

# THE PULSE

## DECEMBER 2009

# newsletter

## Lentil Market Outlook

by Greg Simpson

In keeping with the good news message of Christmas, lentil markets have been the shining star as prices for all lentils have been providing a windfall profit for those fortunate enough to have the combination of higher than normal yield and quality. A record crop of 1.4 million tonnes of all lentil varieties would have been viewed as a burdensome supply in the past but not this year. In this newsletter, we will provide you with some insight into the fundamentals that are driving the market for each kind of lentil. Hopefully, this will provide you with some ideas on how to market the balance of your crop and which varieties to seed in 2010.

### Red Lentils

Production of red lentils hit a new record high with 700,000 MT of red lentils produced on 53% of the seed acres. Initially, there were reports of 1,000,000 MT of red lentils being produced which turned the market sentiment bearish. Prices dropped from 38 cents to 27 cents in a matter of weeks after harvest. The rapid decline in price was also aided by grain elevator companies buying whole red lentils and offering our customers in Turkey, U.A.E. and India unprocessed (FD) lentils. (More on this issue later in the newsletter) Grower resistance to the lower prices and the accurate reporting we provided to international markets that the production was only 700,000 MT aided in the price recovery.

Australia's harvest was also a bearish factor as good rains

throughout the lentil growing regions had many observers forecasting a crop of 175,000 MT. As I am writing, we are still waiting to get all the correct information about the harvest but this is what we know now. Extremely high temperatures i.e. 40 C at the final stages of harvest devastated the yield and quality in some regions. Then, other regions started to have rain on mature crops. The crop quality deteriorated with as much as 20% of the seed coats wrinkled and water bleached. The harvest was also delayed so there was a technical shortage of lentils which caused the price for lentils in Australia to rapidly increase as production expectations dropped to only 100,000 MT of very poor quality seed.

India is having problems also. In our last newsletter, the segment on the "Revival of monsoon rains" discussed the rainfall deficiency to be 15% to 20% below the 50 year average. In spite of a late season revival of the monsoon, India has some serious concerns about this year's Rabi harvest due in February. Today, India has been sufficiently resupplied by the Canadian crop as we estimate 200,000 MT have been shipped this fall. India will not be a buyer now as they will prefer to buy their red lentil requirements at cheaper prices from February onward. However, we do expect India back in the market for next fall to cover their anticipated shortfall in red lentil production.

Turkey is importing substantial quantities as their crop is well below requirements for this region. This demand has helped to keep prices firm. *Continued on page 2 and 3.*



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However, seeding of new crop is rumoured to be higher than last year. Turkey is expected to have a big crop with harvest in May. If this is true, then there will be reduced demand after February/March in anticipation of local supplies being replenished.

Peering into the future is a daunting task. If seed sales are any indication of the intention of farmers, we estimate in 2010 a record 1.59 million acres of red lentils to produce a record 900,000 MT. Farmers will be relying on poor crop results in all the major production regions in India, Turkey, and other Middle East countries to cause prices to remain above 30 cents/lb. New crop prices have not been set yet but they could be as low as 20 to 22 cents/lb.

### Laird Type Large Green Lentils

Poor crops around the globe have placed unforeseen demand on the large green lentils. India was a pleasant surprise to the Canadian trade as poor a Kharif harvest of pigeon peas caused shortages of toor dahl. Toor dahl is a staple source of vegetable protein. So, when the price started to escalate

in the local markets of south India the government intervened by purchasing a record 80,000 MT of Laird lentils for shipment this fall. As quickly as the government entered the market the demand has been fulfilled and there will be no more tenders from India in the foreseeable future. Without continued demand from India the nearby prices in Canada could no longer find support to drive prices higher.

Our hope is traditional markets in Algeria, Iran, and South America will provide the support necessary to keep price at the current range of 35 to 37 cents/lb for No. 2 and No. 1 quality respectively. As we enter the holiday season, there tends to be a squaring up of positions that aids in removing some of the technical shortages in the markets. We are also getting the pipeline restored to full capacity as we ship record tonnes of lentils this fall. In the preceding chart you can see we accelerated our export volume to new record levels. What is extraordinary about this story is we had a late harvest which caused us to start our export programs about three to four weeks late!

### Eston Type Small Green Lentils

This year we have produced another high quality crop of small green lentils with good yields. Initial estimates would indicate a total production of 190,000 MT. This increase in production would seem to be too much production but after reviewing the exports from Statistics Canada and our own export data we are now fairly confident that the demand will be high enough to absorb the supply.

The only caveat would be the supply of small calibre green lentils from the USA. This past year the USA has increased production of all lentil varieties from 109,000 MT to 192,000 MT. US industry representatives estimate the Eston type lentil production would be 39,000 MT. A good portion of these lentils will be absorbed by the PL480 food aid program but more lentils from the USA are now competing with Canadian origin lentils. This is largely due to the weak US dollar. Foreign exchange strategists are calling for the Canadian dollar to continue to strengthen and the US dollar to continue to weaken as we move forward to Q3 of 2010.

In light of the above, production contract prices will likely be neutral in price i.e. 22 cents, as we will not be looking to expand acres much. If supply was to increase to 200,000 MT, then we would move into an oversupply situation assuming that 2010 will have normal weather conditions.

### Richlea Type Medium Green Lentils

Production this year has rebounded as growers increase the land base committed to the Richlea type lentil. We estimate there is about 45,000 MT of medium sized green lentils

produced this year. The quality is very good overall so the buyer's acceptance of Canadian origin Richlea is on the rise. Good demand will absorb all the production available in Canada.

Once again we will be aware of the increased supply and competition from our American friends to the south. USA production of medium green lentils has increased from 46,000 MT to 108,000 MT this past year. The weak US dollar is only going to increase their ability to compete with Canadian origin Richlea.

Our best weapon will be our superior processing ability, and the superior technology we can introduce with higher yielding, herbicide resistant varieties. This year we will release CDC Impress to those who want to grow a variety registered for use with Clearfield herbicides. Assuming a 10% increase in yield, Canadian growers will be able to utilize higher yield performance to outsell their US counterparts.

### Field Dress (FD) Exports

This fall we encountered a huge increase in export activity by line elevators who shipped lentils without processing. Whether you are a grower, processor or an exporter we have a serious threat to the future of our industry. Here are some of our thoughts on this issue:

- Our industry has been successful because we have a reputation for high quality that we can brand "Canada." Bulk FD is high in foreign material, high in mechanical damage and this will ruin our reputation as a quality source of lentils.

• FD lentils hurt the processing sector. There are 97 plants that contribute 34 million in payroll. The value added processed and benefits to Saskatchewan are significant. FD lentils do not add value. In fact, the value added benefit will reduce economic spinoffs by the millions of dollars.

• FD lentils may contain GMO contaminated canola or flax. Once detected, countries can ban the imports of Canadian lentils.

• FD lentils in the form of Yellow Split Lentils will undermine all the market development done by the Saskatchewan Pulse Growers to introduce the "Canadah" brand grown exclusively by Saskatchewan growers.

• FD lentil shipments compete with value added processed lentils. Container, railcars and vessel space is very scarce, especially with the global recession. Access to our customers has been hampered by the reduced allocation of capacity to processed lentils.

• Investment in value added processing would be reduced as processing will go off shore to jurisdictions that do not pay taxes, do not maintain good wages to employees, or meet the strict regulatory environment for worker safety.

There are many other considerations to weigh in on this issue but for now these would be sufficient points to consider. We are asking our customers to write to the Saskatchewan Pulse Growers and your local MLA and MP to express your concerns about FD shipments of lentils.

In closing, I would personally like to wish everyone a Merry Christmas and a Happy New Year.



### Canadian Lentil Export Summary Oct 2009 (Metric tons)

Crop Year	Period	Export Volume (Metric tons)
2006 - 07	Aug - July	851,913
2007 - 08	Aug - July	811,180
2008 - 09	Aug - July	972,423
2008	Aug - Oct	285,667
2009	Aug - Oct	341,755
2009	Oct	219,401

Source Statistics Canada  
Created December 10, 2009 www.statpub.com

We see stocks rapidly declining for large green lentils. Stocks will be sufficient for the first quarter of 2010 and then we will probably exhaust supplies by the end of crop year. This will aid in the market being able to absorb what we are forecasting to be another record crop of large green lentils.

Looking forward prices for new crop of 2k10, we can expect prices for production contracts to range from 22 to 24 cents/lb. We believe the premium price for large green lentils will be needed to signal growers to produce more of this calibre.

# My Experience in Spain and ANUGA

by Elyce Simpson Fraser



This year I was fortunate enough to represent Simpson Seeds and the pulse industry in Spain and ANUGA, held in Cologne, Germany. ANUGA was held in October 2009. This was my first time visiting either of these countries.

Before we took in the food show we travelled to Spain to meet with buyers and brokers. In three days, we managed to visit 12 companies in 3 areas of Spain.

We began by meeting six buyers in Madrid. In our discussions we learned about the preferences and tastes of the Spanish culture. Spain has imported superior quality Lairds, Richlea and Estons for a number of years from Canada. This buying habit is a result of Spain's inability to grow enough lentils in their own country. The variety they grow is called "Castellana" and Spain will buy this product first when given the opportunity. Spain uses this for their large canning sector. In their experience with Canadian lairds this type has not worked the best for canning quality as the seed coats come loose and float around in the can. As you can imagine this is not an appealing look when buying at the grocery store or market. However, they do like to import Canadian Laird, Richlea, Eston and some crimson for packaging quality.

On our second day in Spain we drove by car to Leon. It was also interesting to see the country side in Spain. The landscape was full of rolling hills and valleys where you could see wine vineyards and some flat areas where the corn fields grew. We noticed that many fields were un-harvested. We asked if this was typical for the region, and we learned that harvest was in fact late this year. They also report to have experienced dryer than normal conditions.

There are many canners in the Leon region which we were able to visit and see for ourselves how the lentils look canned and packaged. In our meetings they confirmed what the Madrid buyers had told us about the canning. The facilities we visited were immaculate and well organized. It was neat to see Canadian lentils in small 500 gram packages. Our packaged product looked bright and very clean. We can truly be proud of our Canadian lentils.

Our final destination in Spain was Barcelona. Upon arriving to the city it was very clear that they had a vibrant culture. The city was busy and buzzing with cars, motorcycles and mopeds. Here, we visited with a brokerage firm, who also was our guide through Spain. Barcelona is also a major port for cargo coming into Spain, including lentils. It was also here that I learned about paella. A local traditional dish of Spain, this dish of course contains lentils. Naturally I tried it. Typically paella is served with seafood but I had the vegetarian version as I have an allergy to seafood. What a fabulous dish! Local households buy canned lentils from the market to use in this dish. I had seen the lentils come full circle, from product of Canada, through packaging and

canning, to store shelves and then used in a dish.

Next stop ANUGA!



ANUGA is the largest food show in the world. This show represents every country and every sector of the food and value add chain. Here we represented the

Canadian Pulse industry and worked along side the CSCA and Pulse Canada in the Canadian pavilion. As we worked the booth at the show it became clear that Canada was a priority for many buyers to visit. Demand was incredible! This again gave me a resounding sense of pride to be able to be a part of supplying quality Canadian lentils. All who came to visit wanted to buy and learn more about Canada and all types of pulses. In discussions with the visitors it was evident that Canada is highly regarded as a nation who provides quality and who exhibits good business practices.

By seeing the show and interacting with other buyers from different countries, it allowed us to obtain valuable knowledge about other cultures and their needs. It is also a chance to see people face to face and form meaningful long term business relationships which will allow us to better learn how Saskatchewan can improve on our varieties and respond to the demand of the international market. It is an honor to work in the Saskatchewan Pulse industry and through this experience I can tell you that we are definitely on the map. This is a result of many years of hard work and developing the support of the local producers to grow the industry. I look forward to see what the future holds for Saskatchewan pulses and special crops.