



**Submission to the Senate Rural and Regional Affairs and Transport  
References Committee**

**The Ownership Arrangements for Grain Handling**

**14 June 2013**

## 1. Introduction

Archer Daniels Midland Company (ADM) is pleased to have the opportunity to make this submission to the Committee.

On 2 May 2013, ADM announced that it would make an offer to acquire the outstanding shares in GrainCorp Limited (GrainCorp). We note that the proposed acquisition of GrainCorp by ADM is a matter of significant interest to Australian growers and to this Committee.

ADM is in a position to provide the Committee with information about its company and business operations, the offer to acquire GrainCorp, its proposals for the future operation of key elements of GrainCorp's business, and the benefits ADM believes it will bring Australian growers and the industry in general. This information is provided in this submission.

As the Committee would be aware, until such time as the conditions of the offer are fulfilled (including regulatory approvals) and GrainCorp's shareholders accept the offer, ADM has no role in the management or operation of GrainCorp's business. In the meantime, GrainCorp continues to be governed by its board of directors and managed by its CEO and management team. For this reason, ADM cannot speak for GrainCorp or provide input to the Committee in relation to detailed operational or management practices or other issues concerning GrainCorp.

ADM's offer is subject to regulatory conditions in Australia under the *Foreign Acquisitions and Takeovers Act 1975* and the *Competition and Consumer Act 2010*. ADM is not in a position to comment on these ongoing regulatory processes or on broad issues of Australian public policy.

## 2. Introduction to ADM

Archer Daniels Midland Company (ADM) is one of the largest agricultural businesses in the world. The company is based in Decatur, Illinois, in the agricultural heartland of the US Midwest. Founded in 1902 as a linseed crushing business in Minnesota, today ADM is a New York Stock Exchange-listed company with annual revenues of US\$89 billion (fiscal year 2012).

As a diversified agribusiness, ADM sources oilseeds, corn, wheat, cocoa and other crops from growers all around the world and resells them to customers (some of which are competitors) or transforms them into finished products, primarily food ingredients, animal feed, renewable fuels and industrials.

For more than 110 years, ADM has been an essential link between growers and consumers. Over this time, ADM has expanded its business to become truly global, with locations throughout the world, and an extensive array of products and services. Today ADM connects the harvest to the home, and serves vital global needs.

### Connecting Local Crops to the Global Marketplace

Around the globe, ADM originates growers' grain at more than 460 crop receival facilities. That global reach enables us to source crops from all of the world's key growing regions. We then sell those crops to customers or use them as inputs for ADM's more than 265 processing plants. Our efficient global transportation network enables us to move crops and products to customers in more than 140 countries.

ADM has a physical presence in most of the countries in which we receive grain and sell products. This connection to local markets enables ADM to respond to changing conditions and opportunities. It also means that the local farming communities from which we purchase grain benefit from our insight into the dynamics of markets near and far.

ADM operates a global grain transportation network. Growers benefit from ADM's logistical capabilities and decades of experience moving crops by rail, trucks, barges and ocean going ships. This integrated and efficient network, including export and distribution centres in North America, South America, Europe and Asia, benefits customers with efficient, reliable service and growers with the broadest possible demand base and a cost-competitive route to market.

Each day, ADM processes enough wheat to make 90 million loaves of wholegrain bread, enough oilseeds to make 6 million gallons of soybean oil, enough corn to make 99 million boxes of corn flakes, and enough cocoa to make 48 million chocolate bars. Our production teams' focus on product quality makes for consistent, reliable output which ADM sells to customers big and small in the bakery, dairy, meat, beverage, confectionary, and animal production industries.

### Our Connection with Growers

ADM is committed to providing growers with services designed to promote their success and profitability. The company's business model is centred on fulfilling the needs of the grower, because growers are ADM's customers, suppliers and long-term partners.

The company's global reach and years of experience translate into many benefits for local growers. By partnering with ADM, growers have access to the broadest range of markets for their harvests. ADM is a reliable, direct link for growers seeking a business partner to help them thrive in an

increasingly competitive global marketplace. When growers partner with ADM, they know they are working with experts who have deep insight into the global supply chain, and can assist them in making effective risk management and marketing decisions.

In countries around the world, ADM offers growers a range of programmes to support their business. ADM's local offerings are tailored to meet the specific needs of growers in each region, country and community. In North America, ADM's grain marketing services include traditional marketing alternatives, such as cash marketing, deferred pricing and storage; self-directed marketing, giving growers the most control over their grain marketing; and special tools, such as ADM's Marketing Partners Advisory, our Advantage Contract, and our Average Seasonal Price Contract. In both North and South America, ADM offers growers crop insurance to help manage risk. South American growers can forego bank loans by pledging to ADM some of their harvest in exchange for seeds or inputs. In Europe, ADM offers growers the opportunity to pool their harvests with others', allowing them to benefit from economies of scale as they go to market. Also in Europe, the ADM Connect programme links forward flour contracts with forward wheat contracts, guaranteeing growers a final purchase price and taking some stress out of the growing and marketing equation.

ADM understands that growers in different countries and regions have different needs, and is committed to working with Australia's growers to serve their specific needs in a mutually beneficial way.

#### Growing the Value Chain

ADM's strategy and success are built around growing its entire agriculture value chain. As it considers regions and assets in which to invest, it looks--not for one-dimensional opportunities-- but for those that offer the potential for growth along the full chain. In GrainCorp and Australia, ADM sees this opportunity.

Our history demonstrates how we invest to accomplish this growth. In 1974, ADM acquired soybean plants in Holland and Brazil, its first processing facilities in Europe and South America.

Today, in Brazil alone, 4,000 ADM colleagues operate more than 40 origination facilities; a transportation system that includes trucking, barges, and ports; and processing plants that produce biofuels, fertilizer, cocoa products, and food and animal feed ingredients.

In Europe, from that single plant in Holland, we have expanded to include operations in almost a dozen countries, and sales across the continent. More than 5,000 ADM colleagues originate oilseeds and wheat; transport them via trucks, trains and barges; transform them—and other crops, including cocoa—in facilities throughout Europe, and sell a wide variety of products across the continent.

In each of those examples—one a country, one a continent—ADM built out from a single acquisition to replicate the value chain it had created in the United States. In Brazil—and indeed across South America—and in Europe, ADM today originates, transports, processes, transforms, distributes, and sells.

In building those networks, ADM has created growth and opportunity up and down the agriculture value chain, from the grower to the truck driver to the plant operator to the food manufacturer. As ADM grows its value chain, it benefits people, communities and businesses at every link.

That is the future we see in Australia as well. As Australian agriculture looks to grow its ability to serve expanding global markets, a strong global partner, helping to create a more robust industry up and down the value chain, can only strengthen those efforts.

### **3. Overview of ADM's Proposal to Acquire GrainCorp**

#### ADM's Motivation in Acquiring GrainCorp

Strong global and regional population growth combined with rising incomes is driving increased consumption of grains and protein. The Food and Agriculture Organisation of the United Nations projects that world food demand may increase by 70 per cent by 2050, with the Australian Bureau of Agricultural and Resources Economics and Sciences (ABARES) suggesting that the real value of world agrifood demand in 2050 will be 77 per cent higher than in 2007. ABARES projects that most of this rise will occur in Asia, where agrifood demand is projected to double to 2050.

ADM's interest in acquiring GrainCorp is motivated by its view of these positive international market dynamics in agricultural production and the most effective way in which global customer demand will be met. There is a clear worldwide trend towards consolidation in agribusiness, where economies of scale and global market reach are increasingly essential to maintaining competitiveness.

ADM's network of global customers for food and agricultural commodities spans more than 140 countries. This reach - and the market insight it brings - will benefit Australian growers, driving greater and more consistent demand for Australian grains.

The combination of GrainCorp and ADM will provide Australian growers a unique opportunity to be part of a truly global network of markets and buyers including ADM's own global processing operation, itself a significant creator of demand for agricultural production.

Joining these two great businesses will generate opportunities for Australian growers in new markets, including those not economically viable for GrainCorp to access on its own, as well as expanding Asian and Middle Eastern markets. Through ADM, the combined group will provide customers around the world with access to a more diversified grain origination portfolio while providing Australian growers with greater access to world markets, enhanced logistics and leading market insights.

ADM considers that the recent elevated volatility of grain markets is likely to continue, meaning multi-origin sourcing capabilities take on increasing importance for all participants in the value chain, and that together ADM and GrainCorp will provide Australian farmers greater access to global customers, more choice and security of supply to the customers, and enhanced stability through supply shocks for both businesses.

Today, ADM's primary crop origination regions are in North America, South America and Europe with key trade flows to ADM's customer regions in Europe, the Middle East, North Africa and Asia. GrainCorp's eastern Australian crop is predominantly traded to Asia and the Middle East and, combined with the fact that ADM does not currently own any infrastructure or processing assets in Australia, this demonstrates the limited overlap between the two businesses.

In view also of the limited overlap between the current businesses of GrainCorp and ADM in Australia, ADM expects that the acquisition will not lead to significant changes to the manner in which GrainCorp is operated.

ADM has a high regard for Australian growers and the quality and reputation of Australian grain. ADM is also impressed with GrainCorp, the businesses and assets it operates, as well as its

management team and staff. ADM believes that GrainCorp will be a good fit with ADM's global operations and with its strong grower-focused culture.

ADM has made its offer to acquire GrainCorp on the basis that the company will continue to operate in a competitive landscape, where growers in eastern Australia have choices for the storage, handling and marketing of their grain. GrainCorp will be required to continue to innovate, compete and perform in order to succeed.

ADM does not agree with the proposition that GrainCorp is operating a monopoly business. While GrainCorp has significant infrastructure up-country and at port, all of its supply chain infrastructure faces significant competitive pressure. As the Australian Competition and Consumer Commission (ACCC) has noted, Graincorp's port terminals are subject to a number of competitive pressures – from other competing bulk terminals (eg. Melbourne, Newcastle and Brisbane), containerised exports and the threat of customers bypassing GrainCorp facilities<sup>1</sup>. In addition, ADM understands that GrainCorp's ports have operated at an average of approximately 35% of capacity<sup>2</sup>.

In relation to up-country storage in eastern Australia, ADM understands that GrainCorp accounts for around half of total country storage capacity, with other significant capacity owned by growers (on farm), merchants and other bulk handlers (see table in Appendix to this submission). ADM also notes that some 80% of the grain that passes through the GrainCorp up-country storage network is owned by entities other than GrainCorp<sup>3</sup>. In relation to grain trading, it is widely accepted that the Australian market is now highly competitive, with a range of international and Australian players active in the market.

ADM's view of the benefits that the acquisition will provide Australian growers is set out in section 6, below.

#### Offer to Acquire GrainCorp

The key elements of the offer made by ADM to acquire GrainCorp on 2 May 2013 include:

- A cash offer to GrainCorp shareholders of A\$12.20 per share.
- GrainCorp making an additional payment to its shareholder prior to completion of the transaction of dividends totalling up to A\$1.00.
- GrainCorp's board will unanimously recommend the ADM offer, subject to there being no superior proposal and certain other conditions.

At the time of the offer, ADM owned 19.85 per cent of GrainCorp's shares. ADM will fund the acquisition through a combination of operating cashflows and debt. The takeover bid implementation deed setting out the detailed conditions of ADM's offer can be viewed at [www.adm.com](http://www.adm.com).

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<sup>1</sup> ACCC, GrainCorp Operations Ltd Port Terminal Services Access undertaking: Decision to Accept, 2011, p.8.

<sup>2</sup> GrainCorp, Submission to Senate Standing Committee on Rural and Regional Affairs and Transport, Wheat Export Marketing Amendment Bill 2012, p.11.

<sup>3</sup> Ibid, p.24.

#### **4. Future Access to GrainCorp Facilities**

ADM is aware that the Australian bulk wheat export industry is currently in a transitional phase between a “single desk” system and a less regulated market model. The company has followed the evolution of this process and the most recent legislative changes that were made to Australia’s wheat export legislation in late 2012.

ADM appreciates that every grain-producing nation has its own approach to accumulation, handling and marketing. Australia is no exception. As a starting point, ADM believes that the existing port and receival site access arrangements have served Australian growers well and that GrainCorp will continue to have strong incentives to continue to compete in the supply of grain storage and handling services. ADM is confident that there will be no adverse impact for grain traders’ access to grain handling facilities, ports, silos or transport infrastructure arising from the acquisition.

##### Storage and Logistics

ADM believes the interests of growers and Australian agriculture are best served by a network of upstream assets that are relevant and responsive to grower needs. Enhancing the market for growers depends on efficiently using up-country storage facilities by providing fair access to all owners of grain.

ADM commits to continuing the current access arrangements for up-country silos, where storage sites act as settlement and clearing facilities for transactions between growers and buyers – most of whom are third parties, rather than GrainCorp. This approach is aligned with the commercial interests of the GrainCorp business in maximising utilisation of its facilities.

ADM understands the importance of these facilities to growers as a key part of the value chain, and to local communities as a seasonal source of employment. Expanding the market for growers depends on efficiently using up-country storage facilities.

In keeping with GrainCorp’s current practice, ADM will continue to assess which facilities should be opened each year based on harvest forecasts. To effectively cater for “bumper” harvests, ADM will open more sites to cope with increased demand, while in years where the harvest is lower, some will not be required. ADM expects this decision to be taken by the GrainCorp Australian management team as it works with growers to assess the optimal storage silo system for each region.

GrainCorp currently provides prices for grain available from third parties and other market information to growers to facilitate grain transactions at its storage facilities. Growers also work directly with third parties to market their grain to them. ADM will maintain and look for opportunities to enhance the technology currently provided by GrainCorp, such as the smartphone application known as the “GrainCorp App”, to provide grain growers with practical and efficient methods for price discovery and access to market information.

##### Port and Rail Services Access

ADM commits to operate GrainCorp’s port services in accordance with the current ‘open access’ arrangements.

As indicated earlier in this submission, ADM understands that GrainCorp ports have operated at an average 35% of capacity and, as a global operator of grain sourcing, transporting and processing assets, knows that it makes economic sense to ensure as much grain passes through the ports as possible. For this reason alone, ADM has a strong commercial motivation not to exclude any



participant access - rather ADM intends to encourage more use so to increase utilisation of the ports.

ADM will continue GrainCorp's current approach in relation to accessing GrainCorp's rail services. As with port services, it is in ADM's commercial interest to ensure that excess capacity in GrainCorp's rail operations is utilised by offering it to third parties. Additionally, third parties will continue to have a range of alternative rolling stock and rail haulage providers to choose from for moving grain to domestic and export markets.

As a major global owner and operator of transportation, storage and logistics networks, ADM believes there may be scope to improve the throughput and operational performance of GrainCorp's rail and port systems. Opportunities for improvement may include:

- optimisation of payloads;
- deploying in-line and standalone weighing systems;
- managing train length and maximising wagons pulled; and
- reducing dead freight and freight-optimisation planning.

## 5. ADM's Intentions for GrainCorp and Benefits for Growers

As outlined above in Section 3, ADM's global origination, logistics, marketing and processing network will provide Australian growers with key benefits in terms of greater access to world markets, enhanced logistics and leading market insights. Australia's high quality grain is sought after by international customers, and ADM's acquisition of GrainCorp will provide increased opportunity to maximise demand and grower returns and help promote and market Australian grains.

### Infrastructure Investment

ADM believes the acquisition of GrainCorp will provide opportunities to enhance Australian agricultural productivity through ADM's commitment to continued infrastructure investment and operational excellence as well as its commitment to research and development.

ADM has a demonstrated history of operating and maintaining world-class origination, transportation, processing and export assets. It has a strong focus on maximising throughput and utilisation and will pursue the same approach in Australia.

In North America, South America and Europe, ADM has a track record of committing significant capital to maintain and upgrade the efficiency of facilities it has acquired. ADM has expanded processing, storage and receival facilities, and constructed new facilities such as silos, transfer terminals, and processing plants. Historically, the greater part of ADM's capital expenditure has been infrastructure related.

ADM will work with GrainCorp management to identify silos and locations in the grain storage network where future investment will deliver service benefits and operational efficiencies – these may include new stackers and intake capacity increases to allow faster truck discharge, improved communications technology, and increased storage capacity.

ADM will support or invest A\$300 million in capital expenditure in the GrainCorp business from the execution of the implementation deed on 25 April 2013.

This amount includes:

- supporting expenditure to implement programs announced by GrainCorp on 15 November 2012 (including "Gamechanger" initiatives, asset optimisation initiatives and ports flexibility initiatives). These programs will involve a combined target capital expenditure by GrainCorp of approximately A\$250 million from the time of announcement over the next few years. Expenditure by GrainCorp on these programs has been specifically allowed by ADM under the implementation deed that GrainCorp and ADM signed on 25 April 2013; and
- investing an additional A\$50 million over the next few years, on strategic expenditure for the GrainCorp business.

In addition, ADM is also committed to the substantial annual expenditure required to maintain GrainCorp's portfolio of quality assets and will invest, on average, between A\$40 million to A\$60 million annually over the coming years in the maintenance and improvement of existing infrastructure assets.

In keeping with ADM's overall approach to its origination businesses, ADM aims to ensure that it serves the grower's needs, that it is competitive with its marketing services when growers choose to sell their crops and that the network is an attractive receival option for growers.

### Investing in Australia's Agriculture Future

Australian growers know and appreciate the value of investment in innovation, infrastructure, and communities.

Through its National Food Plan, Australia has set itself the ambitious target to increase the value of Australia's agriculture and food-related exports by 45 percent by 2025. The Plan recognises that overseas investment has helped build Australian agriculture for the last 200 years and, with an estimated A\$1 trillion of new investment in the food sector required by 2050, overseas investment will remain important as Australia seeks to boost food production and food security.

With one of the strongest balance sheets in the agricultural sector, ADM can support the accumulation of quality Australian grain to underpin long-term global demand, while at the same time supporting ongoing investment in grain handling infrastructure. Because of this financial strength and geographical diversity, ADM can also manage through drought conditions and supply shocks to ensure they are there for the grower year after year.

In its other operating regions, ADM's commitment to innovation and research and development has created new income streams for growers by converting wheat straw and maize stalks for use in animal feed; producing low GCI dietary fibre from corn starch; and creating vegetable protein from soy, wheat and edible beans.

In Australia, ADM will look to partner with universities, institutions and stakeholders to identify research and development projects where it can play its part, either through its knowhow, infrastructure and expertise or by financial contribution, to support the growth and investment in Australian agriculture.

ADM is committed to establishing an Agriculture Scholarship Program to encourage the entry of bright young Australians into the tertiary study of agricultural science. Each year over an initial five year period, this Scholarship Program will contribute A\$2,000 per year towards the tuition fees of 15 undergraduate students. The scholarships will be split evenly between students from regional and rural communities in New South Wales, Victoria and Queensland.

### Knowledge Sharing and Best Practice

ADM's objective is simple: to give growers more choice, greater access to global markets, more efficient and effective logistics and a deeper knowledge of market dynamics and best practice.

ADM's global footprint enables growers to trade profitably amid market volatility and offers growers greater insight into the detail of specific crops and qualities including global and regional wheat supply and demand, which helps with forward crop planning and marketing for wheat and other crops. ADM also offers valuable insights into best practice, research and risk management tools to help growers strengthen their businesses.

As indicated in Section 4, ADM sees scope to share its transport and logistics expertise to deliver service and efficiency improvements that will benefit Australian growers.

Using its global know-how, ADM sees the potential to work with GrainCorp's oilseeds business to improve production processes, such as efficient oil extraction technology. As one of the world's largest traders and shippers of vegetable oils, ADM can provide growers with information on global

supply and demand, economics and trends to help them make informed risk-management decisions. ADM's oilseeds research and development acumen can also help identify areas for product development that will create new market opportunities for Australian canola oils.

On the marketing side, ADM is one of the world's largest shippers of agricultural commodities and believes there is an opportunity to use its shipping assets and global transportation network to offer Australian growers highly competitive transport and logistics on the day they choose to market their grain. Through its European oilseeds processing operations, ADM sees the potential to create direct demand for Australian canola and provide growers first-hand information on market dynamics. ADM is also a global trader of fertiliser and will investigate the opportunity to work with growers to establish an up-country fertiliser supply chain in eastern Australia that leverages ADM's global supply base.

### Engagement with Growers

ADM admires what GrainCorp has built. Like GrainCorp, ADM is built on a foundation of strong values that include integrity, respect, responsibility and a firm commitment to good stewardship of the land.

Most importantly, ADM understands that everything we do begins with the grower.

ADM has a long history of investing in the businesses and communities in which it operates. ADM is committed to working collaboratively with local companies and communities - engaging with and empowering growers.

To ensure proximity to stakeholders, growers and customers, and a deep ongoing familiarity and understanding of local conditions, the headquarters of GrainCorp will remain in Sydney. The chief executive officer of GrainCorp's business, who will have oversight of GrainCorp's operational decisions, will be based in Sydney and will be supported by the GrainCorp management team.

ADM is committed to continued communication and collaboration between GrainCorp, growers and their representative organisations and is committed to regular and enhanced engagement around opportunities for improvement and innovation. This will also be reflected in grower education programs spanning grain marketing, commodity marketing and risk management.

Specifically, ADM will establish a GrainCorp Grower and Community Advisory Group to provide a conduit between GrainCorp management and the views of growers and their communities. To be chaired by a distinguished person with a strong affiliation with regional and rural Australia and the grower community, it will also include four growers – one from each of New South Wales, Victoria and Queensland and an additional grower representative. Other Advisory Group members will include senior GrainCorp management representatives, as well as a person with a strong connection to regional and rural community organisations.

### Community Engagement and Investment

ADM, like GrainCorp, is committed to giving back to the communities in which it operates.

Through its ADM Cares social investment program, ADM has supported universities, scholarships and education programs; efforts to develop and share agricultural best practice; child safety awareness programs; environmental clean-up efforts; disaster relief; and a range of local social and cultural programs.

ADM will more than double GrainCorp's current yearly community giving to A\$1 million a year, with an emphasis on investments in the regional and rural communities in which GrainCorp operates and its growers live.

Recognising Australia's Economic and Trade Partnership with the United States

ADM's investment in GrainCorp continues a long history of American investment in Australia, including in the agriculture sector. ADM looks forward, in its acquisition of GrainCorp, to continuing and strengthening Australia's long-standing trading partnership with the United States.

Australia openly welcomes and encourages American investment. The US is Australia's most important long-term economic partner and ADM looks forward to further strengthening the relationship between our two countries.

**Appendix: East coast up-country storage capacity**

<b>Operator</b>	<b>QLD</b>	<b>NSW</b>	<b>VIC</b>	<b>TOTAL</b>
GrainCorp	3,475,438	11,967,700	5,071,500	20,514,638
GrainCorp share	56%	50%	48%	51%
Cargill	416,800	1,412,400	808,100	2,637,300
Emerald		550,000	400,000	950,000
Viterra			120,000	120,000
Merchant/Enduser	495,500	3,577,650	994,100	5,067,250
On farm	1,832,953	6,212,837	3,196,707	11,242,497
<b>Total capacity</b>	<b>6,220,691</b>	<b>23,720,587</b>	<b>10,590,407</b>	<b>40,531,685</b>
Average production	3,000,000	9,500,000	4,500,000	17,000,000
Capacity/Production	2.1 x	2.5 x	2.3 x	2.4 x

Note: Table derived from data included in GrainCorp's submission to the 2012 Senate Standing Committees on Rural and Regional Affairs and Transport – Wheat Export Marketing Amendment Bill 2012