

Submission to the Productivity Commission

Review of
National Competition Policy Arrangements

June 2004

Grain Growers Association Limited

The Grain Growers Association Limited (GGA) represents over 17 000 grain producers across Queensland, New South Wales and Victoria.

The major sector of the farm economy that affects our members and has been subject to review under the Competition Principles Agreement are grain marketing arrangements.

The Association supports structural arrangements in the grain industry that will provide the best net public benefit to grain producers. The Association supports the wheat single desk but has critically examined the administration of the Wheat Marketing Act of 1989 by the AWB Limited group of companies.

The Association's policy development is based on commercial principles and the best business solution to problems faced by our members, the grain producers.

This Association contends that in the grains industry, the application of National Competition Reforms has resulted in net public benefits for our members.

Grain marketing reform has been particularly contentious but clear benefits have emerged and can be observed in both Victoria and Western Australia.

The export barley industry in Victoria is now totally de-regulated. The state government in Western Australia has chosen a different regulatory approach but some liberalisation of the bulk export market for canola, lupins and barley was evident over the 2003/04 harvest.

Competition in the wheat harvest finance market has provided clear benefits to wheat growers with millions of dollars in savings. The attached research paper models these savings.

This Association contends that further reform of regulatory arrangements in the Australian wheat industry would stimulate the provision of competitive services to producers, greater choice and cost savings.

Grain Marketing

The mere suggestion of review of statutory grain marketing arrangements has traditionally been enough to provoke vocal opposition from proponents of the status quo.

The decisive action by the Victorian State Government from 1998 to 2001 in relation to the export single desk for barley has since seen a relatively smooth transition to an open and contestable export market.

Many of the claimed reasons given by opponents of de-regulation have proven to be baseless. Some of the polemics prior to de-regulation and respective outcomes are discussed here.

Pooling

It was claimed that pooling arrangements would not exist under a de-regulated export market environment. This is clearly not the case as ABB Grain Limited, the former statutory marketing organisation runs voluntary pools that are well patronised. There are also farmer co-operatives that come together to pool grain and market it on a voluntary basis.

Pools are likely to continue to operate whilst ever farmers desire such a marketing tool.

Grain Trade Standards

It was claimed that with multiple exporters, grain receival standards would decline and the reputation of Australian grain would suffer in export destinations. This has not been the case. Grain quality standards and specifications are agreed to by the National Agricultural Commodity Marketing Association (NACMA). This is a voluntary trade organisation that all of the major grain exporters and many smaller domestically focused organisations are members of.

Together they agree on standard grain descriptions, trade rules and dispute resolution procedures. NACMA members must agree to trade using the NACMA language and standards.

Barley trade standards in Victoria have not declined following export de-regulation.

Grain Storage Standards

Grain storage and handling agents are under contractual obligation to out-turn grain to the same specification that it was received. Failing to do so is a breach of contract.

Whether the owner of the grain is a statutory organisation with compulsory acquisition powers, or a private entity freely conducting commerce with grain producers, their requirements of the storage and handling agent are the same. Graincorp is the main storage and handling business in Victoria. It simply meets the standards as set by the trade.

The standard of barley storage and handling in Victoria has not declined following export de-regulation.

Security of Payment

Many of the participants in the barley trade are well-established and substantial companies that have strong balance sheets. Should contractual disputes arise, NACMA members must agree to submit to dispute resolution procedures that include avenues for appeal.

No major problems relating to security of payment have been reported in Victoria.

Opportunities following de-regulation in Victoria

New market emergence

Barley export de-regulation from Victoria has allowed exporters to explore and pursue new market opportunities. One of these revolves around the strict receival standards for malting barley that were applied by the Australian Barley Board before its conversion to the corporate ABB Grains Ltd.

Consistent quality of malt barley is important for maltsters to achieve reliable and consistent results in the manufacturing process. Colour of the grain and protein are important considerations for malt production and the Australian Barley Board would reject barley it did not meet all quality requirements. Wet weather during harvest could result in such a down-grade. This barley could only be used for animal feed and thus suffered a price discount.

Off-grades of such barley however, will still malt if the grade is kept in its own segregation. Since de-regulation, there have been cases whereby Victorian exporters have purchased these grades of barley for a premium to a stock feed use, and sold the product to malt markets that are less discerning.

Japan has been regarded as a premium market for malt barley. Some Chinese maltsters have however, been prepared to use off-grades of barley that have produced malt acceptable for beer making.

Thus barley producers have benefited by being able to supply lower grade malt barley, that previously would have been fit only for stock feed, to a new customer.

Investment in Human Resources

Established grain exporters and domestic traders have invested in additional human resources. The addition of staff at such organisations has expanded the capacity of the industry to provide marketing services, price risk management and associated advice to grain producers.

Under a regulated system, there was limited use for such professional resources.

Grower Professional Development

In Victoria, professional grain producers are now able to expand their own set of skills in relation to price risk management and marketing of commodities. The canola industry in Victoria has never been regulated and the system of price contracting is well developed. Throughout the year, canola producers are able to commit to forward contracts up to two years in advance. Contract alternatives range from the very simple to the more complex that involve management of exchange rates and futures on the Winnipeg Commodities Exchange if that is desired by the grower.

Contract alternatives such as these have now emerged for the export barley industry in Victoria. More barley producers are gradually learning to apply the skills to their own businesses which is adding to the capacity within the agricultural industry.

It is now possible to trade beef futures on the Sydney Futures Exchange (SFE) and wool futures on the SFE and on the Australian Stock Exchange. Macquarie Bank has a wool futures product and there are over-the-counter products available from the major pastoral houses.

The skills involved in price risk management, once learned can be applied to any of these commodities. Under a regulated system, grain producers had little use for these skills. With the market opportunities now available within Victoria, it is to be expected that this professional development within the grower fraternity will continue.

Western Australian Grain Marketing Act of 2002

In 2002, the Western Australian State Government repealed its existing Grain Marketing Act and replaced with an Act designed to comply with the State's obligations under the Competition Principles Agreement.

The Grain Marketing Act of 2002 replaced the Grain Marketing Act of 1975 and created a new government authority, the Grain Licensing Authority (GLA). Under the previous Act, the Grain Pool of Western Australia was the government statutory authority charged with the compulsory acquisition and export of bulk lupins, canola and barley from Western Australia. The Grain Pool (GPWA) was effectively able to administer the Act itself, which made it the main player and the umpire.

The separation of the administration of the Act away from GPWA, which is now a business registered under Corporations Law, has been an important development in the Western Australian grain industry.

The Grain Licensing Authority (GLA), which commenced operations in 2003, has the power to issue Special Export Licenses to exporters other than the incumbent.

Essentially, if the GLA can find no independent, verifiable and observable evidence that the GPWA is generating price premiums via the exercise of market power, it can issue Special Export Licenses to applicants who have sought out markets for Western Australian grain.

Over the 2003/04 harvest, the GLA issued twelve Special Export Licenses for a total of 501 000 tonnes of lupins, canola and feed barley. There exists an appeals process to the Minister for Agriculture and in December there was one successful appeal for 35 000 tonnes of malt barley. Thus a cash export market for 536 000 tonnes of grain has been created in Western Australia.

GGA members are interested in learning more about this development in Western Australia that will preserve any premium markets, but allow alternative exporters to compete to provide services to the state's grain producers.

The Western Australian Minister for Agriculture is currently reviewing the first season of operation of the GLA and this Association is keen to assess the benefits to grain producers that have accrued.

This reform would not have taken place if it were not for the National Competition Policy Agreements. For the first time in its history, the onus has been placed upon the GPWA to prove its claims about the benefits of its compulsory acquisition powers.

It should be noted that many grain producers in Western Australia were keen to do business with Special Export License Holders. W.A. is a predominantly export focused state and the cash market for export grains is small and has traditionally operated at a discount to export parity. Cash prices available, particularly for feed barley were favourable compared to the estimated pool price during harvest and there was no shortage of willing sellers.

New South Wales Grains Board

The New South Wales Grains Board was subject to the NCP review process in 1999/2000. It has since been well documented that the Board and Management of this statutory authority devised a strategy to head off any challenge to its privileged position from the review process. The grains board implemented a strategy to expand its grain trading operations and prove its utility as indispensable to the NSW farmer and thus of net public benefit.

This strategy failed, in excess of \$100 million was lost, and a number of senior Grains Board staff are awaiting a decision by the NSW Director of Public Prosecutions as to whether criminal charges will be filed against them.

This Association can only speculate as to whether the New South Wales Government, being more resolute early in the review process may have prevented the worst of the financial losses from being incurred.

Review of Federal Wheat Marketing Arrangements

In 2000, the Wheat Marketing Act of 1989 was subject to comprehensive review by an independent panel. The review team concluded that it could not find, nor was it presented with clear evidence that wheat growers were best served by the current arrangements under the Wheat Marketing Act of 1989.

In addition, the Allen Consulting Group provided support to the review panel in the form of economic modelling and analysis. The results from that work did not support the claims made by AWB Limited during the review process.

The review panel made a preliminary report that proposed a trial de-regulation period for some grades of wheat over three years. This recommendation however, did not appear in the final report.

An opportunity for reform was lost through that review period and a number of structural problems in the wheat industry have since become apparent.

Conclusions

Reform of grain marketing arrangements in Australia has been resisted by the incumbent statutory marketing authorities, a strong grower lobby and politicians at various levels. Prior to the National Competition Policy Review process, supporters of grain export liberalisation had difficulty building the case for choice when no alternative system in Australia could be assessed.

The discipline placed on the Federal and State governments by the Competition Principles Agreement has resulted in rigorous and independent study being carried out on existing arrangements. Often it has been the first time that the relevant statutory marketing arrangements have been so thoroughly reviewed.

The benefits to grain growers, domestic users, exporters and the broader industry are supported by observable evidence.

The Grain Growers Association would be pleased to provide further information to this inquiry should it be required.