

# THE PULSE

## newsletter



### >>> International Travel

Simpson Seeds Inc. is growing as a reliable exporter of high quality pulses. Our brand recognition is improving in the 70 nations we currently supply. This is in step with the increased support from growers who continually depend on SSI to convert pulses into cash.

As I travel, I am continually listening to customers to identify how we can improve our service. At the same time I am communicating our corporate Core Purpose to "Nourish the World" and our Core Values of Family, Integrity, Quality and Innovation.

Venezuela is a major importer of Laird lentils. We have a large crop of Laird lentils to export so it makes good sense to see what can be done to expand our market share. This is a very challenging market to do business with as the government controls the foreign exchange and all food imports by a complex and unpredictable permit system.

In October, we traveled to Mersin, Turkey which has emerged as a major hub for Canadian lentils. Importers in Mersin not only purchase our products for the domestic Turkish market, but since Mersin is located on the Eastern shore of the Mediterranean Sea, they have very good access to the European, Mediterranean, North African and Middle Eastern markets. They purchase all varieties of whole lentils to supply importers in these regions with whole and split lentils.

While in Mersin, we had the opportunity to visit with many of our long term customers and specifically discuss their needs and how Simpson Seeds can continue to supply them with our products. During these visits we were able to learn how we can improve our service for them and discover some of the more intimate ways the Mersin markets operate and how they have evolved. With this knowledge, we will be better equipped to market the remaining volumes of the 2012/2013 Canadian Lentil crop to our customers.

After our time in Mersin, we travelled to Cologne, Germany to participate in the 2013 Anuga Food Fair, "The world's leading food fair for the retail trade and the food service and catering market". During the 5 day Anuga fair, it provided an opportunity to be available to many of our customers from the European and Mediterranean marketplace.



*Our customer in Caracas, Venezuela is happy with the quality and service resulting in repeat business.*

Even though email and telephone conversations are effective for real-time communications, there is still nothing more appreciated by a buyer and a seller than to be able to have a 5-10 minute face to face conversation. This leads to effective communication of the buyers' needs and how the seller can accommodate them.

Food Fairs like Anuga, Sail (Paris) and Gulfood (Dubai) are essential events for Simpson Seeds attend, as we are able to maintain relationships with our current customers and we are provided excellent opportunities to discovered prospective clients.



*At the office of DEVRISOGLU in Mersin Turkey*

## >>> Product Delivery ABC's

Now that the crop is in the bin, everyone can let out a collective sigh of relief! But as everyone knows a farmer's work is never done; it's time to get your samples in, sell some grain and haul!

After harvest we receive a number of field samples from producers. As many of you have experienced, when we collect these samples we like to collect information such as Producer Name, Phone Number, Bin Reference, Commodity and Amount. So why is this important? It's not simply to contact you after your grade is completed; it goes further down the line than that. Once a producer has offered to sell their lentils to us, we always refer to these field samples, so we can understand what quality we are purchasing and what market it is best suited for. These field samples are also used at delivery time to make sure quality received matched quality purchased. In a nutshell, we are taking a sample of a specific bin or field of yours, classifying it into a market type based on quality, and then matching it with a specific export contract going to another part of the World.

Buying grain basis a specific sample helps us and producers in a few ways. It keeps grain deliveries moving when we know what grade to expect, producers aren't stopped or upgraded for not meeting the grade specification of the grain purchased. We can plan larger runs of product keeping exports steady, and thus deliveries steady. Being able to reference back to a sample of a bin or field is also highly attractive (and necessary) to some of our international buyers. Everyone wants to know where their food comes from. If we can reference all the way back to the ground level, the customers know that Saskatchewan product is the best and safest in the world. This leads to the next point – food safety. Field samples and deliveries are both evaluated for food safety hazards. Some examples are glass, metal, treated seed, or evidence of infestation of pests. We are shipping food, so we need to ensure what we bring in can be cleaned to meet the needs of a food market.

Now that we have a little background on why we use field samples and why the information you provide is important, here is a list of things that will make the delivery process go smoothly and without surprises this crop year:

- If product is purchased from a specific bin/field, ensure that is the product that is delivered. We need to ensure that it is the quality we purchased. If out of specification grain could be rejected or upgraded depending on the scenario.
- Please ensure that desiccants applied are at the recommended rates, and those with set residue levels in receiving countries.

- Safe storage and proper conditioning are key! Please ensure bins seal well and product is aerated or turned to prevent mould or heating later in the year. We have very low tolerance on heated lentils.
- We practice food safety. We evaluate for biological (insects), chemical (treated seed/oil smell), and physical (glass) hazards upon delivery. If grain contains an unsafe hazard, has high amounts of fertilizer, or treated seed grain could be rejected or upgraded heavily.
- If fertilizer bins must be used for storage, ensure they are cleaned out prior to storing lentils in them.
- If possible, use separate augers for treated seed and non-treated. If this is not possible, ensure augers are flushed out.
- Ensure trucks carrying product are cleaned prior to delivering lentils.
- Ensure trucks are not leaking fluids that could contaminate grain at delivery.

These are just a few guidelines to help the whole process of delivering grain run smoother. If at any time you have a question regarding delivery procedures, quality of grain or safety of grain, please feel free to call one of our grain buyers. Again, thank you for your ongoing support; we look forward to moving your crop to help "Nourish the World".



## >>> Lentil Market Synopsis

After all of the concerns over the weather, prairie farmers have produced a record 80.8 million metric tonnes of all crops. According to the Government of Saskatchewan final crop report, Saskatchewan producers harvested above average yields and above average quality.

Lentil crops averaged 1760 pounds per acres. East- central areas reached the highest yield of 1890 pounds per acre. The result is we have revised our total production estimate in June from 1.5 million metric tonnes to 1.8 million metric tonnes for all lentils. The estimated carry in of old crop lentil has been lowered to 300,000 MT which brings the total supply of lentils up to 2.1 million metric tonnes.

Quality over all is reported to be 35% No. 1 Canada, 54% No. 2 Canada, 11% Extra No. 3 or No. 3 Canada, and no sample grade quality. As a result, there are no technical shortages of quantity or quality that will drive prices higher in the short to medium term. It will take an extraordinary event to impact balance of supply and demand. So be prepared to sell when we raise bids as this indicates a short term opportunity to improve gross returns per acre.

**The following is a Lentil Supply and Disposition chart for the 2013/2014 crop year:**

CARRY IN		300,000 MT
TYPE	SEEDED ACRES	METRIC TONNES
LARGE GREEN LENTILS	820,000	574,000
SMALL GREEN LENTILS	250,000	180,000
RED LENTILS	1,230,000	984,000
OTHER LENTILS	155,000	80,000
<b>TOTAL</b>	<b>2,455,000</b>	<b>1,818,000</b>
AVAILABLE STOCKS		2,118,000
DOMESTIC UTILIZATION		(285,000)
EXPORTS		(1,450,000)
CARRY OVER		383,000
<b>STOCK/USE RATIO 18.0%</b>		

The pace of demand for lentils has been very good as Canada set a new record of 1.6 million metric tonnes last year. This helped to reduce the carry in of old crop to 300,000 MT. The majority of the carry in would be large green lentils, a few Eston and virtually no red lentils.

Demand in August and September was slower than normal. This was primarily due to the later harvest and the supply pipeline being well supplied from old crop. The good news is shipments have accelerated in October and now our facilities are running at full capacity.

**Laird lentils** have enjoyed a good run for demand from Turkey and Algeria. Simpson Seeds Inc. has excellent brand recognition in these markets after years of hard work establishing business relationships with reliable buyers. The color this year for Laird lentils has helped to encourage sales but the small size of the Laird type lentil is an issue. Prices discounts have been implemented to recognize the buyer's preference for large calibre lentils.

Getting rid of the old crop No. 2 Laird will be a problem. The color is faded when compared to the new crop so buyers will need big discounts as an incentive to buy old crop. Otherwise, we have been buying old crop No. 2 Laird and splitting them in our mill. The other option would be to wait to see how India's Rabi harvest pans out. If they have a problem with their pigeon pea crop, then we can look at selling them to India for dahl or split yellow lentils.

Spain had a good lentil crop this year. They produce a Spanish Brown lentil called Pardina and a large green lentil called Castellana. We expect demand to be slower until they consume their local production. Hopefully, they will begin to enter the market in Dec/Jan.

**Eston lentils** are in good supply with the majority of the crop No. 1 quality. There are no fundamental or technical issues to drive up the price. Demand has been steady with Mexico and Morocco (via Melilla, Spain) being the major buyers. Mexican border officials remain our biggest threat as shipments are being held for phyto sanitary reasons. At least, this is what the border agents are saying. This issue has been small pieces of soil that are the same size as a small lentil seed making separation very difficult. We are shipping well below the maximum standard allowed for a No. 1 Canada grade but these inspectors are using this as a reason to hold up shipments. This problem is not just a Canadian issue. We have been speaking to our American friends in the bean industry and they too have been getting shipments held up at the border.

**Red lentil** supply is approaching 1.0 million metric tonnes. The quality is excellent and this will be in your favor when it comes to competing on the global market.

Additional competition is on the way with Australia growing another huge crop estimated to be over 300,000 MT. The harvest has been delayed with only 20% harvested. Some frost was reported in the Victoria region but the consensus is the damage was limited and the remaining 80% of the crop will be in good shape.

India's Rabi crop seeding is going well. There have been good monsoon rains and planting is on track. The outcome of the harvest is anyone's guess so time will tell if India will be able to keep up the pace of imports needed to drive demand for Canadian red lentils.

The INR or Indian Rupee is another factor as it has depreciated from about 55 Rupee per U.S. dollar to a low of 68 Rupee per U.S. Dollar. The devaluation of the INR forced the Indian government to intervene, thereby stabilizing the currency. At the time of writing this newsletter the currency was 62 Rupee per U.S. dollar.

Another bulk vessel of 14,000 MT is about to be shipped from Vancouver. These bulk shipments inevitably cause the Indian market to drop so I don't expect any significant change in the price until a fundamental shift takes place. In other words, the India Rabi harvest will need to be impacted by a weather event such as a drought, frost, flooding, etc.

**CDC SB-2 (Iberina™), Spanish Brown lentil** market development has been improving year by year. We are seeing more demand from countries other than Spain. This is good news as some of these markets will buy No. 2 quality as well as No. 1 quality. For those who wisely choose to grow CDC SB-2 (Iberina™), we have paid from 28 cent to 30 cents per pound making CDC SB-2 (Iberina™) the highest priced lentil in Canada!

Seed supplies for CDC SB-2 (Iberina™), are in good supply. This variety is performing very well. The Crop Development Centre is reporting yields of 97% of Maxim. We have a good supply of seed with guaranteed price production contracts.

**Contact Jamie at [jamie@simpsonseeds.com](mailto:jamie@simpsonseeds.com) or phone 306.693.9402 to confirm seed price and contract values.**

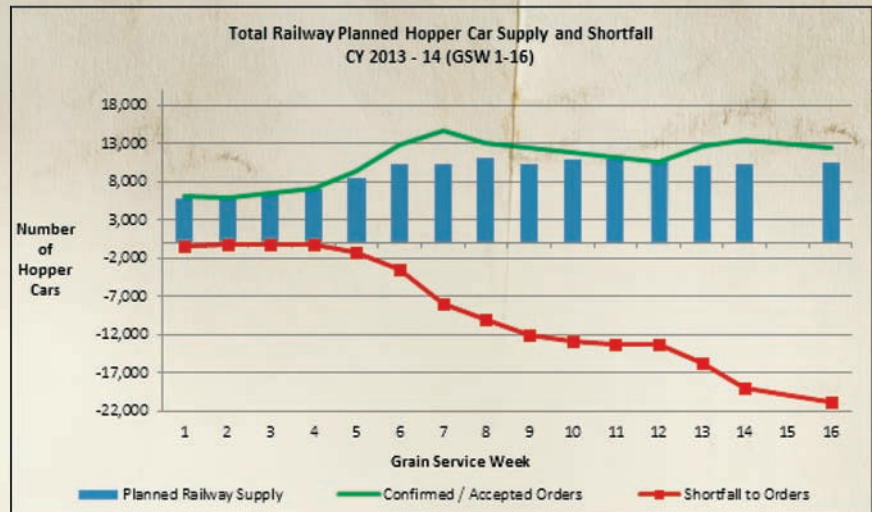
## >>> Transportation Challenged by Big Crop

Growing a crop is a big enough challenge, selling it another. Prairie farmers are wholly dependent on CN and CP rail to move our grains, oilseed and pulse crops to tide water. Any fall down in the supply of rail cars has a major impact on executing contract deliveries, and sale contracts. In fulfilling our corporate purpose of "Nourishing the World", I need to look at all the links in the supply chain from gate to plate.

Processing capacity at SSI has been growing every year as we identify bottlenecks and systematically invest into solutions. We could even build another plant if necessary but why invest into more processing capacity unless we have reasonable assurances that we can get high asset utilization. For this reason, I have accepted an invitation to join the Supply Chain Innovation Sub-Committee

of the Crop Logistics Working Group. The purpose of this group is to identify high impact areas of opportunity for improvement in the Canadian grain supply chain. We need to improve predictability, competitiveness, rail equipment, communications and Port fluidity.

This first task is to get good base-line data so that we can see exactly how well the performance of the railroad is and then drill into the data to see what is happening locally. We have been submitting data every week to Edmonton based Quorum Corp. which monitors Canada's grain transportation system. According to Quorum's President, Mark Hemmes, there were 20 vessels waiting for grain in Vancouver and five ships waiting in Prince Rupert as of Oct. 31st. These ships are idling because rail cars with this year's crop to fill them have not arrived yet. The result is vessels are waiting at an average cost of \$10,000.00 per day. The chart above is the summary of the performance of railroads this crop year:



1. Source: Canadian Pacific GCRS Service Report and Canadian National Western Canada Grain Order Book Report
2. Confirmed / accepted orders are not published by the railways and have been derived using their published planned supply and shortfall data.
3. The shortfall is calculated against the customer orders "accepted" of "confirmed" by the railways each week. Orders placed but not accepted by the railways for a given week are deferred to future weeks.
4. Week 15 data omitted as no data published by CP Rail.

The question is "why are we unable to increase the capacity of the grain movement in Canada." Maybe the issue is how much the railroad profits from grain shipment vs. other commodities.

Oil has now become a cash cow for the railroads and is contributing a substantial amount of revenue to the railroads. Approximately 150,000 bpd are shipped from Canada via rail, up from 500 bpd four years ago. The volume is expected to more than triple by 2015, if the 550,000 bpd of unit-train crude-by-rail projects – terminals that can load up to 120 rail cars a day – are completed in Western Canada.

Politically speaking, Minister Ritz recently commented on the performance of the railroads and said the service was "adequate." I beg to differ. Canada had better wake up and smell the coffee or run the risk of losing markets to other countries, and revenue for agri-businesses.

May the miracle of Christmas fill your heart  
with warmth and love. *Merry Christmas!*

From all of us at Simpson Seeds Inc., thank you for your support throughout the year.  
Wishing you and your families a Merry Christmas and a prosperous New Year.

