

Change sweeps through Twin Ports' grain elevators

Major, recent changes in the grain commodities industry have had immediate effects on a number of the Twin Ports' grain elevators.

Duluth-Superior has seven active terminal elevators for receiving and shipping grains. The berths beneath these towering silos host vessels that hail from around the world, helping give the Port its unique flavor as an international port. Indeed, the presence, or absence, of these ships serves as a rough barometer of the health of the economy — global, national and local.

Since the opening of the St. Lawrence Seaway, a relatively small number of companies have controlled the flow of grain commodities from the United States. A 2003 study by the Food and Agriculture Organization of the United Nations (FAO) reported that "60 percent of terminal grain handling facilities are owned by four companies: Cargill, Cenex Harvest States, ADM and General Mills." While all of these companies have a long history of activity in the Twin Ports, two of them, Cargill and ADM, no longer actively operate here. ConAgra, a large regional grain firm, also has ceased elevator operations here.

A brief survey of the current state of our elevators shows how a profound shift taking place in the overall commodities industry is influencing elevator ownership within the Duluth-Superior harbor.

The entrance of hedge firms into the agricultural commodities indus-

try over the past couple of years has marked a shift in ownership from traditional companies like Cargill, Bunge and Louis Dreyfus. Hedge funds, largely speaking, are pools of capital managed by one or two individuals for private investors. Those managers often buy and sell assets — from newspapers to grain companies. "Commodity prices depend not only on supply, but also on forecasts about the future availability of supply. Futures and options markets are risk management tools, helping to offset the exposure of contracting to supply a given amount of commodity ahead of harvest time," notes the 2003 FAO study. One of the "hot" assets in recent years has been agriculture, which includes fertilizers, forest products, biofuels, farmland, shipping and elevators. Activity in those investments is based on the assumption that the world's demand for food is going to increase.

Here's the up-to-date status of Duluth-Superior's elevators:

General Mills Elevator A (Duluth), Elevators S and X (Superior)

General Mills is the world's sixth largest food company and a major player in the ready-to-eat cereal market. The company has two operations in the Twin Ports. Elevator A, located in Duluth, exports traditional grains and processed products such as sugar beet pulp pellets to overseas markets by ship and to domestic markets by rail. The elevator also receives shipments of Canadian-raised oats for use in cereal products.

In Superior, General Mills operates terminal Elevator S and storage Elevator X. Domestic

wheat is shipped from the Superior elevator to East Coast markets via Buffalo for processing into flour.

The elevators at Superior have a storage capacity of 12.7 million bushels, which, when combined with the firm's Duluth elevator, give General Mills an overall capacity of 16.2 million bushels.

CHS is one of the world's largest marketers of grain commodities. CHS's roots begin in the 1920s farm cooperative movement. Maintaining that tradition, CHS is owned by an amalgam of farmers, ranchers, cooperatives and stockholders. Today, CHS is a Fortune 200 company and, as North America's largest grain exporter, ships more than 1 billion bushels domestically and worldwide.

The Superior elevator opened in 1942, when the Farmer's Union Grain Terminal Association shipped its first cargo of grain from the Tower Avenue slip. Following a decades-long period of building and acquisition, the elevator currently has an operating capacity of 18 million bushels.

Wheat is the primary grain handled at CHS, in addition to soybeans, barley, canola and flax. The 2009 season will see a new product, dried distilled grains with solubles (DDGS), introduced to the export mix. DDGS, a coproduct of ethanol production, is a high protein feed for livestock. CHS plans to load DDGS on the Hughitt Avenue side of the elevator.

The **Hansen-Mueller Company** is a newcomer to the harbor, acquiring two of ConAgra's Superior elevators in 2008. The company formed in 1979 as a partnership between Jack Hansen and Randy Mueller. Over the past two decades the Omaha-based company has grown, adding country elevators, feed grain processing and, with the addition of elevators like the two at Superior, has stabilized its ability to provide efficient commodity logistics for its customers. Elevator M, located in Superior's East End, is primarily a rail shipment facility. The elevator, on the site of Cargill's seminal port elevator, has a capacity of 2.25 million bushels.

Superior's Daisy Mill is the oldest surviving remnant of a once thriving flour industry in the harbor. The main workhouse was constructed in 1893. The elevator, including

its large storage annex, has a storage capacity of 1.5 million bushels, and is currently used for the storage of oats. Hansen-Mueller had been leasing the property from ConAgra for several years prior to the purchase.

W.B. Duluth Storage's Duluth elevator, formerly Cargill's, is considered the harbor's most modern and efficient elevator complex. The elevator's main storage and shipping section opened in 1977 and was expanded the following year. The remains of an older complex, built in 1919, bring the total storage capacity of the complex to 12 million bushels. Whitebox is capable of handling large unit trains and of loading vessels at the rate of 3,000 tons per hour. Whitebox is in the process of painting its Duluth elevator.

Duluth Lake Port Storage LLC

In August 2008 Ag Processing, Inc., of Omaha sold its wholly owned subsidiary AGP Grain, Ltd., to Columbia Grain of Portland. Subsequently, the elevator has been purchased by Riverland Agriculture, Ltd. (Riverland Ag) of Calgary. Riverland Ag is the Canadian subsidiary of Minneapolis-based hedge firm of Whitebox Advisors. The 4 million bushel elevator is on the site of Duluth's first flour mill, and was later home to the Capital Elevator Company, founded in Duluth in 1905.

Gavilon Grain, LLC, a subsidiary of the Ospraie group, operates the 8 million bushel elevator on Superior's Connor's Point. The elevator was built in 1966 for the Chicago, Northwestern Railroad and operated for many years under a lease to Continental Grain. In recent years the elevator was owned by the Peavey Elevator division of ConAgra. In the 1970s, it was a pioneer in the Port in the handling of sunflower seeds.

Recently in the Twin Ports, hedge firms have purchased three large terminal elevators. In January 2008, the elevator assets of Cargill's Duluth complex were purchased by **Whitebox Advisors LLC.**, and the former AGP elevator was acquired by **Riverland Ag.** "It's a huge disadvantage to not be able

to trade the physical commodity," stated Andrew Redleaf, the head of Whitebox, regarding his firm's purchases of elevators.

If the AGP and Cargill sales weren't surprising, the sale six months later of ConAgra's Connor's Point elevator certainly was. The **Ospraie Special Opportunities Fund**, an affiliate of the New York-based Ospraie Management, purchased not only the elevator, but the entire trading and marketing operation of the ConAgra Trade Group.

Forecasting the future of these

elevators is a lot like predicting the weather. As infrastructure improvement of the Seaway lags behind the growth of deep-water ships, Pacific and Gulf coast elevators are going to continue their dominance in the movement of North American grain.

It would seem that in the long term the world's demand for food is going to increase and that control of the elevators in Duluth-Superior will provide opportunities to store and ship grain through the Port. The Twin Ports will continue to play a role in that long-term strategy.

— Pat Lapinski



Jerry Bielicki

Sweeping change has come to the Twin Ports grain picture.

Superior native Pat Lapinski usually writes about the history of the Port, but for this issue catches up with current affairs.