



NORTHERN

FEBRUARY 2017

GRDC™ **GROWNOTES™**



GRDC™

GRAINS RESEARCH
& DEVELOPMENT
CORPORATION

SUNFLOWER

SECTION 15

MARKETING

SELLING PRINCIPLES | NORTHERN SUNFLOWER: MARKET DYNAMICS AND
EXECUTION

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[http://www.australianoilseeds.com/
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Marketing

The final step in generating farm income is converting the tonnes produced into dollars at the farm gate. This section provides best in class marketing guidelines for managing price variability to protect income and cash flow.

Figure 1 shows a grain selling flow chart that summarises:

- decisions to be made
- drivers behind the decisions
- guiding principles for each decision point.

The grower will run through a decision-making process each season, because growing and harvesting conditions, and prices for grains, change all the time. For example, over the six years to and including 2014, Newcastle APWI wheat prices varied by A\$70–150/t, a variability of 25–60%. For a property producing 1,000 tonnes of wheat this means \$70,000–\$150,000 difference in income, depending on the timing of sales (Figure 2). The same principle operates in the same way with other crops.

The reference column refers to the section of the GrowNote where you will find the details to help in making decisions.¹

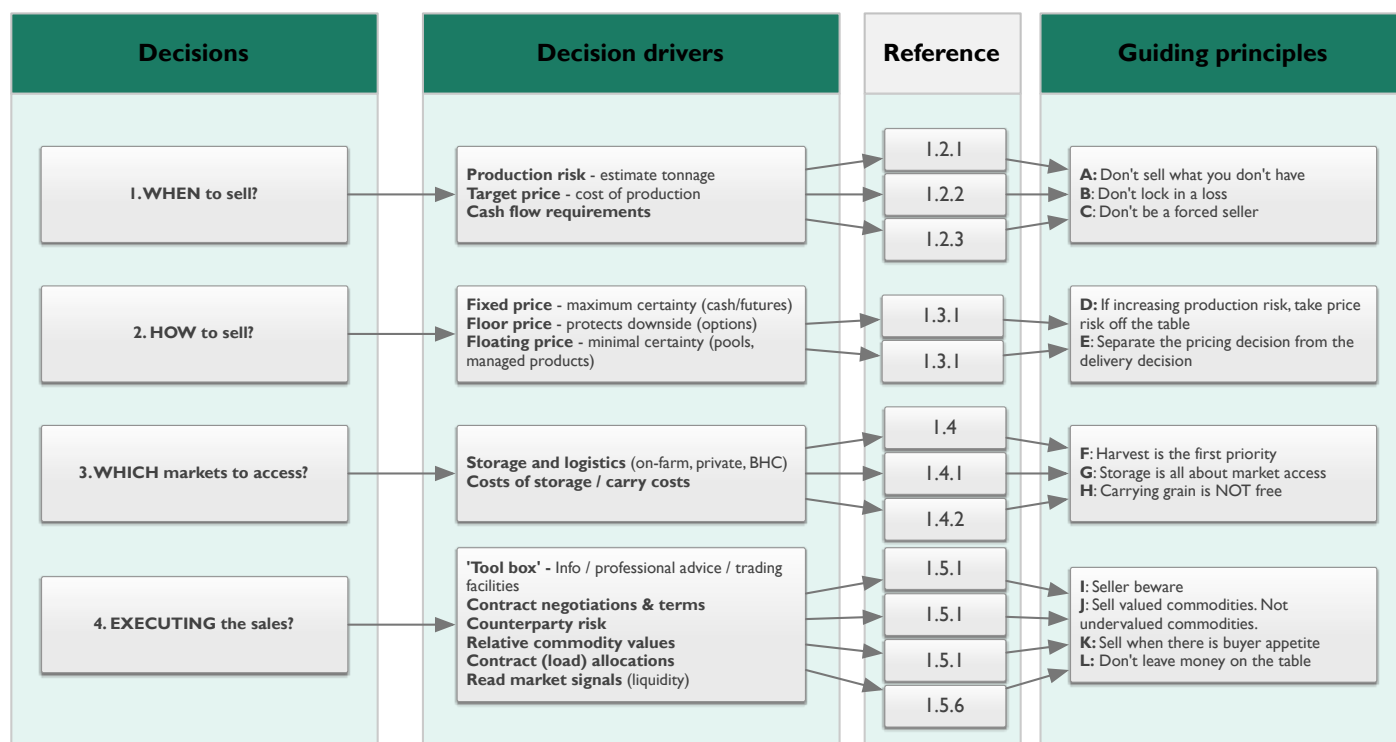
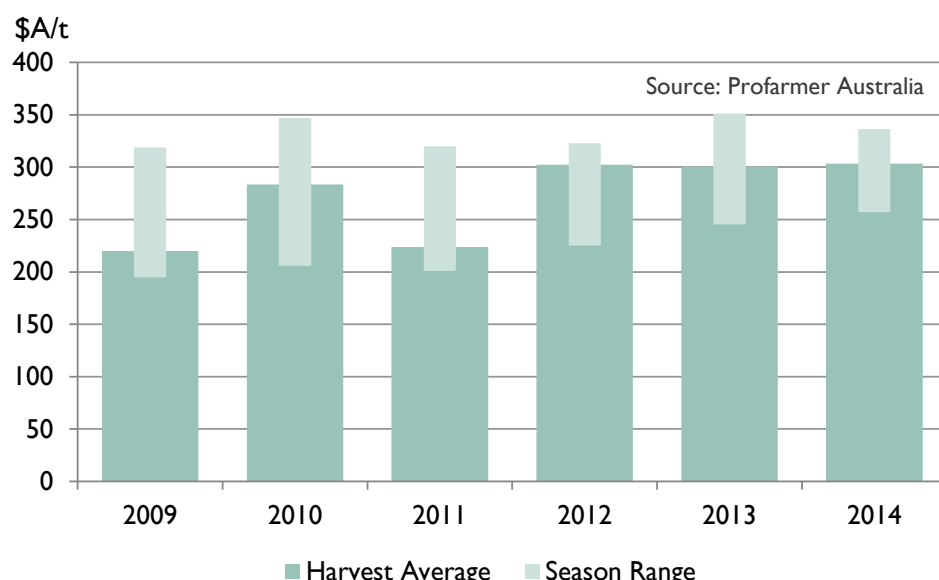


Figure 1: Grain selling flow chart.

¹ Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

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Note to figure:

Newcastle APWI wheat prices have varied A\$70-\$150/t over the past 6 years (25-60% variability). For a property producing 1,000 tonne of wheat this means \$70,000-\$150,000 difference in income depending on price management skill.

Figure 2: Seasonal variance in Newcastle APWI wheat prices.

Source: Profarmer Australia

MORE INFORMATION

http://www.australianoilseeds.com/commodity_groups/australian_sunflower_association/sunflower_marketing_guide

<https://bettersunflowers.com.au/newsletter/news.ashx?CampaignItemId=82>

<https://bettersunflowers.com.au/user/marketing.aspx>

15.1 Selling principles

The aim of a selling program is to achieve a profitable average price (the target price) across the entire business. This requires managing several unknowns to establish a target price and then work towards achieving the target price.

Unknowns include the amount of grain available to sell (production variability), the final cost of producing the grain, and the future prices that may result. Australian farm-gate prices are subject to volatility caused by a range of global factors that are beyond our control and are difficult to predict.

The skills growers have developed to manage production unknowns can also be used to manage pricing unknowns. This guide will help growers manage and overcome price uncertainty.²

15.1.1 Be prepared

Being prepared by having a selling plan is essential for managing uncertainty. The steps involved are forming a selling strategy, and forming a plan for executing sales. The selling strategy consists of when and how to sell.

When to sell

Knowing when to sell requires an understanding of the farm's internal business factors, including:

- production risk
- a target price based on cost of production and a desired profit margin
- business cash flow requirements.

How to sell

Working out how to sell your grain is more dependent on external market factors, including:

- time of year—determines the pricing method
- market access—determines where to sell

² Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

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- relative value—determines what to sell.

The following diagram (Figure 3) lists key selling principles when considering sales during the growing season.

Exactly when each principle comes into play is indicated in the discussion of marketing planning and timing in the rest of section 15.³



Figure 3: Timeline of grower commodity selling principles.

Source: Profarmer Australia

15.1.2 Establish the business risk profile

Establishing your business risk profile helps you determine when to sell: it allows you to develop target price ranges for each commodity, and provides confidence to sell when the opportunity arises. Typical business circumstances and how to quantify those risks during the production cycle are described below (Figure 4).

³ Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

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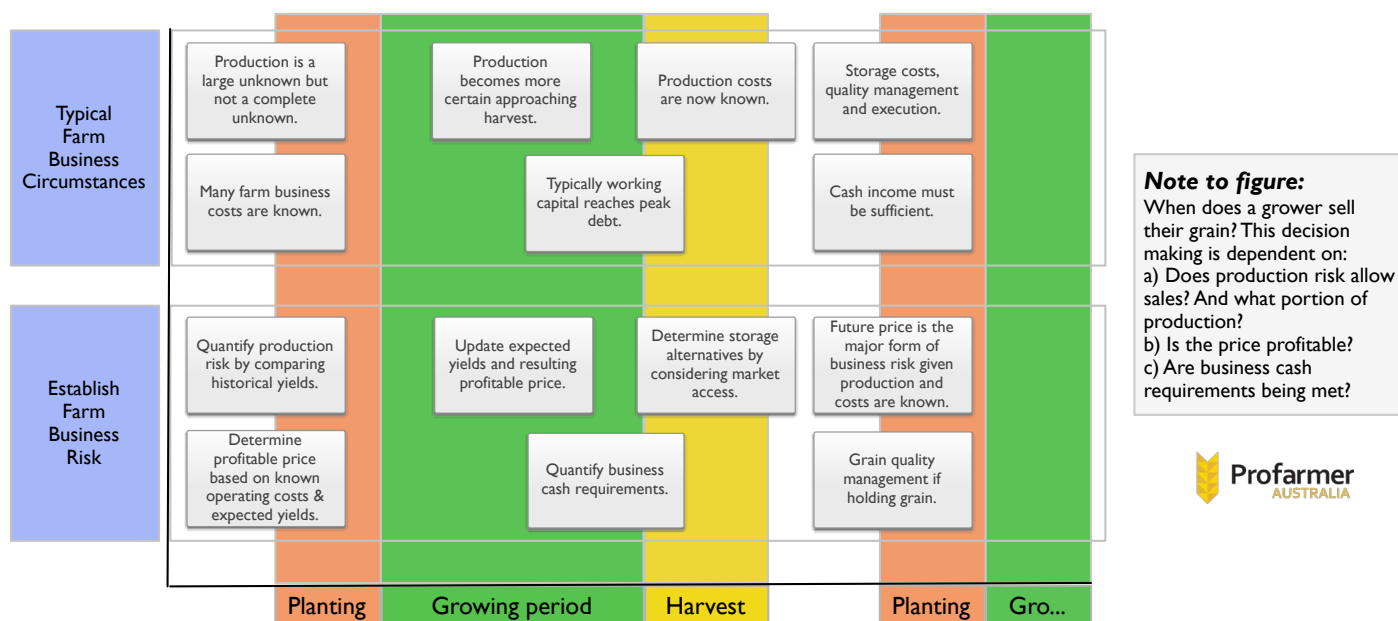
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Figure 4: Typical farm business circumstances and risk.

Source: Profarmer Australia

Production risk profile of the farm

Production risk is the level of certainty around producing a crop and is influenced by location (climate, season and soil type), crop type, crop management, and the time of the year.

Principle: You can't sell what you don't have.

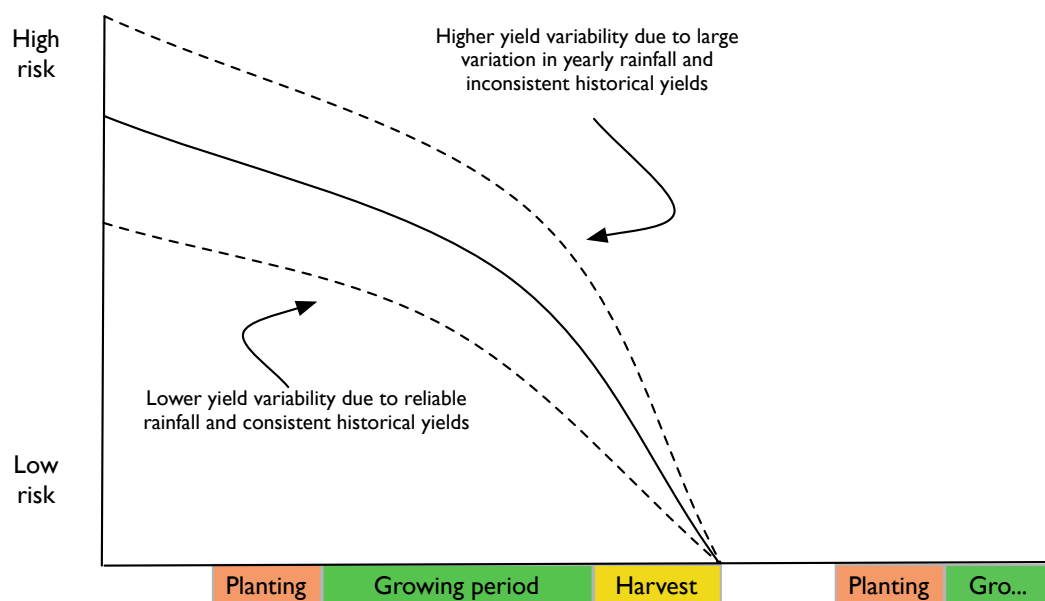
Therefore, don't increase business risk by over committing production. Establish a production risk profile (Figure 5) by:

1. Collating historical average yields for each crop type and a below-average and above-average range.
2. Assessing the likelihood of achieving the average, based on recent seasonal conditions and the seasonal outlook.
3. Revising production outlooks as the season progresses.

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Note to figure:

The quantity of crop grown is a large unknown early in the year however not a complete unknown. 'You can't sell what you don't have' but it is important to compare historical yields to get a true indication of production risk. This risk reduces as the season progresses and yield becomes more certain. Businesses will face varying production risk levels at any given point in time with consideration to rainfall, yield potential, soil type, commodity etc.

Profarmer
AUSTRALIA

Figure 5: Typical production risk profile of a farm operation.

Source: Profarmer Australia

Establishing a target price

A profitable commodity target price is the cost of production per tonne plus a desired profit margin. It is essential to know the cost of production per tonne for the farm business, which means knowing all farming costs, both variable and fixed.

Principle: Don't lock in a loss.

If committing production ahead of harvest, ensure the price will be profitable. The steps needed to calculate an estimated profitable price is based on the total cost of production and a range of yield scenarios, as provided below (Figure 6).

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Estimating cost of production - Wheat

Planted area	1,200 ha
Estimate yield	2.85 t/ha
Estimated production	3,420 t

Fixed costs

Insurance and general expenses	\$100,000
Finance	\$80,000
Depreciation/Capital replacement	\$70,000
Drawings	\$60,000
Other	\$30,000

Variable costs

Seed and sowing	\$48,000
Fertiliser and application	\$156,000
Herbicide and application	\$78,000
Insect/fungicide and application	\$36,000
Harvest costs	\$48,000
Crop insurance	\$18,000

Total fixed and variable costs \$724,000

Per tonne equivalent (total costs + estimated production) \$212 /t

Per tonne costs

Levies	\$3 /t
Cartage	\$12 /t
Receival fee	\$11 /t
Freight to port	\$22 /t
Total per tonne costs	\$48 /t

Cost of production port FIS equiv \$259.20

Target profit (ie 20%) \$52.00

Target price (port FIS equiv) \$311.20

Step 1: Estimate your production potential. The more uncertain your production is, the more conservative the yield estimate should be. As yield falls, your cost of production per tonne will rise.

Step 2: Attribute your fixed farm business costs. In this instance if 1,200 ha reflects 1/3 of the farm enterprise, we have attributed 1/3 fixed costs. There are a number of methods for doing this (see M Krause "Farming your Business") but the most important thing is that in the end all costs are accounted for.

Step 3: Calculate all the variable costs attributed to producing that crop. This can also be expressed as \$ per ha x planted area.

Step 4: Add together fixed and variable costs and divide by estimated production

Step 5: Add on the 'Per tonne' costs like levies and freight.

Step 6: Add the 'Per tonne' costs to the fixed and variable per tonne costs calculated at step 4.

Step 7: Add a desired profit margin to arrive at the port equivalent target profitable price.

Figure 6: An example of how to estimate the costs of production.

Source: Profarmer Australia

GRDC's manual [Farming the business](#) also provides a cost of production template and tips grain selling v. grain marketing.

Income requirements

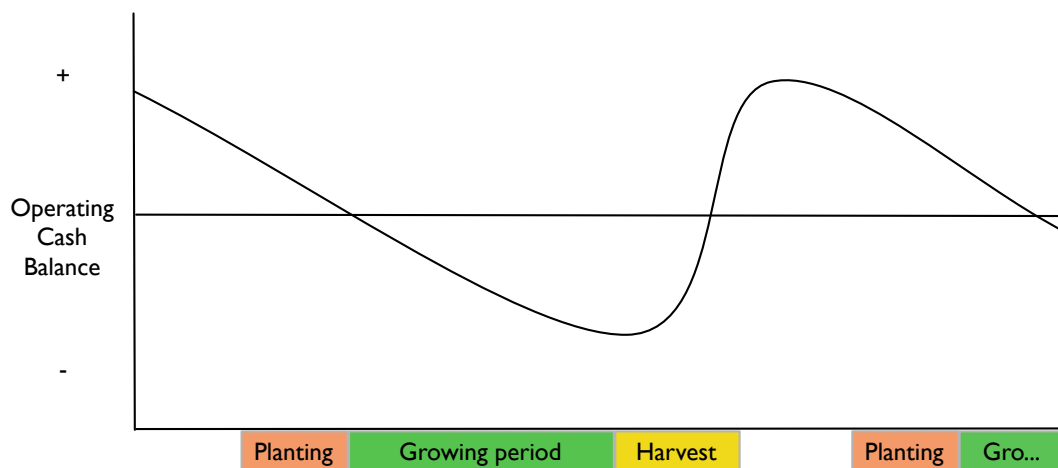
Understanding farm business cash flow requirements and peak cash debt enables growers to time grain sales so that cash is available when required. This prevents having to sell grain below the target price to satisfy a need for cash.

Principle: Don't be a forced seller.

Be ahead of cash requirements to avoid selling in unfavourable markets.

Typical cash flow to grow a crop are illustrated below (Figures 7 and 8). Costs are incurred up front and during the growing season, with peak working capital debt incurred at or before harvest. Patterns will vary depending on circumstance and enterprise mix. Figure 8 demonstrates how managing sales can change the farm's cash balance.

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In this scenario peak cash surplus starts higher and peak cash debt is lower

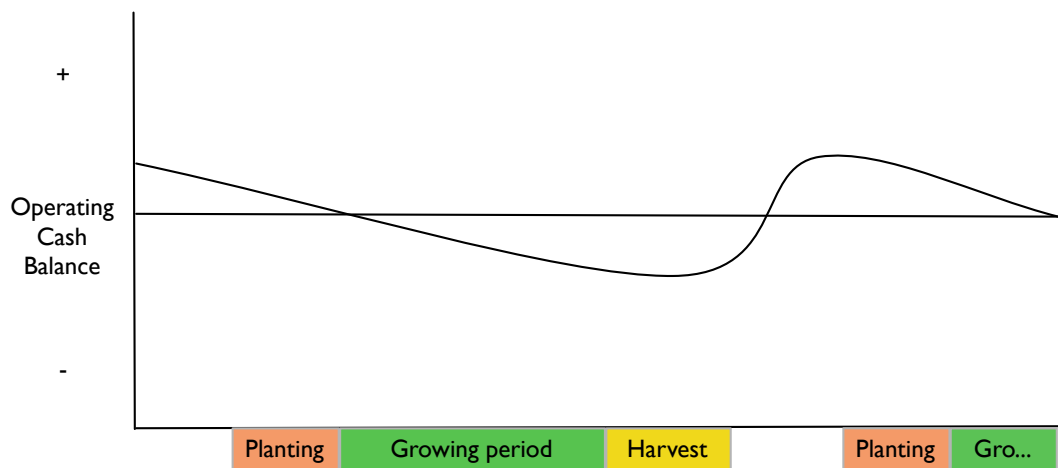
Note to figure:

The chart illustrates the operating cash flow of a typical farm assuming a heavy reliance on cash sales at harvest. Costs are incurred during the season to grow the crop, resulting in peak operating debt levels at or near harvest. Hence at harvest there is often a cash injection required for the business. An effective marketing plan will ensure a grower is 'not a forced seller' in order to generate cash flow.



Figure 7: A typical operating cash balance when relying on cash sales at harvest.

Source: Profarmer Australia



In this scenario peak cash surplus starts lower and peak cash debt is higher

Note to figure:

By spreading sales throughout the year a grower may not be as reliant on executing sales at harvest time in order to generate required cash flow for the business. This provides a greater ability to capture pricing opportunities in contrast to executing sales in order to fulfil cash requirements.



Figure 8: Typical operating cash balance when crop sales are spread over the year.

Source: Profarmer Australia

The 'when to sell' steps above result in an estimated production tonnage and the risk associated with that tonnage, a target price range for each commodity, and the time of year when cash is most needed.⁴

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15.1.3 Managing your price

The first part of the selling strategy answers the question when to sell and establishes comfort around selling a portion of the harvest.

The second part of the strategy, managing your price, addresses how to sell your crop.

Methods of price management

Pricing products provide varying levels of price risk coverage, but not all products are available for all crops (Table 1).

Table 1: Pricing methods and how they are used for different crops.

	Description	Wheat	Barley	Canola	Oats	Lupins	Field peas	Chick peas
Fixed price products	Provides the most price certainty	Cash, futures, bank swaps	Cash, futures, bank swaps	Cash, futures, bank swaps	Cash	Cash	Cash	Cash
Floor price products	Limits price downside but provides exposure to future price upside	Options on futures, floor price pools	Options on futures	Options on futures	none	none	none	none
Floating price products	Subject to both price upside and downside	Pools	Pools	Pools	Pools	Pools	Pools	Pools

Figure 9 summarises how the different methods of price management are suited to the majority of farm businesses.

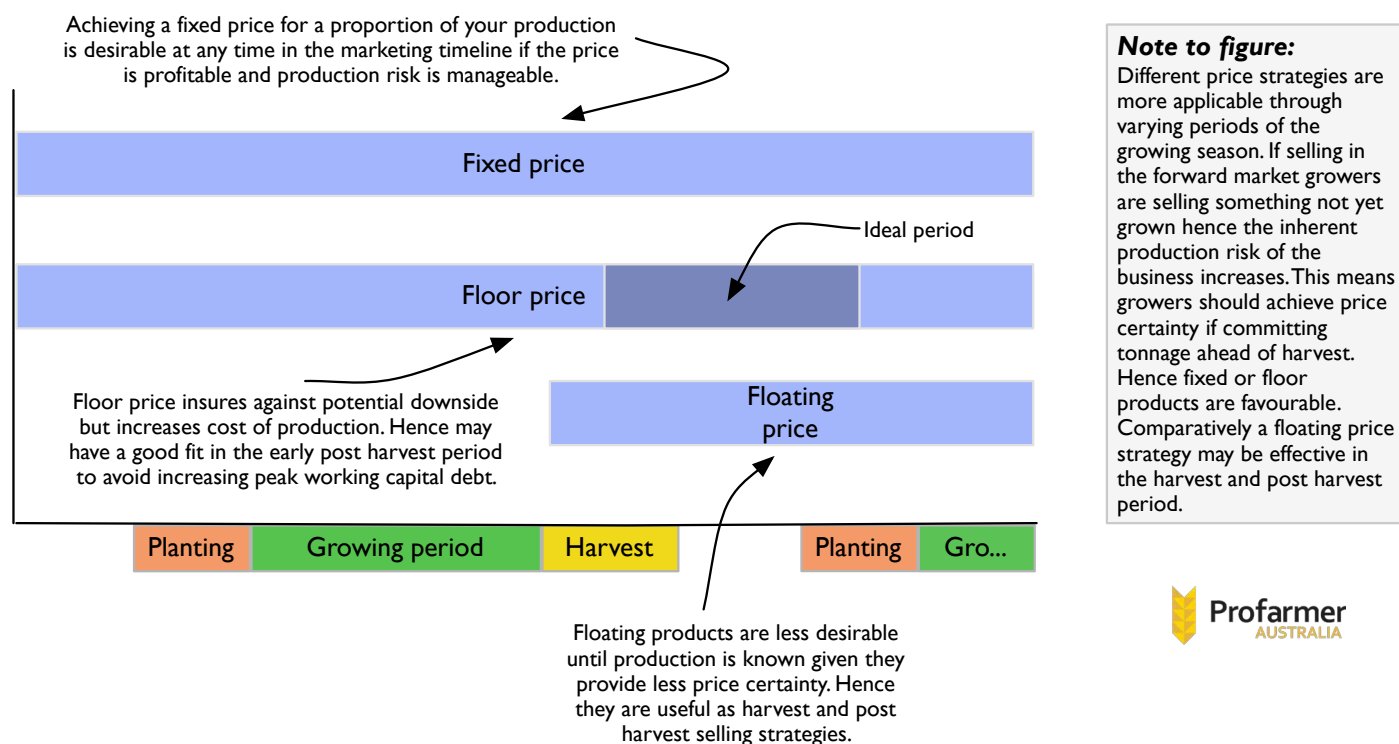


Figure 9: Price strategy timeline, summarising the suitability for most farm businesses of different methods of price management for different phases of production.

Source: Profarmer Australia

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Principle: If increasing production risk, take price risk off the table.

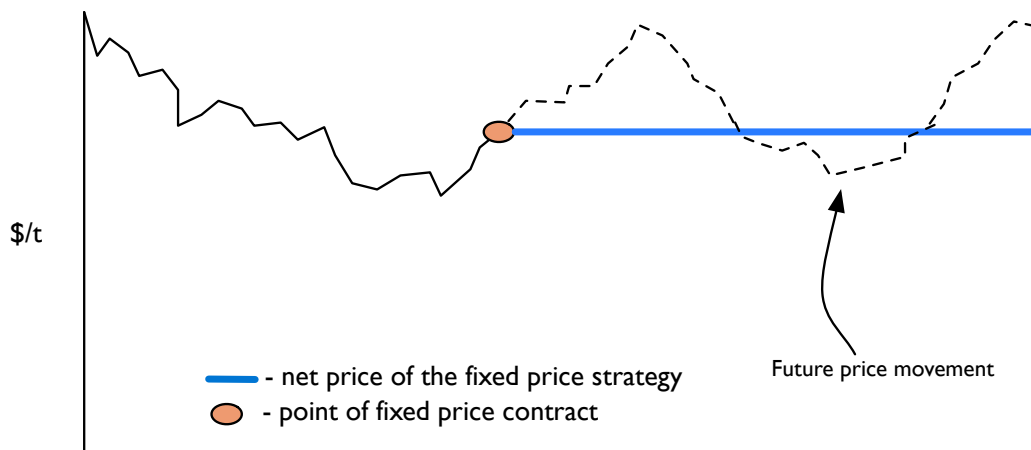
When committing to unknown production, price certainty should be achieved to avoid increasing overall business risk.

Principle: Separate the pricing decision from the delivery decision.

Most commodities can be sold at any time with delivery timeframes being negotiable, hence price management is not determined by delivery.

1. Fixed price

A fixed price is achieved via cash sales and/or selling a futures position (swaps) (Figure 10). It provides some certainty around expected revenue from a sale as the price is largely a known factor, except when there is a floating component in the price, e.g. a multi-grade cash contract with floating spreads or a floating-basis component on futures positions.



Note to figure:

Fixed price product locks in price and provides certainty over what revenue will be generated regardless of future price movement.



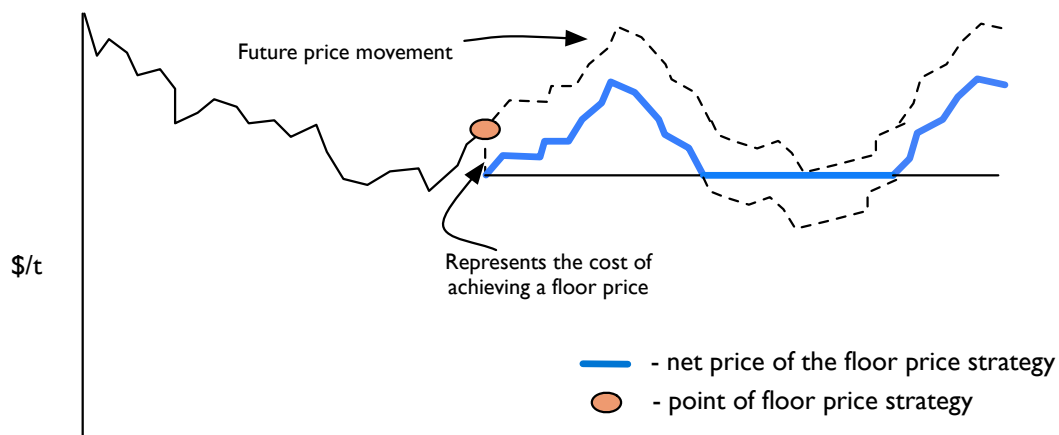
Figure 10: Fixed price strategy.

Source: Profarmer Australia

2. Floor price

Floor price strategies (Figure 11) can be achieved by utilising options on a relevant futures exchange (if one exists), or via a managed-sales program (i.e. a pool with a defined floor price strategy) offered by a third party. This pricing method protects against potential future price decrease while capturing any price increase. The disadvantage is that this kind of price 'insurance' has a cost, which adds to the farm's cost of production.

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Note to figure:

A floor price strategy insures against potential future downside in price while allowing price gains in the event of future price rallies.

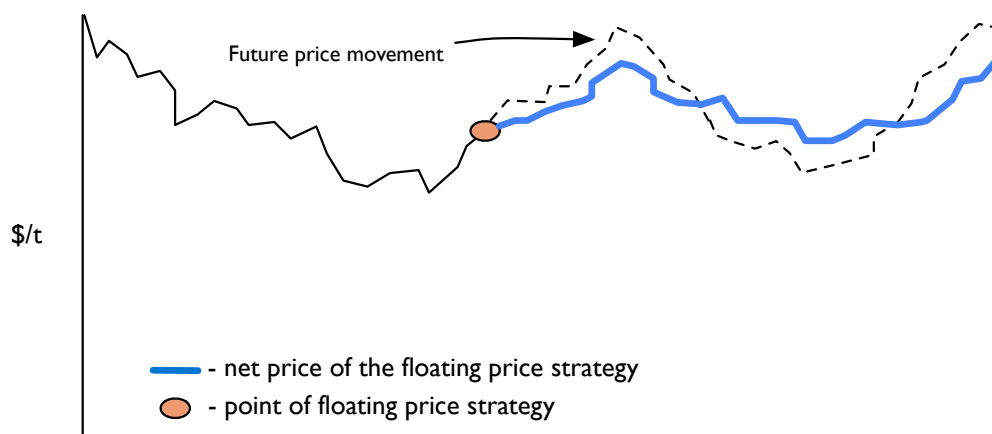


Figure 11: Floor price strategy.

Source: Profarmer Australia

3. Floating price

Many of the pools or managed-sales programs are a floating price, where the net price received will move up and down with the future movement in price (Figure 12). Floating price products provide the least price certainty and are best suited for use at or after harvest rather than before harvest.



Note to figure:

A floating price will move to some extent with future price movements.



Figure 12: Floating price strategy.

Source: Profarmer Australia

Having considered the variables of production for the crop to be sold, and how these fit against the different pricing mechanisms, the farmer may revise their selling strategy, taking the risks associated with each mechanism into account.

Fixed price strategies include physical cash sales or futures products and provide the most price certainty, but production risk must be considered.

Floor price strategies include options or floor price pools. They provide a minimum price with upside potential and rely less on production certainty, but cost more.

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Floating price strategies provide minimal price certainty and so are best used after harvest.⁵

15.1.4 Ensuring access to markets

Once the questions of when and how to sell are sorted out, planning moves to the storage and delivery of commodities to ensure timely access to markets and execution of sales. Planning where to store the commodity is an important component of ensuring the type of access to the market that is likely to yield the highest return (Figure 13).

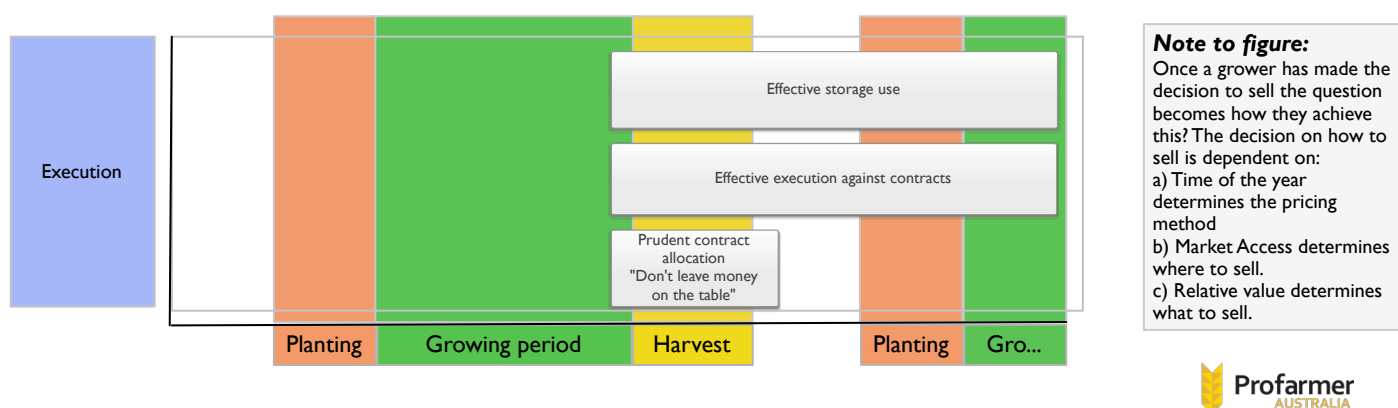


Figure 13: Storage decisions are influenced by selling decisions and the timing of all farming activities.

Source: Profarmer Australia

Storage and logistics

The return on investment from grain handling and storage expenses is optimised when storage is considered in light of market access so as to maximise returns as well as harvest logistics.

Storage alternatives include variations of bulk handling, private off-farm storage, and on-farm storage. Delivery and quality management are key considerations in deciding where to store your commodity (Figure 14).

Principle: Harvest is the first priority.

During harvest, getting the crop into the bin is the most critical aspect of business success; hence storage, sale and delivery of grain should be planned well ahead of harvest to allow the grower to focus on the harvest itself.

Bulk export commodities requiring significant quality management are best suited to the bulk handling system. Commodities destined for the domestic end user market, (e.g. feedlot, processor, or container packer), may be more suited to on-farm or private storage to increase delivery flexibility.

Storing commodities on the farm requires prudent quality management to ensure that the grain is delivered to the agreed specifications. If not well planned and carried out, it can expose the business to high risk. Penalties for out-of-specification grain arriving at a buyer's weighbridge can be expensive, as the buyer has no obligation to accept it. This means the grower may have to incur the cost of taking the load elsewhere, and may also have to find a new buyer.

On-farm storage also requires that delivery is managed to ensure that the buyer receives the commodities on time and with appropriate weighbridge and sampling tickets.

Principle: Storage is all about market access.

5 Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

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Storage decisions depend on quality management and expected markets.

For more information on on-farm storage alternatives and economics, see Section 13: Grain Storage.

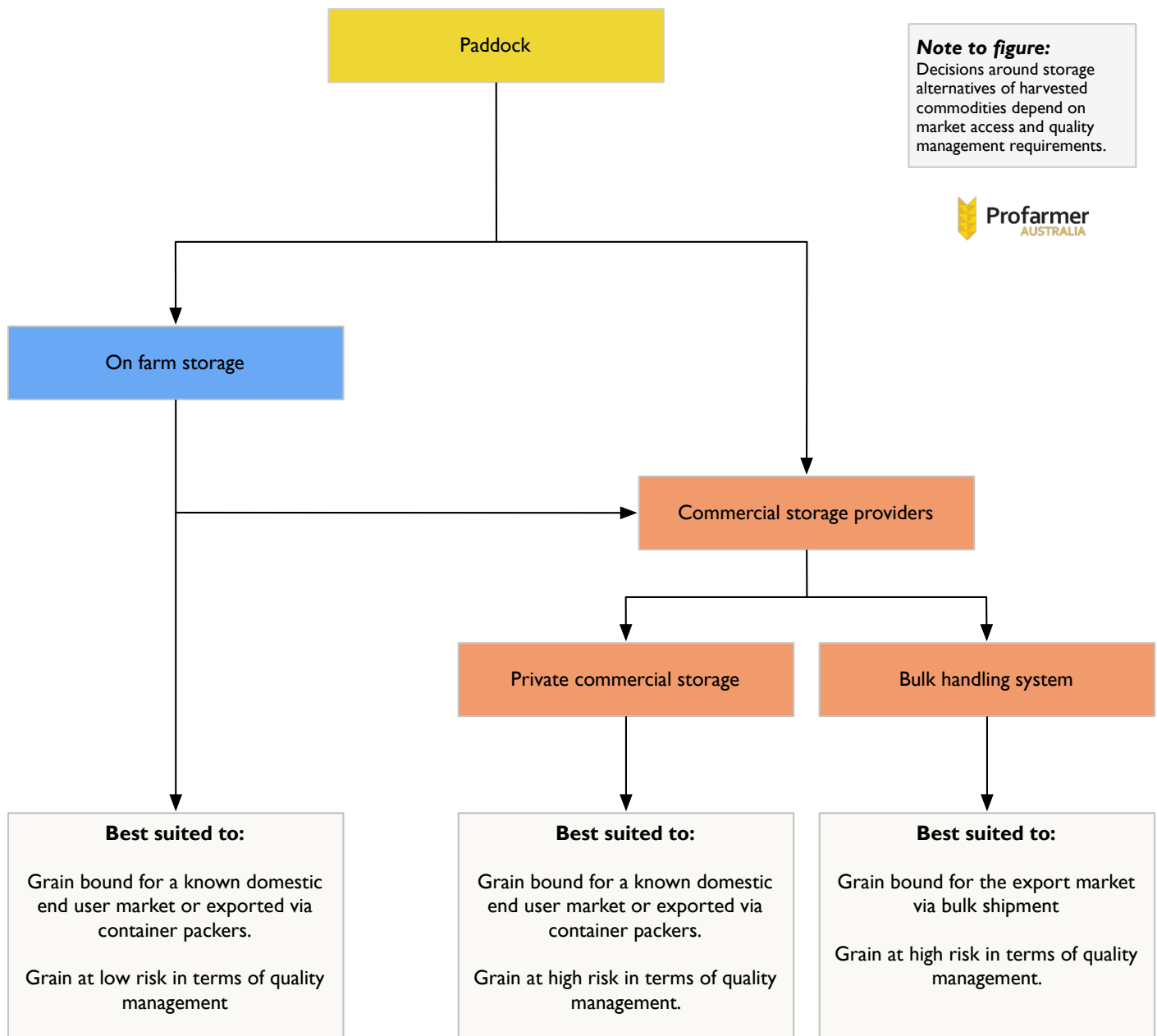


Figure 14: Grain storage decision-making.

Source: Profarmer Australia

Cost of holding grain

Storing grain to access sales opportunities post-harvest invokes a cost to 'carry', or hold, the grain (Figure 15). Price targets for carried grain need to account for the cost of carrying it.

Carrying costs are typically \$3–4/t per month and consist of:

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- monthly storage fee charged by a commercial provider (typically ~\$1.50–2.00/t per month)
- monthly interest associated with having wealth tied up in grain rather than available as cash or for paying off debt (~\$1.50–\$2.00/t, depending on the price of the commodity and interest rates).

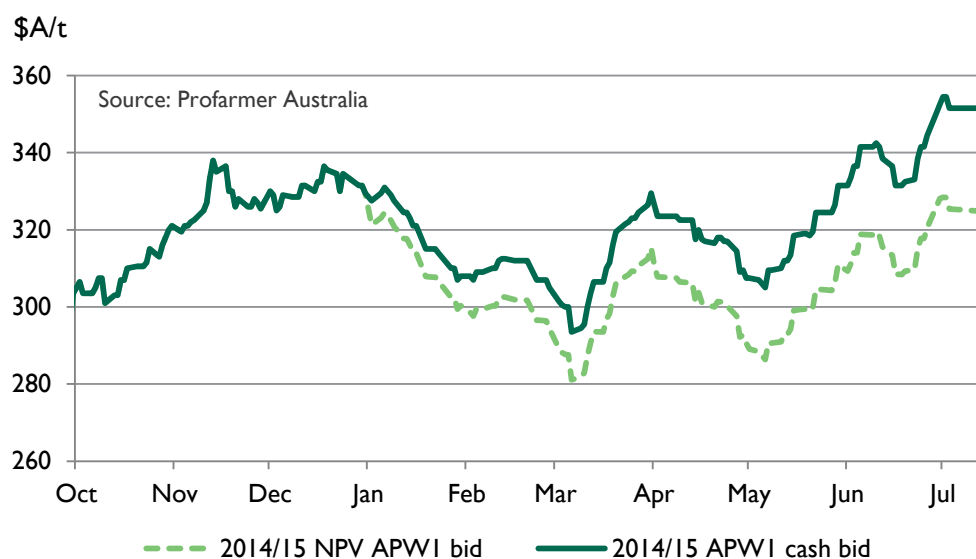
The price of carried grain therefore needs to be \$3–4/t per month higher than the price offered at harvest.

The cost of carrying also applies to grain stored on the farm, as there is the cost of the capital invested in the farm storage plus the interest component. A reasonable assumption is a cost of \$3–4/t per month for on-farm storage.

Principle: Carrying grain is not free.

The cost of carrying grain needs to be accounted for if holding it for sale after harvest is part of the selling strategy.

If selling a cash contract with deferred delivery, a carrying charge can be negotiated into the contract. For example, a March sale of wheat for March–June delivery on the buyer's call at a price of \$300/t + \$3/t carrying per month would generate revenue of \$309/t for grain delivered in June. The price negotiated will depend on the market the grower is selling into (Figures 15 and 16).⁶



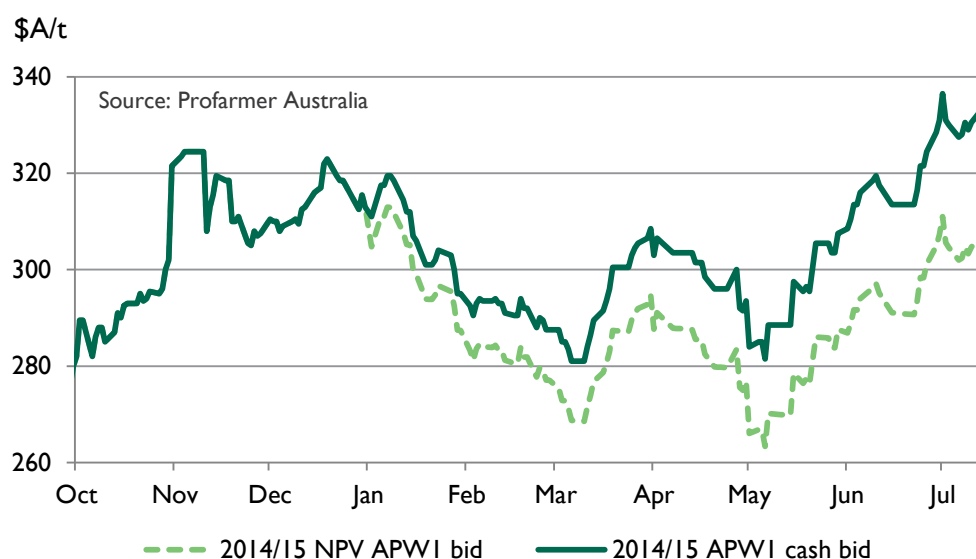
Note to figure:

If selling a cash contract with deferred delivery, a carry charge can be negotiated into the contract. For example in the case of a March sale of APWI wheat for March–June delivery on buyers call at \$300/t + \$3/t carry per month, if delivered in June would generate \$309/t delivered.

Figure 15: How adding a carrying charge changes the total paid in the Brisbane APW2 cash market.

Source: Profarmer Australia

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Note to figure:

If selling a cash contract with deferred delivery, a carry charge can be negotiated into the contract. For example in the case of a March sale of APWI wheat for March-June delivery on buyers call at \$300/t + \$3/t carry per month, if delivered in June would generate \$309/t delivered.

Figure 16: How adding a carrying charge changes the total paid in the Newcastle APWI cash market. Note differences between this market and that in Figure 15.

Source: Profarmer Australia

Optimising farm gate returns involves planning the appropriate storage strategy for each commodity so as to improve market access and ensure that carrying costs are covered in the price received.⁷

15.1.5 Converting tonnes into cash

This section provides guidelines for converting the selling and storage strategy into cash by effective execution of sales.

Set up the toolbox

Selling opportunities can be captured when they arise by assembling the necessary tools in advance. The toolbox for converting tonnes of grain into cash includes the following:

1. Timely information—this is critical for awareness of selling opportunities and includes:
 - market information provided by independent parties
 - effective price discovery including indicative bids, firm bids, and trade prices
 - other market information pertinent to the particular commodity.
2. Professional services—grain selling professional service offerings and cost structures vary considerably. An effective grain selling professional will put their clients' best interest first by not having conflicts of interest and investing time in the relationship. A better return on investment for the farm business is achieved through higher farm-gate prices, which are obtained by accessing timely information, and being able to exploit the seller's greater market knowledge and greater market access.
3. Futures account and bank swap facility—these accounts provide access to global futures markets. Hedging futures markets is not for everyone; however, strategies which utilise exchanges such as the Chicago Board of Trade (CBOT) can add significant value.

For a list of current financial members of Grain Trade Australia including buyers, independent information providers, brokers, agents, and banks providing over-

7 Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

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the-counter grain derivative products (swaps), see <http://www.graintrade.org.au/membership>

For a list of commodity futures brokers, see <http://www.asx.com.au/prices/find-a-futures-broker.htm>

How to sell for cash

Like any market transaction, a cash grain transaction occurs when a bid by the buyer is matched by an offer from the seller. Cash contracts are made up of the following components with each component requiring a level of risk management (Figure 17):

- Price—future price is largely unpredictable, so devising a selling plan to put current prices into the context of the farm business is critical to managing price risk.
- Quantity and quality—when entering a cash contract, you are committing to deliver the nominated amount of grain at the quality specified, so production and quality risks must be managed.
- Delivery terms—the timing of title transfer from the grower to the buyer is agreed at time of contracting. If this requires delivery direct to end users, it relies on prudent execution management to ensure delivery within the contracted period.
- Payment terms—in Australia, the traditional method of contracting requires title on the grain to be transferred ahead of payment, so counterparty risk must be managed.

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GTA Contract No.3 CONTRACT CONFIRMATION

GTA Trade Rules and Dispute Resolution Rules apply to this contract

This Contract is confirmation between:

BUYER	SELLER
Contract No: _____	Contract No: _____
Name: _____	Name: _____
Company: _____	Company: _____
Address: _____	Address: _____
Buyer ABN: _____	Seller ABN: _____
NGR No: _____	NGR No: _____

The Buyer and Seller agree to transact this Contract subject to the following Terms and Conditions:

Commodity: _____	GTA Commodity Reference: _____
Grade: _____	Inspection: _____ (Origin – Destination)
Quantity: _____	Tolerance: _____ (Refer over)
Packaging: _____	Weights: _____ (Origin – Destination)
Price: _____	Excl/Inc/Free GST _____
Price Basis: _____	
Delivery/Shipment Period: _____	
Delivery Point and Conveyance: _____	
Payment Terms: The buyer agrees to pay the seller within _____. In the absence of a declaration, payment will be 30 days end of week of delivery.	
Levies and Statutory Charges: Any industry, statutory or government levies which are not included in the price shall be deducted as required by law.	
Disclosures: Is any of the crop referred to in this contract subject to a mortgage, Encumbrance or lien and/or Plant Breeders' Rights and/or EPR liabilities and/or registered or unregistered Security Interest? <input checked="" type="radio"/> NO <input type="radio"/> YES (Please <input type="checkbox"/> appropriate box) If "yes" please provide details: _____	
Other Special Terms and Conditions: _____	

All Contract Terms and Conditions as set out above and on the reverse of this page form part of this Contract. Terms and Conditions written on the face of this Contract Confirmation shall overrule all printed Terms and Conditions on the reverse with which they conflict to the extent of the inconsistency. This Contract comprises the entire agreement between Buyer and Seller with respect to the subject matter of this Contract.

Recipient Created Tax Invoice (RCTI).

To assist with the processing of the Goods and Services Tax compliance, the buyer may prepare, for the seller, a Recipient Created Tax Invoice (RCTI). If the seller requires this service they are required to sign this authorisation.

☐ Please issue a RCTI (Please ☐)

Incorporation of GTA Trade & Dispute Resolution Rules:

This contract expressly incorporates the GTA Trade Rules in force at the time of this contract and Dispute Resolution Rules in force at the commencement of the arbitration, under which any dispute, controversy or claim arising out of, relating to or in connection with this contract, including any question regarding its existence, validity or termination, shall be resolved by arbitration.

Buyer's Name: _____ PRINT NAME	Seller's Name: _____ PRINT NAME
Buyer's Signature: _____	Seller's Signature: _____
Date: _____	Date: _____

This Contract has been executed and this form serves as confirmation and should be signed and a copy returned to the buyer/seller immediately.

2014 Edition

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Grain Trade Australia is the industry body ensuring the efficient facilitation of commercial activities across the grain supply chain. This includes contract trade

Figure 17: Typical terms of a cash contract.

Source: Grain Trade Australia

The price point within a cash contract will depend on where the transfer of grain title will occur along the supply chain. Figure 18 shows the terminology used to describe pricing points along the grain supply chain and the associated costs to come out of each price before growers receive their net return.

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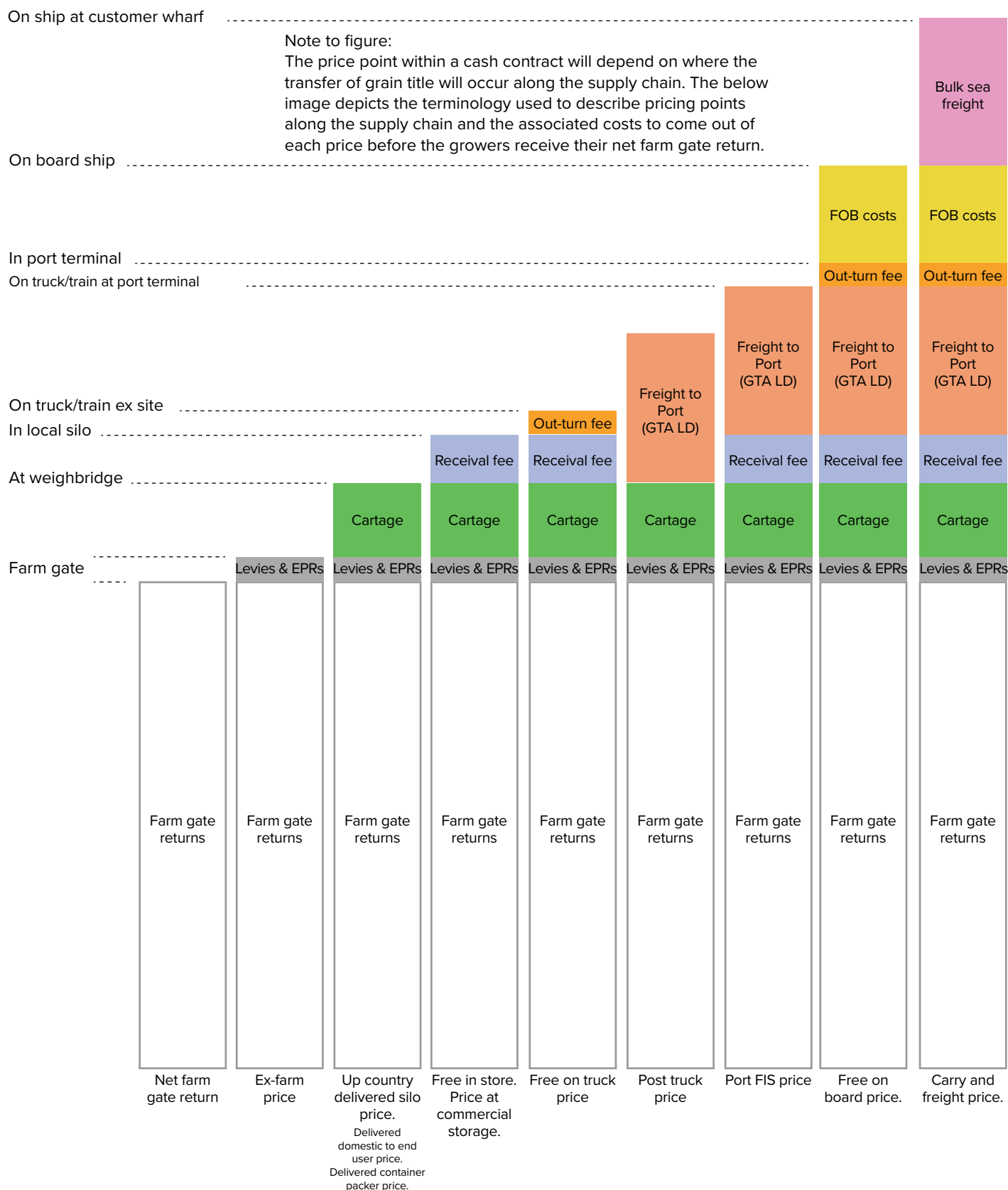
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Figure 18: Cost and pricing points throughout the supply chain.

Source: Profarmer Australia

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<http://www.graintransact.com.au>

<http://www.grainflow.com.au>

<http://emeraldgrain.com>

<https://www.cleargrain.com.au>

MORE INFORMATION

[GTA managing counterparty risk 14/7/2014](#)

[Clear Grain Exchange title transfer model](#)

[GrainGrowers guide to managing contract risk](#)

[Counterparty risk: A producer perspective, Leo Delahunty](#)

Cash sales generally occur through three methods:

- Negotiation via personal contact—traditionally prices are posted as a public indicative bid. The bid is then accepted or negotiated by a grower with the merchant or via an intermediary. This method is the most common and is available for all commodities.
- Accepting a 'public firm bid'—cash prices in the form of public firm bids are posted during harvest and for warehoused grain by merchants on a site basis. Growers can sell their parcel of grain immediately by accepting the price on offer via an online facility and then transfer the grain online to the buyer. The availability of this depends on location and commodity.
- Placing an 'anonymous firm offer'—growers can place a firm offer price on a parcel of grain anonymously and expose it to the entire market of buyers, who then bid on it anonymously using the Clear Grain Exchange, which is an independent online exchange. If the offer and bid match, the particulars of the transaction are sent to a secure settlement facility, although the title on the grain does not transfer from the grower until they receive funds from the buyer. The availability of this option depends on location and commodity. Anonymous firm offers can also be placed to buyers by an intermediary acting on behalf of the grower. If the grain sells, the buyer and seller are disclosed to each counterparty.

Counterparty risk

Most sales involve transferring the title on the grain prior to being paid. The risk of a counterparty defaulting when selling grain is very real and must be managed. Conducting business in a commercial and professional manner minimises this risk.

Principle: Seller beware.

There is not much point selling for an extra \$5/t if you don't get paid.

Counterparty risk management includes:

- Dealing only with known and trusted counterparties.
- Conducting a credit check (banks will do this) before dealing with a buyer they are unsure of.
- Selling only a small amount of grain to unknown counterparties.
- Considering credit insurance or letter of credit from the buyer.
- Never delivering a second load of grain if payment has not been received for the first.
- Not parting with the title before payment, or requesting and receiving a cash deposit of part of the value ahead of delivery. Payment terms are negotiated at time of contracting. Alternatively, the Clear Grain Exchange provides secure settlement whereby the grower maintains title on the grain until they receive payment, and then title and payment are settled simultaneously.

Above all, act commercially to ensure the time invested in implementing a selling strategy is not wasted by poor management of counterparty risk.

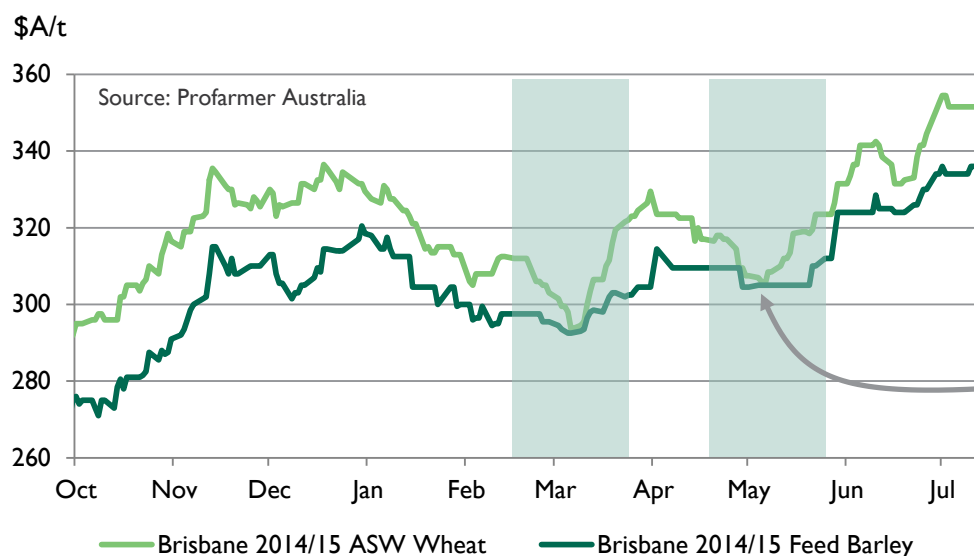
Relative values

Grain sales revenue is optimised when selling decisions are made in the context of the whole farming business. The aim is to sell each commodity when it is priced well, and to hold commodities that are not well priced at any given time. That is, give preference to the commodities with the highest relative value. This achieves price protection for the overall revenue of the farm business and enables more flexibility to a grower's selling program while achieving the business goal of reducing overall risk.

Principle: Sell valued commodities, not undervalued commodities.

If one commodity is priced strongly relative to another, focus sales there. Don't sell the cheaper commodity for a discount. For example, a farmer with wheat and barley to sell would sell the one that is getting good prices relative to the other, and hold the other for the meantime (see Figure 19).

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Note to figure:

Price relativities between commodities is one method of assessing which grain types 'hold the greatest value' in the current market.

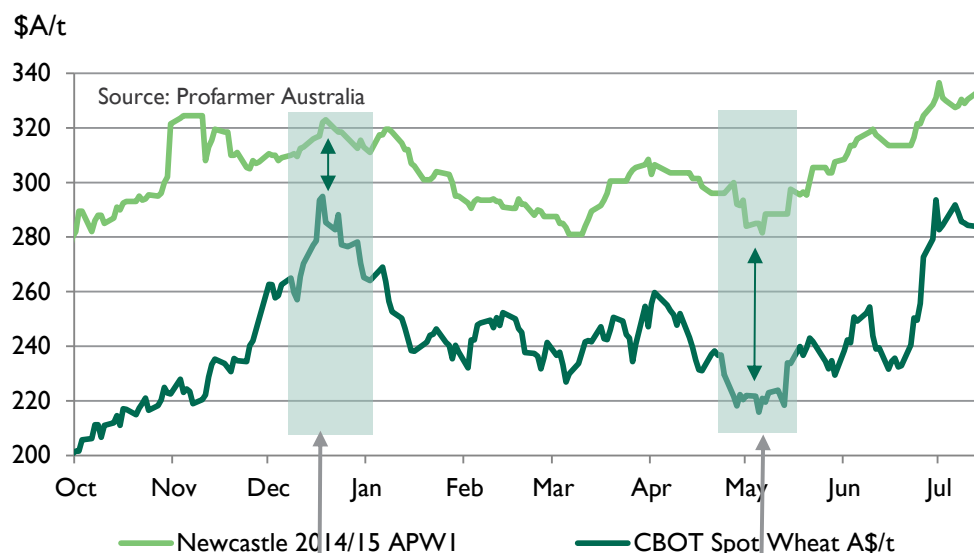
Example:

Feed barley prices were performing strongly relative to ASW wheat values (normally ~15% discount) hence selling feed barley was more favourable than ASW wheat during this period.

Figure 19: Brisbane ASW wheat v. feed barley are compared, and the barley held until it is favourable to sell it.

Source: Profarmer Australia

If the decision has been made to sell wheat, CBOT wheat may be the better choice if the futures market is showing better value than the cash market (Figure 20).



Note to figure:

Once the decision to take price protection has been made, choosing which pricing method to use is determined by which selling methods 'hold the greatest value' in the current market.

Example:

Sales via CBOT wheat were preferred over cash.

Example:

Cash sales were preferred over CBOT wheat.

Figure 20: By comparing prices for Newcastle APWI vs CBOT wheat, the grower can see which market to sell into.

Source: Profarmer Australia

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Contract allocation

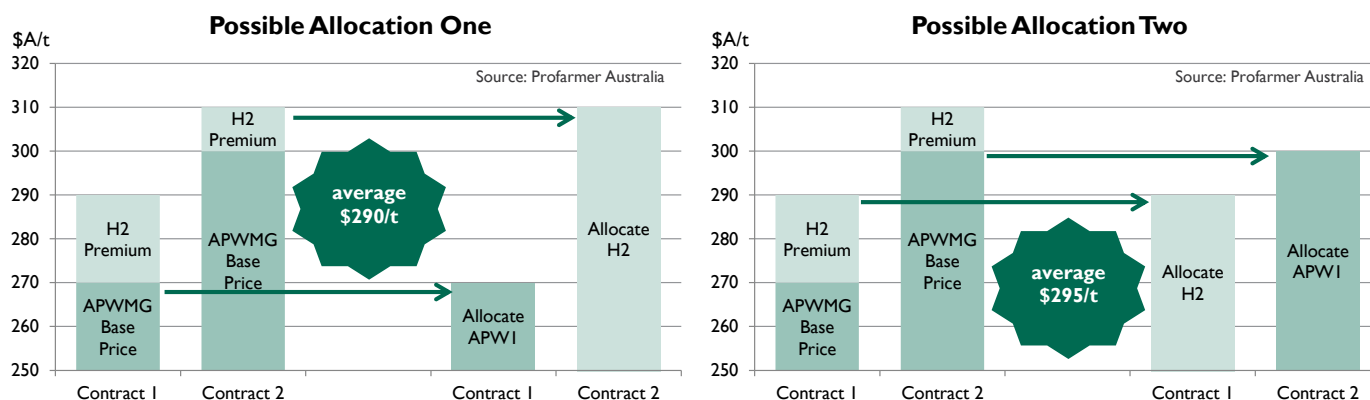
Contract allocation means choosing which contracts to allocate your grain against come delivery time. Different contracts will have different characteristics (e.g. price, premiums-discounts, oil bonuses), and optimising your allocation reflects immediately on your bottom line.

Principle: Don't leave money on the table.

Contract allocation decisions don't take long, and can be worth thousands of dollars to your bottom line.

To achieve the best average price for their crop growers should:

- allocate lower grades of wheat to contracts with the lowest discounts
- allocate higher grades of wheat to contracts with the highest premiums (Figure 21).



Note to figure:

In these two examples the only difference between achieving an average price of \$290/t and \$295/t is which contracts each parcel was allocated to. Over 400/t that equates to \$2,000 which could be lost just in how parcels are allocated to contracts.

Figure 21: How the crop is allocated across contracts can have an impact of earnings from the crop. Although this example uses wheat, the same principle applies for sunflowers.

Source: Profarmer Australia

Read market signals

The appetite of buyers to buy a particular commodity will differ over time depending on market circumstances. Ideally growers should aim to sell their commodity when buyer appetite is strong, and stand aside from the market when buyers are not very interested.

Principle: Sell when there is buyer appetite.

When buyers are chasing grain, growers have more market power to demand the price they want.

Buyer appetite can be monitored by:

- The number of buyers at or near the best bid in a public bid line-up. If there are many buyers, it could indicate that buyer appetite is strong. However, if one buyer is offering \$5/t above the next best bid, it may mean that cash prices are susceptible to falling \$5/t as soon as that buyer satisfies their appetite.
- Monitoring actual trades against public indicative bids. When trades are occurring above indicative public bids it may indicate strong appetite from merchants and the ability for growers to offer their grain at price premiums to public bids.

The selling strategy is converted to maximum business revenue by:

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- ensuring timely access to information, advice and trading facilities
- using different cash market mechanisms when appropriate
- minimising counterparty risk by conducting effective due diligence
- understanding relative value and selling commodities when they are priced well
- thoughtful contract allocation
- reading market signals to extract value from the market or to prevent selling at a discount.⁸

15.2 Northern sunflower: market dynamics and execution

15.2.1 Price determinants for northern sunflower

Australian production of sunflower seed is very small relative to global production, accounting for 0.1–0.2% of the global crop in any given year (Figure 22). The largest producers are the Black Sea (Russia and Ukraine), the European Union, and Argentina. The majority of the Australian crop is produced in Queensland and NSW with less than 5% produced outside these two states.

Most of the seed produced in Australia is crushed to produce monounsaturated sunflower oil. Hence values are heavily influenced by the values for competing edible oils, particularly soy oil.

The value of domestic seed and oil is also influenced by overseas prices. This is because Australian production accounts for approximately 50% of domestic consumption, so the country is a net importer of sunflowers and sunflower oil. The value of the Australian dollar therefore heavily affects local values, as it influences the relative competitiveness of imported product. An Australian dollar that is stronger against the US dollar will make imported product more competitive compared to local product.

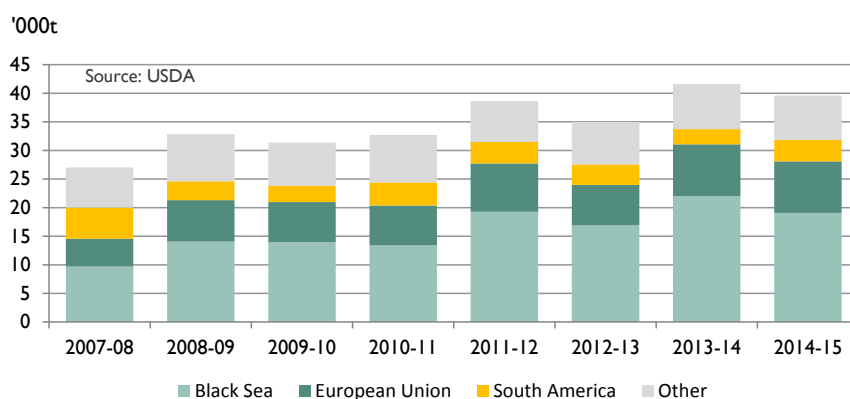


Figure 22: World sunflower seed production.

Source: USDA

The by-product of sunflower oil production is the production of sunflower meal, which can be sold as livestock feed. The price of sunflower meal can influence the price of the seed itself. In Australia sunflower meal competes against other domestic and imported meals including those of cottonseed, canola and soybean.

Other markets for sunflower seeds include birdseed, confectionary, horse feed, organic sunflowers, and polyunsaturated sunflower oil. (However, the market has moved nearly 100% away from polyunsaturated oils in favour of monounsaturated oils, so virtually no market remains for this product).⁹

⁸ Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

⁹ Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

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MORE INFORMATION

[Better Sunflowers, sunflower marketing guide for growers](#)
[GRDC, Safe storage of sunflower seed](#)
[Better Sunflowers](#)
[Sunflower production in Queensland](#)
[Better Sunflowers, Marketing](#)
[Australian Oilseeds Federation, oilseed standards](#)
[Queensland Agricultural Merchants, birdseed standards](#)

15.2.2 Ensuring market access for northern sunflowers

Each market for sunflower seeds has specific requirements, and often result in strict varietal and quality specifications (and production methods). Hence, the first step in ensuring market access for sunflowers produced in northern Australia begins before planting, when varieties are chosen.

Buyers who require the utmost consistency of quality and supply usually secure their requirements by using forward contracts. Hence, in order to ensure market access contracts may also need to be secured before planting.

For those producing sunflower seeds for the edible-oil market, the following facilities crush sunflower seeds:

- Newcastle, NSW—Cargill
- Narrabri, NSW—Cargill
- Footscray, Victoria—Cargill
- Cootamundra, NSW—Cootamundra Oilseeds
- Manildra, NSW—MSM Milling

Other oilseed-crushing facilities may also crush sunflower seeds.¹⁰

15.2.3 Converting tonnes into cash for northern sunflowers

In the forward market, an area program allows producers to commit to planting a certain area of sunflowers, and the buyer may take on some or all of the production risk. These contracts are normally offered directly by domestic users or by their agents. Area contracts can take different forms, so it is important when comparing contracts that the seller considers the following risks in particular:

- Production risk—is the buyer taking on all of the production risk or does the contract include minimum and/or maximum volume commitments?
- Quality risk—what premiums and discounts are being offered for quality parameters?

Fixed-tonnage forward contracts are also available. These tend to price at premiums above an area contract as the grower carries all of the production risk.

Some buyers may also offer ‘guaranteed minimum price’ contracts, where the final price is not locked in but a minimum price is established in order to provide downside price protection. Alternatively, some buyers also provide a ‘no price established’ (NPE) contract, which allows the seller to lock in the volume and the delivery period, and leave the price floating for a period.

Delivery periods are an important consideration when contracting sunflowers, as the processing facility’s schedule of commodity crushing and the plant’s processing capacity are likely to dictate the schedule for receivals. They may not line up with the timing of harvest.

The main buyers of sunflower seeds in Australia are:

- AWB (for Cargill Australia)
- Adams Australia
- Paradise Farms
- Energreen Nutrition (for Cootamundra Oilseeds)

There are also quite a number of smaller buyers in the market. A complete list of all buyers of sunflowers and their specifications is available from the Better Sunflowers website.¹¹

¹⁰ Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote

¹¹ Profarmer Australia (2016), Marketing Field Peas, GRDC Northern Field Pea GrowNote