Five Years In …. Five Years On?

2008/9 - 2013/14 - 2018/19

"The Changing Australian Grain Market Place"

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Australian Crop Forecasters

Clear Grain Exchange

Profarmer Grain AUSTRALIA

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AGENDA

1. Key Industry Metrics – any changes?
2. Industry Infrastructure or "architecture": what changes?
3. Buyer shoes: Product Quality – any change?
4. 2013-14 Balance Sheet
5. Conclusions

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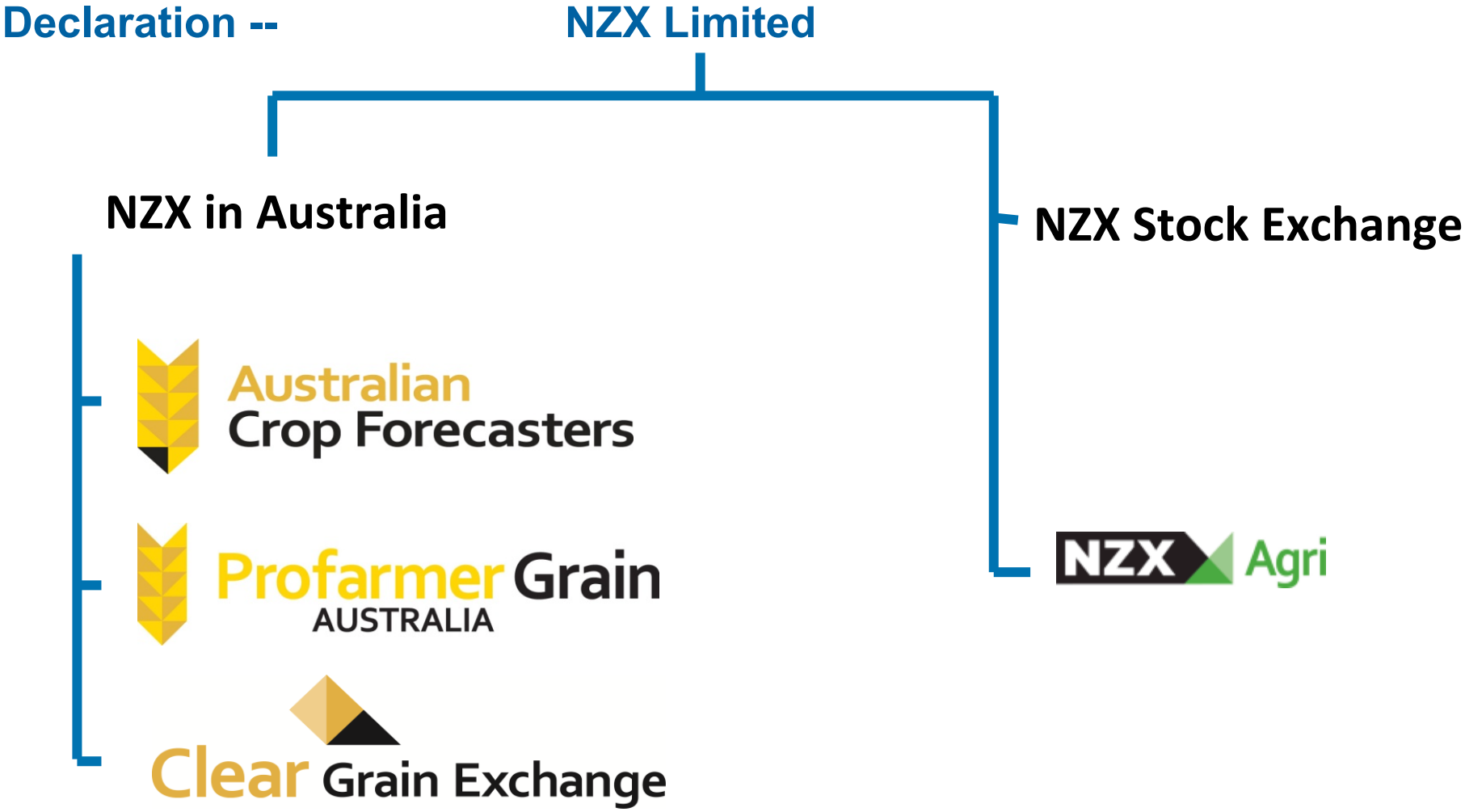
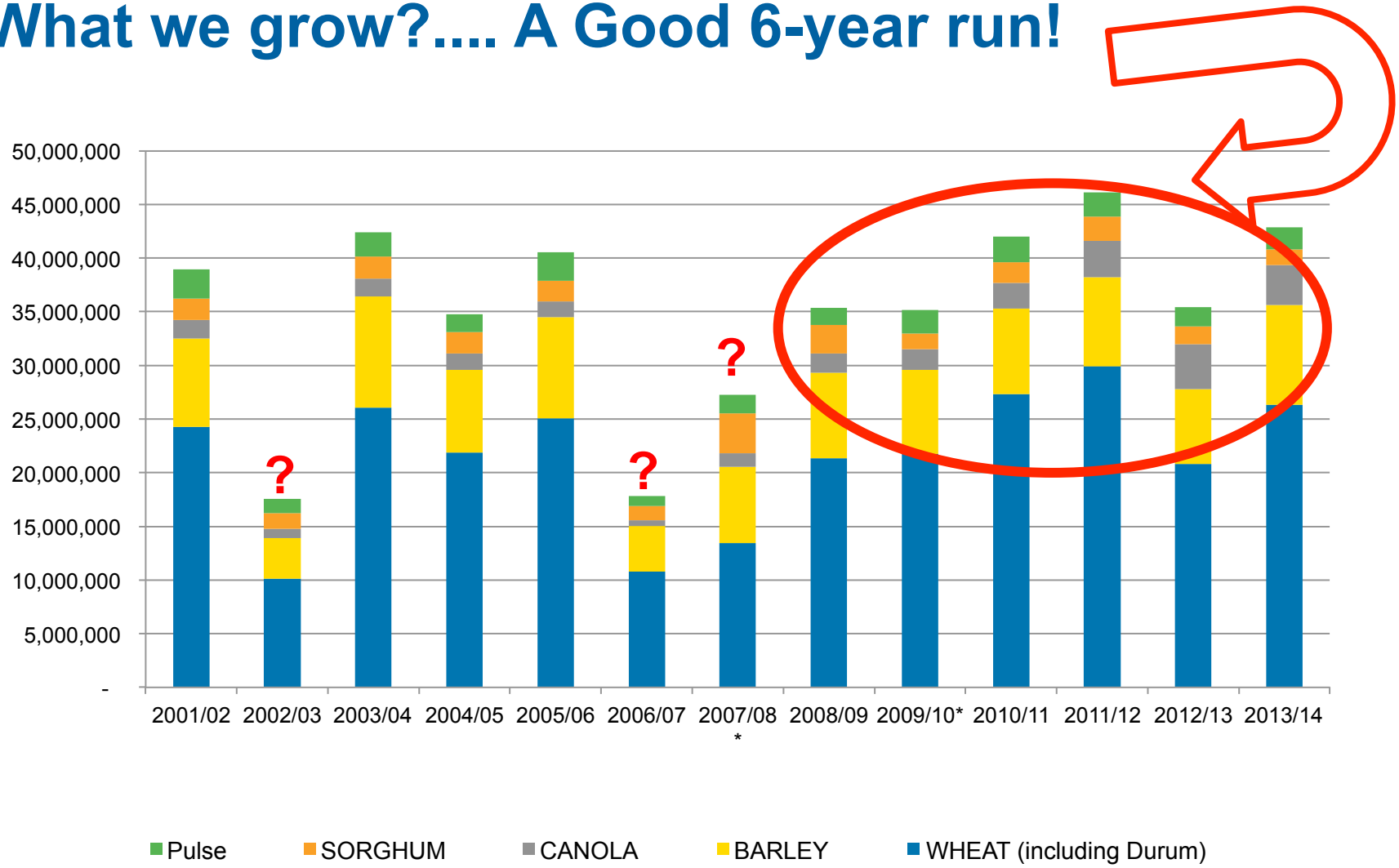
Declaration --



1. Key Industry Metrics: 2008 – 2013

- What we GROW?
- How it is USED?
- WHERE it goes?
- SPEED of sale?
- WHO buys & exports it?

What we grow?.... A Good 6-year run!



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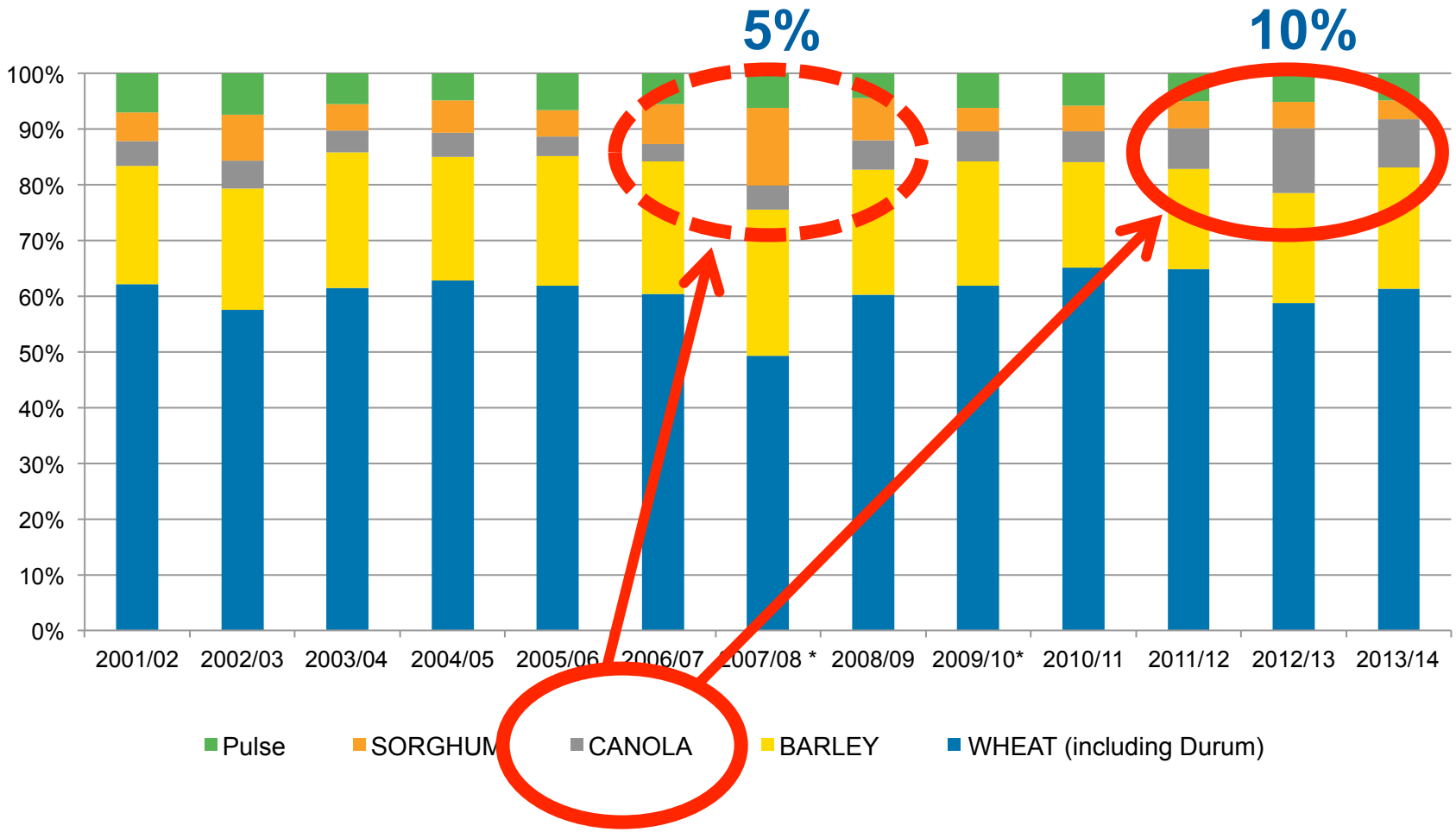
Slight shift to Canola – was 5%, now ~10%. Cereals, Pulses steady



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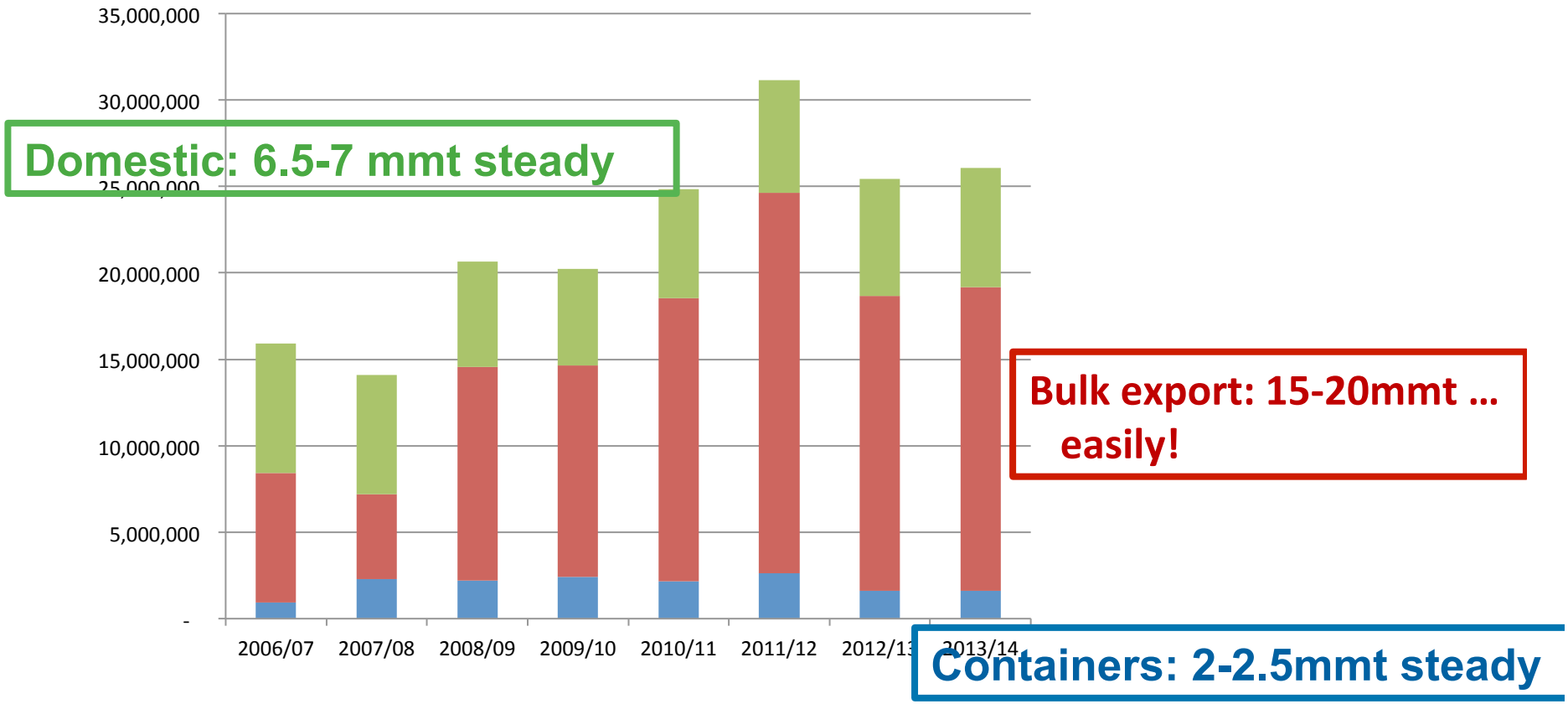
Usage of Wheat?



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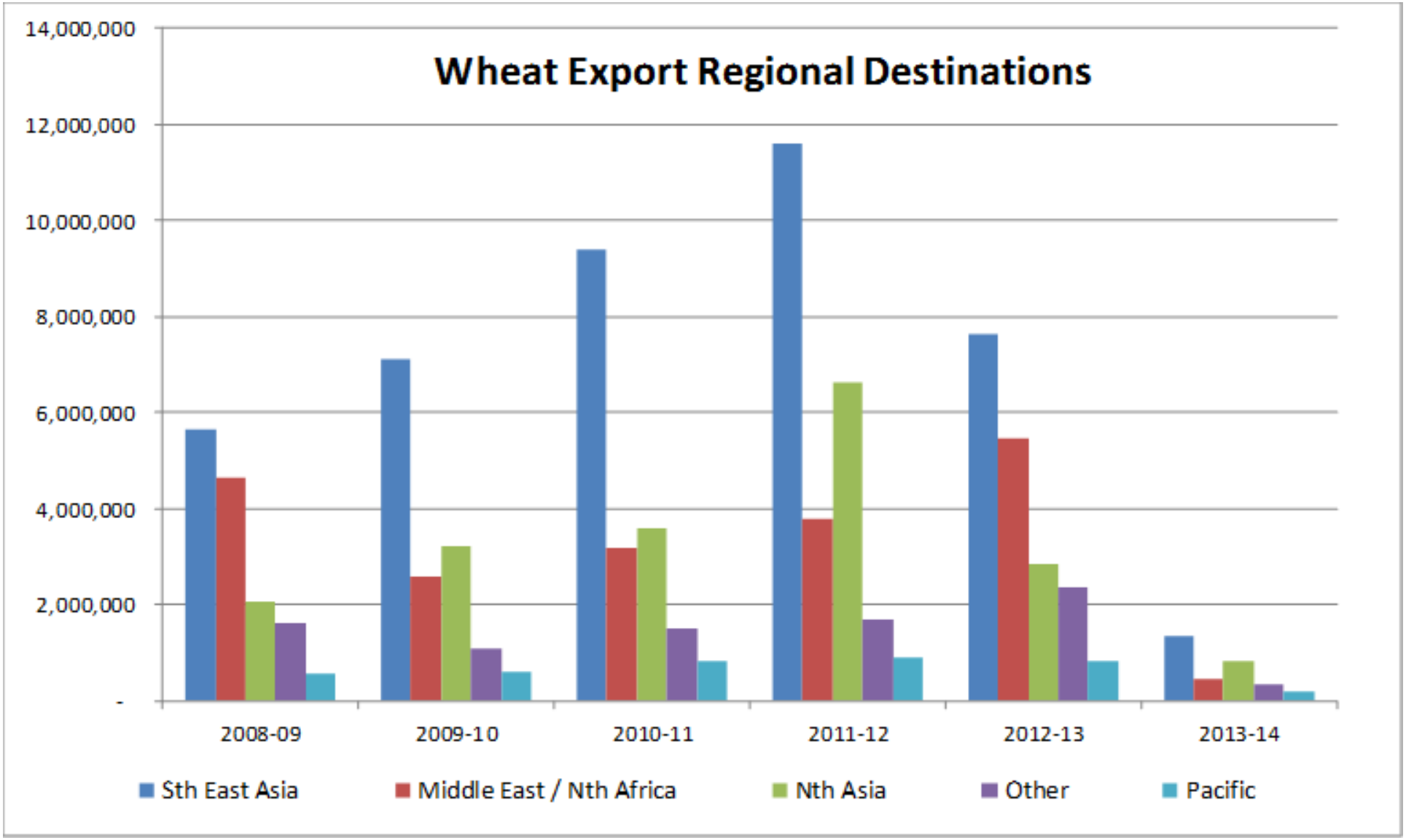

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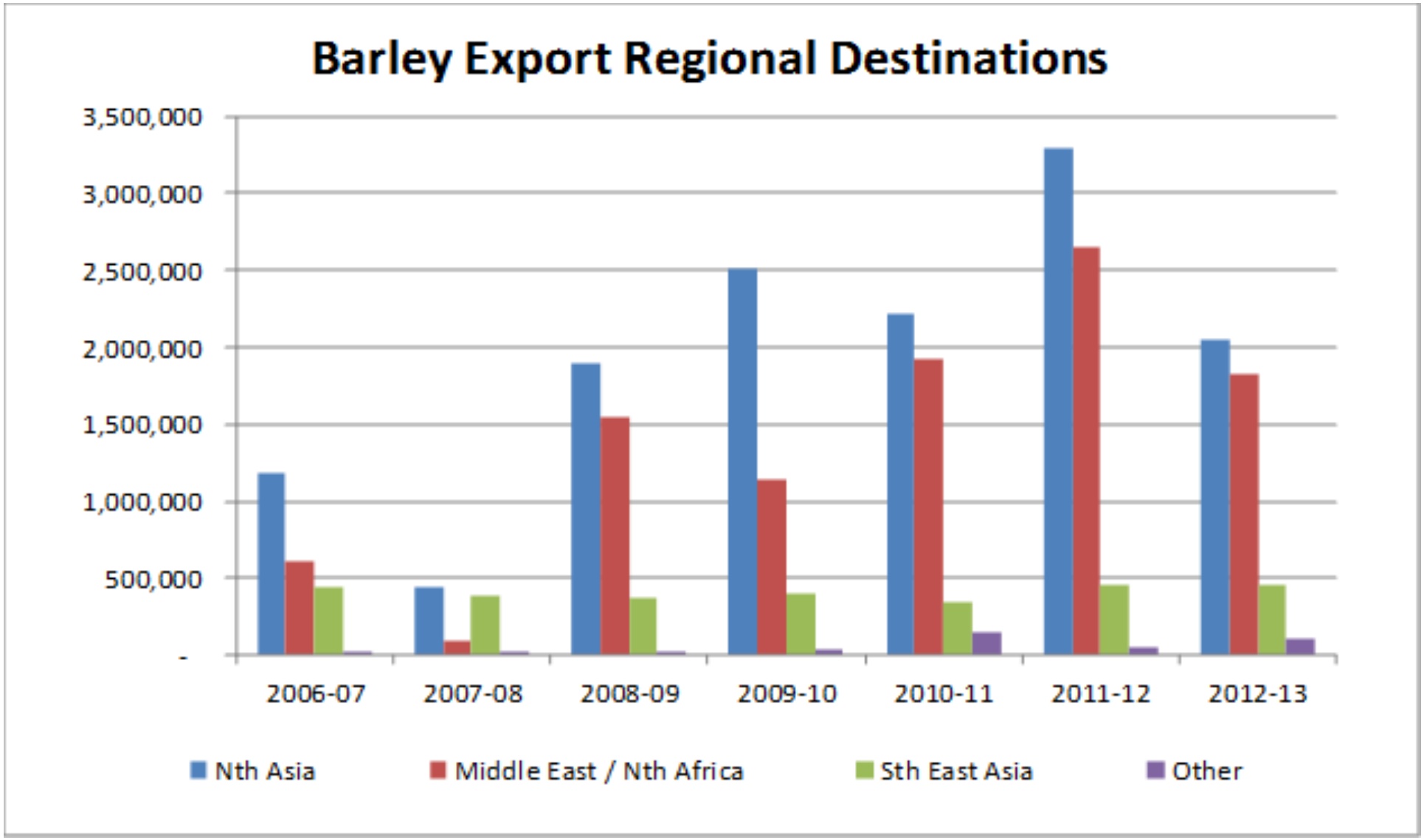

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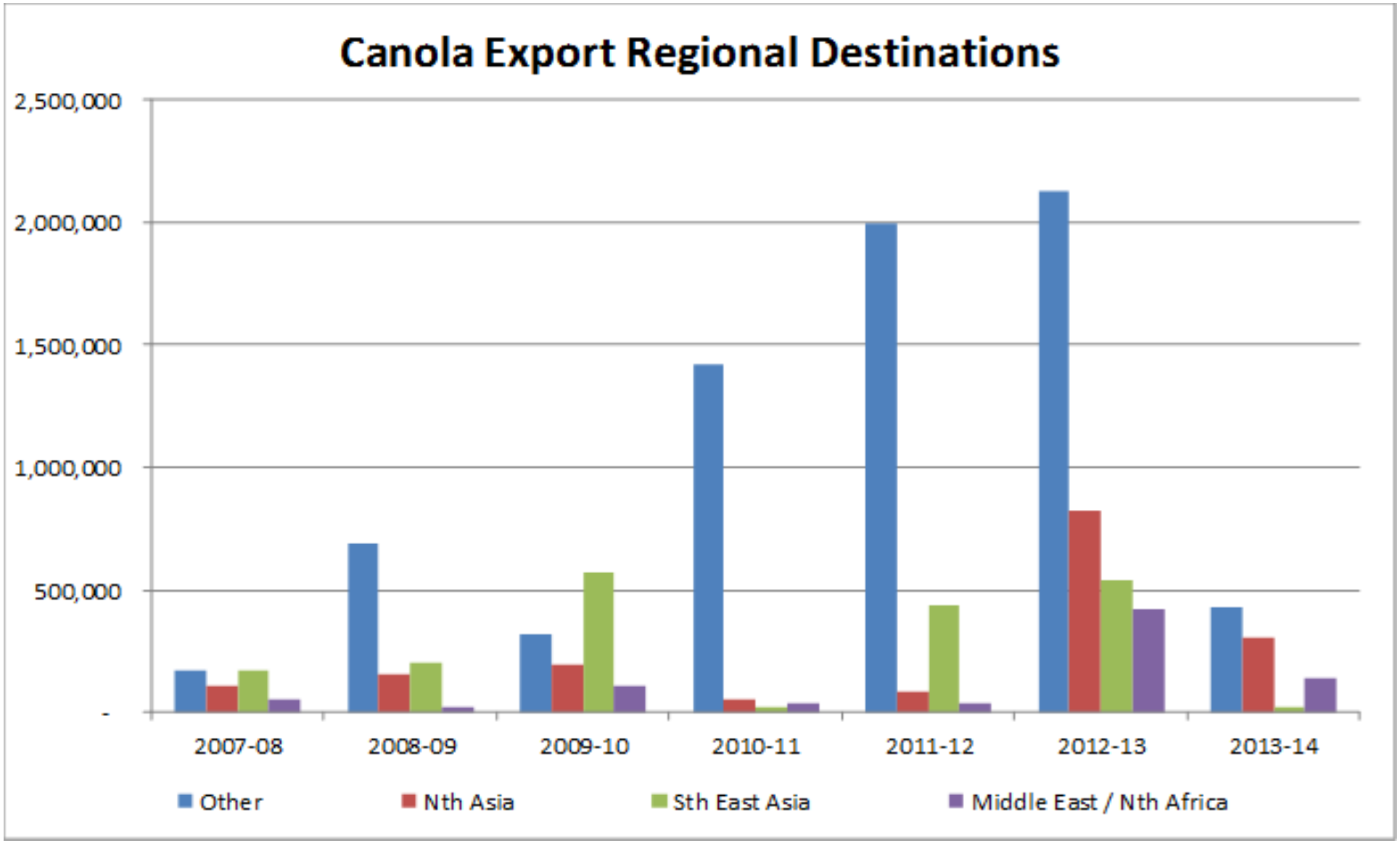

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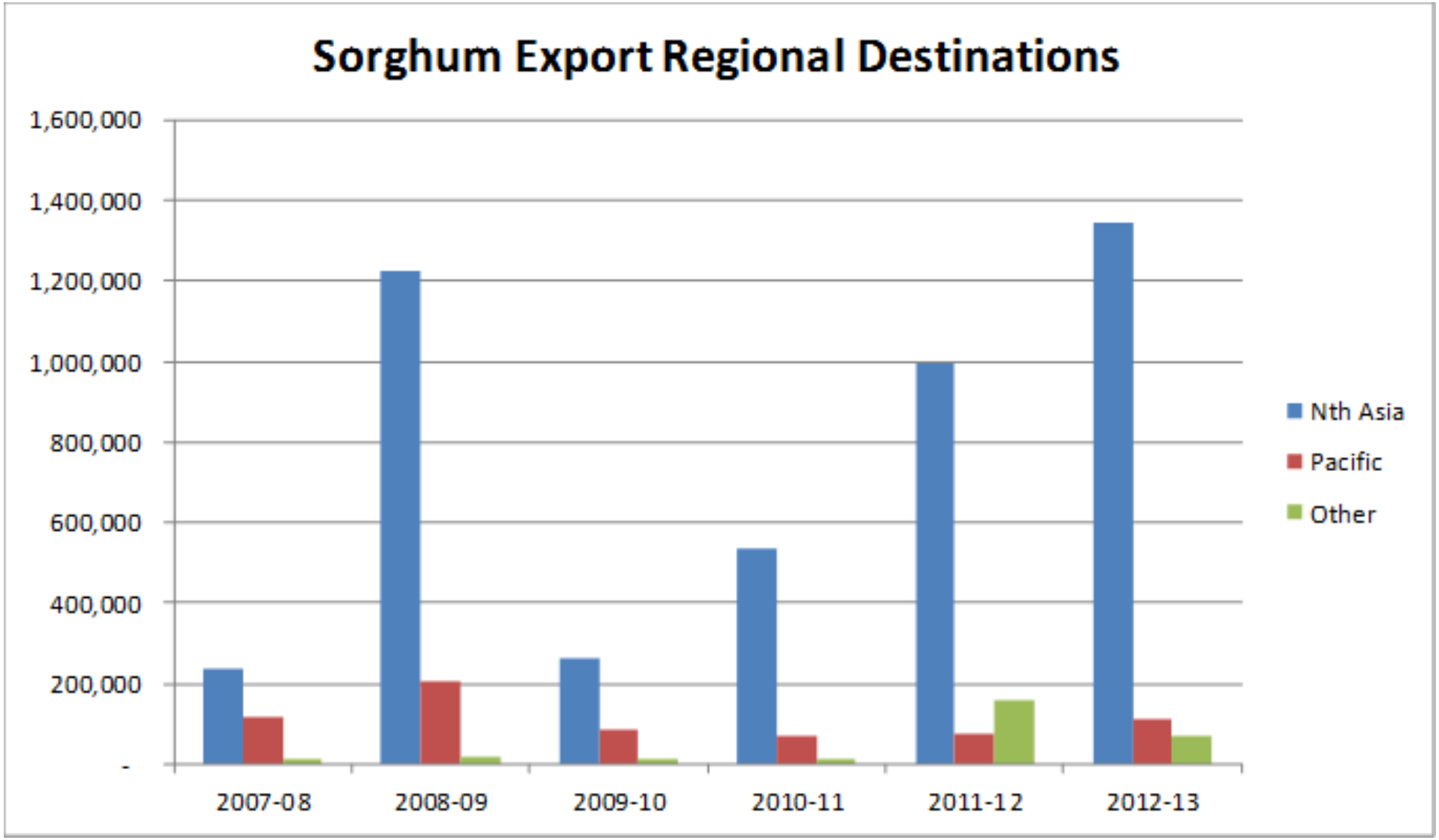

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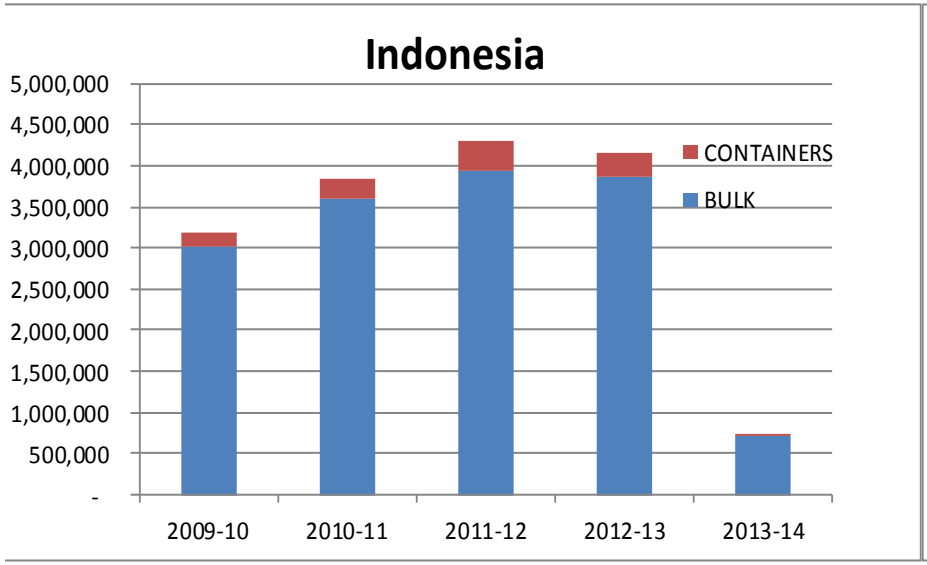
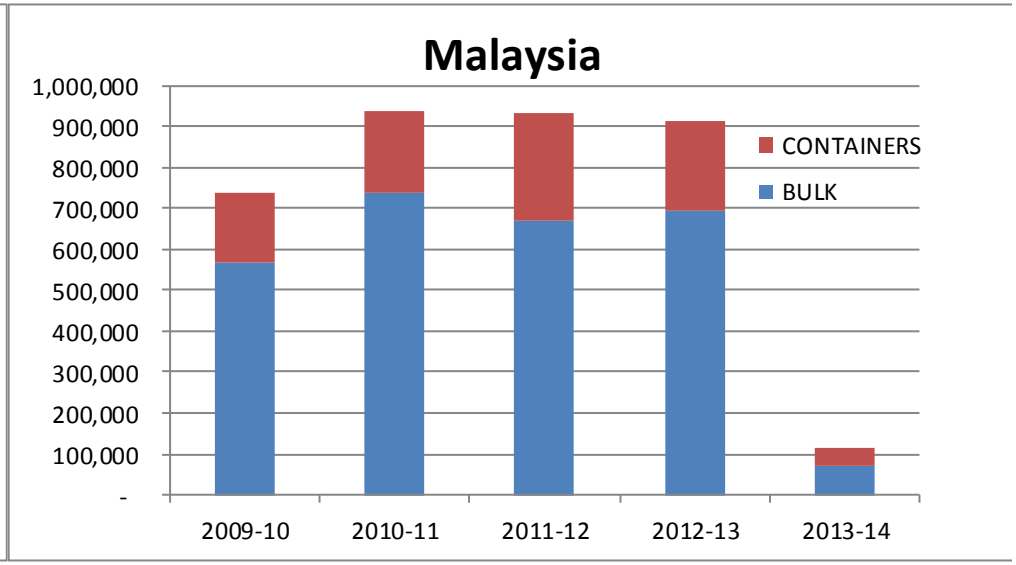
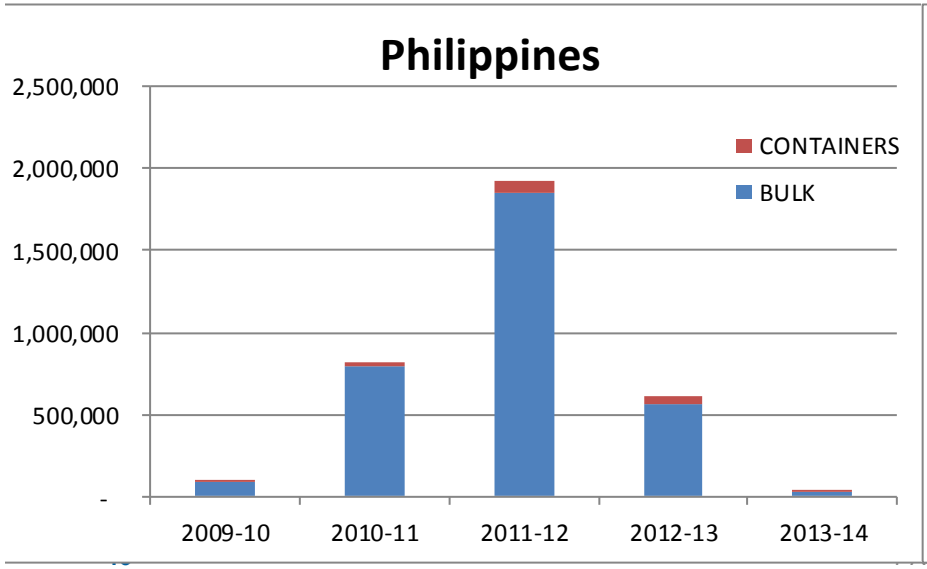
MESSAGES?

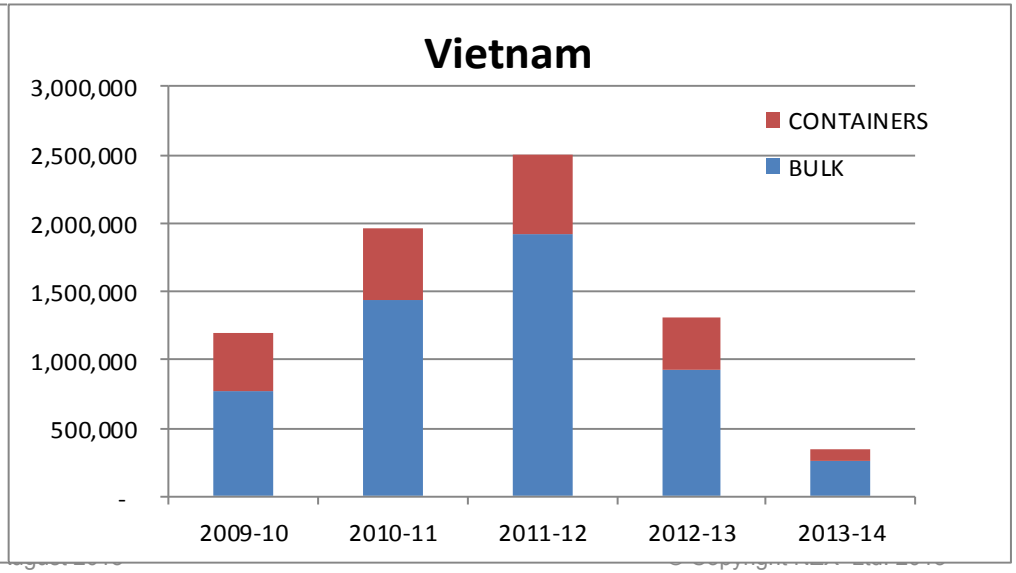
- We are Asian-centric, and logically so (freight + growth markets)
- Regular, growing, underlying food demand for core supply
- Rapid, responsive, feedgrain demand when we have supply, and price
- Australia has not needed to reach further afar, even in bumper crops
- Sorghum: New alcohol market in China … jury is out on pricing, but impact on Aust northern feedgrain markets
- Barley: North Asia (growing) and Mid-East (stable)
- Canola: tussle between China and EU?

Wheat Volumes – Bulk & Containers

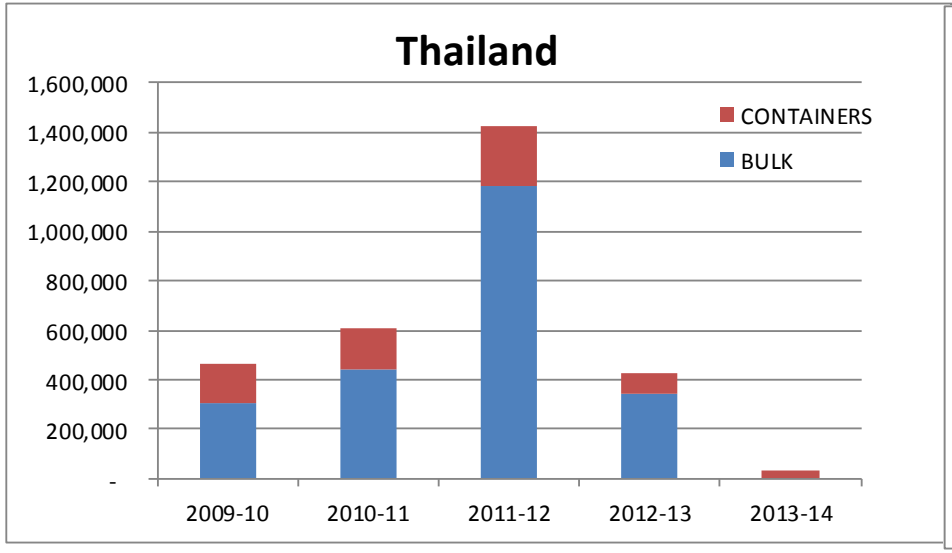


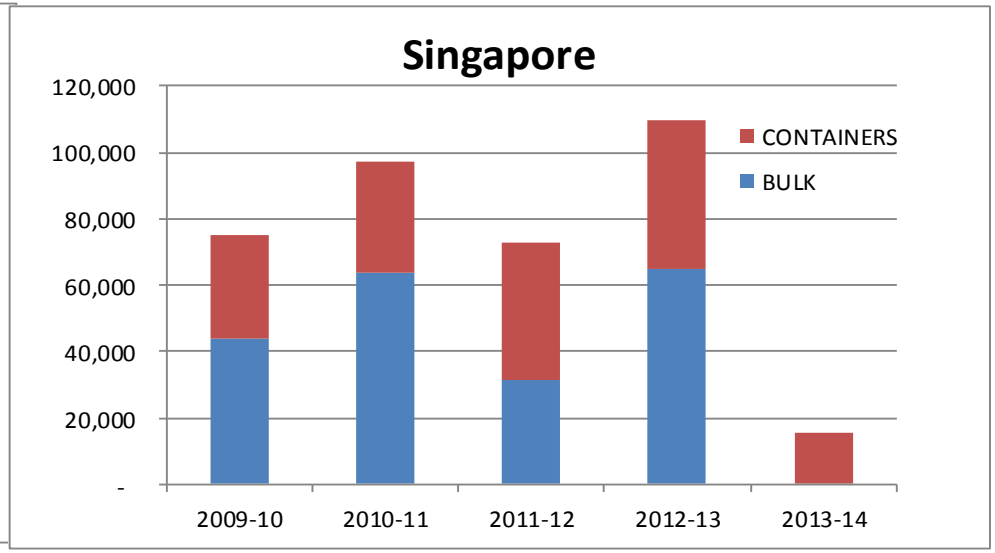


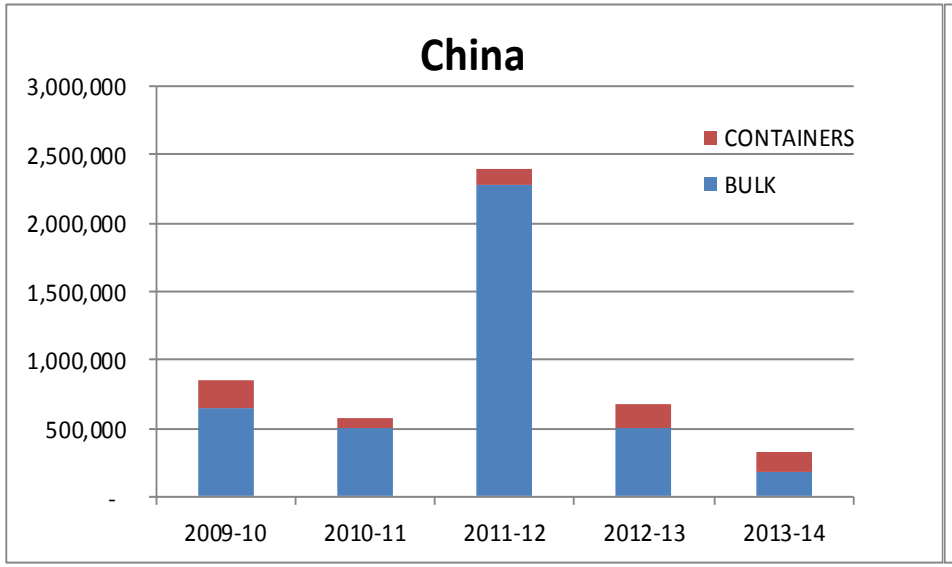


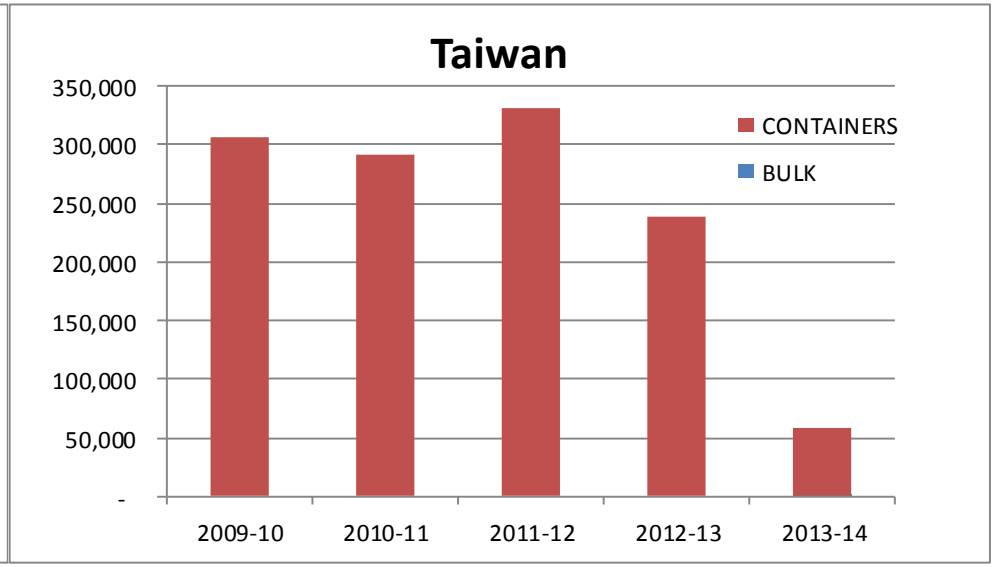


Wheat Volumes – Bulk & Containers

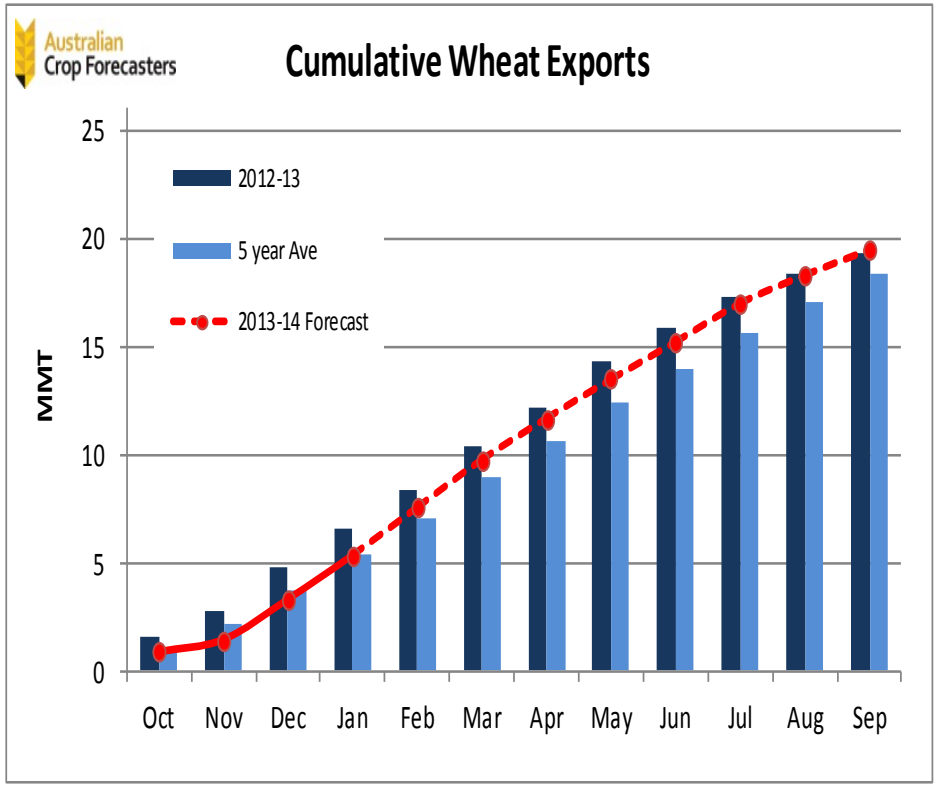


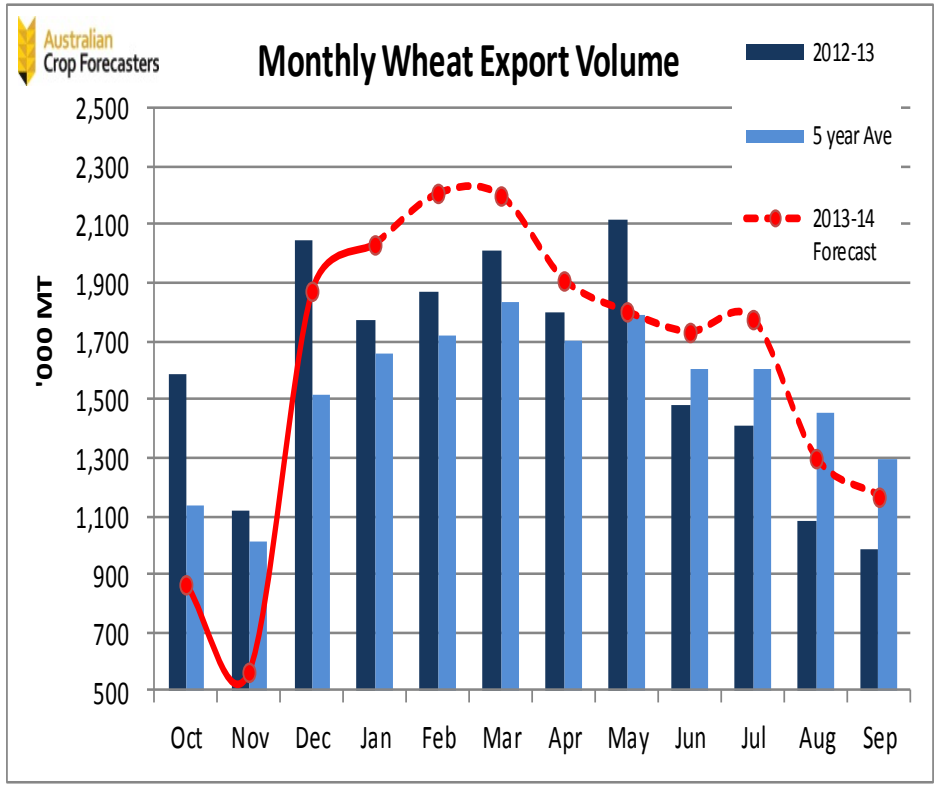






Speed of Sale/Shipment, Wheat – Q1 & Q2 as well





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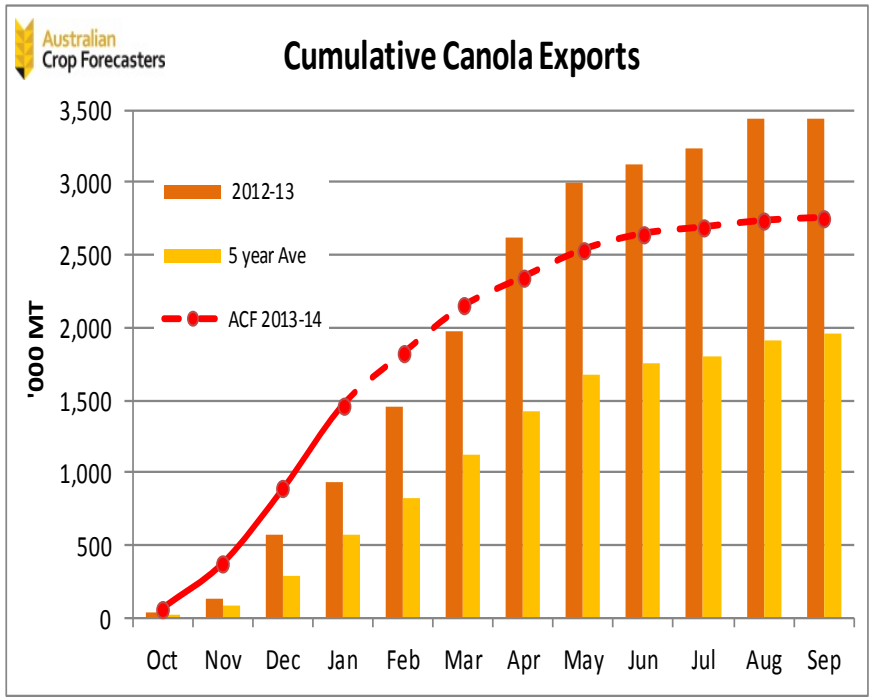
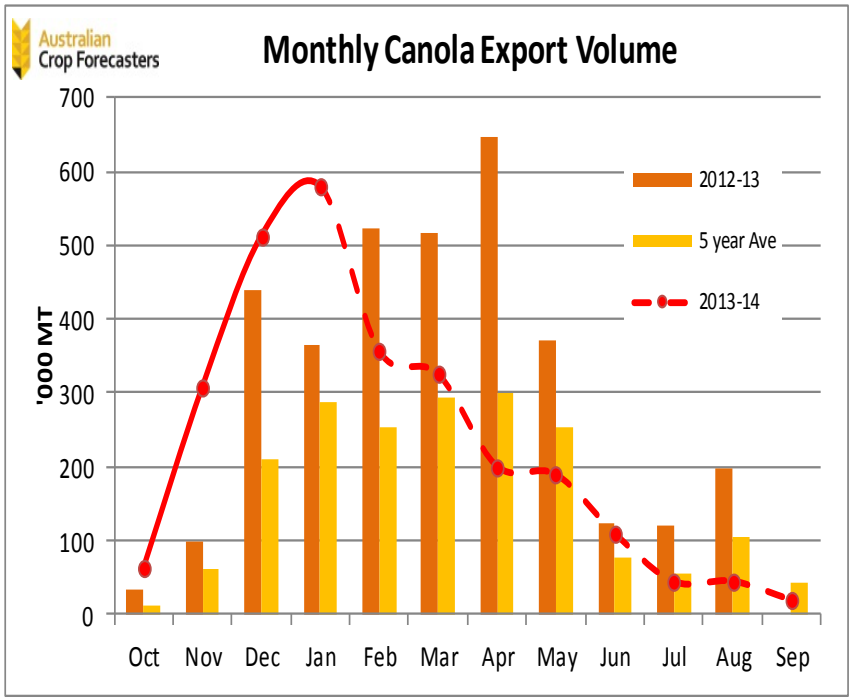
Speed of Sale/Shipment, Canola – Q1 & Q2





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Who Buys/Exports?

- Who are the exporters?
- Where do they draw from?
- Is there a link to quality?

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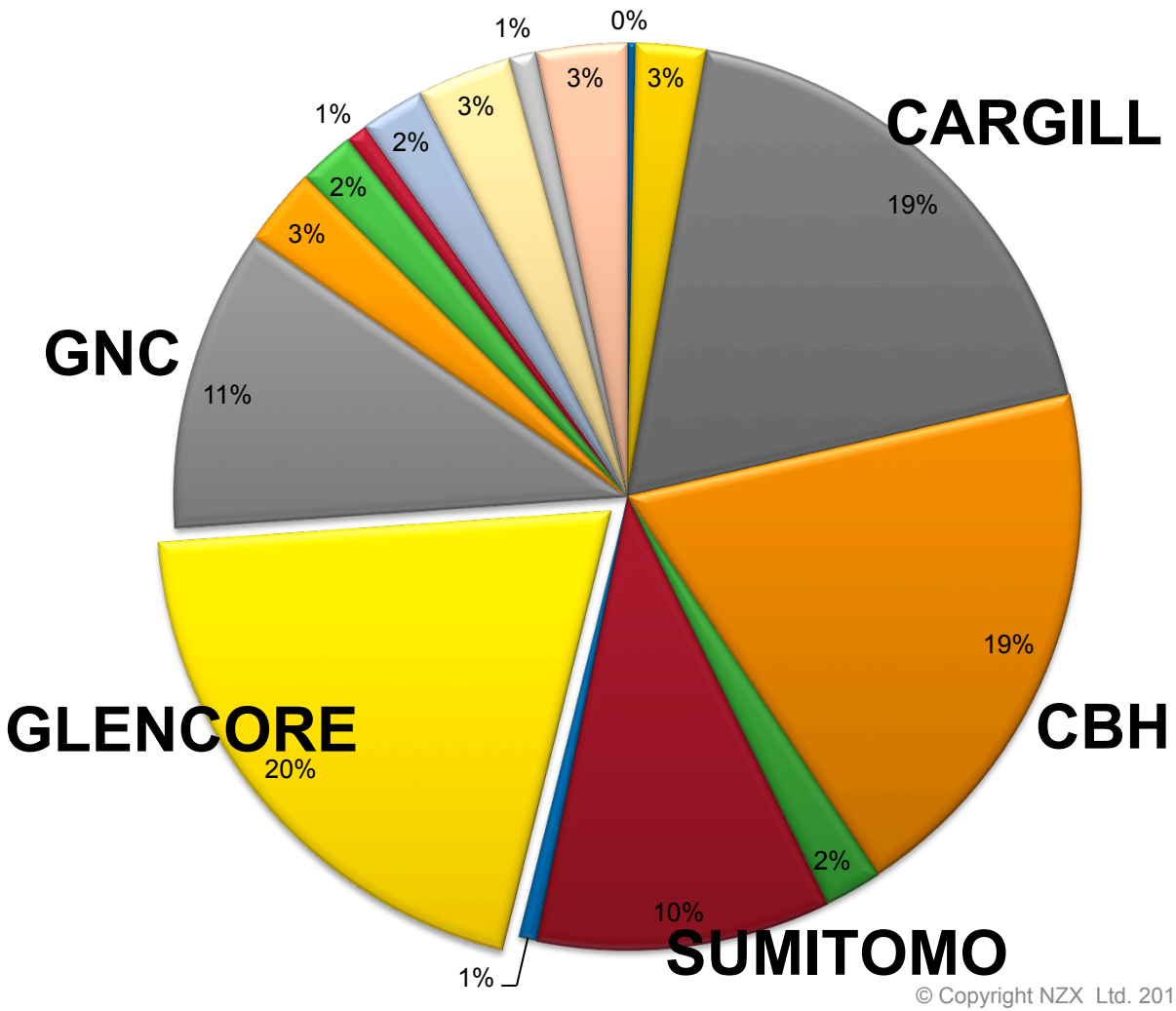
WHEAT – The Big 5 … plus a dozen

National Wheat Market Share
Bulk exports 2012/13



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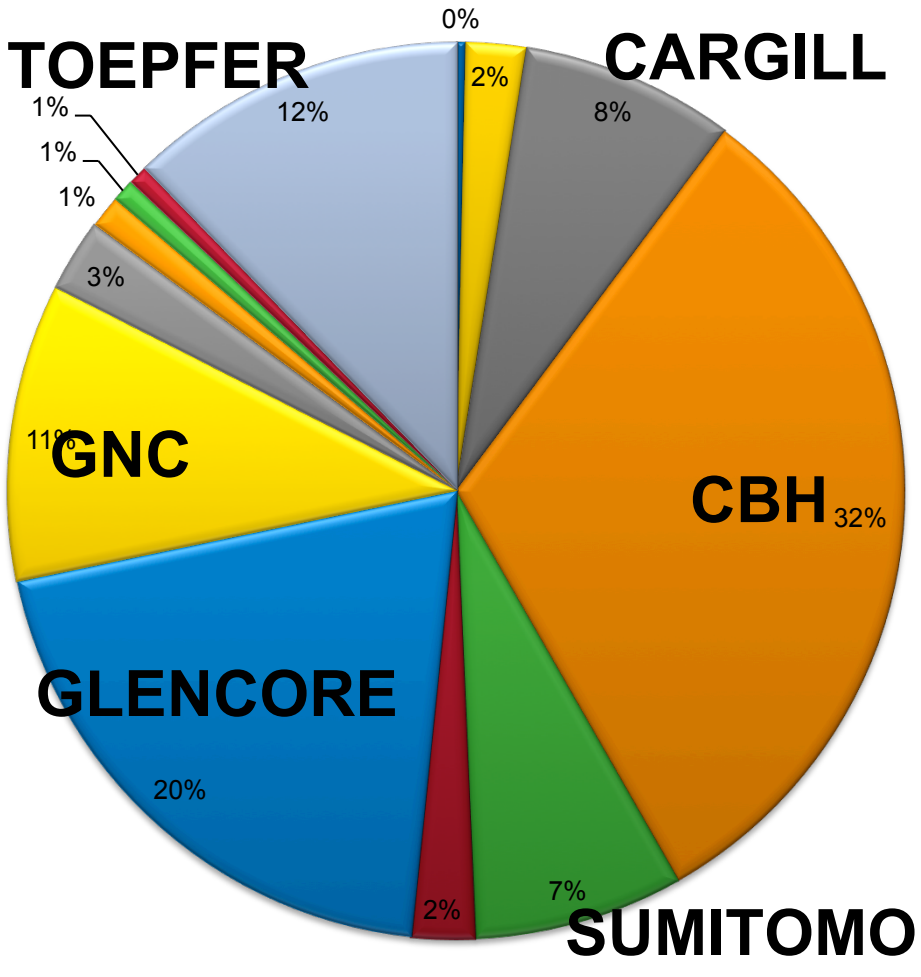
BARLEY EXPORTS – Big 6… plus 10

National Barley Market Share
Bulk exports 2012/13



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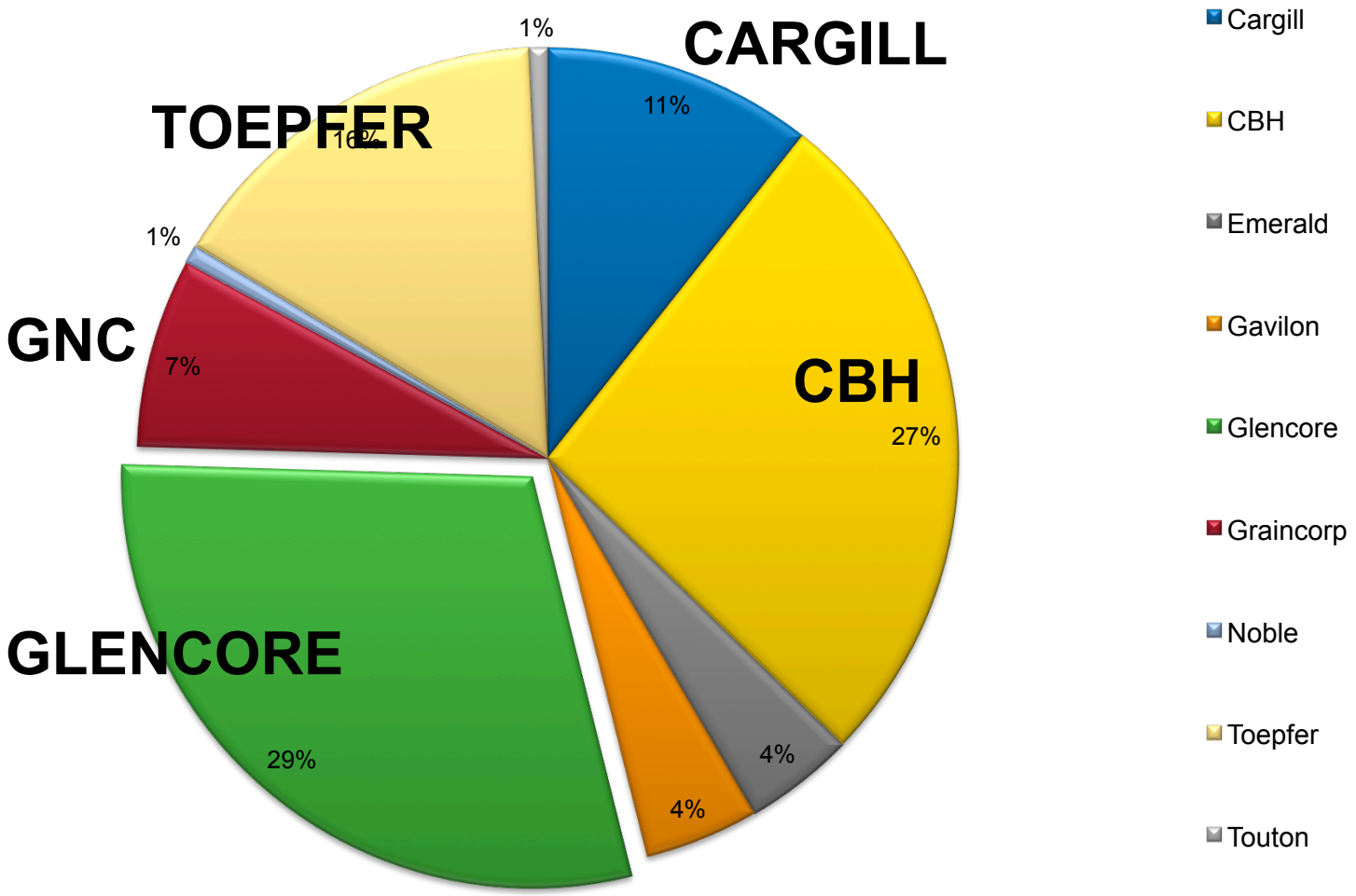
CANOLA EXPORTS – Big 5… plus 5

National Canola Market Share
Bulk exports 2012/13



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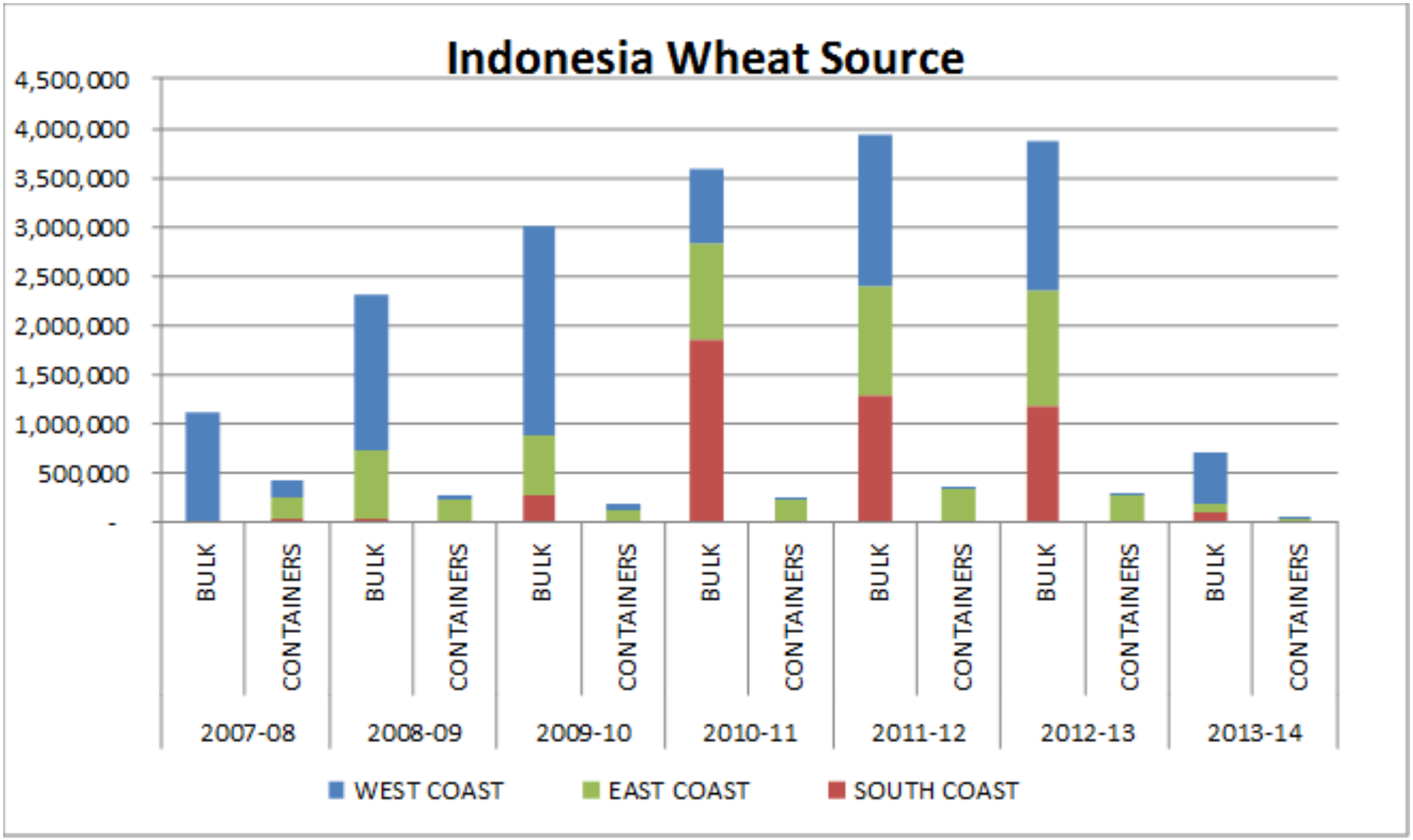

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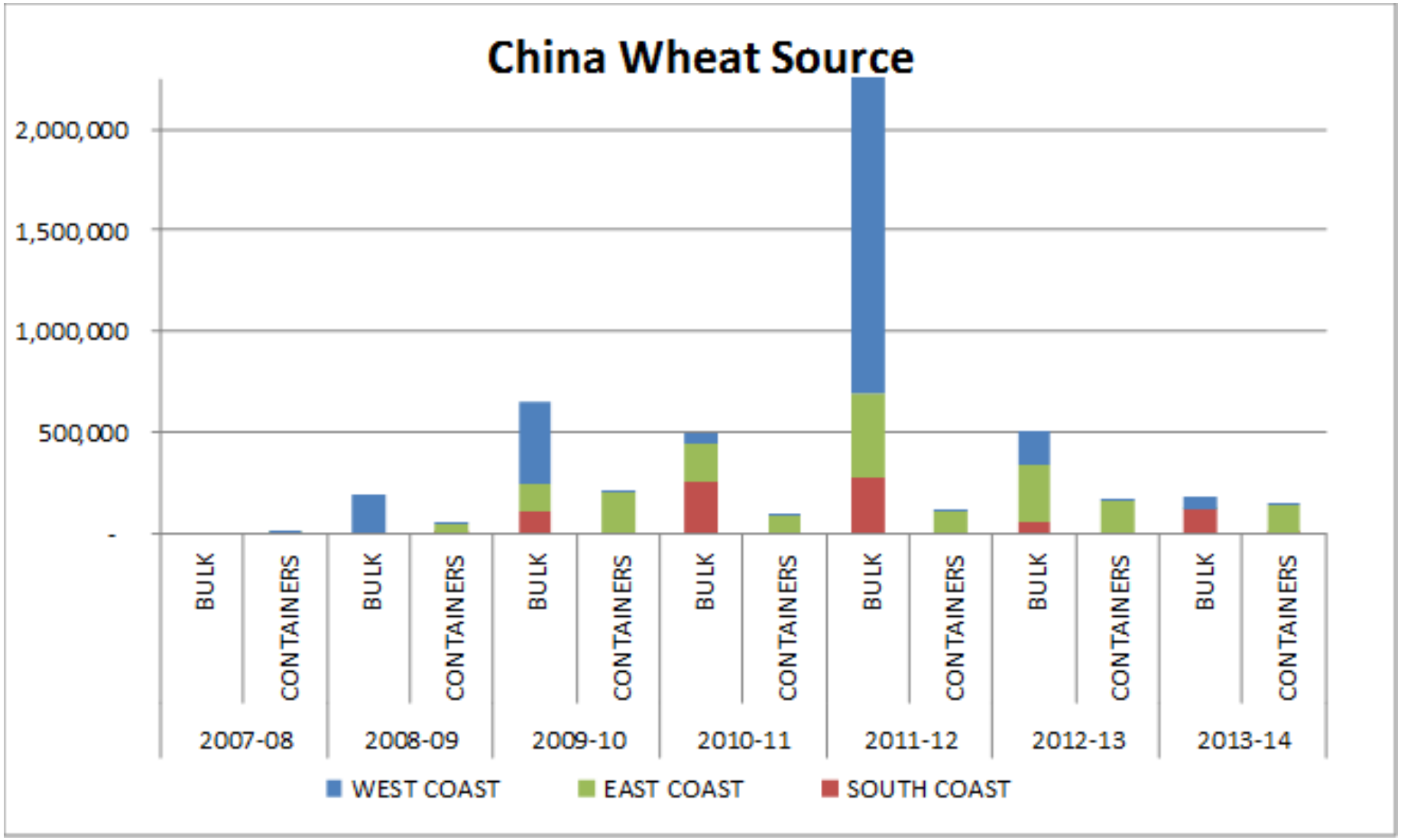
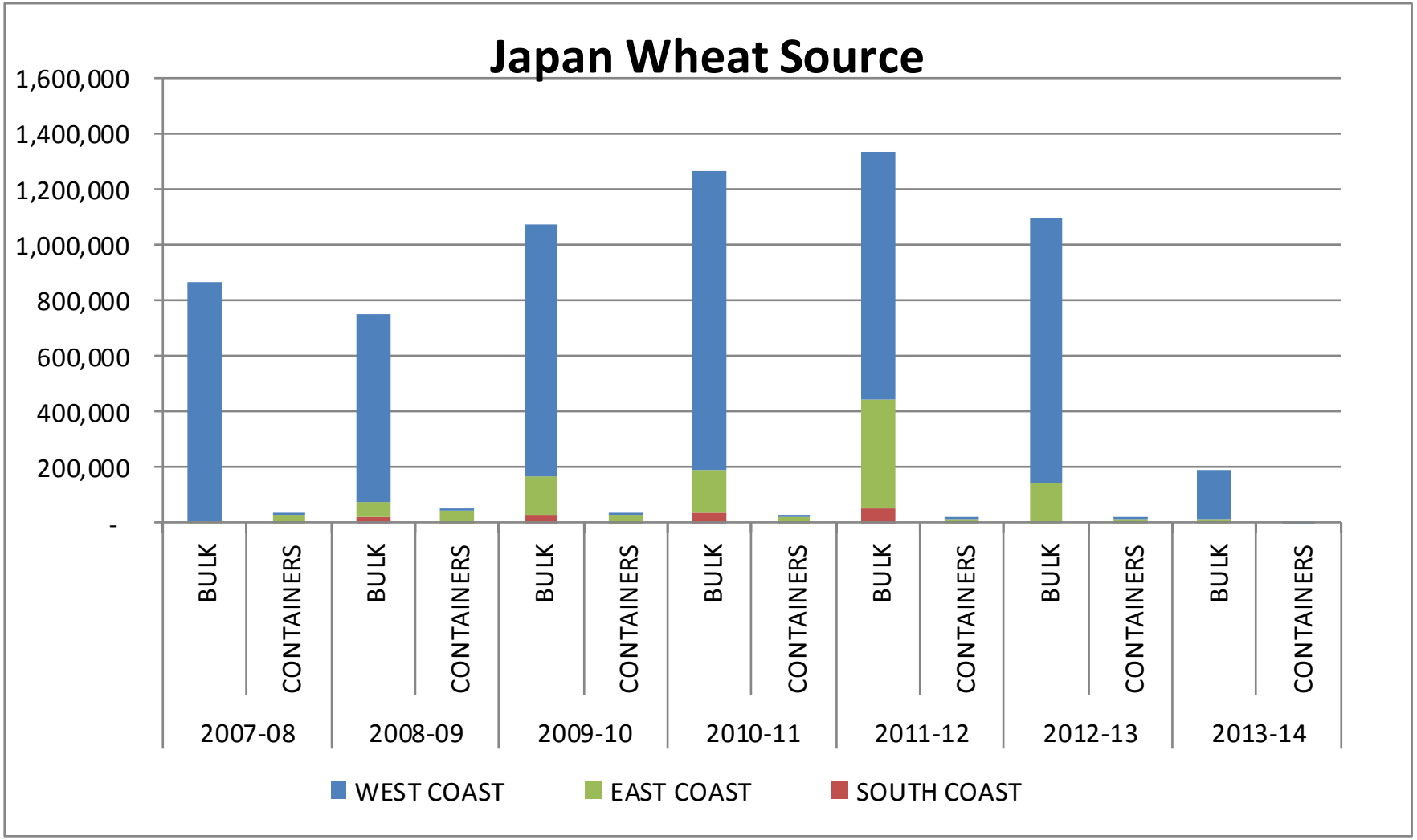

China Wheat Source
2,000,000
1,500,000
1,000,000
500,000
-
BULK
CONTAINERS
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
WEST COAST
EAST COAST
SOUTH COAST


Japan Wheat Source
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
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BULK
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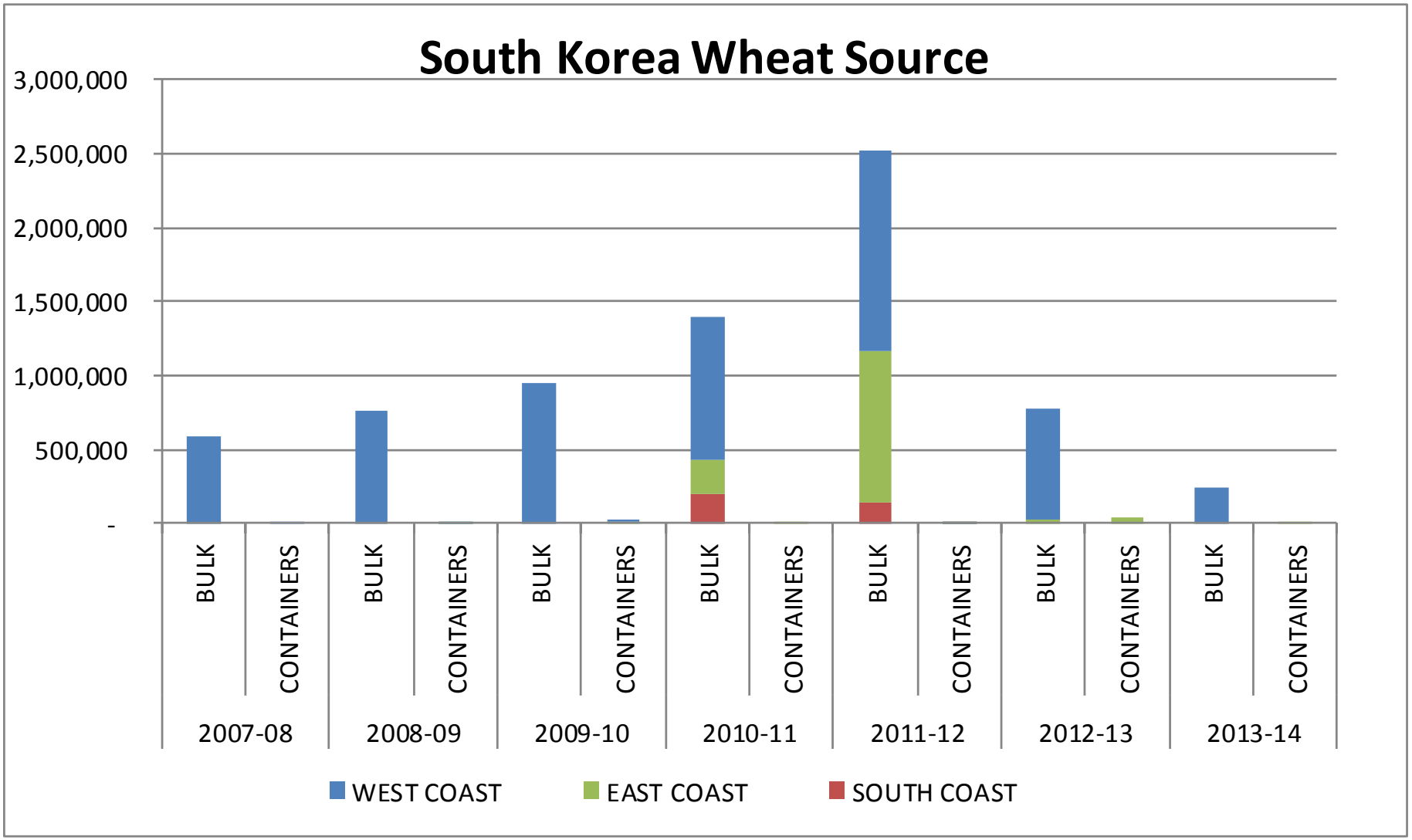

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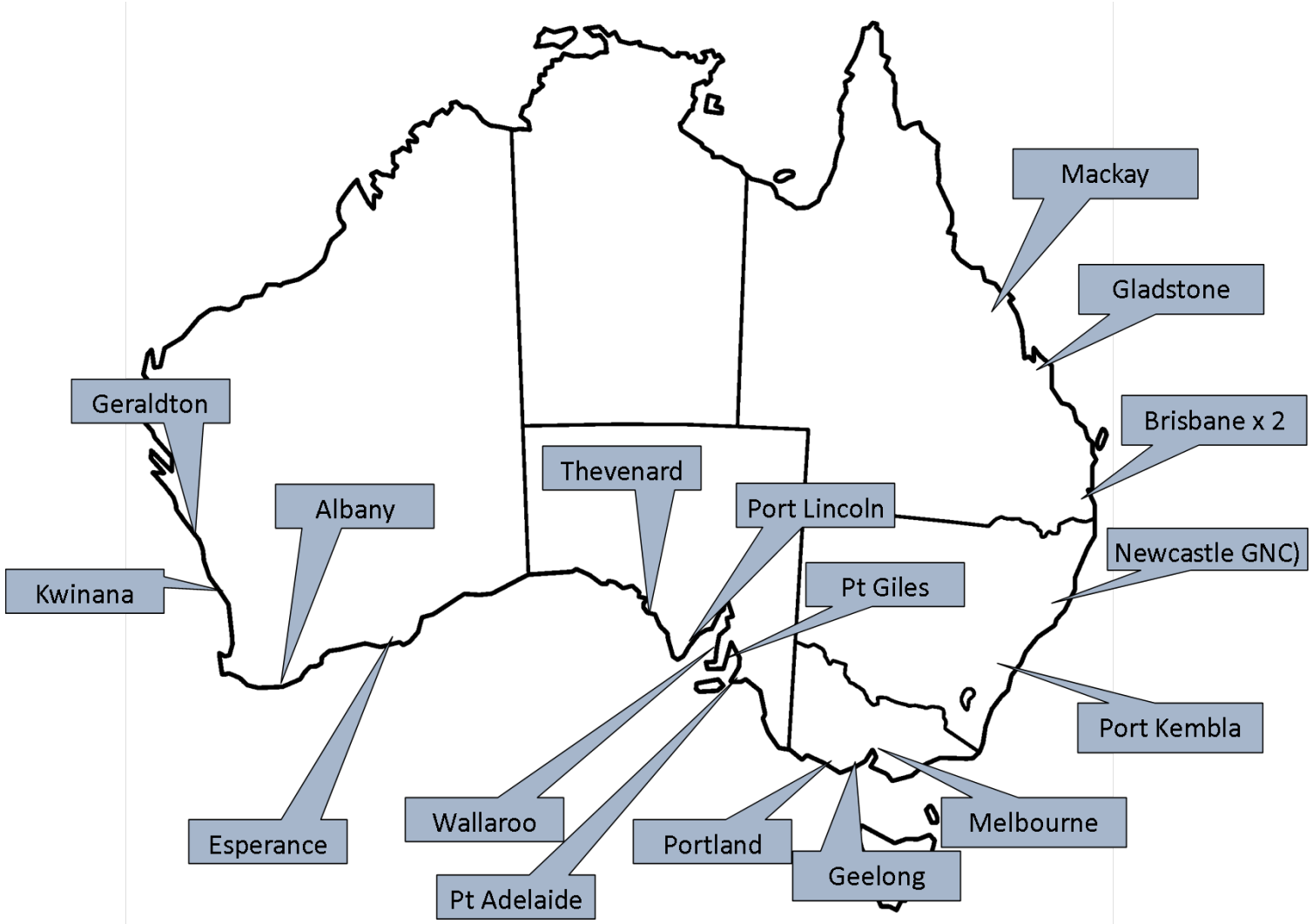
Grain Port Infrastructure 2008



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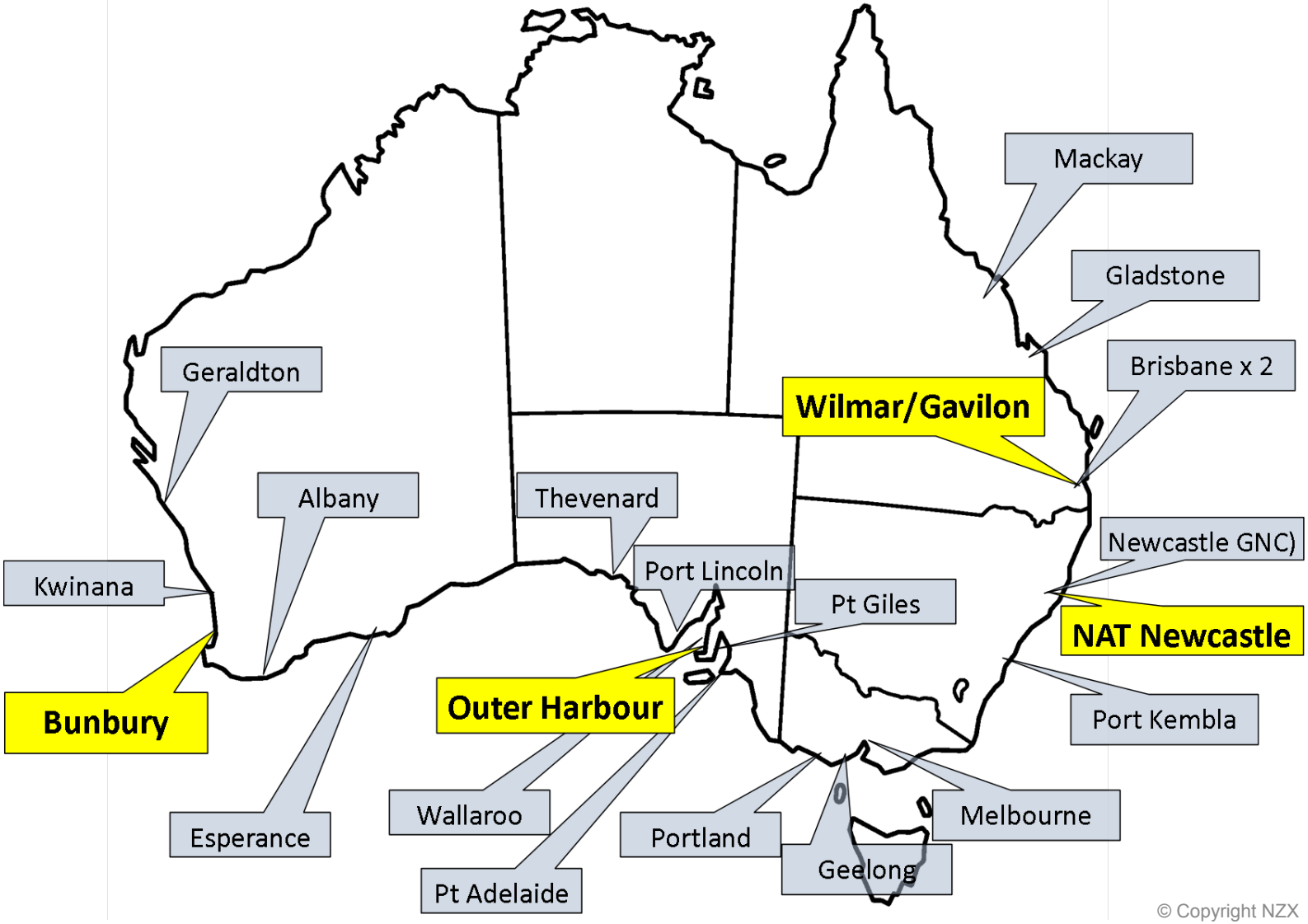
Grain Port Infrastructure 2014



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Messages from the metrics ?……

- **Grow? – minor shift to canola**
- **Usage? – Domestic (6-7), Containers (2-3), Exports VERY responsive capacity**
- **Regions? – Asia, logical >> feedgrain capacity**
- **Speed? – Q1 and Q2 (beware the grower!)**
- **Exporters?**

- **80% concentration, but large choice**
- **Favoured drawing zones**
- **>> variability in sourcing zones – link to quality consistency outcomes?**
- **New investment in infrastructure, foreign capital**

- **OVERALL – records made and broken, industry coping well with rapid change**

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2. Industry Organisational Architecture – Changes?

Industry Feature	2008	2014
Farmers	Somewhat organised	Less organised
S/Chain Assets	5 x BHCs	5 x BHCs … ++ - New Assets - Foreign owners - Record exports!!
Exporters	AWB - single	Multiple choices ….
Industry Infrastructure		
-Contracts/Arb/Standards	AWB	>> GTA
-R&D	GRDC	>> GRDC
-Market Access, AQIS	AWB-Govt	>> GIMAF-Govt
-Wheat Classification	AWB	>> WQA-WCC
-Industry Promo/Info	AWB	?? >> AGIC Singapore
-Product Quality	AWB	???

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MESSAGE – Industry Architecture

- **Almost all functions either unchanged, or picked up by other parties: Working well.**
- **Some functions in transition…**

- Promotion/Information – e.g., AGIC Singapore
- Product Quality – maturing process between trade and end users

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3. Buyers' Shoes – Product Quality?

- Anecdotally, quality has declined (what customers say – do not ignore)
- Simultaneously, there is no upsurge in quality claims against failure to meet contract spec

- So, what is really happening?

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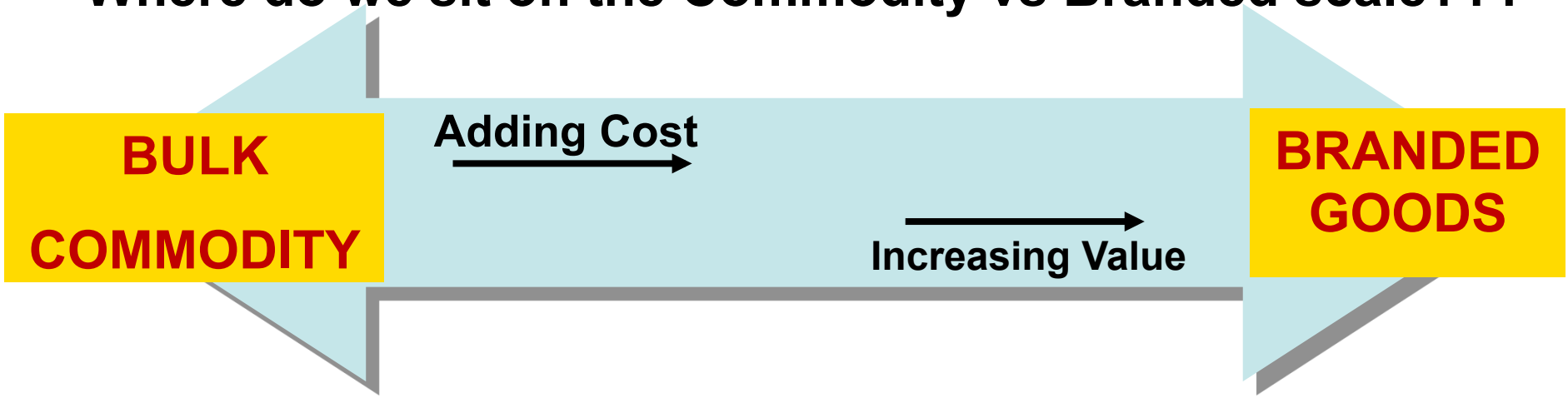
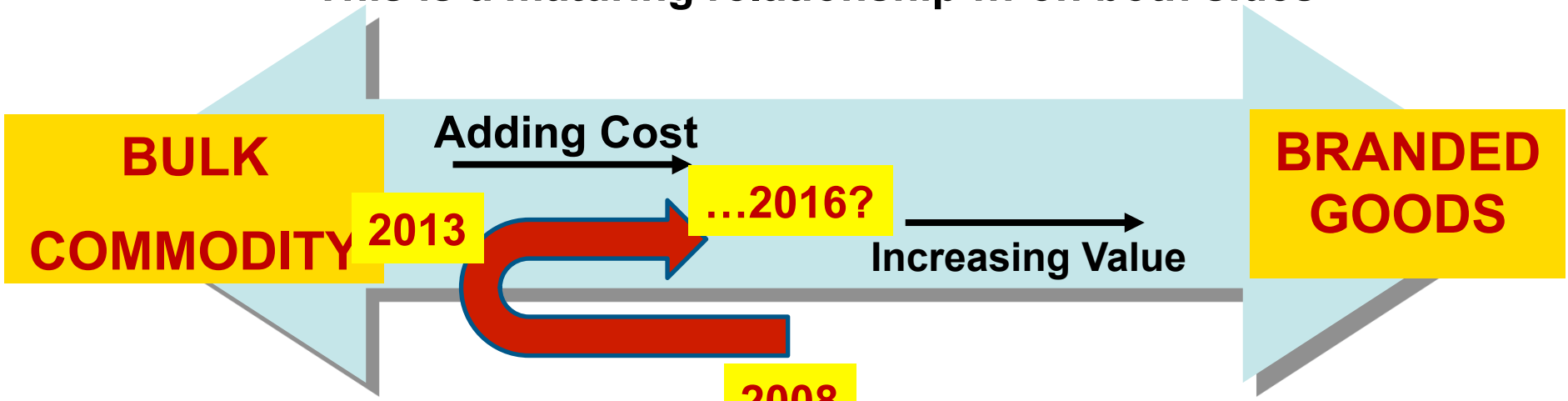
Where do we sit on the Commodity vs Branded scale???



Customer/Supplier Discussion Points	➢ Origin Optional ➢ Any Load Port ➢ Basic Specs ➢ Price Dominates ➢ Spot Purchase ➢ No carryover	➢ Guaranteed Supply ➢ Specific Specifications ➢ JIT Logistics ➢ Technical Services ➢ Price Secondary ➢ QA, IdP
Supply Chain & Services Impact	➢ High throughput, low cost ➢ Volume/efficiency driven ➢ Basic customer service	➢ Segregations ➢ Long holding periods ➢ Intensive inventory management ➢ Pre/post sales service
Business Outcomes	➢ Transaction Based ➢ Low barriers to entry ➢ Low customer/supplier loyalty ➢ Compete on price ➢ Volatile Profit Flows	➢ Relationship based ➢ High barriers to entry ➢ High Loyalty ➢ Compete on Service ➢ Consistent profit flows

This is a maturing relationship … on both sides



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MESSAGE? - The Future for Product Quality?

- Anecdotally, wheat quality has declined (what the customers say)
- In fact, the core product quality is unchanged/better (no change to standards from farmer)
- What is being supplied is meeting the contract spec, but falls short of some customers' past experience … there has been a <u>realignment of value</u>.

- SO ….. The future? …..

- The Buyers will become more specific about functionality – not just basic specs
- Private supply chains will emerge to deliver that level of service
- Quality, instead of being spelt "P.R.I.C.E", will be a differentiator, but price difference will be small
- Prima facie, containers are the ideal supply chain to deliver that quality consistency (so rather than being the <u>source</u> of inconsistent quality, containers may in fact be the <u>solution</u>?)
- Australia will remain at both ends of the Commodity vs Branded spectrum – the customers will decide the quality vs price equation

4. 2013/14 BALANCE SHEET

Australian Crop Forecasters

	Wht	Bly	Can	Sor
CARRY-IN	**3.5**	**0.5**	**0.2**	**-**
PRODUCTION	26.4	9.3	3.7	1.3
TOTAL SUPPLY	**29.9**	**9.8**	**3.9**	**1.3**
DOM USAGE	6.9	**3.1**	**0.8**	**0.9**
EXPORTS	19.5	**5.5**	**3.0**	**0.4**
CARRY-OUT	**3.5** WA	**1.2** WA/SA	**0.1**	**-**

MESSAGE:

- **Very tight east coast, buffer in WA/SA … so far … Black Sea?**
- **Watch east coast carefully for 2014/15 season break??**

5. CONCLUSIONS

- **Overall, export industry performing well**

- **Supply Chain:**

> increased infrastructure investment and competition

- **Industry "architecture"**

> Trade rules, R&D, Quality classification, Market Access/AQIS: have all made the shift successfully

> Farmer orgs have work to do

➢Industry promotion/information – has work to do, in transition

➢Product Quality – needs evolution (from buyers AND sellers); commodity vs brand tension will remain

. 2014/15 Balance Sheet

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QUESTIONS?
Thank You