Geoff Honey
Grain Trade Australia

World wheat production – IGC Dec 11

Heads World production for 11/12 will be closer to 600 mt

Tails World production for 11/12 will be closer to 700mt

World wheat production – IGC Dec 11

Heads World production for 11/12 will be closer to 600 mt

Tails World production for 11/12 will be closer to 700mt

Tails

683 mt

World wheat production – IGC Dec 11

Heads World production for 11/12 of 683 mt is historically low

Tails World production for 11/12 of 683 mt is historically high

World wheat production – IGC Dec 11

Heads World production for 11/12 of 683 mt is historically low

Tails World production for 11/12 of 683 mt is historically high

Tails

Second largest wheat crop ever

World wheat production – IGC Dec 11

Heads World export trade for 11/12 will be closer to 150 mt

Tails World export trade for 11/12 will be closer to 100 mt

World wheat production – IGC Dec 11

Heads World export trade for 11/12 will be closer to 150 mt

Tails World export trade for 11/12 will be closer to 100 mt

Heads

135 mt

World wheat production – IGC Dec 11

Heads Carryover stocks for 11/12 will be closer to 200 mt

Tails Carryover stocks for 11/12 will be closer to 100 mt

World wheat production – IGC Dec 11

Heads Carryover stocks for 11/12 will be closer to 200 mt

Tails Carryover stocks for 11/12 will be closer to 100 mt

Heads

200mt

World wheat production – IGC Dec 11

Heads Carryover stocks of 200 mt is historically high

Tails Carryover stocks of 200 mt is historically low

World wheat production – IGC Dec 11

Heads Carryover stocks of 200 mt is historically high

Tails Carryover stocks of 200 mt is historically low

Heads

Highest in a decade

GRAIN TRADE AUSTRALIA

World wheat production – USDA Dec 11

Heads Canada to export more wheat than Australia

Tails Canada to export less wheat than Australia

World wheat production – USDA Dec 11

Heads Canada to export more wheat than Australia

Tails Australia to export more wheat than Canada

Tails

Canada – 18 mt Australia 21.5 mt

World all grains – USDA Dec 11

Heads Production closer to 1900 mt

Tails Production closer to 1500 mt

World all grains – USDA Dec 11

Heads Production closer to 1900 mt

Tails Production closer to 1500 mt

Heads

1816 mt

World maize – USDA Dec 11

Heads Production closer to 800 mt

Tails Production closer to 600 mt

World maize – USDA Dec 11

Heads Production closer to 800 mt

Tails Production closer to 600 mt

Tails

853 mt

Heads If you think AWB stands for Australian Wheat Board

Tails If you think otherwise

Heads If you think AWB stands for Australian Wheat Board

Tails If you think otherwise

Tails

AWB Ltd stands for AWB Ltd

Heads If you think AWB Ltd is owned by Australian wheat growers

Tails If you think otherwise

Heads If you think AWB Ltd is owned by Australian wheat growers

Tails If you think otherwise

Tails

AWB Ltd is owned by Cargill

Heads If you think deregulation of export wheat arrangements was government policy

Tails If you think deregulation was brought about by other factors

Heads If you think deregulation of export wheat arrangements was government policy

Tails If you think deregulation was brought about by other factors

Tails

Other factors

Talking points

By way of introduction:

Grain Trade Australia

Australian production / markets / structural

Setting the scene:

History of AWB

Inquiry into certain Aust. Coys. in relation to the Oil for Food Programme

Deregulation of the export wheat market:

Outcomes

Production sector

Trade

Wheat Quality Australia

Unresolved

So on balance...................tick or cross?

By way of introduction

GRAIN TRADE AUSTRALIA

GRAIN TRADE AUSTRALIA

Industry driven and managed

Cross sector membership by organisations

Grain Standards

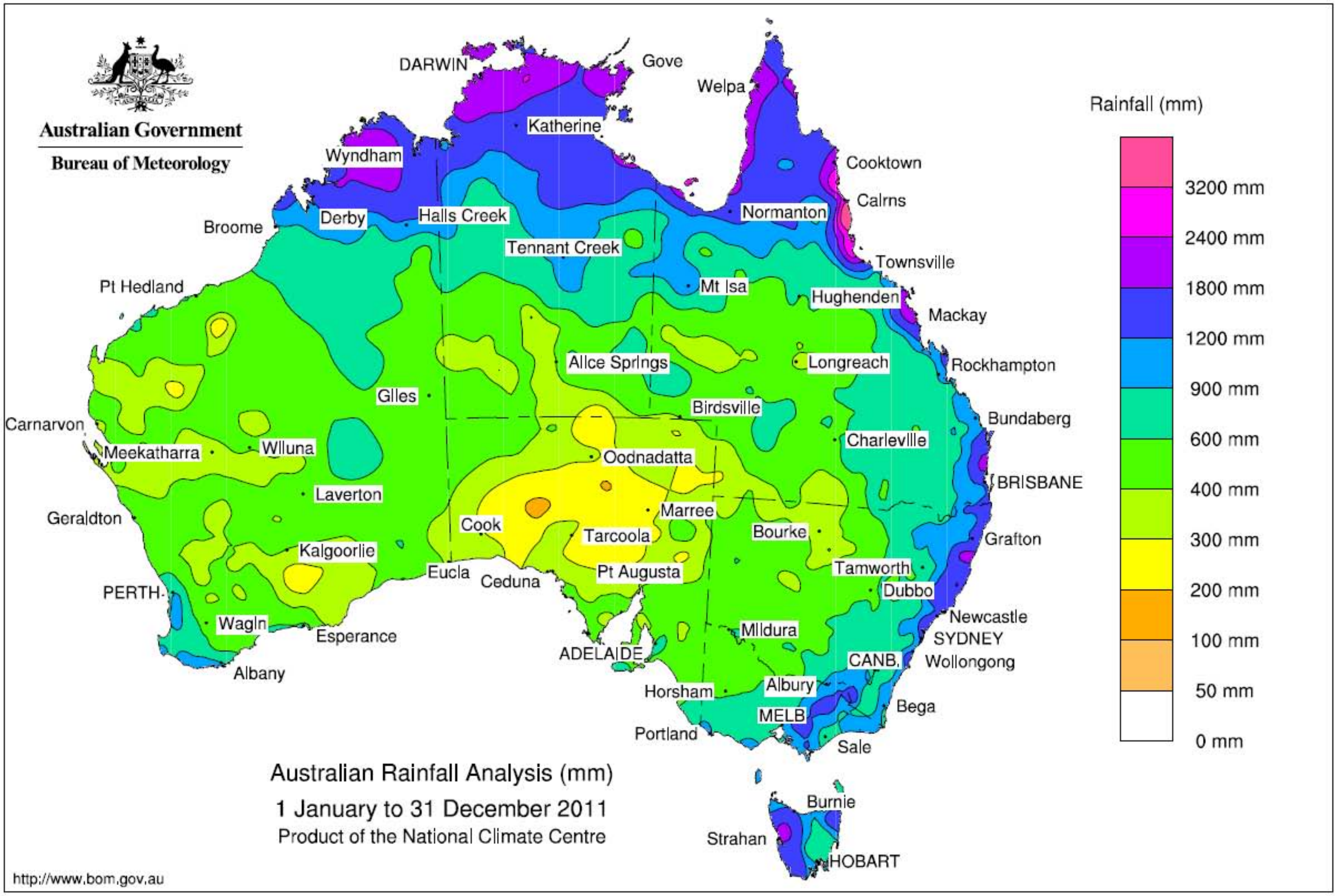
Contracts and Trade Rules

Arbitration process

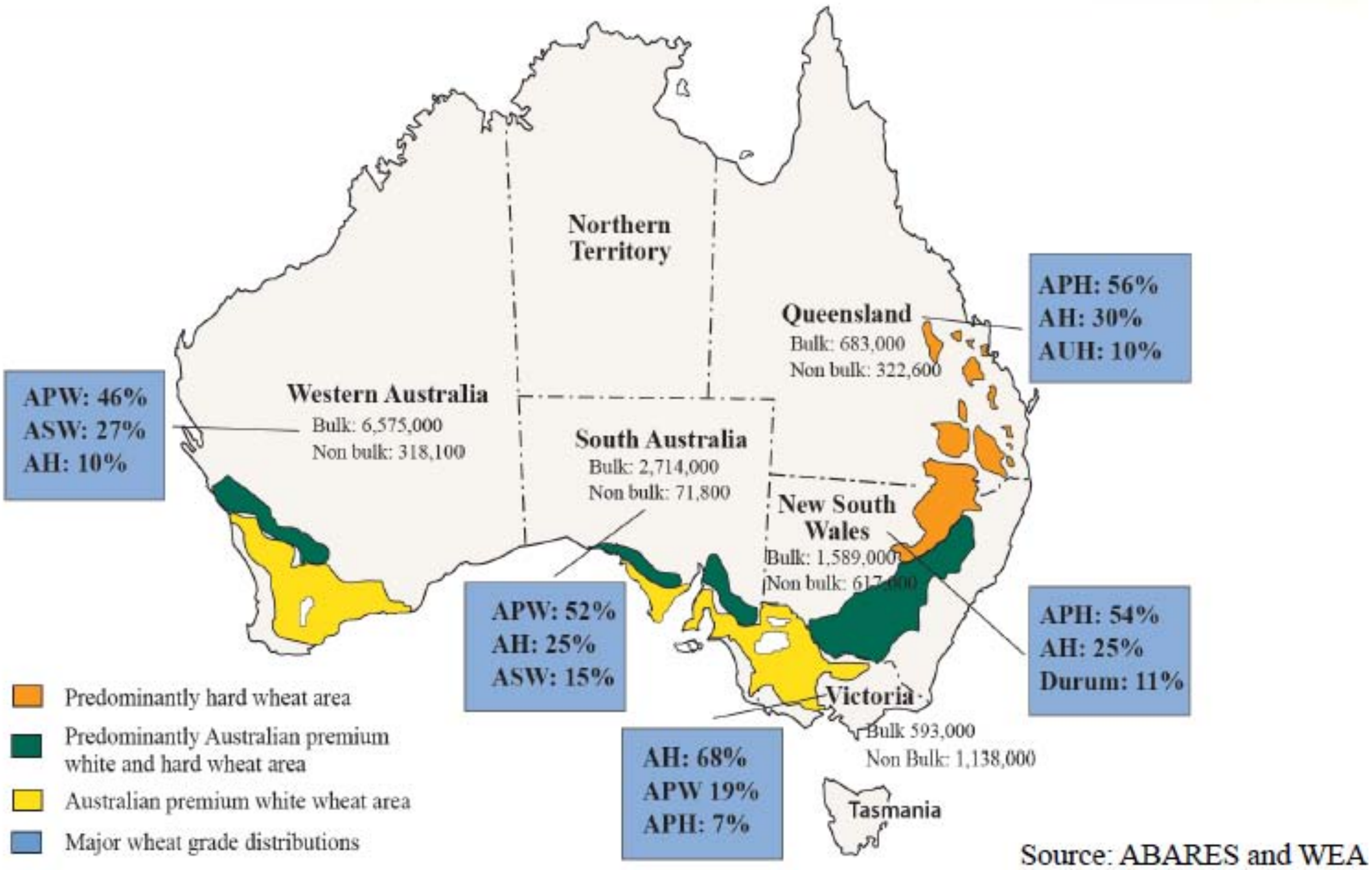
Professional development programs

Industry advocacy

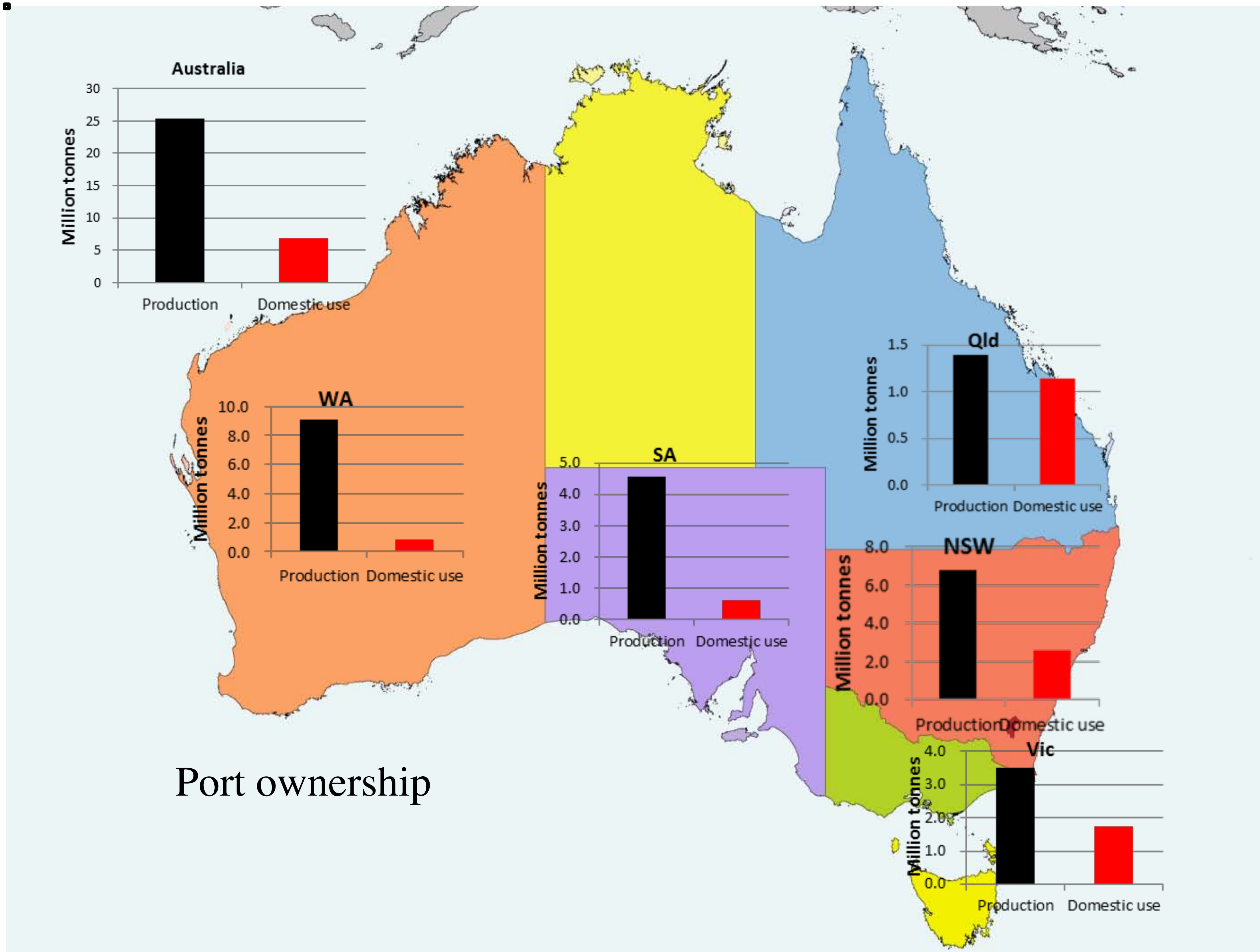
Australia Rainfall Map



Australian Wheat Growing Areas

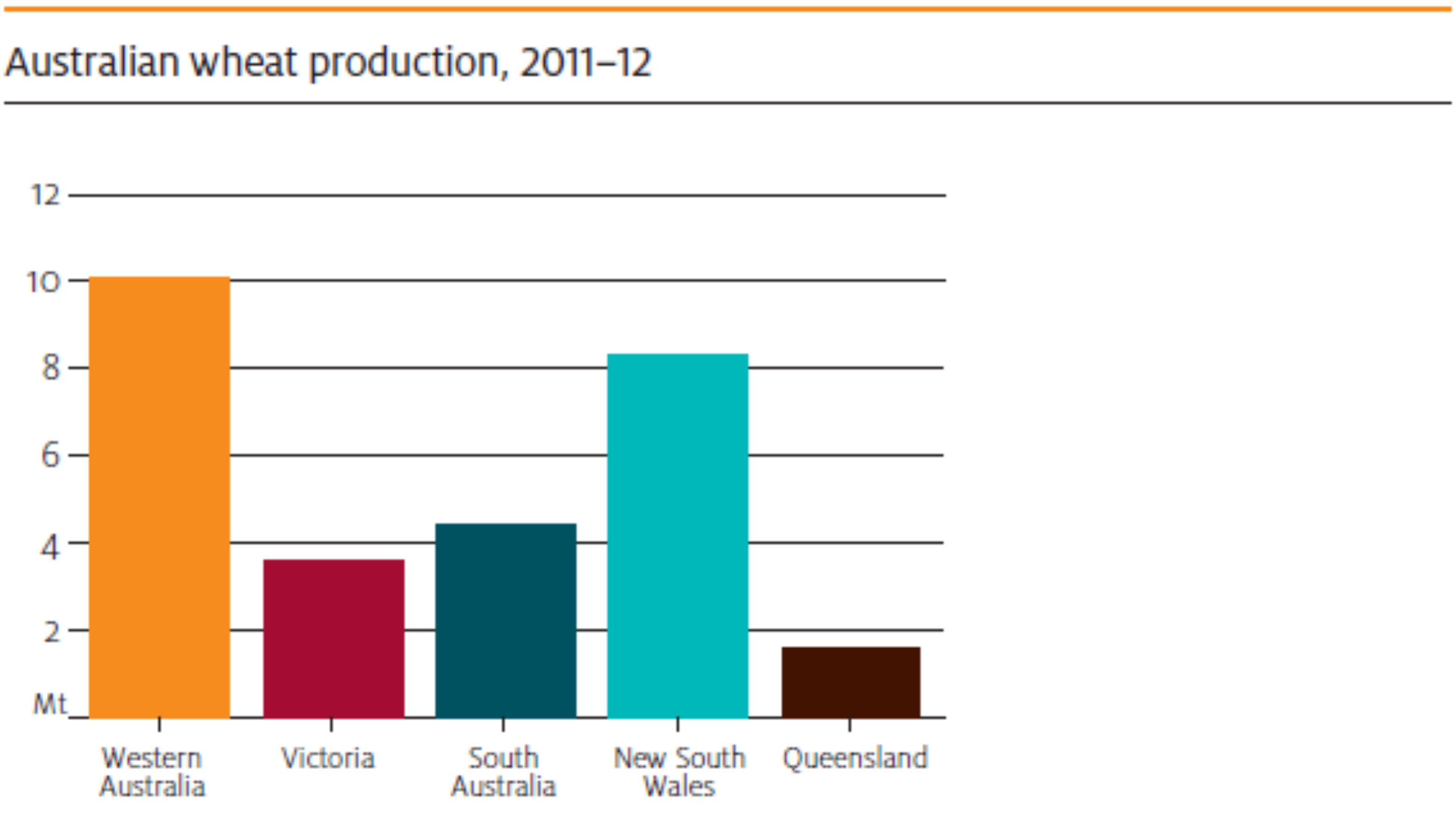


Source: ABARES and WEA

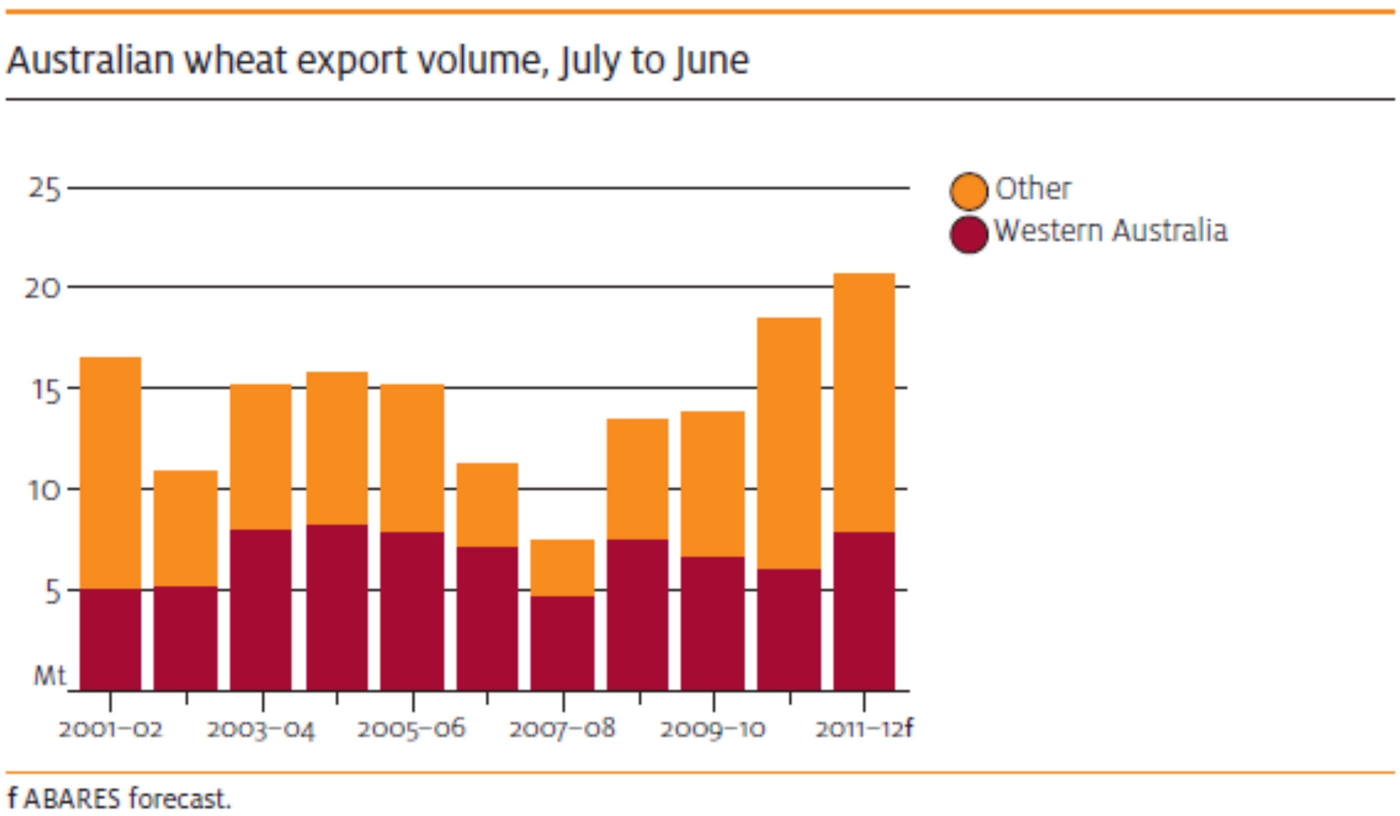


Port ownership

Australian Wheat Production



Australian Wheat Export Volumes

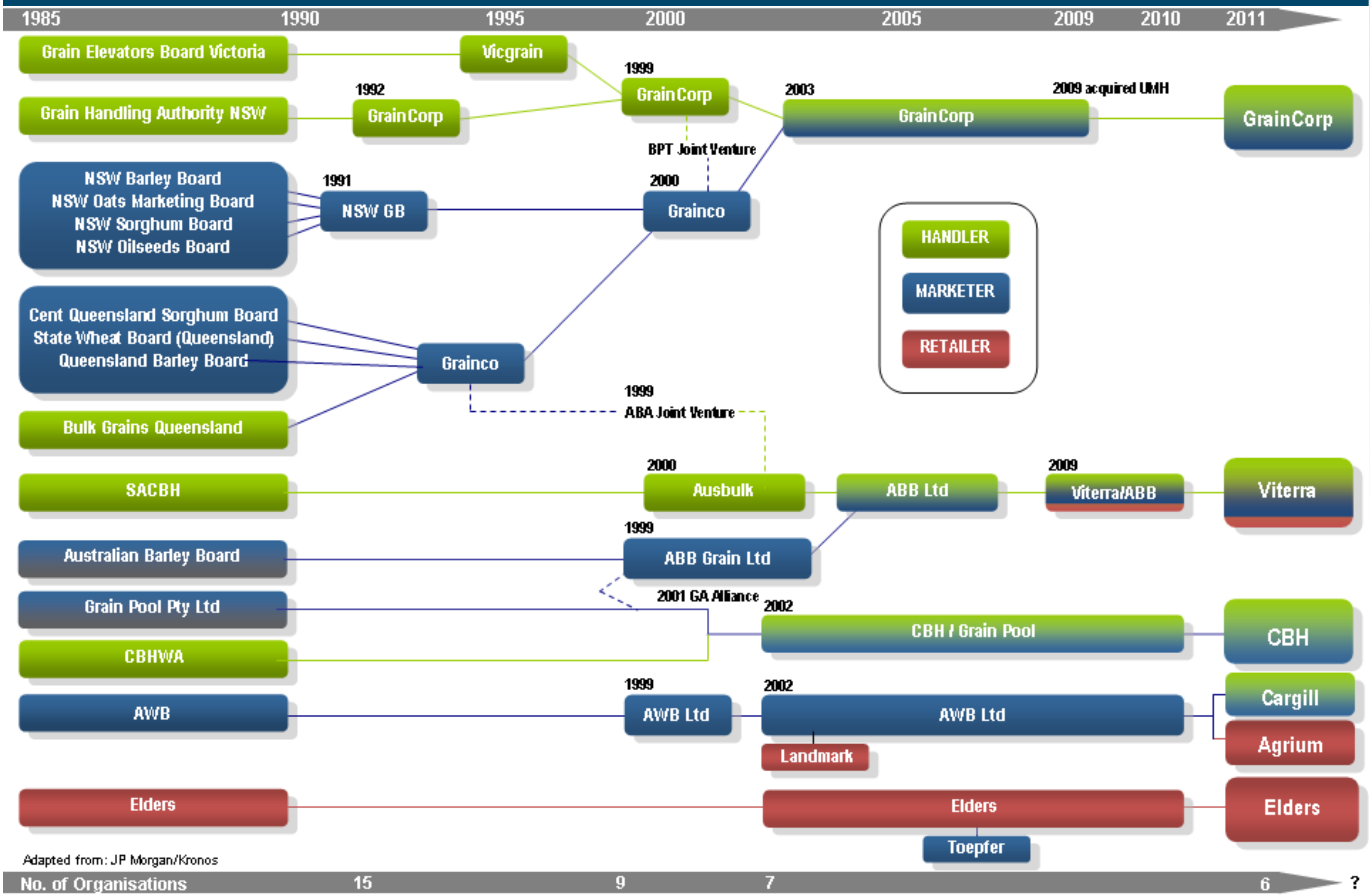


Grain Trade Australia

Storage & handling capacities – total crop all grains

Company	Storage facilities No.	Capacity (mmt)	2011/2012 intake
GrainCorp	270	20.0	11.0
CBH	193	20.0	14.0
Viterra	116	10.3	6.5
Cargill/AWB	22	3.7	Not known
On farm		15.4	
Total	**601**	**69.4**	**31.5 +**

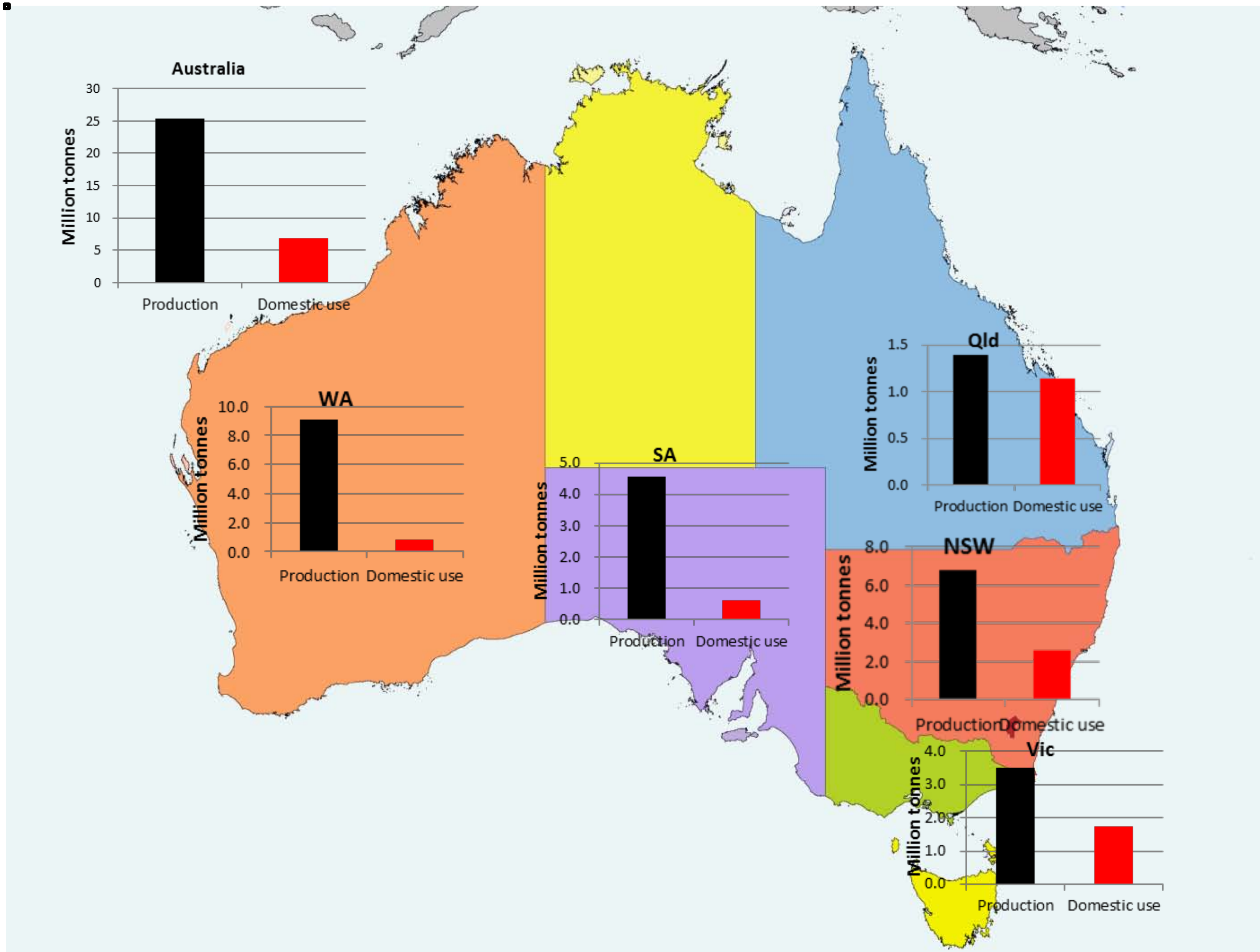
Consolidation of the Australian Grain Industry
Sixteen into six



Setting the scene

History – AWB

- **1915** – Australian Wheat Board (V1) created to oversee wartime domestic & export markets. Disbanded post war.
- **1939** – Australian Wheat Board (V2). Stabilisation fund - GMP
- **1948** – Wheat Industry Stabilisation Act passed
- **1988** – Industries Assistance Commission & Royal Commission on Grain Storage, Handling & Transport.
- Outcomes introduced in **1989**:
  1. End of Guaranteed Minimum Price
  2. Wheat Industry Fund created under AWB management
  3. Domestic wheat market deregulated


Australia
Million tonnes
30
25
20
15
10
5
0
Production
Domestic use
WA
Million tonnes
10.0
8.0
6.0
4.0
2.0
0.0
Production
Domestic use
SA
Million tonnes
5.0
4.0
3.0
2.0
1.0
0.0
Production
Domestic use
Qld
Million tonnes
1.5
1.0
0.5
0.0
Production
Domestic use
NSW
Million tonnes
8.0
6.0
4.0
2.0
0.0
Production
Domestic use
Vic
Million tonnes
4.0
3.0
2.0
1.0
0.0
Production
Domestic use

History – AWB

- **1991** – Grains Council of Australia – recognised need to control the future. Concerns:
    1. Single desk not consistent with the National Competition Policy being introduced by the Government
    2. Trade negotiations – Uruguay Round
    3. Impending termination of government guarantee on borrowings.

History – AWB

- **1995/1996/1997** – deliberations to privatise AWB
- **1998** – Australian Wheat Board to Australian Wheat Board Limited
- **1999**

1. AWB Ltd came under grower control on 1 July 1999
2. AWB Ltd takes over Wheat Industry Fund ($600 M) and issues shares

History – AWB Ltd

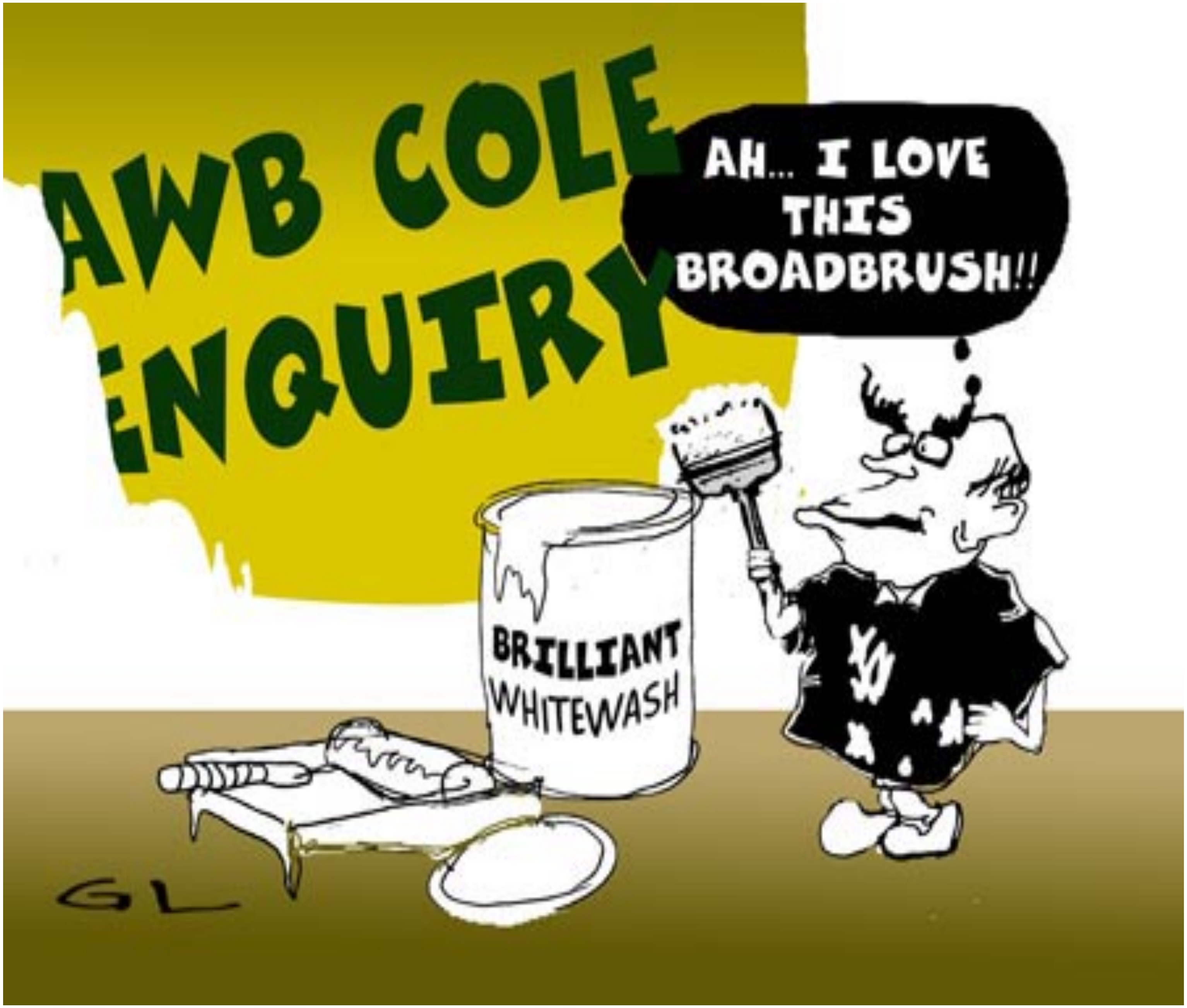
- **2001** – AWB Ltd goes public. Listed on Aust. Stock Exchange.

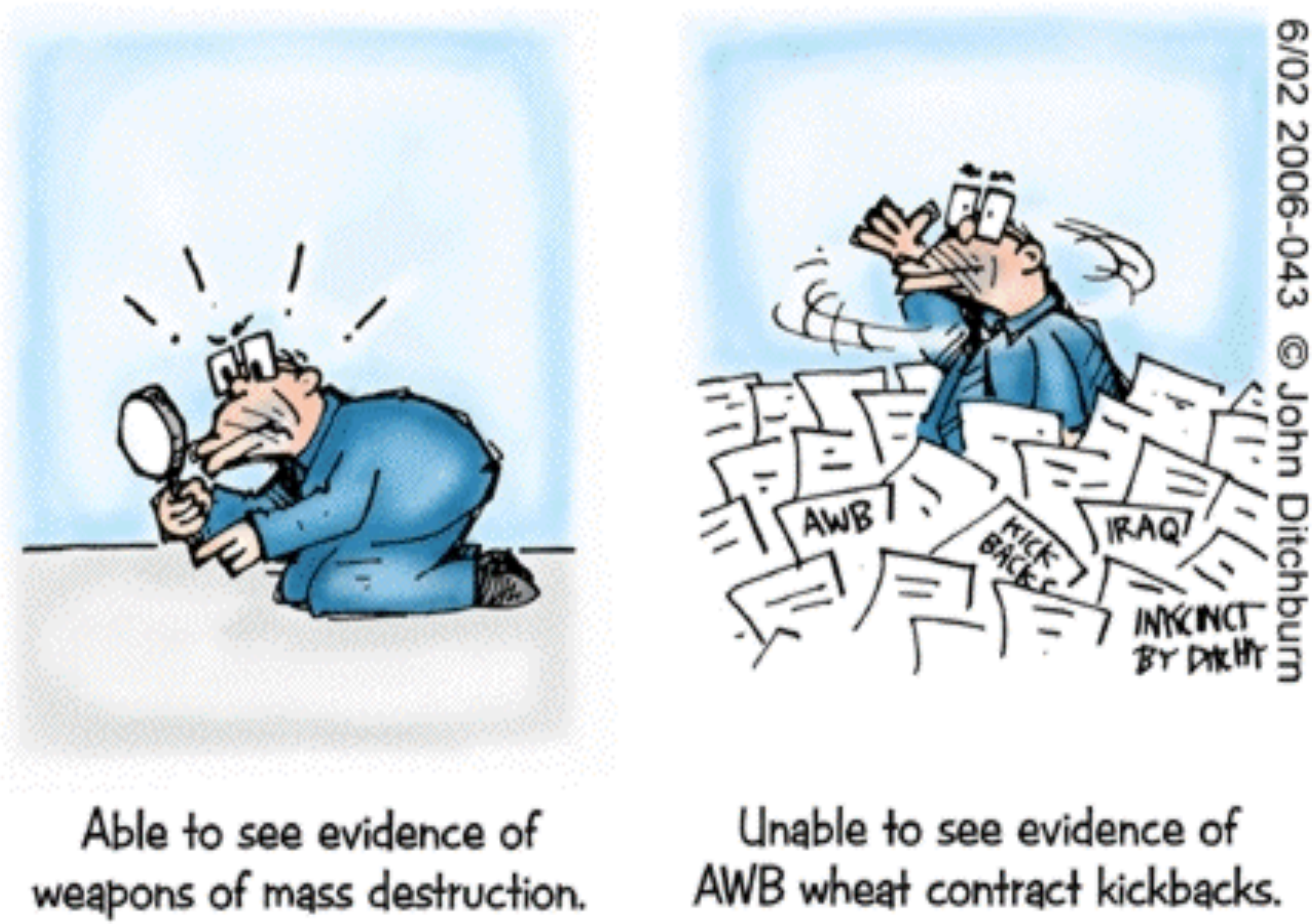
  Announces intention to develop into vertically integrated agribusiness - grain storage and shares in milling and feed businesses chiefly in Asian markets.

and then in 2006 we had the

Inquiry into certain Australian companies in relation to Oil for Food Programme (Cole Inquiry)

Established 10 November 2005


AWB COLE ENQUIRY
AH... I LOVE THIS BROADBRUSH!!
BRILLIANT WHITEWASH
GL


AWB
KICK BACKS
IRAQ
INKCINCT BY DITCH
6/02 2006-043 © John Ditchburn
Able to see evidence of weapons of mass destruction.
Unable to see evidence of AWB wheat contract kickbacks.

Beginning of the end…….

- **Australian Prime Minister (John Howard - Liberal) called to give evidence to the Inquiry**
- **Justice Cole handed down his Report on 27 Nov 2006**
- **Effective 1 December 2006:**

1. AWB loses veto power, which moves to Minister (Tony Burke – Labor). Minister held this power until 1 July 2008.

Beginning of the end…….

- **Oct 2007** – Wheat Export Authority replaced by Export Wheat Commission. 2007/2008 last harvest for AWB.

WEA responsible for:

1. Controlling export of bulk wheat from Australia. (Essentially still AWB. 9 consents to others traders granted)
2. Monitor performance of AWB
3. Administered the Non-bulk Wheat Quality Assurance Scheme

Deregulation of the export wheat market

GRAIN TRADE AUSTRALIA

Wheat Industry Expert Group – April 2008

Industry development function	Commercial function	Government function
Industry strategic planning		
Research & development		
Wheat Variety Classification		
Wheat receival standards		
Information provision		
Crop shaping activities		
Technical market support		
Wheat promotion		
Branding		
Trade advocacy		
Regulatory advocacy		

Wheat Industry Expert Group – April 2008

Industry development function	Commercial function	Government function
Industry strategic planning	YES	NO
Research & development	YES - GRDC	Gov contribution
Wheat Variety Classification	YES	NO
Wheat receival standards	YES - GTA	NO
Information provision	Combined effort	
Crop shaping activities	YES	NO
Technical market support	YES	NO
Wheat promotion	YES	NO
Branding	YES	NO
Trade advocacy	Combined effort	
Regulatory advocacy	YES	NO

Consultation – new legislation

1. Draft legislation available for public comment from 5 March 2008.
2. Briefing consultations pan Australia:
   - farm orgs,
   - exporters with port terminals,
   - industry advisors,
   - multinational and Australian based exporters and co-operative based wheat traders.
   - Wheat Industry Expert Group (IEG) – public comment
3. Senate Standing Committee on Rural and Regional Affairs and Transport conducted an inquiry – public comment.

Wheat Export Marketing Bill 2008

"This Bill gives growers the right to choose which exporter they use – after all, it is their wheat,"
Hon Tony Burke, Minister for Agriculture, Forestry & Fisheries 29 May 2008

Major reforms:

- Wheat Exports Australia (WEA), to administer a wheat export accreditation scheme;
- A new applicant must meet a number of tests, including that it is a 'fit and proper company' and it must be a corporation or cooperative;
- If the applicant operates a bulk grain port terminal, it must provide access to other exporters;
- The new system will be reviewed by the Productivity Commission.

Wheat Export Marketing Bill 2008

Funding:

The Government committed up to $9.37 million over three years to assist with the transition to the new arrangements;

- $1.15 million for information sessions for growers and customers
- $2.52 million for collection and publication of market data
- $5 million seed funding for Wheat Exports Australia
- $500,000 in technical market support grants for new exporters; and
- $100,000 to Grain Trade Australia to develop an industry Code of Conduct

Wheat Exports Australia

- WEA conducts the Bulk Wheat Export Scheme (the Scheme).
- Funding 22 cents/tonne exported in bulk
- Currently 25 accredited exporters

Purpose of the Scheme

- to attest that an exporter is a ‘fit & proper’ company to export bulk wheat

The Scheme does not:

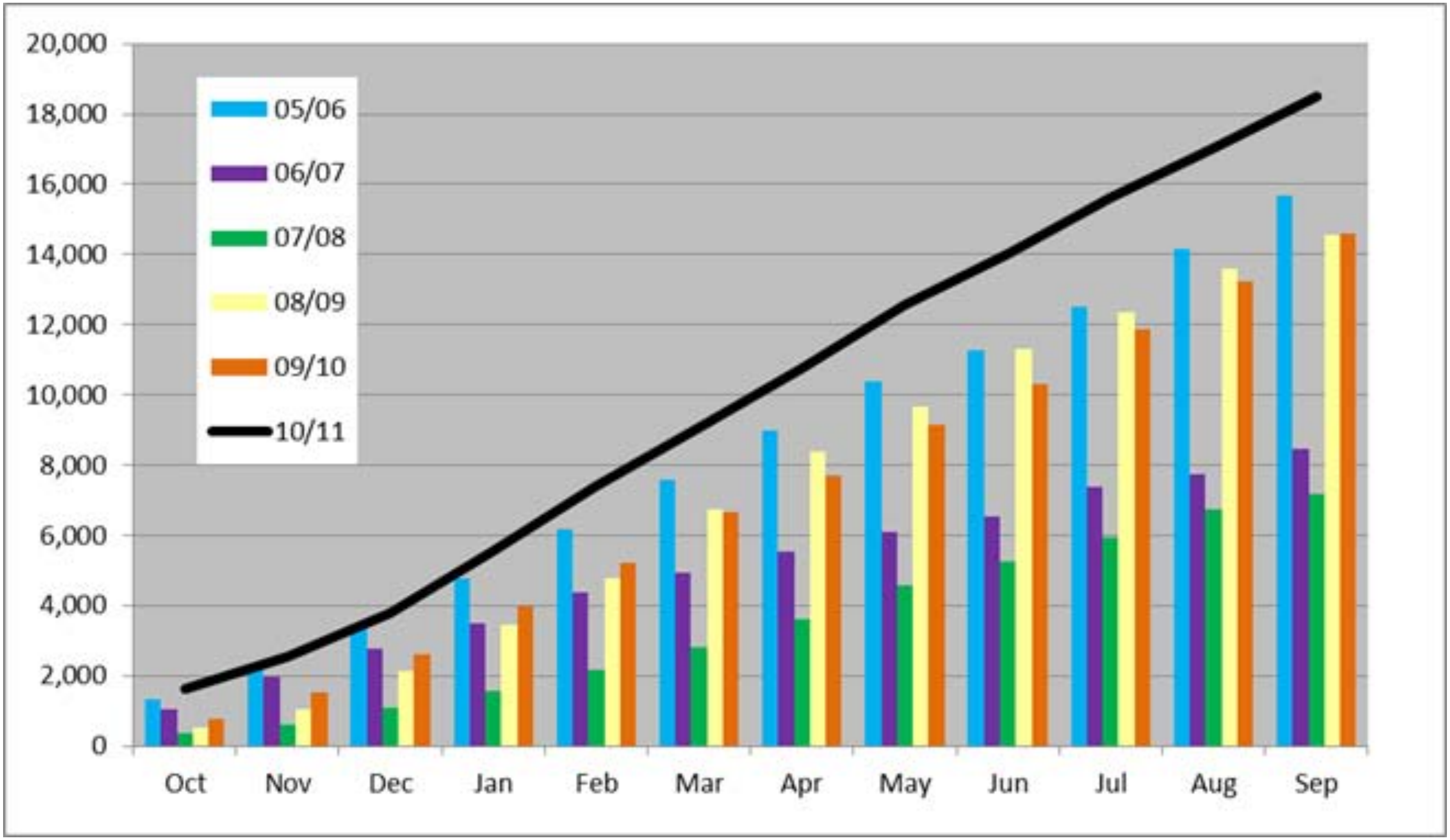
- Regulate shipments of wheat
- Provide any guarantee the exporter will remain financially viable
- Regulate the quality, variety or grade specifications of wheat exported from Australia.

Outcomes

Outcomes - trade capacity

- New entrants to the Australian industry, domestic and international
- Accredited exporters wheat - 1 to 25
- Container trade - zero tonnes to 2 million tonnes (niche & general markets)
- Production and export program a record in 10/11 (without WA, due to drought!!)

Export shipping program



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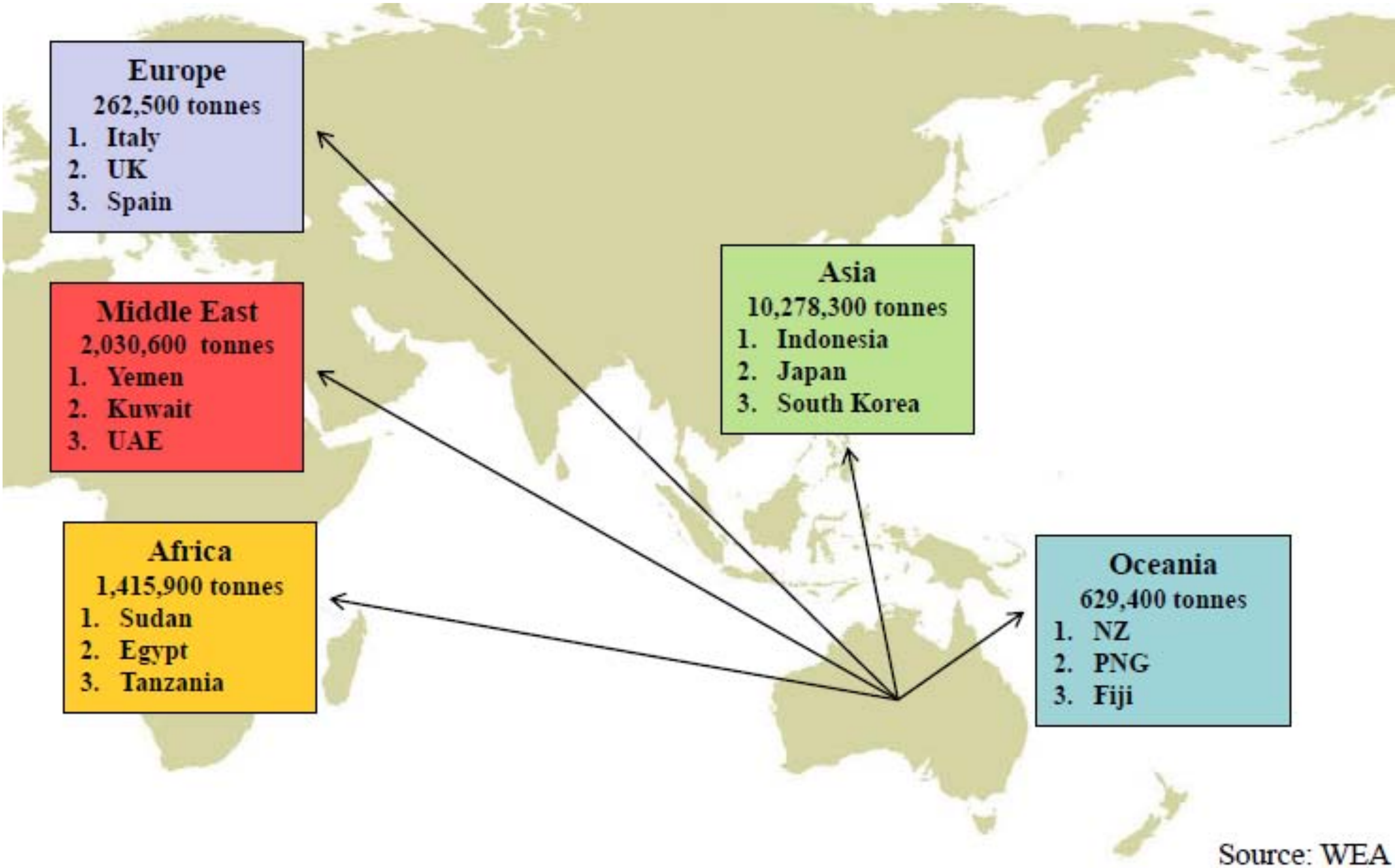
- Shift in export destinations

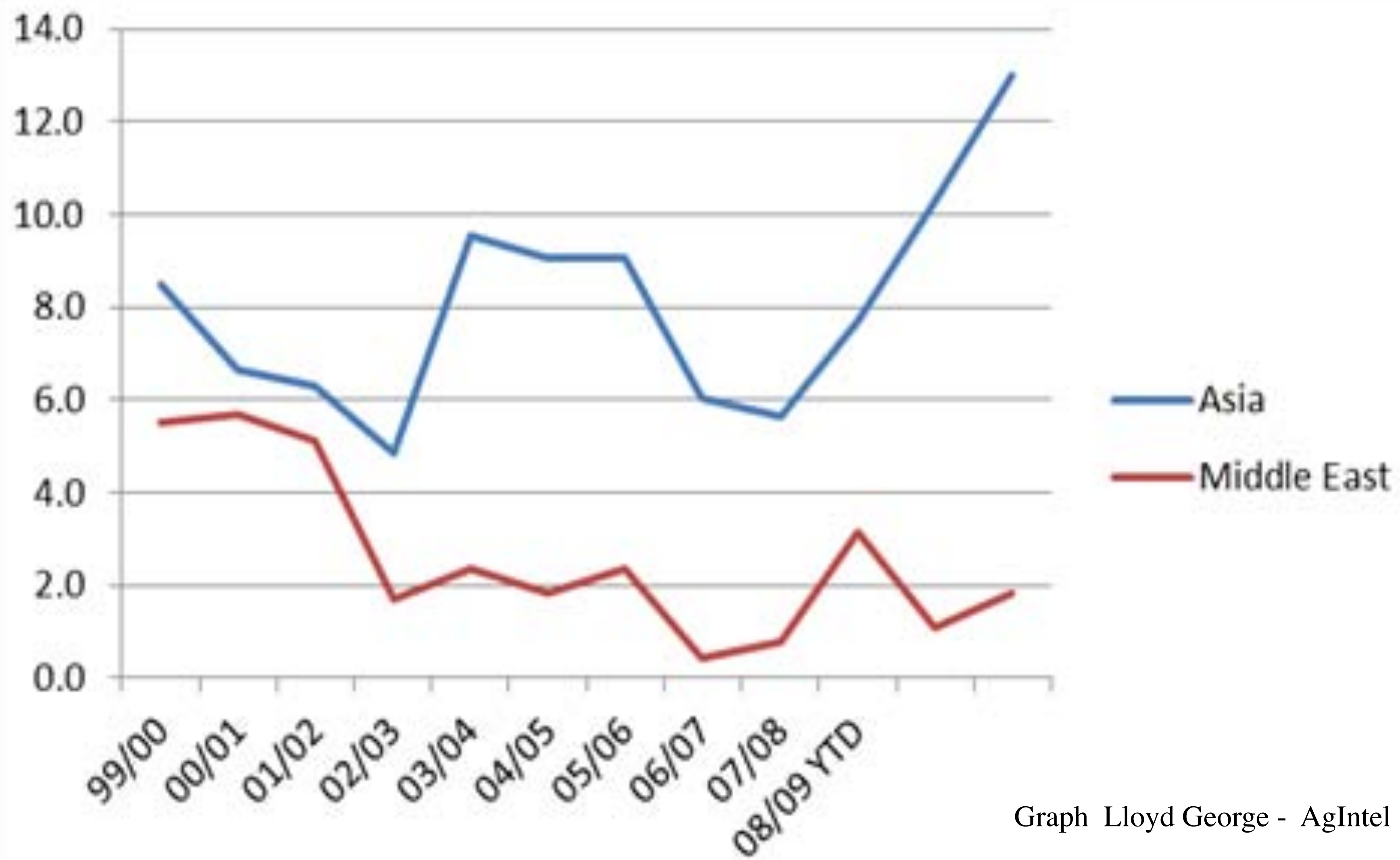
Australian Bulk Wheat Exports by region 2010



Source: WEA

GRAIN TRADE AUSTRALIA

Export markets – shift 1999 to 2010



Graph Lloyd George - AgIntel

Outcomes - trade capacity

- New entrants to the Australian industry, domestic and international
- Accredited exporters wheat - 1 to 25
- Container trade - zero tonnes to 2 million tonnes (niche & general markets)
- Production and Export program a record in 10/11 (without WA, due to drought!!)
- Shift in export destinations
- Financial capacity of industry sound

Outcomes - logistics

New investment;

- new trains, wagons,
- Port Adelaide OH, proposed new export terminal at Newcastle,

another export terminal in WA ????

- private regional storages; often aligned to
- a container packing facility

Outcomes - establishment of Wheat Quality Australia

- Joint venture Grains Research & Development Corporation and GTA.
- No government funding
- Primary focus – wheat classification
- Potential to expand as required by industry.

Production sector – general comments

1. Marketing

- Producers not conditioned to paying for advice
- Concept of the cost of carry – not understood

2. Producers taking control of their marketing

- Establishment of marketing co-ops.
- Increased on farm storage – issues

Production sector – marketing options

Warehousing - increased uptake

- About 70% into warehouse
- About 15% to cash contracts
- About 15% to pools
- "optimise" loads – match loads to contracts
- Hold grain to price later on hope of higher prices

Pools

- decline in activity particularly in higher priced years
- new pool types being offered
  - Pre-commitment
  - Set sales over period of time
- Title changes in delivery – producer exposure to insolvency

Production sector – marketing options

Contracts

- NFP (no fixed price); grower deliver grain to buyer, receive part payment but can fix price at anytime for up to 6 months later.

Hedge products

- Flirtation with derivative contracts – withdrawn from market
- Hedging activity mainly via bank swap products in AUD.

Ancillary services

- Increase in use of advisors/brokers
- Development of on-line grain brokerage services
- Inventory financing for warehoused grain. Gives cash flow but allows exposure to market.

Production sector – some contracting issues

- A verbal contract is a valid contract
- Confirm everything in writing – keep a marketing day book
- Be proactive – take the initiative
- Contract confirmation incorrect? Attend to immediately
- Contract amendments need to be in writing
- Ignorance is no defence
- Understand your rights and obligations. Read the contract.
- Representation in an arbitration

Australia's experience – developing/unresolved

Trade capacity

- Shipping stems and associated issues

Production sector

- Production sector national representation - critical

Generic promotion of Australian wheat

Productivity Commission – all recommendations adopted by government

- The WEA and the wheat export charge will be abolished on 30 September 2012.
- Access test requirements to support open competition will remain in place until 2014.
- From 1 October 2014, the market is fully deregulated and access issues will be governed by an industry code of conduct and general competition law administered by the ACCC.

Since Cole Inquiry, the Australian wheat industry has had to deal with:

- Drought years - 06 to 08
- New shipping arrangements, to the point of not being sure that we could ship that much grain.
- Record wheat crops – 10/11
- Record downgraded wheat crop – 10/11 crop
- Record Aussie dollar – last 12 months
- Record shipping program – 10/11
- Disintegration of production sector representation

So, on balance

- commercial forces stepped up;
- systems/processes did perform and are

improving; resulting in

- a wheat export system that works.

Australia's experience

GRAIN TRADE AUSTRALIA

Australian Wheat Grades

- Australian Prime Hard (APH) (Queensland and Northern, Central and

Southern New

South Wales)

- Australian Hard (AH) (All zones)
- Australian Premium White (APW) (All zones)
- Australian Standard White (ASW) (All zones)
- Australian Soft (ASFT) (All zones)
- Australian Noodle (ASWN) (Western Australia, Victoria and Northern,

Central and

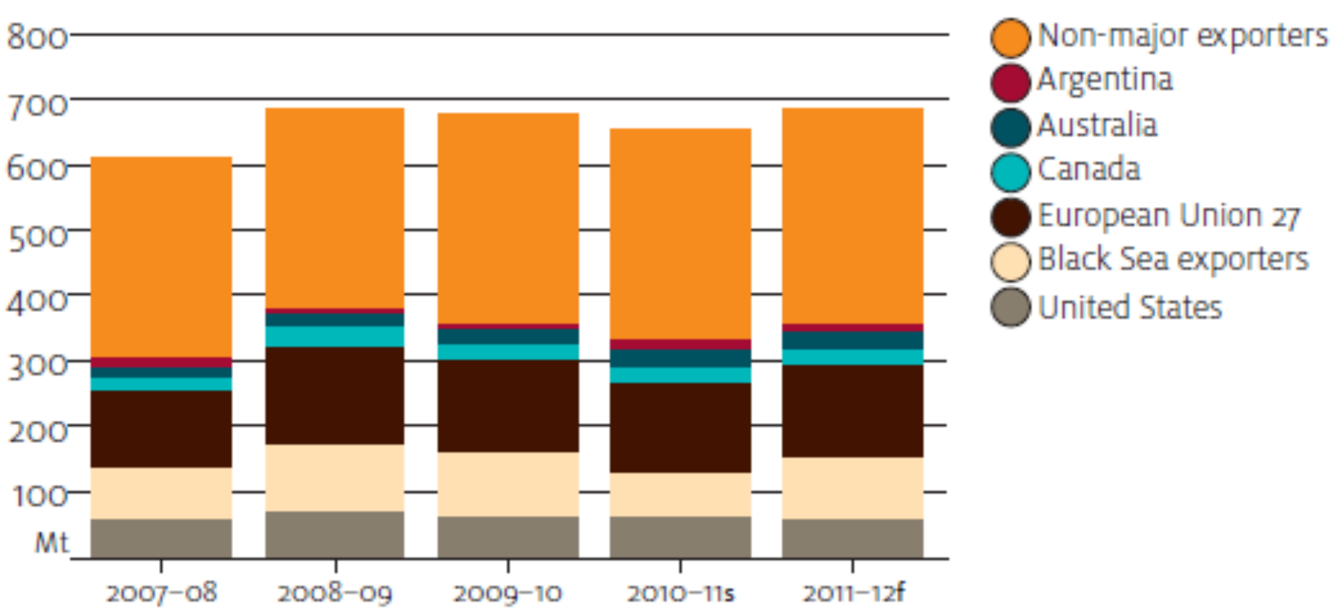
Southern New South Wales)

- Australian Durum (ADR) (All zones)
- Australian Premium White T (APWT) (Western Australia)

GRAIN TRADE AUSTRALIA

World Wheat Production

World wheat production

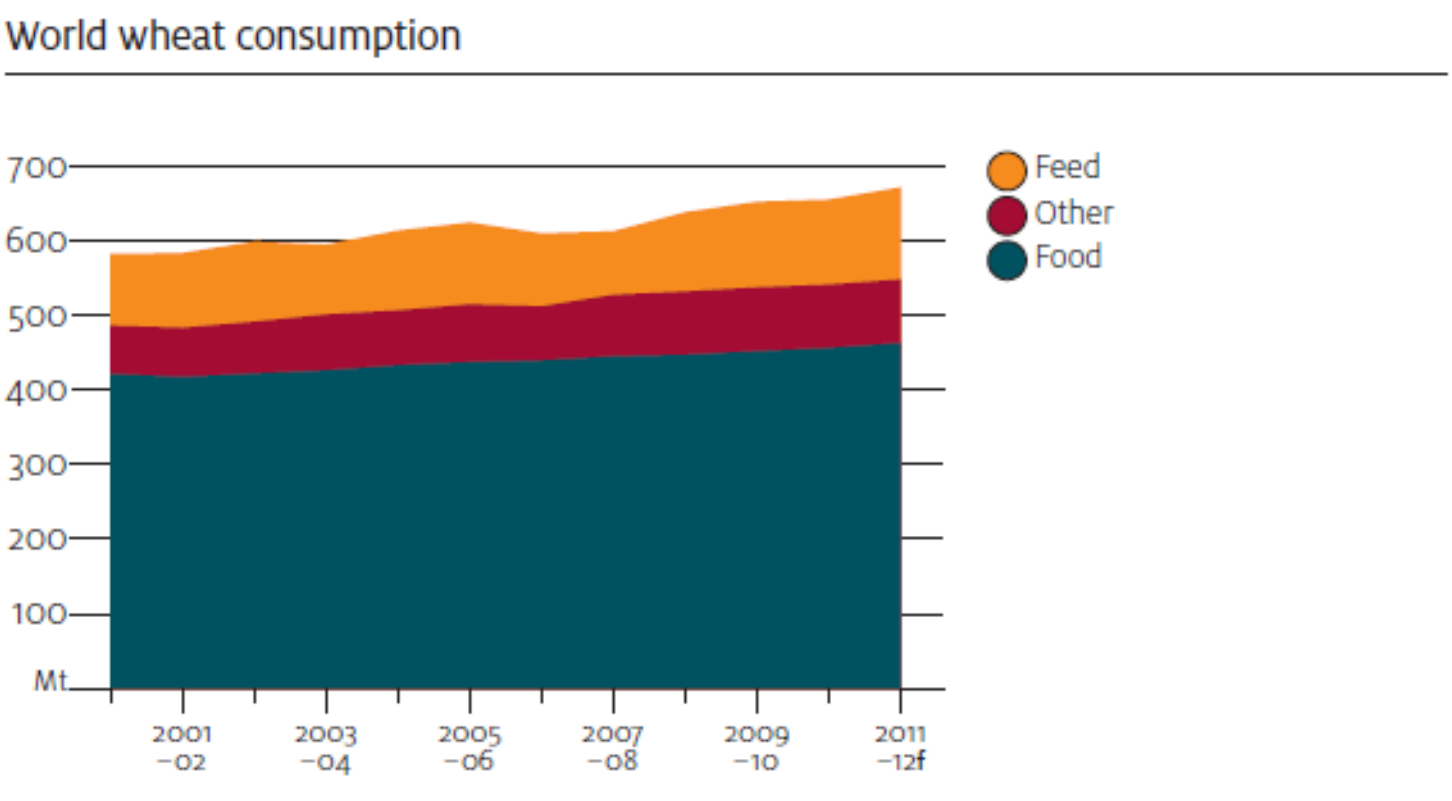


f ABARES forecast. s ABARES estimate.
Sources: ABARES; International Grains Council

World Wheat Production

- Canada 25mmt- 9% increase
- US 54 mmt – 26% decrease
- EU 138mmt – 0% increase
- Black Sea 98mmt – 43% increase
- Argentina 13mmt – 13% decrease
- China 116mmt – unchanged
- India 86mmt – 6% increase
- Australian 28.3mmt – 13% increase

World Wheat Consumption



f ABARES forecast.
Sources: ABARES; International Grains Council

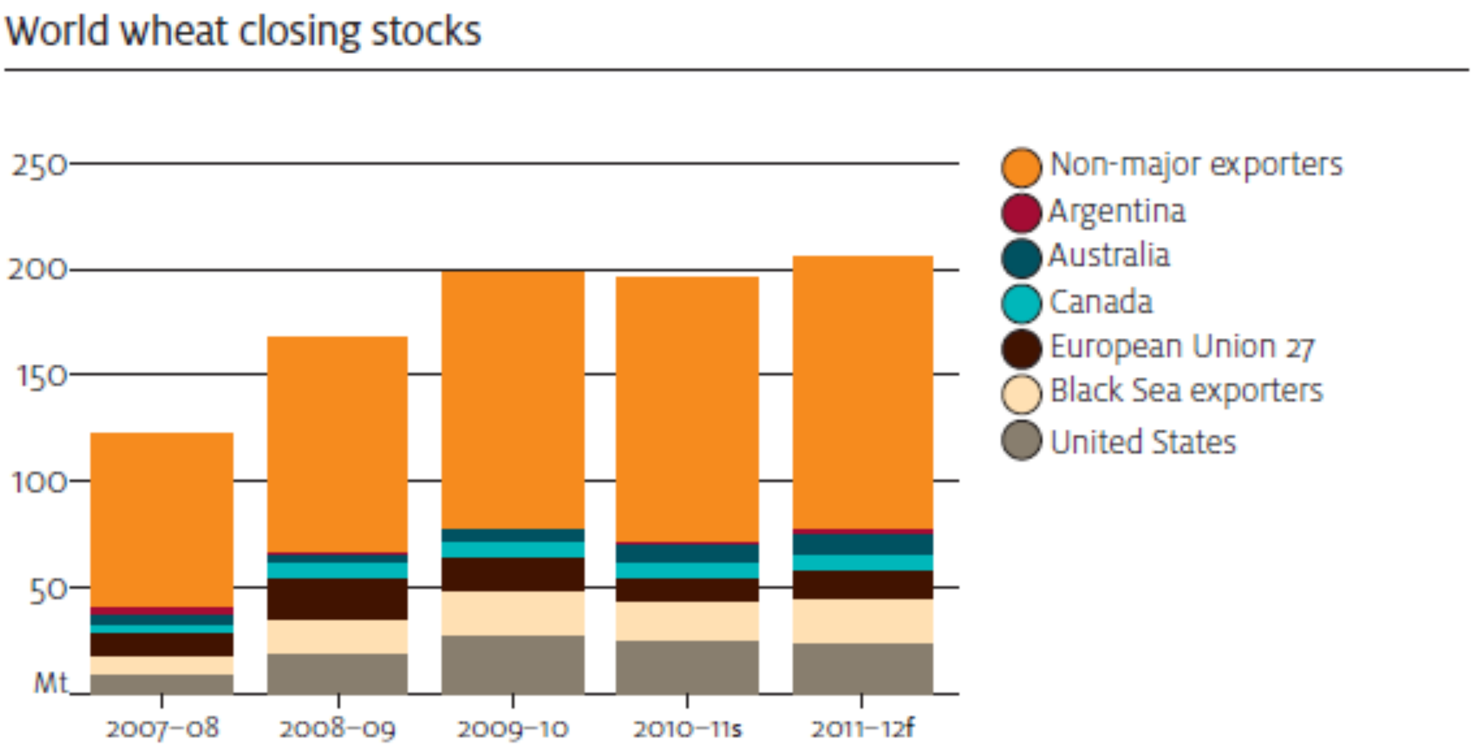
World Trade Forecast

- World trade forecast to increase 6% in 2011–12, to around 133 mmt

- As a result of:
  - production recovery
  - relaxation of export bans in the Black Sea

- Northern hemisphere countries forecast to decline
  - Canada to increase by 7% (17mmt)
  - EU decline by 28% as a result of Black Sea Competition
  - US export decline by 24% due to lower production and opening stocks

World Trade Forecast



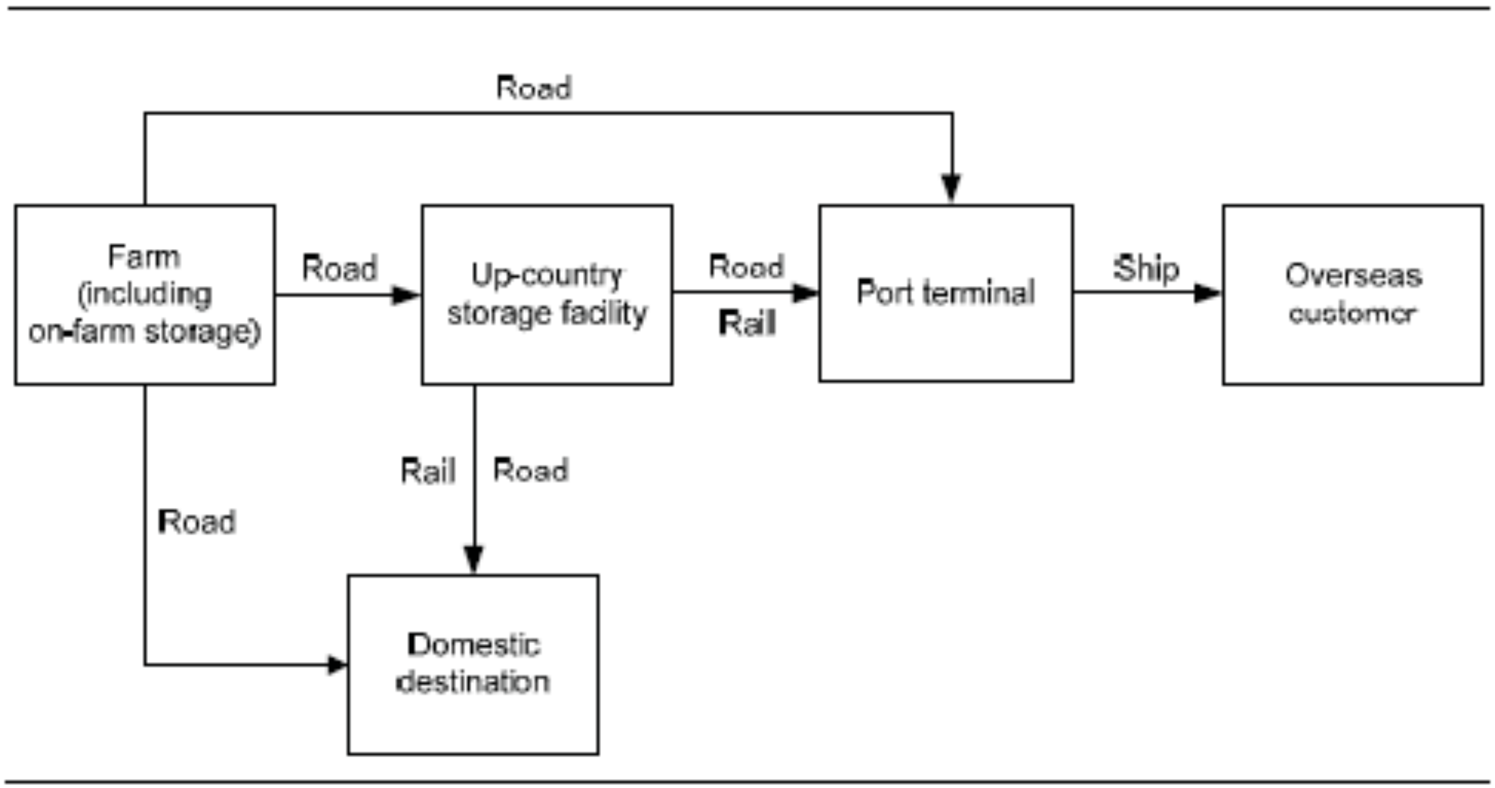
f ABARES forecast. s ABARES estimate.
Sources: ABARES; International Grains Council

Wheat Outlook

Wheat outlook

		2009 –10	2010 –11 s	2011 –12 f	% *change*
World					
Production	Mt	679	653	685	*5.0*
– China	Mt	115	115	116	*0.7*
– European Union 27	Mt	138	137	138	*1.2*
– India	Mt	81	81	86	*6.3*
– Russian Federation	Mt	62	42	58	*39.7*
– United States	Mt	60	60	54	*–9.4*
Consumption	Mt	652	656	676	*3.1*
– human	Mt	452	456	461	*1.0*
– feed	Mt	114	115	126	*9.9*
Closing stocks	Mt	199	196	205	*4.7*
Stocks-to-use ratio	%	30	30	30	*1.6*
Trade	Mt	128	126	133	*5.7*
Exports					
– Argentina	Mt	5	9	8	*–16.7*
– Australia	Mt	14	18	21	*13.3*
– Canada	Mt	19	16	17	*7.3*
– European Union 27	Mt	22	24	17	*–28.3*
– Kazakhstan	Mt	8	6	9	*52.3*
– Russian Federation	Mt	19	4	18	*350.0*
– Ukraine	Mt	9	4	9	*113.1*
– United States	Mt	24	35	27	*–24.4*
Price a	US$/t	209	317	295	*–6.8*
Australia					
Area	'000 ha	13 881	13 645	14 108	*3.4*
Production	kt	21 834	27 891	28 286	*1.4*
Exports b	kt	13 725	18 448	20 900	*13.3*
– value	A$m	3 692	5 526	5 686	*2.9*
APW 10 net pool return	A$/t	249	346	272	*–21.3*

Australian Bulk Grain Supply Chain



On Farm Storage

Million tonnes

	NSW	Vic	Qld	SA	WA	Total
On-farm storage capacity	6.4	3.5	1.9	1.2	2.6	15.6

Source: ABS (*Principal Agricultural Commodities, Australia*, Cat. no. 7121.0).

Eligibility criteria - Bulk Wheat Export Scheme

The eligibility criteria fall into three categories:

1 Those which must be strictly fulfilled by an applicant

- must be a company and a trading entity

2 Those which WEA must consider in deciding if an applicant is "fit and proper"

- audited annual financial statements
- annual export proposal and financial facilities available to the exporter to conduct the export proposal.

3 Those which must be fulfilled to the satisfaction of WEA.

- the company is not an externally - administered; and
- if the company provides port terminal services—WEA is satisfied that it passes the Australian Competition & Consumer Commission access test

Part IIIA of the Competition & Consumer Act Features of an access undertaking

- Establishes the terms and conditions under which a service provider is willing to offer or negotiate access to service(s) provided by an essential facility to an access seeker.

- The ACCC can accept or reject the undertaking.

- Currently 3 organsations have access undertakings.