

The Commissioner
Productivity Commission
Wheat Export Marketing Arrangements
Locked Bag 2
Collins St East
Melbourne, VIC, 8003

13 November 2009

Dear Commissioner

Thank you for the opportunity to make a submission to the Wheat Export Marketing Inquiry. Agfarm also took the opportunity to make a detailed submission to the Wheat Export Marketing Consultation Committee in February 2007 and is well placed to be able to reflect the views of Australian growers as we communicate with growers every day working hard to market their grain.

Agfarm has also recently been successful in obtaining funding in both Rounds 1 and 2 under the Wheat Export Technical Market Support Grants Program from DAFF. This funding assisted in bringing to Australia a Korean flour miller to speak at Agfarm's grower meetings as well as assisting in funding a trip to Taiwan and Indonesia to explore new export markets for our grower's wheat.

Agfarm is a national independent grain marketer. Agfarm operates as an independent provider of grower services by brokering and managing grain marketing and logistics on behalf of multiple buyers and sellers. Agfarm, on behalf of its grower clients, brokers large volumes of grain in a cost effective manner. As a professional link in the supply and service chain, Agfarm provides growers amazing marketing choice and information, adding value to their bottom line.

Today, Agfarm has its head office in Sydney and offices at Wagga Wagga, Dubbo, Moree and Young in NSW, Horsham in Victoria and Perth in WA. Agfarm prides itself on providing a high level of client contact and customer service that our many long-time clients (some of whom have been clients for over 16 years) greatly value. At all times Agfarm aims to deliver exceptional service to growers and buyers that is second to none.

Agfarm handles all major grains, with special expertise in wheat, barley, sorghum, canola and grain legumes. Today, Agfarm provides commodity marketing services to well over 4000 grower clients located right around Australia.

This submission focuses on the impact deregulation is having on Australian wheat growers rather than the exporters, bulk handlers or WEA. As a result I have provided answers to the questions raised by the commission in sections 5,6 and 7.

Growers are increasingly being left behind and unrepresented in the discussion around the deregulation of the export wheat market. Growers are the legitimate custodians of the brand, IP and promotional activities of Australian wheat and since deregulation little or no activity has been done in these areas. Unless this inaction is addressed immediately the brand and therefore the premiums obtained by Australian growers will be impacted negatively.

Growers, I believe should, and are willing to, undertake the following industry good functions:

- Technical market support (training and educating export consumers)
- Branding and promotion of Australian wheat
- Trade advocacy (market access for Australian wheat)

Strong linkages to both wheat varietal classification and receival standards should also be developed to ensure consistency across the industry

Growers will need financial support from GRDC to get these activities underway as there is currently no appropriate industry body structured appropriately to do these functions in a sustainable manner with the full support of the grower community. However once established and operational the grower body should be “weaned” off this support within a short time frame to allow the market to determine whether the activities are valued or warranted.

There are a number of alternatives for providing these industry good functions but I believe that a new organisation needs to be established which is free of grower politics, vested interest and conflicts. It must also have the full support of the grower community.

This organisation must heed the lessons of the past particularly in industries where similar organisations have failed and learn from industries where these organisations have succeeded. The organisation must be governed and managed by experienced industry participants. Agri politics should not be allowed to play any role in the organisation. If Government assistance is required to establish and grow the business for the first three years then Government should also have input into the stewardship of the organisation.

It is essential that growers have ownership or at least a sense of ownership of the organisation in order for it to succeed. There are many innovative ways to do this in order to ensure the success of the organisation while at the same time protecting and enhancing the reputation of and returns from Australian wheat. I would be happy to discuss these alternative structures in more detail.



Deregulation is here to stay and growers, traders and consumers will adapt to the new market place. It is essential that the work done since WW2 to promote Australian wheat, resulting in the market access and premiums currently obtained for Australian wheat, is not lost due to nonexistent marketing and promotion and the activities of traders who do not have the same long term focus as wheat growers.

I attach the questions and my answers from Sections 5,6 and 7 and look forward to participating at one of the public hearings scheduled.

Yours Sincerely

Bob McKay
Managing Director



Issues and Questions

5. Wheat Classification and market segmentation

Is the WCC adequate for ensuring wheat quality and the usefulness of wheat classifications?

The WCC has been set up as an interim arrangement to fulfil the wheat classification functions previously undertaken by AWB Ltd. The usefulness of wheat classification is dependent upon whether the consumers of Australian wheat value the varietal classification process. In my experience export consumers do not understand the process for classifying varieties of wheat and do not realise when they purchase a certain bin grade of Australian wheat that they should be receiving wheat of predetermined varieties.

Unless the consumer understands the process of wheat classification there is a real risk that they will unknowingly purchase wheat of a certain bin grade but receive wheat from varieties not belonging to the bin grade leading to dissatisfaction with Australian wheat compared to competing grades i.e. APH wheat (Aust) and DNS wheat (US). It is important that wheat classification continues in the short term until the value of wheat classification to consumers is determined and quantified.

Could the market deal with these issues without such a body?

No the market is not set up to deal with wheat classification, particularly when the benefits are unknown.

Does the market differentiate adequately between qualities of grain?

Yes the market is rapidly developing to the extent that there is now a plethora of different wheat grades introduced, particularly on the East Coast where domestic consumers can now stipulate the quality for wheat they wish to purchase rather than be driven by export receival standards. Prior to deregulation there was only one high protein grade of wheat (APH2 minimum 13% protein) and now our company is selling on behalf of our growers APH14%, APH15% as well as high protein high screenings grades of wheat.

Is the current level of co-mingling activity appropriate?

The bulk handling system can only cater for a limited number of different grades without impacting on the storage capacity and storage costs. There is however large on farm storage capability for growers who wish to segregate according to different wheat characteristics.

Is there adequate scope for marketing of particular types of wheat to service niche markets that are more narrowly specified than GTA standards?

These markets will, by necessity, be serviced from grain stored on farm as the current bulk handling system cannot cater for niche grain storage. This has nothing to do with the change

in wheat marketing arrangements but is a function of the way the grain storage infrastructure has developed.

Does exporting through containers and bags provide a satisfactory way to exploit non-standard marketing opportunities?

Yes it does and this market has continued to develop over the past decade.

Are growers able to extract an adequate value for the quality of their wheat?

Most growers would say definitely not but if you leave aside the price and focus on whether growers are receiving an appropriate premium for better quality wheat then there is a lot more uncertainty. Growers believe that they grow the best wheat in the world and for certain grades of Australian wheat this could be true but in the world wheat market even this wheat is subject to competition from the best wheat from the US and Canada.

The ability for growers to obtain premiums for better quality wheat depends is dependent on a number of factors such as the ability to continuously supply markets, the quality assurance process applied along the supply chain, the knowledge on how to best process the wheat as well as the inherent qualities of the wheat. There is a real risk that growers will not extract an adequate return for quality unless the above issues are also addressed as part of the process.

Can quality control be left to market-driven forces, with commercial incentives placing a check on the quality delivered to overseas buyers?

In theory this should be the way the market should work but in practice it is not working that way particularly for container exports. As it is possible for any trader to export wheat in containers there is evidence emerging from export consumers that the quality of Australian wheat being exported is not meeting the expectations of the consumers according to the description on the sale contract.

Many of these buyers are familiar with Australian grain terminology and when they contract to purchase a certain grade of wheat which they may have purchased previously they are often receiving wheat which is not up to the standards expected. The wheat going into containers is tested by independent testing companies but that does not appear to be helping as the level of concern from consumers has risen since complete deregulation of the container trade.

Has deregulation affected the reputation of Australian export wheat?

Representatives from Agfarm recently went to Taiwan and Indonesia to further develop relationships with consumers for our grower clients. The feedback we received was that the quality has deteriorated and the level of frustration with the quality they are receiving is increasing. There was also evidence of traders misrepresenting wheat grades to buyers and exporting wheat which by Australian standards would not meet the criteria.

I cannot comment on the quality received by bulk customers except to say that the recent shipping delays out of WA was mentioned, particularly in Indonesia, as being very frustrating.

Has deregulation and the co-mingling of stocks increased biosecurity risks?

Co-mingling of stocks is nothing new and was around prior to deregulation. There will be increased biosecurity issues unless there are common standards adhered to by all bulk handling companies and this does need to be monitored. Wheat stored on farm does have more risk as there are numerous farmers who do not understand the issues that can arise due to poor quality control. It is impossible to monitor on farm QA as a general rule but for growers who wish to have access to export markets they should have to comply with similar standards to the bulk handling companies and prove that they have done so.

Is quality control more of an issue for container wheat exports than it is for bulk wheat exports?

Yes, the grain which is exported in bulk normally is stored in the bulk handling system which has its own QA protocols. Most grain going into containers comes direct from farms which often do not have QA schemes in place. As the container trade is completely deregulated there are no penalties or disincentives for traders who do not address quality appropriately (apart from customer backlash which is not an issue if the trader is more interested in short term profit than customer relationships)

Is quality control an issue in the domestic market?

It does not appear to be with most domestic consumers requesting vendor declaration forms prior to delivery to the processing plant. The grain is also checked at delivery and if not up to standard the grain is rejected. This does not necessarily apply to the container trade as the container packer is not the ultimate consumer and may not be as diligent in ensuring the quality is as it needs to be.

6. "Industry good" functions

Industry good functions can include the following (WIEG 2008):

- *industry strategic planning*
- *research and development*
- *wheat variety classification*
- *wheat receival standards*
- *information provision*
- *crop shaping activities*

Some of these functions have been discussed separately above, including classification, standards and information provision.

Does the list above represent legitimate 'industry good' functions?

Yes but I have pulled out three functions for further discussion below

How should 'industry good' functions be defined?

Industry good functions are essential for the smooth operation of a market. No one participant in the market is incentivised to undertake the functions because there is no direct payback to the individual for providing the function, in fact competitors may gain the benefit of the function being undertaken without having contributed to the cost of the function. As they are essential to the operation of the market the costs of doing so should be borne by the industry as a whole.

Are there currently gaps in the provision of 'industry good' functions?

The following functions I believe represent the industry good functions for the Australian wheat industry which are not currently being addressed and which by not being addressed pose a serious threat to the wheat industry

- Technical market support (training and educating export consumers)
- Branding and promotion of Australian wheat
- Trade advocacy (market access for Australian wheat)

If so, can these be left to the market to provide?

Yes I believe the market can get involved in the provision of the technical market support and branding and promotion but it will take time to develop the framework. It is not a simple as leaving it to the market because there is a real risk that by doing so that these will not be undertaken. There is no incentive for grain marketers to develop a brand for Australian wheat or to educate consumers in the benefits of using Australian wheat when at any time a competitor could take away these markets.

Trade advocacy needs to be coordinated by the industry but given most of the market access issues need the input and support of government there should be strong involvement from government.

Or is government involvement required? If so, how should these be funded?

The market can develop the branding and promotion and technical market support functions given time. There is an urgent need to develop a body to undertake the above functions in order to halt the deterioration of the image or brand of Australian wheat. The “owner” of these functions should be the wheat grower not the bulk handler, exporter or lobby group. Australian growers have contributed to the development of the positive image of Australian wheat since WW2 through the Australian Wheat Board and recently AWB Ltd. In the two harvests since deregulation the image has suffered damage and unless there is a solution provided as soon as possible the damage done to the brand may be irreparable.

Growers contribute 1% of their grain proceeds towards Research and Development (matched by the government) in order to increase their financial returns. The establishment of an organisation to fulfil the promotion and technical market support functions would fit within this criteria. The first three years of operations should be financially supported by government with a target for self sufficiency after that period. There are many ways this could happen which could be explored separately.

Is there scope to use other grains or other agricultural industries as case studies for how ‘industry good’ functions could be delivered for wheat?

In my experience the bodies which appear to have succeeded in their respective industries are Cotton Australia and MLA. Both organisations do different activities but appear to enjoy industry support and are not ruled by agri political agendas or have their Boards filled by long serving agri politicians as a reward for industry service.

Is there potential for synergies in shared provision of ‘industry good’ functions across industries?

Possibly but would need to be managed very carefully to ensure correct culture is enhanced or maintained and the appropriate focus applied to each industry.

Is there anything to learn from the way that other countries deal with the provision of industry good functions in the wheat industry? Or other industries?

In both Taiwan and Indonesia the US Wheat Associates are frequent visitors explaining and educating the consumers as to why they should use US wheat. In fact in Korea and Taiwan the way bakers bake their bread has been specifically developed by the US and suits US flour. The Canadian Wheat Board is also active in these markets.

7. Performance of the wheat export marketing arrangements

Does the market provide sufficient signals to growers to enable them to make informed decisions about growing and selling wheat?

There are ample transparent price signals as to what the price of wheat is. Agfarm sends out to our clients two emails daily advising of overseas futures prices as well as local grain prices as do many other organisations. The problem for growers is that they are never certain that they will actually produce a crop due to climatic variations so they are often unable to take advantage of forward pricing opportunities and by the time the crop has been harvested the prices may have fallen.

How easy is it for growers to enter into a contract with an accredited exporter?

Most of the accredited exporters purchase direct from growers but there are a number who choose not to deal direct with growers for a variety of reasons. These exporters purchase their grain from traders who deal with farmers. Agfarm deals with over 100 buyers so growers who use the services of a grain broker normally have access to more buyers. It is reasonably easy for growers to deal with registered exporters.

Are transaction costs an issue?

Most of the costs incurred by buyers are hidden from the grower but the grower is the one who ultimately pays for high transaction costs. Agfarm charges growers brokerage for price discovery, contract negotiation and execution but these charges are declared up front and are transparent.

Has deregulation opened opportunities not previously available to Australian wheat growers? Has deregulation enabled growers to extract a premium for their wheat that was previously unavailable? If not, is there potential for this to occur in the future?

Growers now have the ability to sell to multiple buyers of grain if their grain is suited to the market. This competition has been very beneficial to Australian growers and when the market is analysed over the past harvest the benefits of this competition becomes obvious. Growers do have the ability to extract premiums but that is not to say that those benefits were not being gained as part of the AWB National Pool previously.

Growers who wish to export their own grain can now do so in containers and if they meet the requirements they can do so in bulk. They compete with many other sellers of wheat both from Australia and other exporting countries and in many instances the growers, once they discover the complexities involved in exporting directly, decide not to proceed.

Has deregulation presented new challenges for growers? Have any developments been unexpected?

Yes there is much more volatility in grain prices and many growers find this very challenging and frustrating. Price discovery is extremely difficult given the number of buyers operating in

the market and the volatility of pricing during the day. In many instances prices can move up or down 5-10% within a day. This is extremely frustrating for growers leading to many growers lamenting the loss of the Single Desk.

Has deregulation affected large and small growers in the same way? Are smaller growers able to receive the same prices that larger growers receive?

Larger parcels of wheat have and will always attract premiums when buyers are active in a market. Normal market practices apply to the grain industry with most buyers focussing their attention on the larger growers rather than smaller growers. In many cases buyers will discount their price of the parcel of grain for sale is under 100mt.

Have the distributional impacts varied across jurisdictions or regions?

Not as far as I can determine

Does the effectiveness of the current bulk wheat export arrangements vary across jurisdictions or regions?

WA is more affected by changes to wheat export legislation than the East Coast due to the higher percentage of grain exported.

Has the global financial crisis had an impact on the operation of the new wheat export marketing arrangements?

The ability of traders to accumulate large positions in wheat was limited last harvest due to the credit crisis and their inability to borrow large amounts of money. Whether there are any traders who have the appetite to accumulate large amounts of wheat remains to be seen.