

Haney Farms Quarterly



Box 280
Picture Butte, AB
Canada T0K 1V0
Phone: 403-738-4517
Fax: 403-738-4420
Toll Free: 877-738-4517
Email: office@haneyfarms.com
www.haneyfarms.com

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Avalanche on November
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Agrium CEO Discusses the Global Nutrient Business

Agrium is the world leader in nutrient production and retail. Recently the Haney Farms Quarterly had the opportunity to sit down with Agrium CEO, Mike Wilson to discuss the future of the fertilizer business in Canada.

Agrium is a Canadian based company. What countries are the focus of your growth at this point?

Agrium truly is unique from the standpoint that it is the only global nutrient company that crosses the whole agricultural input value chain. We produce 8 million MT of nutrients per year globally from Alaska to Argentina and a plant in Egypt is under construction. Agrium is the United States' largest ag-retailer with approximately 500 retail outlets that provide growth with everything from GMO genetics to crop protection to nutrients. Agrium is also the world leader in slow release technology. From the standpoint of growth we are focused globally and across all aspects of the value chain.

How do you foresee the fertilizer industry changing in Canada over the next 5 years?

I think that it is best to look at this question from a global perspective. The rising trend of commodity prices has helped Agrium and the farmer's profitability. These are very promising times in comparison to the late 90's and early 2000's. As world population increases, developing nations become more affluent and the use of bio-fuels increase, we expect to see upward pressure on

grain prices. I am very bullish on the future of the fertilizer business in Canada because I feel bullish for the farmer in the future as well.

Due to the increase in arable acres in emerging markets, should farmers in Western Canada have concerns about nutrient supply in the coming years?

For Western Canadian farmers there should be limited concern regarding supply of nitrogen, phosphate and potash. The real issue is when importers come and go based on where they make the most profit. Agrium will always ensure that the western Canadian farmer has priority for our supply of nutrients.

When will slow release technology be in the market place for Western Canadian farmers?

Slow release technology has been available in the US for four years. Our product is branded Environmentally Smart Nitrogen or ESN. ESN received Canadian regulatory approval about a year ago and testing has begun across many crop and soil types. The ESN is coated with a special polymer that is produced in the Agrium Carseland plant. Ninety percent of the production out of the Carseland plant is exported to the US, which hopefully will change in the near future. In the US once a farmer tries the ESN technology there is a 90% chance they will buy the product the following year. Based on those numbers the product's performance speaks for itself.



Michael M. Wilson
President and CEO
Agrium Inc.

ESN has three main benefits

1. Higher yields which translates into higher profitability for the farmer.
2. Fewer applications—Data is showing that ESN users are seeing higher yields than two application systems
3. Environmental benefits due to less losses to ground and air as well as the farmer requiring fewer applications. There are nine states in US that give the farmer a \$5-10/acre rebate if they use ESN type technology.

How much do fluctuations in acreages affect your business? Are there certain crops that Agrium is focusing on with specialized products?

Acreage fluctuations do not really concern us materially. Agrium focuses on providing nutrients across the whole crop input value chain. By not focusing products for specific crop types and looking at products that cover all crop

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Planned Bio-Fuel Bedlam



Dr. Danny G. Le Roy
Assistant Professor
Economics of Agricultural Marketing
and Trade
University of Lethbridge
(403) 329-2733
danny.leroy@uleth.ca

The expansion of biofuel production is driving the biggest change in North American agriculture since 1972. This was the year when to prevent impending starvation caused by its socialist policy of agrarian self sufficiency, the Soviet Union imported massive quantities of wheat. Today markets are adjusting to the political demand in the United States for energy self sufficiency – a direct result of September 11, 2001. The idea, which has considerable acceptance south of the border, is to decrease reliance on foreign supplies of oil by producing more fuel within the United States. Elsewhere, including in Canada, governments have prescribed biofuel production and consumption as a solution to global warming, low farm incomes and rural development problems, among others.

The extent to which the biofuel industry is both directed and dependant on government interventionism is clear from a recent International Food and Agricultural Trade Policy Council (2006) discussion paper. It provides a long list of support measures used in various countries, including fuel excise tax exemptions and rebates, production mandates of specified levels of biofuels, compulsory blending mandates with fossil fuels, government-procurement preferences and purchase mandates, local tax breaks on property taxes or and state/provincial taxes, accelerated write-off schedules for eligible biofuels-related capital, tax exempt bonds for finance (typically in the United States), subsidized loans, loan guarantees, and special capital gains exemptions or deferrals on sale of bio-fuel plant and infrastructure, regulatory exemptions and waivers including environmental impact waivers, state (provincial) producer credits

either for all producers or those below a certain size or having a certain organizational structure (e.g. farmers' cooperatives), state/provincial/federal subsidies towards purchase of vehicles and infrastructure that can utilize bio-fuels, environmental legislation mandating certain specific types of fuel additives (typically for fuel oxygen-ation) related to reducing vehicle exhausts, government purchases of surplus agricultural

“He said the federal government should simply print the money... as if putting green ink and a hologram on a piece of paper 6 inches by 2.5 inches is any solution.”

stocks for conversion to bio-ethanol (particularly wine in the European Union), subsidies not normally associated directly with biofuels, such as agricultural farm supports in the United States, the European Union and elsewhere and, finally, government supported R&D for biofuels ranging from basic research to technology demonstration plants. It is hard to imagine a more complete array of government marketplace meddling. However, this pales in view of the political desire for governments to do even more.

At a recent National Agricultural Biotechnology Conference in Brookings, South Dakota, a geneticist sitting beside me in a break out group advocated strongly for a 'serious' and immediate \$1 billion transfer from the government to

the research community to solve bioenergy problems. I immediately asked him who, specifically, the government should first take the money from to finance this research. He said the federal government should simply print the money... as if putting green ink and a hologram on a piece of paper 6 inches by 2.5 inches is any solution.

Among the distinguished speakers at the conference were Tom Daschle, the former senator from South Dakota. He advocated among others, an increase in US annual ethanol production to 60 billion gallons by 2030, a tax on carbon, a mandate for a minimum 20% ethanol content on all blended gasoline fuels, and 100% flex fuel vehicles by 2010. All this he added, could be realized at minimal cost to Americans. “ ‘We’ just have to decide to do it. ‘We’ decided to put a man on the moon in 60s, and ‘we’ need that same type of enthusiasm to solve the twin problems of global warming and energy security.” The audience embraced his boosterism with resounding applause.

Another keynote speaker was South Dakota Governor Mike Rounds. Among other things he said that, “farmers have a responsibility to fuel the country and that ‘we’ need to buy fuel made from corn produced by American farmers instead of from some sheik in a desert pup tent.” He also made ominous comments about how we need ‘our’ Canadian friends to supply us with more tar sands oil. Equally effective at the podium as Daschle, Rounds spoke on similar themes and advocated similar centralized solutions and received a large standing ovation.

During another break out session we were asked about the sustainability of the ethanol industry

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try. After some circular discussion, I asked the group I was in if they thought the industry was sustainable without the current massive government subsidization and support. Everyone, including two world renowned physical scientists, said absolutely not. It was the only issue over the three days which our breakout group unanimously agreed. At the closing ceremonies, an oral summary was provided of the output from the various discussion groups. The complete dependency of the ethanol industry on

government, the only issue on which our group unanimously agreed, was offered in ridicule as an example of an extremist position.

In my opinion, the great lesson of the 20th century was the foreseeable, inevitable, costly and deadly failures associated with central planning. However, as the unfolding economic and environmental bedlam wrought by government support of biofuels makes clear, this lesson has yet to be learned by many. Net negative impacts within the agriculture sector and on the environment are down-

played or simply ignored.

In 1944 noted Austrian economist F. A. Hayek warned of the consequences of the continued trend toward government interventionism in his famous book "The Road to Serfdom". As governments play a larger role in the affairs of our daily lives we forgo prosperity and yield basic individual freedoms and private property to the national planners. This is the root of present problems connected to biofuels, not the solution.

Send your feedback to shaney@haneyfarms.com

The Surging Wheat Market

By: John Deputter, President, Deputter Publishing Ltd.

It wasn't really that shocking to see wheat futures hit new record highs. For several years, global wheat supplies were declining. The world's farmers weren't producing enough to meet rising global consumption. World users became complacent, as they expected big crops to bail them out. But finally, this year, big yielding crops are not forthcoming. Weather problems in several key production areas including Europe, the U.S. and Australia are causing the situation to come to a head. Wheat prices are rising as world buyers fight over the smaller supplies.

World wheat ending stocks as a per cent of total use are expected to fall to just slightly more than 18% of total use, the lowest since accurate records were kept. In the early 1970s when prices soared to

new higher trading levels, the lowest the ratio got was 21.2%. In 1996/97, the next major bull market, the ratio bottomed at 28.6%, according to the U.S. Dept of Agriculture's database.

Wheat prices have risen to a record wide margin over most feed grains. For example, nearby Chicago wheat futures have been trading at more than \$5 over nearby corn futures. This is unheard of. It is effectively pricing wheat out of feed rations except where absolutely necessary. Wheat prices are also high enough to encourage more wheat seedings throughout the Northern Hemisphere this fall. So, we are seeing the high prices curtail demand. At the same time, these high prices will prompt farmers to put more winter wheat in the ground this fall. Eventually, this dual process of discouraging use and encouraging production will

fix the shortage and prices will fall.

That said, the timing of the precise peak for this great bull market is still hard to call. A peak may be in place - if there's a big rain in Australia soon and good weather for Argentina's crop, and winter wheat seedings in the U.S. go well, we may look back to find out that we were witnessing the formation of a major top in September. However, without good weather in the Southern Hemisphere, wheat futures could go a lot higher yet.

It should be noted too that wheat is not the only commodity setting new highs. Energy markets, industrial metals... lots of markets have done so, the past few years (and some very recently). It's only natural that some of the crops we produce should follow those non-ag markets to higher trading ranges, as part of the global commodity boom.



Congratulations to Kerri Lynn and Brad Vanderberg on their Labor Day weekend wedding.



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types we are truly diversified. Whether its wheat, canola, lettuce, sugar cane, or cotton, Agrium has a nutrient package that supplies the market.

With heightened security risks across the globe, what is your vision for the future of fertilizer?

In terms of Agrium's business one of the main issues we face is cost containment. Cost concerns break down into the following issues.

Transportation—In the US the cost of transporting ammonia has doubled in the past couple of years. This is mainly due to security and liability concerns.

Environment—the main criteria in product development at Agrium is that they provide a net environmental benefit. Agrium also spends a great deal of time and money in emerging markets to educate farmers on environmental best management practices when applying nutrients.

Regional Costs of doing business—The cost of doing business in Alberta and Saskatchewan is currently crazy. Rising wage and capital building costs in these two provinces pose issues that are not unsolvable but you need to be aware of them. To give you an idea of cost differences, it will cost us 25% - 50% less to build our new plant in Egypt than if it were to be built in Alberta.

Natural gas is a key component of nitrogen costs. Rising natural gas prices and volatility in prices have really affected our production costs.

Agrium produces environmentally sensitive products, how do environmental concerns factor into your strategic and operational decisions.

As I mentioned earlier, Agrium is a very environmentally responsible company. When planning projects no matter where the location, we build with the latest technology and do not skimp out on costs as they pertain to the environment. It is our corporate responsibility to ensure that our stakeholders are looked after. As an example in Egypt the new facility has been built to the highest standards and not to local environmental requirements. In this case Egypt has much lower environmental standards than in North America. In terms of the environment, we strongly feel that actions speak louder than words.

With the emergence of bio-fuels in North America, how do you foresee this impacting Agrium's business?

The development of the bio-fuel industry has impacted grain prices, which impacts the farmer and as a result impacts us. Bio-fuels are a huge opportunity for all the stakeholders in the agricultural production value chain. The use of grains for feed and fuel has created exciting opportunities for all of us.

THE STREET.COM just raised your stock from a hold to a buy, how much attention as the CEO do you pay to the stock price?

As the CEO I do not spend a lot of time looking at the stock price on a daily basis. I am responsible to all Agrium stakeholders including customers, employees, the com-

munities that we do business in, suppliers and shareholders. There has to be balance in the attention that I pay to the stakeholders because they are all important. In the case of shareholders they can be very demanding and rightfully so. I spend a lot of time with our shareholders explaining our strategies and answering their questions.

Your head office is very unique and has won awards. Tell us the story about the farm house?

Our head office is in the south end of Calgary. We operate lean and mean as a company and therefore we made the decision to not build our head office in the very expensive downtown Calgary. Instead we chose Macleod Trail to be our new home. When designing the office we wanted to reflect the importance of our customer. When you drive by our office you will notice a farm house located at the front of the facility. This farm house symbolizes our customer...the farmer.

What sort of advice can you give to young business people that want to succeed?

A couple things come to mind.... Always function with a high level of integrity and trust. Never lose that.

Always embrace change. You have to realize that the world is always changing. Whether it be the weather or market conditions change is constant. When you encounter change, take advantage of the situation and embrace its advantages.

Editors Note: I would like to personally thank Mike Wilson for his contribution to the Haney Farms Quarterly.

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