

Reforms on Rural and regional Australia
Submission to the Productivity Commission/ Impact of Competition Policy
Reforms on Rural and Regional Australia.

Scope of this Submission:

Our area of interest is the impact of national competition policy relating to grain marketing functions both for export and domestic markets and supporting industries, particularly with reference to contestability of markets and cost efficiencies in infrastructure.

1) Summary:

Goodman Fielder (GF) supports the National Competition review process

GF has supported the privatisation of the AWB (now AWB Ltd) and the further liberalisation of statutory marketing arrangements consistent with Australia's participation in WTO negotiations for further international trade liberalisation

GF believes that a number of benefits can be achieved for both **consumers and producers** through the promotion of open markets and therefore competition in rural Australia in the grains sector including:

- a) improved price transparency/price signals to growers (allows for greater responsiveness to the market)
- b) improved opportunities to manage price risk
- c) a reduction in the cost base of infrastructure and services off farm (storage and freight) with a consequent increased incentive for investment
- d) greater opportunities for value adding and flow on effects into the broader economy.

2) Overview of Goodman Fielder:

Goodman Fielder is an Australian owned food company and the largest user and processor of cereal grains in the country. Our consumption of wheat alone across our milling and baking, starch, cereals and snacks and poultry divisions exceeds 850,000 tonnes per annum in Australia. With the recent acquisition of Bunge/Defiance Milling and Baking Division this demand will now exceed 1.25 million tonnes annually. Importantly GF is also an exporter of bulk wheat to our offshore operations in PNG, Solomon Islands, Fiji, Noumea and New Zealand accounting for a further 350,000 tonnes p.a.

The management of commodity costs and risk associated with commodity inputs is clearly a major area of focus.

As part of the process of positioning ourselves to participate in the global economy Goodman Fielder has undergone significant change over the past 2years including a rationalisation of operations in all business units and a refocussing on our core businesses within Australasia. We have also proactively sought out group synergies

to leverage market opportunities for our business.

Against that background Goodman Fielder clearly has a major role to play and has a significant relationship with one of the key rural industries in Australia.

3) Current Operating Environment:

The current structure of the Australian grain markets and the lack of contestability in a number of areas not only impacts on market behaviour (and our response to it) but the opportunity for future growth and international competitiveness for all participants..

GF's position is one of a large commodity consumer in a relatively small domestic market. This raises issues of management of price risk/transfer, supply and quality assurance.

These issues albeit on a smaller scale are the same ones faced by grain growers across Australia as suppliers to the market.

The grain marketing environment can be summarised as follows:

- a range of statutory marketing arrangements by state and national arrangements for the AWB impacting on the market with price "lags" through pooling activities and translation effects of foreign exchange.
- State based service providers who have limited incentives to provide differentiation of service to users (captive markets).
- Infrastructure (storage,rail,port facilities) that is over capitalised in most states and in many cases redundant to market needs. This results directly in many rural areas subsidising a higher cost base than is necessary.
A lack of vertical integration through supply chains
Market continues to maintain an adversarial relationship in many cases between supplier and consumer.
Increasing level of activity /competition within horizontal levels of the supply chain but a market behaviour which still seeks to extract monopoly rents eg state based bulk handlers.
Significant price and supply risk exposure for consumers and producers through stockholding of grain by statutory authorities ,artificially tightening supply.

4) Issues of competition and contestability:

From a commercial standpoint a restriction on competition within the grains industry has major impacts along the supply chain right back to farm gate.

In terms of contestability we believe that it is erroneous for statutory marketing authorities to seek a retention of single desk grain marketing arrangements based on a

“community welfare” benefit from export activities .This argument largely ignores the implications of regulation on value adding industries within Australia (regional and urban) .. Further , a true assessment of contestability becomes subjective in the absence of the opportunity to have any effective competition against such marketing arrangements. In this case we would contend the definition of community value has been confined to grain producers rather than the broader economy.

5) Conclusion

Competition must be encouraged within all sectors of the community but particularly in rural and regional Australia to allow appropriate rationalisation and reinvestment to occur to support a grains industry into the next millenium. .

Grain producers will increasingly need to be proactive marketers of their product as differentiation and market sophistication increases. They will need to seek out alliances and negotiate their place in relevant supply chains to ensure future profitability.

Consumers will need to have a commodity cost base that is understood/ well managed and efficient to maintain competitiveness both locally and internationally.

Peter Flottmann
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