“Wheat Deregulation: Three Harvests On, What have We Learnt?”

University of Western Australia
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Ron Storey
Storey Marketing Services
To start with.....

When you change something which has been regulated for 60+ years...
And when the change occurs with some fighting to the bitter end...
And when the change is precipitated by a highly emotive event (Cole Inquiry)
-- you are not going to please everyone!

BUT..............
Deregulation is working
I’d give it 7/10 – a fair pass mark
Can we improve? – Absolutely, and we must

Not here to argue the pro or anti case.... That debate is over, and there is no turning back
It’s a health check on what we’ve got
Deregulation of the wheat industry is working

- Export program a record in 10/11 (without WA!!)
- Container trade has flourished
- More buyers of Australian wheat
- More marketing choices for growers
- Growers have been paid
- Expansion in grower advisory services
- Starting to see innovation and investment in the supply chain
- New entrants to the Australian industry
2010-11 wheat exports will be a record – despite WA drought, East Coast floods, wet harvest, etc
To paint today’s picture....

The grain & food background we live in

WHEAT DEREGULATION --
  Impact on growers?
  Impact on customers?
  Impact on supply chain?

But first, a declaration of interests!!
NZX in Australia

On-line Grain Exchange
Direct, real time access
Fast Secure Payment
Immediate Control
Integrated with Graincorp

GRAINS INFORMATION UNIT

- Grain market insight & strategy
- Price data
- Pre-farm & Post Farm
- Full S&D by zone
- Independent, unbiased
NZX Grains Information Unit

PRE-FARM GATE

*Targets Growers*

- Unbiased
- Weekly Newsletter
- Daily SMS & Email
- Strategy

POST-FARM GATE

*Targets agribusiness*

- Independence
- Crop Forecast, Weather
- S&D Analysis
- Port Zone Analysis
Grain Outlook for 2011-15

Fundamentals of S&D are good! (in 2011 and longer term)

Impact of MACROS – oil, energy, financials, hedge funds

Globalisation on our doorstep; changing of the guard
Fundamentals - Paradigm shift from supply driven (1990’s) to demand driven (2000+)
Eating > Growing — 5 of last 8 yrs
## US Stocks to Use Ratio

<table>
<thead>
<tr>
<th></th>
<th>06/07</th>
<th>07/08</th>
<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>20%</td>
<td>11%</td>
<td>27%</td>
<td>48%</td>
<td>31%</td>
<td>27%</td>
</tr>
<tr>
<td>Corn</td>
<td>12%</td>
<td>13%</td>
<td>14%</td>
<td>13%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Soybean</td>
<td>19%</td>
<td>7%</td>
<td>5%</td>
<td>5%</td>
<td>4%</td>
<td>5%</td>
</tr>
</tbody>
</table>

10% = 36 days supply
Crude oil – grains and oilseeds – 2007-2011

Black line = crude oil
Price Volatility – on the move...1996 - 2011

Move in Weekly APW Cash Prices

- 1996-2007 $0-10 range
- 2008-2011 $10-20 range

02-03 06-07
Q: What happened from Oct 08 to Jun 11?
A: We followed Chicago futures just like we always did!
# Changing of the guard– who buys & sells?

<table>
<thead>
<tr>
<th>Pre 2008</th>
<th>Export share</th>
<th>2011</th>
<th>Est export share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Big Four -</td>
<td></td>
<td>AWB*</td>
<td>16%</td>
</tr>
<tr>
<td>AWB, ABB, CBH, GNC</td>
<td>80-90%</td>
<td>CBH</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td></td>
<td>GNC</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cargill*</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Viterra*</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Emerald*</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>ETG*</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Glencore*</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bunge*, LDA*, Touton*,</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nidera*, Olam*, etc</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>PLUS Wilmar*, Gavilon*, etc</td>
<td></td>
</tr>
</tbody>
</table>

Many new players have a multi-ag commodity focus – expect more Asian & M-E presence in future

Impact on growers? – negligible; all competent, global companies with solid financials
The point of this is...

The wheat industry’s health is MUCH more determined by these (very positive) global factors, outside our control, than whether Australia has a single desk or not.

The signs look good

The question? – How to maximise our opportunity in these times?
Impact on growers?

Score – 7-8/10 : have performed well

Proven to be savvy sellers (08/9, 09/10, 10/11)
Can compare, have choices
20-30 exporters, 50+ packers, 5+ pool operators
Expanded broker, advisory services
Warehousing first choice – 80-90% of deliveries – a good thing
Grower Marketing Behaviour?

Sentiment - “Marketing is time consuming, confusing and difficult”

In practice, growers are generally doing a good job – they probably underestimate their capability
Selling Patterns – indicative 08/09/10 harvests

- Shift to warehousing on the weighbridge; perhaps 80-90%
- Around 50% sold/transferred w/i 30 days
- Pools approx 10% at delivery, higher in lower price years
- Maybe 10% cash-at-silo (evidence that C-A-S prices < direct negotiation price)
Price Volatility

Direct grower exposure to daily global moves – commodity and currency
Increase in use of advisors/brokers
Increase in on-line volumes for cash flow and quick access to price spikes
Use of daily SMS, email services
546k mt traded online (Clear) and settled in 5 business days

120m AU$ traded online since deregulation
On-Farm Storage

Are we reaching a limit?
Issue of quality risk becoming better understood (beware 2011 harvest!!)
Market access – physical access, pricing spikes, quality certification
Challenging the popular mythology
## Managing the Six Risks

<table>
<thead>
<tr>
<th>RISK</th>
<th>CONTROL/TODOL</th>
<th>SCORE ?/10</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td>-farming practices, moisture &amp; weed mgt, varietal, timing (agros &amp; farmers good at this)</td>
<td>7-9</td>
</tr>
<tr>
<td></td>
<td>-reviewing in-crop estimates, % sold: <strong>don’t sell what you don’t “own”</strong></td>
<td>5-7</td>
</tr>
<tr>
<td><strong>Quality</strong></td>
<td>-varietal choice, harvest ready, etc</td>
<td>7-9</td>
</tr>
<tr>
<td>-Harvest downgrade</td>
<td>-multi-grade contracts</td>
<td>7-9</td>
</tr>
<tr>
<td>-Post-harvest spoilage</td>
<td>-high quality on-farm storage &amp; hygiene</td>
<td>6-7</td>
</tr>
<tr>
<td></td>
<td>-outsource to BHC</td>
<td>10</td>
</tr>
<tr>
<td><strong>Counterparty</strong></td>
<td>-COD, Letters of credit</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>-Credit checks on buyers</td>
<td>6-8</td>
</tr>
<tr>
<td></td>
<td>-Relationships, experience with buyers</td>
<td>8-9</td>
</tr>
<tr>
<td></td>
<td>-Clear Grain Exchange ($s before title transfer)</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td><strong>“If it looks too good to be true, it is!”</strong></td>
<td></td>
</tr>
</tbody>
</table>
# Managing the Six Risks

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<th>RISK</th>
<th>CONTROL/TOOL</th>
<th>SCORE</th>
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</table>
| **Execution** | - write it down, day book  
                - GTA Terms and Conditions  
                - maintain contact with buyer  
                - sense of urgency: time is of the essence  
                - do a GTA course; use a broker | 8-9   |
| **Price**     | - cash (spot and forward)  
                - pools  
                - derivatives (esp swaps)  
                - keep “mark to market” report | 7-9   |
| **Stress**    | - don’t understand: don’t touch!  
                - use an advisor (but not to pick the top!)  
                - price target = success: not picking the top  
                - HOW DO YOU PRICE SLEEP AT NIGHT FACTOR?  
                - SOLVENCY = SUCCESS | ?     |
Growers cont ... BUT..

National grain grower representation is a shambles: it is a needed voice

Individuals and state bodies are trying their best, but the reality is that several parties are vying for the right to say they are the “national grower representative group”. To outsiders and government, the industry looks divided and fragmented.
Growers - Summary

Doing a good job: better than they give themselves credit
Marketing does take time & effort
Some will outsource, some DIY
Greater self-confidence will evolve

National grower representation needs an overhaul; it has gone missing since deregulation
Impact on Customers?

**Score 7/10** (but lack good data, anecdotal)
Reality is we have taken away some SD services

<table>
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<th>PLUS</th>
<th>MINUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>More choice, range of suppliers</td>
<td>Variability in cargoes</td>
</tr>
<tr>
<td>Lower premium, competition</td>
<td>Specs at minimum levels, impact of blending</td>
</tr>
<tr>
<td>More customers, diversity</td>
<td>Lack of crop info, tech support</td>
</tr>
<tr>
<td>Expansion in containers</td>
<td>No independent quality info</td>
</tr>
</tbody>
</table>
Supply Chain

**Hard assets:** trains, trucks, ports, ships – for physical movement through chain

**Soft assets:** access to and sharing of info to monitor what is happening in the chain, improve its performance
Impact on Supply Chain?

Overall – 6/10
Physical performance – 7/10
Information & Industry Services – 5-6/10

This is where we need the most work ... and there are some serious commercial issues to resolve at BHC-exporter level
First: Credit where credit is due -- 2010-11 wheat exports will be a record
Buyers are liking the flexibility and diversity of containers…
BUT, information capture of grain receival data is costing the industry dearly

It is only visible to BHCs
The myths of keeping it a secret
Should not the grain owners have the loudest say in how this data is managed and disclosed?
Who owns the data on the weighbridge ticket?

<table>
<thead>
<tr>
<th>Grower NGR 123456</th>
<th>Site – XYZ</th>
<th>Bin No.- abc</th>
<th>Tonnes- 123456</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commodity- Wheat</td>
<td>Grade- AH1</td>
<td>Variety- Mace</td>
<td>Bin Grade- ???</td>
</tr>
<tr>
<td>Test Weight- 79</td>
<td>Protein- 12.2%</td>
<td>Screenings- 2.5%</td>
<td>Falling No.- 320 secs</td>
</tr>
</tbody>
</table>
So, who owns the data on the weighbridge ticket?

Being claimed by BHCs as “proprietary information”
An uncontested claim
Where are the owners of the grain?
Has deep and insidious impacts on market
Three examples:-
- Lower bidding power by independent exporters
- Dumbing down of quality specs
- No consolidated view of Aust crop profile
Capture Cost No. 1 – Lower bids to farmers

Bidding power quarantined to party who has visibility of quality profile, by site, by zone – both proprietary stocks and growers’ warehouse stocks. The power and incentive to buy and blend comes from visibility of stock quality data at a site level.
Capture Cost No. 1 – Lower prices

Lower prices to farmers because of stifled competition for grades most suitable, adaptable for blending
The playing field is uneven

When we look at supply chain information transparency, we run a real risk of repeating the AWB(I) – AWB (Ltd) “blind spot”
Capture Cost No. 2 – Dumbing down of quality specs

- Exporters don’t get back what they put in
- BHC obligation is receival stds only
- Result?
  - Customers get min specs
  - Increased risk/cost to exporters
  - Receival std “fix” is wrong medicine
  - Low incentive to pay farmer for quality
    (will be good to see how re-intro of Golden Rewards goes!)
Data showing consist of crop by variety, specs, and importantly, its trend?
How to make varietal classification decisions and crop shaping decisions in absence of data on what the current crop is?
Reportedly, WQA does not have access to the “proprietary information”???
Breeding direction is at risk
Supply Chain Summary

Hard assets – ports, trains, etc – need investment
BHC-Exporter commercial arrangements do not maximise grower or customer value
Soft Asset of information access – capture costing money and long term direction

**Despite this – the grain has gone out at record levels!**
Summary

Working pretty well, room for improvement
Industry is and will be stronger for it
The outlook is bright for grains
Supply chain is biggest challenge (hard & soft assets)
If I could change ONE THING?.....
In the end, the customer is always right!!
Thank You
Questions?

Ron Storey 0418 332431
ron@storeymarketing.com.au