren/index_e.cfm?s1=cfbas-sceac&amp;s2=pave-pepva&amp;page=intro">www.agr.gc.ca/ren/index_e.cfm?s1=cfbas-sceac&amp;s2=pave-pepva&amp;page=intro</a>
Agricultural Marketing Resource Centre, consider the steps involved in value-added	<a href="http://www.agmrc.org/agmrc/business/startingbusiness/">www.agmrc.org/agmrc/business/startingbusiness/</a>
Checklist from the Missouri Department of Agriculture, to help start a value-added business	<a href="http://www.mda.mo.gov/AgBusiness/resources/index.html">www.mda.mo.gov/AgBusiness/resources/index.html</a>
Is value-added the right business is for you?	<a href="http://www.agrnewsinteractive.com/archives/article-6597.htm">www.agrnewsinteractive.com/archives/article-6597.htm</a>

Innovation	
If you plant new varieties, have test plots or graft new stock, you may be eligible for tax credits through Scientific Research and Experimental Development (SRED)	<a href="http://www.cra-arc.gc.ca/taxcredit/sred/menu-e.html">www.cra-arc.gc.ca/taxcredit/sred/menu-e.html</a>
Are you a dry land crop producer? Read great stories about innovation.	<a href="http://scarab.msu.montana.edu/ipm/Training/CPMS/2006/Innovation%20in%20Agriculture%20Iverson.pdf">scarab.msu.montana.edu/ipm/Training/CPMS/2006/Innovation%20in%20Agriculture%20Iverson.pdf</a>
Insights from the multinationals	
Check out presentations, annual reports, sector analysis and trends at large agri-food companies for the inside scoop. Pick the companies that are big in your industry.	
Grocery retail giant Carrefour constantly studies food trends	<a href="http://www.carrefour.com">www.carrefour.com</a>
Nestlé focuses on dairy in their presentation India, the land of opportunities	<a href="http://www.nestle.com/Resource.axd?Id=73B4B2C8-1794-4007-9E74-E3934E3201F3">www.nestle.com/Resource.axd?Id=73B4B2C8-1794-4007-9E74-E3934E3201F3</a>
What is Maple Leaf saying about packaged foods and their protein operations?	<a href="http://nvestor.mapleleaf.ca/phoenix.zhtml?c=88490&amp;p=irol-audioarchives">http://nvestor.mapleleaf.ca/phoenix.zhtml?c=88490&amp;p=irol-audioarchives</a>
Where does all the fertilizer go? PotashCorp maps show where and why.	<a href="http://www.potashcorp.com/investor_relations/markets_information/world_markets_map/?link_type=leftNav">www.potashcorp.com/investor_relations/markets_information/world_markets_map/?link_type=leftNav</a>
Tyson, the world's largest protein company, touches millions every day	<a href="http://ir.tyson.com/phoenix.zhtml?c=65476&amp;p=irol-eventDetails&amp;pp=IROL-EnhancedWebcast&amp;EventId=1682331&amp;WebCastId=699913&amp;StreamId=1004086&amp;id=267078&amp;mp=irol-presentations&amp;PlayerPlatform=1&amp;TIK={857fb0e8-4d0b-468a-93a8-faa45ae73de7}&amp;RGS=3">http://ir.tyson.com/phoenix.zhtml?c=65476&amp;p=irol-eventDetails&amp;pp=IROL-EnhancedWebcast&amp;EventId=1682331&amp;WebCastId=699913&amp;StreamId=1004086&amp;id=267078&amp;mp=irol-presentations&amp;PlayerPlatform=1&amp;TIK={857fb0e8-4d0b-468a-93a8-faa45ae73de7}&amp;RGS=3</a>
Maps and trends from Bunge	<a href="http://www.bunge.com/industry-information/macro-trends.html">www.bunge.com/industry-information/macro-trends.html</a>
Social networking	
Check out the online potential of social networking.	<a href="http://en.wikipedia.org/wiki/Social_networking">http://en.wikipedia.org/wiki/Social_networking</a>
Get good at using search engines to find the right networks for you. Super searchers turn to Copernic, a top-notch, homegrown tool to download for free.	<a href="http://www.copernic.com">www.copernic.com</a>
Farm business planning and continuous education	
Stay on top with Farm Credit Canada's AgriSuccess publications, training, forums and tours	<a href="http://www.fcc-fac.ca/en/LearningCentre/management_news_e.asp">www.fcc-fac.ca/en/LearningCentre/management_news_e.asp</a>
The Farm Centre offers resources for planning and access to experts via webinars and podcasts.	<a href="http://www.farmcentre.com">www.farmcentre.com</a>
Check out the George Morris Centre Executive Development Program	<a href="http://www.georgemorris.org/GMC/ExecutiveDevelopmentProgram.aspx">www.georgemorris.org/GMC/ExecutiveDevelopmentProgram.aspx</a>
Purdue University offers strategic planning tools and templates for commercial farm businesses	<a href="http://www.agecon.purdue.edu/extension/sbpcp/strat_setting.asp">www.agecon.purdue.edu/extension/sbpcp/strat_setting.asp</a>
Harvard Business School offers a future oriented week on agribusiness	<a href="http://www.exed.hbs.edu/programs/agb/">www.exed.hbs.edu/programs/agb/</a>

Farm Credit Canada is proud to present Knowledge Insider, a semi-annual publication offering thought-provoking information to producers and other agriculture entrepreneurs. Trends described in this document are supported with facts and figures and examined in the context of what's on the horizon for Canadian agriculture.

Please direct questions and comments to FCC's Customer Service Centre at 1-888-332-3301 or email [csc@fcc-fac.ca](mailto:csc@fcc-fac.ca)

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