

Buyers bullish on Montana wheat

By Tom Lutey of Montana Lee Newspapers | Posted: Sunday, September 4, 2011 12:15 am

KINTYRE FLATS - One town or another on this northeastern Montana plain seemingly turns 100 about every other month, and for some the date seems more like a finish line than a milepost.

But at this forgotten rail stop, so faded from the landscape that only the rusted track remains, a wager of sorts is being placed on the Hi-Line's long-term future.

Three international companies are building a high-speed grain terminal capable of loading 110 rail cars in less than 10 hours. They're responding to a rapidly growing middle class in Southeast Asia that is adding protein to its diet as it prospers. And they see 3 million acres of idle land that could be growing high-protein Montana wheat.

"We expect our volume (to be) somewhere between 8 and 9 million tons a year with 600 shuttle trains from Montana and other ag-producing states," said Larry Clarke, CEO of Montana newcomer EGT LLC.

EGT's stakeholders include STX Pan Ocean; Japanese

trading giant ITOCHU, one of the world's largest shipping companies; and Bunge North America, whose parent

company formed in the Netherlands in the early 1800s.

EGT isn't just building the one high-speed shuttle loader, it's building three and doing so at a time when other companies with at least partial Asian ownership are doing the same.

In the past three years, Asian Pacific companies have made an aggressive grab for Montana grain, either by upgrading existing elevators or building new high-speed facilities

capable of moving millions of bushels of Montana wheat.

There's Mitsui, whose corporate offspring United Grain added another million bushels of capacity to its Pompeys Pillar elevator just a few years after building a state-of-the-art

1.3 million bushel elevator in Moccasin.

There's Columbia Grain, owned by Japan's Marubeni Corp. With more than 10 million bushels of capacity in the

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state, Columbia is already a big dog in the pack. Three years ago, Columbia created a 110-car shuttle loading facility in Carter.

EGT is by far the most aggressive. Last fall, when it announced its Kintyre Flats elevator, it also unveiled plans for a twin elevator in Chester - within walking distance of where grain rival Gavilon had just announced construction plans for its own high-speed shuttle loader. That's 220 cars of the wheat in a community that had nothing of the sort previously.

And last week EGT announced that it would go toe to toe with Columbia in Carter with a 110-car facility in time for the 2012 harvest.

What's interesting about the recent expansion, not only by companies with Asian shareholders, but also by companies like Cenex Harvest States, is that grain elevation isn't a high-profit game. So, the desire to have a presence in Montana has to be driven by something else, which Montana State University agriculture economist Gary Brester suspects is a real concern about food security.

"I think actions speak louder than words," Brester said. "Here are the traditional importers of our grain from out of the Northwest Ports and they're clearly worried about the future sourcing of grain. I think they feel that if they have a physical presence here, that gives them an opportunity to bid for grain from this region."

ITOCHU's remarks on EGT's Montana foray, as well as the partnership's creation of a new \$200 million Columbia River port in Longview, Wash., seem to confirm Brester's suspicion.

The port is the first new export facility in the United States since the early 1980s and it comes online this fall just as EGT's Montana shuttle loaders begin shipping wheat. ITOCHU cites rapid Asian population growth, increasing income levels and an expanding global demand for plant-based diesel and ethanol as the drivers for EGT's actions.

In addition to Montana wheat, EGT's Clarke said the company will have the ability to rail corn to its Pacific port from as far away as western Illinois. EGT plans to have Montana farmers store their grain at home until called upon. At that point, EGT hopes to fill shuttles, get the railcars rolling to Longview and then get STX freighters loaded and sailing, all in four days or less.

Clarke is quick to point out that Japan and South Korea are already significant buyers of Montana grain, and meeting those countries' demands are crucial for EGT. China, on the other hand, presents new challenges and potential.

Investment banking and securities giant Goldman Sachs estimates that China's middle class could swell to 650 million people by 2015, more than twice the size of the U.S. population.

"If you take their middle class, you're talking about a population the size of the United States," Clarke said. "And if that middle class decides to eat better, it is going to have an exponential effect on ag movements."

China itself is no small producer of wheat. The nation leads all countries in production, but also has 1.3 billion people to feed. Two things might challenge its ability to meet its needs with domestic production alone. The first is the nature of the Chinese farms, which are roughly an acre in size, each supporting a family. Modernizing Chinese agriculture would mean transitioning to large, mechanized farms with minimal labor demands. The change would displace farm families who would likely migrate to cities, where finding work could prove tough for those lacking skills for urban jobs, Clarke said. The risk for social unrest would rise.

Montana's role in meeting Asian demand is producing grain high in quality and protein, which has been the state's traditional economic niche. Countries like Japan that struggle to produce high-protein grain buy Montana wheat to blend with their own to raise protein levels. Most of the expansion in grain infrastructure in Montana has occurred in the regions known for high-protein grain, the first being the seven-county Golden Triangle encompassing Great Falls, Havre and Shelby. The second is eight counties in extreme northeast Montana that produces roughly 45 percent of the state's high-protein spring wheat crop.

In towns like Big Sandy, where Alan Merrill farms organic wheat, the heightened interest in Montana wheat is welcome. Big Sandy has seen more departures than arrivals to his main street over the years. The town hasn't had a mechanic for years, Merrill said. Competition among buyers of Montana wheat could reverse that trend.

"If they are in competition with each other, that could bump the price around 10 cents. Most farmers who have a semi will drive to that," said Merrill, the current president of Montana Farmers Union. Ultimately, if the market picks up, farm children drawn to the city for better-paying jobs may consider coming home.

But buyers building elevators aren't just looking to fight over the same bushels of grain. They're hoping to see Montana grow more of it. Lola Raska, Montana Grain Growers executive vice president, said the state is poised to add new acres of production in the next six years. That's because contracts are expiring on roughly 3 million acres of Montana farmland locked into the federal Conservation Reserve Program. CRP was created at a time when global wheat demand was low. Its intention was to take farmland out of production by paying farmers to return it to native grass.

With a tightening federal budget and crop demand on the rise, those CRP acres are now coming out with contracts expiring on anywhere from 150,000 acres to 500,000 acres a year through 2017. Some contracts are being renewed, but the federal government is cutting back.

Montana wheat production could expand by 12 million bushels in the next few years if CRP acres diminish, Raska said. The government is also rolling out cash incentives to persuade retired farmers with CRP to partner with young farmers looking for acres.

In Big Sandy, plowing CRP acres under would be a welcome site, Merrill said. Many farmers fault the program for driving away a generation of young farmers who left decades ago for lack of land to lease.

"The baby boomers around here say the town just died because of CRP," Merrill said. "We used to be surrounded by farm land. Now, we're surrounded by CRP. Maybe we'd have young people coming back to farm if we didn't have it."

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