



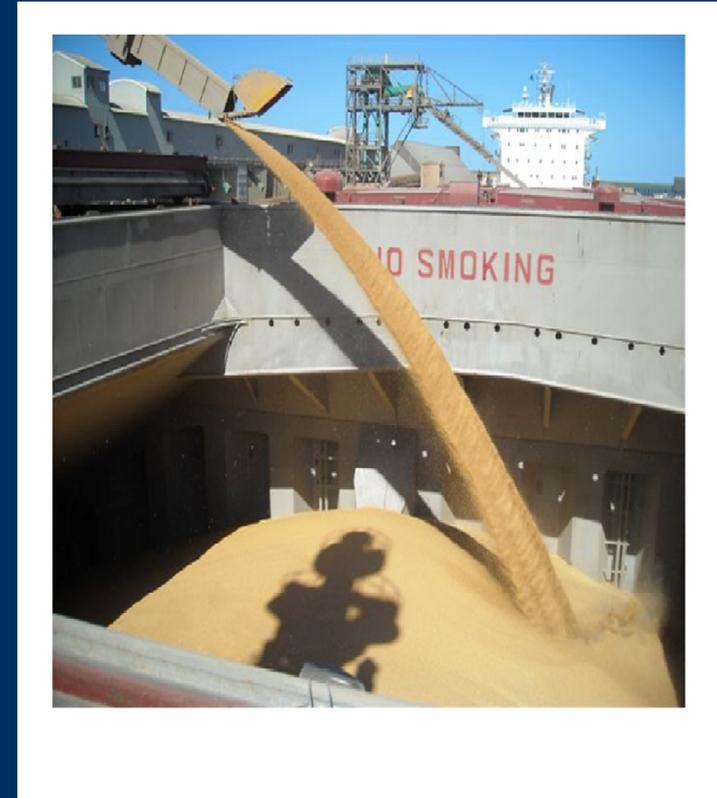
Exporting Grain - Challenges in Managing Logistics Future Opportunities and Changes in the Landscape

Australian Grains Industry Conference – 27 July 2011
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Topics Covered

1. Forces driving change
2. Challenges
3. Opportunities



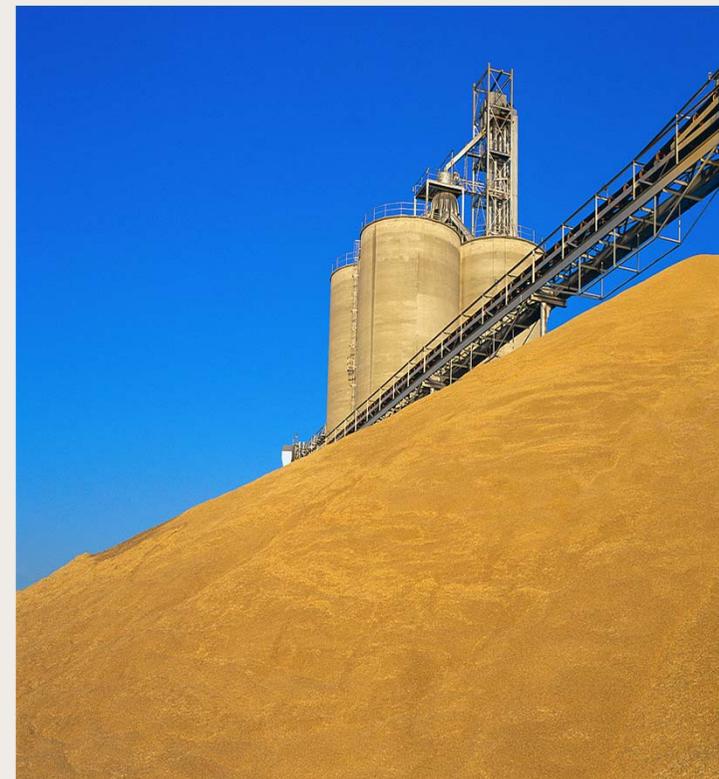
Forces driving change in the Industry

- ❑ Greater volatility in supply and prices / market generally
- ❑ Grain diverted to energy markets
- ❑ Climate change - Production risk
- ❑ Food security issues (availability and affordability):
 - overseas investment in food and supply chain infrastructure
 - **vertical integration**
- ❑ Globalisation – more **consolidation** and more horizontal integration



Forces driving change in the Supply Chain

- ❑ Australia's supply chain is rapidly changing from a series of organisations controlling distinct components of the supply chain into fully integrated, multi commodity businesses with heavy investment in storage and logistical capacity.
- ❑ Viterro, Cargill, and GrainCorp have provided a clear demonstration of their belief in the integrated business model for Australian grain business.
- ❑ Now have a number of regional storage and handling monopolies having significant influence on the management of the supply chain in Australia.



Recent Developments

MERGERS and ACQUISITIONS

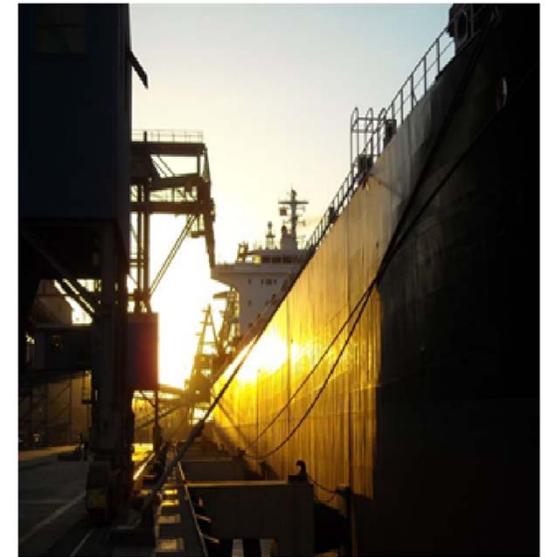
- Viterra's acquisition of ABB Grain
- Agrium's acquisition of AWB
- Cargill's acquisition of AWB's commodity business
- GrainCorp's acquisition of UGH
- Nidera's JV with Pentag
- Sumitomo's 50% purchase of Emerald
- Wilmar acquiring CSR Sucrogen
- Ebro Puleva's attempted takeover of Sunrice
- COFCO acquiring Tully Sugar
- Elders/Toepfer changes??



Recent Supply Chain Developments

PORT DEVELOPMENTS

- ❑ Wilmar/Gavilon purchase of Brisbane Sugar Terminal
- ❑ Louis Dreyfus Commodities storage facility in Newcastle
- ❑ Sumitomo buying Viterra's share of the Melbourne Port
- ❑ Two grain export facilities proposed for Bunbury WA
- ❑ Proposals to Share minerals facilities at Geraldton, WA
- ❑ Proposed grain facility as part of Mining port at Sheep Hill, SA



Recent Supply Chain Developments

TRANSPORT

- ❑ GrainCorp leasing/owning and operating numerous train sets in Eastern Australia
- ❑ Viterra leasing trains from GWA for SA / some Vic operations
- ❑ AWB leasing trains from PN & El Zorro for SA and East Aust
- ❑ Cargill leasing trains in Vic / NSW operations
- ❑ LDC operating a dedicated grain train into its Newcastle facility
- ❑ CBH/Watco rail agreement to invest \$175m in new rail resources in WA
- ❑ ARG offering continued services to WA market participants post CBH/Watco start up
- ❑ Glencore securing a train service with ARG in NSW



Future Opportunities and Changes in the Landscape – Regional Perspective

Western Australia

OVERVIEW

- ❑ CBH committed to retaining Co-operative model
- ❑ CBH's Grain Express bundled Storage and Freight service works well – however, legislation likely to be revoked by ACCC
- ❑ CBH have terminated rail contract with ARG, Watco Rail (to commence May 2012)
- ❑ CBH investing \$175 million in new rolling stock
- ❑ State and Federal government announce \$350 million in road and rail infrastructure improvements – some concern on Tier 3 rail lines
- ❑ Quality optimisation- supports grower blending/value adding



Future Opportunities and Change

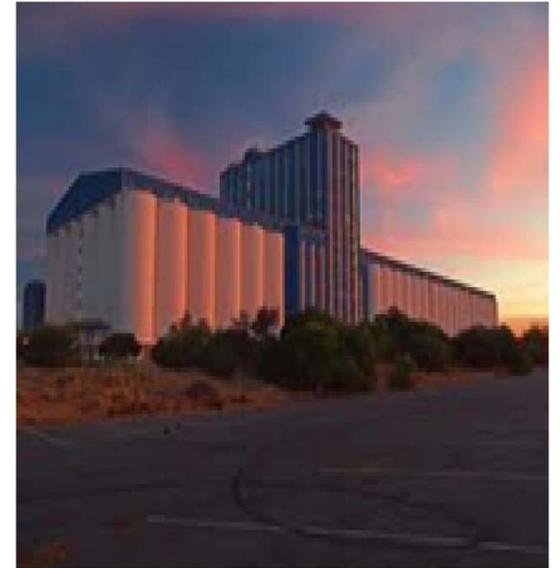
- ❑ ARG considering freight options to marketers in competition to CBH/Watco
- ❑ Alternate new grain port facilities - James Point, Bunbury Port, mineral port facilities at Geraldton and Albany Port
- ❑ Possible new entrants to Up Country Storage
- ❑ Important for CBH to outturn grain acquired by marketers in CBH system at better than minimum receival standards
- ❑ ACCC Port Access undertaking for 2011/2014, new rules proposed incorporating “Base load” concept and concurrent auction system



South Australia

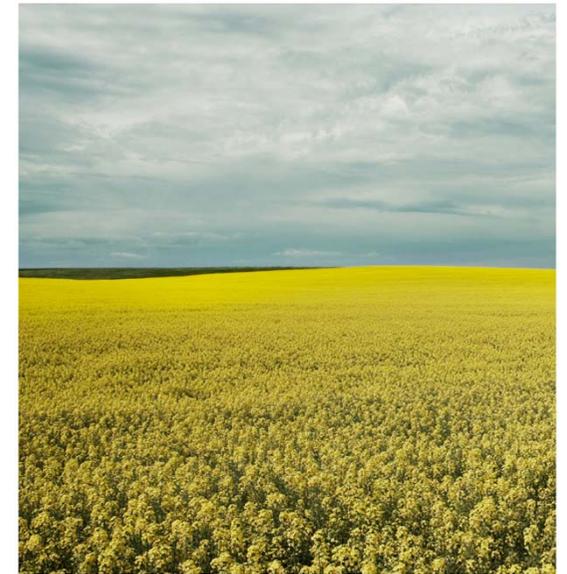
Overview

- Higher cost structure than WA
- Some alternative up country S&H providers however, Viterra fee structures favours central system
- Export Select is good product provided its availability is not biased towards Viterra
- Marketers have alternative option to use “Export Standard” – manage own logistics within Viterra’s storage network however it comes at higher cost than “Export Select”
- Port access and elevation is booked on a first come first served basis (booking fee applies)
- Minimal on farm storage



Future Opportunities and Change

- ❑ Contestable tonnage in Western Victoria between ABA (Melbourne), Graincorp (Portland, Geelong) and Viterra (Outer Harbour) ports
- ❑ Increased use of on farm storage
- ❑ Possible expansion of Eyre Peninsula storage network
- ❑ Some consideration of similar alternative storages being considered by farmer groups
- ❑ New Deep Water Port development at Sheep Hill on the Eyre Peninsula being considered
- ❑ Alternative port options using Flinders Port's wharf and mineral facilities are being considered
- ❑ ACCC reviewing Viterra access undertakings



Eastern Australia

Overview

- ❑ Most competitive supply chain in Australia for Storage, Port and Freight services
- ❑ This past season, unprecedented demand on road transport given flooding, weather events compressing harvest delivery period, and later movements to port.
- ❑ Road/Rail freight rate gap extreme.
- ❑ Lack of train capacity to industry other than a few
- ❑ Unlike WA and SA, where transport services are provided by the dominant Bulk Handler, marketers are responsible to secure their own inland logistics
- ❑ Wilmar/Gavilon convert Sugar Terminal into grain port in Brisbane
- ❑ Closed S&H logistics systems e.g. LDC



Source: The Australian

Future Opportunities and Change

- ❑ Growth of “direct Farm to Port” logistics matched with increased on farm storage in Northern regions
- ❑ Expansion of ARG into East coast rail given loss of Western Australian market?
- ❑ Other rail operators entering into East coast rail.
- ❑ Reduced port elevation capacity by GrainCorp is a major issue for marketers
- ❑ ACCC Port Access Undertaking review completed. “Inadequate” first come first served (FCFS) system approved



Opportunities

Ports

- National system for fairly accessing port slots
- New investment?

Storage and Handling

- Continued increase in on farm storage and growth of “direct farm to port” logistics
- Visibility to the trade of unsold grain in store
- Grain traceability- difficult from centralised systems – some additional capacity may be introduced to capture this market.
- Outturn of grain by BHC at the same quality as grain received, not just FAQ to minimum standards.
- Future closed loops up country?? (Nth American model)

Transport

- Increase the size of trains (investment in expansion of rail siding, passing loop and port discharge)
- Improving rail productivity (hub and spoke concepts)
- Investment in rail infrastructure

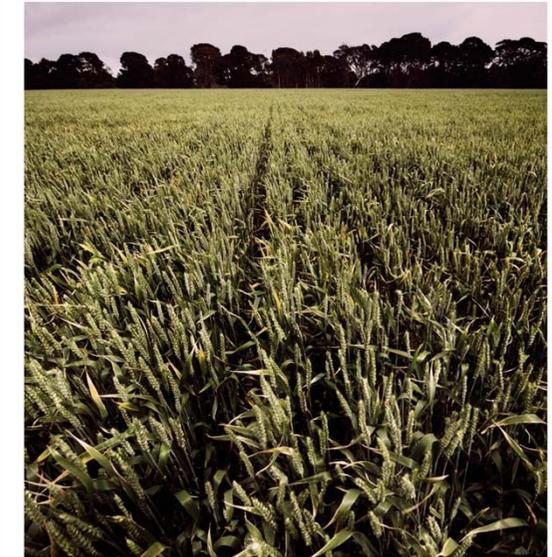
Port Access Undertakings

- ❑ Major access issues to shipping stem nationally
- ❑ Inconsistency between the shipping booking systems and inability to secure shipping for long term planning:
 - CBH:
 - Auction system works well but not needed in ‘quiet’ seasons and doesn’t cater for long term planning
 - Viterra:
 - FIFS system found to be wanting- booking process requires transparency
 - GrainCorp:
 - Reduced elevation capacity on east coast at a perceived disadvantage to the rest of trade particularly those without strong logistics capability
 - First Come First Served transparency
 - ABA:
 - Voluntary access undertaking- awaiting ACCC approval



A Potential Solution to Shipping Slots

- ❑ Creation of a National Allocation of Shipping Slots Authority (NASSA).
- ❑ Independent, not for profit, visible, common auction platform for all bulk grain exports:
 - Auction premiums pooled and rebated to those who execute
 - Equal access to all marketers including those who are vertically integrated
 - Booking slots must be confirmed with a sales contract 60?? days out or slot is forfeited (can be traded)
 - Allow a secondary market to buy and sell capacity (tradeable slots) to ensure that capacity is maximised, not lost
 - Remove speculative trade by fixing secondary market fees (base booking fee only paid for slot, even if higher price paid at auction)
 - Difference in actual action price paid versus minimum booking fee returned to the pool and distributed to those that have shipped, less the cost of administration



Our local partners

