



## Industry Update - July 31, 2001

### **AGRICORE, UGG CREATE NEW GRAIN GIANT**

*by Michelle Lang, Saskatchewan News Network and The Canadian Press*

Agricore and United Grain Growers announced a proposed merger Monday that will offer up some stiff competition for the Saskatchewan Wheat Pool and its status as Canada's largest grain company.

The plan to create Agricore United will result in an estimated \$50-million in annual savings and a company that can handle about 12 million tonnes of grain annually.

The pool handles about eight million tonnes a year.

According to industry insiders, the merger may also mean further layoffs and elevator closures.

Analysts say this is a necessary evil for an industry that is suffering from excess capacity.

For the financially beleaguered pool, which lost \$90-million last year and is still not profitable, the downside of the deal is Agricore United's newfound ability to compete.

The Western Canadian agribusiness would have an estimated stock market value of \$450-million. Stockholders in Agricore - formed in a 1988 merger of farmer-owned co-operatives Alberta Wheat Pool and Manitoba Pool Elevators - would own 20.5 million of the 37.3 million shares in the combined company.

Consolidation is the only way to drive down costs and become more competitive, said UGG president Ted Allen.

"It's been clear to almost everyone in the industry that there has to be some kind of consolidation go on, and we decided collectively that we were going to be there first," Allen said. "It's a good strategic fit."

Monday's deal would combine UGG's strength in seed, livestock and links to end-use markets with Agricore's strength in specialty crops, farm inputs and West Coast terminal capacity.

But Sask Wheat Pool CEO Mayo Schmidt says the pool's elevators in Alberta and Manitoba should benefit from any UGG or Agricore elevator closures.

"As they go through closures we will be there to enjoy the results of their rationalization efforts," he said.

He argued the companies are merging to follow the pool's lead in its strategy of elevator closures.

The pool has closed 300 of its older wooden elevators in recent years, leaving it with a network of 57 more efficient elevators.

Despite these closures and this new merger, Schmidt said the pool will still have the largest high-throughput elevator capacity in the country, something that should bring the company savings.

David Schroeder of the Dominion Bond Rating Service agreed the merger is positive for the pool and the industry because there are too many grain companies on the market.

In addition to a more efficient system, he said the decreased competition may result in less aggressive pricing and incentive practices that have cost grain companies dearly in recent months.

"They face a stronger competitor and that is a downside, but all in all it's a modest positive for Sask Wheat Pool," said Schroeder.

Although there may be some farmer assistance to decreased competition, several producer groups support the merger.

The Canadian Wheat Board said consolidation has to take place in the industry and it is pleased the companies will remain primarily Canadian.

Industry observers say the merger may not be the last in the grain business. Although Schmidt said the pool is not negotiating any such deal, he didn't rule it out.