

Quality Verification, the Opportunity to Improve Producer and Supply Chain Margins

Western Wheat Growers Association Convention
 March 15-17th Saskatoon Alberta

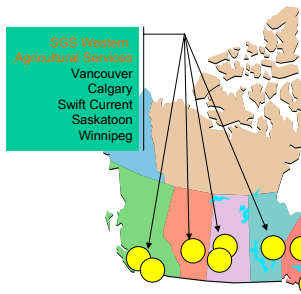


SGS Agenda

- Introduction to SGS
- A View of Global Grain Markets and their Changes
- Impact on the Producer
- Opportunities to Create Value
- Current SGS programs



SGS Who are we?



- Global leader in Inspection, testing and verification services
 - 3.5 B sales
 - 140 countries
 - Incorporated 1878
- Locations across Canada
- Inspection, Grading and Laboratories
- On farm and other field services

SGS A North American Grain Industry Perspective

- | | |
|--|---|
| <p>Past</p> <ul style="list-style-type: none"> ■ Government control of regulation and inspections ■ Quality was determined on delivery ■ Minimal grain commodity diversity, varieties of commodities | <p>Present</p> <ul style="list-style-type: none"> ■ Empowerment of the producer and more access to diverse global markets ■ Importance of quality trait verification at origination and throughout the supply chain ■ Proliferation of specialty varieties and classes of commodities create new market opportunities for producers, intermediaries, and processors |
|--|---|

SGS A Canadian Grain Industry Perspective

- | | |
|---|---|
| <p>Past</p> <ul style="list-style-type: none"> ■ Historical government control of marketing, regulation and inspections ■ Grading system designed to provide rapid quality segregation by visual inspection ■ International trading companies purchased domestically on grade but marketed internationally on grain traits. | <p>Present</p> <ul style="list-style-type: none"> ■ CGC involved in regulations, standards and inspection ■ Canada still exports based on grade ■ International trading companies purchase grains based on verified trait parameters such as Falling Number and Gluten ■ Quality trait verification is now possible at origination and throughout the supply chain |
|---|---|

SGS What is happening with Industry regulations in world grain markets?

- Governments pulling out of the inspection service**
- Canada
 - Review of the Canadian Grain Act
 - CGC study on the financial impact of possible CGC changes to inbound inspection services
 - USA
 - FGIS set the standards
 - FGIS appoint state based agencies to do inspection
 - This week FGIS announced 2006 crop pilot program for private inspection of wheat in 3 states
 - In future quality ranking will include factors such as protein quality as well as gluten content

SGS **USDA** United States Department of Agriculture
Grain Inspection, Packers & Stockyards Administration

FGIS/USDA Initiatives to improve efficiency

- 2005 Reauthorization U.S. Grain Standards Act
 - Congressional Hearings
 - House: May 24, 2005
 - Senate: May 25, 2005
- Industry Testimony
 - Advocated Change to Private and State export inspection under direct Federal oversight.
 - Such change "essential if ...inspection... system is to be cost-competitive and remain viable for bulk exports of U.S. grains and oilseeds in the future"
- Export Grading Framework
 - Companies compete for USDA recognition as qualified provider for export grain inspection
 - Companies negotiate service agreement with grain firm(s).
 - USDA issues task order to Qualified company under government contract.
 - Qualified company provides export inspection and weighing service under direct FGIS/USDA oversight.
 - FGIS issues export grain quality and quantity certificates based on successful performance of contractor. and
 - FGIS assess fee to cover cost of oversight.

7

SGS **USDA** United States Department of Agriculture
Grain Inspection, Packers & Stockyards Administration

FGIS/USDA Initiatives to address changing market

Wheat Classification Policy

- Current Policy
 - Allows darker Hard White wheat kernels, when found in predominantly Hard Red wheat samples, to count as Hard Red wheat.
- Effective May 1, 2006
 - All Hard White wheat kernels will be considered as Hard White wheat, regardless of seed coat color

New Analytical Methods

1. Validation of reference methods for wheat protein quality
 - Farinograph, Glutomatic, and Alveograph
2. Validation and adoption of AOCs gas Chromatographic method for measuring fatty acids in soybeans including linolenic acid. Objective is to establish rapid test to distinguish low linolenic soybeans from traditional beans.

8

SGS What is happening with industry regulations in world grain markets?

Governments pulling out of the inspection service

- Argentina and Brazil
 - Government only set standards
 - Price determined by quality traits
 - All private inspections controlled by individual suppliers
- EU
 - Governments sets standards
 - Governments protects price in poor markets -Interventions market
 - Private or Co-op companies aggregate product to protect price
 - Producer premium and discount based on specific quality traits
 - Private inspections

9

SGS Other Changing Market Requirements

- Food Safety impacting buyers
 - Japanese regulations on chemical residues
 - Biosecurity
 - IP and traceability
- Heightened risk management requirement in market
 - Sellers want to avoid penalties, therefore shipment quality must be within verified trait specifications
 - Buyers wish to reduce risk of receiving product that is outside of their quality parameters, therefore advance notification of cargo quality is becoming increasing important

Markets now demand quality profiling both domestically and Internationally

10

SGS The Impact of Quality Verification on Producers

- Buyers want more information from producers
 - Production methods
 - Crop inputs and application
 - Grain Quality at harvest and in storage
- Are we over-delivering?
 - Fewer markets still pay a premium based on grade: US, Mexico and Japan
 - All other markets determine value based on specific quality traits and do not consider grade in the equation
 - Potential to maximize return on crop through delivery of optimal quality traits.

Need for quality verification for specific traits at earliest opportunity: on-farm or at the silo

11

SGS Opportunities for Producers to Create Value

- Use quality trait verification to match your grain quality to the best buyer
- Tool yourself for the supply chain needs
- Verify crop quality and traits on farm
- Segregate and aggregate product on quality factors
- Collateral monitoring
 - Verified quality
 - Reduce cost of capital

12

SGS SGS Solutions Support Grain Marketing Value Chains in both Domestic and International Markets

- Grading on-site
- On-Farm Audit
- Traceability & Security
- Farmers Profile
- Traditional Services
- Collateral Management

13

SGS Grading on-site: Value Proposition

The Service	SGS
■ Avoid conflict of interests with supplier	■ National Network
■ Optimization of intake quality	■ Expertise
■ Element of an IPP	■ Standardization
■ Access to finance / insurance due to 3rd party determining quality	■ Credibility
■ Logistic facilitation due to quality mapping	■ IT blending tool

14

SGS Food Quality Program: On-Farm Auditing

- Collect Field Information
 - Seeding
 - Cultivation & growing
 - Fertilization, Pesticide and Herbicide application
 - Harvest
- On farm Information
 - Bin/Farm GPS location
 - Probing, Grading & Quality verification
 - Storage conditions
 - SGS Unique Seal ID for traceability
- On-site review of GAP



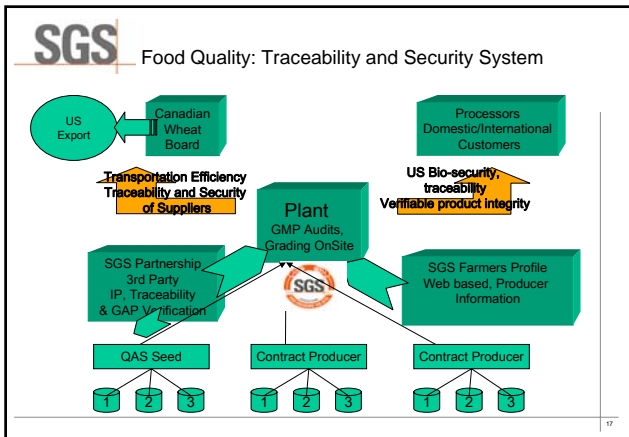
15

SGS Farm Supplier: Process Qualification Audit

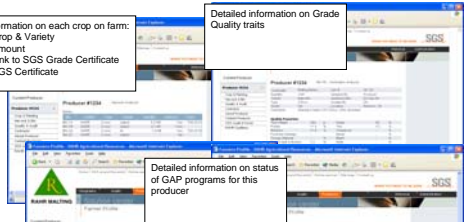
- Simplified HACCP-based audit of on producer practices and facilities
- Performed in conjunction with bin probing inspection
- Presented by both traditional hard copy reporting as well as consolidated on *Farmer Profile Web* for 3rd party program monitoring and review.



16



SGS Farmers Profile: On-Farm inventory information



Information on each crop on farm:

- Crop & Variety
- Amount
- Link to SGS Grade Certificate
- SGS Certificate

Detailed information on Grade Quality traits

Detailed information on status of GAP programs for this producer

Producer, Processor and Consumer Information: ...Together

18



Collateral Management: Value Proposition

The Service

- Independent 3rd party
- Transparency
- Obtain access to structured finance without pledges
- Guarantee product safe keeping
- Risk reduction
- Reduced cost of finance

SGS

- SGS balance sheet
- Integrity
- Reputation
- Network
- Procedures and reporting

19

The New Grain Market Rules for Canadian Competitiveness

Improve industry systems and procedures that do not add customer value to our grain.

Government regulators, intermediaries, producers, and processors must work as partners and slash unnecessary system administration costs.

Customers want seamless solutions, which requires collaboration.

Quality trait verification and execution throughout the supply chain improves margins for all stakeholders.

The more tools we have, the more efficient we become.

WHEN YOU NEED TO BE SURE

