

PRESSURE POINTS

Following last week's news story in British Baker regarding wheat prices, Andrew Williams speaks further to ADM Milling managing director Ian Pinner about how it plans to tackle flour price volatility



The feeling among millers is that this year's crop is very good but, to mix farming metaphors, you should never count your chickens. Two years ago a month-long August downpour put a dampener on what in June-July was a great crop, leading to low Hagberg, low protein and quality issues. But the weather is just one of a panoply of problems set to affect wheat supply and the price of bakers' flour.

Volatility in UK and global breadmaking wheat, not least from the use of grain in the rapidly emerging bio-ethanol markets, could see millers having to compete to secure their supply, with the cheaper-to-grow and more profitable feed wheats increasingly favoured by growers.

Though quality milling wheat represents just a sixth of the total UK crop – the rest largely made up of feed wheat – the reduction in overall wheat growing rates, which sets the underlying price for breadmaking wheat used, is in decline. The market is already pricing in a smaller crop for this year than last year, and the total UK crop is forecast to be down some half a million tonnes.

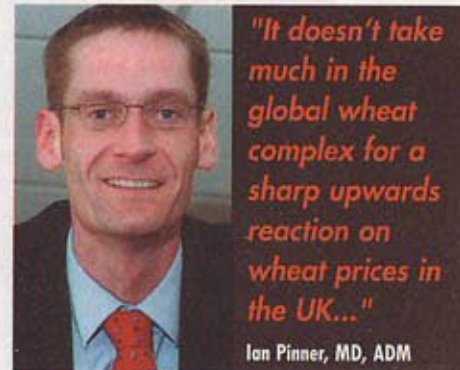
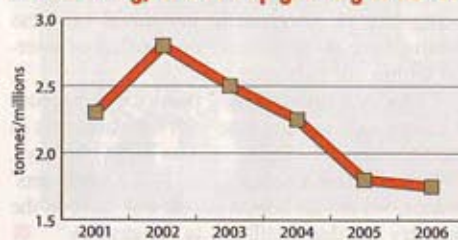
Dwindling crops

The UK has seen its quality wheat crop dwindle by around 15% over the last five years. Coupled with a reduced global wheat crop, due to planting decisions and the impact of unfavourable weather in key wheat growing areas – notably the USA, Ukraine and Russia – this could cause a “sharp reaction on wheat prices”, says Ian Pinner, MD of ADM Milling.

The Group 1 milling wheat crop used by bakers is forecast to fall by 3% in the UK this year from 1.8 million tonnes last year; the American wheat crop will be down from 57m/t to 49m/t; Europe will be down 4m/t to 118m/t; while the US Department of Agriculture recently pegged global wheat production at just under 600m/t – down from 622m/t.

“It doesn't take much in the global wheat complex for a sharp upwards reaction on wheat

Breadmaking/wheat crop growing in the UK



"It doesn't take much in the global wheat complex for a sharp upwards reaction on wheat prices in the UK..."

Ian Pinner, MD, ADM

prices in the UK,” says Pinner. “Globally, we are seeing smaller supply and consumption than last year, but consumption is forecast to be higher than the overall supply.” In 2003, a poor wheat crop in Europe saw price hikes of up to £30 a tonne. Prices approaching the 2006 UK harvest are already £12/t higher than last year for breadmaking wheat. Meanwhile, energy costs and prices for other ingredients, such as gluten, continue to rise.

Bio-ethanol boom

Meanwhile, plans already announced for industrial use of wheat, including the opening of new plants producing bio-ethanol, will reduce the export surplus from around 2m/t to 700,000t over the next three years alone, and more could follow. “That will have an impact on price, because of supply and demand, and on what the farmer decides to grow,” comments Pinner. “Bio-ethanol could prove a better market for the farmer than breadmaking wheat because the feed wheat used gives a higher gross margin.”

So closing the chasm between farmers and bakers has been one major aim of ADM to “join up the supply chain”, says Pinner, thereby securing quality wheats for the future. ADM Direct, a farm procurement business set up in 2001 to improve the chain of information from baker to farmer, has grown significantly, he says.

“We have expanded ADM Direct rapidly this year, taking on more grain originators to source and supply the wheat we need in the locations we need it,” says Pinner. “We've recruited buyers to source locally from farmers around those mills, which will continue to highlight where the demand from millers will be to the local farmer, and communicates what wheat the miller needs in future years.”

Millers still have to compete with other com-

modities through ADM Direct and the grain is no cheaper; but the improved communication means that millers – and the facility is not exclusive to ADM – are not faced with unexpected future shortages, while shortening the supply chain means improved traceability, he adds.

Pinner says consolidations have brought “tremendous changes” in milling over the last three years, and five mills closed in the last 12 months alone, so future planning is critical. And with Smiths Flour Mills’ three sites up for sale, that trend is set to continue. “We are rationalising our business to stay strong and competitive in a fiercely mature marketplace,” he says.

ADM tightened its operations in May, shutting down its Newcastle mill as a “responsible

The company shares market information through regular bulletins to its customers on issues affecting wheat, via its website. Meanwhile, the firm’s NPD hub – its Technical Centre at Avonmouth – has been boosted with investment in technology, allowing bakers to look at new grists for flour applications, analyse bread structure with C-Cell equipment, and measure the quality of wheat and flour with FOSS technology – the latter installed at a cost of around £250,000. ADM has also invested in baking equipment for use in pilot bakery applications.

ADM’s own product development has focused on both the ethnic food and traditional bread market, and it has recently received grant funding from the HGCA to develop products. “We



ADM – AT A GLANCE

OWNERSHIP Founded in 1902, Illinois-based Archer Daniels Midland Company (ADM) is one of the world’s largest processors of soybeans, corn, wheat and cocoa. It also produces soy meal and oil, ethanol, corn sweeteners and flour, as well as value-added food and feed ingredients. ADM has over 25,000 employees worldwide, more than 250 processing plants and net sales of \$36 billion.

UK SUBSIDIARY ADM Milling Ltd established as independent subsidiary in 1999

UK STAFF 630

MILLS Nine: Edinburgh; Knottingley; Castleford; Seaforth; Liverpool; Corby; Tewkesbury; Avonmouth; Tilbury

KEY LOCATIONS Avonmouth, nr Bristol (Technical Centre); Head office, Brentwood, Essex

PRODUCTS White, brown, wholemeal, organic and speciality flours, bakery mixes, ingredients, bran and germ

SUPPLIES National food manufacturers, speciality bakers, in-store bakers, craft bakers, wholesalers and caterers

move to reduce surplus capacity in the north-east of England and Scotland”, explains Pinner. “We are saying, very loudly, that this is not an industry that will sit and wait for things to creep up on it. There is consolidation in farming, merchanting, milling and in our supply base, and ADM is looking far ahead to stay in front of that curve.”

Newcastle was one of the original mills acquired by ADM in 1999 and a further six mills were acquired from Associated British Foods in 2003. The ensuing restructuring and integration, has been a “great success”, he says. “Our business has gone through a lot but we’ve tried to ensure a seamless transition for our customers and we’re grateful for their patience; our customers still get a service that, in our opinion, is second to none in the industry.”

have an ideal route to market for ADM Bakers Mixes products,” says Pinner. “We’re committed to the craft sector and we’ve got the sales and distribution channels.”

Although ADM in the UK is a subsidiary of its US-based multinational milling parent group, Pinner is keen to stress the firm’s independent credentials, saying that freedom from being tied to a vertically integrated business means there is “absolutely no conflict of interest within our customer base”.

“That is a strong selling point for us because it allows us to not compete with our customers in industry-sensitive areas, such as NPD,” he says. “While we have a commitment to our customers’ brands, we are an honest broker out there in the industry and that is still key to our strategy.” ■