Australian Grains Industry Conference (AGIC)

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1. AUSTRALIAN WHEAT AND EAST ASIA

- Asean + Japan + Korea = 20 million tonnes

- Australia supplies 50-60%

- 2006 & 2007 droughts

- We expect you back in 2008!! Aussie wheat is important to us.

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2. LOGISTICS COST & CONVENIENCE IS A MAJOR ISSUE

- Asean is closest to Australia – logistics advantage
- High crude oil price and volatile ocean freight, means significant Australian benefits compared to wheat from other origins
- Food inflation is a core concern of many countries today
- Bulk freight (40,000 tons vessel) today
  - Australia to Malaysia ~ USD65/mton
  - US/Canadian west coast ~ USD80/mton
- Container freight Australia to Malaysia ~ USD40/mton.
  - Won't last forever, but for now, huge increase in containerized wheat from Australia to South East Asia.
  - Container exports from Australia running at 200,000 to 300,000 tonnes per month.
  - 67% into just four ASEAN nations of Indonesia, Malaysia, Thailand and Vietnam.
  - Despite the inconvenience, the price is much more attractive.

3. AUSTRALIAN WHEAT QUALITY SUITS OUR NEEDS

-ASEAN Flour Millers have extensive experiences with the rheology of the various grades of Australian wheat.

-Over the years with AWB, we have evolved standards for many flour products in our region which include:

-various types of steam and boiled noodles,
-various types of steam buns,
-confectionary products,
-breads,
-cakes and
-indigenous flour products

-In particular, Australian white wheats blend well to meet the consumers' requirements for a clear white color for steam buns and slight yellowish csolor for noodles.

4. Malayan Flour Mills

- **Established in 1965 as the first flourmill in Malaysia – one of the first few flourmills in the region.**
- **Proud to experience 43 good years of close working relationship with the Australian wheat industry and AWB.**
- **We have four flour mills; 2 x Malaysia, 2 x Vietnam**
- **Quite an experience for us to witness the turn of events in the past few years for AWB leading to the de-regulation of the wheat industry today.**

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Challenges – the last two years

- **Tremendous challenges over the past two years.**
- **Poor harvest in the winter wheat crop in the United States of America in May 2006**
- **Successive devastation of the Australian wheat crop in 2006 and 2007**
- **Poor harvest in the European wheat crop in 2007**
- **The global wheat demand in 2006/2007 of 615 million ton was met by a supply of only 587 million ton, a shortage of 28 million ton.**
- **Wheat prices reaching historical highs, especially when fueled by the hedge funds.**

Impact of higher wheat prices

-Threatened by a potential shortage of wheat - price of flour increased tremendously to offset the increase in the C&F price of wheat.

-The high price of flour rationed demand - saw a 10% to 15% reduction in the consumption of flour. We observe this in the form of change in eating habits to match budget.

-Flour is essential food item in Malaysia, and price controlled by Govt – long, hard process to gain price increases, with both food and fuel inflation

Prospects for 2008-9?

-Large wheat crop in the Northern Hemisphere as well as improved weather conditions in Australia

-Improvement in the global wheat supply will result in lower and affordable wheat prices for both producers and consumers.

-Bring food inflation to a more reasonable level, alleviating the millions from potential hunger and as well as overcoming the financial hardship faced by the wheat growers particularly in Australia.

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Australia's wheat brand

- **AWB worked closely with the wheat growers and the customers over the years to build a strong brand presence for the Australian wheat in world trade.**
- **This strong brand was achieved through:**

  (1) Consistent wheat quality,

  (2) Efficient and reliable supply chain,

  (3) Good customer relationship management,

  (4) Effective conflict resolution.

. **We would like to see these factors continue to keep the brand strong – so here are my "Customer Questions". Will Australia maintain them, and how might this match up with what we get from other suppliers such as US, Canada, Ukraine, Argentina, etc?**

i. **<u>Brand Factor #1 - Consistent wheat quality</u>:**

Over the years with its effective wheat grading system, Australia had been able to ensure consistent quality between shipments to all its world wide customers.

This consistency is critical as frequent variation in the quality of wheat is costly to the flour millers as well as to the end users of flour. It is important that the wheat industry is able to continue to maintain this consistency in quality after de-regulation.

<u>So, my question to exporters is</u> : How might you ensure quality consistency between cargoes?

(ii) <u>Brand Factor #2 -</u> <u>Efficient and reliable supply chain:</u>

The Single Desk managed by AWB was a one stop agency to manage the entire logistics process for the export of Australian wheat from farm to port including the loading of wheat onto vessel. The single desk also managed the entire wheat inventory for export.

With de-regulation, this supply chain process may be fragmented and there is urgent need for the industry to ensure a well managed and cost efficient process is in place to serve its overseas customers both for bulk shipment and containers.

<u>Hence, my question is</u> : Who should I talk to, to ensure smooth loading of my vessels in future? -- The exporter or the export terminal operator who is loading the vessel?

(iii) Brand Factor #3 - Customer relationship management:

The Single Desk had effective customer relationship management, valuable technical programs for its key customers as well as customers from emerging countries.

It is necessary for the wheat industry in Australia to keep with up the changing needs of its customers especially in such recent turbulent times.

My question here is: Will there be a technical assistance program for my flour millers to work with, so that we can solve problems in processing and also develop new products for our consumers?

(iv) Brand Factor #4 - Complaint/conflict resolution:

-Complaints and conflicts between suppliers and customers do arise.

-They can be costly if there isn't an effective process to resolve the conflict and bring about a fair solution for repeat business. Otherwise disgruntled customers will take their business elsewhere.

-It is also important that such complaints or conflicts can be resolved within a reasonable period instead of a prolonged process.

My last question is: Who do I go to if I have a quality claim? We dislike buck-passing from one party to another. We have some other experiences where the exporter passes the problem to the inspection agency, who passes it to the people who took the samples, who passes it to the party who loaded the vessel, etc. We sincerely hope Australia does not shift to this sort of system.

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The challenge for Australia?

-Maintain the strong brand presence of Australian wheat after de-regulation

-We will have traders to sell to us at a competitive price, BUT, as customers we see it as imperative to have a series of processes in place with effective institutions to manage the key issues mentioned above – <u>because these are what create the brand, not just having the best price.</u>

-The key is to add value to your valuable customers worldwide.

In conclusion……

1. I do not seek to be critical; we have a long and happy relationship with the Australian wheat industry and its farmers. We would like this to continue.
2. I ask the questions as a representative of customers in Asia so you know what is important to us, and what we value in the wheat supply relationship with Australia.
3. I hope it will help to make the Australian wheat a valuable food grain to your customers worldwide.

4. Finally, I sincerely hope it will rain in the next few months to give you a good crop. After two bad droughts, your farmers need a good crop… and we need some lower prices!!!

THANK YOU

AND

GOOD LUCK FOR THE SEASON