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Thank you for the opportunity to be here today. It has been a number of years since I last presented and it is good to see how your organisation has continued to grow.

I am pleased for the opportunity to spend some time on today's topic of investment in the grains industry because I think we have an exciting story to tell – both in terms of what we are doing at GrainCorp, and in relation to the broader grains industry.

The drought has naturally posed significant challenges for agri-food businesses like ours, and caused considerable hardship for many rural communities.

However, it has also provided an opportunity - through the media attention it has focussed on the farm sector – to showcase some of the positive aspects, and to generate discussion on areas where improvements need to be made.

For GrainCorp the drought has meant a heightened focus on delivering quality services at the lowest possible cost. While we have forecast a loss for the current full year, the company will remain cash-flow positive and remains fully committed to its long term strategy.

Given the circumstances this is a pleasing achievement – and when viewed in the context of the past ten years since privatisation of the company, forms part of a corporate history of consistent growth and development.

A track record of good performance attracts investment, which in turn drives innovation and leads to further increased performance.

Importantly, it is during the tough times that performance can be most accurately measured.

The Head of Industrial Research at Shaw Stockbroking, Scott Marshall, made the following comment about GrainCorp just last week;

"Investors are increasingly willing to treat them as long-term industrials... its strategy of earnings and geographic diversification has been quite impressive, and its profit performance has been very good despite the drought."

I will come back to some of things GrainCorp is doing a little later, such as the merger with Grainco, our move into rail and our progress in milling - but first I want to discuss a number of issues of importance to the industry as a whole.

In order to understand this it is helpful to take an historical perspective.

At the start of the 1990's the industry was characterised by the existence of around 16 separate, largely government operated monopolies in bulk handling and grain marketing.

Since then the number has reduced to six. If our proposal to merge with Grainco Australia is approved by shareholders on August 15, then that number will further reduce to five.

As striking as the reduction in numbers is the change in orientation of these companies.

CBH has retained a cooperative style and structure, whilst Ausbulk is expected to seek listing next year. AWB, ABB and GrainCorp have become publicly listed companies with fiduciary obligations to shareholders.

All share a strong commercial focus, and all have become active in what were perceived as 'non traditional' areas.

The move away from government ownership has created a vastly different operating environment.

It has meant a sharper focus on investment, and this has been intensified by changes in technology in the areas of grain handling and marketing.

While government ownership has receded, government regulation has remained. The grains industry continues to be ranked amongst the most heavily regulated sectors in Australia.

The effects range from limitations on market participation created by the operation of export monopolies and State based vesting rights, to price regulation at port facilities, as is the case for GrainCorp's ports of Geelong and Portland in Victoria.

To this can be added the usual business costs associated with occupational health & safety, insurance, taxation, market disclosure and compliance with a myriad of other pieces of legislation.

Whilst privatisation has increased the focus on investment, it has also given birth to competition, and this has forced companies to be aggressive in reducing their costs while at the same time increasing the range of services they provide.

Only a number of industry participants have had the scale to clear these hurdles, leading to the consolidation I referred to earlier.

Perhaps more than most, the grains industry is a place where size does matter.

For GrainCorp, the combination of seasonal risk and the importance of bulk handling and grain marketing to the bottom line have underscored the importance of geographic expansion and supply chain integration.

This brings me to the major issue I would like to address today – the role of investment in the grains industry and how we go about unlocking the full benefits of competition.

Firstly I would like to say that while our industry has come a long way, we still have further to go before we can say we have reached maturity in terms of competition and investment.

We remain in part restrained as we evolve away from the structures of the past and progressively embrace the dynamic business world of the future.

This is a world built on freely flowing information, clear reward for investment and economies of scale. It is also a complex world where competition must be balanced with cooperation to achieve the best result.

The Australian grains industry does not exist in isolation. Whether we like it or not, we form part of the broader world economy.

That economy is characterised by large and instantaneous movements of capital from one corner of the globe to another - in an acutely competitive commercial environment - and on a scale that would astound the Carnegies and Rockefellers of the last century.

In this world, it is the companies that are able to demonstrate the greatest ability to grow while at the same time remaining responsive to their customers and their competitors that succeed.

The Jonah Lomu's of business – companies that are both large and nimble. The need to achieve this is what is driving consolidation in our industry.

The definition of a grain company is different from the past. They are no longer merely storage and marketing businesses but increasingly have become agri-food companies with significant breadth and depth to their business.

While there has been consolidation domestically, this must be viewed in the context of a larger competitive landscape with more participants. So, consolidation has been a response to intensification of competition rather than a lessening of it.

Participation in the agri-food sector goes well beyond securing growth in the areas of storage & handling and marketing of grain – GrainCorp has made a commitment to farm inputs, transport logistics and primary processing.

Each of these sectors is worth billions of dollars a year in Australia alone, and exponentially more internationally.

Each requires a commitment to be competitive and to grow in scale. GrainCorp has made that commitment and we will not be content unless it bears fruit - it is our intention to aggressively pursue growth in each of these sectors.

Our goal is to see the Australian grains industry compete successfully on a global scale – a vibrant and growing industry matching the big international players on product quality and on business efficiency.

The only way to make this a reality is through effective investment, diversification and growth. That is our vision for the industry, and our vision for our company.

One of the most significant impediments to fulfilling this vision through effective investment is the way commercial relationships along the supply chain currently operate.

Today, the grains industry is straddling a barbed wire fence. Failing to embrace the full benefits of competition as it clings to the false security of a controlled - and I would argue stifling – supply chain structure.

Participants along the supply chain - companies such as GrainCorp who are responsible for actually delivering the services at the coalface – are often excluded from reaping the rewards of their investment.

Wheat is the single largest grain produced in Australia, and the AWB is the single biggest purchaser of wheat. That is what gives it so much power over the supply chain – and the reason why reform in this area is so important for the entire grains industry.

It is essential for the purposes of rational discussion, and also as a matter of integrity - that these two very distinct matters not be mistakenly or deliberately confused.

I am not referring to the powers of the single desk but to its application in the supply chain which precludes transparency and contestability.

Despite the often repeated claims, GrainCorp does not advocate changes to the Single Desk – however we do advocate a competitive domestic environment.

This means an ability to invest or disinvest based on solid commercial reasons, and to compete on even ground.

This issue has received considerable public attention recently – particularly through the Senate’s examination of the effectiveness of the Wheat Export Authority.

One result of that has been the establishment of a process for review of the Single Desk arrangements, and a mechanism for strengthening the powers of the WEA. Like you, I will look forward to the result of that review when the report is made available next year.

As the Managing Director of GrainCorp my concern is not with the politics of the issue – however, I do have a very keen interest in the impact that this has on GrainCorp’s investment and business growth.

I believe what we are observing is a clash between two fundamentally different and opposing models for the industry.

On the one hand there is the view that satisfactory results can be obtained through strict control of information and central planning.

It is a paternalistic view, and given the significant commercial benefits that it provides to those privileged enough to enjoy its protection from competition – it is also an opportunistic view.

This view has led to the management of the supply chain by AWB Limited which it refers to as maintaining a ‘line of sight’ – which actually precludes competition along the supply chain.

GrainCorp has a different view.

And we are doing something about it.

We are committed to the agri-food sector. We are also firm believers in the potential of the grains industry and are prepared to put our money where our mouth is and pursue investment opportunities.

GrainCorp is here for the long term and we are prepared for the hard work that must go into convincing investors and market analysts of the bright future for agriculture in this country.

At GrainCorp our efforts have been focussed on moulding the company into a modern, seamless and integrated operation.

We have put \$300 million back into the business since 1996 - an investment that has allowed us to modernise our facilities and kept us ahead of the game.

We have sought to create genuine marketplaces throughout our network to give producer customers access to information on which to base their commercial decisions.

We have provided access to a full range of prices for their grain at each of our sites;

We have provided the technology to carry out transactions on line – allowing growers to identify specific parcels of their grain and to maximise the returns based on quality and grade;

We have inter-woven this with our storage network to allow producer customers the choice about when they sell their grain to get the best price;

We have offered a range of innovative grain marketing solutions to assist in managing risk;

And we have sought to create an integrated storage business characterised by value added services including farm inputs, transport logistics, accumulation and most recently processing.

All of this is based on a philosophy of a contestable market and freely flowing information where choice is valued.

We believe this is the way to grow our business – by helping our customers to grow theirs.

It is also the way which facilitates sound investment decisions by industry participants.

It is not possible to hold out the tide of change for long – change is a rule of life.

Nevertheless, while there is an air of inevitability about much of this - for the moment the prevailing structures are working as a hand brake on investment and innovation.

The industry now faces an important choice.

That choice is between;

Freely flowing market information – or tight central control

A range of marketing, storage and logistics options domestically – or limited choice

Appropriately rewarded investment – or no investment at all – or worse still, misplaced investment.

We are committed to getting the very best return we can for our investments – but to achieve that we need to be able to compete on an even footing, and to be assured that our investments will receive their due reward.

This is not achievable in an environment where one player can control the commercial relationships along the length of the supply chain.

How can we, for example, invest with confidence in improving a receival facility when we know that one of our competitors is able to divert business away from that site through its influence over the setting of freight rates?

The debate goes on; however farmers are becoming increasingly aware of the benefits that a competitive marketplace can offer them.

They are also becoming increasingly concerned with the inefficient aspects of the industry and issues such as over capitalisation and cost transparency.

Our producer customers value fast, efficient and reliable service – but they want it to be responsive and fairly priced.

Only transparency of information and contestability of services can ensure this.

None of us should have to take someone else's word that we are getting the best deal – this should be something which is tested openly in the marketplace.

So what is the answer?

I am convinced that contestability and transparency is the solution - and this can only happen if there is a separation of AWB International from AWB Limited.

Only a separation will protect the integrity of the Single Desk from the internal conflicts which exist at the moment, and only separation can ensure that supply chain services are being provided at the lowest possible cost.

If this can be achieved, then the other distortions along the supply chain will sort themselves out.

As I said earlier, I do not believe we will have to wait too long for something like this to emerge. However, as a company we continue to pursue our growth strategies.

GrainCorp has been at the forefront of change since it was privatised in 1992.

The company has been through an extensive program of modernisation, geographic expansion and supply chain diversification – including public listing on the ASX in 1998, the merger with Vicgrain in 2000 and the purchase of Allied Mills in 2002 in a JV with Cargill Australia. The recent drought has failed to distract the company from its long-term strategic plan.

The company's strategy has involved acquisitions in milling and rail, partnerships in port operations, investment in capital and geographic expansion into new grain growing areas.

Most recently, we have embarked on a merger with the Queensland based Grainco Australia, and we are currently in the midst of a series of meetings with Grainco shareholders to explain the benefits of the merger and the related funding mechanism.

A merger will provide an exciting opportunity to achieve operational efficiencies and a smarter use of infrastructure – resulting in increased value to shareholders and clients.

It forms an important part of our long term strategy of geographic and earnings diversification – and will help to ensure GrainCorp is able to compete on the global scale that I referred to earlier.

It is also evidence of our optimism about the industry as a whole – we are committed to growing our business through effective and considered investment, and cementing our role in a vibrant and growing grains industry.

Thank you.