

Member Update

Title: Policy review and implementation of Location Differentials

Update No.: 16 of 13

Date of Issue: 15 July 2013

Distribution

- GTA Members – primary contact list. Please circulate to all appropriate internal parties

1. Issue

The GTA Board has accepted the Commerce Committee's recommendation that GTA:

1. does not change the current **methodology** (method of calculation) for the GTA Location Differentials (LDs) for a period of no less than three [3] years, subject to any significant changes in the market, which will be determined by the Commerce Committee;
2. will provide industry with 18 months lead time from the publication of any significant changes to the methodology used to calculate the GTA LDs; and
3. will provide industry with 18 month warning of any changes to the LDs as a result of Point 2 above.

The Commerce Committee noted:

- *that there would always be a need for some minor reviews of the LD's but the LD methodology should remain constant;*
- *it is the markets role (not GTA's) to deal with the difference between the Location Differentials and freight rates.*

Unless there is significant new evidence presented to GTA suggesting GTA should not be endorsing this recommendation it will be adopted as at 1 October 2013.

2. Background

GTA LDs are not freight rates. The LDs are a set of values (an index) that is used to adjust port based prices to a range of up-country locations. Freight rates, on the other hand, are actual rates that freight providers charge to move grain. GTA LDs are fixed while freight rates can and do vary on a case by case basis.

GTA considers that, in order to facilitate trade, the methodology used to calculate LDs should meet a test of being independent, transparent and easily understood by its Members.

GTA has received a number of submissions in recent years which raise the issue of differences between the GTA LDs and the actual cost of freight execution. This issue has been extensively discussed and debated at the GTA Transport, Storage & Port Committee and GTA Commerce Committee in recent years. As part of these deliberations a number of alternative methodologies have been explored and tested against the above requirement of facilitating trade.

Following these reviews the Committee agreed that the current methodology to determine LDs was the most appropriate.

The Commerce Committee then undertook a formal consultation early this year with a selection of grain trading and brokerage organisations to gauge their view of the effectiveness of the GTA Track contract, including the LDs.

3. Industry Feedback

The messages received by GTA during the Track Market Consultation included that:

- *the Track Contract/Market is sound;*
- *there is a reluctance to change something that is working*
- *it is estimated that a minimum of 12 to 15 mmt is track traded each year and considerably more during a good season;*
- *the contact is continuously evolving over time;*

- *site based pricing after harvest is a means to reduce trader exposure to the difference between LD's and freight execution cost;*
- *more delivered trading has emerged post-harvest;*
- *it's evident that trader activity is evolving to manage exposure to the difference between LD and the Freight execution cost.*
- *there is a need for consistency/certainty in the track market;*
- *GTA should set the Location Differentials further out from harvest (18 months out was a common theme);*
- *the trade is continuously evolving to deal with market fluctuations but the contract must remain consistent to maintain its integrity. ;*

In summary, there was very strong support for no major changes to the Track Contract or the LDs;

4. Where to from here

GTA will continue to accept nominations for new Location Differentials and make minor changes as deemed necessary by the Commerce Committee. GTA will aim to have these amendments posted by the 30 June each year.

All the above changes will be documented in a revised Location Differential Development Procedural Policy that will be posted on the GTA website.