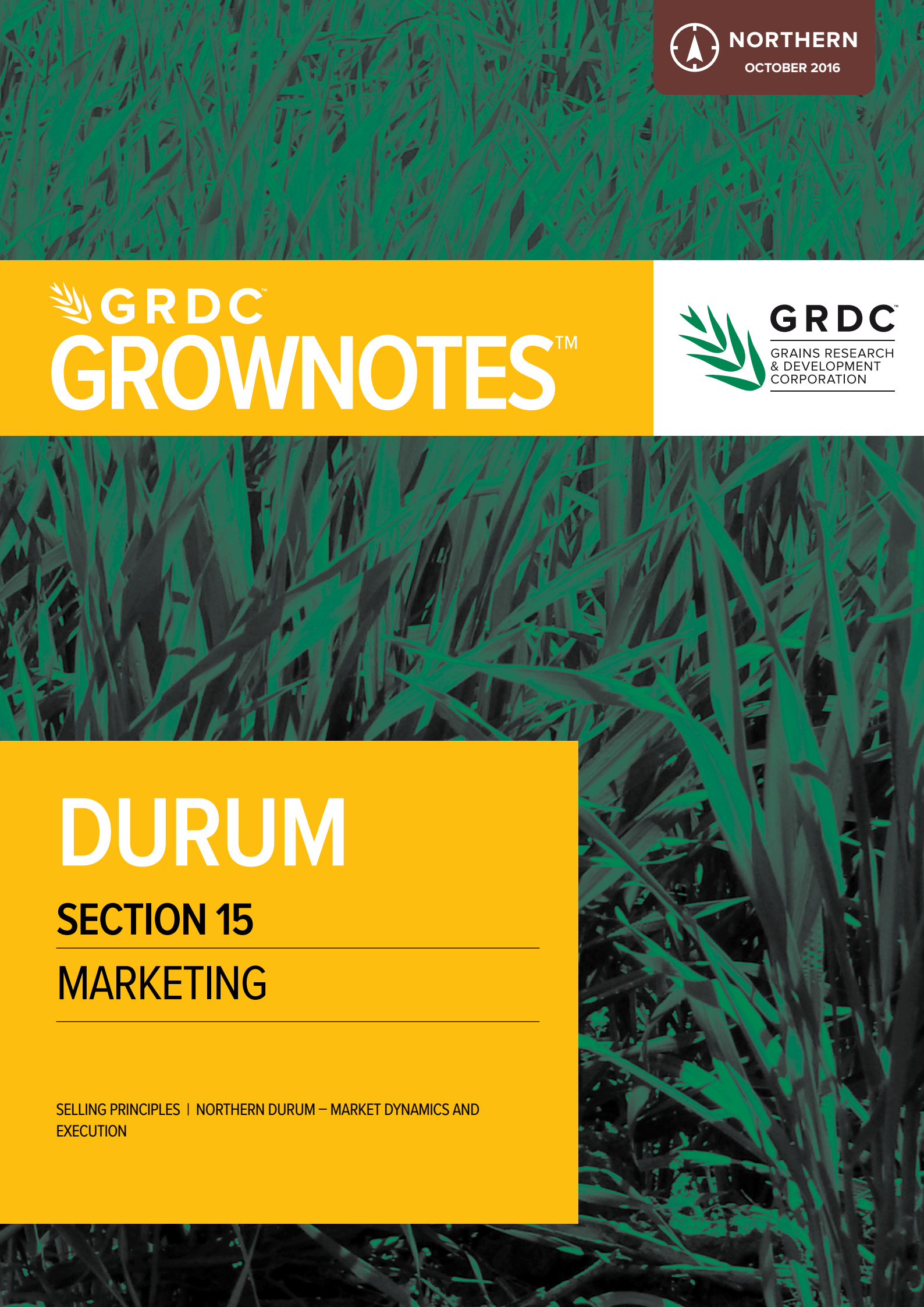

NORTHERN
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GRDC GROWNOTES™

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GRAINS RESEARCH & DEVELOPMENT CORPORATION

# DURUM

## SECTION 15

## MARKETING

SELLING PRINCIPLES | NORTHERN DURUM – MARKET DYNAMICS AND EXECUTION

SECTION 15

# 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.

**GRAIN SELLING - Best practice in conversion of tonnes to dollars**

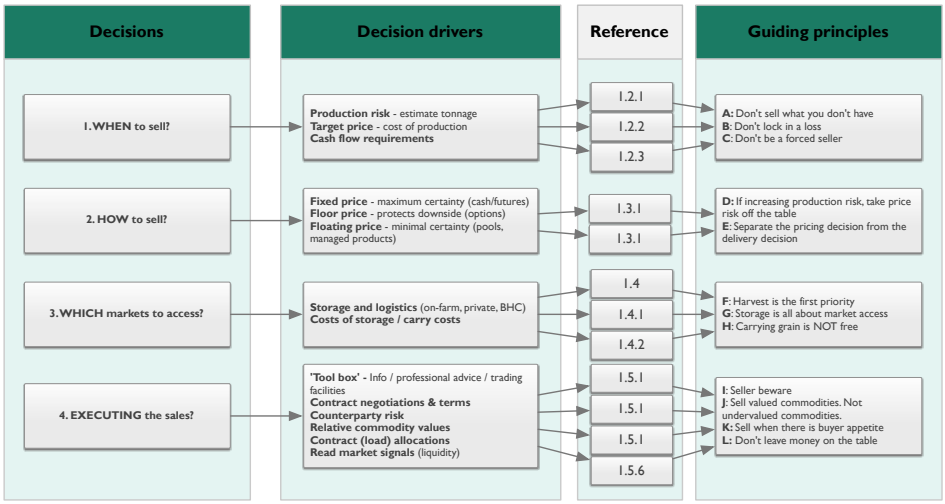
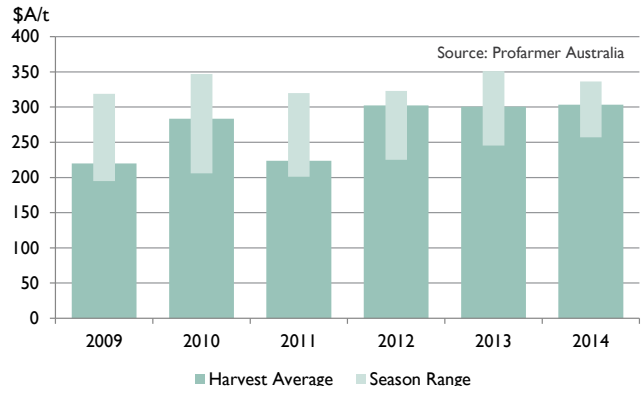



*Figure 1: Grain selling flow chart.*

Figure 1 shows a grain selling flow chart that summarises:

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

References are made to the section of the GrowNote you will find the detail.




***Note to figure:***
Newcastle APW1 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: Selling principles.*

## 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 the target price and then work towards achieving that target price.

Unknowns include the amount of grain available to sell (production variability), the final cost of that production, 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 difficult to predict.

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

### 15.1.1 Be prepared

Being prepared and having a selling plan is essential for managing uncertainty. The steps involved are forming a selling strategy and a plan for effective execution of sales.

A selling strategy consists of when and how to sell.

#### *When to sell*

This 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?*

This is more dependent on external market factors including:

- time of year determines the pricing method
- market access determines where to sell
- relative value determines what to sell

The following diagram lists key selling principles when considering sales during the growing season.

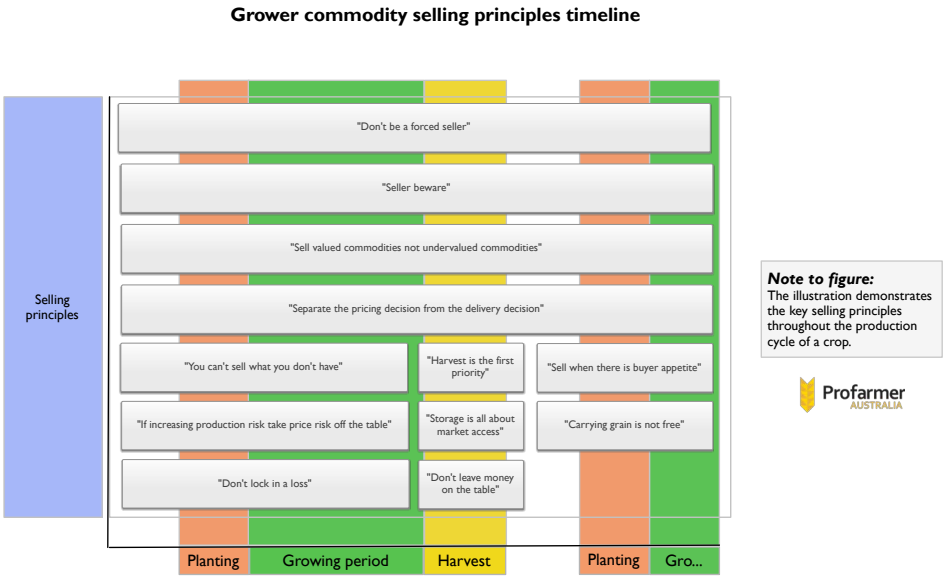



*Figure 3: Grower commodity selling principles timeline.*

## 15.1.2 Establish the business risk profile (when to sell?)

Establishing your business risk profile allows the development of 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.

**Typical farm business circumstances and risk**

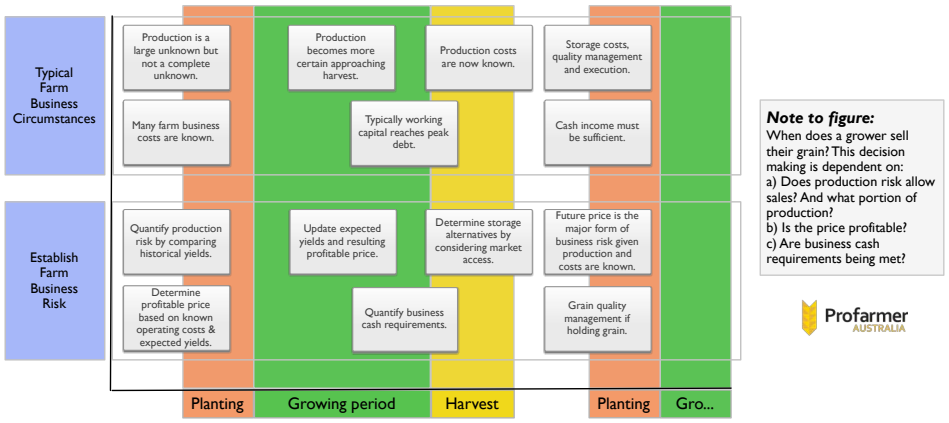



*Figure 4: Typical farm business circumstances and risk.*

### *Production risk profile of the farm*

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

**Principle:** "You can't sell what you don't have" – Don't increase business risk by over committing production.

Establish a production risk profile by:

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

**Typical production risk profile of a farm operation**

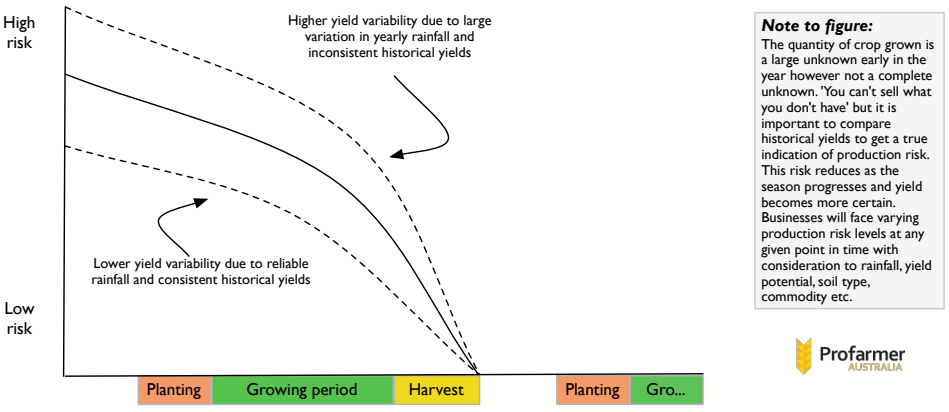



*Figure 5: Typical risk profile of farm operation.*

## *Farm costs in their entirety, variable and fixed costs (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.

**Principle:** "Don't lock in a loss" – If committing production ahead of harvest, ensure the price is profitable.

Steps to calculate an estimated profitable price based on total cost of production and a range of yield scenarios is provided below.

| 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 |
| Freight to Port | $22 /t |
| Total per tonne costs | $37 /t |
| Cost of production Port track equiv | $248.70 |
| Target profit (ie 20%) | $50.00 |
| **Target price (port equiv)** | **$298.70** |

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: GRDC's Farming the Business Manual also provides a cost of production template and tips on grain selling vs grain marketing.*

## *Income requirements*

Understanding farm business cash-flow requirements and peak cash debt enables grain sales to be timed 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.

A typical cash-flow to grow a crop is illustrated below. Costs are incurred upfront and during the growing season with peak working capital debt incurred at or before harvest. This will vary depending on circumstance and enterprise mix. The second figure demonstrates how managing sales can change the farm's cash balance.

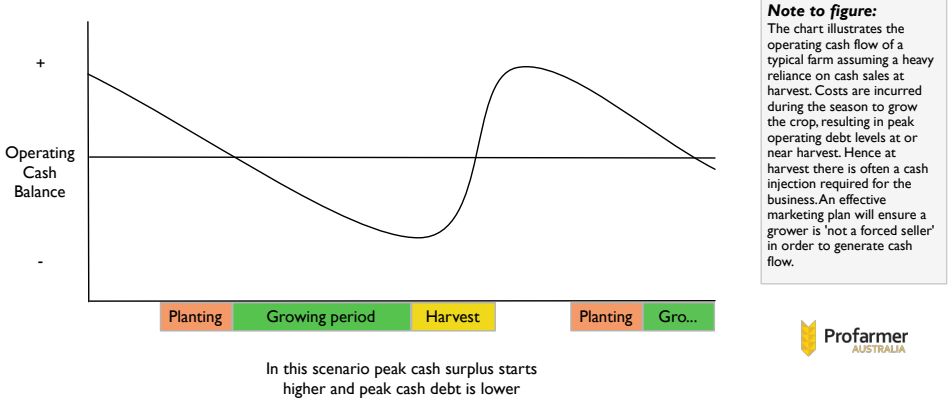



*Figure 7: Typical operating cash balance (assuming harvest cash sales).*

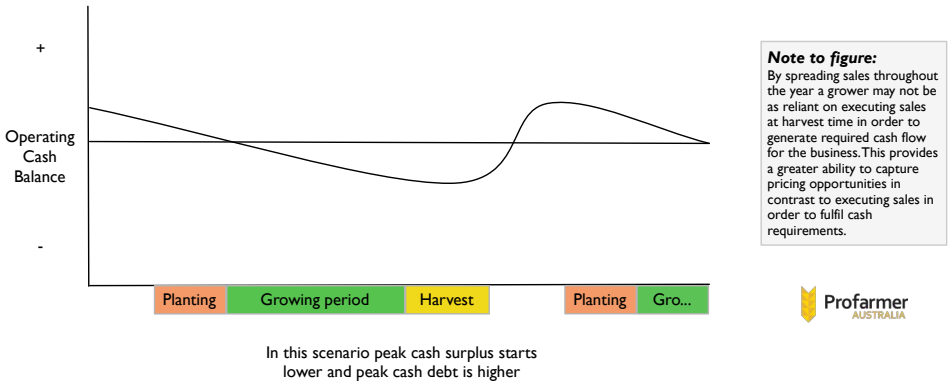



*Figure 8: Typical operating cash balance cash sales spread throughout the year).*

### *When to sell revised*

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.

## 15.1.3 Managing your price (how to sell?)

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 addresses "how to sell".

### *Methods of price management*

**Principle:** "If increasing production risk, take price risk off the table" – When committing unknown production, price certainty should be achieved to avoid increasing overall business risk.

*Table 1: Pricing products provide varying levels of price risk coverage.*

| | 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 |

**Principle:** "Separate the pricing decision from the delivery decision" – Most commodities can be sold at any time with delivery timeframes negotiable, hence price management is not determined by delivery.

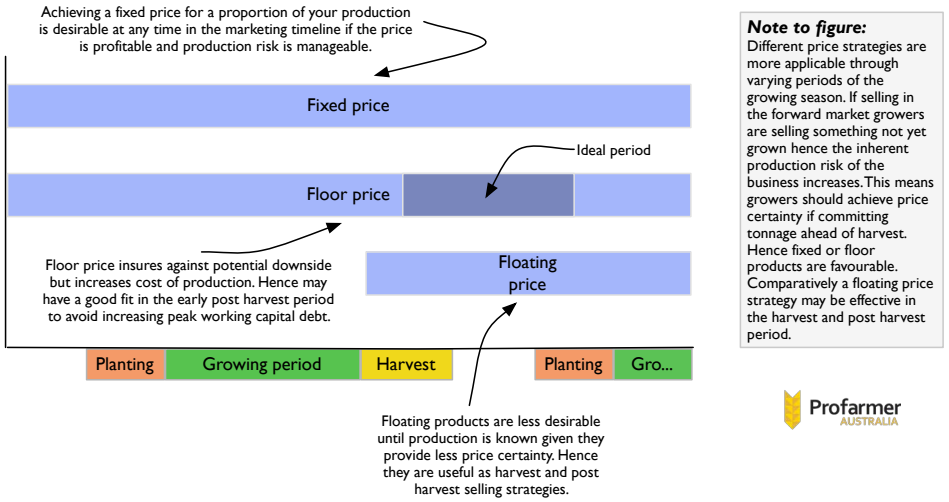



*Figure 9: Summary of where different methods of price management are suited for the majority of farm businesses.*

### *Fixed price*

A fixed price is achieved via cash sales and/or selling a futures position (swaps).

It provides some certainty around expected revenue from a sale as the price is largely a known except when there is a floating component in the price. For example, a multi-grade cash contract with floating spreads or a floating basis component on futures positions.

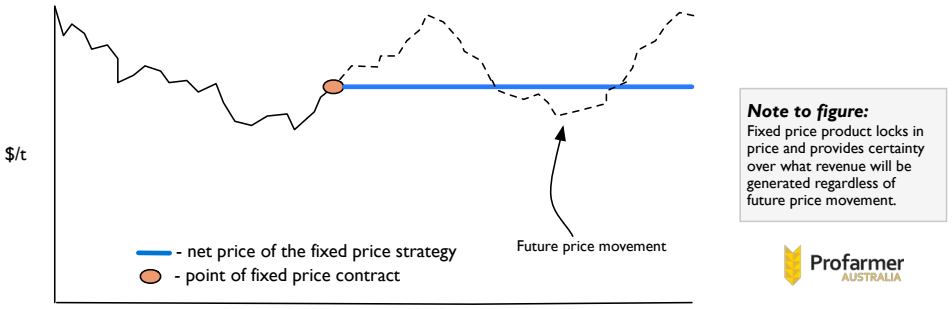



*Figure 10: Fixed price strategy.*

### *Floor price*

Floor price strategies can be achieved by utilising "options" on a relevant futures exchange (if one exists), or via a managed sales program product by a third party (i.e. a pool with a defined floor price strategy). This pricing method protects against potential future downside whilst capturing any upside. The disadvantage is that the price 'insurance' has a cost which adds to the farm businesses cost of production.

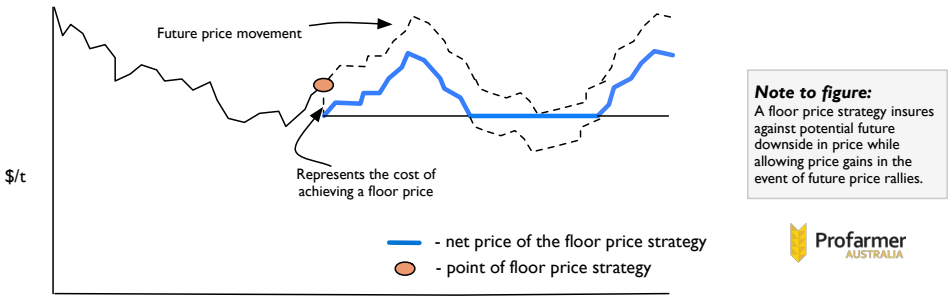



*Figure 11: Floor price strategy.*

### *3. Floating price*

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

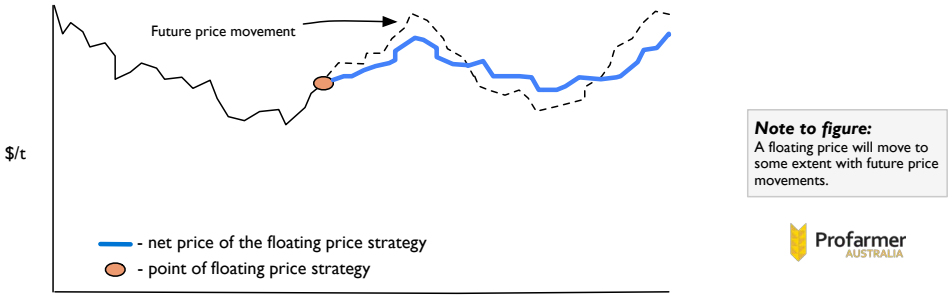



*Figure 12: Floating price strategy.*

### *How to sell revised*

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.

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

### 15.1.4 Ensuring access to markets

Once the selling strategy of when and how to sell is sorted, planning moves to storage and delivery of commodities to ensure timely access to markets and execution of sales. At some point growers need to deliver the commodity to market. Hence planning on where to store the commodity is important in ensuring access to the market that is likely to yield the highest return.

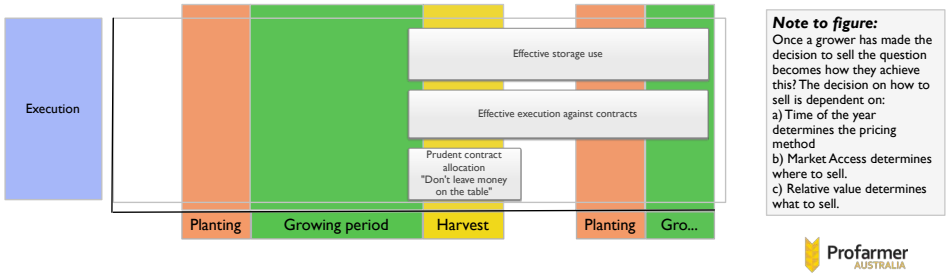



*Figure 13: Effective storage decisions.*

## *Storage and Logistics*

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

Storage alternatives include variations around the bulk handling system, private off farm storage, and on-farm storage. Delivery and quality management are key considerations in deciding where to store your commodity.

**Principle:** "Harvest is the first priority" – Getting the crop in the bin is most critical to business success during harvest, hence selling should be planned to allow focus on harvest.

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 feed lot, processor, or container packer), may be more suited to on-farm or private storage to increase delivery flexibility.

Storing commodities on-farm requires prudent quality management to ensure delivery at agreed specifications and can expose the business to high risk if this aspect is not well planned. Penalties for out-of-specification grain on arrival at a buyer's weighbridge can be expensive. The buyer has no obligation to accept delivery of an out-of-specification load. This means the grower may have to incur the cost of taking the load elsewhere whilst also potentially finding a new buyer. Hence there is potential for a distressed sale which can be costly.

On-farm storage also requires prudent delivery management to ensure commodities are received by the buyer on time with appropriate weighbridge and sampling tickets.

**Principle:** "Storage is all about market access" – Storage decisions depend on quality management and expected markets.

References:

For more information on on-farm storage alternatives and economics refer Section 13 Grain Storage.

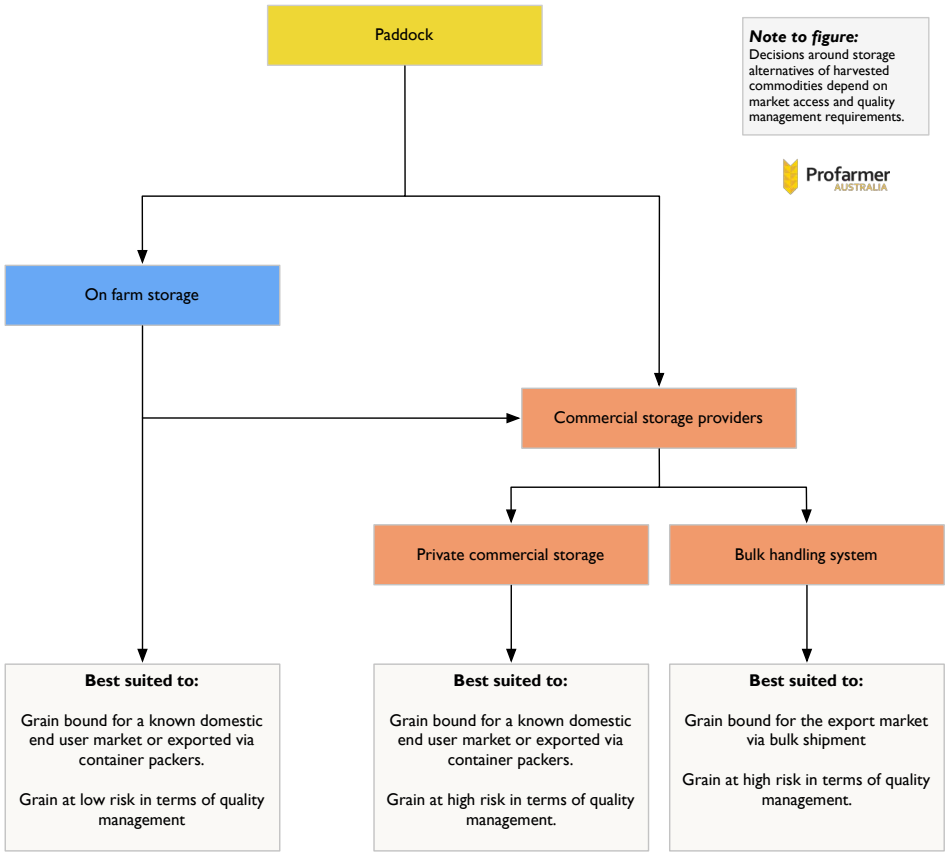



*Figure 14: Grain storage decision-making.*

## Cost of carrying grain

Storing grain to access sales opportunities post-harvest invokes a cost to "carry" grain. Price targets for carried grain need to account for the cost of carry.

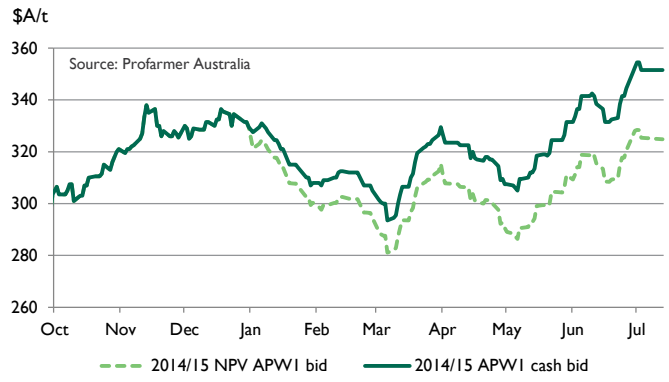
Carry costs are typically $3-4/t per month consisting of:

- monthly storage fee charged by a commercial provider (typically ~$1.50-2.00/t per month)
- the interest associated with having wealth tied up in grain rather than cash or against debt (~$1.50-$2.00/t per month 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 what was offered at harvest.

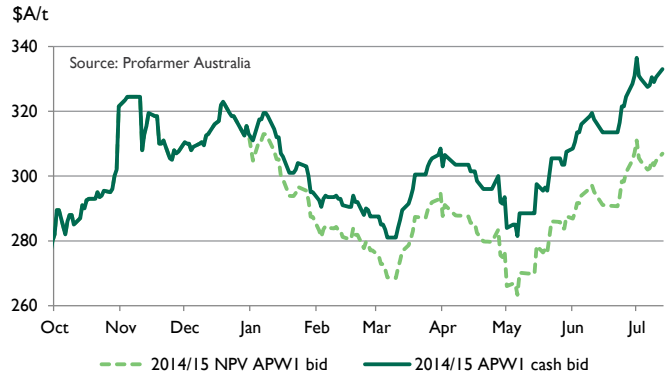
The cost of carry applies to storing grain on farm as there is a cost of capital invested in the farm storage plus the interest component. $3-4/t per month is a reasonable assumption for on farm storage.

**Principle:** "Carrying grain is not free" – The cost of carrying grain needs to be accounted for if holding grain and selling it after harvest is part of the selling strategy.




***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 APW1 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: Brisbane APW2 cash vs NPV.*




***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 APW1 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: Newcastle AWPI cash vs NPV.*

### 15.1.5 Ensuring market access revised

Optimising farm gate returns involves planning the appropriate storage strategy for each commodity to improve market access and cover carry costs in pricing decisions.

### 15.1.6 Executing tonnes into cash

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

#### *Set-up the tool box*

Selling opportunities can be captured when they arise by assembling the necessary tools in advance. The toolbox includes:

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. Return on investment for the farm business through improved farm gate prices is obtained by accessing timely information, greater market knowledge and greater market access from the professional service.

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 CBOT can add significant value.

References:

The link below provides current financial members of Grain Trade Australia including buyers, independent information providers, brokers, agents, and banks providing over-the-counter grain derivative products (swaps).

http://www.graintrade.org.au/membership

The link below provides a list of commodity futures brokers.

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:

- Price - Future price is largely unpredictable hence devising a selling plan to put current prices into the context of the farm business is critical to manage price risk.
- Quantity and Quality -When entering a cash contract you are committing to delivery of the nominated amount of grain at the quality specified. Hence production and quality risk must be managed.
- Delivery terms -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 of grain to be transferred ahead of payment; hence counterparty risk must be managed.

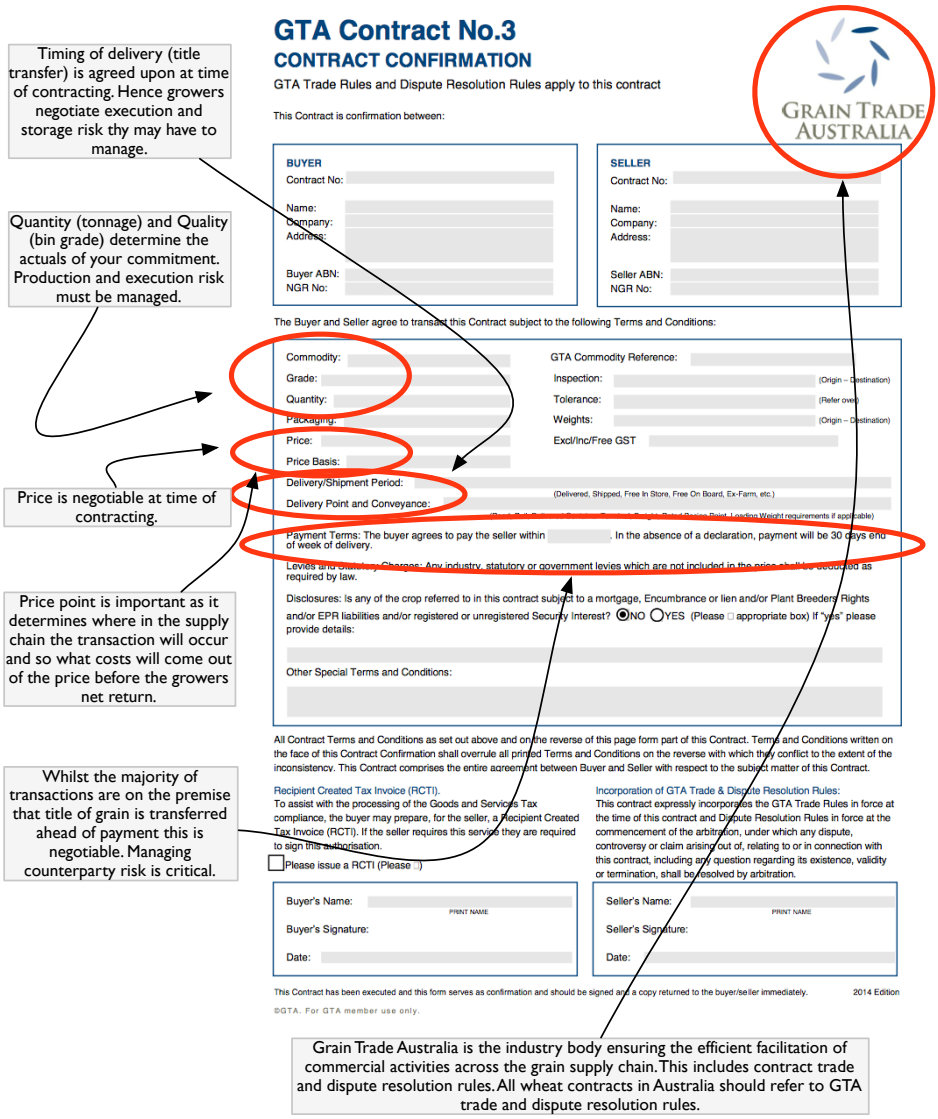



*Figure 17: Typical cash contracting.*

The price point within a cash contract will depend on where the transfer of grain title will occur along the supply chain. The below image depicts 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 farm gate return.

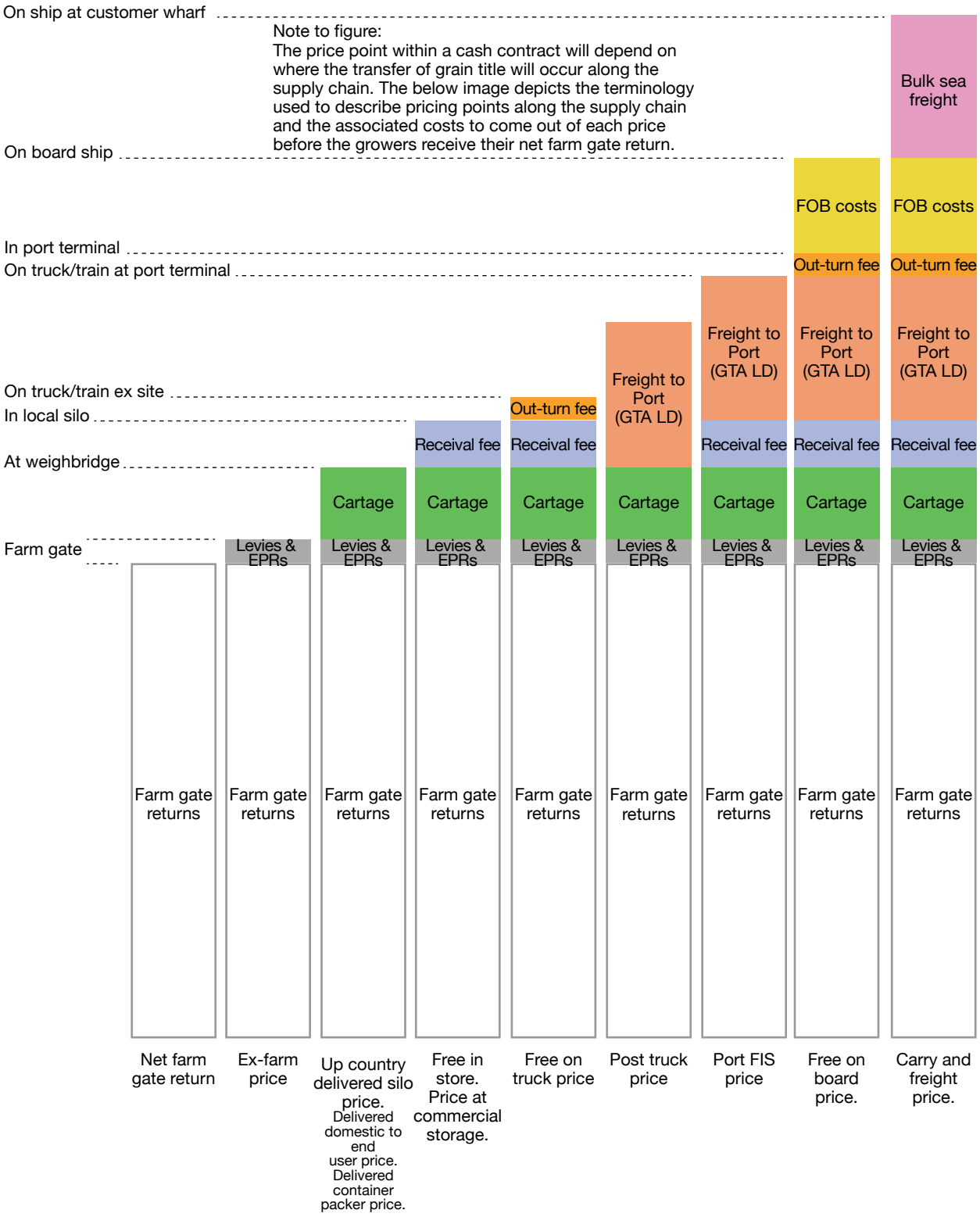



*Figure 18: Cost and pricing points throughout the supply chains.*

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 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 firm offer and firm bid matches, the parcel transacts via a secure settlement facility where title of grain does not transfer from the grower until funds are received from the buyer. The availability of this 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.

References:

http://www.australiangrainexport.com.au/docs/Grain%20Contracts%20Guide.pdf

http://www.graintrade.org.au/contracts

http://www.graintrade.org.au/commodity_standards

http://www.graintransact.com.au

http://www.grainflow.com.au

http://emeraldgrain.com/grower-logins/

https://www.cleargrain.com.au/terms-and-conditions

https://www.cleargrain.com.au/get-started

## *Counterparty risk*

Most sales involve transferring title of 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.
- Conduct a credit check (banks will do this) before dealing with a buyer they are unsure of.
- Only sell a small amount of grain to unknown counterparties.
- Consider credit insurance or letter of credit from the buyer.
- Never deliver a second load of grain if payment has not been received for the first.
- Do not part with title of grain before payment or request a cash deposit of part of the value ahead of delivery. Payment terms are negotiable at time of contracting, alternatively the Clear Grain Exchange provides secure settlement where-by the grower maintains title of grain until payment is received by the buyer, and then title and payment is settled simultaneously.

Above all, act commercially to ensure the time invested in a selling strategy is not wasted by poor counterparty risk management. Achieving $5/t more and not getting paid is a disastrous outcome.

References:

GTA managing counterparty risk 14/7/2014 http://www.graintrade.org.au/sites/default/files/Grain%20Contracts%20-%20Counterparty%20Risk.pdf

Clear Grain Exchange title transfer model – https://www.cleargrain.com.au/get-started

GrainGrowers Guide to Managing Contract Risk www.graingrowers.com.au/policy/resources

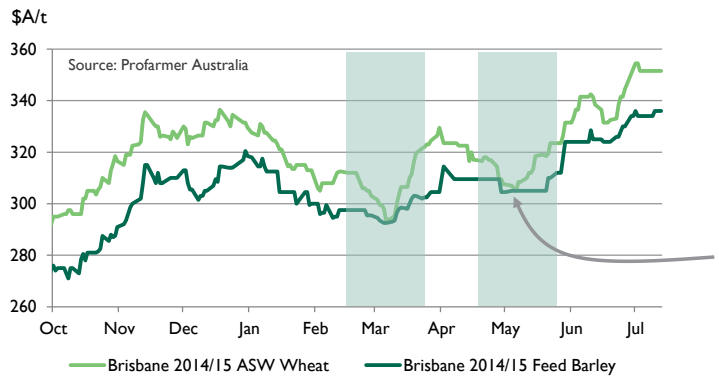
Counterparty risk: A producer perspective, Leo Delahunty http://www.graintrade.org.au/sites/default/files/GTA_Presentations/Counterparty%20risk%20-%20a%20producer's%20perspective%20-%20Leo%20Delahunty.pdf

## *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 hold commodities that are not well priced at any given time. That is, give preference to the commodities of the highest relative value. This achieves price protection for the overall farm business revenue and enables more flexibility to a grower's selling program whilst achieving the business goals 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.

An example based on wheat and barley production system is provided below.

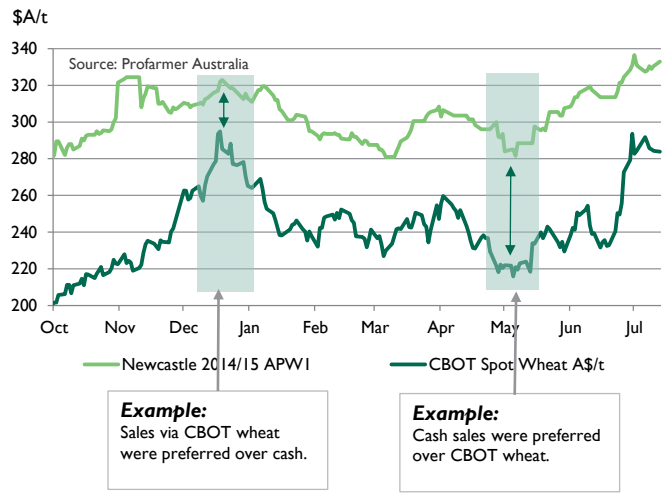



***Note to figure:***
Price relativities between commodities is one method of assessing which grain types 'hold the greatest value' in the current market.

***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 vs Feed Barley.*

If the decision has been made to sell wheat, CBOT wheat may be the better alternative if the futures market is showing better value than the cash market




***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.

*Figure 20: Newcastle ASWI vs CBOT Wheat A$/t.*

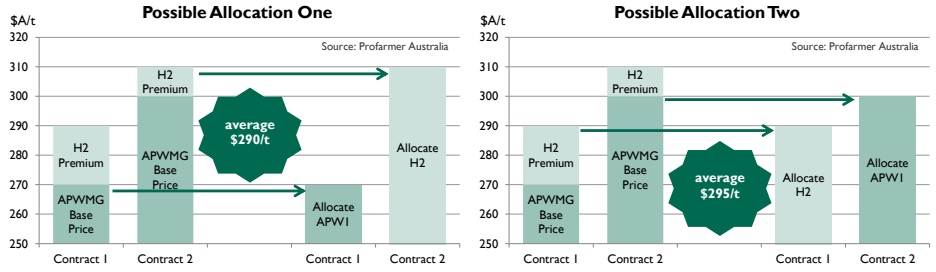
## Contract allocation

Contract allocation means choosing which contracts to allocate your grain against come delivery time. Different contracts will have different characteristics (price, premiums-discounts, oil bonuses etc.), 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 wheat price growers should:

- Allocate your lower grades of wheat to contracts with the lowest discounts.
- Allocate higher grades of wheat to contracts with the highest premiums.




***Note to figure:***
In these two examples the only difference between acheiving 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: Possible allocation.*

## 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 that interested in buying the commodity.

**Principle:** "Sell when there is buyer appetite" – When buyers are chasing grain, growers have more market power to demand a price when selling.

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 buyer appetite is strong. However if there is one

buyer $5/t above the next best bid, it may mean cash prices are susceptible to falling $5/t if that buyer satisfies their buying 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 chart below plots actual trade prices on the Clear Grain Exchange against the best public indicative bid on the day.

### 15.1.7 Sales execution revised

The selling strategy is converted to maximum business revenue by:

- Ensuring timely access to information, advice and trading facilities
- Using different cash market mechanisms when appropriate
- Minimising counterparty risk by 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 prevent selling at a discount

## 15.2 Northern durum – market dynamics and execution

### 15.2.1 Price determinants for Northern durum

Durum is a specialty wheat used primarily for the production of pasta products. Due to its specialised use, demand for durum tends to be inelastic and finite. That is to say there is a relatively fixed requirement for durum year on year and there are few substitutes.

Whilst durum values are influenced by the price of bread wheats such as APW1, these two wheat varieties ultimately have different markets and hence at times the price relativities between the two can separate reflecting differences in the supply and demand dynamics of each market.

For example, during the 2014/15 season, untimely rains saw European Union durum production fall to historically low levels, and their import requirement rose to its highest level in five years. This coincided with weather damaged crops in Canada and the United States, and a smaller crop in Australia. Hence the production of durum wheat globally was not adequate to cover demand resulting in a $200/t+ premium for durum wheat in Australia over APW1 varieties, despite ample supply of Australian bread wheats.

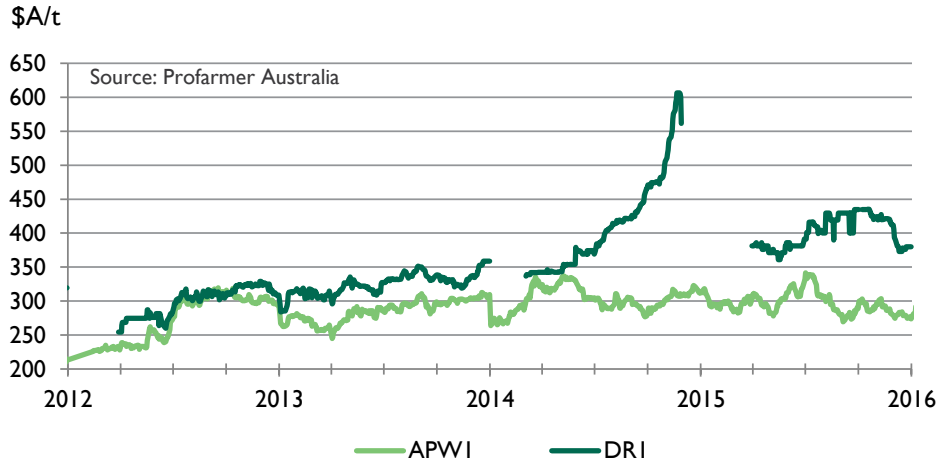



*Figure 22: Newcastle DRI vs APWI values.*

The major producing nations of durum are Canada, European Union (predominantly France and Italy), North Africa and Australia, whilst the major consumers are the European Union and North Africa. Australian production is split between South Australia at 40-50 percent and Northern NSW / Southern Queensland making up the remaining 50-60 per cent of the crop. In a typical year Australia exports 60-70 per cent of its durum production with a small number of local food manufacturers consuming the remaining 30-40 per cent.

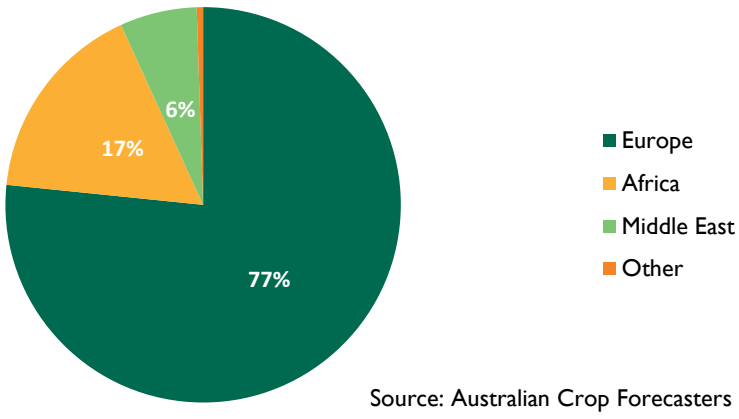



*Figure 23: Export destinations for Australian durum.*

In years when global durum exceeds the finite demand, Australian durum values tend to be weak relative to bread wheat varieties as Australian durum is discounted to compete for a smaller amount of international trade activity, as well as competing for alternate homes in the domestic market (eg. Stock feed markets).

Alternatively, when global durum supply fails to meet demand durum can trade at strong premiums to bread wheat as the market competes to secure their demand requirements from a smaller global crop.

Hence a major determinant of Australian durum values is the price at which international trade is transacting. This is influenced by;

1. Global supply vs demand
2. Quality of the global crop
3. Timing of the Australian export program

### 15.2.2 Ensuring market access for Northern durum

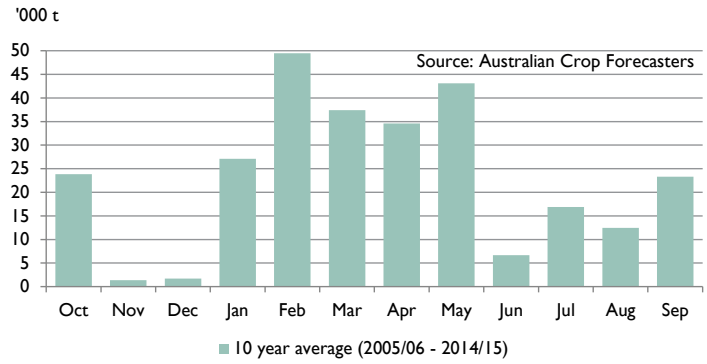
Due to the inelastic nature of durum demand, consumers and exporters traditionally focus their accumulation programs on the period immediately leading up to, during and after harvest when supply is the most certain. Hence appetite for durum tends to be strongest from October to January each marketing year.

Over 95 per cent of durum exports are executed via bulk export vessels rather than container exports. Hence the bulk handling system is an effective means for durum destined for the export market.

Being a specialty crop, there are fewer buyers of durum wheat than other grades of wheat. This means liquidity risk is a particularly important consideration for durum growers. Liquidity risk is the risk that buyers reach their accumulation requirements and step out of the market, the price may fall sharply as a result, or buyer appetite could dry up altogether.

The timing of the Australian export program is also an important consideration for ensuring market access for northern durum. With the export program typically focused in the first half of the marketing year, it is critical sellers take this in to consideration when making decisions around the timing of sales.

Holding durum later in the post-harvest period may result in a scenario where by there is no buyer appetite for that grain. Hence holding durum wheat grades later in the post-harvest period should be considered higher risk in most seasons, compared with holding other grades of wheat or commodities.




***Note to figure:*** Australian durum exports are typically strongest between January and May in each marketing year.

*Figure 24: Australian durum export pace.*

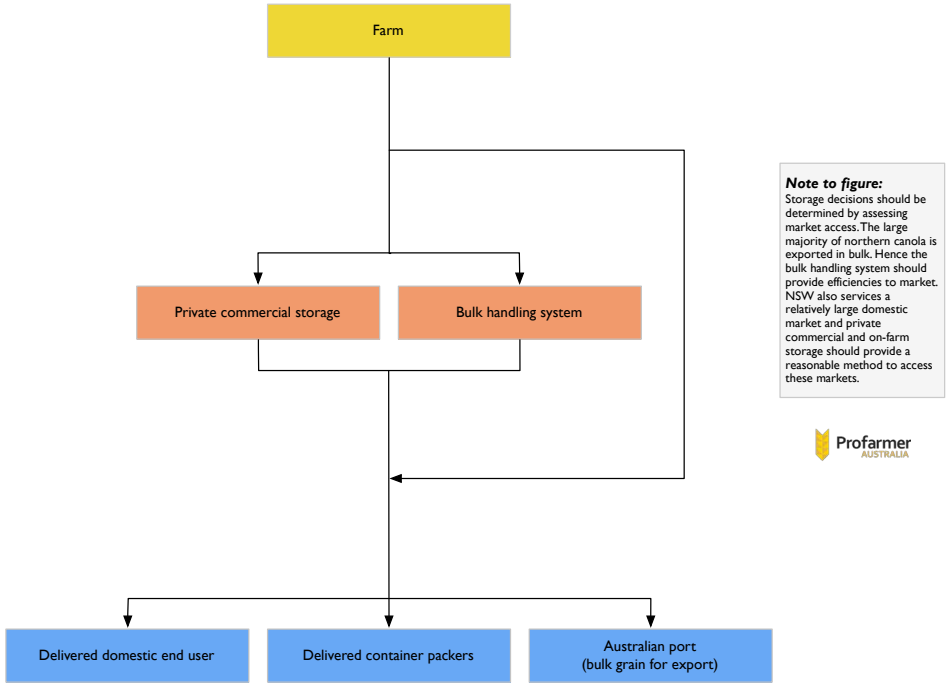



*Figure 25: Australian supply chain flow.*

### 15.2.3 Executing tonnes into cash for Northern durum

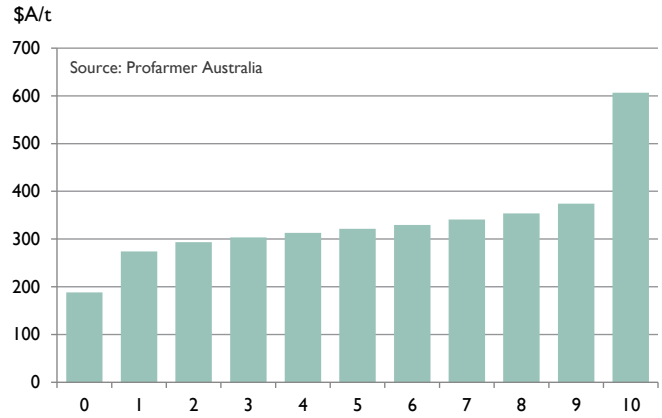
Growers of durum have a number of avenues to convert tonnes in to cash.

In the forward market an area program, allows producers to commit to planting a certain area of durum and the buyer may take on some or all of the production risk. These contracts are normally offered either directly by domestic users or their agents. Area contracts can take a number of different forms so it is important when comparing these contracts 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 protein, screenings and other quality parameters? Are quality discounts based on a sliding scale based on the quality produced or set based on the bin grade delivered?

Forward durum multi grade contracts for fixed tonnages are also available. An important consideration of any forward contract is what quality is deliverable against the contract. There are a large number of receival grades for durum from DR1 down to DRF it is important to consider which grade you may end up delivering and whether or not this is deliverable against your contract.

Pricing in the durum market is not always transparent, with few buyers and a number of transactions taking place outside the public indicative bid; it can be difficult to gauge fair market value. In periods of short supply durum can trade above the indicative public bid. Hence placing a firm offer to the market above the public indicative bid can be an effective means of achieving fair value for your durum.




***Note to figure:***
Decile charts such as the one to the left provide us an indication of how current values are performing relative to historical values. For example, a decile of 8 or above indicates current values are in the top 20% of historical price observations.

*Figure 26: Newcastle DRI durum decile.*