Iron Road and EPCBH Cape Hardy Port Proposal

EPCBH Origins

- Iron Roads community engagement strategy.
- Tim Scholz, ‘Principal Advisor – Stakeholder Engagement’.
- Involvement for 6 years
- Initiated a process with a view to partnering with agriculture mid 2013
- Founding membership of 14 family businesses. Grain production ranging in size from approximately 2500 tonnes per annum to 25000 tonnes per annum.
- Further commitment from 25 farm businesses producing an average of 100000 tonnes.

- NOT a vote of no confidence in Viterra – We acknowledge their investment and proven capability in storage and handling

Relationship With Iron Road

- Currently have an MOU
- In final stages of negotiating a ‘Heads of Agreement
- Iron road cooperate and support by providing Tim Scholz with the flexibility to act as EPCBH CEO.
- Commitment from both parties is to work towards outcomes of benefit to Iron Road, EPCBH and agriculture more broadly.

Charter and reason to be

- Exist to take advantage, on behalf of the grain industry and the broader community, of any opportunity provided by the development of a ‘multi user, multi commodity, state of the art deep water port facility at Cape Hardy.
- No interest in alternative sites. Why? – Our view is that none of the other concepts or options so far proposed can provide the long term, lowest cost but highest quality export capability necessary to make a meaningful contribution to supply chain efficiency over decades.
- This is a major and long term infrastructure development of national significance. Requires the broad based support of all three tiers of government, as well as marketers, growers and the local community.

EP's place in Australia's Grain Exports

- 10 year grain production about 2.4 million tonnes – virtually 100 Percent exported.
- About one third of South Australias production.
- BUT 40 Percent of the states exports.
- 10 percent of Australia's grain exports.

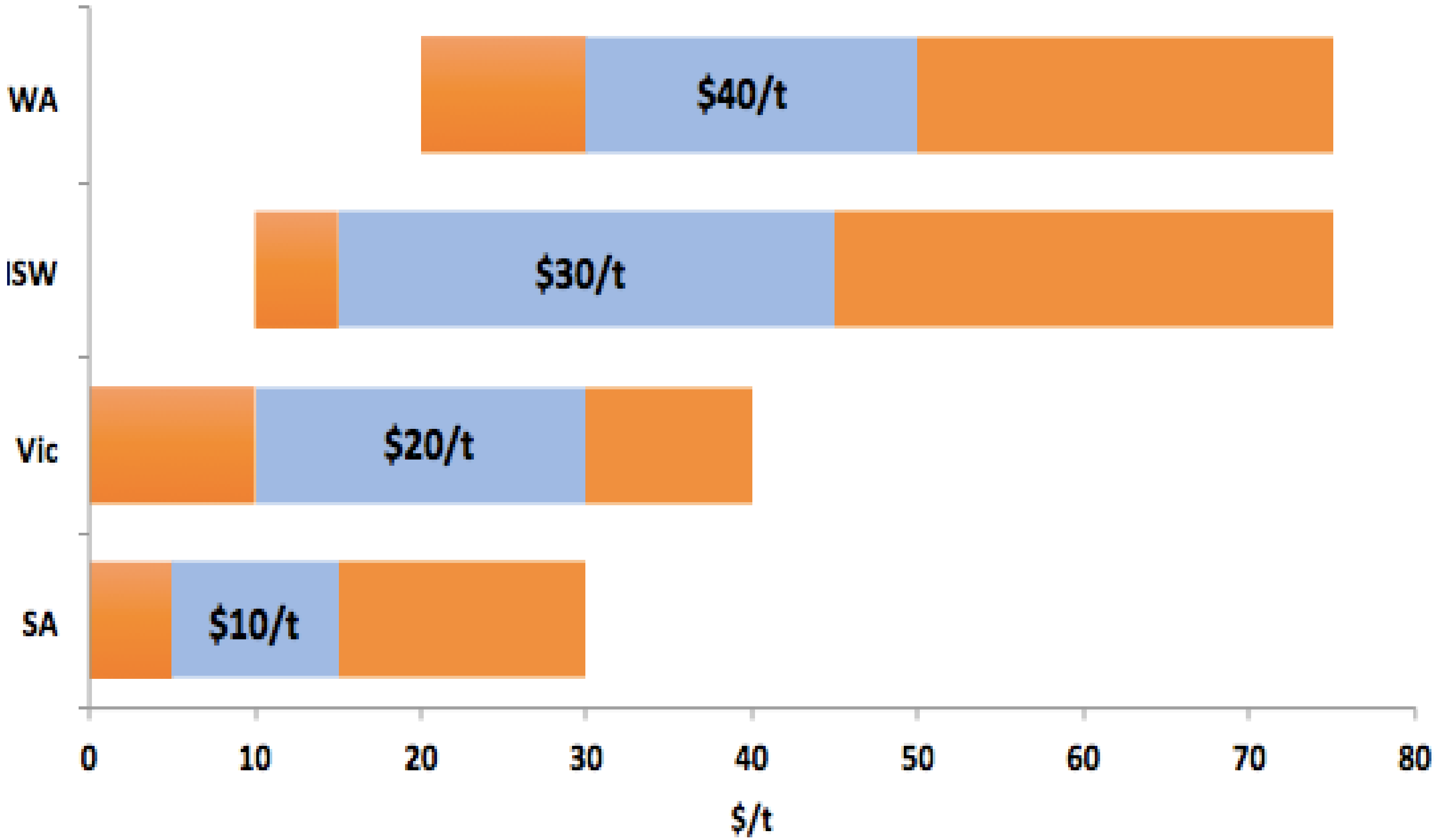
Why bother? Changed Dynamic and Industry Challenges

- Clearly defined supply chain cost problems in South Australia, most entrenched on EP

Figure 9: Comparison of Supply Chain Fees 2017/18 – Major Wheat Shipped March

	Viterra	CBH	Graincorp	Emerald
Port	29	22	23	24
Country	23	13	22	23

Figure 11: Port Lincoln Grain Price Differential – Value Below Other Ports / States – Range and Average (2015-2017)[1]



- Huge changes and challenges related to the resurgence of grain production in the former Soviet Union.
- Associated competitive price pressures related to their lower cost of production.

Wheat exports slow to a trickle as Indonesia looks to Black Sea

“CBH head of marketing and trading Jason Craig said Australia was facing challenges in Indonesia, the world's biggest importer of wheat and traditionally Australia's biggest market.

"The big story in this is Indonesia. Demand from Indonesia has been very slow for Australian wheat," he said.

"Australian wheat has been uncompetitive compared to the Black Sea. The Black Sea had a very aggressive shipping program through the last part of last year and certainly has continued that in beginning of this year."

•The Black Sea is displacing Australian wheat throughout Southeast Asian markets, including Vietnam and Malaysia, where it is about $US25 ($31.80) a tonne cheaper.

- Upheaval in the international grain trade due to the digital revolution. Reduction of margins for the traders, as producers and end users have true, real time access to information.

America’s Largest Private Company Reboots a 153-Year-Old Strategy

Cargill is a major grain trader and the second-largest U.S. beef packer, with operations spanning the globe, but digital upheaval down on the farm is bringing big changes.

“Yet Minnesota-based Cargill’s business is falling victim to a scourge that’s already upended media, retailing, and other venerable industries: digital disruption. Cargill long made fat profits by having far more information about global commodity prices than the local farmers it negotiated with or the food companies it sold to. But today, even a small Iowa farmer with a smartphone or a tablet can get real-time data about weather conditions and prices facing his Brazilian counterparts. This change has decreased farmers’ dependence on the middlemen and lowered the spread that Cargill and other big buyers used to make on such deals. American farmers have also expanded their in-house storage by almost 25 percent over the past 15 years, according to U.S. Department of Agriculture data, giving them some of the timing flexibility that only middlemen previously had. “The days of ‘Hey, we’re going to buy your crops, we’re going to store it, we’re going to play the carry’—you know, sell it at a profit—it’s over,” says Cargill Chief Executive Officer David MacLennan.”

- US government support for cooperatives via tax concessions to growers – resulting it their growing influence in the US grain trade

U.S. grain companies fear harm from new tax law

Mark Weinraub, Tom Polansek
4 MIN READ

"The new tax law allows farmers and ranchers to claim a 20 percent deduction on all payments received on sales to cooperatives.

"It is going to put us out of business as a private if something is not changed right off the bat," said Doug Bell, president and general manager of Bell Enterprises Inc, which operates grain elevators in central Illinois.

"There is just no reason whatsoever why a farmer would do business with anyone other than a co-op."

The deductions could come as a massive boon to cash-strapped U.S. grain farmers, who have struggled for at least four years amid a global grain glut and sluggish commodity prices.

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•Updated Feb 13 2018 at 6:00 PM

Why a Cooperative?

- Directors of a company are obliged by law to act in the interests of shareholders.
- Directors of a Cooperative are obliged by law to act in the interests of the members!
- Proven ability of WACBH - a grower controlled structure – to provide the lowest supply chain cost structure in Australia over the long term. They have just announced a further $4 reduction in supply chain costs.
- CHS and RABO are both large strong and successful coops that farmers are familiar with.

CBH Group reduces supply chain fees by $4 per tonne

The CBH Group will reduce storage and handling fees by $4 per tonne from the upcoming 2018-19 harvest, continuing our commitment to provide the lowest cost, most efficient grain supply chain for Western Australian growers.

CBH Chief Executive Officer Jimmy Wilson said the fee reduction will support our growers to compete with lower cost grain from other international origins of supply.

“The commencement of a recent program to improve efficiency and reduce costs across our business, as well as CBH’s strong balance sheet, has provided us the confidence to return this value directly to our growers in lower fees, starting this harvest,” Mr Wilson said.

“We know that the international competitiveness of Western Australian grain is under threat from fierce competition from the Black Sea and reducing our supply chain fees and improving efficiency is essential to keep grain growing viable for generations to come.”

The $4 per tonne reduction will be split evenly between grower and marketer fees to ensure growers have an attractive pathway to get grain to the international market at the lowest cost possible and that grain marketers continue to see Western Australia as an attractive destination to accumulate grain.

“Ultimately all supply chain costs are borne by the grower and we expect to see the full $4 per tonne value returned to them through reduced receival fees and competitive pricing for grain,” Mr Wilson said.

“Going forward, CBH will endeavour to keep fees flat as we continue to seek further supply chain efficiencies.”

Guiding Philosophies:

- Desirability of a multi user, multi commodity approach. Consider Thevenard an example of the advantages offered.
- Facility MUST be in the right place to optimise access to both the largest possible production base and an ability to provide a safe and secure ship loading facility.
- Limited media exposure – we choose to communicate directly with growers and potential stakeholders – or simply be quiet!
- Commitment to credibility.
- Conservative, patient and risk averse.
- Absolute necessity for both credible, experienced partners to deliver appropriate services as well as the broad based support of strong traders
- Managing the cost of capital will be critical to long term success

Steps To This Stage

- Registration of EPCBH in August 2017
- MOU with Iron road
- Accessed Federal Government funding for legal, structural advice
- Further Federal Government funding for ‘Pivotel’ feasibility study
- Presently negotiating to finalise a ‘Heads Of Agreement’ with Iron Road
- Application to Federal Regional Infrastructure grants program
- Initiated a series of meetings with growers.
- Ongoing negotiation with both Federal and state governments. Our view is that the unequivocal support of all three tiers of government is a prerequisite for long term success.

What Would it mean for EP?

- Assume a natural freight advantage of $10 per tonne on one million of grain - $10 Million dollars per annum.
- Average price penalty faced at Port Lincoln compared to Esperance – at least $20 per tonne
- $50000 clear PROFIT per farm family
- $30 million per year for Central EP
- Assume facility life of 80 years -

How long will it take?

- As long as it takes!