28 January 2005

Two papers are attached, which I submit as formal written submissions to the Pig Meat Inquiry.

The first is a paper I presented to the Regional ABARE Conference at Murray Bridge in 2004. The main point of interest in this paper relates to the distortions to the barley market from the single desk in SA coming up against the deregulated market in Victoria.

The second paper is a paper I prepared for some growers meeting with SA politicians (both Labour and Liberal) on barley marketing issues. Here the two issues of interest are again the single desk versus deregulated market in SA and Vic, and the stock swap issue and lack of third party access to ABB pools.

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Current Issues with Single Desk Arrangements for Wheat and Barley

ABARE Regional Outlook Conference, Murray Bridge SA 22nd September 2004[1]

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Introduction

The evolution in the wheat market has brought us to a point where growers are getting better value out of the single desk system of exporting wheat than ever before.

That was my closing comment at this year's ABARE National Outlook Conference. I was not saying that the single desk system is the best system for organising wheat exports, or that AWB Ltd are doing a good job of managing the single desk, or that it could not be improved. I was simply pointing out that the suite of products we now have to go alongside the wheat single desk, and its associated pool, make the system work as well as it has ever worked.

Wheat

For single desk systems to work we have to have pools which deliver the benefits evenly to all growers. However, that tends to distort price signals, and prevents a viable cash market from operating. Growers are tied into receiving the same return as all other growers, regardless of whether the price delivered suits their business or not. Growers who do not like the delayed payments associated with pools tend to have to take a discounted price if they participate in the wheat cash market Table 1.

[1] The author presented the paper to the conference as a grain industry analyst and grower

Table 1 Average Harvest Prices (mid November to Mid December) Compared with Pool Deliveries, APW10 Pt Adelaide

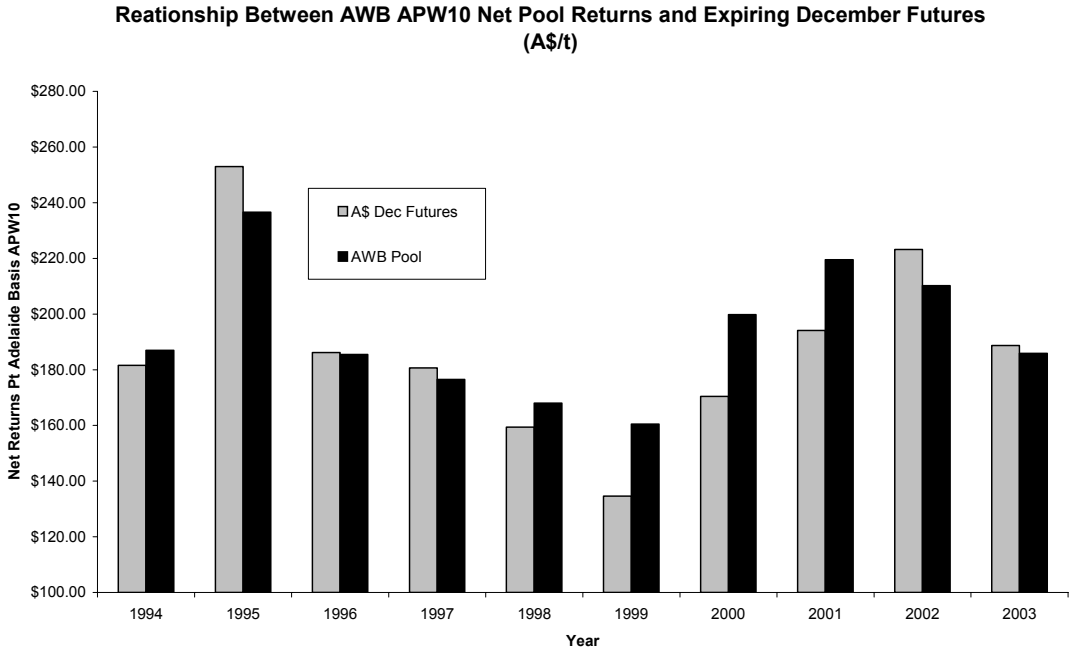
Year	Average Mid Nov - Mid Dec	AWB Pool ESR[1]	Harvest Versus Pool
1994/95	$187.00	$187.00	$0.00
1995/96	$211.17	$236.60	-$25.43
1996/97	$146.24	$185.52	-$39.28
1997/98	$166.31	$176.55	-$10.24
1998/99	$154.88	$168.05	-$13.17
1999/00	$141.99	$160.44	-$18.45
2000/01	$166.04	$199.80	-$33.76
2001/02	$201.64	$219.54	-$17.90
2002/03	$261.21	$210.20	$51.01
2003/04	$179.11	$185.93	-$6.82
Average			-$11.40

Source: Callum Downs Commodity News

[1]AWB APW10 pool Estimated Silo Return equivalent to Harvest Loan return after allowing for all finance costs, Pt Adelaide

Another issue is that pools and the single desk also do not protect growers from price falls from one season to the next (Figure 1).

Figure 1



Source: Callum Downs Commodity News

Basically, if global prices collapse between one harvest and the next, so too do pool returns. If growers want to undertake their own price risk management, fixed - price forward sales have generally been offered at large discounts. Again the system disadvantages those who step outside the single desk pooling system (Table 2)

Table 2 Average March/April Forward Prices Compared to Final Pool Returns, APW10 Pt Adelaide

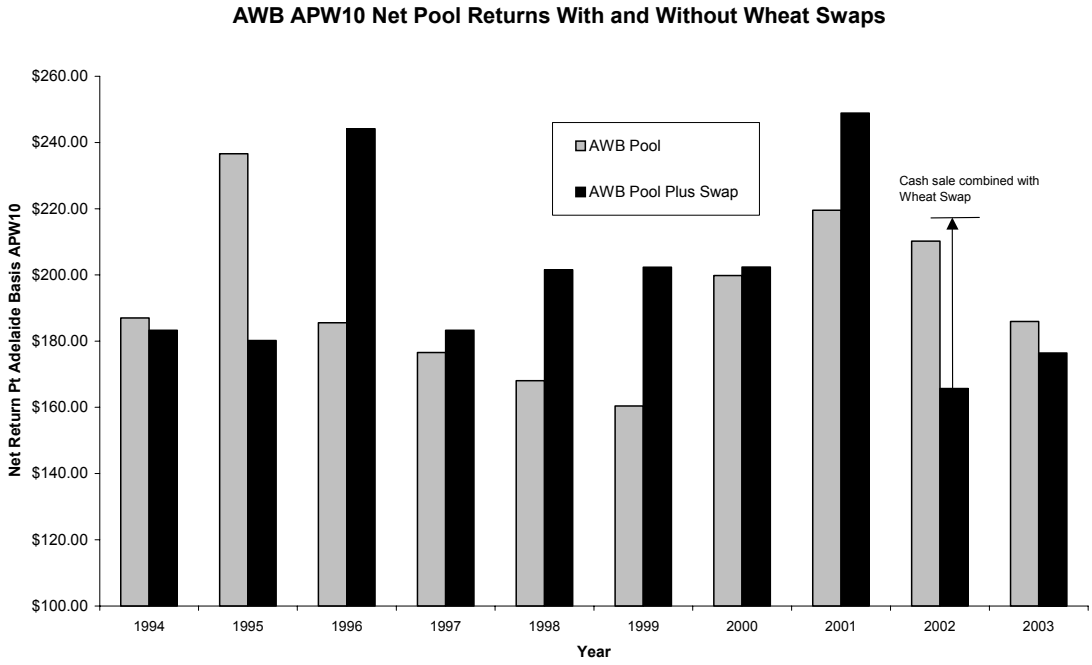
Year	Average Forward Price March/April[1]	AWB Pool ESR[2]	Forward Versus Pool
1994/95	$124.13	$187.00	-$62.87
1995/96	$155.91	$236.60	-$80.69
1996/97	$209.24	$185.52	$23.72
1997/98	$162.53	$176.55	-$14.02
1998/99	$171.65	$168.05	$3.60
1999/00	$160.24	$160.44	-$0.20
2000/01	$159.30	$199.80	-$40.50
2001/02	$199.24	$219.54	-$20.30
2002/03	$188.87	$210.20	-$21.33
2003/04	$172.99	$185.93	-$12.94
Average			-$22.55

Source: Callum Downs Commodity News

[1]AWB multigrade or multivariety Daily Indicator Price Pt Adelaide
[2]AWB APW10 pool ESR equivalent to Harvest Loan return after allowing for all finance costs, Pt Adelaide

So, why is the wheat pool system working so much better at the moment? Basically we can participate in the forward market using bank wheat swaps rather than fixed price forward contracts. Bank swaps allow us to lock in the underlying export based price early in the season, without committing to deliver tonnage to anyone and without locking in any discount to true export value at the time of forward selling. Growers can also still deliver to the AWB pool at harvest time, avoiding the discount inherent in harvest cash price in years that are not drought years. In drought years, the wheat can still be delivered into the cash market, reaping the rewards from domestic premiums in those years.

In Figure 2, the potential returns from forward pricing during March/April using bank swaps, are compared with final pool returns without hedging.



Source: Callum Downs Commodity News

Before the current batch of forward pricing tools based on wheat swaps or basis contracts, the discounted forward prices presented a problem. It was either costing growers who forward sold, or prevented growers from forward selling when they should. At times I have asked whether the benefits of the single desk have been more than squandered by the impact on farm businesses of a flawed forward pricing system. That is now behind us, but only for those growers prepared to use bank wheat swaps or basis contracts for forward selling.

The range of pool finance products now available give growers maximum flexibility in terms of cashflow, finance costs and taxation treatment. No longer are all wheatgrowers treated in the same way via one national pool with one payment option. We now have a very powerful system where growers can tailor cashflow and taxation flows to their own needs, with advance pools or flexible lines of credit being the two pool payment options of most use.

In summary, wheatgrowers in Australia are now able to:

- Forward price without penalty,

- Sell for cash into niche markets, or during droughts when domestic prices out strip export values;

- Manipulate taxation liabilities; and

- Tailor cashflow from pool deliveries to match cashflow needs and minimise interest costs

At the same time the pool does still provide very good price risk management in the period after delivery

So where to from here for the wheat single desk? Intuitively the system should provide benefits. It allows the Australian crop to be segregated on both quality and variety. This differentiated product can then be moved into quite specific markets. We should be attracting a premium in some markets because of this. It also allows AWB to hedge currency and commodity prices in the post-harvest period in particular, which is an added benefit given that the whole crop cannot be exported at our harvest time. In fact, we can measure that AWB add between $30 and $50/t to pool returns from their commodity and currency hedging activities[2]. There should be benefits from the single desk, and understandably growers reluctant to forego those benefits.

However, AWB Ltd also benefit from the single desk. Their business model revolves around pool management fees and finance products built on financing pool deliveries, and is very much underpinned by retention of the single desk. In this regard, the interests of both growers and AWB are aligned. It is no coincidence that AWB fights so hard for retention of the single desk. It is not just for growers.

On the downside though, the current system is monopolised by AWB with very little contestability for services. They also the rules. For example which varieties are allocated to which grade. They use this to try and send production signals to growers, but in doing so can prevent varieties that actually deliver benefits to growers from

[2] The difference between AWB's National Pool EPR and their Basis Pool EPR should only be what the National Pool operators have been able to add from their commodity and currency hedging activities.

being widely adopted. They also set the spreads between grains and the premiums and discounts for moisture, screenings and protein, all of which send price signals to growers.

The system also continues to provide opportunities for grain traders to benefit from buying wheat too cheaply early in the year and benefit from delivering it to the AWB pool or trading it into the domestic market at a price much closer to true value at or after harvest. The single desk system should not allow this to happen.

Growers collectively are very dependent on AWB and the systems they employ to make the right decisions regarding manipulating the national crop and the price signals they send to growers. In the meantime, many of the severe restrictions placed on farm businesses by the national pooling system have been broken down, firstly with deregulation of the domestic market in 1989. More recently, with the advent of products like banks swaps for forward selling, different ways of financing pool payments and the introduction of Golden Rewards to further reward growers for what they actually deliver into the National Pool, have added considerably to grower choices in price risk management and marketing of their grain.

Barley

The issues with single desk marketing for barley are similar to those for wheat. The system is sustained by a pooling system, which delivers an average price to growers.

As with wheat, pool returns tend to outperform cash prices offered at harvest, particularly for feed barley, where the average shortfall is around $7/t (Table 2). .However, we also tend to see cash prices ease during harvest, so that the late part of the crop enters the system when cash prices tend to be at a larger discount to final pool estimates (Figure 3).

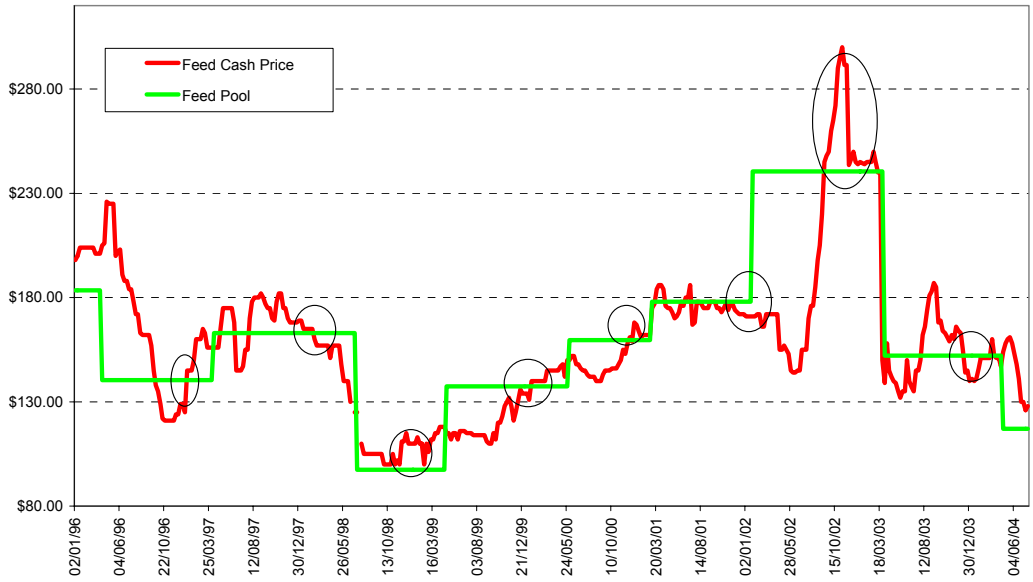
Table 3 Feed Barley Cash Price Versus Final Pool, Returns Pt Adelaide

	Cash Price Nov 24th	Pool Estimate 12 Mths Later	Cash Shortfall/Premium
1994	$152.00	$157.75	-$5.75
1995	$175.00	$183.45	-$8.45
1996	$124.00	$140.42	-$16.42
1997	$156.00	$163.00	-$7.00
1998	$90.00	$97.50	-$7.50
1999	$120.00	$137.45	-$17.45
2000	$154.00	$159.60	-$5.60
2001	$174.00	$178.05	-$4.05
2002	$228.50	$240.50	-$12.00
2003	$164.00	$152.10	$11.90
Average	$153.75	$160.98	-$7.23

Source: Callum Downs Commodity News

Figure 3

Feed Barley Cash Prices and Pool Returns



Source: Callum Downs Commodity News

The outcome is a little different for malting barley, where harvest cash prices are closer to final pool returns, and where in the last few season harvest cash prices have been quite favourable relative to pool returns. In fact, with malting barley, harvest cash prices also tend to outperform forward prices as well. However, as with feed barley, prices tend to fall during harvest, so that the late part of the crop tends to be offered with cash prices below final pool returns.

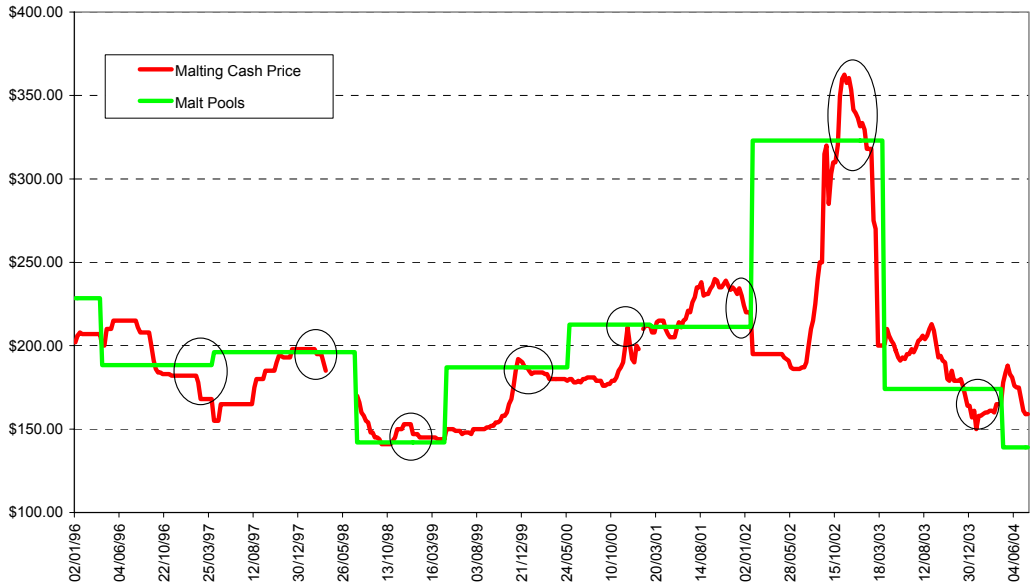
Table 4 Malt Barley Cash Price Versus Final Pool, Returns Pt Adelaide

	Cash Price Nov 24th	Pool Estimate 12 Mths Later	Cash Shortfall/Premium
1994	$183.00	$203.70	-$20.70
1995	$200.00	$228.45	-$28.45
1996	$182.00	$188.42	-$6.42
1997	$190.00	$193.00	-$3.00
1998	$148.00	$134.40	$13.60
1999	$171.00	$186.95	-$15.95
2000	$215.00	$212.60	$2.40
2001	$229.00	$211.35	$17.65
2002	$360.50	$323.00	$37.50
2003	$179.00	$174.10	$4.90
Average	$205.75	$205.60	$0.15

Source: Callum Downs Commodity News

Figure 4

Malting Barley Cash Prices and Pool Returns



An issue which does tend to distort the decision making at harvest, is ABB's track record of lifting pool estimates after the harvest period. This has been the result in 6 out of the last 10 years. However, in three years returns have been lowered. It

becomes very hard to pick how good the cash prices at harvest really are against a somewhat unpredictable final pool returns (Figure 4).

However, up to and including 2000, ABB had been able to lift their pool returns by an average of $7/t above harvest levels. It has only been in the last three years, one being the 2002 drought, that this has been reversed (Table 5).

Table 5 Changes in ABB Malting Barley Pool Estimates

	Harvest Estimate	Estimate 12 Mths Later	Change over 12 Mths
1994	$186.47	$203.70	$17.23
1995	$217.45	$228.45	$11.00
1996	$188.42	$188.42	$0.00
1997	$186.16	$193.00	$6.84
1998	$139.43	$134.40	-$5.03
1999	$177.95	$186.95	$9.00
2000	$197.60	$212.60	$15.00
2001	$231.35	$211.35	-$20.00
2002	$318.00	$323.00	$5.00
2003	$183.10	$174.10	-$9.00
Average			$3.00

Table 6 Changes in ABB Feed Barley Pool Estimates

	Harvest Estimate	Estimate 12 Mths Later	Change over 12 Mths
1994	$150.46	$157.75	$7.29
1995	$172.45	$183.45	$11.00
1996	$120.39	$140.42	$20.03
1997	$143.46	$163.00	$19.54
1998	$96.45	$97.50	$1.05
1999	$140.95	$137.45	-$3.50
2000	$152.60	$159.60	$7.00
2001	$178.05	$178.05	$0.00
2002	$251.00	$240.50	-$10.50
2003	$166.10	$152.10	-$14.00
Average			$3.79

The big difference with wheat is that we do have a deregulated market in Victoria. Not surprisingly, farmers in Victoria have not gone broke, with cash prices at harvest

tending to outperform ABB pool returns more consistently than South Australian prices, although the Victorians are helped by a much larger domestic market.

It is possible that the deregulated market is beginning to make it harder for ABB to forecast its pool estimates at harvest, with the last three years tending to see pool estimates fall over the next 12 months, compared to the average $7/t lift prior to then.

The real issue surrounding the barley single desk is the inability for growers to protect themselves against a year on year drop in barley prices. The same futures based tools available to wheat growers are not available to barley growers. There is no mechanism to ensure that true market values are offered for barley in the forward market other than via a free market. Then we would hope to see prices being set fairly, much as we get with canola, but then again that may be difficult because of the lack of a suitable futures contract in any of the world's major futures markets.

The free market in Victoria has helped. No longer can cash prices for feed barley or malting barley be set too low in the Adelaide division relative to Victorian prices. However, the influence of the Victorian market does get watered down as we move north and west of Adelaide. As well, South Australian prices have to trade slightly lower than Victoria prices for the price signals to be set up that allow feed barley to move from South Australia into Victoria. Also, because of limitations on exporting South Australian barley, but not on exporting Victorian barley, we can still see large price differentials at the border during harvest.

Another problem with the single desk being retained in South Australia for feed barley, is its incompatability with a free market in Victoria, and the interaction between exports and domestic use in that Victorian market.

Studies by ABARE and others point to a growing demand for feed-grains in the eastern states, with some regions already at the point of needing to regularly import grain from other producing areas. Overall in Victoria we do not always have an exportable surplus of feed barley. In many years after the malt barley is segregated, there is a net shortfall of feed barley in Victoria. Grain has to be attracted into Victoria from South Australia and NSW. Increasingly NSW grain is being attracted

north, not south, for domestic end-users. In these years, every tonne of grain exported out through Victoria has to be replaced with grain from South Australia.

This has the effect of bringing SA barley in to replace Victorian barley going out, and increases the cost of barley to the domestic endusers.

If exports were allowed out of SA exporters would export direct from SA, where the surpluses are, and not from Victoria. Less grain would need to move from SA into Victoria, and prices for domestic endusers would be lower.

The single desk in South Australia is incompatible with the growing demand for feed grains in Victoria. There will be increasing pressure to do away with the single desk in South Australia simply for economic efficiency in Australia's domestic grain markets.

Summary

Many of the severe restrictions placed on farm businesses by the national pooling system for wheat have been broken down, firstly with deregulation of the domestic market in 1989, and more recently with the advent of products like banks swaps for forward selling, different ways of financing pool payments, and the introduction of Golden Rewards to further reward growers for what they actually deliver into the National Pool.

For barley, the changes are lagging those of wheat, with no third party access to ABB pools, and distortions being created in the cash market by the pooling system. We are also seeing the domestic market being distorted in Victoria because of exports of feed barley when often there is not an exportable surplus. The single desk on barley will come under increasing pressure from a range of parties, because the system is no longer as compatible with current business requirements.

CALLUM DOWNS

Barley Marketing Issues

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Executive Summary

Since the amalgamation of ABB Grain and AusBulk, the structure of the barley market in South Australia has changed fundamentally. Previously held positions on the issue may no longer be appropriate. There may now be an opportunity to make changes to politically held positions, because of the changes since the merger of the two companies.

There are a number of issues that have arisen, indicating a degree of market failure under the existing barley marketing legislation.

ABB rejected the suggestion from growers to operate a Target Price Pool on the basis that it goes against the principles of the single desk. This has robbed ABB shareholders of income, and robbed feed barley growers of a chance of higher returns from this year's feed barley crop. This alone is a stark example of ABB's monopoly powers being used to the detriment of South Australian barley growers.

Limitations to warehousing, and no cash prices for feed barley grades in the F3 to F5 range (high screenings grades), has meant that many growers had absolutely no choice but to deliver that grain to the ABB pool at very low projected returns. The only alternative was to store on farm. This is not an option for growers outside of the domestic market in the Adelaide zone.

Over the last 8 years there has only been one year when the ABB managed pool has delivered the best return for a particular crop. The new monopoly on domestic and export malting barley, and the monopoly on feed barley exports and near monopoly on domestic feed barley marketing, may reduce cash prices. Premiums being earned by growers storing barley and doing their own marketing may be eroded.

With high storage costs in the ABB system, and profit margins extracted by ABB, it is becoming attractive for growers with access to the domestic market to store feed barley on farm and out turn it themselves later in the year. It is vital that there is a fully competitive market for feed barley at all times, with domestic prices being backed by a true export value.

In some years forward sales made into the export market from Victoria will deplete supplies of feed barley in that market, and force domestic prices higher than they should go, as prices rise to attract barley in from South Australia to make up the shortfall. This should be of interest to the Productivity Commission because it artificially raises costs for intensive livestock industries in eastern Australia, ultimately curbing employment and economic growth. Allowing exports by other traders out of South Australia would fix this distortion, while also providing competitive prices for South Australian farmers.

Stock swaps within ABB between the export pool and the domestic market are likely to depress cash prices in the eastern half of the state, and generate significant profits for ABB Grain. At the moment there is no mechanism to ensure that sales of barley from the ABB managed pool to ABB trading operations, or malting operations, are done at fair market value. Either a public tender system or a complete quarantining of pooled barley from domestic uses would solve this problem, and force the cash market to trade at levels that would attract grain away from export pools.

Quarantining pooled barley for export only, allowing third party access to ABB export pools, introducing a GLA, or complete deregulation are alternative solutions to held address the issue of loss of competition in the South Australian barley market.

1 Target Price Pool for Feed Barley

This idea was put to ABB to allow growers a chance of getting better returns than those being indicated by ABB's 2004 pool.

The estimated net return of $120.90/t to the grower (delivered Pt Adelaide basis), is well below the level needed for profitable farming, and is well below the true inherent nutritional value of barley. Growers wanted a longer term pooling option to hold the barley off the market to see if higher returns could be achieved.

Rather than growers holding grain on farm or in warehousing for 12 months or more individually, they asked to be able to deliver to an ABB managed pool which would hold all that grain off the market until pre determined prices were achievable (hence the term target price pool). A time limit would be set in case the international market did not recover, but it would be expected to take up to 2 years, or longer, before the pool is finalised.

Advantages for growers

- ABB could advance (or establish loan limits) against this grain to provide some cashflow to growers during 2005.
- The marketing would be managed in an orderly way by ABB to maximise the chances of achieving better returns than those currently on offer in the standard 2004 pool.
- Limited risk, although final returns could be at, or below, 2004 pool estimates.

Advantages for ABB

- Gets the grain off farm and into their storage system
- Allows ABB to extract pool management fees.
- Allows ABB to sell finance products against these deliveries.
- All risk is borne by the growers, so no risk to ABB Grain or to their standard pool.

Even though the idea was strongly supported by growers, and would have delivered risk free returns to ABB shareholders, ABB rejected the idea because it goes against the philosophy of the single desk.

The single desk philosophy says that all growers must receive the same return for barley, no matter how low that return is. There is no room to have a product that might outperform their standard pool. Other grain pool operators would have been willing to manage such a product if they had access to export outlets either via a GLA or via access to ABB's export pool.

2 Lack of Warehousing Choices

The problem of high screenings barley is an issue this year. ABB withdrew cash prices and severely limited warehousing options to force growers into either storing on farm, or simply delivering to the ABB pool, with very low returns set by ABB. If this grain is eventually blended by ABB there is no guarantee that ABB will pass the full benefits to the growers of the high screenings barley.

3 ABB Pool Performance

Over the last 8 years, the final barley pool return for both feed barley and malting barley, has only been the best return in one year. In every other year either an average forward price, average harvest price or average post harvest price has outperformed the ABB managed pool in the Adelaide zone.

With no competition at all for ABB in either feed or malting barley markets it is unlikely that this will continue. Without the existing single desk arrangements it is possible that the returns outside the pool could have been greater, and spread beyond the Pt Adelaide zone. It is apparent that the deregulation

in the barley market in Victoria resulted in more cash prices on offer in South Australia exceeding the ABB pool return, and yet cash prices in much of South Australia still lag those in Victoria.

Table 18 Average Malting Barley Cash Prices Compared to ABB Pool Returns – Pt Adelaide

	Pool	Fwd Price	Harv Price	Post Harv	Harv Premium
1996	$188.42	**$204.67**	$182.11	$195.43	-$6.31
1997	$193.00	$171.47	**$195.33**	**$195.50**	$2.33
1998	$134.40	$149.47	**$150.44**	$145.00	$16.04
1999	$186.95	$150.74	**$199.33**	$182.11	$12.38
2000	**$212.60**	$179.30	$196.56	$208.80	-$16.04
2001	$211.35	$222.47	**$230.83**	$220.00	$19.48
2002	$323.00	$222.60	**$349.22**	$276.20	$26.22
2003	$174.10	**$198.43**	$175.11	$160.00	$1.01
Average	$202.98	$187.39	**$209.87**	$197.88	$6.89

Table 15 Feed Barley Pool Returns and Average Forward, Harvest and Post Harvest Cash Prices - Pt Adelaide

	Pool	Fwd Price Jul - Oct	Harv Price Nov - Dec	Post Harv Jan - Mch	Post Harv Apr - June
1996	$140.42	$153.83	$126.56	$156.00	**$163.31**
1997	$163.00	$171.00	**$171.44**	$162.50	$149.85
1998	$97.50	$106.47	$107.67	$109.80	**$115.46**
1999	$137.45	$115.44	$130.06	$139.00	**$147.23**
2000	$159.60	$143.83	$159.44	$171.70	**$176.69**
2001	**$178.05**	$176.00	$173.56	$170.40	$157.00
2002	$240.50	$217.78	**$261.89**	$234.85	$140.54
2003	$152.10	**$163.00**	$155.44	$148.30	$151.08
Av	$158.58	$155.92	$160.76	**$161.57**	$150.15

There are a number of ways of getting fair cash prices for barley in South Australia.

1. ***Quarantining pooled barley for export only***. This would force ABB to post cash prices high enough to attract tonnage away from the export pool. At the moment ABB do not have to do this. If they fall short in their cash buying for domestic markets they can simply buy grain from the pool. This was not an issue before the merger because other players (AusBulk and AusMalt) in the market had to post prices to attract barley away from the ABB pools.

2. ***Third party access to the ABB export pools*** so that traders can offload excess stocks, again increasing the chances of other players entering the domestic market in South Australia.

3. ***Introducing a GLA*** to enable other buyers to operate in the export market. This would allow them to enter the South Australian feed barley domestic market as well, because it would give them an outlet for barley purchased over and above domestic requirements.

4. ***Complete deregulation*** of the export market to allow all traders free access to both domestic and export markets.

The current barley marketing legislation prevents most traders from actively participating in the domestic market in South Australia because if they accumulate more barley than they require for their

domestic needs, they have no outlet for that excess stock. That gives ABB a monopoly position in the feed barley market in most areas of South Australia, as well as in the malting market where they are also the only endusers of malting barley.

4 Achieving Significant Margins to ABB Pool Returns

Some growers claim to achieve returns $40/t above ABB pool returns consistently by selling barley from on farm storage. This is entirely possible, and very likely again in 2004/05.

- The pool estimate at Tailem Bend is $111.72, and the cash price is $121.50/t delivered Tailem Bend.
- After freight from farm to silo, this is a cash price of $113.50/t on farm.
- By October the total ABB charges will be $18.84/t.
- The grain buyer will have incurred interest costs of $8.91/t at 8% per annum.
- ABB Marketing (or whoever) will be looking for a profit to cover their administration costs and the risk they face. Say $8/t (I am told they aim for more than this)
- Assume freight and out turn costs from Tailem Bend to the enduser of $10/t.
- Final cost to enduser $167.25/t.

Harvest Versus October Cost of Feed Barley

	Harvest Sale	Warehouse	Store on farm
Price at Silo	$121.50	$130.41	
Freight farm to Silo	$8.00	$8.00	
On Farm Price	$113.50	$122.41	$155.25
Storage & Handling	$18.84	$18.84	
Interest	$8.91		
Profit	$8.00	$8.00	
Freight to Enduser	$10.00	$10.00	$12.00
Cost to Enduser	$167.25	$167.25	$167.25

- If you store on farm, you might have $12/t freight from farm to enduser, but no profit margin, interest or storage and handling to pay anyone. Therefore your on farm price should be $155.25/t in August

In this way growers storing on farm would get a return of $51.53/t from storing feed barley on farm rather than delivering it to the ABB pool at harvest. If on farm storage costs are $15/t, and interest is $8/t, there is a $28.53/t profit margin for the grower.

More and more growers are going to try and access these margins over pool deliveries. It is absolutely vital that a truly competitive market operates to ensure that cash prices being achieved are not undervalue at any time of the year.

5 Productivity Commission Issues

The Productivity Commission looks at national issues in competition. The single desk for barley exports in South Australia is forcing feed barley prices higher in eastern Australia than they should be. This increases costs for intensive livestock endusers, reducing profits, forcing higher prices for consumers, and ultimately reducing national economic growth.

In many years Victoria does not produce enough feed barley for its own domestic use. Barley has to move in from NSW and South Australia. With Victoria being the only state where exporters can

export, we have seen a growth in exports from there, with some orders being filled from forward sales by growers. In some years barley will be exported against forward sales even when in the end feed barley production in Victoria fails to meet projected demand.

In such years every tonne of grain exported from Victoria has to be imported from South Australia. For this to happen, prices in Victoria have to rise far enough to cover the freight costs of getting barley from South Australia.

It makes no economic sense to export barley from Victoria in years when there is not a surplus. Eventually the issue will be forced by intensive livestock endusers clashing with South Australian barley growers.

If barley exports were deregulated in South Australia, all the exporters operating in Victoria would export from South Australia as well as from Western Australia. Cash prices for South Australian growers would improve because of the increased competition.

ABB pool returns might also improve for growers on Yorke Peninsula and Eyre Peninsula in a fully deregulated export market. If ABB can retain its reputation and remain the supplier of choice into markets like Japan, then the premium sales made by ABB would be allocated to a smaller export pool than is currently the case, lifting the average price achieved by those pools.

Deregulation in South Australia may reduce average cash prices east of Adelaide because of a lower amount of feed barley needing to move to Victoria. However, projected demand for eastern Australia indicates that in the long run a lot more barley will be needed from South Australia anyway. Competition from exporters may also counter any downward trend in prices in eastern South Australia.

6 Stock Swaps

At the moment ABB can depress feed barley cash prices in eastern South Australia by swapping stocks between Pt Adelaide and Eyre Peninsula and lower Yorke Peninsula.

Any grain bought for cash outside of the Adelaide zone can be transferred internally between the ABB pool and the ABB cash trading division, to allow ABB to meet domestic demand without having to post attractive cash prices in the Adelaide division.

If ABB has 500,000t of pooled barley in Adelaide and 200,000t of cash barley on EP, they can take 200,000t out of Adelaide for the high priced domestic market, and replace that in the pool with the cash barley at Pt Lincoln.

Effectively barley bought cheaply for cash on EP can be sold for a premium in the domestic market out of Adelaide. ABB can avoid having to post competitive prices in the cash market around Adelaide, reducing cash prices below where they should be. ABB can also make large profits for shareholders from the deal, because they are selling cheap barley into the domestic market at higher prices. They can also use this to squeeze out other traders who do not have the ability to swap stocks between an export pool and domestic outlets.

A free market should allow cash prices on Eyre Peninsula to rise above current levels as traders compete for tonnage to export, while allowing higher domestic prices in eastern SA as traders compete more fairly for tonnage for the domestic market.

7 Domestic Sales from the ABB Pool

AusMalt and ABB domestic traders should not be able to purchase barley from the ABB pool without going through an open tender system open to all other traders and endusers. ABB traders need to show that they are paying full price for barley, not just a margin above the pool value which is an average.

ABB can use cheap pooled barley to undercut other traders in the domestic market, or they can use it to extract above normal profit margins from sales to domestic endusers.

Either

- The pool sells barley to all endusers with no additional payment to ABB Grain over and above their normal pool management fee,
- Pooled barley is sold in a transparent tender system such as with wheat from the AWB pool.
- Pooled barley is quarantined from the domestic market completely to force ABB to post cash prices that are high enough to attract barley away from the export pool for both feed barley and malting barley.

8 Victorian Prices Versus SA Prices

There is no doubt that cash prices in the Adelaide zone for both feed barley and malting barley have been higher since deregulation in Victoria, and with the emergence of AusBulk Grain Marketing to compete with ABB. With the merger, ABB no longer has a competitor. On November 17th there was a distinct difference between cash prices on offer across South Australia and Victoria. We can divide it into regions and look at the premium being offered over the ABB export based pool.

Victoria	$23.16
South of Adelaide	$9.75
North of Adelaide	$6.74
Yorke Peninsula	$2.73
Eastern Eyre Peninsula	-$0.80
Western Eyre Peninsula	$3.20

There was a $24/t spread in the feed market between Pt Lincoln and Portland/Geelong on November 17th.

Summary

Cash prices in South Australia are being depressed and restricted under current barley marketing arrangements. Given the good track record of cash prices relative to pools, if cash prices could be improved, returns to growers across the board would lift. In export dominant parts of the state it may also result in higher export pool returns.

There is significant market failure either occurring, or which has the potential to occur. There is also potential for ABB Grain to extract premiums from the market for shareholders. These premiums would flow to growers in a fully competitive market, or under barley marketing legislation that restricted the way ABB Grain can operate its monopoly.

Appendix 1 Feed Barley Cash Prices November 17th 2004

Victorian Feed Barley Cash Prices

GST Exclusive	ABB Pool No. 2	G'Corp Pool	ABB	AWB	Brooks	Elders	Riverina Aust	G'Corp	Best Price	Cash Premium
Geelong Basis	$131.70							$145.00	$145.00	
Portland Basis	$131.70							$145.00	$145.00	
Berriwillock	$110.90		$121.40	$120.45			$117.50	$118.05	$121.40	$10.50
Beulah	$113.80		$124.30	$125.75			$118.50	$121.30	$125.75	$11.95
Birchip AWB	$119.30		$124.80	$124.80					$124.80	$5.50
Charlton	$114.80		$124.80	$125.37		$125.00	$119.50	$114.70	$125.37	$10.57
Dimboola AWB	$122.15		$127.65	$131.65					$131.65	$9.50
Kaniva	$115.70		$126.20	$128.90			$122.95	$125.65	$128.90	$13.20
Kooloonong	$100.70			$108.50	$110.15		$109.51	$105.15	$110.15	$9.45
Managatang	$107.50		$118.00	$115.60	$119.60	$116.10	$112.50	$114.60	$119.60	$12.10
Murrayville	$116.20		$126.70	$125.70	$126.70	$122.50	$110.50	$121.70	$126.70	$10.50
Nhill	$116.45		$126.95	$128.70	$129.70		$117.50	$124.70	$129.70	$13.25
Nullawil ABA	$116.20		$124.70	$119.90		$123.00	$121.15		$124.70	$8.50
Oaklands	$108.70		$119.20	$116.00		$117.50			$119.20	$10.50
Ouyen	$110.35		$120.85	$121.20	$122.80	$119.00	$112.50	$117.80	$122.80	$12.45
Piangil	$107.60		$118.10	$118.75	$119.75	$116.20	$114.50	$114.75	$119.75	$12.15
Quambatook	$112.75		$123.25	$119.40	$124.95	$121.60	$120.50	$119.95	$124.95	$12.20
Rainbow	$112.75		$123.25	$124.40	$125.40		$117.50	$120.40	$125.40	$12.65
Sea Lake AWB	$115.10		$120.60	$119.60					$120.60	$5.50
Sea Lake G'Corp	$108.45		$118.95	$114.65	$120.65		$115.50	$115.65	$120.65	$12.20
Serviceton	$115.35		$125.85	$126.35	$128.35		$122.60	$123.35	$128.35	$13.00
St Arnaud	$115.50		$126.00	$127.50	$128.50		$124.51	$123.50	$128.50	$13.00
Ultima	$110.00		$120.50	$116.30	$122.20	$118.70	$116.50	$117.30	$122.20	$12.20
Warracknabeal	$115.70		$126.20	$127.45	$128.45		$119.50	$123.45	$128.45	$12.75
Westmere	$119.85		$130.35	$132.45	$133.45		$133.01	$128.45	$133.45	$13.60
Woorinen ABA	$113.55		$124.05	$123.10		$120.90	$118.60		$124.05	$10.50
Average										$11.16

Victorian Domestic pool holds a $12/t premium to export values. Hence the average cash premium of $11.16/t over the domestic pool is $23.16/t over an export based pool.

South Australian Feed Barley Cash Prices

GST Excl	ABB Pool	G'Corp Pool	ABB	AWB	Brooks Grain	G'Corp	Highest Price	Premium Over ABB Pool
Feed 1								
Ardrossan	$118.20		$123.00				$123.00	$4.80
Pt Giles	$122.60		$123.00				$123.00	$0.40
Wallaroo	$119.50		$125.00				$125.00	$5.50
Maitland AWB	$113.85		$114.05				$114.05	$0.20
Average								$2.73
Pt Adelaide	$120.40		$130.00				$130.00	$9.60
Pt Pirie	$115.30		$121.00				$121.00	$5.70
Bowmans	$115.08		$122.68				$122.68	$7.60
Brinkworth	$111.47		$116.97				$116.97	$5.50
Burra	$105.27		$112.87				$112.87	$7.60
C Brook ABB	$112.89		$118.49				$118.49	$5.60
Gladstone	$112.22		$115.82				$115.82	$3.60
Hamley Bridge	$112.79		$120.39				$120.39	$7.60
Kapunda	$111.96		$119.56				$119.56	$7.60
Mallala ABB	$116.14		$121.74				$121.74	$5.60
Roseworthy	$115.92		$125.52				$125.52	$9.60
Saddleworth	$111.59		$119.19				$119.19	$7.60
Snowtown	$114.14		$117.74				$117.74	$3.60
Tarlee	$111.02		$118.62				$118.62	$7.60
Average								$6.74
Pt Lincoln	$123.80		$123.00				$123.00	-$0.80
Thevenard	$114.80		$118.00				$118.00	$3.20
Cummins	$118.98		$118.18				$118.18	-$0.80
Darke Peak	$109.66		$108.86				$108.86	-$0.80
Kimba	$108.93		$108.13				$108.13	-$0.80
Wudinna	$108.88		$108.08				$108.08	-$0.80
Streaky Bay	$106.74		$109.94				$109.94	$3.20
Average								$0.34
Pt Adelaide	$120.40		$130.00				$130.00	$9.60
Coomandook	$106.63		$116.23				$116.23	$9.60
Coonalpyn	$106.10		$115.70				$115.70	$9.60
Frances	$113.82		$120.62				$120.62	$6.80
Geranium	$104.51		$116.11				$116.11	$11.60
Keith	$108.05		$117.85				$117.85	$9.80
Kingscote	$88.40		$98.00				$98.00	$9.60
Loxton	$104.27		$119.52				$119.52	$15.25
Padthaway	$109.55		$114.64				$114.64	$5.09
Pinnaroo ABB	$111.07		$122.11				$122.11	$11.04
Tailem Bend	$111.72		$121.32				$121.32	$9.60
Wolseley	$112.17		$121.64				$121.64	$9.47
Average								$9.75