The Western Australian Farmers Federation (Inc)

Submission

on the

Discussion Draft

Review of National Competition Policy Reforms

December 2004

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1. INTRODUCTION - BACKGROUND INFORMATION

Prepared by:-

Organisation:	The Western Australian Farmers Federation (Inc)
President:	Mr Trevor De Landgrafft
Address:	Ground Floor 28 Thorogood Street BURSWOOD WA 6100
Postal Address:	PO Box 6291 EAST PERTH WA 6892
Phone:	9486 2100
Facsimile:	9361 3544
Email:	rosshardwick@waff.org.au
Contact Name:	Ross Hardwick
Title:	Executive Officer – Economics, Farm Business, Transport & Special Projects

The Western Australian Farmers Federation (Inc) (WAFarmers) is WA's largest and most influential rural lobby and service organisation.

WAFarmers represents West Australian farmers from a range of primary industries including grain growers, meat and wool producers, horticulturalists, dairy farmers and beekeepers. WAFarmers has recently expanded its membership base to incorporate rural small business owners. WAFarmers represents 2,869 members incorporating 8,000 – 10,000 partners.

It is estimated that collectively our members are major contributors to the $5.538 billion gross value of production that agriculture in its various forms contributes to Western Australia's economy (ABS report 2001/02 season).

Additionally, through differing forms of land tenure, our members own, control and capably manage many millions of hectares of the State's land mass and as such are responsible for maintaining the productive capacity and environmental well being of that land.

1.1 SCOPE OF COMMENT

Interested parties are invited to comment on the Commission's findings on the impacts of NCP and its preliminary proposals for a future reform agenda.

WAFarmers submission points to this discussion draft are generic and specific for particular areas and pertain to rural and regional Western Australia.

As a general comment, it is the interpretation and the practical objective application in a wholistic manner of the principles of competition that is more important, before structural change destroys rural and regional primary industry and their respective communities.

2. PRIMARY PRODUCERS - RURAL BUSINESSES AND NATIONAL COMPETITION POLICY

The way ahead – key points in the discussion draft provide a clear strategic plan for economic, social, environmental and political reform for Australia. The recognition that pure economics based on national data has been masking unintended consequences is to be congratulated. Lets hope that this line does not become a verbal throw away like the triple bottom line has been for the last 10 years or so.

Primary producers and rural businesses having been dealing with market rationalisation for 30 or more years now in a reasonable manner and to building the structural strength of the industry by working on sustainability and the triple bottom line of economic, environmental and social issues. Market prices on their own do not tell the producer what the real consumer really desires/needs as the value chain service industries perform a high degree of so called commercial confidence tricks (read – do not tell the producer the real story otherwise we can not manipulate the market place for our own benefit), therefore other means than just price need to be developed and brought into play to allow the reform process to continue with producer support.

There still remains the point, irrespective of your economic bent, of how can primary producers add the costs of the increasing impost of regulation and compliance, biosecurity, food safety, sustainability and environmental stewardship? Where primary producers are price takers and there is no price transfer or compensation forthcoming for addressing the issues being driven by the ‘public good’ dogma.

2.1 NCP AND THE WA DAIRY INDUSTRY

In the context of the WA Dairy Industry, the impact of NCP and related reforms undertaken to date has demonstrated the following on indicators such as growth, productivity and distributional impacts on rural and regional dairy area of Western Australia:

Dairy Deregulation from a WA Perspective:

- Has increased the rate of farmers exiting the industry.
- Has not increased WA Milk Production.
- Has not resulted in any significant yield improvement per cow.
- Has reduced gross revenue to farmers by around $26 million or 18% per year.

However:

- This has increased the rate of increase in domestic package milk consumption.

To February this year (2004) the packaged milk sales rose by around four percent for the year or around eight million litres. Coupled with this we have seen milk prices received at the retail end increase, on average by around four percent or around ten cents per litre for a two litre bottle of milk over the same period.

The WA Public:

- Is footing part of the bill for deregulation in other states with a greater outflow of money from the state via milk levy than inflow to the state via DSAP and SDA (Dairy Structural Adjustment Program and Supplementary Dairy Assistance program). Approximately 60% of money paid in WA by consumers under the levy will be returned to this state.

Growth of WA Dairy Industry

The potential for long term growth of the WA Dairy industry has been severely eroded as a result of Dairy Deregulation. The future strategies employed by both the retail and processing sector will have the most significant impact on the industry:

- Discounting of milk to gain market share.
- The move to focus on the fresh packaged milk sector. National processors have shifted the production of manufactured goods to the Eastern States where milk volumes are greater. There appears to be manufactured goods produced in the Eastern States sold at discounted prices on the WA retail market to meet this shift in production.
- National processors are also shifting production of export goods to the Eastern States.

Lack of Bargaining Power

Producers have little negotiation power when dealing with processors. The Collective Bargaining authorisation granted to the dairy industry does not sufficiently address this issue.

2.2 AUSTRALIA'S RECENT ECONOMIC PERFORMANCE AND THE ROLE OF NCP

The economic reform agenda of the last 2-3 decades has engendered a more robust primary industry sector that provides significant domestic benefits as well as building a strong export economy for rural products.

The fact remains that the global export economy is not a perfect market and contains many areas of market corruption through the use of subsidies and tariffs in all their many forms.

The primary industry value chain has always set the farmer up as a price taker and hence the cooperative structures and agricultural economics and this must be addressed, not ignored.

The cost-price squeeze that farmers are dealing with is reaching a point where a breakout of one of the elements needs to occur for the grains export industry to continue, just like the livestock meat industry received a price breakout.

Economic reform and the domestic market size in Australia generally sees market power sitting in a duopoly position over time, therefore structural policy reform would need to be developed to allow primary industry service providers to operate an export market as a single power to ensure that producers can shift from a price taker to a price setter.

2.3 PRICES, SERVICE QUALITY AND GBE PERFORMANCE

GBE performance and SMA's, the commercialisation / performance based enterprises that now exist to perform the marketing / trading of export orientated agricultural products (not commodities) is definitely a vast improvement on the old SMA's.

Australia's place in the international agricultural product market place is relatively small and any comparative advantage that we can generate is needed to compete in a corrupted global market place.

2.4 SOCIAL, REGIONAL AND ENVIRONMENTAL IMPACTS

The key points that the review paper raises for this chapter clearly articulate that businesses and households are completely separate entities which is correct from an economic perspective but not so for the bulk of primary industry. Hence the interdependence of one on the other in this situation has been ignored, it should not be.

Broadacre farming has benefited from NCP through decreased energy prices for electricity but increased costs for diesel, on top of this is the current cost of infrastructure failure for electricity supply.

There has been stable water prices for those producers who have access to piped water supply but there is a diminishing supply occurring and hence restrictions on volumes that means added costs for producers.

Telecommunications are suffering from inadequate infrastructure and hence communication costs are increased.

Rail only exists for grain to port and it is predominately narrow gauge and is rapidly being closed.

Road infrastructure strategy planning is virtually non existent in rural areas and maintenance regimes have been greatly curtailed which when put together is leading to a crisis waiting to happen and what this then does to road transport user costs.

Regional areas that can diversify or develop alternative industries other than grain / sheep / wool / cattle are better off and can also deal with the added impacts of drought and catastrophic events.

The labour issue in NCP assessments tends to be based on full time employment or otherwise yet in the grains and livestock industry of WA its highly seasonal and coupled with location make it hard to attract skilled labour from within the state.

The transitional issues and contributing factors of both structural change and NCP should be assessed in a regional wholistic approach and not just on economic input/output models that do not take into account interdependency with social and environmental aspects as well as value chain effects of value add/cost and the risk/cost of capital shifting along the chain.

WAFarmers also rebuts the points made on p97 where the grain issue talks about barley, the real issue is wheat (see section 3.0), and for lamb meat in WA and competition, the cooperative still exists and where are all the free traders / processors in WA that are supposed to develop under a deregulated free market place. The cooperative is more commercial and viable but it still points to collective orderly marketing for export that passes the value back to the producer and this is surely a win/win situation.

The point made on p103/4 that adjustment costs – and in particular the cumulative impacts of reforms and broader pressures – be afforded greater policy attention in the future is extremely valid and of great importance.

2.5 LESSONS FROM NCP

The key points are very important particularly the public interest test being more area specific, a greater weight being put on the adjustment and distributional implications and the use of financial incentives as an effective tool for change but should not be used in a stand alone manner without the previous two points being closely integrated.

2.6 THE IMPORTANCE OF CONTINUING REFORM

The importance of continuing reform of the Australian economy to World's Best Practice is a must.

More importantly, the social and environmental challenges need to be accounted for more dynamically and in a three dimensional form. This also needs to be modelled with the political dimension as well.

2.7 FURTHER INFRASTRUCTURE REFORM AND LEGISLATION REVIEWS

Further infrastructure reform and legislation reviews need to take account of WA's 'isolation costs/benefits' and not let the 'one hat size fits all' mentality of a National approach force decisions with reform that are structurally bankrupt, for example the energy sector.

The continuing restrictions on competition in export wheat and prescribed grains do not need to be re-examined in the context of restrictions but need to be strengthened structurally to address WTO issues and allow Australian exports of agricultural products to compete in a corrupt market place.

3. ORDERLY MARKETING OF GRAINS – WA PERSPECTIVE

WAFarmers submission to the GLA review process.

3.1 EXECUTIVE SUMMARY

WAFarmers submission to the GLA review process addresses the four points within the scope of the review to various levels; in particular, point a) where we can only comment on antidotal information and it is up to the Main Export Licence Holder to address this point in detail.

It seems that organisations such as the CBH Group and AWB Limited are constantly having to commission expensive research undertaken by independent parties to confirm the benefits of a Main Licence Holder approach to selling grain from Australia. What has been noticeably devoid from the debate is that those supporting deregulation have not been able to demonstrate any tangible economic benefit that would arise out of the end to Main Licence Holder, nor have they produced any economic modelling that supports their argument or provides the justification for change.

One thing that has certainly raised the concerns of the WAFarmers is that those supporting total deregulation have been unable to develop any compelling reason for change. We hear on a regular basis that the advantages of a free market approach is that the natural tendencies of commerce will see a type of “equilibrium” and that market forces would ensure that growers interests are assured. This position is not substantiated and does not stand up to scrutiny and experience from the industry.

WAFarmers acts in the best interests of the growers of Western Australia and wants to ensure that industry change is in line with creating additional value. If it can be demonstrated clearly and unambiguously that deregulation would deliver sustainable and long term benefit for grain growers then WAFarmers would certainly be swayed towards the full free market approach. Unfortunately, no party, private, government or otherwise has been able to deliver this and the continued scrutiny by a few individuals is both costly and destabilising.

The export Main Licence Holder model for barley, lupins and canola operating in Western Australia today certainly achieves adequate balance between orderly marketing while still facilitating a degree of choice. As we have indicated, exporters are able to move grain out of Western Australia in bags and containers and we have a small yet very active domestic market. Historically our system in Western Australia does not serve masters with individual corporate objectives, nor did it attempt to satisfy a political mandate that is adopting an “economic rationalism or perish approach”. The Main Licence Holder is in existence to protect the interests of the majority of Western Australian growers and their rural communities.

One thing that seems to be lost frequently in the debate of deregulation is the human cost. Behind the arguments of choice and of free markets are people, farmers and their families who are trying to build a viable business in rural Western Australia in communities that are disappearing around them. Western Australia has a rich tradition of farmers and the bush.

3.2 GRAIN LICENSING AUTHORITY

National Competition Policy (NCP) is about removing market or competition restrictions placed by government enterprises or legislative processes and further broadened through the Trade Practices Act to include all of business, and in improving the public good of the product value chain in both micro and macro economic terms. The stick approach for enforcing these changes is by withholding Competition Payments to State Governments. State Governments in turn have developed ways to deliver on these processes and not suffer payments being withheld, hence the Grain Licensing Authority.

Competition Policy is also about innovation and primary producers and rural businesses in WA are embracing market competition for domestic grain trading and yet with predominately an export market, where the Main Licence Holder operates, it has been through significant innovation that the grains industry and producers have stayed in the race of the cost price squeeze.

Primary producers having been dealing with market rationalisation for 30 or more years now in a reasonable manner and to building the structural strength of the industry by working on sustainability and the triple bottom line of economic, environmental and social issues.

Competition Policy is about diminishing price control or ensuring a monopoly situation does not occur for price setting that generates super profits and yet the GLA situation is about increasing the price received for a product. Primary producers for almost all products produced do not set prices – we are price takers – it is the service providers or so called value adders that effectively manage price to the domestic value chain and as a consequence then compute the price they will pay the primary producer for his product (this is where orderly marketing for grain has/does put a floor (amongst other things) in the market place for the domestic market place.

The recently released study on the Price Determination in the Australian Food Industry – Analysis of the determinants of prices and costs in product value chains is a great first step in educating policy makers about agricultural industry value chains that farmers know and deal with on a day to day basis. Yet, the study looks at each segment in isolation within the chain and this has tendered to portray the primary producers take incorrectly. Plus, the analysis is at a national level, not at the state or regional level. For example, grains and flour where it is indicated that 50% of the cost components of flour goes to the grower, and yet there is only 20c (7%) worth of wheat in a 700gm loaf of bread that retails for $3.00 – this does not compute when an

analysis of the full value chain for domestic markets and the demonstration of both public good and retail competition are the principles to be addressed.
Main Licence Holder retention has industry wide support, based on its ability to take all grain produced and through the pool system provides economic benefits to growers, industry, rural communities and Western Australia. The first year performance of the GLA and the issuing of Special Export Licenses has not produced a net economic gain to the grains industry, merely a redistribution of monies within the industry.

Therefore, any attempts by State and Federal elected representatives and other parties at further deregulating the Main Licence Holder in any way will be met with grower and industry opposition. The submission clearly identifies the benefits of the Main Licence Holder and politicians should be left in no doubt of the necessity to retain the Main Licence Holder to preserve the future of the Western Australian grains economy.

The issue where special export licence holders are given licenses prior to seeding and then supposedly in a position to offer:

- **cash prices prior to seeding** – allowing growers to make planting decisions knowing the price they will be receiving;
- **pre-planting packages to growers** – involving the 'packaging' of services such as fertiliser, seed, finance, agronomic advice as well as a fixed price for the grain produced.

It is very unclear at this stage what the likely demand would be for such services from farmers given the risk management profile and existing financing arrangements for grain producers. This approach of issuing licenses prior to knowing or having a higher degree of certainty of grain production means that tonnages required to maintain core markets would undermine the Main Licence Holder.

The ability of the GLA to adequately deal with these issues needs to be clearly defined in either the guidelines and or the regulations.

Recommendation:

> That the issue of licences on a 'first in first served' basis up to specific limits that are set at a time when the actual production level has a high degree of certainty.

The recommendation provides clearer certainty for the Main Licence Holder and injects competition amongst the Special Export Licence applicants and both of these outcomes are seen to be beneficial to the grains industry as whole, not just small sectional interests.

3.3 PRESCRIBED GRAINS PERSPECTIVE - WA

For an assessment of the relative benefits of export Main Licence Holder for coarse grains in Western Australia, it is critical to take into consideration not just the concept of "price premium" on any given day. Rather this assessment should incorporate what system provides an overall long term financial and social benefit to growers and the community. Given that the vast majority of growers (82 per cent[1]) support the retention of "orderly marketing" facilitated through the export Main Licence Holder it is clear that this system is providing greater long term benefits and security to the community than a deregulated environment.

Western Australia is at variance to the rest of Australia with only a very small domestic grain market. With over 90 per cent of grain grown in the state exported, managing this process carefully is critical.

The export Main Licence Holder allows the main licence holder, the Grain Pool Pty Ltd (GPPL), the opportunity of managing and protecting the short and long term interests for Western Australian growers. This includes but is not limited to maximising price over the long term, ensuring the State's reputation for the quality of grain it produces and re-investing millions of dollars back into the industry. It is unlikely that an alternative organisation with a requirement to maximise both profits and "shareholder value" would make such a commitment.

This section has been developed to articulate in further detail the range of benefits that are delivered by a system of orderly marketing facilitated by the export Main Licence Holder for barley, lupins and canola. WAFarmers is in favour of deregulation where it can be proved that there are long-term commercially viable benefits to farmers and rural communities. But as will be demonstrated in this submission, these long term benefits for the state are still derived out of the current orderly marketing system.

Any assessment of the benefits of orderly marketing for export should be placed in the context of developments in the global operating environment, which includes an increasingly competitive, and often distorted international market.

One of the greatest problems facing WA grain growers is the level of Government support provided to grain producers in other nations. For example:

- The 2002 Farm Bill provides US$135 billion in subsidies to American farmers and increases agriculture spending by 78 percent or US$83 billion spread over 10 years;
- Australian growers receive government support that is less than one-tenth of competitors in the US and the EU;
- Canadian growers receive twice the amount of support from their Government (A$25/tonne) that Australian growers receive;
- US growers over A$140 per tonne; and
- EU growers over A$170 per tonne.

(Source: Boston Consulting Group)

[1] Source: Kondinin Group's National Agricultural Survey 2003

Many of these subsidies are related to production, that is, the greater the production, the greater the level of subsidy. This tends to increase production, depress world grain prices and make it increasingly difficult for Australian farmers to compete. Put another way, those countries with managed orderly marketing systems do not have subsidies or distorting tariff systems in place.

A more recent trend in the international market place has been the emergence of non-traditional exporters expanding into Australia's Middle East and Asian markets (core markets). Export volumes from the former Soviet Union and other non-traditional exporters have grown at over 7 percent per year since 1987.

While the quality of grain is variable, these producers have a major cost advantage over the more traditional exporters, because of weak currencies, low internal tax and cost structures. In many cases they also have poorly developed storage and handling systems and limited financial capability to carry stock which then forces grain to be quit on the world market as soon as it is harvested.

Given an international environment of both government orchestrated market distortion, the emergence of new entrants leveraging off cheaper production costs, and the coordinated approach to purchasing initiated by customers, Australia's and more particularly Western Australia's competitive advantage is being eroded. As such, the orderly marketing of coarse grains out of Western Australia facilitated by the export Main Licence Holder will become even more critical in assuring the industry's ongoing profitability and perhaps existence. In essence here, if orderly marketing was to be removed, the storage, handling and logistics system would fragment and either have greater costs or be dismantled, efficiency and coordination would disappear and only sufficient grain grown for existing contracts that could see both production levels and the areas where grain is grown move to low levels and communities disappear.

3.3.1 Background to the Grains Industry in WA - Why Western Australia is Unique

Western Australia's grain industry comprises approximately 7,500 grain growing enterprises which plant and harvest grain across some 320,000 square kilometres of the grain belt. Total annual grain receivals in the State average around 10 million tonnes, but have ranged from 5.2 million tonnes in 2002-03 to 14.7 million tonnes in 2003-04.

Western Australia's grain industry is unique in comparison with its interstate counterparts. Western Australia is geographically isolated from the rest of the nation, which generally makes interstate grain trade unviable or uncompetitive; the small local population (1.9 million residents) means a small domestic market for grain; and, the State is relatively close to the rapidly growing Asian markets.

These factors mean the Western Australian grain industry is heavily reliant on exports to remain viable. In fact, in an average year over 90 per cent of the State's grain is exported to more than 20 destinations including Japan, South Korea, Indonesian, Iran, Pakistan and China.

Table 1: Export volume by grain type (2001-02)

Grain	Income generated (est)	Proportion of total crop exported (est)
Barley	$385 million	93%
Canola	$167 million	92%
Lupins	$196 million	48%
Wheat (Main Licence Holder held by AWB Ltd)	$1,829 million	93%
Oats (no Main Licence Holder held)	$116 million	53%

- Source: 'Infrastructure Requirements from a Grain Industry Perspective' paper presented by CBH General Manager Operations, Colin Tutt at the Lloyd's List Transport Infrastructure Conference – September 2003

3.3.2 Contribution to the State's Economy and Society

The grain industry makes an enormous contribution to Western Australia's economy, and the economic and social dynamics of rural areas. In 2002-03 total agri-food exports from WA were worth $4.4 billion, and accounted for 14 per cent of the State's exports (Source - Western Australian Department of Agriculture).

When flow-on benefits are included, the number of jobs created from the agricultural, food and fisheries industries is approximately 105,000, or 10 per cent of the total employment in Western Australia.

The grain industry contributed to approximately 55 per cent of the gross value of agricultural production of the State.

Western Australia is a sparsely populated State, with high concentrations of its population in a few metropolitan areas. Only half a million people live outside of these areas, and this figure is declining rapidly.

The population of the grain belt paints a smaller picture on a much smaller scale. Just over 72,000 people live in Western Australia's grain belt, yet only two towns within the grain belt have populations over 5,000 people. Other larger wheat belt towns have populations of between 2,000 – 3,000 (Source – Wheatbelt Area Consultative Committee).

These towns are reliant on grain growing income for their survival and would not exist if the grains industry was to lose its ability to compete in global export markets.

3.3.3 Impact on Growers, Rural Communities and the Western Australian Economy

The cost of deregulation should not be measured just in dollars, but also in human cost. Western Australia's rural areas are in decline. Many small country towns have disappeared off the map while larger towns have seen a reduction in their population and services.

Since the sixties, successive State and Federal Governments have promoted the so-called rationalisation of the farming industry. Reflecting the slogan 'get big or get out' many farming families did get out and families employed in service industries soon followed them. This decline was exacerbated by the heavy reliance on the traditional farming sector for jobs and wealth creation and by the State Government's practice of centralising services in the metropolitan area and in a few regional centres.

While the economic rationalists might argue that after thirty years of adjustment the rural sector has now achieved lower interest rates and is more competitive, it has come at a great cost human personal terms.

For all of these reasons, there has been a massive exodus of people from our rural communities to metropolitan areas. This exodus further exacerbates the situation with fewer people remaining to warrant the retention of necessary services or to supply farming enterprises with necessary labour. This is a vicious circle which the Government has been unable to prevent, or even slow and creates doubt as to whether they even care about the plight of rural communities

If the attrition of people from our rural towns continues, the facilities and services in these towns will be forced to "shut shop". Unemployment will become endemic to rural areas – a trend that would be impossible to reverse. These towns, as has already occurred in some areas of the State, are becoming "ghost towns". Such a situation has a significant downward effect on the State's economy.

Rural people have already seen their schools, shops, hospital wards and sporting clubs disappear or decline over a relatively short period of time. The worst impact has been on young people who suffer high levels of unemployment, few social amenities and little prospect of future improvements.

Having witnessed the breakdown of their communities, and their social structures, unemployment and economic downturn then the loss of the Main Licence Holder will have catastrophic social effects/costs/detriments on rural communities.

In assessing the net benefit of the Main Licence Holder, authorities cannot simply concentrate on economic benefit; they must also consider its impact on social welfare.

3.3.4 Terms of trade / Declining Returns

Because of the size of Western Australia's grain industry and its contribution to the economy, there is a tendency to focus on its total value, and ignore the terms of trade nature of the industry. The reality is that the grains industry is stratified and a reasonable segment does not return huge margins to grain growers, particularly in comparison with the capital tied up in property and plant.

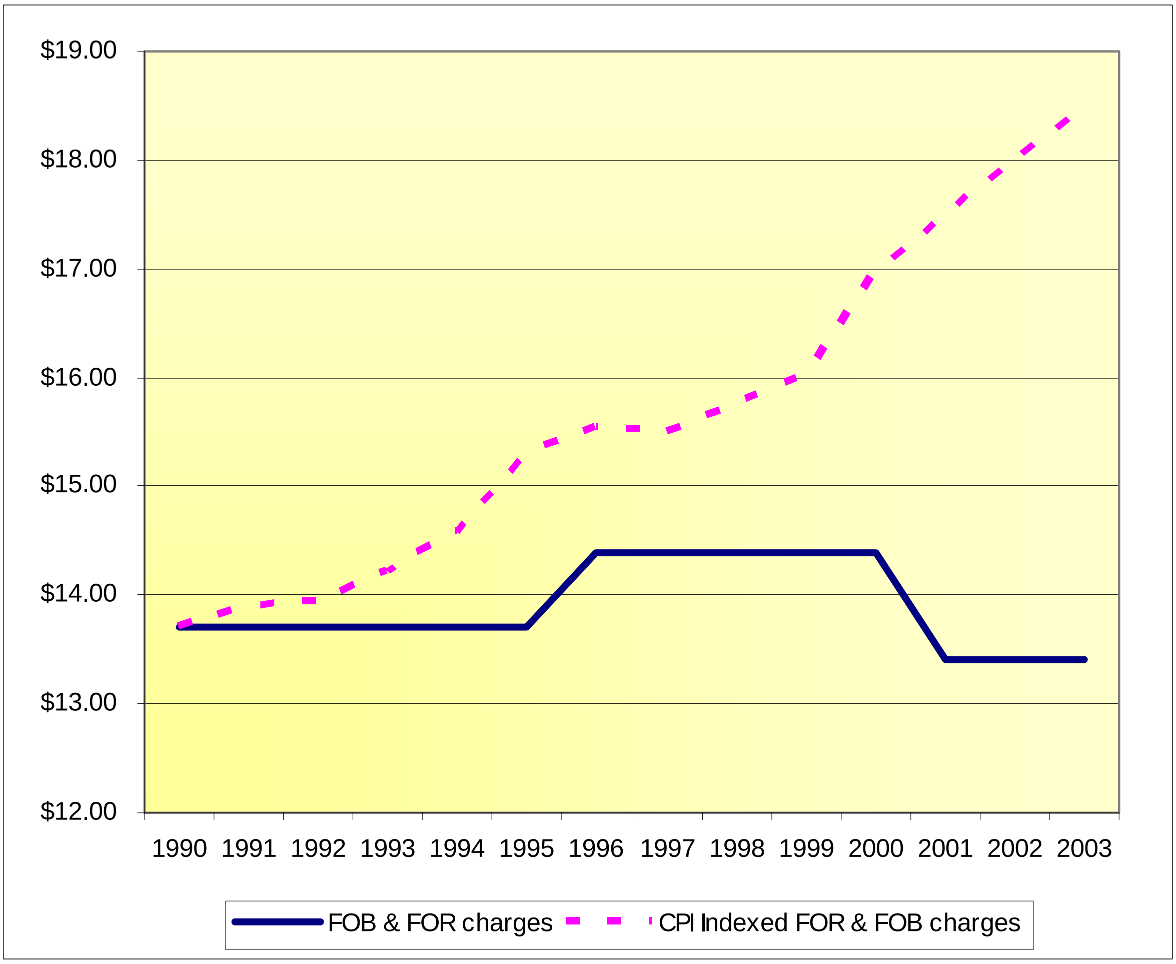
In 2001-02, one quarter of all WA farms had a negative return on capital – their third such year in succession.

Exacerbating the situation is the dramatic rise in farm-input costs. Crop insurance increased by 35 per cent in 2001-02, and professional fees increased 26 per cent.

In contrast, grain storage and handling costs (provided by the grower controlled provider and former legislative monopoly-holder, CBH) have decreased by $1.00 per tonne, and in "real terms" when compared to the cost to growers if storage and handling charges were indexed to CPI.

CBH has no substantial competitor to provide storage and handling services in Western Australia, nor is it required to keep costs down under legislation. However as shown in Figure 1 over the page, despite CPI increases, CBH's storage and handling costs have on the back of the economies of volume created by Main Licence Holder marketing, actually declined over the past thirteen years providing a net benefit to the community.

Figure 1: CBH Storage and Handling Costs 1990 – 2003



The running costs of the State's barley, canola and lupin pools are subject to a range of factors outside of the control of the Main Licence Holder, GPPL, such as foreign exchange rates, shipping rates and quality claims. Despite this, GPPL has managed to reduce per tonne costs to growers over the past four years.

Table 3: Per Tonne Operating Costs of Western Australia's Grain Pools

	Per tonne $	**Per tonne $** (adjusted for inflation)
1997-98	1.69	1.68
1998-99	2.30	2.26
2000-1999	2.91	2.78
2000-01	2.83	2.57
2001-02	2.57	2.24

* Source: Grain Pool of Western Australia Financial Statements 2002

Again, until the 2002-03 harvest which saw the introduction of Special Export Licences to marketers other than the Main Licence Holder, GPPL had no competition for the export of coarse grains in bulk. Yet its costs were held in check and even declined, despite the absence of competitive pressures. It is WAFarmers argument that with Special Export Licenses that are not capped into an industry focused predominantly on export, and where the majority of control rests with international buyers has little prospect for improving the rural economy.

3.3.5 THE MAIN LICENCE HOLDER DOES NOT ARTIFICALLY INFLATE PRICES TO CONSUMERS

As outlined above, the Western Australian grain industry is unique in the nation given its relatively small domestic market for grain products. While there is some evidence to suggest that the existence of Main Licence Holder could inflate prices to domestic consumers this needs to be balanced against the overall net benefit to growers and the state. For example, preliminary calculations indicate that domestic price increases to local buyers as a result of Main Licence Holder is around 1/10 of the overall economic benefit derived by the state (Source GPPL, 2004). This issue is mitigated further due to several reasons, which are articulated below:

3.3.6 Domestic Market Regulation

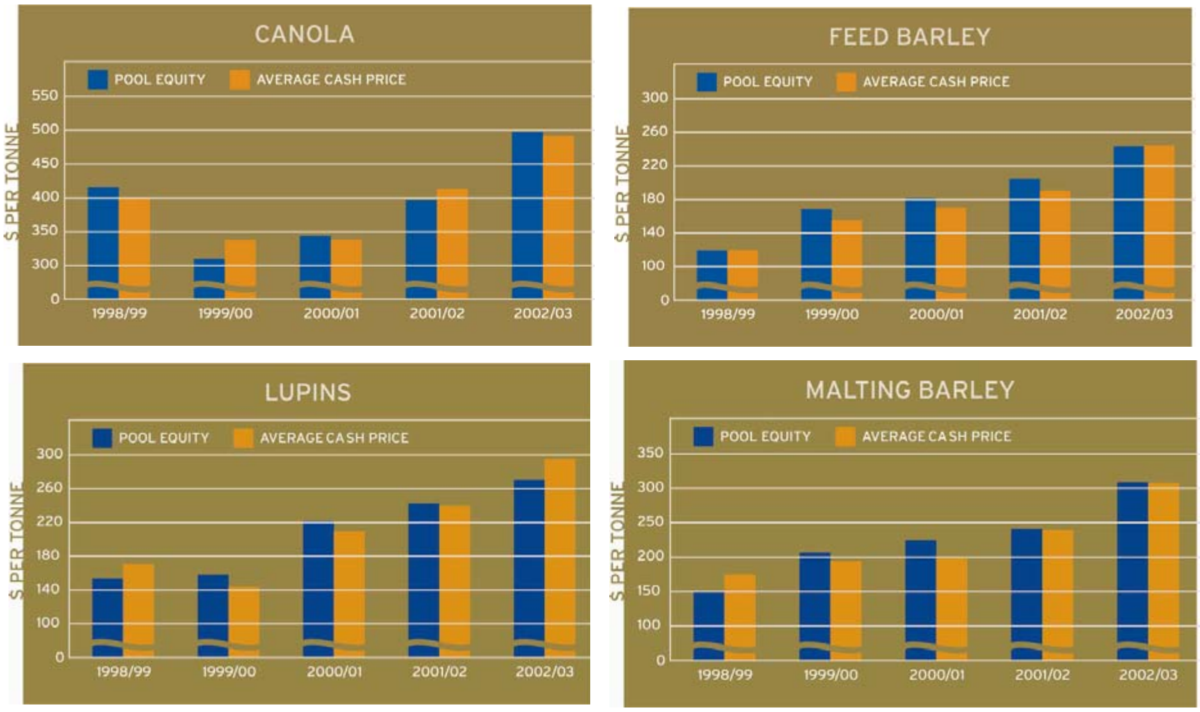
The Main Licence Holder for barley, lupins and canola only applies to export grain. Domestic users can, and do, purchase grain outside of the GPPL system. They have the choice of sourcing grain directly form grain producers, or purchase it from one of 100 grain traders in Western Australia. However, as the domestic requirement for grain is small, very little grain is sold to local users by comparison to the export market.

3.3.7 Pool Returns Consistently Outperform Competition in the Longer Term

While the Main Licence Holder does provide a ‘floor’ to the grain acquisition market, it does not artificially inflate the prices end-users pay for the grain. In fact, the pool returns offered by the Main Licence Holder typically outperform the cash market on a total tonnage basis.

Figure 2 below compares final pool equities and average cash prices (adjusted to be directly comparable) for each grain type from successive harvest periods.

Figure 2: Pool Equities Versus Average Cash Prices

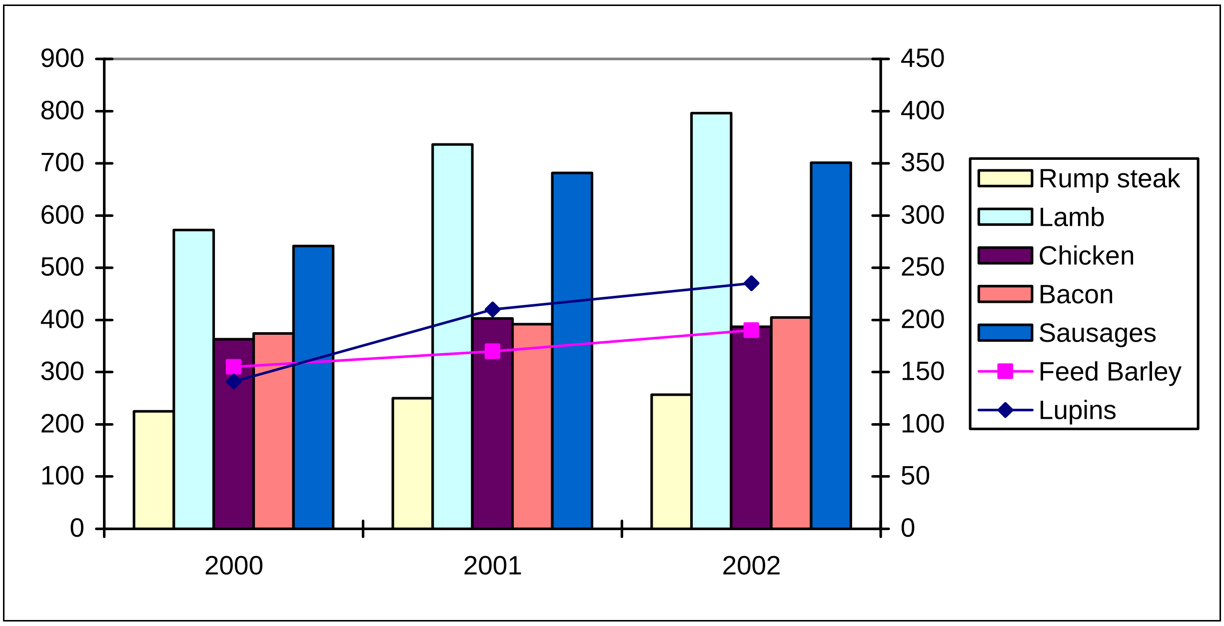


**Note Pool equities and average cash prices have been adjusted to be directly comparable (Source – Grain Pool Pty Ltd)*

3.3.8 Little Correlation between Consumer Prices and the Input Cost of Grain

Due to Western Australia's reliance on the export market to sell its grain, local grain prices rise and fall in line with foreign exchange rates, global production and other world market factors. Despite this, produce dependent on grain reflects little of these price fluctuations. As shown in the Figure 3 below, although grain prices increased over the three years shown, the cost of produce such as lamb and sausages increased more rapidly than input costs such as feed grains.

Figure 3: Consumer Prices and the Input Cost of Grain



Source – Australian Bureau of Statistics

3.3.9 BENEFITS OF MAIN LICENCE HOLDER MARKETING IN W.A

The export Main Licence Holder provides a raft of benefits to Western Australian growers reflecting an overall net benefit that is greater than individual pricing "premiums". A summary of these benefits are as follows:

3.3.10 Provides Security for the Rural Community

Grain growing enterprises are at risk of any number of factors outside of their control. Weather, rain, global supply and demand, and the timing of crop maturity all impact upon a farming enterprise's profitability in a given year. If the Main Licence Holder was removed another uncontrollable factor would be added to the mix. Will the grower be able to find a buyer for his grain?

Not all grain is easy to sell. Quality problems created by adverse weather events during the harvesting period can make some grain virtually unsaleable. A year of bad weather conditions could "bankrupt" a grower. The main license holder of the Main Licence Holder as the "buyer of last resort" is required to purchase the grain from the grower and develop an appropriate range of market options.

Two examples of the Main Licence Holder holder purchasing unsaleable grain occurred during the recent 2003/2004 harvest.

In the first example, extreme weather changes caused issues of “cleaved barley” for many growers along the south coast of the state. It was uncertain whether the barley would be suitable for the malting process, so grain showing cleaved barley characteristics was delivered into feed barley stacks until germination tests were conducted.

These subsequent tests showed that some of the cleaved barley could in fact be used for the malting process. Its ultimate suitability however was dependent on the level of damage. Following these findings, GPPL paid the growers who had initially delivered cleaved barley to the feed barley stacks the malting price for their grain (note that at current prices, there is a $25 per tonne difference between feed and malting prices).

In doing this, GPPL were able to protect both the quality of the malting grain, and Western Australia’s reputation as a supplier, and still pay growers fairly for their grain. Another marketer not obligated under Main Licence Holder may have taken several less attractive options for the industry including;

- Ignoring those growers delivering cleaved barley and insisted on paying the feed price.
- Attempted to sell the cleaved barley as malting thus jeopardising Western Australia’s excellent reputation for supplying high standards of malting barley.
- A corporatised company, under corporate law, has the obligation to maximise returns to shareholders and therefore would not have paid the malting premium to growers delivering cleaved barley.

In another example during the 2003-04 harvest, a number of growers without the benefit of Global Positioning System equipment marked their crops with a red foam marker to assist them to differentiate between different crops while spraying for weeds.

This red stained grain was mixed in with the rest of the grain during the harvesting process, and was delivered to CBH. Due to close appearance of red-stained grain to pickled grain (which is toxic); this grain was unacceptable to most international markets. GPPL given its mandate under Main Licence Holder was able to work with its broad customer network to find a suitable market for the grain. Once again it is unlikely any alternative organisation with a profit making imperative would have gone to similar lengths to ensure a return for growers and hence continue our reputation as a strong trading State.

Grain located 500kms away from the nearest port or domestic end-user is equally difficult to sell without the support of a Main Licence Holder system. The cost of transport from such a distance to port would be unviable for smaller marketers and this grain would be virtually unsaleable.

3.3.11 Gives Growers a Price Indication

While much of the focus on grain growing occurs during the harvest period in early summer, grain growing operations commence around April/May of each year. These activities include sourcing seed, preparing land, seeding, fertilising and spraying – all of which incur costs before any income is received for the crop.

In Western Australia, each hectare of land sown to crop costs the grain grower approximately $150 - $300 to plant and nurture to maturity. For an average farmer these inputs cost upwards of $300,000 per year. This figure is exclusive of the costs of upgrading or purchasing harvesting machinery, on-farm storage, storage, handling and marketing costs, insurance or professional fees.

As grain is marketed over a 12-18 month period after the harvest, a grower may not receive the total income from their crop for up to 26 months after seeding. To cover these input costs until they generate income from his crop, the average grower must seek finance.

In February/March of each year, GPPL announces its estimated pool returns for the coming harvest. This provides growers with an estimated return for their crops, which in turn allows them to seek finance from their bank or lending institution who accept these forward prices given their record for accuracy and dependability. Without this figure, banks would be less willing to finance a grain growing enterprise as the return would be unknown and the risk of the grower being unable to repay the loan would be greater.

Many growers, particularly after drought years, would be unable to access the funds required to plant the coming year's crop – and without any income, would be forced to sell the farm and leave the industry.

Those farmers who are able to fund their cropping activities would have little price indication to guide their planting decisions eg. whether to plant barley, lupins, oats etc. At harvest time, when marketers begin to publish cash prices the grower may find that they have overestimated the income they will receive from a particular crop and as a result may be unable to repay their loans.

Further, one of GPPL's functions as Main Licence holder is to assist in shaping the crop for the forthcoming year i.e. through monitoring the market and other grain producing nations they are able to guide growers as to the best crops to plant for the forthcoming year. This reduces the likelihood of an oversupply of one particular grain type in Western Australia which can force prices downwards.

As the crop begins to mature each year, GPPL captures information on the size of the crop and commences managing foreign exchange, futures, and forward selling based on the crop size. This enables GPPL to capture higher prices for grain before the crop is even harvested and to lock-in customers before the crops in other nations flood the market.

If the Main Licence Holder were to be removed, smaller marketers would not have the facilities or inclination to engage in this activity in the lead-up to harvest, and growers would be forced to take whichever spot cash prices are available on the day they deliver their grain.

3.3.12 Is Not Operated as a Profit-Making Venture

Western Australia's Main Licence Holder for barley, lupins and canola is Australia's only Main Licence Holder that does not exist to generate a profit for shareholders. All income, minus administrative and operating costs, generated from the sale of grain is returned to the growers who deliver to the pools during harvest, who then reinvest the money back into their farms and thus keeping rural communities operating. In addition, as GPPL deals in significant volumes of grain it is able to generate further income through its risk management and chartering activities, which are in part also returned to growers as an ongoing investment into the industry. This is certainly not the case with private traders.

This position of existing without the requirement to generate profits is a crucial issue for growers and one of the strongest benefits of Main Licence Holder in that it avoids the desire for short term profitability taking precedence over long term market sustainability. The inherently risky barley market is a good case in point. The germinative tendencies of barley (different malting barley varieties germinate at different times of the year) coupled with customer groups that purchase on an "as needs basis", a significant differential between feed and malting price, and an inability for marketers to manage risk through use of futures (there is not a futures market for barley), make it a complex commodity.

In a deregulated environment, marketers and traders would "pass off" this risk to growers through either lower grain prices and/or higher charges. In an orderly market however, growers have the luxury of products such as "pools" to insulate them against these risks along with an entity operating to maximise returns to growers, not minimise their own business risk.

Other marketers are driven by the need to generate a profit for shareholders. This means that any income generated through the sale of grain is subject to administration fees, operating costs and shareholder dividends before it is paid to growers. The overall outcome is lower returns to growers and a reduction in the funds available for reinvestment into the community.

3.3.13 An "Uncomplicated" Marketing Choice for Growers

The annual grain harvest is a hectic time for grain growers. Their harvesting activities may extend for up to 20 hours per day or even round-the-clock in some areas where weather permits. Such intense activity provides little opportunity for growers to seek the best price for their grain while harvesting. Growers trust the pooling system and know it provides a reliable source of income, therefore during harvest the vast majority of growers still choose to deliver to the pools over a cash price offered by an independent marketer.

If the pooling system was removed growers would lose what is an effective marketing tool. They would either need to hire additional staff to undertake their harvesting activities while they assessed the optimum prices, or they would need to seek professional marketing advice on a daily basis. Both options add greater expense to the already marginal returns of grain growing enterprises and dilute any of those benefits outlined above. It is more likely that growers would simply take the easiest price available to them i.e. the spot price of the day offered at whichever site of delivery is available to the grower on that day.

Each of these situations further undermines the profitability of grain growing enterprises and would continue the exodus of people from the grain industry having a detrimental effect on peripheral businesses that are reliant on the grains industry.

3.3.14 Pools Consistently Outperform the Cash Market

Western Australia's pools have typically outperformed the average cash price offered by independent marketers. While individual cash bids can and do exceed the pool on some occasions throughout the year, as indicated in section 5.2, Pool returns regularly outperform the cash market(s)

The advantage of the cash market is that it allows growers to receive payment immediately (rather than pool returns paid in "tranches"). The pooling system however assists in setting an appropriate market benchmark, without which, the cash market would be "directionless".

Cash prices are only offered for a finite volume of grain. Once the marketer accumulates the required volume of grain, they normally withdraw their bid from the market. As harvest progresses and marketers acquire their grain, fewer bids are offered and those that are offered are typically far below the bids offered at the beginning of the harvest. In fact, most private traders will look to ship their grain during harvest to avoid "carry costs" incurred throughout the year. While this can be an effective cost mitigation strategy, it does not always give growers the opportunity of capitalising on higher prices later in the year. Furthermore, growers in the southern areas of Western Australia where seasonal conditions force them to harvest later may miss out on cash markets all together.

3.3.15 Differing Objectives of "Traders"

When examining the value of "orderly marketing" one needs to understand the business objectives of private marketers and traders compared to organisation such as the GPPL. The role of a trader is to take a "margin" on a grain purchase and sale transaction (selling at a price higher than at which they purchased). This is by no means an inappropriate activity, rather opportunism that has flourished since the very beginning of commerce. What is important to note however is that traders are for the most part looking to maximise their profit (margin) and rarely have any long term commitment to a market and/or customer group.

In many instances, grain traders are not based in Western Australia and have no long term affiliation to the industry in that State. They have the luxury of being able to post prices that in effect "cherry pick" the grain that can maximise their profitability and in a number of cases are not interested in the grain at all, purchasing grain on the cash market and re-selling the same grain into the pools. They have minimal commitment to issues such as grain quality or continuity of supply to customers and worry little about the physical "carry" of stock over long periods of time in accordance with the buying cycles of international customers.

3.3.16 Reduction in the Number of "Margin Takers"

In line with section 6.6, from an industry perspective, grain traders invariably do not "add any value" to the grains industry supply chain. As ownership of grain changes from the grower to trader (and often traders), each transaction incurs some form of margin that both is not reflected to the grower and can serve to make the sale of in this case, Western Australian grain, less competitive. The Main Licence Holder marketing of barley, lupins and canola from Western Australia facilitates a more direct relationship between producer and end user and ensures that the margins normally paid to intermediaries are minimised.

3.3.17 Main Licence Holder Facilitates a "Long Term Commitment" to Western Australia

The allocation of Main Licence Holder responsibility to market barley, lupins and canola from Western Australia comes with the added requirement to make a long term commitment to the ongoing sustainability of the industry.

The GPPL, a wholly owned subsidiary of the CBH Group certainly fulfils this responsibility by making investments into a range of areas and projects that may not return immediate financial gain but certainly contribute to industry sustainability moving forward.

In November, 2001, the CBH Group using GPPL knowledge of harvests and international markets completed an $8.3 million investment into aeration facilities along the south coast of Western Australia as a means of assisting growers to increase their harvesting window and their attendant financial returns. This extended window allows growers to harvest at higher moisture levels without compromising grain quality and gives the industry as a whole an advantage in the market place.

Similarly, the GPPL plays an active role in the ongoing sustainability of grain varietal issues, working with growers and groups such as The Department of Agriculture, WA and the Grains Research and Development Corporation (GRDC) to ensure that crops are grown in the context of market demands.

Long term market development is perhaps another example of how the Main Licence Holder facilitates a longer term commitment to rural Western Australia. The GPPL played a crucial link between Japanese canola crushers and Western Australian farmers in introducing canola cropping into Western Australia in the early 90's. At present, Canola exports from Western Australia are worth in excess of $220 million.

While these investments do not yield a financial return for the CBH Group, the activity is crucial in the ongoing viability of broad acre farming in Western Australia. Without the involvement of the GPPL and AWB Limited at a Federal level an even greater burden would fall to the State and Federal Government to fund. It is extremely unlikely that private organisations operating in a deregulated environment would be willing to take part in such benevolent undertakings.

3.3.18 The Careful Management of Western Australia's Reputation for "Quality" Product

Organisations such as the GPPL having responsibility to market barley, lupins and canola on behalf of the growers of Western Australia have a significant mandate to protect the overall reputation and sustainability of the industry. Much of this responsibility is ensuring that the State's reputation of high quality produce is maintained; a process facilitated through ongoing market feedback to growers and a commitment to long term market presence rather that short term opportunism.

Given the very nature of the commodities in question, market sustainability is far better assured under the Main Licence Holder than total deregulation. It is possible to illustrate this point by looking at the barley and canola markets individually.

3.3.18.1 Barley

The world's malting barley market is both known and finite. Demand is price "inelastic" where barley buyers, particularly in Asian markets such as China co-ordinate their purchasing and exercise considerable control and market power. The thought that individual sales outside of the Main Licence Holder remain confidential to other buyers and thus have no effect on overall pricing is nonsense.

The only means of combating co-ordinated purchasing by commodity buyers is a co-ordinated approach to selling. For example, GPPL were able to affect the price of malting barley on the back of a large 2001/2002 crop by strategically managing supply to the extent that prices were lifted from US$120 per tonne up to as high as $US200 by GPPL's control in the market.

3.3.18.2 Canola

The existence of the Main Licence Holder allowed the GPPL to work closely with Japanese buyers to develop the Western Australian canola industry, in effect transferring the message of demand of Japanese crushers to the growing regions of Western Australian farmers.

Since its inception, an environment of Main Licence Holder selling has ensured that prices are maximised through a carefully orchestrated marketing strategy coupled with diversified pricing that allocates tonnage to particular customers above other markets and as such maximising price.

In another example, the reputation of Western Australian canola in a burgeoning Pakistani market was severely tarnished by a number of canola sales (by container). Three customers in a market of only four to five key buyers were refusing to purchase from Western Australia given a range of quality complaints. Given the existence of orderly marketing, it was possible for the GPPL to address customer concerns and regain customer confidence by:

- A regime of progressive pricing to encourage demand;
- Specific stock management to ensure that buyers received product quality higher than that represented during negotiations (note the initial complaint was that the Pakistani Crushers received canola with a oil content less than that certified);
- Adhering to the buyers' request that contracts be "Western Australian Origin".

3.3.19 Markets and their Suitability to Main Licence Holder / Orderly Marketing

It would appear that the main impetus for deregulation in Western Australia is the ability of grain acquirers to offer increased cash prices to growers during the harvest period. There is some question however whether this focus is appropriate or not and that the real test for the question of de-regulation is whether achieving increased value for growers in the context of the prices that international customers are willing to pay for Western Australian grain is both achievable and perhaps more importantly, sustainable.

Surely the advantage of export Main Licence Holder marketing in Western Australia is that a single supplier representing the state's grain growers can manage supply to customers willing to deliver a premium over the longer term. A fragmented approach to the sale of Western Australia grains can only diminish supplier power and afford customers the opportunity to play one supplier off against another (for what is the same grain). Our marketing efforts would be far better served in targeting competition emanating from the United States or Canada rather than marginalising our competitive advantage.

As mentioned in the case of barley into China, some markets (either product or destination based) lend themselves to a degree of orderly marketing. In environments where demand is "inelastic" it is easier for customers to drive down purchase price irrespective of demand by playing one supplier off against the other.

3.3.20 Facilitating Economies of Volume / Scale

There is little doubt that commodities such as grain need to capitalise on economies of volume to ensure adequate returns for growers and buyers. Main Licence Holder marketing that creates an orderly assembly and transport of grain from country areas to the port (and subsequent shipping) facilitates this necessary requirement for "economies of scale".

In Western Australia, AWB Limited with the GPPL, CBH and Australian Railroad Group (ARG) work collaboratively to ensure that the grain logistics function is carried out in as an efficient manner possible. Industry price mechanisms are based on both the efficiency of operations coupled with the amount of grain being transported (the higher the volume of grain, the cheaper the freight) with movements being co-ordinated centrally.

The alternative to this approach is for individual buyers to work with a range of storage, transport and port service providers to carry out the necessary logistics function. Conducting this activity in a fragmented fashion would and does create additional cost due to smaller less well co-ordinated movements.

The CBH Group in association with AWB have recently announced "Grain Direct", a vehicle that will manage and co-ordinate the logistics function for grain storage, handling and transport in Western Australia. The efficiencies generated out of advantages such as economies of volume will create savings to growers of $3.30 per tonne, which will enable growers to reinvest back into the rural community.

Similarly, AWB, CBH and GPPL have jointly signed a three year freight contract for the road transport of grain in the Albany port zone, which will provide lower road freight rates to grain growers. During a review of the previous contract arrangements, AWB and the CBH Group identified potential efficiencies through co-operating in the logistics of moving grain to port. Under the new agreement, selected road contractors will manage the collective task of moving AWB and GPPL grain from CBH receival sites to the Albany port terminal, to improve the co-ordination of the freight task in that port zone.

3.3.21 Competition Erodes Price

GPPL marketing staff have indicated that they have evidence of exporters seeking feed barley licences into China that have offered customers price deductions of $1-$2 per tonne as an incentive to enter markets. This is another example that the focus of deregulation is clearly distorted and that the focus for any advantage should not be on new exporters offering discounts in existing markets but creating opportunities and capturing value in markets not currently being exploited by existing service providers.

It should be noted further that given circumstances where grain supply may be limited, customers who have shown long term loyalty to Western Australian product and at a premium in price should be supported. This level of discerning market selection would not be possible in an environment where several exporters are competing and attempting to maximise their own profitability, a classic example of how short term company profit takes precedence over longer term price premiums for growers.

3.3.22 Erosion of Pool Equities

One very significant advantage of pools is that they insulate growers against pricing fluctuations, particularly detrimental movements. A pool's ability to achieve that comfort for growers is partly through pool volume. Given that pool estimates are set at the commencement of the harvest period and based on growers' own crop forecasting (among a number of other indicators), any abnormal fluctuation of pool deliveries can have a significant impact on pool equities and their attendant ability to "insure" growers.

The granting of various export licenses for 373,000 tonnes of feed barley over the 2003/2004 harvest is a very good example of this type of abnormal event. Financial and agricultural analysts who set GPPL pool indicators had absolutely no means of knowing that the Grains Licensing Authority (GLA) were going to grant licences let alone in such volume (licences represent over 20% of the 2003/2004 feed barley pool). This type of decision dramatically affects a marketer's ability to implement risk management strategies and freight agreements which in turn impact on grower returns and the economy.

In a similar announcement though not actually shipped, 48,000 tonnes of canola granted in a single license represents over 15 per cent of the canola pool's total volume. The volume of canola lost to this single export permit to the Sub-Continent could have had a significant impact on GPPL's ability to sell to a relationship customer in Asia, as the remaining pool volume available is reserved for their existing premium markets in Japan. It was the demand from Japanese customers that led to established canola production in Western Australia, by guaranteeing to take the volume produced regardless of varying quality.

Growers clearly recognise the negative impact that deregulation would have on their returns. A recent GPPL study found, for example, that eight out of 10 growers (79%) were of the opinion that "deregulation will have an adverse effect on the market premiums offered by the GPPL pools" (just 4% disagreed with this statement)[2].

The above study also found that a similar proportion of growers (78%) were "strong supporters of pools as a means of maximising market premiums for growers".

3.3.23 The Advantages of Pools (Operating under Export Main Licence Holder)

Just as pool equities can insulate a grower against adverse price fluctuations, pools are also a valuable tool for marketers to guard against issues of grain quality. Large pools allow markets to "average out" quality issues and ensure that customers can be supplied within specification by ensuring that they are supplied out of "all of state" stocks. Individual acquirers in a deregulated environment with specific stock accumulated during harvest do not have this luxury and must either sell "back to back" (only sell what they know that they have acquired) or take a reduced price from international customers looking to mitigate any risks they may have with supply.

Once again, in seasons such as 2003/2004 where supply following a record year was abundant, acquirers in a deregulated environment would have been able to be relatively assured of supply (providing growers would be willing to sell to relatively unknown acquirers). However, in years such as 2002/2003

[2] Grain Pool Grower Attitude Survey – March 2004.

where Western Australia experienced one of its worst seasons for some years, supply was significantly curtailed. During these times, spot traders have no obligations to securing pool equities.

3.3.24 Main Licence Holder and the "Obligation" to Sell the Crop

As part of its mandate to manage the Main Licence Holder on behalf of Western Australian growers, organisations such as the GPPL are obliged to market the entire crop and be the "receiver of last resort". As with the notion that pools protect growers against price fluctuations, so does an organisation with the obligation to market all grain grown in a given season.

Growers in a deregulated environment would not have this luxury. Private marketing organisations actively competing for business would be seeking only that grain that they have ready markets for. These organisations would be looking to sell this grain early into the season in order to avoid expensive "carry costs" of leaving grain in store for lengthy periods of time.

The vagaries of agriculture are such that growers cannot guarantee that their crops will achieve malting barley grade or that their canola will produce suitable oil content specifications. As such, the industry cannot be left with the situation of being able to sell all of the "good quality grain" actively sought by customers and in poorer seasons being left with no one to purchase their grain. Only an orderly marketing environment with a reliable and responsible organisation managing Main Licence Holder is able to ensure that marketing decisions are made on the basis of the longer term interests of growers and the economy.

Making a long term commitment to growers and the economy is a critical issue and goes to the very root of the argument in support of export Main Licence Holder. We have already discussed the commitment that the CBH Group has made to growers to help in this longer term view with their investment into aeration and the operation of pools. Farmers cannot have it both ways; marketing organisations who actively seek high quality, easy to market grain but then abandons them in years of difficulty and poor grain quality such as those years of drought and frost. Main Licence Holder and orderly marketing rightly takes a longer term view and needs the ability to manage the grain from the entire state, ensuring in the process the long term sustainability of the industry.

3.3.25 Seasonal Based Strategic Marketing

Just as marketing organisations such as the GPPL have a requirement to "sell the crop", their custodianship of Main Licence Holder allows them to discriminate in the way in which grain supply is marketed and distributed to international customers. Sales planning is undertaken in the context of seasonal conditions against strategies that sees support given to both loyal customers and those willing to pay a premium over the longer term. Once again, the key element of this approach is that precedence will not necessarily be given to higher bids in a single year if it is unlikely that that customer will be an active market participant in future years.

3.3.26 CRITICISMS OF MAIN LICENCE HOLDER MARKETING IN W.A

No system of marketing, business or government is perfect and Main Licence Holder is no exception. WAFarmers recognises that there are certain criticisms of the system, but it is important to remember that the advantages far outweigh the criticisms.

The GPPL, as responsible managers of the Main Licence Holder in WA, and WAFarmers, as an independent lobby group working to protect the interests of farmers and rural communities, regularly consult with the State Government and various other industry stakeholders in addressing criticisms of the Main Licence Holder. There is an ongoing effort to try and improve the system and increase efficiencies.

One example of the system is that certain growers have voiced their need to choose how their grain is marketed internationally. In response to this, the GPPL and AWB Ltd are actively working to produce a range of products for growers that address individual grower demands.

Another example of the criticism is that Main Licence Holder inhibits certainly in the context of price that a grower can expect to receive given that pool payments are made incrementally following an initial payment (usually in the region of 80%). It is hard to imagine however any environment, deregulated or otherwise that could guarantee growers what price that can expect to receive either during or post harvest. Customers and their exacting quality requirements are making even the most regular of customers more discerning, in turn making price discovery more problematic. Volatile currency and futures markets trying to factor in issues such as supply, weather and in more recent times external factors such as acts of terrorism again exacerbate this even further.

There is further criticism that benchmarking the performance of prices under Main Licence Holder is also difficult. The question that arises quite frequently is “how do I know that the GPPL is maximising returns”, and is certainly a difficult issue to address. Organisations themselves have addressed this in part in the way that they are structured whereby growers themselves elect representatives to sit on Boards. These grower elected members are augmented by Directors with “special expertise” who in turn with professional managers, manage the day to day requirements of the organisation. At the end of the day, growers are monitoring the performance of their respective organisations and are for the most part satisfied will their performance.

Similarly organisations such as AWB Limited have commissioned independent economic modelling detailing the benefits of Main Licence Holder selling. This research is augmented by regular reviews undertaken by the Wheat Export Authority (WEA) and the Grain Licensing Authority (GLA) in Western Australia.

Recent independent research commissioned by the CBH Group found, for example, that less than 5% of growers are dissatisfied with the performance of the GPPL overall, and more specifically in terms of its role in [3]:

- Marketing grain on the world and domestic markets (3% dissatisfied);
- Optimising pool returns for barley, lupins and canola (4% dissatisfied);
- Providing grain marketing and pricing products which meet the needs of growers' individual business requirements. (3% dissatisfied).

While keeping in mind that complete consensus will never be reached, WAFarmers are continuing to work with the State Government and various other stakeholders to find ways to improve the Main Licence Holder and to address the criticisms in a fair and equitable manner.

3.3.27 CONCLUSION for GLA Submission

One thing that has certainly raised the concerns of the WAFarmers is that those supporting deregulation have been unable to develop any compelling reason for change. We hear on a regular basis that the advantages of a free market approach is that the natural tendencies of commerce will see a type of "equilibrium" and that market forces would ensure that growers interests are assured. This position is not substantiated and does not stand up to scrutiny and experience from the industry.

It seems that organisations such as the CBH Group and AWB Limited are constantly having to commission expensive research undertaken by independent parties to confirm the benefits of a Single Desk approach to selling grain from Australia. What has been noticeably devoid from the debate is that those supporting deregulation have not been able to demonstrate any tangible economic benefit that would arise out of the end to Single Desk, nor have they produced any economic modelling that supports their argument or provides the justification for change.

WAFarmers acts in the best interests of the growers of Western Australia and wants to ensure that industry change is in line with creating additional value. If it can be demonstrated clearly and unambiguously that deregulation would deliver sustainable and long term benefit for grain growers then WAFarmers would certainly be swayed towards the full free market approach. Unfortunately, no party, private, government or otherwise has been able to deliver this and the continued scrutiny by a few individuals is both costly and destabilising.

The export Single Desk model for barley, lupins and canola operating in Western Australia today certainly achieves adequate balance between orderly marketing while still facilitating a degree of choice. As we have indicated, exporters are able to move grain out of Western Australia in bags and containers and we have a small yet very active domestic market. Historically our system in Western Australia does not serve masters with individual

[3] CBH Group Corporate Tracking Research, November 2003 (n=900).

corporate objectives, nor did it attempt to satisfy a political mandate that is adopting an “economic rationalism or perish approach”. Single Desk is in existence to protect the interests of the majority of Western Australian growers and their rural communities.

One thing that seems to be lost frequently in the debate of deregulation is the human cost. Behind the arguments of choice and of free markets are people, farmers and their families who are trying to build a viable business in rural Western Australia in communities that are disappearing around them. Western Australia has a rich tradition of farmers and the bush. Let’s not forget them in this process!