



Deregulation ~ Opportunities and Threats

■ Richard Koch, MD ProFarmer Australia

- From Collarenebri, 150kms west of Moree in North-West NSW
- Agricultural Economics University of New England (Hons)
- 1994-99 Economist, AMLC
- 1999-04 Agribusiness Analyst & Corporate Strategy, BankWest
- July '04 Purchased ProFarmer
- Diploma in Applied Finance (SIA), MBA (UWA)
- Nov '08 sold to NZX

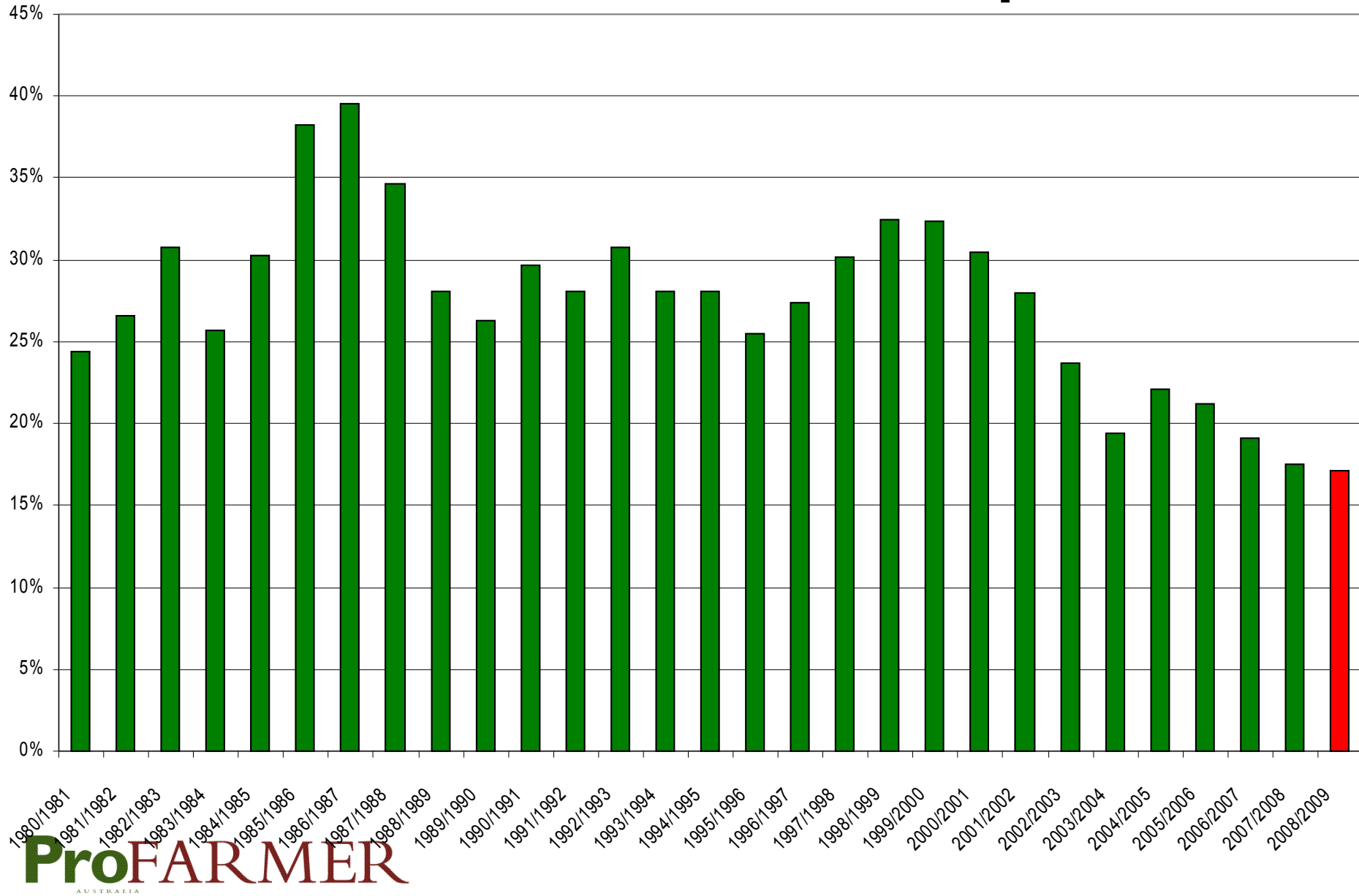
Compared to other recent industry changes this is a tidal wave

- 1990-1999 - Consolidation of SMA's
- 1999 - Privatisation of AWB, loss of Gov't underwriting
- 2002 - Grain Marketing Act, establishment of GLA
- 2002 - CBH merger with Grain Pool of WA
- 2007 - CBH Special wheat export license

What is changing?

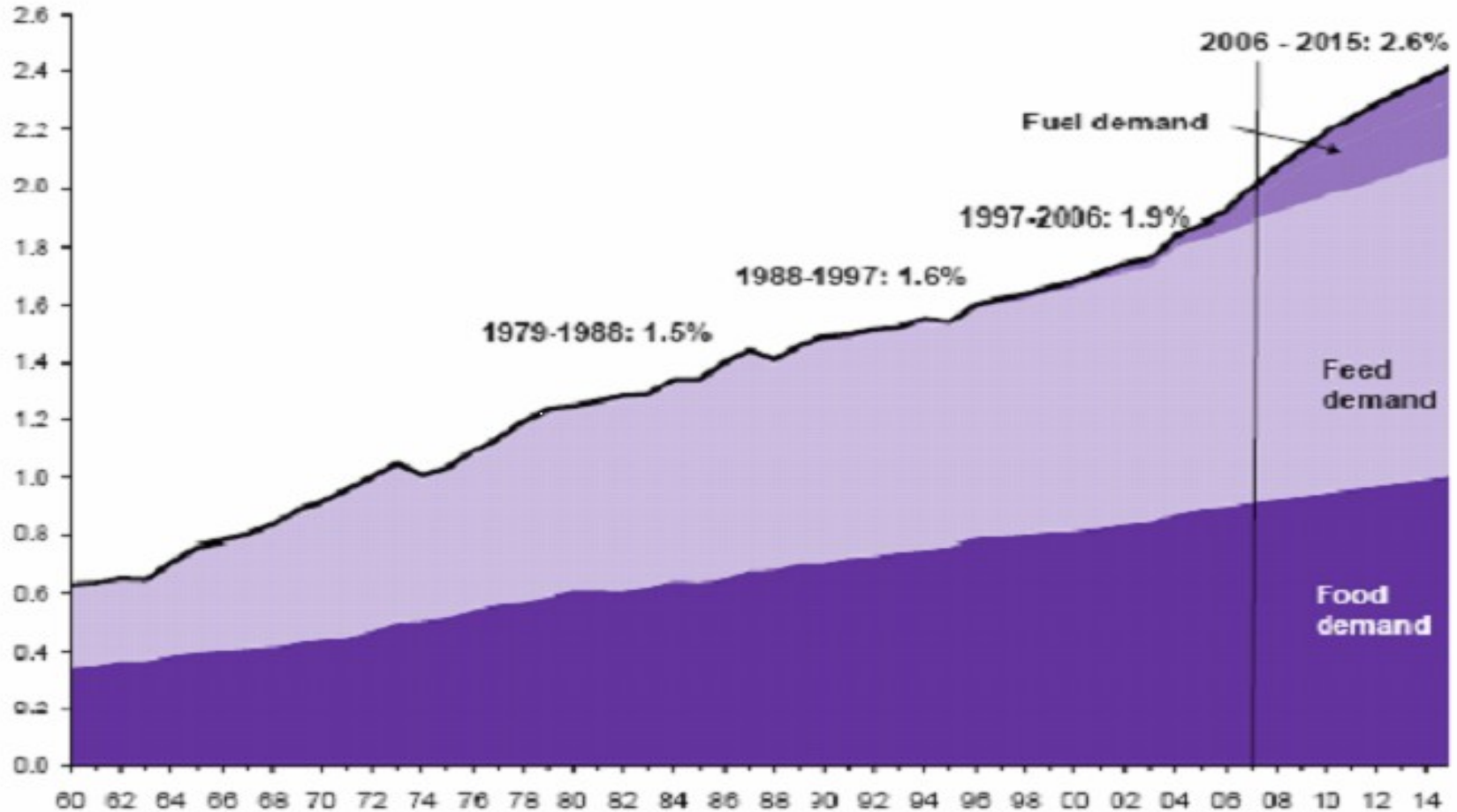
- Producing more than we are consuming, stocks getting to critical levels
- Demand from energy sector ~ biofuels
- Massive rise in input costs
- Labour shortages
- Balance of power in grain trade shifting
- Access to finance is tightening /counter party risk
- Massive outside investment interest
- Climate change
- Supply chain pressures

We haven't fixed the problem... .



Grain consumption

Billion metric tons



Source: USDA and Goldman Sachs Commodities Research

What are the implications of these changes?

- Low stocks
- Rising input costs
- Power shift in global trade
- Credit crunch
- Outside investment interest
- Bio-fuels
- Climate change

→ Volatility

- Labour shortages
- Supply chain pressures

→ Efficiency

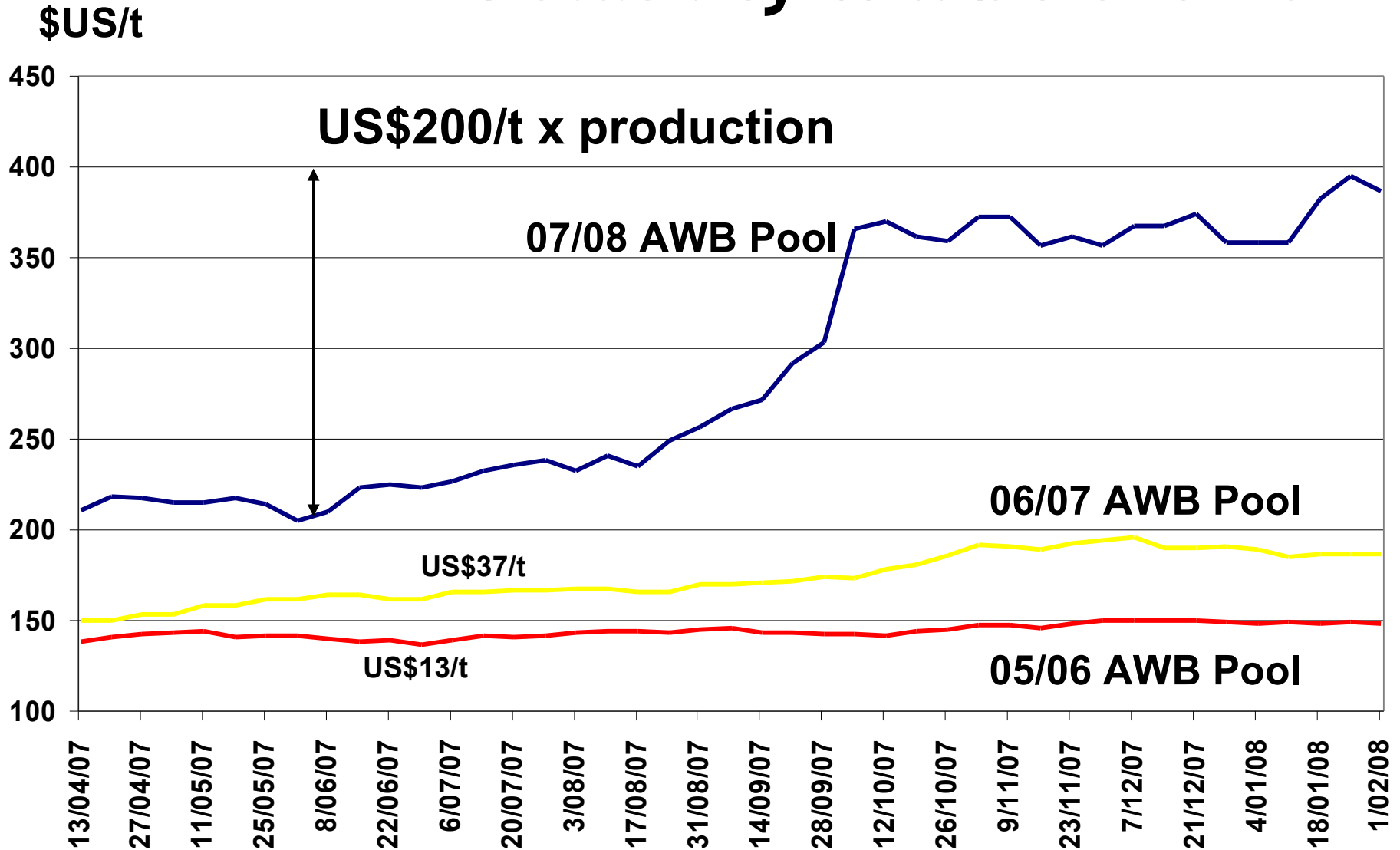
The new environment... .

- Enormous general price volatility
- Widening in spreads between grades (pools no longer engaging in price averaging and smoothing).
- More dynamic grade spreads
- Greater rewards for taking on production risk
- Increase in the number of buyers and ways to buy and sell grain
- Shift towards more cash selling post harvest (?)
- Smaller more dynamic and defined pools . Regional pools .

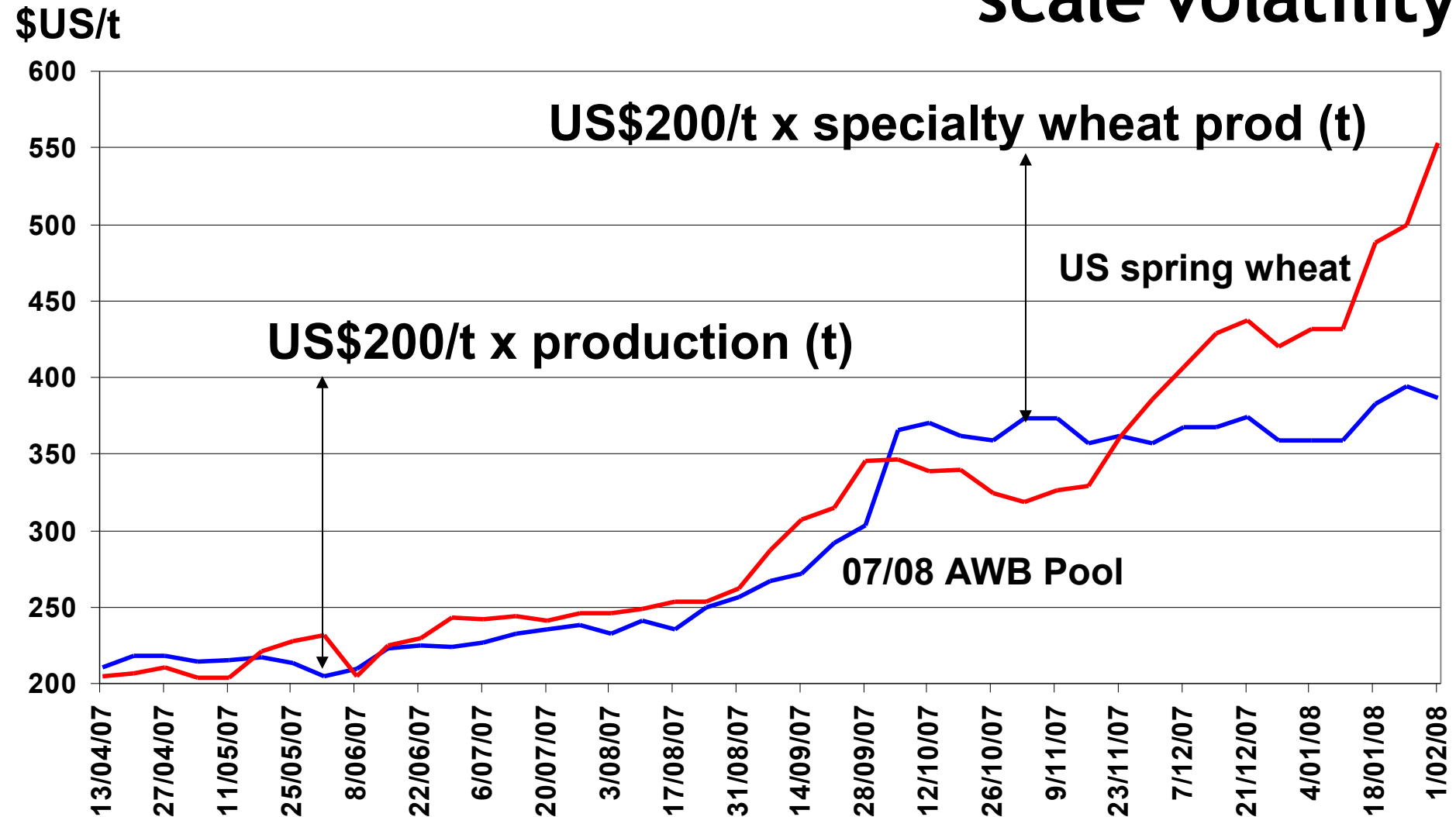
The new environment... .

- Changes in the way grain is priced (flat or bin-grade based pricing, direct price transmission from export markets)
- Prices will reflect real costs and real quality attributes (pros = lower transport costs & cons = Iraq).
- Greater reward for consistent supply of quality specified grain (closer linkages between growers and end users)

Volatility will be the norm

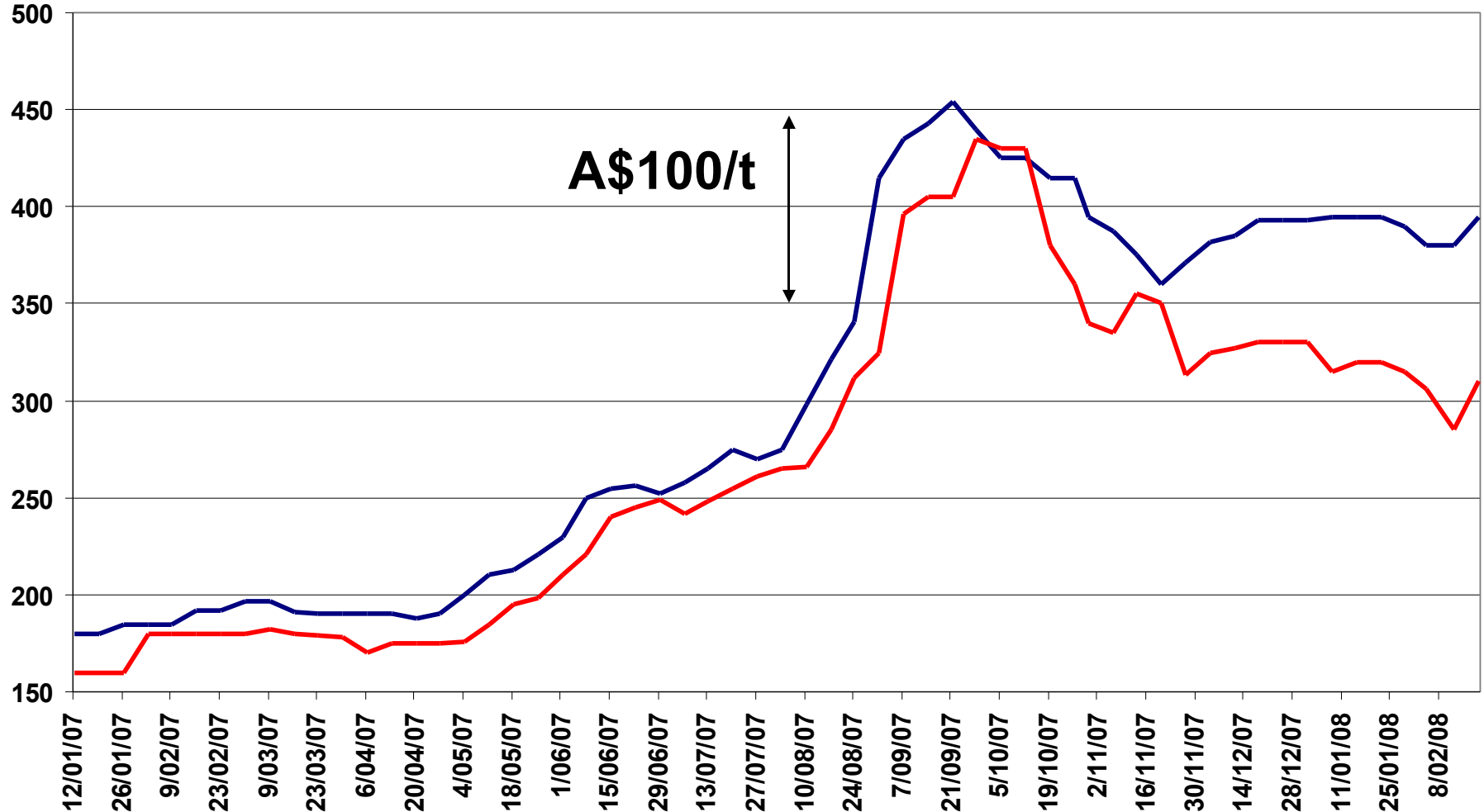


Specialty grades to exhibit off the scale volatility



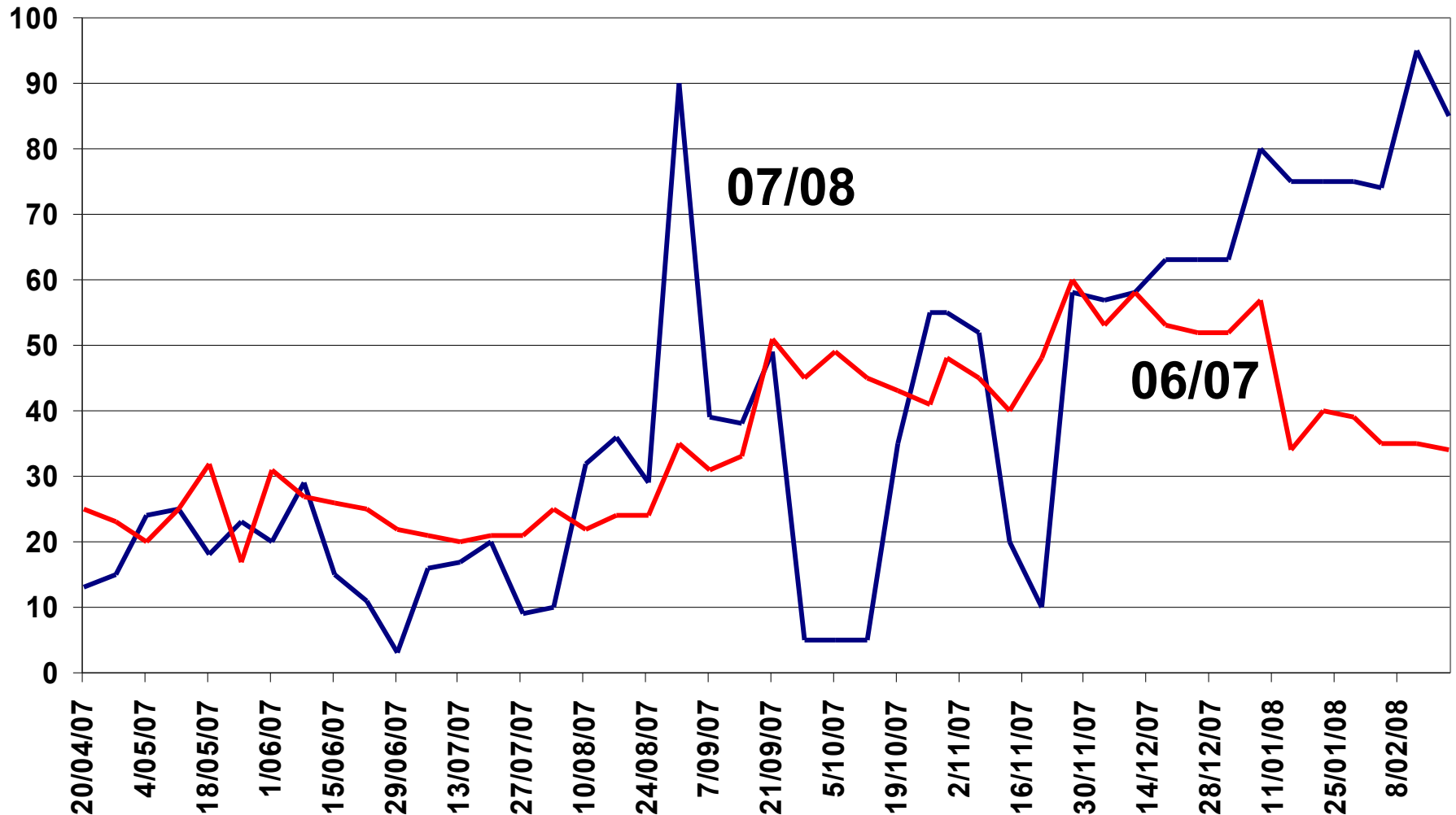
Large rewards for taking on production risk

\$A/t, Feed/Malt Barley 2007/08



Grade spreads to become more dynamic

\$A/t, malt/feed barley spread



Response to change ~ Growers

- STILL hard to read
- Need to be better at managing risk (whether to plant, when to sell, how to sell, who to sell to)
- Precision agriculture, rotations, risk sharing
- Logical response will be to diversify risk in yr1, use local established players
- PAY for high quality professional advice (inputs, agronomic, marketing)
- May need to have a marketing plan/s strategy
- More direct market linkages as market transparency improves

Response to change ~ Advisors

- Monumental change in risk ie. $5,000t \times \$200 \times 20\% = \$200k$, now $5,000t \times \$400 \times 60\% = \$1,200k$ (getting \$3-4k to manage this is not sustainable), fund mgr 1% of \$2m = \$20k
- Move away from personal to general (ability to handle growing number of clients)
- Reduced number of personal clients but higher fee
- Move towards % based fee rather than flat fee (works both ways, flat or %)
- Specialisations , improvement in professional standards

Response to change ~ Financiers

- Lower lending extensions (65-75%)
- New products - Inventory financing (first cab off the rank)
- Banks can't manage loan valuation of grain in co-mingled stacks with multiple tickets
 - Will let accumulators manage for now
 - 1-2 seasons finance will be offered against warehouse receipts

Response to change ~ Incumbents

- Move away from derivative products (need to protect equity)
 - Realised they are not banks (sticking to their knitting)
- Will push growers towards pools as they don't require as much equity to run
- Pools with defined risks (un-hedged, hedged, partly hedged)
 - Relevance of pools will be determined by appetite for cash of internationals, but growers will still utilise them.
- Gone from 'Ruling the world' to finding areas where they can add value, core competency, areas of competitive advantage
 - Restructuring so they have better access to capital markets
- Partnerships /consolidation between companies with international market expertise and local accumulation arms

Response to change ~ New Acquirers

- 20 Licensed exporters
- Wheat Exports Australia accreditation robust but no guarantee of solvency
- Don't get the feeling that the market will be taken by storm this year, but certainly they will have a look see
- Not as easy as some think, but it is a tough market
- Bricks and Mortar? Buy FOB

Opportunities

- Take more control of marketing grain
- Pressure on supply chain
- More innovation, greater competition for declining numbers of growers, better service
- Room for service providers (that's us) to grow and be rewarded if adding value

Threats

- Higher costs if you get it wrong (risks have increased)
- Complexity becomes overwhelming
- Industry doesn't have structures in place to handle people falling through the cracks
- Increased risk of litigation
- Ongoing rationalisation (increased ticket size, smaller numbers)