

SUBMISSION

to the

REVIEW OF

NATIONAL COMPETITION POLICY

(NCP) ARRANGEMENTS

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PASTORALISTS AND GRAZIERS ASSOCIATION OF WA (INC.)

The Pastoralists and Graziers Association of WA Inc (PGA) is a non-profit industry organisation established in 1907 which represents primary producers in pastoral and agricultural regions of Western Australia (WA).

The PGA is the only Western Australian State Farmer Member of the National Farmers' Federation and participates in key industry and commodity groups. The PGA has a state-wide District Committee structure which enables grass-root input on all policy matters.

The PGA philosophy is to promote the welfare and profitability of the interests of it's members through the encouragement of private enterprise. The PGA is proud of it's achievements and history as a leading advocate for removal of statutory interference in Australian agricultural commodity markets.

INTRODUCTION

In the context of this submission the PGA have sought to address National Competition Policy (NCP) that is central to our members.

These include:

- wheat marketing reform at a State and national level
- meat marketing reform in WA
- rail reform in WA; and
- telecommunications reform.

The PGA will be addressing the impact of the NCP related reforms via a number of examples.

On the whole the PGA support the National Competition Policy reforms as the PGA supports a free market system, without Government inference to allow Australian producers, to obtain the top market price from their own property. The PGA believes deregulated production and marketing through individual enterprises is the key to future sustainability of Australian agriculture.

BENEFITS OF NATIONAL COMPETITION POLICY

1. WESTERN AUSTRALIA'S GRAIN MARKETING ARRANGEMENTS BACKGROUND

The Grain Marketing Act of 1975 was reviewed by WA State Government in light of the National Competition Policy and while it stopped short of totally deregulating the barley, canola and lupin market they decided to implement a grain licensing system which was seen as part deregulation. The Grain Marketing Act 2002 has the Grain Pool (now a subsidiary of the grower-owned Cooperative Bulk Handling Ltd), as the main export licence holder for barley, narrow leafed lupins and canola and established the Grain Licensing Authority (GLA). The GLA had the authority to grant special export licences to persons other than the main export licence holder provided that licence would not undermine the premium the Grain Pool extracts from the excise of market power. This legislation also allowed unrestricted export of these grains in bags and containers.

1.1 Implementation

The first of these special licenses was issued by the GLA in November 2003 for barley. 12 licenses were granted in the 2003/04 season which totalled 968,000 tonnes of various grains, all destined for export, see Appendix 1 for GLA licenses statistics for 2003/04 season. The licensees were all experienced grain traders and there has been no report of growers having problems with their contracts.

1.2 Feed Barley Growers

702 WA growers sold barley to marketers under the licenses. Once the special licences were offered to WA barley growers the prices for cash feed barley increased \$10-\$15 over existing Agracorp¹ prices. The extra competition for feed barley created by the special licence holder extracted a \$10-\$15 premium for each one of the 702 WA farmers and their families.

Figure 1. charts the weekly spot feed barley prices for Fremantle, Geelong and Adelaide. It is evident from this chart that Geelong values have increased relative to Adelaide and Fremantle from July 2001, coinciding with deregulation of the Victorian market. These prices, gathered by Farm Horizons, were issues as cash bid prices by relevant marketers.

Figure 2. shows feed barley bids delivered to the three different ports. It is evident in this figure that Geelong outbid Fremantle for most of the season up until December

¹ AgraCorp Pty Ltd is a wholly owned subsidiary of the Grain Pool

which saw the introduction of the GLA licences and various licence holders start to compete for feed barley. WA growers, for the first time since Victoria deregulated their domestic barley market (2001), received a premium on feed barley over their Victorian counterparts. In August 2003 WA Agracorp's cash prices were \$45/t under Victorian cash price bids. At the beginning of December 2003 the average WA feed barley prices rose from a \$10/t discount up to a \$4/t premium over Victorian feed barley, indicating that competition in the WA market generating a premium for local growers. Once the special licences were filled the Agracorp cash barley price immediately dropped back to \$148 (Kwinana) on 30th December 2003, a far cry from the \$165 offered by Agracorp on 13th Dec 2003 while competing with the special licence holders.

1.3 Canola

Traditionally Agracorp's cash prices are at least \$20/t (port delivered) behind Victorian prices, this disparity occurs even though WA enjoys a freight and handling advantage. Rationale for this disparity has been that Victoria enjoys a stronger domestic market and that WA's canola quality is inferior. This season saw this disparity reduced to \$6-\$7/tonne due to the special licences introducing extra competition into the WA market. In addition to this with up to ten different exporters bidding for inventory every day, the Victorians have a multitude of contracting options for their bulk canola. Contract options range from complicated, where growers manage their own futures and currency exposure, to the very simple cash at harvest for set tonnages. WA growers still only have limited range of contracting options.

**Figure 1: Delivered Port Feed Barley Prices Weekly Bids
May 2000 to January 2003**

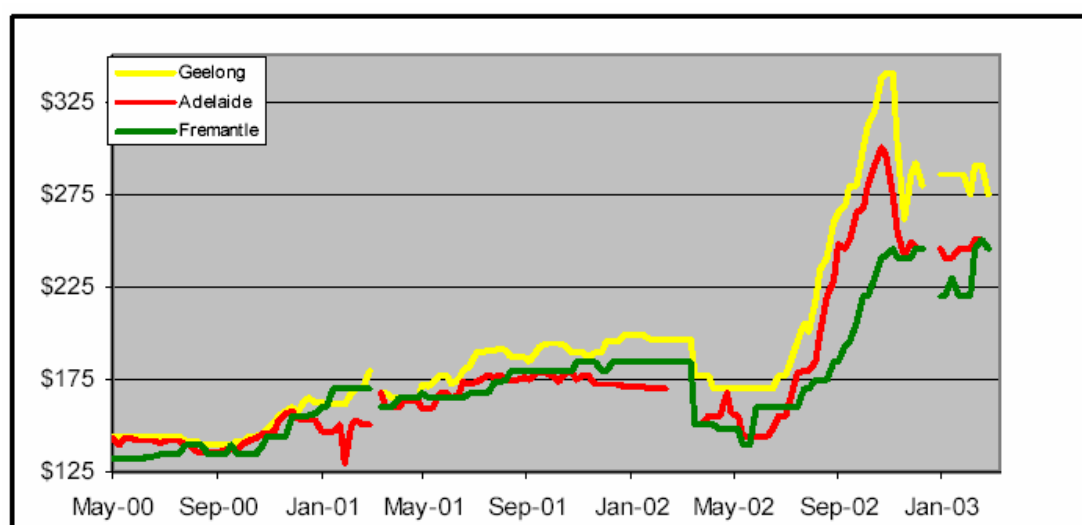
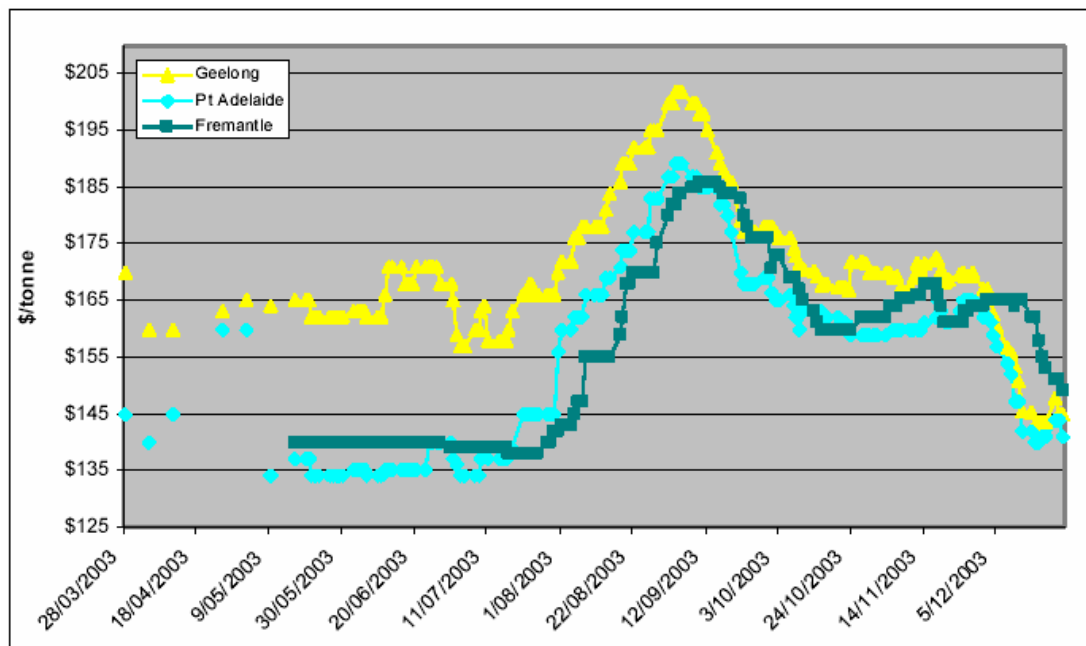


Figure 2. 2003 Feed Barley Daily Prices Delivered Port



Source for Fig 1&2 : Farm Horizons for Australian Grain Exporters Assn

1.4 Benefits to Grains Industry and WA Growers

1.4.1 Increased Grower Choice

- *Opportunity to increase cash component of crop*

The existence of the special licenses has greatly expanded the choices available to WA growers. The cash contracts being offered by licence holders enabled growers to price a larger percentage of their crop for cash to allow immediate cash flow. Many farm advisors recommend their clients seek to cash price a percentage of their expected production. Being able to sell at harvest time is particularly valuable as actual production is known so no production risk is involved.

- *Opportunity for flexibility in borrowing program*

Having the option to price to cash at true market value is extremely important as it gives growers flexibility when selling their wheat. In previous years most people have been locked into the pools for local grains and hence forced to finance more of their wheat through harvest loans. With better access to cash prices for barley, lupins and canola growers can reduce their borrowing exposure, by not having to finance all of their wheat crop through harvest loans. It gives growers far greater flexibility in their borrowing programs.

- ***Opportunity for great choice of products***

With deeper liquidity in the market from forward competition, many types of contract (as described earlier in Victorian Canola market) will become available that address farmers production and pricing risk needs.

- ***Opportunity for all growers to received export parity prices***

The existence of the special licences have given growers outside Kwinana port zone the opportunity to avail themselves of export parity prices. Price discounts that have always existed in Geraldton, Albany and Esperance Ports relative to Fremantle disappeared during the time of special licences and all ports were priced at even money.

1.4.2 New Market Opportunities

The special licences have meant an increasing attraction to the Western Australian grains industry from outside organisations that have access and knowledge of new market opportunities and also have established relationships with companies that can reduce costs in the supply chain. An example of this is Brooks Grain (a 2003/04 licence holder) who has a close relationship with Glencor International Ltd.²

1.5 Benefits to WA Rural Communities

At a \$10-\$15 per tonne premium this would have added an additional \$3.5- \$6million into grower's pockets and the WA rural economy in 2003-04, a much needed boost after the poor season in 2002-03. Further to this the Grain Pool of WA (GPL) was forced to raise its cash bids in order to compete with special export license holders during this time. Although it has not been released as to how many tonnes GPL accumulated during this time it should be counted as a benefit to WA growers as was clearly a response to the increased competition.

1.6 Employment and Social Effect

According to Primary Skills Victoria,³ it is estimated that there will be a requirement for between 50 and 100 new employees in the grains industry in each of the major grain producing states each year. The area of primary production has increased over the last five years, and has one of the highest rates of employment growth in Australia and services to agriculture are expected to be a growth area of employment⁴.

² Glencor International Ltd is the largest diversified physical commodity trading group in the world

³ Primary Skills Victoria, 2004 <http://www.psv.com.au/grains.htm>

⁴ IBISWorld is a Business Information provider offering information on every industry, top 2000 companies and the business environment

According to the Department of Agriculture WA, the grains industry is regarded as the mainstay of the State's agricultural sector, and many rural communities in the Western Australia wheat belt region rely on the grains industry as the primary source of employments and a large percentage of small businesses that exist in rural towns service the grain farmers needs. The impact of these premiums would have been felt on all parts of rural communities as the wealth created trickled through to the businesses and employees. The impact of more opportunities for investment in the WA grains industry is likely to have a positive impact on farm and business confidence.

It is likely given the high confidence and opportunities for investment that the introduction of the GLA licenses has made employment and output in the grains industry will remain strong. According to Allen Consulting Group⁵ increased employment and output suggests that there will be increased resources flowing into these regions. This will result in a subsequent increase in activity, output and employment. The Allen Consulting Group concluded *"This will contribute to reduced bankruptcies and less economic stress in these regions"*. The social effect on rural communities of this trickle down effect should also be taken very seriously, especially given the depressed atmosphere that existed in the 2002/03 season.

1.7 Further Opportunities for Grain Marketing in Western Australia

The National Competition Council in their most recent assessment of the government's implementation of NCP⁶ said:

The Council assessed in 2002 that Western Australia had met its CPA clause 5 obligations arising from the Grain Marketing Act, subject to the arrangements under the new legislation fulfilling the understanding reached between the Government and the Council.

The NCC concluded that the review and reform of grain marketing arrangements in Western Australia is incomplete (at the time of their assessment) and, hence, that the Government is still to fulfil its obligations under CPA clause 5.

The PGA believe that the WA Government has not yet fulfilled its obligations under CPA clause 5 due to the Regulations and Ministerial guidelines released after the NCC did their review in August 2003. These regulations and guidelines allow for broad interpretation of the Act leading the Grain Licensing Authority and the Government to be protecting the markets of the main licence holder (GPL) and not

⁵ The Wheat Marketing Act 1989: The Economic Impact of Competitive Restrictions – Report to the Independent National Competition Policy Review Panel, October 2000

⁶ National Competition Council 2003, *Assessment of governments' progress in implementing the National Competition Policy and related reforms: Volume two – Legislation review and reform*, AusInfo, Canberra.

fulfilling the understanding reached between the government and the NCC. Please see the Ministerial Guidelines for the Grain Licensing Authority in Appendix 2.

1.7.1 Ministerial Guidelines and Interpretation of the Act

The PGA believe that the GLA interpretation of the guidelines is leading it to adopt policy inconsistent with compliance to NCP principles. The principle being that, as Graeme Samuel (former president of the NCC) said in a letter to the PGA back in June 2003, *“the predisposition of the Authority (GLA) will be to grant a special export license except where this threatens to significantly reduce price premiums resulting from the exercise of market power in export markets”*.

The PGA have two examples where the NCP principles may have been breached and consequently the WA Government may not be fulfilling the understanding reached between themselves and the National Competition Council.

Example 1

Louis Dreyfus Australia Pty Ltd. was refused a special license by the GLA to export canola to Japan in February 2004. The Hon. Minister for Agriculture Kim Chance, was asked to rule on this case when it was appealed. Mr Chance said in a Media Release dated 10th February 2004 that *“as part of his decision he had carefully considered the intention of section 31(4) of the Grain Marketing Act 2002.”* Section 31(4) states that 'before deciding to grant any special export, the GLA is to consider the effect, if any, that granting the licence would be likely to have on the State's reputation as a grain exporter and on the State's grain industry generally'.

The Minister concluded by saying *"It is not the intention of the Act that private traders be allowed to 'cherry pick' markets within long-established premium markets. Japan is very clearly such a marketplace," Mr Chance said. "Rather, the intention of the Act is to encourage private traders to seek out new markets and clients."*

The main licence holder, Grain Pool of WA (GPL) came out in support of Mr Chance's decision. Dr Andy Crane, Grain Pool General Manager, in a media statement on 10th February 2004 described the GLA's charter as *“to increase growers' marketing opportunities by establishing new markets, rather than granting licences to supply existing customers and markets”*. More recently, on 9th of June 2004, the Grains Licensing Authority issued a media statement (see Appendix 3) where GLA Chairman, Colin Mann said *“Preference will be given to issuing licences into markets that are not currently serviced by the main licence holder”*

The Grain Marketing Act 2002, that was agreed to by the NCC and the State Government, was not established to ‘encourage private traders to seek out new markets and clients’. The purpose of the act (according to the Guidelines) is to maximize the benefits of competition while retaining any identified premiums arising from the exercise of market power advantages. It is the role of the Grain Licencing Authority to “*grant export licences to parties other than the Grain Pool unless satisfied that this would significantly impact on a price premium arising from the market power of the single desk (but not on premiums arising from other factors such as grain quality that are available to all licence holders*⁷.” It should be inconsequential as to whether the market to which a potential licence holder is looking to serve, is one the Grain Pool already trades into. The most important thing outlined in the Act is for the GLA is to establish if the Grain Pool Ltd. has a premium in this market on the basis of the exercise of market power. This should be the basis on which licences are granted, not whether the GPL already have a presence in this market or not.

The Minister seems to be claiming that the intention on the Act is to grant licences for markets which the GPL do not service. Given the subsequent filling of this Japanese order with Victorian and South canola it lead us to conclude that whilst the GLA are applying guidelines specified by the minister, it is at the same time in breach of the NCP principles and agreements which the Grain Marketing Act 2002 was intended to comply with.

Example 2

The GLA also announced in the June Media Statement that there would be a 60,000T limit per special licence. Restricting the tonnage special licence holders may export appears to be a restriction to competition and a judgment that is based on only one year of special licences operating.

The many benefits listed previously that the GLA systems offers to WA growers and the grains industry will be eroded if potential licence holders do not believe they are being offered fair and competitive terms by the interpretation of the Act. Restricting the tonnes they can export is not an incentive for traders to use grain from WA. It is even more discouraging when traders are told (by the GLA) they will not be given preference if they want to export into a country which the GPL already sells into, even if it is to a new customer that the GPL do not deal with. As mentioned in the previous example, the PGA believes this interpretation of the Act may be in breach of NCP principles.

Unless addressed immediately the PGA believe the interpretation of the Minister’s Guidelines could potentially be the undoing of all the benefits the GLA system have had in the 2002/03 season.

⁷ National Competition Council 2003, *Assessment of governments’ progress in implementing the National Competition Policy and related reforms: Volume two – Legislation review and reform*, AusInfo, Canberra.

1.7.2 Early Granting of Licences

In the above mentioned GLA media release it was announced that the two special licence applications for feed and malting barley received in May 2004, would not be determined until later in the year. Despite the GLA Chairman's reason the delaying of this decision will reduce some of the benefits of the GLA system.

The PGA believes that the Special Export Licenses should be issued early in the cropping year to offer WA growers an opportunity to take out contracts and plan accordingly. For example, if exporters were granted Special Export Licenses in autumn, grain producers would have the option of locking in a percentage of their expected production before sowing at export parity prices.

If a prospective exporter were issued with a Special Export License for both feed and malt barley grades, that exporter would have the ability to provide W.A. barley growers with a multi-grade barley contract which could be expected to remove some pricing volatility from the W.A. market.

2. COMMONWEALTH GRAIN MARKETING ARRANGEMENTS

2.1 Background

The *Wheat Marketing Act 1989* prohibits the export of wheat by anyone other than the AWB Ltd with out the AWB's consent. Up until 1999 the Act guaranteed the board's borrowings and provided for the accumulation of the Wheat Industry Fund to eventually replace the statutory guarantee. Other amendments to this act followed in 1997 and 1998 which included corporatisation of the AWB Ltd. and the establishment of the Wheat Export Authority (WEA).

2.2 2000 NCP Review of the Wheat Marketing Act 1989

In 2000 the Minister for Agriculture announced a National Competition Review into the Wheat Marketing Act 1989. The review was conducted by a three-person panel as part of the NCP review process. The review was to determine whether the single desk arrangements for wheat provide an overall net benefit for Australia, including to rural and regional communities. The Committee, also looked at related issues such as wheat quality and supply. In conducting the review, the Committee also took into account the Government's policies on economic and regional development, including employment and investment growth.

The 2000 Review was a comprehensive process which took almost 12 months and the Committee's final recommendations was based on over 3,300 written submissions, expert reports, 150 private consultations with key stakeholders domestically and overseas, and 20 public meetings held throughout Australia. It was the first thorough, independent, and objective review of the Wheat Marketing Act that has been carried out in 60 years of statutory marketing.

2.3 Public Benefit Test

Under the guiding principle set out in the Government's Competition Policy Agreements, legislation should not restrict competition unless it can be demonstrated that the benefits of the restriction to the community as a whole outweigh the costs. The current president of the NCC, Wendy Craik said "*A public interest test in NCP allows restrictions in legislation to be retained where they are in the public interest...The case needs to be made robustly, but the provision is there.*"⁸

The 2000 Review Committee sought tangible evidence on the magnitudes of such benefits, costs and overall effects. The 2000 Review concluded that: *Based on the assessments examined by, and undertaken for, the Committee in its consideration of the 'public benefit' test, the Committee concludes it has not been presented with, nor could it find, clear, credible, and unambiguous evidence that, on balance, the current arrangements for the marketing of export wheat are of net benefit to Australian wheat growers or to the Australian community. The NCP guidelines place the burden of proof of net benefit on those arguing for the retention of anti-competitive legislation*⁹.

While the Committee recommended that the 'single desk' be retained until the scheduled review in 2004 by the Wheat Export Authority (WEA) of AWBI's operation of the 'single desk'. They recommended the main purpose and implementation of the 2004 review should be changed so that it provides one final opportunity for a compelling case to be compiled that the 'single desk' delivers a net benefit to the Australian community. In this conclusion the committee also said "*if no compelling case can be made by the time of the 2004 review, that there is a net public benefit, then the 'single desk' should be discontinued*". The Committee has also made several recommendations on the introduction of competition into the current system.

2.4 Government Response to 2000 NCP Review

The Government balked on implementing all the recommended changes by declaring in April 2001 that they would retain the single desk and that it would not conduct the 2004 Review under NCP Principles. Mr Truss, the Minister for Agriculture,

⁸ Source: Speech given by Dr Wendy Craik at the WA Farmers Federation Annual conference in Perth ,March 2004

⁹ Pg 142, National Competition Policy Review of the Wheat Marketing Act 1989, M.Irving AM, J. Arney & Prof B.Linder, Dec 2000

confirmed this when he released the Terms of Reference for the 2004 Wheat Review Panel (see Appendix 4). In a media release dated 23rd Dec 2003, Mr Truss said “*the Reviews Terms of References clearly indicate that the review is not an investigation of Australia’s single desk arrangements, nor will it seek to duplicate the National Competition Policy Review held in 2000.*”

The government are avoiding the issues of the net benefits of the wheat single desk in the current 2004 review. The NCC confirmed the Commonwealth had not met its CPA clause 5 obligation relating to the regulation of wheat export marketing in their 2003 Annual Assessment. The PGA believes the current NCP Inquiry needs to investigate this and demand that the recommendations Irving *et al.* gave after the 2000 Review should be implemented immediately. There is no conclusive evidence that the single desk delivers net benefits to the Australian grain growers or the Australian economy. Unless net benefit can be proved the public benefit test set down by the NCP cannot be used as a reason to retain our current wheat marketing arrangements.

2.5 The Wheat Export Authority

The Wheat Export Authority (WEA) was originally constituted under the *Wheat Marketing Act 1989* to control the export of wheat from Australia, after the transfer of the Government’s wheat marketing and selling role to a private company controlled by wheat growing shareholders (AWB Limited). The WEA claims to operate independently from AWB Limited and its subsidiaries, which include AWB (International) Ltd (AWB (I)) however the power of the WEA to control the export of wheat is constrained. The amended Act requires the WEA to consult AWBI before consenting to the export of wheat; for proposed exports in bulk, the WEA cannot consent without AWBI’s approval.¹⁰ See the functions of the WEA in Appendix 5.

After the 2000 Review the Federal Government also declined to amend the Act to ensure the independence of the WEA, particularly in relation to the export consent arrangements. It reasoned that removing AWBI’s role in these arrangements would change the balance between the operations of the WEA and AWBI, citing the AWB’s upcoming listing on the stock exchange as the reason.

2.6 The Failings of the WEA

The PGA argued in 2003¹¹, that WEA had not achieved its intended purpose, performed poorly and even damaged Australian exports and market development opportunities. The PGA described a number of contributing factors:

¹⁰ National Competition Council 2003, *Assessment of governments’ progress in implementing the National Competition Policy and related reforms: Volume two – Legislation review and reform*, AusInfo, Canberra

¹¹ Submission to Inquiry by the Senate Rural and Regional Affairs and Transport Legislation Committee into amendments to Wheat Marketing Act 2002, PGA Western Grain Growers Committee, 2003

- The WEA mandate which exclusively protects the main license holder, AWB International (AWBI), which disregards the impacts on rest of the industry,
- The WEA does not appear to be qualified or able to administer a reasonably balanced industry wide approach
- That WEA does not appear to be independent of the companies it purports to regulate, the AWB group of companies.

The PGA suggested that WEA be completely independent of the AWB group of companies and that the requirement for referring applications to AWBI be completely removed. While WEA is required to ‘consult’ the organisation it is meant to regulate the possible perception of dependence or compromise will remain.

The PGA believes the WEA is focused on administration of applications for wheat exports but it apparently played little or no role in what some see as larger issues involving the abuse of the privilege of the single desk license. Issues like the separation of AWB Ltd and AWBI Boards, industry information transparency, AWB Ltd and AWBI stock swaps policies, discriminatory and limited access to pools, freedom of delivery at different access points for wheat do not appear to have the attention they deserve. All of the above examples have serious impacts on the returns of Australian growers. Many of these issues are also addressed in the Kronos Report 2002.¹²

The NCC expresses concern in their August 2003 Assessment that the revised arrangements for WEA are substantially more restrictive than the regime recommended by the 2000 review.

Having an independent and uncompromising WEA whose prime role is to ensure that the single desk is managed properly should be a priority to the government as without it there is no confidence from growers or other exporters outside the AWB Ltd. The PGA is concerned that the Federal Government has not addressed the 2000 Review committee’s recommendations to amend the Act to ensure the independence of the WEA, particularly its role in controlling exports. This point was made to the 2004 Wheat Review Panel when the PGA met with the committee in April 2004.

¹² A Review of Structural Issues in the Australian Grain Market, Kronos Corporate, September 2002 (Commissioned by NETCO and UGH)

3. WA LAMB MARKETING ARRANGEMENTS

3.1 Background

In 1971 the WA State Government passed the Marketing of Lamb Act which created the WA Lamb Marketing Board as the statutory marketing body for both domestic and international lamb sales in Western Australia.

In 1972 when the statutory marketing authority was introduced, about one million lambs were being processed in WA. In 1985/86 a slaughter tax of \$6-\$10 per lamb was imposed at processor level. This tax subsidised the WA Lamb Board's predecessor, the WA Meat Marketing Corporation (WAMMCO), to the tune of around \$3 to \$4 million and saw domestic production plummet to drastically low levels of 460,000 in 1985/86. That same year saw 400,000 lambs imported from the eastern states as the cost of transporting the lamb was cheaper than the WA tax. With these imports to compete with WA lambs were forced to be exported at very low prices clearly indicating the WA Lamb Board was severely distorting the market signals for producers. WA lamb producers were the lowest paid in Australia and faced consistently lower prices of \$0.60 - \$1.00/kg compared to the eastern states. From the late seventies to the early nineties lamb consumption in WA per head of population dropped by about half and was at an all time low.

In July 1994, the domestic lamb market was deregulated. From this date lambs slaughtered for domestic consumption were exempt from the provisions of the Marketing Meat Act and WAMMCO had to compete with the domestic processors and butchers for supplies but still maintained single desk on all exported lambs. In 1998 the State Government announced it's intention to abolish the acquisition powers for export lamb and to privatise WAMMCO. The single desk for exported lambs was abolished in January 2000.

Since abolishment of the single desk for domestic and export lamb marketing the WA Lamb industry has thrived along with the rural communities that support the industry.

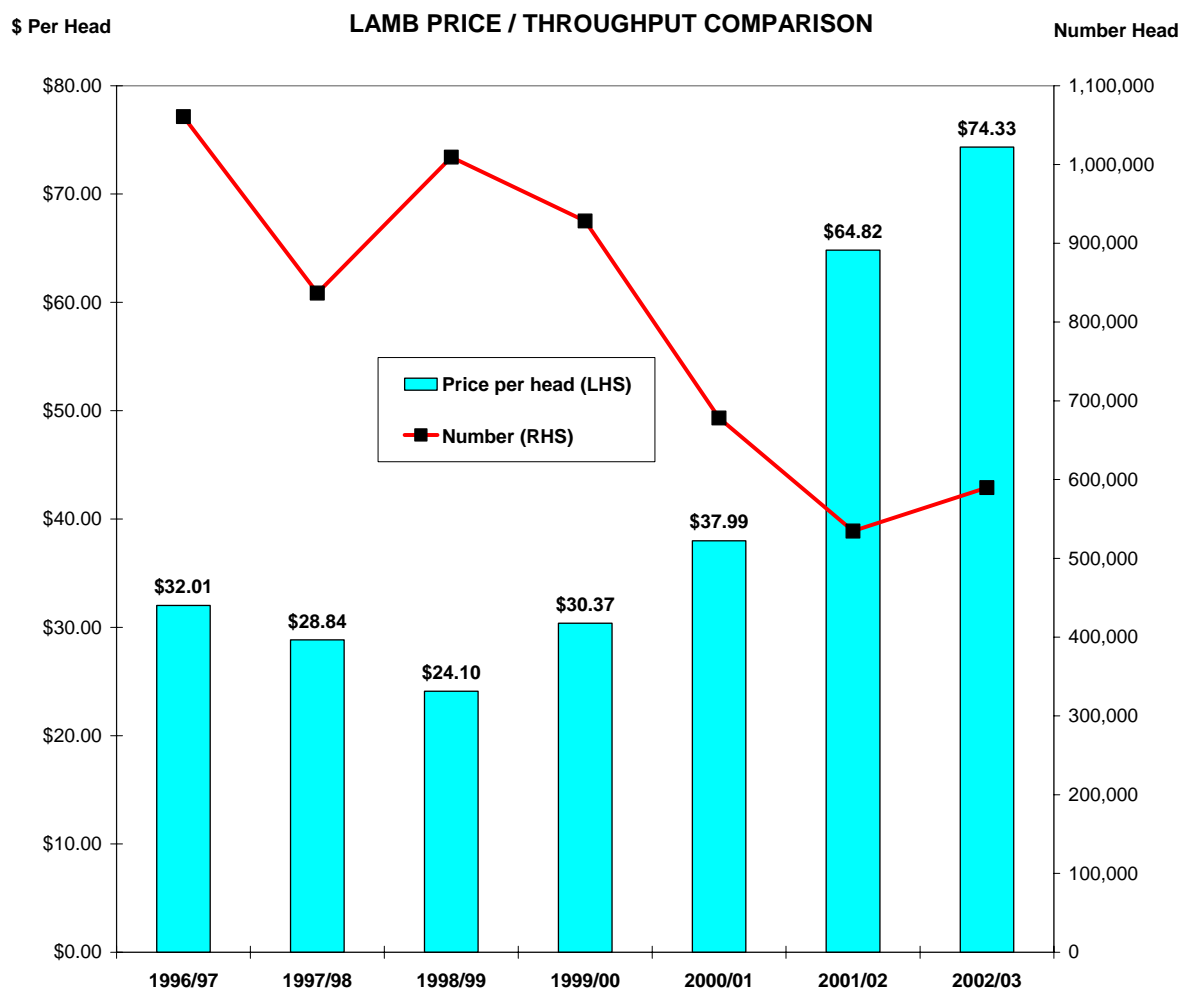
3.2 Positive Impact on Rural Communities and WA Lamb Industry

1. **Better market signals to producers.** Farmers are getting clear and undistorted signals from the export and domestic market. The open market has seen producers become much more professional. Many farmers now lot-feed lambs to finish them and get them into the right weight range. There is no need for a receiver of last resort as when under-weight lambs do come onto the market, someone buys them and puts them into a feedlot. Breeders are also focussing more heavily on genetics to increase weight gain, lambing percentages and meat yield.

2. **Better prices to producers.** As indicated in Figure 1. below there has been a significant increase in the returns to WA lamb producers due to an increase per head in value of lambs. Prior to export deregulation producers received an average \$24.10/h (1998/99) and this has increased steadily since to be \$74.33/h last year (2002/03). This is due to receiving the correct market signals, producing better and more consistent lambs and entering new lucrative markets.
3. **More innovation.** The deregulation of the industry has seen innovation flourish to improve the WA lamb industry. One example of this innovation is Q Lamb. WA Q Lamb is an alliance between a group of more than 170 dedicated lamb producers from the state's South West and North East regions, Hillside Meats Abattoir, Action Supermarkets and Andrews Meat, NSW. WA Q Lamb has become one of Australia's most successful lamb alliances and is recognised as an excellent model for the industry. All producers in the alliance aim to produce larger, leaner lambs for economies of size and yield in the production and processing sectors. This means consistent returns to all stakeholders as well as less waste. All WA Q Lamb product is traceable from plate to farm gate. The Q-Lamb alliance was able to emerge due to farmers getting the right market signals and being rewarded for the quality lambs they produced.
4. **Investment in industry.** Deregulating the industry has seen significant investment in the industry. One example is Fletchers International which opened up a \$30million state of the art abattoir in Narrikup in 1998. Since then this facility has grown to cater for the lamb market. It is a major employer in the Great Southern region and they are constantly seeking workers to meet demand. Currently this facility has the capacity to process 10,000 lambs and sheep per day and the company exports to about 70 overseas countries.

WAMMCO has moved to a cooperative structure and bought the abattoir assets of Metro Meats (two abattoirs) and have since upgraded the Katanning plant. V & V Walsh (WA) Pty. Ltd own and operate an abattoir in Bunbury which was once a small cattle abattoir which now kills lambs for domestic and export market. The positive impact of the abattoirs on local and regional communities have been immense. They supply good employment opportunities for local people and help keep the community viable by maintaining critical mass.

Figure 1. Average WA Lamb Price per head compared to volume (throughput)



Source: WAMMCO, 2004

5. **Improved and effective WAMMCO.** The former statutory body is still the largest WA exporter and has maintained this mantle by restructuring and adapting to the competitive environment. It has changed its policy considerably from the single desk days and has been fundamental in developing the lucrative US market. When WAMMCO had the single desk they did not pursue this market and favoured the lighter weight lambs for their established Arab market.
6. **New Export markets have been developed.** The USA market has now been developed primarily by WAMMCO, which takes large premium lambs. WAMMCO have since been able to offer forward contracts to producers.

7. **Reduced costs for producers and processors.** Processors no longer have the tax imposed by WA Lamb Board and producers, who own the WAMMCO cooperative, have benefited from costs reductions. In 2000 WAMMCO International reported it had cut labour costs and upgraded its two facilities which created efficiencies and cost savings for growers. WAMMCO have also started returning equity to growers by issuing shares to producers.

It is worth noting that WA received a \$5 million NCP payment for the dismantling of the statutory authority, which was given to the industry as compensation. This money was used by WAMMCO to buy the two Metro Meats abattoirs. This has proved an essential and beneficial move for the former statutory body as it kept the abattoirs in WA ownership and allowed WAMMCO to further their value adding activities, which now plays an important part in their overall operation.

The Deregulation of the WA Lamb Industry has meant a win-win situation for both sides of the market (producers, processors, marketers and consumers). The main effect on the industry:

- made producers more conscious of market needs through clearer market signals (breeds etc.) which has led to better returns and more incentive to continue producing better lambs;
- resulted in much more efficient abattoirs in WA;
- resulted in new and lucrative markets emerging which benefits both the producers and marketers.

4. TELECOMMUNICATIONS

Major reforms of Commonwealth Government legislation have contributed to increased competition in the telecommunications industry and delivered benefits for consumers in terms of price and choice.

Historically the level and standard of telecommunications in rural and remote WA 10 to 20 years ago was inadequate. Vast improvements have occurred in the last 2 to 5 years (with the legislative reforms and subsequent effect of competition). The provision of more efficient and affordable telecommunications systems in regional, rural and remote WA have created new opportunities to develop business and helped reduce the isolation felt by these communities.

It should be said that other telecommunications companies in the market utilise much of the existing Telstra infrastructure and have traditionally focussed most of their business at the populated areas. These companies provide minimal services into the more remote and regional areas, however they do cover large parts of the most populated rural towns and regions. Being able to have a choice between service providers for the whole range of affordable fixed and mobile telephone services, quality internet and digital data services is now a reality for many rural residents and one that the PGA welcomes.

Whilst there has been a documented improvement in the time for repairs to services and installations of new services in rural and remote areas, there is still a significant inequity between rural and urban regions. Producers understand the delays caused by nature that are incurred by living in the bush, such as the wet season in the north causing flooding and reducing access to undertake repairs and installations.

Mobile phone coverage on major highways in WA has improved somewhat over the past few years, however more work and investment is needed to ensure that adequate coverage exists in areas where significant traffic occurs. The PGA is continuing to work with relevant Telstra and government departments on the delivery of services and it must be said that without telecommunication reform there would never have been the establishment of the Universal Service Obligation and the Customer Service Guarantee, which ensures regional and rural telephone users rights are protected.

5. OTHER REFORMS

Rail reform in Western Australia have proved a huge wind fall for the WA economy and especially for grain growers, who still rely heavily on the rail system to get their grain to port. Rail freight rates have fallen by 42% in real terms since deregulation in 1991-92. According to the NCC rail freight rates from Perth to Melbourne have fallen by around 42% in real terms since deregulation¹³. The PGA agree with a later analysis by the NCC which concluded “*reductions in rail freight assist in increasing the competitiveness of commodity producers*”.¹⁴

Another area where producers and the rural economy has benefited has been the opening up of competition in the harvest finance market, previously dominated by the AWB Ltd. Mr Brendan Stewart, the current chairman of AWB Ltd recognised the benefits of such competition for harvest finance in his address to Grains Week in March 2004. Growers have the choice between several credible finance agencies for their harvest finance and competition has lead to savings for many thousands of

¹³ National Competition Policy: Some impacts on Society and the Economy Chapter three - Impacts on urban, rural and regional communities, National Competition Council, Jan 1999

¹⁴ Impact of Competition Policy Reforms, Chapter 6: Reform of Public Monopolies, NCC, 1998

growers. Rural towns and communities have benefited from this move as banks and finance companies relocate staff to rural areas to service farmers harvest needs.

The PGA would like to see more reform in the supply chain for wheat producers, much of which is still controlled by monopolies. The Kronos Report (2002) reviewed the structural issues in the Australian grain industry and detailed where inefficiencies and a lack of competition are imposing additional costs on grain growers. The Kronos Report stated that approximately 20 million tonnes or 72% of Australian grain exports are still controlled via monopoly marketing rights and despite domestic deregulation and some state export changes, the options available to growers who produce almost two thirds of Australia's grain remain limited and are relatively unchanged since the 1980's. This issue is of great concern to the PGA and we ask the current NCP inquiry to investigate this issue in the context of NCP and as an opportunity to further competition policy.

Uniform Reforms

The government should be implementing all reforms in a uniform manner across the board to ensure that all industries feel the effects of competition. It is unfair for one industry to reform in line with NCP and another industry being protected from reform by political whim or without tangible evidence of net benefit. Failing to implement NCP reforms in a uniform manner is having a detrimental effect on some industries and the Australian industry is an example of this.

The dairy farmers all voted for reform and it has been implemented in all states however they are being forced to buy grain, which is a major input for dairy enterprises, from a regulated wheat market. Dairy farmers gave up their quota system only to find the industry they buy their inputs from did not reform and they pay a hefty price for this ad hoc approach by the NCP. This issue came to a head during the drought of 2002/03 where shortages of grain caused extreme prices and it is claimed the AWB Ltd. used their export power to restrict domestic supply and inflated the price for domestic grain buyers.

Dairy Australia adviser John O'Connor ¹⁵ said the AWB had set its domestic feed grain prices during the 2002-03 drought at levels well above export parity and, for a significant period, above import parity. He said those prices could not have been sustained without the AWB's monopoly export power and had only moderated after feed-grains users moved to import their own grain. As well as charging excessive prices during the drought it is believed, the AWB had restricted the volumes available to feed-grain users and failed to provide customers with information about quantities of wheat in store.

¹⁵ Formed part of the submission made by Livestock Feed Grain Users Group as reported in the Stock and Land on 9/6/04

Other industries who rely on feed grains have supported the dairy farmers in their claim. The Livestock Feed Grain Users Group recently said the AWB had used its position to generate windfall profits during drought at the expense of livestock producers. The Dairy and Chicken meat industry consume 5 million tonnes of various grains per annum. All grain feed buyers should be afforded a fair and open market system, especially when they have reformed their industry in line with National Competition Policy. The government should not grant favours to one industry at the expense of another in relation to implementation of NCP.

CONCLUSION AND FINAL WORD

The government needs to start implementing the NCP reforms in a methodical manner that is based on facts from the relevant inquiries and not on a political basis, which seems to be the case in the past.

By not implementing the reforms outlined in the comprehensive 2000 Review of the *Wheat Marketing Act 1989* the Government has shown they are incapable of implementing NCP reform in a fair and reasonable manner. Legislative restrictions remain in both the Commonwealth and WA's grain marketing arrangements even when there has been no conclusive evidence to prove that these arrangements have net 'public benefit'.

The WA Department of Agriculture recommended in their review of the Grain Marketing Act of 1975, that *"the removal of the GPL's single desk selling powers before the removal of AWB Ltd's implies that the market may result in a single outlet for most of the grains exports"*¹⁶. The WA single desk remained due to the commonwealth single desk still existing and neither have proven to have net benefit to producers or the Australian economy. The Victorian government needed no such excuse when they were deciding on the future of their single desk for canola and barley. The Victorian canola and barley market is the most innovative and lucrative in the whole of Australia. If they had waited for the dismantling of the national single desk like the WA Government, their producers and economy would have never realised the benefits they currently enjoy.

The suffering of the dairy industry during the 2002/03 drought is another example where reforms should be implemented across the board other wise one industry may suffer at the expense of another.

¹⁶ Legislation Review of the Grain Marketing Act 1975, Department of Agriculture Western Australia, 2000

The other two examples given by the PGA in Lamb Marketing and Telecommunications show the true benefits farmers and rural communities have experienced because of the implementation of NCP reforms. In the case of WA Lamb Marketing this change was resisted by the statutory body, vocal farmer groups and various politicians but has proved to be an outstanding case for the merits of deregulation. The same goes for Telecommunications, while some problems still remain in rural area, services for rural residents have never been so good.

The Government needs to stick to their promise of implementing reform across the board and not be swayed by loud and vocal groups with vested interests who can not back up their claims with tangible evidence.

June 2004

APPENDIX 1:

GLA License Statistics - For 2003/04 season

Approved - July 2003 to date - 12 Licences Issued

Grain	Region	Tonnage	Shipped To Date	Status
Feed Barley	Middle East	433,000	339,791	
Canola	Subcontinent	48,000	Nil	
Lupins	East Asia	20,000	Nil	
Malting Barley	Asia	35,000	Nil	Approval through Appeal, Extended to 04/05

Declined - July 2003 to date

Grain	Region	Tonnage	Status
Canola	Asia	40,000	Unsuccessful Appeal
Canola	Subcontinent	45,000	
Feed Barley	Middle East	318,000	

Source: GLA 2004

APPENDIX 2:

Ministerial Guidelines for the Grain LICencing Authority Issued Under Section 16 of the Grain Marketing Act 2002

1. Purpose

The purpose of these guidelines is: to assist the Grain Licensing Authority (the Authority) to administer the licensing scheme provisions of the Grain Marketing Act 2002 (the Act); to inform persons involved in the grain industry and other members of the community.

2. Guidelines

The purpose of the Act is not to undermine the benefits of single desk marketing arrangements, but to maximise the benefit of competition in the market place while retaining any identified premium arising from the exercise of market power advantages that are available to the main export licence holder.

2.1 Definition of Premium

Key tasks of the Authority are to determine the existence of a “premium”, in the context of section 31(2) of the Act and to assess the effect the issue of a special export licence may have, in the context of section 31(3) of the Act.

Section 31(1) prevents the Authority granting a special export licence with a term beginning prior to 1 November 2003.

Section 31(2) provides that:

Before deciding whether to grant any other special export licence (that is, a licence with a term commencing after 1 November 2003), the Authority is to:

- “(a) ascertain whether the main export licence holder exports prescribed grain to the market for which the special export licence is sought; and
- (b) if so, decide whether the price at which the main export licence holder exports that grain incorporates a premium resulting from the exercise by it of its market power as the main export licence holder.”

In this context, a premium is essentially the market advantage that can be leveraged by the existence of a main export licence; that is, the price that can be achieved through a range of mechanisms used by the main export licence holder to control supply and manage the market place.

In deciding whether a premium exists the Authority should take into account all relevant matters, including:

the market structure and pertinent trade policies for the relevant prescribed grain in a particular market. Prices and price trends in the market for the supply of the relevant prescribed grain; and the quality and quantity of grain being exported to a particular market. If

the Authority determines that there is a premium in a market for which a special export licence is sought the Authority must consult the main export licence holder (section 31(3)(a)) and must determine if the granting of the special export licence would affect that premium to a significant extent (section 31(3)(b)).

Section 31(3)(b) provides that:

“The Authority cannot grant the special export license if it considers that to do so would be likely to affect the premium to an extent that the Authority considers to be significant.”

The issue of a special export licence will affect a premium to a significant extent if it will damage current or future market access or damage the ability of the main export licence holder to maintain the premium it currently receives. There may also be other circumstances in which the Authority considers that a premium would be likely to be affected to an extent that the Authority considers to be significant.

The Act does not require the Authority to determine that the premium will be significantly affected, only that this is considered likely.

2.2 Section 31(4)

The only other matter that the Act specifically requires the Authority to take into account before issuing a special export licence is the effect that doing so may have on the State's reputation as a grain exporter and on the State's grain industry generally. (See section 31(4))

Beyond the matters referred to in section 31 it is up to the Authority to decide what matters are relevant to be taken into account in determining an application for a special export licence. In most cases these matters will include:

the predicted production for a season or seasons; the main export licence holder's marketing strategy; the ability of the main licence holder to enter into and deliver on long term supply agreements; and the world supply, demand and price trends for the relevant prescribed grain and/or its equivalent.

2.3 Report to Minister

The Authority is required to report to the Minister as required by section 20 of the Act. Section 20 provides that:

The Authority is to report to the Minister annually and whenever directed by the Minister to do so, on –

- (a) the operation and effectiveness of the licensing scheme in Part 3 of the Act; and
- (b) any other matter relating to the operation of the Act that the Minister specifies.

For the purpose of paragraph (b) the matters that the Authority is to report on are:

the information made publicly available under section 42 of the Act (the number of applications for special export licences for each prescribed grain in each season of production; the total amount of each prescribed grain produced in each season for which a special export licence was sought or granted); the number of special export licences granted; the effect of the issue of special export licences on the operation of the main export licence; the benefits and costs associated with the main export licence and special export licences; an annual assessment, to be conducted by the Authority, of the existence and extent of price premiums which result from market power available to the main export licence holder; the effect of the licensing scheme on the Western Australian Grains Industry generally; and any other matters relating to the operation of the Act that the Authority considers should be brought to the attention of the Minister.

APPENDIX 3:

Media Release from Grain Licence Authority

Media Release - 9 June 2004

GRAINS LICENSING AUTHORITY GRANTED TIME EXTENSION

Uncertainty about the size of this year's crop has prompted the Grains Licensing Authority to seek an extension on the timeframe required to consider special licences.

Grains Licensing Authority (GLA) chairman Colin Mann said two special licence applications for feed and malting barley received on 21 May 2004, would not be determined until later in the year.

"Under the Grain Marketing Act 2002, the Authority is required to make a decision on applications as soon as practicable but no later than 30 days after receipt of the application and prescribed fee," Mr Mann said.

"In the normal course of events, decisions on the special licence applications would have been due by 22 June 2004.

"However due to the current uncertainty of the size of crop production this year, the GLA will be best placed to make its decision in mid August when there will be an improved understanding of potential and likely crop size."

As required by the Act, the Authority requested and received approval from the Agriculture Minister to extend the decision making timeframe to mid August.

Mr Mann said all applications would continue to be considered on their merits, however if received before mid July an extension of time would be sought for a decision.

"All applications up to mid July 2004 will be treated equally (including the two received to date) and after mid July applications will continue to be treated on their merits."

"Under normal circumstances there will be a 60,000 tonne limit per special export licence for the prescribed grain and special export licences will normally be issued for one year only."

"Preference will be given to issuing licences into markets that are not currently serviced by the main licence holder."

Mr Mann said the GLA was finalising its annual report to the Minister on the operation and effectiveness of the special licensing scheme under the Act and would be submitted to him in the near future.

Media Contact:

Allan Johns, Executive Officer, Grain Licensing Authority 9368 3111

APPENDIX 4

2004 Wheat Marketing Review - Terms of Reference

These terms of reference were developed by Government and are based upon the provisions of the Wheat Marketing Act 1989. They were released by the Minister for Agriculture Fisheries and Forestry on 24 December 2003.

1. The purpose of the 2004 Review is to assess AWBI's performance as the commercial manager of the single desk and its obligation to maximize net returns to growers. Analysis of whether or not the single desk should continue is not within the scope of the review and the review is not intended to fulfil National Competition Policy requirements.
2. The 2004 Review under the Wheat Marketing Act 1989 (the Act) is to be conducted by the Independent Panel with assistance provided by the Wheat Export Authority (WEA) and the Department of Agriculture, Fisheries and Forestry.
3. In accordance with the purpose, the Panel is to conduct a review of the following matters consistent with subsection 57(7) of the Act:
 - a) the operation of subsection (1A)(the prohibition on the export of wheat does not apply to AWB (International) Limited (AWBI)) of the Act in relation to AWBI;
 - b) the conduct of AWBI in relation to:
 - i. consultations for the purposes of subsection (3A)(before giving consent, the Authority must consult AWBI) of the Act; and
 - ii the granting or withholding of approvals for the purposes of subsection (3B)(the Authority must not give a bulk export consent without the prior approval in writing of AWBI) of the Act;
 - c) whether benefits to growers have resulted from the performance of AWBI in relation to the export of wheat; and
 - d) the WEA's performance of its functions under the Act.
4. Particular issues the review should address within these parameters include:
 - a) the performance of AWBI against the Performance Monitoring Review and Reporting Framework which has been developed by the WEA;
 - b) the working of the consent process including the guidelines issued by the WEA and the consultation process with AWBI;
 - c) AWBI's conduct in exercising its veto over bulk exports; and
 - d) The operation of the consent arrangements in facilitating the development of complementary and other markets.

5. The WEA's monitoring process already examines the Service Agreement between AWB Ltd and AWBI and related matters such as the Remuneration Agreement and the associated Wheat Industry Benchmark used to measure AWB Ltd's performance. The review can address these issues.
6. In addition, the review is also required to examine the performance of the WEA in relation to its responsibilities under the Act.
7. The review of the performance of the WEA should cover all functions of the WEA under the Act. In particular the Panel should assess:
 - a) the operation of the approvals process for export consents;
 - b) the effectiveness and efficiency of the WEA's monitoring and associated reporting activities;
 - c) expenditure by the WEA of its financial resources;
 - d) the relationship between the WEA and AWBI (including its related body corporate where relevant to pool operation), and the WEA and the Grains Council of Australia (GCA) and other relevant industry stakeholders; and
 - e) the way in which the WEA complements the objectives of AWBI to maximize net returns for pools, while at the same time seeking to facilitate the development of complementary and other markets where the WEA considers that this may benefit both growers and the wider community.
8. With respect to this purpose, the Panel in its review can make recommendations that enhance the operational effectiveness of the single desk where this may benefit both growers and the wider community.
9. In conducting the review, the Panel must consult with the WEA, AWBI (and its related body corporate where relevant to pool operation) and the GCA and may consult with other industry stakeholders as necessary.
10. Before 1 August 2004 the Panel must give the Minister for Agriculture, Fisheries and Forestry a report of its review. The Panel must publish a report, which is specifically directed towards wheat growers before 1 September 2004. The latter report must not contain any information, which is protected from disclosure by subsection 5E(2) of the Act or which is otherwise provided to the WEA or the Panel on a commercial-in-confidence basis.

APPENDIX 5:

The Functions of the WEA

- 1.1 The WEA has three main functions:
- i. to control the export of wheat from Australia;
 - ii. to monitor AWB (I)'s performance on wheat exports and examine and report on the benefits to growers of that performance; and
 - iii. to conduct a review and report to the Minister for Agriculture, Fisheries and Forestry on AWB (International) Ltd's use of its wheat export rights under the legislation before the end of 2004.
 - iv. The WEA also considers wheat export applications against a set of Guidelines.
- 1.2 The Act entitles AWB (I) to special wheat exporting privileges. AWB (I) does not need to apply to the WEA for consent to export wheat. All other wheat exporters must apply for written consent from the WEA to export wheat.
- 1.2.1 Exports of wheat in bulk, containers or bags by exporters other than AWB(I), are subject to WEA approval following consultation with AWB (I). The WEA must have AWB (I) written agreement before issuing consent to export wheat in bulk.
- 1.2.2 The WEA is required to report on the ongoing benefits to growers, and subsequently report on, AWB (I)'s use of its wheat export rights before the end of 2004.
- 1.3 The WEA monitors the performance of AWB (I) and has engaged The Allens Consulting Group to assist with the analysis of the performance data. The WEA continues to consult regularly and work with AWB (I) and the Grains Council Australia.