

Joe White Maltings Limited

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Submission to the Productivity Commission Inquiring into the Impact of Competition Policy Reforms on Rural and Regional Australia

The malting barley industry is a significant value added industry and exporter. Australian malt production is valued at over A\$300 million and malt exports at around A\$200 million each year.

Joe White Maltings Ltd (JWM) is an Australian public company with Australian shareholders. The company is Australia's largest independent maltster and the tenth largest maltster in the world.

There are seven malting companies in Australia

Company	Plant locations	Malt Production Capacity (malt tonnes)*
Joe White Maltings Limited	All states	275,000
Barrett Burston Malting Co Pty Ltd	Qld, NSW, Vic	250,000
International Malting Co. Australia	Victoria	55,000
Adelaide Malting Co. Pty Ltd	South Australia	45,000
Kirin Australia Pty Ltd	Western Australia	45,000
Maltco Pty Ltd	Victoria	30,000
Cascade Brewing Co Pty Ltd	Tasmania	5,000

* *Approximately 1.21 tonnes of barley is used to produce 1 tonne of malt*

JWM's malting plants are located in each state and use up to 350,000 tonnes of malting barley each year.

Plant Location	Annual barley requirement (Tonnes)
Perth	110,000
Adelaide	100,000
Ballarat (2 plants)	53,000
Tamworth	52,000
Brisbane	28,000
Devonport	4,000

In this submission, our comments will concentrate on the malting barley marketing arrangements in New South Wales and what Joe White Maltings Ltd believe to be the negative impacts of these arrangements on rural Australia.

JWM plants located in Tamworth, Brisbane and Ballarat can readily use malting barley grown in New South Wales.

In addition malting barley grown on Lake Tandou in western New South Wales is used at the company's Adelaide maltings.

Under the New South Wales Grain Marketing Act 1991, JWM must purchase New South Wales malting barley from the New South Wales Grains Board (NSWGB) with two exceptions:

1. The company is permitted to buy up to 20,000 tonnes of barley in the Riverina region under an arrangement originally negotiated with the New South Wales Barley Marketing Board. The conditions under this arrangement include :
 - The barley must be used at JWM's Ballarat malthouse
 - Copies of the contracts must be forwarded to NSWGB
 - Grower payments are made by NSWGB on behalf of JWM
 - A fee of \$5.00 per tonne is paid

The purchase of the Riverina barley provides a wider quality range for the Ballarat plant and reduces the supply risk in droughts. Freight costs are high (\$40 per tonne from West Wyalong) compared to those from Western Victoria (\$20 - \$25 per tonne) and the lower south east of South Australia (\$28 per tonne) to Ballarat.

2. Barley grown on Lake Tandou (100km south of Broken Hill) is purchased from Tandou Ltd. by JWM. Tandou Ltd pay a fee of \$5.00 per tonne to NSWGB.

Domestic malting barley marketing is deregulated in Queensland, Western Australia and Tasmania.

In South Australia and Victoria, the existing Barley Marketing Acts permit maltsters to purchase some malting directly from growers.

A Deed of Arrangement between JWM and the Australian Barley Board provides the rules under which JWM can purchase some malting barley direct from growers. While the Deed of Arrangement has increased the company's flexibility with respect to its barley purchasing, the document is restrictive in that the full range of malting varieties cannot be purchased and grower payments must be made via the Australian Barley Board.

The Agriculture Ministers in South Australia and Victoria have already announced that domestic malting barley marketing will be deregulated prior to the 1999/2000 harvest with the legislation to permit this deregulation to be presented to the parliaments of South Australia and Victoria during the Spring 1998 sessions. Feed barley marketing in South Australia and Victoria will be deregulated prior to the 1998/99 harvest.

The New South Wales Government has initiated a review of the NSW Grain Marketing Act 1991. The principal provisions of the Act are the establishment of the NSW Grains Board and

the Grain Marketing Consultative Committee and the giving of certain powers to, and requiring certain functions of, those bodies.

The Act provides for the vesting of commodities in the Board and it operates as the single statutory marketing authority responsible for marketing of coarse grains and oilseeds produced in NSW. The Board has vesting powers over barley (malting & feed), oats, grain sorghum and oilseeds (canola, sunflower, safflower, linseed and soybean) produced in NSW.

Malting barley appears to have been subjected to special restrictions by the NSW Grains Board. Numerous comments in the Issues Paper released by the committee established to review the New South Wales Grain Marketing Act 1991 support this assertion, e.g. on page 15 :

“While the Board is given various powers under the Act, it does not use all of those powers. The Board acts as an accumulation agent for the purpose of exporting vested commodities under a single desk arrangement for NSW and operating a single desk arrangement for domestic sales of NSW malting barley”

“The Board uses its powers to operate an authorised buyer scheme. Currently the Board allows all vested commodities, except malting barley, to be traded domestically under authorised buyer arrangements. Private grain traders or endusers may become authorised by applying to the Board and paying a fee.”

and on page 22 :

“At present, the Board only takes compulsory delivery of malting barley. Other commodities are traded freely on the domestic market by exemptions from the vesting powers under authorised buyers agreements.”

There is no logical reason for malting barley being singled out for total control in New South Wales.

The Issues Paper states on page 16 :

“Every authorised buyer must deduct \$1.50 per tonne from the payment made to a grower and credit those funds to the Board with the growers registration number”.

JWM pays NSW Grains Board \$5.00 per tonne for barley purchased directly from growers. We assume that authorised buyers make payments to the growers while for JWM purchases payments are made by NSW Grains Board and part of the \$5.00 fee would cover the cost of this service.

For private purchases in Western Australia, JWM uses an organisation independent of the statutory marketers to process grower payments for a fee of 60 cents per tonne. In Victoria, Vicgrain Limited offers a grower payment service for a charge of between 40 cents and 90 cents per tonne depending on the tonnage processed through the service.

The fee of \$5.00 per tonne charged by NSW Grains Board to allow JWM to purchase some of its barley requirement privately is excessive and discriminatory.

The “downside” of continued regulation of the domestic marketing of malting barley in New South Wales includes :

- A decline in malting barley production, especially in northern New South Wales;
- No serious investment in barley breeding or associated research by the malting and brewing industries;
- No capital investment in replacement malting plant or new facilities.

Malthouse construction has occurred at regular intervals in Australia but not in New South Wales as shown in the table below :

Year	Production Capacity (Malt tonnes)	Owner ⁽¹⁾	Location
1975	35,000	Joe White Maltings	Adelaide SA
1978	40,000	Kirin Australia	Perth WA
1981	45,000	Joe White Maltings	Adelaide SA
1982	80,000	Barrett Burston Malting	Geelong Vic
1985	30,000	Pacific Malting	Ballarat Vic
1987	20,000	Adelaide Malting	Adelaide SA
1988	30,000	Barrett Burston Malting	Geelong Vic
1996	20,000	Adelaide Malting	Adelaide SA
1997	55,000	Doosan Malt Aust.	Geelong Vic
1998	80,000	Joe White Maltings	Forrestfield WA

(1) *At time of construction*

The two malting plants in New South Wales were constructed over 30 years ago :

Year	Production Capacity (Malt tonnes)	Owner	Location
1967	43,000	Joe White Maltings	Tamworth
1965 (+ older)	33,000	Barrett Burston Malting	Sydney

Joe White Maltings Ltd, along with other maltsters and the brewing companies, has made substantial contributions to barley breeding in South Australia and Victoria, through the Malting Barley Quality Improvement Programme, and in Western Australia through the WA Fast Track programme.

JWM has contributed \$750,000 to these barley research programmes since 1992. A further \$250,000 has been contributed to other barley research programmes over the same period.

The company has been reluctant to contribute to malting barley research in New South Wales because there is negligible opportunity to benefit from the research with the close to totally regulated marketing situation.

In its malting barley purchasing JWM seeks :

- Malting barley at world parity price.
- Malting barley supplied to agreed specifications.
- An assurance that grain quality will be maintained prior to delivery.
- Adequate information regarding the location and quality of barley purchased.
- A supplier with the logistical capability to ensure the various malting plants are supplied with malting barley in accordance with the requirements of each plant.
- ISO 9002 accreditation.

The company believes that it should not be compelled to purchase barley from a particular supplier because of legislation but be able to choose its supplier based on the above criteria. **JWM therefore seeks the deregulation of domestic malting barley marketing in New South Wales.**

Deregulation will provide growers with more choices in the marketing of their malting barley. As an end user, JWM will be able to assist growers with clear market signals relating to both pricing and quality requirements. With deregulation, JWM anticipates efficiency improvements and better prices for growers.

JWM does not oppose the continued regulation of the marketing of export malting barley.

JWM has made a written submission and an oral presentation to the committee conducting the Review of the New South Wales Grains Marketing Act 1991 seeking the deregulation of domestic marketing of malting barley in New South Wales.

The company seeks deregulations due to :

- Concerns about the operation of NSW Grains Board in the areas of :
 - Pricing
 - Quality control
 - Logistical capability
- The desire to have freedom of choice of barley suppliers
- The desire to encourage malting barley production in northern New South Wales to minimise unnecessary expenditure on freight.

Deregulation will :

- Allow growers more marketing options.
- Provide growers with better access to market signals and efficiencies.
- Provide the framework (through competition) for the NSW Grains Board to improve customer liaison, information flow and the quality of barley supplied to maltsters.
- Provide malting companies with more flexibility.

Deregulation will increase the likelihood of JWM :

- Contributing to barley research in NSW
- Considering capital expenditure on its Tamworth plant.