

**WAFARMERS RESPONSE TO THE DRAFT REPORT OF THE
PRODUCTIVITY COMMISSION INQUIRY INTO WHEAT EXPORT
MARKETING ARRANGEMENTS.**

SUBMISSION

To

PRODUCTIVITY COMMISSION

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The Western Australian Farmers Federation (Inc) (WAFarmers) represents over 4,000 members, the majority of whom grow wheat as a component business.

The WAFarmers Grains Council is satisfied that the majority of the views as already expressed to the Productivity Commission have been worked into the draft recommendations and findings. The Grains Council would make the following additional points:

General Comments:

The Grains Council would like recognition from the Productivity Commission that the WA industry is unique in that it exports around 90 per cent of its wheat production making an efficient and fair logistics system from farm-gate to port vital to the continuity of the viability of WA grain growers. This organisation believes that Co-operative Bulk Handling (CBH) has provided great leadership and foresight to provide us with this efficient and fair logistics system in difficult times.

In Australia, Co-operative Bulk Handling (CBH) is the last grower owned co-operative and growers should be entitled to use its infrastructure and facilities to operate at a profit, just as any other marketer in the wheat export market place.

At this point, it is essential the Productivity Commission understands that WAFarmers is currently in an alliance with Emerald to provide a WAFarmers WheatPool with payment for quality parameters.

While the WheatPool is kept entirely separate from the policy side of our grains section, it would mean that any wrong-doings on CBH's part would impact on us as marketers and our organisations only agenda is to promote the best outcome for all grain producers in this state, not just our own members.

We are aware that some marketers and special interest groups are in an ongoing attempt to undermine CBH with comments alluding to alleged anti-competitive behaviour. Comments such as 'CBH exploits every advantage that it can for itself, regardless of the welfare of growers', 'CBH tried to bluff the WEA', and 'CBH ... under the Bulk Handling Act ... they ignore that whenever it suits them' are comments which are not based on fact. WAFarmers has faith that any wrong-doings as ascertained by the ACCC is the only evidence required to tarnish any aspect of CBH. This organisation believes that both the WEA and the ACCC are beyond being 'bluffed' and any comments to this effect are slanderous and unfounded without evidence to back up the claim.

Specific Comments:

- **Transparency of pools**

This organisation would point out that for the 2009/10 season, CBH have ensured that CBH receival fees are no longer deducted from Grain Pool payments. All growers are now invoiced directly for receival and storage fees from CBH which have made these charges more transparent. The more that marketers are able to list charges in a uniform manner, the more easily that a grower can compare pools. While it is understood that Estimated Pool Returns (EPR) are just that, an estimate, differences between the EPR and final pool results will have implications on budgeting forecasts and cash flow for growers. Pool managers should be discouraged from putting out overly optimistic pool expectations in a bid to attract grain into their pools as this is akin to false advertising. In WA, the Kondinin Group has compiled an industry report "*Western Australia Wheat Pools Performance Comparison*" which would form a vital part of bringing some form of transparency to pools in terms of being able to compare them. While the Kondinin Group funds this publication privately, the report has been distributed to all growers and is a beneficial tool to them.

- **Wheat Exports Australia**

WAFarmers would support moves to abolish Wheat Exports Australia (WEA) on 30 September, 2011 as this organisation believes that the expected \$4 million per annum cost to run WEA would be better spent in other areas, particularly with respect to relevant industry goods. The abolishment of the Wheat Export Charge of AUD0.22 per tonne is supported.

As a grower organisation, our primary focus is keeping both direct and indirect levies and costs to a minimum, therefore it is our opinion that unless a levy is used to add tangible value for grain growers or the grains industry, the collection of a levy for a specific purpose should be questioned.

This organisation believes that any levies collected would be better used to pay for a wide spectrum of industry good functions to bring better value to growers and market participants. This will be discussed later in the document.

- **Accreditation of exporters**

This organisation asserts that some form of accreditation is required when it comes to bulk exporters of wheat, and that this accreditation or licensing should be on-going. While opponents to on-going accreditation would say that this is not occurring for barley and other coarse grains, our answer would be that wheat is the most significant crop grown in Australia, and indeed Western Australia, and any losses obtained through growers not dealing with a 'fit for purpose' exporter would bring about significant financial losses to growers. It is with this in mind, that WAFarmers agrees that an accreditation system similar to that administered by ESCOSA for bulk exports of barley in South Australia offers a good alternative to the Wheat Export Accreditation Scheme 2008.

- **Regulation 9AAA of the Customs (Prohibited Exports) Regulations 1958**

This regulation should remain in place to ensure that all bulk exports of wheat are exported by an accredited wheat exporter to give growers and overseas buyers a sense of security in the market place.

- **Quality Control**

While there has been talk of quality control issues in containers this organization has no specific evidence of this however the following transcript of an interview on the ABC Radio Countryhour program broadcast on December 2, 2009, with Bob McKay, Managing Director Agfarm may be useful to you:

McKay: *Our conversations with Indonesians were interesting in that they said they had noticed, particularly in the container trade a decline in the quality of Australian wheat. Now, when they say a decline in the quality, not necessarily saying the actual wheat has got worse but what they are saying is that the reliability or the quality of the product that comes out of the containers that they buy is nowhere near as reliable as it has been. In Taiwan there were similar comments made and talking to other people in the industry that seems to be a reasonably common theme that is coming out and to me it's a major issue for Australian wheat exporters in particular because if we can't guarantee, if we can't ensure that the quality they receive now is at least similar to what they had been receiving in the past, I think we will see that the price we achieve for Australian wheat will actually fall below the price that Americans and Canadians get.*

Hudson: *Is this just a problem that's isolated to the containerized and not the bulk exports?*

McKay: *From what we found out, yes, it seems to be confined to containers and as you know containers completely deregulated over a year ago. Prior to that the WEA did have oversight over that so I think the bulk wheats don't seem to be a problem because there still is some regulation covering the bulk wheat but for containers, which is completely deregulated there seems to be [a problem]. Anybody can seem to set themselves up as a wheat supplier now and export wheat across to Asia and without any form of checking / regulation to ensure wheat that has been sent over there complies with the correct standards. We are seeing a decline in the reputation of Australian wheat*

- **Access to port terminal facilities**

WAFarmers welcomes the move to abolish the expensive access tests particularly with respect to Co-operative Bulk Handling (CBH) as CBH was established to work in the best interests of growers first and foremost. Any requirements placed on CBH in order to achieve acceptance of the Access Undertaking should not work against the best interests of Western Australian grain growers and therefore any requirement to continue such tests until 2014 is problematic.

As any costs will eventually find their way back to growers, with due respect, WAFarmers questions the requirement for an expensive Port Terminal Access Test when:

- CBH is already bound by the State Governments Bulk Handling Act (1967) (WA) to provide access on fair and reasonable basis to its infrastructure under Section 19. Subject to this Act and the regulations, the Company shall allow a person, on payment of the prescribed charges, the use of any bulk handling facilities and equipment controlled by it at ports in the State
- Access to CBH's port terminals is required under section 19 of the Bulk Handling Act 1967 (WA) (Bulk Handling Act.)
- CBH also retains a legislative obligation to receive grain from all growers under section 42 of the Bulk Handling Act
- The provisions of the Trade Practices Act 1974 (Cwlth) to ensure that the Australian Competition and Consumer Commission (ACCC) has a generic brief to monitor:
 - 1) The management and performance of Australian Ports
 - 2) Achievement of National Competition Policy guidelines and objectives
- WAFarmers believes that Section 24 (4) of the Wheat Export Marketing Act already provides for disclosure and transparency

WAFarmers believes that there has been no evidence to suggest that CBH is using ownership of its port terminals to derive an unfair advantages to their marketing arrangements and that the ACCC has sufficient powers to ensure that the management of infrastructure, particularly port terminals, is carried out in a competitive and transparent manner and that the market power of any participants is not misused for any anti-competitive purposes.

WAFarmers understands that CBH has no intention of not publishing daily shipping stems and port access protocols on their website and that the organisation is making every endeavour to make their operations transparent and fair.

- **CBH Auction System**

In July 2009, the WAFarmers Grains Council invited representatives of CBH to address the workings of their Shipping Capacity Access Allocations. As CBH is a grower owned co-operative, it is in the Council's best interest to ensure that CBH is acting lawfully and within all guidelines of the marketplace to ensure its longevity.

The Council was walked through the process in a 'step by step' manner and was happy that CBH had consulted with other marketers when creating the auction system and that it was designed with the aim to provide fair and equitable access to all market participants, governed by a framework that is transparent and accountable.

It is our understanding that the auction system was introduced voluntarily by CBH to address issues in the 2008/09 harvest when there was congestion at the ports and demurrage resulted.

This organisation has not been contacted by any marketer outlining their concerns and to our knowledge no official disputes have been lodged against the auction system.

It is our opinion that as with all new systems implemented, there may be 'teething problems' as participants can a greater understanding of the processes involved.

We understand that CBH is looking at implementing changes for the 2010/2011 season and is working with trade to implement this.

With respect to CBH requiring early notice of whether exporters will be using Grain Express or direct port access, this would appear to be in order to maximise the efficiency of the logistics. CBH needs adequate notice to ensure that transport arrangements are in place so that shipments are ready to go on time, and this must be kept in the context of a massive logistical task with multiple participants requiring a range of services.

- **Transport, storage and handling.**

WAFarmers welcomes Draft finding 6.1 that up-country storage facilities do not exhibit natural monopoly characteristics and that there is no case to consider changing the current arrangements regarding third party access to up-country storage facilities. All exporters have equal opportunity to access CBH's upcountry facilities by way of purchasing grower's stored grain and/or accessing equal freight arrangements through Grain Express. All access issues should be addressed through the provisions of the Trade Practices Act 1974 (Cwlth) and the fact that CBH is also required under the Bulk Handling Act to provide fair and reasonable access to all of its facilities, both port and upcountry.

This organisation believes that the provisions as outlined under Grain Express ensure that the terms and conditions of access to upcountry facilities do not represent a barrier to entry for potential growers and there has been no evidence of owners of upcountry facilities gaining an advantage over rival exporters.

- **Competition in the Supply Chain**

WAFarmers asserts that participants have the ability to by-pass the bulk handling system and that there has been no tangible evidence supplied to refute this.

- **Road and Rail Infrastructure**

A thorough analysis of road and rail infrastructure needs to consider the complete costs involved over time, and these costs include social costs. In an initial analysis rail may be deemed to be more expensive however the on-going maintenance of keeping roads fit for purpose is undervalued. Please refer to our initial submission for more comments regarding this.

- **Grain Express**

CBH's innovative Grain Express logistics system brought operational efficiencies and lowered the barriers to entry for acquirers in the WA market. It should be acknowledged that Grain Express provided growers with an unprecedented choice of marketers across the wheatbelt in 2008. Through its regular meetings with CBH, WAFarmers is confident that CBH's on-going improvements to the Grain Express system will ensure that the system provides ongoing benefits to growers and marketers.

There has been no evidence of CBH gaining a trade advantage over rival exporters, nor any previous history of any marketers being denied access to CBH yet there has been a concerted effort by marketers to break down CBH control with potentially misleading claims which would have greater

implications with regards to Non-discriminatory Access. Both the ACCC and WEA should take a firm stand against these unfounded comments being aired publically and instead any evidence of wrong-doings should be directed to the ACCC to be investigated immediately.

While many believed that on-farm storage would provide a 'magic bullet' for growers post deregulation, the problems and costs associated on-farm storage may have lessened the expected growth in this area.

While this organisation has had reports from our own members regarding short-term storage options which have been problematic.

The Grains Research and Development Corporation (GRDC) has offered some interesting research on on-farm grain storage, excerpts of which have been included for your perusal.

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"In his report, John Francis details all his assumptions and costs on which the calculations are based. They included a 30-year life for sealed silos, a 10-year life for a grain-storage-bag system, a discount rate of six per cent, and an on-farm grain price of \$150 a tonne.

Based on his assumptions, John Francis's analysis found that if 1500t of grain were to be stored and the price rose by only \$20 a tonne between harvest and July, only the grain silo bags were economic.

At a \$20 increase, none of the sealed silos (60t, 250t and 500t), a grain shed or warehousing were viable because the cost of storage outweighed the returns. For all systems to be economically viable for the storage of 1500t, the price difference required was \$30/t.

If only 500t were stored this price differential rose to \$40/t".

Of greater concern, are the risks to agriculture with increase in on-farm storage, as referenced in Farmonline April 20, 2010, "Grain hygiene problems only going to get worse."

"LEADING grain hygiene experts have said the issue of contamination of grain stored on-farm through incorrect management practices is only going to get bigger until there was more emphasis on correct storage of grain.

Peter Botta, PCB Consulting, said instances of weevil contamination in grain were arguably at record levels.

"We're coming across insect contamination regularly," Mr Botta said.

"This year has been worse than last year; last year was worse than the year before; every year it is getting worse."

He said the full extent of the issue was only just being seen, as grain that had been incorrectly stored after harvest for too long hit the market.

"You can get away with different storage options for different periods of time," he said.

"When things are urgent at harvest you can ground dump for a few weeks, then in the short-to-medium term grain bags and unsealed silo storage is fine, but for long-term storage you really need a gas-tight sealed silo."

"Meanwhile, WA-based grain silo storage specialist Chris Newman, of the Department of Agriculture and Food Western Australia (DAFWA), said one of the most effective insect treatments was facing resistance issues, due to incorrect usage.

Phosphine resistance is on the rise, with Mr Newman claiming that grain storers needed to address their fumigant use if there was not to be a

wholesale efficacy breakdown in the use of the major insect controller in Australian silos.

"Unfortunately, we haven't helped ourselves. The widespread incorrect use of the fumigant since the 1950s has created this situation," Mr Newman said.

He echoed Mr Botta's sentiments in saying that if on-farm grain was to meet customer's specifications there needed to be more professionalism in farm grain management.

"Everyone in the supply chain - producers, grain buyers, transporters and storage operators - has a role in using biosecurity measures to stop this spread, and ensure we can still use phosphine in the future."

- **Information provision**

WAFarmers was invited in a forum organised by Grains Industry Association of WA (GIWA) to discuss market information. Although industry participants didn't reach a consensus about the exact nature of information required, access to some form of market information was seen as an industry good which could be paid for by the whole of industry and not just growers.

- **Varietal Classification Panel**

As already alluded to, this organisation is not philosophically opposed to a user pays approach to variety classification or any other industry good function, but the more that this can happen under one umbrella the better.

- **Wheat quality standards and market segmentation**

While the majority of our members do not philosophically oppose an End Point Royalty system (which was presented to grain growers as a means of introducing a direct commercial incentive to encourage breeders to develop varieties that meet grower's needs) they are opposed to having to pay EPR's on varieties which are not proving their performance by failing to meet the varietal segregation for which they were designed. This organisation would also point out that the quickest way to distribute good varieties is by farmer-to-farmer trading and this should not be discouraged by seed companies.

- **Industry good functions**

While industry would be deemed responsible to pay for industry good functions (industry here means whole of industry and not just growers) Australian growers are looking to avoid duplication of services and get value for money.

In the deregulated marketplace there is the requirement for a cohesive body engaged in proactively promoting Australian wheat internationally now that AWB no longer holds the single desk. This organisation should play a role similar to that being played by the US Wheat Associates and perform a range of industry good functions under one umbrella.

This organisation would note that while industry may be best placed to determine industry good functions it is argued that government has a definite role to play in this in terms of ongoing funding. Grain production provides massive benefits to the Australian economy and therefore can be

perceived to add many public benefits. The gross value of farm production in cropping for the 2008/09 season was a massive \$22,753,000 to the economy – definitely worthy a bit of reinvestment from government. WAFarmers would reference the US Wheat Associates, as an important tool for US farmers to maximise their market share of global wheat sales, which could be emulated effectively in Australia for all grains.

The United States Wheat Associates (USW) was formed in 1959 to develop and expand its export markets and provides assistance to US wheat buyers, millers, wheat food processors and government officials around the world.

While the USW does not buy, sell, or process wheat, they make it easier for everyone else to. Funded cooperatively by federal government and wheat producers, the federal programs account for about 74 per cent of USW revenue. Producer check-off funds are forwarded to USW through the state wheat commissions and this provides 26 per cent of funds. The Australian model would go one step further and ask for contribution from other parts of the supply chain and not just growers. The US Government contributes \$2.87 for each dollar provided by producers, an investment in the future of the industry which should be mirrored by the Australian Government.