



**WESTERN GRAINGROWERS
RESPONSE TO THE
PRODUCTIVITY COMMISSION'S
DRAFT REPORT INTO
NATIONAL COMPETITION REFORMS**

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PASTORALISTS AND GRAZIERS ASS OF WA (INC.)

The Pastoralists and Graziers Assn of WA Inc (PGA) is a non for profit industry organization established in 1907 and represents primary producers in pastoral and agricultural regions of Western Australia.

The PGA is the only Western Australian State Farmer Member of the National Farmers Federation (NFF) 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 promotes the welfare and profitability of the interests of it's members through encouragement of private enterprise. The PGA is proud of it's achievements and history as the leading advocate for removal of statutory interferences and Australian agricultural commodity markets.

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A. WHEAT MARKET REFORM

The PGA have long campaigned for the removal of statutory marketing authorities insisting they come with higher costs on growers and less choice of products through lack of competition, shield growers from true market forces and stifle innovation and investment in the industry.

The Western Graingrower Committee (WGG) welcome the Productivity Commissions draft report into NCP reform as it acknowledged that the Wheat Marketing Legislation continues to place restrictions on competition and the Federal Government has not properly addressed the wheat marketing arrangements.

1. Opening Address to Productivity Commission PGA Western Graingrowers Chairman

Farmers grow a variety of grains in Australia and WA, but essentially it is a wheat driven rotation. In WA crops such as lupins and canola are in the rotation to support wheat production.

The profitability of wheat production is often marginal and therefore sensitive to costs that impact on the nett farm gate return.

For example it was estimated by CIE in the Joint Industry Submission Group (JISG)¹ to the National Competition Policy (NCP) review of the Wheat Marketing Act 1989 of 2000 that \$5-\$15/t of savings in the supply chain could be achieved through the introduction of competition. CIE concluded that *"Savings of this magnitude across the whole wheat crop would amount to between \$120-\$360 million. Importantly, it would raise the average farm business profit of wheat producers by at least 27 percent (ABARE 2000). This would substantially reduce the estimate 50% of farmers with zero or negative profits."*

The 2000 NCP review (Irving et al.²) agreed with JISG that these savings were achievable with competition. Subsequently Accenture and Kronos have produced reports on behalf of industry that supported and expanded on the 2000 NCP Reviews findings.

¹ National Competition Policy review of the Wheat Marketing Act 1989 by the Joint Industry Submission Group, *A Submission to the Independent Review Committee*, Centre for International Economics, 2000

² National Competition Policy Review of the Wheat Marketing Act 1989, Malcom Irving, Jeff Arney and Prof Bob Linder, Dec 2000



Unfortunately the official response to these findings and recommendations has been to treat them as an inconvenience rather than opportunity for reform.

Worse, the Government through the activities of the WEA and the constitution and terms of reference for the WPP appears to be more concerned with creating a veneer of legitimacy for unacceptable arrangements than looking to future of industry.

For confirmation of this point one only has to examine the proceedings of the Senate estimates and the Rural Regional Transport Affairs Committee to witness evasion and dissembling that would do Sir Humphry Applebee proud. The eight page summary of the 2004 Wheat Marketing Review Panel for findings and recommendations can be seen as further evidence of official determination to keep growers in the dark.

The point has been made by others that we seem to be plagued by reports and reviews. Anyone attempting to interpret the annual Wheat Export Authority (WEA) Growers Report with its pseudo precision and its use of mesmerizing measurements, benchmarks and indicators certainly feel like they have the plague.

Is this paraphernalia simply not a poor substitute for information that would be spontaneously and largely freely generated if competition and choice were allowed.

Competition and choice are prohibited on the grounds that through its monopoly control of exports AWB exercises market power and earns monopoly prices. It is an irrefutable fact that there are many sellers of wheat on world markets. How this unpleasant reality can be remedied by legislating that there be only one buyer of wheat in Australia is beyond us to explain. It's like responding to a leak in the boat by smashing a bigger hole.

To guarantee that the boat sinks the government has then endowed these draconian powers on a private company. This privileged company does not buy our grain. It acquires its supplies for nothing. No wonder non wheatgower shareholders like this arrangement. And no wonder AWB goes to extraordinary lengths to retain its privileges.

AWB's core business is not trading grain, finance or supply chain management. It's core business is seeking the patronage and protection of government. It follows that a more accurate description of the AWB would then be a lobbying corporation with a declining finance business.

Its lobbying efforts although not benchmarked by the WEA are also its strength. Does this explain why the Grains Council of Australia (GCA), AWBI directors, the WEA and Wheat Review Panel have shown little inclination to attend to growers real interests?

As a consequence growers are involuntarily indentured to AWB. We at the PGA do not think the AWB is a kind master.

Looking at the sensitivity analysis of grain farm gross margins that we have provided here we ask: Can we really afford to be cavalier about the costs, the inefficiencies, the lost opportunities, the suppression of innovation and development and investment, the lack of depth in liquidity and technical skills, the stifling of information flows, when profitable wheat production is clearly in the balance?

2. WA WHEAT GROWERS GROSS MARGINS FOR 2005

Appendix 1 contains estimated gross margins for WA growers by respected farm consultant group Bedbrook Johnson. The current multi-v contract for wheat in 2005/06 season is \$162.60³ and the average yield for WA growers in 2004/05 season was 1.64t/ha⁴. Given the Bedbrook Johnson sensitivity analysis, this will leave the average WA grower with between a -\$124.26 to-\$88.51/t loss next year.

Given these figures the PGA are deeply concerned with the minimization of costs to grain growers and are convinced that there are savings to be made through the further reform of the wheat marketing arrangements, in particular the introduction of competition to the supply chain.

3. PGA'S SUBMISSION TO 2004 WHEAT REVIEW PANEL

The PGA Western Graingrower Committee commissioned Farm Horizons to conduct a detailed analysis of the *Wheat Export Authority (WEA) 2003 Growers Report*, in order to point out to the 2004 Wheat Review Panel (WPR) the deficiencies and anomalies with not only the WEA but the wider wheat marketing arrangements.

The assessment of the WEA report found the report lacked sufficient detail for growers to reasonably assess the performance of their investment in the current wheat marketing arrangements. The Wheat Industry Benchmark, which is a key element in assessing the AWB's performance and provides a basis for out performance payments was questioned as an appropriate measure. Specific concerns surround the grade composition of the WIB and lack of dynamic measures to address differences in freight advantage benchmark. Concern was also raised regarding lack of incentives to ensure supply chain costs are minimized and the failure of the bagged and containerized wheat export permit system.

³ AWB website 20/12/04

⁴ WA Agriculture Department of Agriculture, Dec 2004

Other issues raised in submission to the 2004 Wheat Review Panel was the poor performance of the AWB during the drought season of 2002/03 and the deficiencies of the AWB(I) performance based remuneration model.

The complete written submission handed to the Wheat Review Panel 2004 is contained in Appendix 2.

The Federal Minister for Agriculture gave the 2004 Wheat Review Panel very weak terms of reference and explicitly forbade them from investigating the single desk arrangements it's self and declared that it would not be carried out under NCP principles directly refusing to implement the key recommendation of the 2000 Irving et al Review.

The PGA were extremely disappointed the 8-page of the 2004 Wheat Review Panel Growers Report as it offered little more than the most briefest summary of the 8 month review. The PGA have written to the Minister for Agriculture calling for the release of the 360 page report that the Panel handed to them with the full findings. It is most disappointing that the growers who are forced to provide \$6 billion worth of grain to the AWB are not allowed to see a report done on their industry.

4. ACIL TASMAN NCC REVIEW OF NCP GRAIN MARKET REFORMS

Several parallels can be drawn from the conclusions of the National Competition Council's *NCC Occasional Series: A Review of the NCP Grain Market Reforms* report, which assessed the outcomes of deregulation and part deregulation in various prescribed grain markets (barley, canola and lupins) in several states.

Increased cash market and choice of products

The NCC said that one of the main advantages for growers in the deregulation of the barley market was the deepening of the cash or 'spot' market and increase in competitive services offered to growers from companies wishing to accumulate grain. It is highly likely that the same would occur given the wheat single desk was deregulated which would see growers with more choice and additional risk management products to manage their cropping enterprise with.

Less distortionary effects from pooling

The NCC report also talks about the distortionary effects of pooling grain. "*When grain is pooled a range of services and other activities are bundled into the price of grain. This bundling not only has the potential to distort price signals of the underlying value of the grain which impacts on the production decisions made by growers, it also reduces the contestability of the range of services provided*" the report said. The type of services that are bundled into pooled grain are risk management, freight, storage and handling.

The NCC said the deregulation of the prescribed grains and introduction of more cash prices lead to increased transparency in prices and costs at each stage of the supply chain. Most export wheat is pooled and growers would benefit from the opening up of competition into the wheat market with increased transparency they would have better information to make decisions about their grain enterprise.

Increased interest in Investment in Infrastructure

The NCC argued that *"In Australia the supply chain is seen as a cost centre which provides no incentive to invest"*. The NCC noted that overseas regions like Brazil and Argentina were experiencing huge infrastructure investment by private investors. They concluded that investment in improved barley productivity may not be made until there is further deregulation of export wheat marketing, as wheat dominates the grain handling system in Australia.

5. RECOMMENDATIONS TO PRODUCTIVITY COMMISSION ON WHEAT MARKETING REFORM

While the PC report calls for another review of the legislation the PGA are not convinced this will bring the needed reform given the Federal Government's poor record in actually implementing any of the recommendations that come from such reviews. The findings of the comprehensive 2000 NCP Review into wheat marketing arrangements were largely ignored by the government and little progress has been made on the major recommendations – many of which have resurfaced in additional other smaller reviews and reports which have been released since 2000.

The PGA WGG Committee would like the Productivity Commission in the strongest possible way to tell the Federal Government to implement significant reforms to the Wheat Marketing arrangements as recommended in previous reviews. Wheat growers of Australia are facing a heavy cost burden with the current system and cannot afford reform to be stalled any longer.

Waiting until the next review of 2010 when the government have failed to prove the net benefit of the single desk system and have failed to implement the previous reviews recommendations would be a serious mistake and one that Australian wheat farmers can ill afford.

As a priority these reforms should be:

- Immediate tendering of competitive services within the supply chain;
- Open the bag and container trade for export wheat immediately;

- Further openness and transparency of AWB (L) and AWB (I) – a requirement to implement corporate governance recommendations from 2000 NCP Review and 004 Wheat Marketing Review;
- The Wheat Industry Benchmark (WIB) and Remuneration model of AWB(I) be independently determined and verified;
- An immediate revamped of the WEA which will include:
 - Complete independence from AWB (I) & (L);
 - Simplified permit system which includes shorter processing time and ability to issue long term bulk permits where market power premiums cannot be proved by AWB Ltd, removal of veto;
 - An increased skill base within the WEA staff and board of people with experience in international wheat trading environment plus finance, marketing and business management skills;
 - The removal of Grains Council representatives from the WEA;
 - Strong requirement for WEA to quantify the net benefit of the current marketing system and the AWB(I)'s management of wheat exports fulfilling their requirement to *"Monitor and report on AWB(I)'s performance in relation to the export of wheat and to examine and report on the benefits to growers that result from that performance."* To make public the methodology that is used for such assessment so it was be independently verified;
- Given the government and other bodies have failed to prove the net benefit of the wheat single desk to growers, a time line should be established for the removal of AWB's statutory privileges over wheat export opening up the possibility of competition and choice for wheat growers.

B. OTHER REFORMS ADDRESSED BY PRODUCTIVITY COMMISSION

1. Anti-Dumping Legislation

The PGA welcomes the recommendation of the Productivity Commission to review and reform the anti-dumping legislation. The PGA believes that the current anti-dumping laws are antiquated and one-sided. The PGA would like to see anti-dumping legislation review under the NCP program (or what ever replaces NCP) to examine how anti-dumping legislation can be assessed taking into account the national interest.

PGA would support an independent, economy wide cost benefit analysis which is transparent and carried out by a reputable agency like the Productivity Commission.



Access to the world's cheapest imports is essential for farmers so addressing and reforming the anti-dumping legislation will assist producers to remain profitable.

2. Safeguards on Legislation

The PGA support the Productivity Commission's recommendation that a gate keeping system be established to ensure legislation amendments which allow 'backslide' into anti-competitive areas. This same gate keeping arrangement should be applied to any new legislation. There should be no exceptions for agricultural marketing bodies/companies.
