

## FACT SHEET

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# Stored Grain Entitlement

## Managing Stored Grain Entitlement

This fact sheet describes the principles grain storage companies employ in managing a client's entitlement to grain stored within the storage companies' network and describes the industry process and mechanisms available if an entitlement issue should arise.

Australia has numerous storage networks within its grain supply chain. The companies responsible for these networks have developed inventory management arrangements at a site, or port zone level to balance and meet operational objectives whilst delivering a client's grain entitlement requirements within their networks.

Whilst operating in different geographies and with different scale and network arrangements each operator maintains key principles and has an objective to provide a fair and commercially balanced service to industry participants.

### What is Grain Entitlement

Grain is a homogenous product that once received is segregated into various grades. After aggregation with other grain the unique parcel that was delivered cannot be disaggregated.

Given grain delivered into storage loses its identity the grain owner accepts, they have entitlement or interest to common stocked grain. A buyer of grain (and a warehouse) who chooses to place or receive entitlement of grain within a storage network acknowledges and agrees that the individual parcel (a delivered load) once received becomes entitlement to stored grain of the same grade at that site or within a group of sites (common stock).

### Grain Entitlement at the Site or Port Level.

Australia has numerous storage networks within its grain supply chain. The companies responsible for these networks have developed inventory management arrangements at a site or at a port zone level to balance and meet operational objectives whilst meeting client requirements within their networks.

**Site Level Inventory Management:** In storage

networks that operate stock entitlement at the receival site level, a buyer of grain (and a warehouse) agrees that the individual parcel (a delivered load) once received becomes entitlement to stored grain of the same grade **at that site** (common stock).

Whilst a site may have several different stacks of the grade for ease of inventory management and reconciliation it is common industry practice for entitlement to be held at the grade / site level rather than a stack / site level.

### Port Zone Level Inventory Management:

Some network operators also offer services where entitlement can be held at the port zone level and /or the site level. Access to grain in a port zone level inventory management system whilst received at a site level will generally be provided at a seaport terminal. Where a client chooses to hold grain at a port zone level the client understands the benefits of network efficiency principles and the network value from running a consolidated and integrated supply chain.

Port level entitlement network operators are more likely to exist in geographic regions



with relatively small domestic demand compared to annual grain production levels.

Where port level entitlement networks exist the network operator accepts the responsibility to have entitlement available at the relevant port when it is required by the client within the operating parameters of its storage and handling agreement.

Network operators offer non-port zone arrangements as well for clients that require grain in a specific location within the network.

Any entitlement held outside the port zone level entitlement operates under specific conditions outlined in the network operator's storage and handling agreements.

### Conducting Stock Swaps

A stock swap is the exchange of one parcel of grain within a storage unit for another within another Storage unit either at the same site or at another physical location. Stock Swaps are more prevalent in networks that operate site level stock entitlement.

**Why are Stock Swaps Required:** The use of Stock Swaps has a long history in storage networks that operate grain entitlement at the site level. They are required for a number of reasons including:

***To support an effective market***

- Swapping of entitlement can occur to support the effective working of the grain market within a site level stock entitlement system.
- Grain buyers determine a strategy to purchase grain at individual receipt sites within the numerous storage networks across Australia by offering grain bids to purchase grain at multiple sites.
- Whilst incentives will be offered to purchase grain at preferred sites a buyer will seek to purchase grain at multiple locations to ensure flexibility, to meet its target tonnage and for future trading opportunities.
- When purchasing from growers within a large network (e.g., GrainCorp) the grain buyer (for each grade) may end up with numerous small tonnage parcels across one or more port zones. This may leave the buyer with excess tonnage overall yet not enough tonnes in a port zone where they have a committed sale; or with parcels too small (less than a train or the daily tonnage minimum for road truck loading) to effectively physically trade. To resolve this position the buyer can financially swap grain by utilising the market to buy and sell grain through entering into Track Contracts (GTA Contract No. 2) with other grain owners. Selling where they do not wish to hold grain and buying in areas where they wish to consolidate.
- Through these contractual sales and purchases the buyers move and consolidate ownership within preferred geographic areas. Whilst not a pure one to one stock swap this market-based trading is essential for both trading position and physical inventory management within the site level entitlement grain networks.
- This buying and selling occurs in the market and the change of ownership of grain held in commercial storage is advised to the relevant storage operators to change entitlement of grain at the site level.

***To support logistical efficiency:***

- A client may request a stock swap from a network operator to increase the efficiency of its accumulation and loading of grain. This may be requested to consolidate small site grade entitlements into a larger entitlement at fewer sites and /or to position grain in a way that is advantageous logistically (for example for rail operations).



- As an alternative to a swap negotiated in the market, and to support the requested stock swap the network operator may make enquiries to its other clients to ascertain if there are any willing counterparties to the requested stock swap. This enquiry to clients may include the network operator's trading division if it is part of an integrated storage and trading business.
- If a match is found and agreed, (of matching grade and required tonnes) then swap financial terms for freight differences are agreed. The freight settlements may include differentials based on planned domestic and / or export journeys.
- The network operator acts as the intermediary for all entitlement changes, payments, and invoicing.

***To correct logistical constraints:***

- In site level stock entitlement networks where the storage operator has multiple storage sites (a network operator) they may operate some form of site-to-site stock-swapping arrangement for operational purposes.
- An operational stock swap may be used when there is a mismatch between a client desire to access grain at a site where they have

entitlement and the operator's ability to provide the grain. This may be due to a number of reasons including:

- Insufficient notice provided.
- Labour issues.
- Site mechanical breakdown.
- Grain inaccessible as undergoing fumigation.
- Logistics issue including 3<sup>rd</sup> party issues.
- Issue with grain quality at the site; and
- The impact of weather.
- When a mismatch occurs the operator and the client may discuss the potential to arrange a stock swap to provide access to tonnage at a site within the operator's network where similar grain can be made available.
- If agreed the network operator and its client will process a formal inventory stock swap that may include financial settlement for any differences. These differences may include freight and for canola oil bonification.
- Freight settlement will be based on an agreed freight differential between the parties. These may include the annual publishing of freight tables based on silo-to-silo routes.



- For the Stock Swap to proceed the network operator must have entitlement of grain at the site the client's entitlement is to be swapped into or arrange another counterparty to exchange or swap their grain entitlements.
- On some occasions, the stock swap may involve a change in grade as well. For example, the stock swap may include giving up (selling) ASW and receiving (buying) say APW (for example it could be the only grade that may be accessible). A financial settlement will be discussed and agreed as part of the grade swap that results from an operational stock swap.

#### **Entitlement Stock Swap – Site Post-Empty Inventory reconciliation:**

- Client stock entitlements are held at the grade / level. When the site is physically emptied of a grade a shortage of stock to meet surviving entitlements may occur for various reasons.
- When this occurs the network operator will discuss with the client if a financial settlement is appropriate or whether a stock swap may be required to provide tonnes at another location. If the tonnes are required, then the network operator will be required to purchase or use its existing entitlement to meet its obligation to its client.

#### **Understanding Individual Storage Operator Arrangements**

Prior to making the decision to deliver and / or purchase grain entitlement within a storage network it is important to **review the operators Storage and Handling Agreement**.

All commercial Storage and Handling operators should provide a Storage and Handling Agreement outlining all terms and conditions for grain entitlement including procedures for stock swaps and for allocating lost or damaged grain against client inventory when grain is stored in a commingled state.

**Review of the Storage and Handling agreement is important so that in the event an issue occurs the terms and conditions for that issue are known and understood.**

#### **Issue & Complaints Management**

Participants in the Australian grain industry, government and regulatory bodies all have an interest in a fair and equitable supply chain and the management of grain entitlement within storage networks.

Storage and Handling Agreements should include specific processes to address disputes between parties. Should any dispute remain between the storage company and its client remain unresolved after commercial negotiation, industry process exists to manage the issue and seek a resolution. This includes:

- For commercial disputes, options include GTA or another **Dispute Resolution** process. The Dispute Resolution process facilitated by GTA is an independent process governed by law and works to avoid litigation and reduce cost to industry participants. It includes a 'fast track' lower cost procedure for arbitrations that may include stock swaps.
- Where an industry participant is seeking redress of a non-contractual issue GTA has established and provides a **Complaints Handling Guideline** under the Australian Grain Industry Code of Practice. The Complaints Handling process is operated free of charge for all complainants and includes a formal GTA Board governance process.
- It should be noted the Complaints Handling Guideline relate to matters of conduct under the Code of Practice and do not relate to complaints under commercial agreements or contracts. Financial compensation is a commercial matter addressed under a commercial dispute resolution process.
- Government regulatory arrangements and the legal framework also support industry participants entitlement to stored grain. It is noted the ACCC has performed a recent review of a storage operators grain entitlement terms and conditions for grower warehousing arrangements and acknowledged it meets its requirements.

#### **FURTHER INFORMATION**

- Refer to the GTA website [www.graintrade.org.au](http://www.graintrade.org.au) to find additional information relevant to the management of grain within the Australian grain supply chain or contact the GTA office.

## **Key points**

- Storage Operators have Inventory Management procedures to protect a client's grain entitlement.
- Entitlement to grain in a common stock arrangement can be held at a site level or port zone level.
- A stock swap is the exchange of one parcel of grain within a storage unit for another within another Storage unit either at the same site or at another physical location.
- Stock swapping is a common and effective process that supports an efficient market and logistical efficiency.
- Conduct a due diligence on grain entitlement conditions. **Know the terms & conditions of the storage operator so you can assess the level of risk in dealing with them.**
- Take the time to fully understand the terms and conditions that relate to grain entitlement.
- There are industry processes available to **manage disputes and complaints.**