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President's Half-Acre

by

Tom McCoy

A big change has taken place in the market for our wheat during the last decade. Government bureaucrats in foreign countries no longer dominate the purchasing decisions. The majority of our wheat is purchased directly by millers. These millers often sell their flour into very competitive markets with slim profit margins. They know what they want and we must give them good “value” to make a sale.

Our customers determine the “value” of our wheat based on three factors – price, intrinsic milling qualities, and cleanliness. Our wheat must be priced competitively relative to wheat from other countries and other U.S. wheat classes. Price is the most important determinant of value for most millers. Also important are the qualities of the flour produced by our wheat. Flour milled from our wheat must make a high quality final product. Our wheat is used in a wide variety of final products, e.g., Asian noodles, flat breads, sponge cakes, and cookies. Each requires different flour characteristics. Many factors, especially the wheat variety and protein, determine whether a bin of our wheat has the right intrinsic qualities to be a good “value” for a particular miller. A bin of wheat that makes good flour for one miller may be undesirable to a miller making flour for another product. The **PNW Marketing Plan** that Mark Hodges outlined last month in *Oregon Wheat* is a very important step in finding out the intrinsic characteristics each mill wants and in guaranteeing that the mill can order a consistent supply of our wheat that meets its requirements.

The third determinant of “value” is the “cleanliness” of our wheat or, more precisely, the percentage of non-millable material in a shipment of wheat. Non-millable material includes dockage, foreign material, shrunken and broken kernels. Wheat is routinely cleaned before milling and this process removes most of the non-millable material. Hence, the “cleanliness” of the wheat has little effect on the quality of the flour produced by a mill. Yet, complaints about our “dirty” wheat are a big part of any discussion of quality with foreign millers. I want to focus on this confusing issue and argue that, to address our customers’ concerns, we must change the way we price our wheat.

Two facts make our customers’ complaints about our “dirty wheat” puzzling. First, they get exactly what they order and what they expect. No one doubts that the Federal Grain Inspection Service (FGIS) is doing a good job in seeing that the exporters meet the contract specification. If buyers want cleaner wheat, why don’t they specify lower limits in their contracts? Second, the average dockage in our exports is about .6%. The results of a USDA survey of U.S. millers found that it costs no more for a miller to clean wheat with 1% dockage than 0.1% dockage. Since wheat must be cleaned anyway before it is milled, the cost of cleaning our wheat is not the problem.

Our customers’ complaints started to make sense when I read Robert Drynan’s excellent paper, *Wheat Quality in the Twenty-First Century*. Everyone interested in quality issues

should read Bob's paper. Most of our customers buy wheat the same way we sell it. Dockage is deducted from the weight, but not the weight of foreign material and shrunken and broken kernels. Foreign material in our wheat averages 0.2% and shrunken and broken kernels average 1.1%. If you assume our wheat sells for \$3.20 per bushel FOB Portland and add the freight and other costs as is done in Bob Drynan's paper, paying for this non-millable material adds 6¢ per bushel to the cost of our wheat.

Cleaning wheat not only reduces dockage, but also takes out foreign material and shrunken and broken kernels. It increases the percentage of a shipment that can actually be used by the miller. Since Canada cleans all its wheat, most of our customers see how cleaning increases the percentage of millable wheat in a shipment. Most millers have little trouble cleaning out the relatively low levels of dockage, foreign material and shrunken and broken kernels in our wheat. However, millers do resent that we are charging them for material they can't use. If they can shame us into delivering cleaner wheat, each ton they purchase will produce more flour and hence is more profitable for the miller.

To get a truer picture of what our customers want, we should change the way we sell our wheat. We should deduct the weight of all non-millable material. Tony Flagg of the Pendleton Flour Mills has persuasively argued that we should sell wheat based on **net-millable bushels**. Why should our customers pay wheat prices for material that they can't use?

If we continue to charge for foreign material and shrunken and broken kernels, our customers will continue to complain about our "dirty" wheat when what they really want is cheaper wheat. Unnecessary cleaning and high dockage discounts are very costly to Oregon wheat growers. Deducting the weight of all non-millable material will mean that our customers will ask for clean wheat only when they really value it. As Bob Drynan says, "If all export wheat were bought and sold on [a net-millable] basis, demands for *cleaned* wheat might be substantially diminished."