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TRANSCRIPT OF PROCEEDINGS

PRODUCTIVITY COMMISSION

DRAFT REPORT ON WHEAT EXPORT MARKETING ARRANGEMENTS

DR W. CRAIK, Presiding Commissioner
MS A. MacRAE, Commissioner

TRANSCRIPT OF PROCEEDINGS

AT PERTH ON MONDAY, 3 MAY 2010, AT 10.16 AM

Continued from 28/4/10 in Melbourne

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DR CRAIK: Good morning, everybody. Welcome to the public hearings for the Productivity Commission into wheat marketing arrangements following the recent release of the draft report in March. My name is Wendy Craik and I'm the presiding commissioner on this inquiry and Angela MacRae is my fellow commissioner.

The purpose of this round of hearings is to facilitate public scrutiny of the commission's work and get comment and feedback on the draft report. Prior to this hearing in Perth, a hearing was held in Melbourne. Hearings will also be held in Sydney and Adelaide and we'll then be working towards completing our final report to government by 1 July 2010, having considered all the evidence presented at the hearings, submissions, as well as other informal discussions.

Participants in the inquiry will automatically receive a copy of the final report once released by government which may be up to 25 parliamentary sitting days after completion. We would like to conduct all hearings in a reasonably informal manner but I remind participants that a full transcript is being taken. For this reason, comments from the floor cannot be taken but at the end of the proceedings for the day, I will provide an opportunity for any persons wishing to do so to make a brief presentation. Participants are not required to take an oath but should be truthful in their remarks and the participants are welcome to comment on issues raised in other submissions. Transcript will be made available to participants and will be available from the commission's web site following the hearings and submissions are also available from the web site.

To comply with the requirements of Commonwealth occupational health and safety legislation, you are advised that in the unlikely event of an emergency requiring the evacuation of this building, the exits are located to the right.

I'd like to welcome now our first participant, the Wheat Classification Council. Robert, if you could introduce yourself, giving your name and organisation for the transcript, please.

MR SEWELL (WCC): Thank you. Robert Sewell, chair of the Wheat Classification Council.

DR CRAIK: Thank you. Now, if you have got a few opening remarks, we'll have some questions.

MR SEWELL (WCC): Thank you. First of all, congratulations on a very comprehensive report which I found stimulating and I must say I have agreed almost everything you've said. However, I've got a couple of queries on a couple of issues and I'd just like to cover those, if it's okay.

The Classification Council has only put in a very small addendum, I suppose, to our initial report. We've put in just two issues. I thought it was important to do that because since we've last spoken to the Productivity Commission during the December rounds of meetings in Perth, quite a bit has happened with the council. I think the most significant thing is that the council has brought together on two occasions leaders of the industry to really look at this future of classification. We made the recommendation in December or the suggestion in December that the industry was behind the classification and they wanted it to continue. We also made comments about a number of other what we perceived as industry-good functions that perhaps were falling by the wayside and we were being constantly reminded by participants in the industry that these industry-good functions needed to be followed up and needed to be continued, so we led with that on that particular issue.

We have also had the fortune of spending quite a bit of time with Alan Tracy, who is the president of US Wheat Associates. In fact Alan was in Perth in February and I spent a full day in the car with him travelling the countryside, talking to farmers, and of course I had plenty of time to quiz him. I think the most significant thing for me that came out of his presence here over that period was that Australia is not only lucky, it's in the unique position of having a very well-structured classification process, and he only wished that they could have the same sort of process in America.

But on two other occasions - and I may or may not have suggested it in that first round of hearings - it was recommended to us by the then managing director of GrainCorp that we should bring some of the senior members of each of the major stakeholders together for a conference to really thrash out what was needed as far as industry-good functions, what were the go and no-go areas during that discussion; in other words, what was considered pre-competitive and what was considered competitive in nature, because I might say that a number of the grain participants are quite protective of their competitive areas and they don't want another organisation looking at that. However, they were very, very supportive of the pre-competitive issues that are facing the wheat industry at the moment and seem to be in general support of that.

We looked and we made that list, then we started to talk about that and then we called another meeting only a few weeks ago in Melbourne. At that meeting, we actually widened the group of participants and we included people like Barley Australia, Dairy Australia, major players in the industry like Roger Fletcher were involved, not only as a participant at the meeting but he also phoned in by teleconference to take part in that. We looked at a number of those issues, of how other organisations were structured. The long and the short of that whole meeting was the industry, can I say now, is unanimous that classification has to continue. It does underpin the current wheat system in Australia, not only the marketing of the wheat but the breeding of the wheat. The wheat breeders are able to get their targets. There's a lot that could be done through a well-structured classification process.

As far as other industry-good functions are concerned, it was felt that it's widening the net too far to encompass those at this stage and that a Wheat Classification Council should confine its activities to gaining good market data - now, this is long-term market data because that's what it has to base its facts on - and at the other end, the education of the market, wherever that market is, of the classification system, the classes of wheat and basically why that's proceeding. So that's refined this whole role down to a very, very specific role and I think that's interesting because I believe it also lines up with the findings in the draft report or the comments in the draft report where it was mentioned that the wheat classification does have some public-good element. I know it went on to say that predominantly it was private good, but it does have some public-good element and the industry has to take a lead on this issue. I think that's what we've been doing. We've been making sure the industry does take its lead on the issue.

Following that meeting we had in Melbourne or at the end of the meeting, we went through a process. We went through a process of explaining where we've come from, what we've found with our two very, very significant rounds of stakeholder meetings right around the countryside that we conducted. We went though our first senior stakeholders forum that we held in Sydney back in February. We went through all that. We went through the pre-competitive and the competitive issues that were facing the industry and then we started to define exactly what should be done. Then of course at the end of that, we looked at what sort of body should we have to actually run that classification process.

Can I say again it was unanimous that what should happen is that classification is a very, very important part; it needs to be independent, it needs to be structured in a way that it can act basically without fear or favour, so it came down to classification has to be a body in its own right. In other words, it doesn't slot in with any existing body.

In saying that, however, in finding the proper structure for the council, that was quite interesting because there is a lot of talk and there's ongoing discussions and in fact even today, as I sit here, it's ongoing. There is sentiment within the industry and maybe even 50 per cent of the industry is suggesting that classification should sit somewhere within the Grain Trade Australia framework, GTA, which does all the receival standards. It does arbitration, dispute resolution and contracts. Grain Trade Australia has made the offer that they were prepared to do the secretarial services of the Wheat Classification Council. That involves a bit, it doesn't involve a lot. They expected the funding of the other parts of wheat classification to continue to come via the way of the funding process at the moment which is Grains Research and Development Corporation levies or grants or whatever, so they felt that.

The industry is not that confident that that's the way it should be done. None of us know the outcome of the Productivity Commission hearing into the research organisations, the Grains Research Corporation, and therefore I don't believe that's feasible at this stage, to rely on asking them to continue. I know they would like to try and get out of that. They consider themselves more pre-farmgate, not post-farmgate, and they would like some other way to fund it.

I think we all agree that the industry itself eventually has to fund it. If the industry wants it, it needs to fund its own body to run. I think it will because I think they will actually see the benefits of the classification process. One of the issues that was identified during that meeting was that the Classification Council should actually perform a task of accreditation and that accreditation is giving credibility to the classes of wheat; in other words, the buyer will have some confidence if it's got the classification, basically a stamp of approval on those various classes, so I think that's important.

I'm sure that what I really would like to see is we need some assistance, we need some funding and we need some package that will help us establish the Wheat Classification Council, particularly for the next two years. I think that's important, and I think it's important we have time frames on those. We can then demonstrate not only to governments but also to the industry participants that the industry is capable of taking care of itself and I think in that time, we can develop enough guidelines, enough public good or industry-good functions that the companies will want to be part of it. But right at the moment the grains industry is extremely fragmented. We've got industry bodies that are trying to form, we've got some that are formed that are trying to survive, we've got suggestions of other bodies starting up, and to rely on that and to rely on voluntary funding, to rely on any of those sort of things is just the kiss of death for this process. It really needs some backing and support to become independent. I'd like to break that nexus with GRDC. I'd like to see it set up and run. My aim would be if we could get this organisation set up, we will then call for a new board to run it that doesn't include me, so I just want to put that on the record that I'm not looking for a home for myself. I would have done my duty when I find a home or find a way of taking classification forward.

So just in summary, in my brief submission I've said it's got a general support of the industry. In my belief, we've got unanimous support of the industry, that classification is an important part. We've narrowed the scope of activities down to be very, very specific. It does need a formal establishment and we are still negotiating with Grain Trade Australia of how that can work, but it needs a formal establishment so that we can address issues such as liability and the funding. I'd like to see it run in a transitional period for the next couple of years. I take note of some of the comments that you've made in your draft report that if there were any funds left after the wash-up of what's going on that some of those could be used. I am prepared to present to you on a confidential basis a table of a summary draft budget of what we think it would take to run that classification. We'll restate that it is confidential because there's a bit of personal - not necessarily personal but sensitive data in there, but I'd like to leave that with you just for your reference.

That's where we're at. I think we've made significant progress in getting the industry behind this process, acknowledging the benefit of it for the general good of plant breeding, of classification in general. We've narrowed the scope so we don't try and encompass too much which actually reduces the amount of money that's needed, but it does need some support, other than just relying on industry-voluntary funding to put this forward and I would like to see you address that in your final report.

DR CRAIK: Okay, thanks very much, Robert. I guess the first question might be, from the government's point of view, they organised the funding mechanism to look at this issue of wheat classification for the last couple of years through the GRDC arrangements. So I guess one of the questions I imagine that government would have and I guess we have is they have already funded something for a couple of years, how many more times are they going to have to fund for a couple of years while you get set up?

MR SEWELL (WCC): The GRDC took on the role I suppose at the request or at the instructions of the minister to do that for a couple of years. They actually want to get out of it. They don't want to be part of that, so they're not prepared to keep funding it for a couple of years. Part of that two-year proposal, and in fact the council has only been running for one year because it took them a year to get organised - we didn't start till April last year and we wind up in June this year - part of that first year was to actually look at the structure, how it could be done and of course we've had senior people from GRDC involved in this process as well. So part of the scope of my brief was to actually put in place the future of the council. So you say it's funded for two years; I don't believe it has, it's funded it for one year because the first year, everything was on hold. We believe that it should break away from GRDC because while GRDC are funding it, GRDC are going to want to have a say in how it's run. It's got to become independent. It's got to get away from that, and that's the concern I've got. We've had other organisations, like the Grain Growers Association, say that they're prepared to assist wherever they can, but you start to muddy the waters once you start doing that.

I think there's a great opportunity for all these organisations to continue to add value to the industry by being contracted out and that way you keep this new council pretty mean and lean and you contract out some of those jobs without putting people on staff. I envisage that it would run with an executive officer, a part-time chairman and perhaps a representative but selected small industry board to run this.

DR CRAIK: Okay. My second question really is - I don't know if you've seen the submission we got from Grain Industry Association of WA, GIWA - - -

MR SEWELL (WCC): I haven't, but I've been working closely with GIWA, including addressing some of their meetings. What they've told me, I don't believe I'm too far away from what they are saying either.

DR CRAIK: I'm not quite sure how you reconcile the two because it seems to me that their proposal picks up - you set up this organisation called Grains Australia and one of the things they look after is wheat variety classification, so it seemed to me that their model was different from your model, I guess. Maybe I'm not reading it correctly.

MR SEWELL (WCC): Isn't that just the name? Perhaps you don't call this new model the "wheat classification". See, we've always said that the industry needed a new body and the wheat classification would sit under that. When the industry came together, while the industry is arguing over who should represent it, whether it should be the Grains Council, whether a grower group or Grains Australia or something like that, classification can still continue. But if the industry in its wisdom decides to form an overarching body, classification will continue, and that may be the process. But while the industry is sorting that out, classification has to continue because it's long term. Breeders take 10 years to breed varieties. They need the guidance of the classes of wheat to be able to breed into that, and that's why it can't be interrupted.

DR CRAIK: So you would see having the Wheat Classification Council as a kind of, I don't know, offshoot or something, subgroup or some relationship with a body called Grains Australia as perfectly consistent with the model you're proposing?

MR SEWELL (WCC): Absolutely. If you look back to the submission I made in December, it actually had a model of a new grains body with a Wheat Classification sitting below that as a committee, because the senior body is going to be looking very closely at strategy if this body is set up. It would look at strategy, it would look at some of those other issues and it would be funded by industry presumably. The Classification Council is made up of technical people sitting below that in a different committee, so it's within that group. So if classification can be established and continue to run, which would satisfy the continuation for the breeders and the marketplace at the moment, that can slot in anywhere and that may be - because if it takes a couple of years to set up these other bodies, that's why this needs some funding to carry on and then it can just slot in. If it's got a time frame on it of a couple of years, it's got to agree to sit somewhere.

DR CRAIK: Okay.

MR SEWELL (WCC): That's the pressure that actually puts it in, so it's not an ongoing drain on government resources.

DR CRAIK: Thanks, that's good.

MS MacRAE: Just to be clear then, the GRDC, in relation to the funding that they have given you then, you've basically had funding for just over a year, so do I understand that they were given the funds to cover you for two? Is there excess there?

MR SEWELL (WCC): No. They've used it out of their - - -

MS MacRAE: So if it was out of the general - - -

MR SEWELL (WCC): It was so fragmented, Angela. All they supported was the executive officer, they supported my time and travel and that's all for classification. But then on the other hand, through the BRI, they supported the classification panel which does the actual work and the five members of that panel who actually do it, so there was fragmentation, and the Wheat Quality Objectives Group which was supporting some other technical information into them.

MS MacRAE: So what would happen with those two groups under your - - -

MR SEWELL (WCC): They would all fit under the Classification Council.

MS MacRAE: They would all fit.

MR SEWELL (WCC): It would have the technical side - and a lot of them would be downsized to actually become more efficient.

MS MacRAE: Can I just be clear then: you were talking about maybe half the industry but some proportion was saying that part of this could at least have secretarial support from the GTA. Would that be sort of a different model that might grow up instead of this sort of Grains Australia type model or - - -

MR SEWELL (WCC): I honestly can't see how that - that's being discussed at the moment. I think they were suggesting that they would just take over the role and provide all the secretarial and administration support to what's happening at the moment, not pay for any of the other work of the panel or anything like that. That's fairly minor funding but it's finding a home for it.

MS MacRAE: Yes. But you're saying that could work alongside this sort of Grains Australia model? Could they work together? I'm just trying to see in my mind either whether they're complementary and they could be part of the same model or whether it's two separate streams for - - -

MR SEWELL (WCC): And therein lies the whole conundrum of this whole problem. While the industry is trying to sort if out, there is one part of the industry that it's absolutely essential continues not only for the breeders but for the multiplicity of traders now to be able to purchase a class of wheat right across Australia. So while it's sorting it out, it actually needs to continue. I think we're getting closer to sorting it out. As I said, we're even in discussions today with GTA in Sydney and Melbourne on how this will work and we'll have further discussion with them to try and find - the suggestion was that an independent body organised and run by GTA but then what influence did GTA have on the new council. There's too many issues to sort out.

I would like ideally to see it sit somewhere with a new interview body that could actually take over some of these other industry-good functions that were done before, but in the meantime, it's just so important to find a home to allow this to continue.

DR CRAIK: I guess one of the questions in terms of any thoughts we might put to government is - and I know you're going to give us a preliminary budget that's confidential - some indication that we can actually use in our report what you think government might be up for were to they countenance this, because I think that's something that they would want to know. So it would be useful if at some point you could give us for the record some ballpark figure that might be able to be - - -

MR SEWELL (WCC): To allow a collection of data and some propagation of the decisions can run into a few dollars; however, we can use the services of some of our traders and marketers in that field as well. But with the panel that has to sit and pore over a lot of this information, certainly in the initial stages, I think in the long term the breeders will probably start submitting and paying for some of that service, so that will be a help. But in the immediate term, it's not hard to find a figure of around a million dollars to run the council, the panel.

DR CRAIK: A million a year?

MR SEWELL (WCC): Yes. As I said, I'll give you a budget of how we think that is made up.

MS MacRAE: Could I just ask a question. It's a little bit more into the detail, and maybe given the state of play haven't thought about it a lot more. But just in relation to the suggestion that it would be part of an accreditation sort of process, could you just explain a little bit more how you would see that working.

MR SEWELL (WCC): It's a process that I believe other organisations like the meat industry and that adopt now, but it's a process whereby a buyer in another country, if they want to use a trader out of Australia to buy wheat, if that trader is prepared to purchase the right to put an accredited class of wheat - it might be a new one that we're just putting in play now, APWN, which is Australian premium white noodle wheat - if they want to buy that wheat, they can actually put that it's been accredited by the wheat classification system in Australia and the buyer would have some confidence, because there is a concern by some buyers that they are not getting what they asked for. Now, this would be very much a name and shame type measure, so that if a trader misdescribed some of the wheat, they would have a lot of difficulty in buying that accreditation next time and hopefully a purchaser wouldn't buy from anyone who didn't use the accreditation system.

MS MacRAE: Yes.

MR SEWELL (WCC): Now, that doesn't have to be that expensive. You put one cent a tonne for a trader to use that right and that starts to fund the whole operation. It's not hard to see something like that. So the industry needs time. It's taken nearly 12 months to bring the industry together to say it's absolutely essential that it continues. It should be confined to this type of area. We want it to happen. There should be a body, and now we’ve got to try and find a home. That's a huge breakthrough, to bring the fragmented grains industry in Australia to that point. So if we can continue this for a little bit longer, we can then find out who is paying for it. All those things were said in the first submission anyway.

MS MacRAE: Yes.

MR SEWELL (WCC): We've jumped over the first hurdle and we've now got people coming on board. We've had some of the big players say that if it was set up, structured, everything was running right, they would be prepared to put some money in. That's pretty encouraging.

MS MacRAE: Yes. How do they do classification in the US?

MR SEWELL (WCC): They don't have the formal process like this. They have different wheats. They have white wheats and red wheats and some of them are classified by protein only, so if it's a DNS, dark northern spring, it's a dark wheat, it's grown in the north, it's a spring type of wheat and it's categorised according to protein, but that system doesn't meet the requirement of Australian wheat which goes into either noodles or steamed bread, steamed buns or cookies or something like that. In Australian wheats, on paper, they are not a patch on some of those Canadian and North American wheats, but you talk to a miller over in those Asian countries and even the Middle East countries and they will tell you Australian wheat just sings. It's got some inherent capabilities that make it the wheat of choice. So a 10 per cent Australian wheat can outperform a 12 per cent American wheat because it's got other inherent characteristics.

MS MacRAE: And that we make a system of identifying which - they don't - - -

MR SEWELL (WCC): We do that, through identifying through the classes and we're very careful. That's why you have brands like ASW wheat which is Australian standard white; we have an ASW and an ASW noodle. Now, only certain varieties can go into the noodle because they have an inherent capacity to produce noodle wheat, whereas the ASW doesn't. So that's where we're really winning out and that's why we've got to keep this because it gives us an edge.

DR CRAIK: It's not surprising, given how organised US Wheat seems to be and what they spend on - - -

MR SEWELL (WCC): They can't organise their industry and that's why Alan Tracy said he would love to have that system. There's a lot more farmers. We have trouble - we've only got four and a half thousand farmers in WA and we haven't got those organised with five different bodies and everything else, so how would you get on in America? So that's a real problem. People are often committed to go on board with something that's working well but they're not prepared to agree to it if they haven't got the model running. I think it's just so imperative we get this model running and we keep it running.

DR CRAIK: Thank you very much, Robert. We appreciate your submission and your coming today.

MR SEWELL (WCC): Thank you.

DR CRAIK: We'll call our next witness who is Mr Kim Packer.

MR PACKER (TG): Good morning, ladies.

DR CRAIK: Good morning.

MS MacRAE: Good morning.

DR CRAIK: Could you say your name and organisation for the record, please, and then if you have a few opening remarks that you'd like to make - - -

MR PACKER (TG): Yes, certainly. My name is Kim Packer. I'm the owner-manager of Tamma Grains. It's a private storage based 200 kilometres east of Perth.

DR CRAIK: Do you have a few opening remarks you'd like to make?

MR PACKER (TG): Yes.

DR CRAIK: If you could include in those a description of what Tamma actually does, that would be helpful.

MR PACKER (TG): Yes, certainly. Tamma Grains is at this point the biggest private grain storage in Western Australia. We are traders, we are accumulators, we are packers and exporters.

DR CRAIK: So you have accreditation from WEA?

MR PACKER (TG): Yes, we do. Yes, we're to the stage where we'd like to get into the bulk wheat export side of things. We're into containers now with certain restrictions that we've got through wharfage, and the bulk side of things is and has been of great interest to it, but it's been a transitional period and we have a few hurdles that we can't seem to overcome at this point of time with regards using the system, being the CBH system, to competitively introduce grain from farmers' private storage into the system to get it loaded on a vessel.

DR CRAIK: Okay. Could you explain the challenges that you have? We have a few notes from a conversation that you had with one of our staff, but could you explain what you see the problems and impediments are in terms of getting grain from your private storages into loading at the port?

MR PACKER (TG): Yes, certainly. If I can give you firstly the present situation and then refer to how it has been in the years leading up to this, at present, anybody that wants to introduce grain to get it onto a vessel needs to go through a CBH loading facility because they monopolise the ports, and we have to introduce that. We have had a charge of $17.10 per tonne to introduce that grain at the port and have it put onto a vessel. Now, the problem that we have with that is going back the year before Grains Express came in, we had a situation that the fobbing rate or the ability to load that grain onto the vessel was $8.20. Clearly the increase in charges now is approximately 113 and a half per cent increase over a year. First off, you need to question that, the justification there is in that sort of increase. Infrastructure hasn't changed, the means to load it onto the vessel hasn't changed, so that's my question.

I have approached CBH leading up to this coming harvest just gone as to getting a fair and equitable arrangement with them to be able to do this and I was virtually told that that's it, take it or leave it.

DR CRAIK: Have they provided a reason for the increase from 8 to 17 dollars?

MR PACKER (TG): The reason, short term, no. In a roundabout sort of a way, their infrastructure at port is expensive and it needs to charge that to get it onto a vessel. I have approached the Esperance port, the ports themselves, the Geraldton port, the Albany port, and asked the same question as to how would we be charged as private individuals to get that onto a vessel. That is of interest to a lot of people who are faced with the same situation that I've got. We have a situation that the pricing ranges from between 5 and 8 dollars a tonne. In some cases it is even cheaper than that but I use those two numbers to give a fair charge of the variations that could be imposed along the way. So you've got a 5 to 8 dollar charge against $17.10.

DR CRAIK: So the $17.10 is at Kwinana?

MR PACKER (TG): Kwinana, correct, and if you want to load it through the CBH system at Esperance, the same thing, $17.10, Albany, all CBH sites.

DR CRAIK: All CBH.

MR PACKER (TG): At this point in time, it's the only means to get bulk grain on a vessel.

DR CRAIK: So does that mean you're not shipping any then?

MR PACKER (TG): Correct, yes, we're not able to. To take the thing one step further, we have some great interest from overseas companies because of deregulation now coming, as it is. We invested some three years ago a large amount of money into private storage in the hope that deregulation would come, and as it turned out, it did, so we would like to think that we're set up to be able to meet all the quality standards that the end user needs through the chain to be able to get it. The only thing that we can't do - we can do that in containers and we can do that competitively in containers - but we cannot do it in bulk situations and a lot of the overseas people are interested in the bulk.

The people that are interested in equity positions with us to upgrade our storage even further, build other storage in other facilities, is alive and well. They're very, very interested. But one of the major stumbling blocks are these out-turn fees that CBH have out at up-country situations; that's one issue. The big issue is getting the product onto a bulk vessel at a competitive global rate, to compete globally.

DR CRAIK: Have you considered using Grain Express, their handling system, to get it to port?

MR PACKER (TG): Yes, we have, but clearly at $17.10 against other ports in the world which are far, far less than that, it makes our wheat not competitive. So if we can store grain cheaper and we can get it on a vessel at a competitive rate, it makes WA's grain to the end user cheaper right through the chain, whereas the CBH system that is in place now, the users of the system question - they have an export licence in their own right and one would ask the question: what does CBH charge itself? You can't find that out.

DR CRAIK: Have you looked at setting up - is there any possibility of alternative port facilities?

MR PACKER (TG): We are in the throes of negotiating and have been for many years in the Kwinana area for James Point as a new free port. I've worked closely with the man that's going to build that port and he's given us indications that he will meet those fobbing - be able load the grain onto a vessel far cheaper than what I've just quoted you.

DR CRAIK: Yes. What's the likelihood of James Point - - -

MR PACKER (TG): It is the front of politics right now. It does look like it is well on the way. We just have a few things to wrap up to give the governments of the day the understanding of how it will be run. It's a free and independent port for everybody to use and we have an understanding through the chap that's going to build these that we will be able to do all of that and more, both containers, bulk, without any problem.

MS MacRAE: In terms of the restrictions you're facing in getting your grain on the terms that you'd like, how much of that do you think could be sheeted home to the authorisation that relates to Grain Express? Is that a major issue or is it more around the access undertakings with the ACCC at port? Is it both those things?

MR PACKER (TG): I think I understand. If I can answer it this way: we have a situation in place with the ACCC contesting this and we have had since last August. We've been told through the ACCC that they're addressing it. They take on board all our queries. So we haven't got a resolution or an answer to our - - -

DR CRAIK: Has that gone formally to the ACCC?

MR PACKER (TG): Yes, and many meetings with them, so they are fully aware of what we're about. I may add not just myself that have put this on the table, there's other people in the same situation who are doing the same thing. In regards to Grains Express, you're talking about a grain that is acquired within the system. We clearly are not wanting to use the system, we are wanting to be outside the system. Because of the lack of segregation that we cannot get in CBH, we have put a system in place that we can segregate grain by small parcels. As the previous speaker just mentioned, it's of great interest to the end users around the world to be able to get grain segregated and small parcels. Not everybody wants ASW mixed with noodle wheat and so on. Some want it specifically, some want certain proteins. We cannot achieve that in CBH. When we have tried to use the CBH system to achieve such things, we are told we can't - I'll just give an example. If I want to buy at a farm up-country at a site, and I'll just use Lake Grace for argument's sake, where they bulk up many types of grain, if I want to as a trader buy grain from the farmer, I don't own any grain at this point in that stack, I want to get information because my contract stipulates that they want to know the protein, they want to know so-and-so and so-and-so. I ring CBH and ask them for the information on the stack averages of that stack; I'm not given it. I'm not able to get it.

I am then told, "You must go to the farmer who owns that grain and he can get that information." The farmer can't get the information. This is on record of actually happening. This is not something that I'm telling you that's fictitious. This actually happened. So therefore you cannot sign a contract with someone like China that stipulates a certain weight of the grain, variety check of the grain, 1000-kernel weight and so on, because you can't get that information. So therefore to try and use the system to be able to achieve and develop these markets, you simply can't do it.

MS MacRAE: In relation to those very specific sort of requirements, I guess we've typically seen that that's where the container trade has been focused so far. Is your feeling that with enough freedom in the market, you'd have interest enough in specific grades or varieties, that you would have a big enough interest in that to make that useful in terms of a bulk cargo?

MR PACKER (TG): Absolutely, yes. In the last few years, with the great reduction in bulk freight rates, containers can't compete, so containers have been very, very slow to move in the last two years. So we've put a lot of effort into moving containers which we've been able to use and you don't put all your eggs in one basket, if you know what I mean, so we've been steadily trying to work out with the end user as to having the ability to do bulk. But as I've just explained to you, it is prohibitive. We can't do that, not competitively.

DR CRAIK: Do you think the price is pitched with that in mind?

MR PACKER (TG): Sorry?

DR CRAIK: Do you think the $17.10 figure is set with that in mind?

MR PACKER (TG): I'm sure it is. It's clear to me it is clearly structured to stop competition within the state.

MS MacRAE: I guess you're saying that within the existing arrangements you're using as much power as you've got in terms of making a complaint to the ACCC and that's following through, but you're not getting satisfaction in terms of an outcome yet. What sort of changes - I guess what ideally would you see happening in the system that would allow for the sort of flexibility that you think should be there?

MR PACKER (TG): I would hope firstly that commonsense through CBH would prevail inasmuch as everybody has - I won't say "everybody". Many people have approached CBH about the same issue. They were virtually fobbed off and it was said, "Look, this is it, take it or leave it," as I've explained it to you. James Point is going to come online but it's going to take three years to get it online. So what do we do for three years? We clearly need some way to negotiate with CBH, using the other charges that I've told you that have been verified by other ports to be able to implement a fair charge to get grain out of private storage - or other storage investors to be able to come into this state for a start - to allow competition to happen. Now, the competition obviously in the eyes of the farmer is really what he wants. He doesn't want to be constrained to the old days of where you had one storer, you had one buyer and so on and so on. We've clearly demonstrated that and the speed that our business has grown - and even in the container business we've been able to give greater returns to the farmer. In turn, that's how our business has grown.

DR CRAIK: When did you first go to the ACCC with this issue, how long ago?

MR PACKER (TG): In August last year.

DR CRAIK: Okay. Have they given you any indication when they're going to respond?

MR PACKER (TG): I've had three different conversations with them along the way and the people that are heading it up have told us that they've been in touch with

CBH and their legal people have been coming back to them. Now, when I was told the deadline, I rang shortly after the deadline and I was told no, they had postponed their answer to the questions because they wanted to have their legal people look at it. Three months has gone past and nothing has come back to me and we've got no resolution. So we're still not able to - and we're well into the next year. If we have to suffer another year of doing this, it's a great financial disadvantage.

DR CRAIK: Yes.

MS MacRAE: Could I just ask you - it's slightly different but we've got a little bit more time - how did you find the accreditation process in terms of WEA and being accredited to export bulk?

MR PACKER (TG): I have no problem. I don't have a bulk wheat export permit. The people that I work with do have. I believe at the early stages of deregulation I think it was well put together, it was fair and it was very protective of the industry itself. So at this early stage, I've got no complaint with it. As time goes by, I believe that the people that are credible will obviously have to perform; if they don't, they will clearly be made to depart the business, so no problem.

DR CRAIK: Just on James Point, is that a definite go-ahead or is it still up for decision by the state government?

MR PACKER (TG): Our premier has - how can I say - almost ticked off on it. With a politician - and there's been so much pressure, if you like, put upon him to make a clear time to start this. The person, Len Buckeridge, that's actually going to build this port - I actually witnessed a document three weeks ago of the moneys that are available, ready to start that tomorrow, if that was ticked off, so yes, it's definitely a goer, but you're talking about at least two to three years to get that - - -

DR CRAIK: Yes, it's obviously going to take some years to build a port.

MR PACKER (TG): Yes.

DR CRAIK: I don't think I have any more questions, Kim, so thanks very much for coming along. Thanks for your comments and we certainly appreciate that.

MR PACKER (TG): My pleasure, and thank you for the opportunity.

MS MacRAE: It's very good that to have some of this on record because we hear whisperings but it's very hard to get people to actually put things in writing, so it is very helpful to us. Thank you.

MR PACKER (TG): You've got my contacts if you need any further follow-up as to what we've done, when we've done it and how we've done it. I would only be too pleased to forward that to you.

MS MacRAE: Okay, thank you very much.

DR CRAIK: Thanks a lot. I think now we'll adjourn for morning tea until 10.45 when we have Western Australian Farmers Federation. Thank you.

DR CRAIK: We will resume now with the Western Australia Farmers. Could I ask you all to state your name and organisation for the record and then if you have a few introductory remarks that you would like to make, we would be pleased to hear them.

MR SIMPSON (WAFF): My name is Kim Simpson. I'm the grains section president from the Western Australian Farmers Federation.

MR YOUNG (WAFF): My name is Duncan Young. I'm the senior vice-president of the grains section at WA Farmers.

MS WHITFIELD (WAFF): And Danielle Whitfield, executive officer, grains section, WA Farmers.

MR SIMPSON (WAFF): So a few comments?

DR CRAIK: A few comments if you've got any, yes, thank you.

MR SIMPSON (WAFF): I'll make one that I made to someone up the end there earlier. I understand the other reasoning for it but it strikes me that this whole process is about two years too early. It seems that we haven't really had time to see how the system is going to work. Given that, we'll do our best to make our points. Probably the other thing I should preface my remarks with is that I've had this job for just over a month, so you will have to excuse my ignorance on some issues probably or I would like you to excuse my ignorance.

DR CRAIK: That's fine, thanks.

MR SIMPSON (WAFF): We'll just make some points. Obviously WA Farmers put in a submission to your first round and then nothing has really changed from that, but we do believe that the CBH auctioning system appears fair and logical and as an organisation, we support CBH's efforts in that regard. We would question the need to keep the port terminal access test beyond 2011. It's a very expensive exercise which naturally growers wear the cost of in the end and we believe that there are other acts and other regulations that would cover the same issues.

In terms of industry-good functions, this is something that's been a void since the market was deregulated. We don't believe there's anything much been done in this area and we believe it's necessary that it is, so we do believe that a national body to cover these issues is necessary. It would of course incorporate the growers' market, the whole industry. We haven't got an answer to exactly what that system is yet and I think again it will take time to see what sort of national representation develops for growers even before we can get to this point, because that is a bit clouded at the moment.

I guess the other comment I'd like to make is that whilst the report spends a lot of time justifying the deregulation of the industry, it spends very little time appreciating the strengths of the system it replaced. I think there are a lot of strengths that are evident now and will become even more evident in the next few years. So I guess if I had a criticism, that's what it would be.

MR YOUNG (WAFF):   Probably the other one I'd put up would be that we agreed that maybe that Wheat Exports Australia should be disbanded, but that an accreditation system should be still there for exporters. We'd probably go along the lines of the Essential Services Commission Act that's used in South Australia, but we'd like to see that it's probably expanded on that system a little bit more, so probably not to incur the same expenses as the accreditation system but to probably have a little bit more teeth than the South Australian version.

DR CRAIK: Okay. Thank you very much for your comments and thanks for your submission. I guess the question we would ask is why - given that the current wheat export accreditation system hasn't guaranteed payment to growers, it was quite clear that while it provided a comfort to the industry in transition and I guess provided comfort to growers that someone had assessed the circumstances of those accredited exporters, but the system didn't provide any guarantee of payment. So I guess while you're happy for WEA to be disbanded, somebody has got to run an accreditation system which costs money and now you're asking for it to provide a guarantee for payment. I mean, I guess to me it's just a little bit of a mixed message, that's all.

MR SIMPSON (WAFF):   We haven't asked for a guarantee of payment.

DR CRAIK: I thought you did.

> The organisation is still concerned there is no guarantee for payment and the losses of payment would be significant and detrimental.

So you're not wanting that to be part of it?

MR SIMPSON (WAFF):   I think we understand that that's probably not achievable but at the same time, some sort of accreditation system I think would be useful in weeding out the worst of the fly-by-night potential people. We understand that it's not an answer. It won't stop things going wrong but it may prevent some of the worst elements getting in there I guess would be the hope.

DR CRAIK: Okay. I guess then the question becomes why do we need it for wheat? We don't have it for other grains and we don't have it for most other agricultural commodities that are exported.

MR SIMPSON (WAFF): Again, we're early in the piece, aren't we?

DR CRAIK: Yes.

MR SIMPSON (WAFF): Up until now, most of those other grains have been exported by one or two companies and we're probably going to see more companies involved in that process now too. So in three years' time, that question may not be as hard to answer as it is now. I think we may need it for all grains.

MS WHITFIELD (WAFF): I think as well the tonnages you're dealing with when it comes to wheat here in Western Australia is significantly more than a lot of the other grains, so you've potentially got a massive loss if something were to go wrong and we really need to protect that here.

DR CRAIK: We might move to the next subject then. Access to port terminal facilities: I guess you would like to see the access undertakings disappear in 2011 and you suggest that they're expensive and they're not terribly useful. The previous speaker from Tamma Grains really raised some issues about the charges that CBH requires or imposes if they bring grain direct to port compared with using the CBH system and suggesting that it makes it almost impossible to use because the charges are so high. I guess there's a concern generally that if the access undertakings weren't in place, that might create an even greater problem.

MR SIMPSON (WAFF): Yes, this is one area obviously - I mean, I'm a grower myself but I'm not an exporter, so I don't know this situation as well as they would - but I guess my comment would be that most of the exporters don't seem to have too much of a problem with the system that CBH is proposing, at least as far as I know. They have all sorts of rules now that require them to give access and to behave themselves in company terms and it just seems to me - I mean, our business is trying to keep farmers in business - that all those costs are sheeted straight back to growers and we are trying to keep the costs down for them. CBH obviously is an organisation which is owned by growers and it's in our interest to make sure that that company maintains a strength. So we don't wish to see - if someone could prove to us that it's absolutely necessary that this is done, and given in any commercial situation, obviously people who are being charged money are going to complain about it and given that CBH has a right to charge for something they are providing or the growers are providing, then we would like to see growers get the best deal we can.

DR CRAIK: Certainly the grain traders, AGEA, the Grain Exporters Association, last week when we met with them were quite keen to make sure that the access undertakings continued and that they continued in relation to - I mean, I think I'm not misquoting or suggesting that they would be prepared to see them come off in 2014 if everything was going okay, but I think they want them to continue and they want them to continue in relation to the use of all the capacity, you know, providing fair access to the entire capacity of the system. I guess in relation to the bulk handlers, they are concerned about the slowness with which they have been trying to negotiate protocols with the individual bulk handlers across the country.

MR SIMPSON (WAFF): The exporters have had that concern?

DR CRAIK: Yes.

MR SIMPSON (WAFF): Yes. Again, I don't profess to be an expert in these sort of matters and from our point of view, we're really only talking about Western Australia. I know nothing of the ports in the eastern states or the systems there, so it may be that some of those might require this access test for longer. But from what we understand, it seems that it's a cost that growers are bearing that they probably don't need to - - -

MS WHITFIELD (WAFF): Could I just ask for clarification. If Wheat Exports Australia is abolished, who then takes over that role of the port access test and stuff like that?

DR CRAIK: The access undertakings are really an issue for the ACCC. Wheat Exports Australia provides the accreditation, so if you got rid of - - -

MS WHITFIELD (WAFF): No involvement.

DR CRAIK: Wheat Exports Australia has the accreditation requirements, plus a number of other things like monitoring continuous disclosure and a range of things around their accreditation. But I guess if you get rid of them, you would want to have some kind of accreditation thing. I mean, you do need a body to run an accreditation scheme, even if it is an ESCOSA-style scheme.

MS MacRAE: Currently there is a link between the accreditation scheme and the access undertaking to get your approval. If you're a bulk handler, you have to have a port access undertaking that's approved by the ACCC. So what we've proposed is that if you were to take away the accreditation process, then you would break the sanction, I guess, of not being able to export wheat, so you would need another sanction of some sort. I don't know if that was where your question was going to, what would the sanction be.

MS WHITFIELD (WAFF): Yes.

MS MacRAE: We've deliberately left that open in the draft, but I have to say we've had comment on all sides about that. The bulk handlers are saying, "We're concerned with something so big, you could knock even us over," and on the other side, the traders are saying, "You could give them something, they could do whatever they like," and you're effectively taking it away. So it's an area we'll definitely look at again for our final, but we just thought from our point of view the benefits of accreditation seem to be small. The costs are relatively small as well and we acknowledge that. The benefits are pretty small too, so why keep a whole accreditation system going. What people are really worried about is port access and could we find another mechanism to bring that into place. We've heard from you that you are somewhat concerned still about accreditation, that you would have some maybe more light-handed approach to that as well. I don't know if you've got views about whether or not you'd link that in some way to a licence to export, whether you would see that as a continuing requirement, but I guess as you want the access test to go you wouldn't, would be my guess, because it wouldn't really make sense if you say, "We're not having an access test."

DR CRAIK: I guess in an ESCOSA-style one, you wouldn't have the access test as a condition of accreditation. We might move onto your next one, Transport, Storage and Handling and I guess we would be interested in your views about Grain Express and if you believe it's possible for exporters to bypass Grain Express and are you aware that it's happened?

MR SIMPSON (WAFF): No. I did actually read that in your literature yesterday and I'm going to have to plead a certain degree of ignorance on this one. Grain Express, from my point of view and given that I haven't had a meeting with the Grains Council yet since I've been in this position so I can't speak directly for them, but from my point of view Grain Express seems to be working very well and it seems to be an answer to a very difficult situation which could arise given no Grain Express. As to whether people can transport outside that system, I thought they could but I can't answer that with any definite belief, no. You might have a better idea, Duncan, perhaps.

MR YOUNG (WAFF): I was under the understanding that people can and do.

DR CRAIK: I would be interested in how much they actually do.

MR YOUNG (WAFF): I couldn't answer that. Honestly I don't know. But my understanding is that there are a number of people that transport grain out of that system. To the success of that, I assume that they do it quite easily. I don't know whether a lot of that is out of the container export, I'm not sure. I would guess it would be. But my understanding was that it's quite easy and free to do. So I don't see that it's a major problem. There would probably be some traders that would argue that it is but again they may have a vested interest too.

DR CRAIK: It's always an interesting question weighing up the - - -

MR YOUNG (WAFF): Yes. But as a whole I think Grain Express is a good system. It's not perfect, I don't think any system is, but I think it addresses the main issues of trying to get the actual grain to port and giving probably fair and equitable access to everybody and in that sense it's probably a good compromise.

MS MacRAE: You mentioned this in your previous submissions, as I understand it, but you did have a specific - if I can call it a complaint, about removing the requirement for growers to pay for their freight services until the service is actually provided. I guess we've heard similar things from the traders in relation to the auction system, that they're putting a lot of money up front and they're not getting a return on that, they would be sucking in capital out of the industry that might otherwise be used. How would you see that? I presume it's not something you think that government should be regulating about, but it's something that you would need to negotiate with CBH.

MR SIMPSON (WAFF): I think so. My understanding of that system is that money is charged to hopefully prevent people booking space that they're not going to use and in that respect it seems a very logical thing to do to me and the money is refunded on all grains, all tonnes that are shipped. So it prevents what was a problem that was I think written up in one of the Elders - one of the last papers I read - in South Australia that exactly that thing happened, there was space booked and not used which, of course, messes everything up. To me it's a fairly logical thing to do. I can understand where some of the exporting companies mightn't like it but I don't see a problem with it.

MS MacRAE: I guess the same issue comes up in relation to the freight services where there's a requirement it seems for growers to pay for freight services before they get the service so you've booked it and you pay for it, I assume, and you're asking here that that be removed so that you only actually pay for the service once it's provided. So isn't that effectively trying to protect against the same thing, is the point I'm trying to make.

MR SIMPSON (WAFF): That comment would have been relating more to last harvest than this harvest, would it?

MR YOUNG (WAFF): Yes. That was true last year. They have changed it slightly now with your freight. You're still paying it up-front but you're not paying it - you can pay it in different forms now.

MS MacRAE: Right.

MR YOUNG (WAFF): I think the main argument before was that you were paying a large percentage of money before you'd actually sold any of your grain and got money for it.

MS MacRAE: Okay.

MR YOUNG (WAFF): I think it was more a cash flow issue. I don't know if you'd quite link the port one and the rail one.

MS MacRAE: I'm just saying the principle is the same in both cases, isn't it?

MR YOUNG (WAFF): To an extent but - - -

MS MacRAE: They're saying, "If you're going to say you want a service, then you've got to pay us for it because if you renege on the deal - - -"

MR YOUNG (WAFF): But we're a captive audience, we've put our grain in there, we don't really have a choice. You either elect to go to one site or another but after that wherever that site is, it has to be transported out. But I think the other one where you're talking about shipping, that's a different situation. What they're trying to do - my understanding of it - is to stop people booking out huge amounts of shipping and then not actually using it. That to me is the detriment of the other grain traders. If they can't get ships in to actually move their grain - I think they are two different issues but I know they are similar.

MS MacRAE: It wasn't where I took the conversation to start with and then we moved to that.

MR SIMPSON (WAFF): One is effectively like a booking fee, isn't it?

MR YOUNG (WAFF): Yes.

MS MacRAE: Yes.

MR SIMPSON (WAFF): That rail freight system - I think what you're referring to with the rail paying up-front would have been more a problem with the previous harvest than this last one. But the system was changed for this last harvest and there is a lot less paid up-front.

MS MacRAE: Just as a general comment, how would your members see - as we understand it there has been quite some rationalisation of receival sites and rationalisation even of rail lines and probably more of that occurring so super sites emerging and less silos that might be close to particular farms, all those kinds of things. Do you see that as a positive development and is that a good thing that is operating within CBH and is that one of the reasons that you see Grain Express as a good thing with the competitive pressures to some of those - that some of those subsidies that previously occurred or cross-subsidies, if I can call them that, that were previously in place that some of that is being unwound?

MR SIMPSON (WAFF): Yes, to a degree. One of the issues that I have - and I'm sure the Grains Council would have - with this whole process is that the most important portion of this industry has been forgotten about to a large degree in this whole process and that is the growers that are actually producing the stuff that makes the whole industry work because some of those cross-subsidies you were talking about - one of them, for instance, was on freight between some of the further out points and some of the closer points to the ports; it was a cross-subsidy, there's no question. But at the same time, given the pooling system we had - in this state at least, I don't know about the other states - there was a cross-subsidy between the quality of the wheat between those outlying places and the closer places. As a general rule the outlying places grew a better quality of wheat which, when pooled with the stuff in closer, lifted the price of the whole lot. So it's not all negative.

That is one of the problems I had with the report, it's fine working on straight economics providing you take all the facts into consideration. That's the other issue I probably have is that when you're talking road versus rail, no-one seems to consider the complete costs involved. It's fine to say that it's actually cheaper now that the rail has deteriorated to put grain on road, but very few people ever stop to work out what it would cost to get those roads to the point where they could carry that traffic year in, year out and what it would cost in social problems associated with that number of trucks on those roads at the same time as the school buses and everything else. So those costs aren't ever really accounted for when that sort of working is being done and I think they need to be.

The other thing is the social cost. People live out there. People are trying to make livings out there and create places to live and in fact maintain the countryside, I suppose, as part of their job and we are now looking at situations where it is becoming more and more difficult for growers to do that. I think we need to consider all those issues when we're doing reports even like this one.

DR CRAIK: I guess we didn't - that was part of the basis for our recommendation that any analysis of the infrastructure really ought to do a thorough cost benefit analysis and I guess by "thorough" we mean you pick up some of those issues as well as obviously the up-front costs and benefits from road and rail.

MR SIMPSON (WAFF): The problem is a lot of those issues aren't immediately noticeable. A lot of those issues are five years out and 10 years out. They're things that require a bit of imagination at times - I'm not saying you people haven't got imagination - but they require more than just facts is what I'm saying.

DR CRAIK: I guess my question to you, in your introductory remarks, you said the report didn't really spend much time on the system that the deregulated system had replaced. In other words, we didn't talk much about the single desk; that's very true. Our terms of reference really said, "We've got this scheme in place under the Wheat Export Marketing Act," and we've been asked to review that scheme, what's good and what's bad about it and what are the costs and benefits of it to the industry and what recommendations would we have to improve it. It really wasn't a retrospective comparison with the single desk. It was clearly not part of our terms of reference to go back and do a comparison.

MR SIMPSON (WAFF): No.

DR CRAIK: But I guess we'd be interested in what you would think was a good system, things that have been lost and - - -

MR SIMPSON (WAFF): I do appreciate that you weren't trying to make a comparison but I guess that comment came from when I was reading this thing yesterday and I found that a lot of your recommendations were agreeing with the situation now - well, we're actually putting the case for the situation now, in terms of issues like cross-subsidisation - when they didn't really take into account the whole story, the part that I was just saying, where there was a double cross-subsidisation. It actually evened out pretty well. Yes, that was the issue I had with it.

I suppose other issues would be things like the duplication we're going to see in this industry from now on. I don't think the real benefits that growers got from all the industry-good type works that AWB did for this industry were ever taken into consideration to any great degree and a lot of those - it seems a very loose term - marketing-type arrangements that they did for this industry are now going to be done by a dozen different people, a dozen different organisations. Even if we do as an industry put a body in place that does take some of that role, there's no question that every grain marketing organisation around the place is still going to be doing its own selling. They have to. So we're going to be paying for not one organisation now but about however many there are - at the moment I think it's five or six that are really exporting wheat - so instead of one, you've got six.

I think the same is true with things like forward selling. There won't be as much of that done now obviously, but because we have to now either learn that ourselves or employ somebody else to do it, that's another cost we have and that cost is sheeted straight back. We're the ones that bear that cost, not the Farmers Federation but the growers, and all of those costs are duplications of what was existing and done very well, and I don't think they were ever really considered in this debate. But again, that's getting back to what we had. But I think those are costs that we will see now that we didn't have as much pre this system.

DR CRAIK: And probably weren't as transparent.

MR SIMPSON (WAFF): In fact the reverse could well be true. They were probably more transparent then than they ever will be again because we will never see those figures in ink, in black and white now. Cargill is not going to say, "We spend this much employing people to sell our grain." I don't see that we'll see those figures, so it may well be that the reverse is true.

DR CRAIK: Okay. Talking about the end point royalties, I guess the question would be how would you like to see end point royalties actually dealt with?

MR SIMPSON (WAFF): I don't know. Someone might have a better answer than me. I'd like to see them cut in half. But that's a difficult one, I agree, and I understand that breeders have the right for recompense for their work. So yes, I don't have an answer for that, I must admit. That's not one I've considered too well.

MS WHITFIELD (WAFF): I think our sort of push would be pay them if they're making spec, then you should pay the full end point royalty. As growers - and we were sort of talking about it before we came in - the actual producer of the grain seems to be forgotten a lot. In any of these discussions, marketers start trying to push and shove each other, and at the end of the day, you get right back down to this grassroots grower who financially and with the weather is doing it a bit tough. Growers are just saying, "If I'm producing a grain and it's not making the specification that it was designed for, I shouldn't have to pay that end point royalty because that sort of sends that signal to the breeder to be better at breeding. I think it's easy to sit back and think, "The grower can pay for that, the grower can pay for that, the grower can pay for that," but in reality, yes, the grower is paying for everything and at the end of the day, if you didn't have the grower, you wouldn't have all these people kind of hanging off them. I know I sound a bit sort of passionate about this but we need to remember what this is all about. This is about the long-term sustainability and profitability of growers and not get too - you know, the marketers or the breeders, they wouldn't have a job if these guys aren't out there growing.

MR YOUNG (WAFF): Could I add a little bit to that. End point royalties are a necessary evil and for the most part, a lot of growers don't mind paying the end point royalty, and I would agree with Danielle. Unfortunately there's been a few dud varieties that have come out in the last few years that haven't lived up to what they've promised and I think it's probably left a foul taste in a lot of growers' mouths and in the hip pockets. Probably having a sliding scale similar to barley, where if a variety doesn't make malt, then you don't pay the full end point royalty - - -

DR CRAIK: Okay. So they do that already in barley, do they?

MR YOUNG (WAFF): They do it in barley, on some varieties. I think it's only on some, I don't think it's on all; I could be corrected.

MS WHITFIELD (WAFF): And they're trying to take that out as well, yes, because it's too hard for computer systems.

MR YOUNG (WAFF): I'd argue that it's very easy with computer systems these days. You can do almost anything with that. But I think a lot of people would probably argue that if a new variety comes out - take out environmental factors like a drought or something like that - but if a variety is not performing to what it should be - and some of these varieties hypothetically come out as an AP classification - you see three years later they're feed because they haven't performed. They're downgraded and nobody uses it any more. It does get back to the breeders and I think some of these things are fast tracked a little bit - - -

DR CRAIK: Too fast.

MR YOUNG (WAFF): Well, yes. I think a lot of them now have got rid of the seed royalty. I know some have and I could be corrected from the ag department, but I believe there are still some producers that are charging a royalty on the seed when you buy it. A lot of farmers really have an issue with that because that's like a double tax. You're getting a seed royalty and then you're getting an end point royalty afterwards. There's still I'd say a reluctance from the breeders to actually - and WA is probably well ahead of the eastern states and the fact that we have allowed farmer-to-farmer trading over here. I'd personally like to see more of that because if they've got a good variety and it performs well, the quickest way to get more of that variety out there is to allow farmer-to-farmer trading. Whether that's through an auction system like they apparently presently use through the Internet with - the names have alluded me but there's a couple of - SeedPool, I can't remember the exact name, but a few of them. But that's one way, if they have good variety, they're actually going to make more money because that variety gets out there, it's used more, more tonnage put in, so therefore they have a better endpoint royalty.

MS MacRAE: Okay.

DR CRAIK: Okay.

MR YOUNG (WAFF): I think most farmers don't mind paying it if it's good but it's like all things, if you buy something that's rubbish, why should you pay for it?

MS MacRAE: The only other thing - it didn't get mentioned in your introductory comments but it was in the draft comments you gave us, it was just around pool transparency and you said that you felt that more informed decisions would help. Have you got anything specific about what you'd like to see in relation to what's disclosed in pools? You're more than welcome if you want to bring something back with your submission. I just thought you might want to take up that point as you had given it in your points.

MR SIMPSON (WAFF): I wasn't involved in the job when it was written and I'm not sure what the issues were behind it so I would have to get the information to you on that one.

MS MacRAE: That's all right.

DR CRAIK: We did ask the question about more information but in our report we asked some questions about whether people thought there should be more transparency and listed a number of things that we were asking questions about, so we're interested in your feedback and I guess if you have any comments on what particular things you'd like to see more of or comments about regulation we'd be interested in hearing what your views are.

MR SIMPSON (WAFF): In terms of pools?

DR CRAIK: Yes.

MR SIMPSON (WAFF): We will get that to you.

DR CRAIK: I think we've completed our questions so thank you very much. Thank you for coming along, thanks for your draft submission and we look forward to the final.

MR SIMPSON (WAFF): Thank you.

MR YOUNG (WAFF): Thank you.

MS WHITFIELD (WAFF): Thank you.

DR CRAIK: Thank you for your submission and perhaps you could start by identifying who you are and your organisation just for the record, even though we know but we need it on the tape and then if you've got a few introductory comments we'd be pleased to hear them.

MR WILSON (PGA): Thanks, Madam Chair. My name is Rick Wilson and I am the chairman of the Western Grain Growers PGA committee. On my left is Leon Bradley, immediate past chairman; on my right is Janet Thompson who is our grains policy officer.

DR CRAIK: Thanks. If you've got a few introductory comments, we would be pleased to hear them.

MR WILSON (PGA): Madam Chair, as you would be aware, the PGA is a pro-deregulation pro-free market organisation and we lobbied very hard to deregulate the wheat market and we think the deregulation of the wheat market has brought massive benefits to Western Australia growers, particularly cash sellers who various consultants have put at anywhere between 20 and 35 dollars a tonne increase in the cash price out of Fremantle versus the east coast of Australia since the cross-subsidisation of the national pool ended. So in that regard we've been very happy with deregulation of the wheat market.

In our initial submission regarding the wheat export authority and the arrangements going forward, we suggested that the need for regulation was probably coming to an end and we could move on. Since we put that submission in, we have had a lot of feedback from the industry, concern over the access arrangements at ports and we have put in a lot of time trying to navigate a way through, staying true to our free market and deregulation principles and, unfortunately, we can't find a way through and our submission, which we have now submitted, is calling for a continuation of the current arrangements for another round for another three years and we believe that is very necessary to keep the port operators honest and allow access for all participants in the trade at a fair and equal basis.

DR CRAIK: Thank you. So what you're suggesting now is that WEA should - the access undertakings remain in place. Do you agree with 2014?

MR WILSON (PGA): 2014.

DR CRAIK: But you think that WEA should also remain in place with its accreditation system until 2014. Is that a correct - - -

MR WILSON (PGA): That is correct but some exporters have been given three-year permits anyway so that function of the WEA would virtually fall by the wayside but the port access arrangements and the oversight of those port access arrangements would continue or we would like to see them continue. We don't see that the ACCC and the Trade Practices Act has the necessary powers in the short term to hold these bulk handlers to account. As we have seen with the rail access problems in the north-west of WA, some of that has been going on for seven years and we saw that last year CBH tried to bluff the WEA and hope that political pressure from growers would see them receive a licence and, of course, they had to go back and review their access arrangements at the last minute to get their export accreditation and we see that as being the only way in the short term to hold them to account.

DR CRAIK: So in your view is the importance of WEA the fact that they are only able to export - WEA can prove bulk handlers exporting once they get an access undertaking, but is it just the fact that the link between exporting and the access undertaking or is it also the wider powers of WEA in terms of monitoring continuous disclosure and behaving in a fit and proper way and all those sorts of things?

MR WILSON (PGA): I think in the first instance to actually bring them to the table to negotiate it's the sanction of not giving them an export licence and then obviously ongoing there does need to be some oversight to make sure that they abide by those undertakings.

MR BRADLEY (PGA): We would also think it's particularly important to 2014 to monitor their behaviour to see if it actually improves because as at page 154 of your - I forget what the document is called.

MS MacRAE: The draft report will do.

MR BRADLEY (PGA): Draft report, the box 5.5 we'd find you given the bulk handlers - in our case, CBH, which is the one we know most about - the benefit of the doubt and taken what they have said at face value. But we would just about dispute every dot point there. We don't actually believe a lot of those things are true. We think that CBH exploits every advantage that it can for itself, regardless of the welfare of the growers.

DR CRAIK: Do you think keeping an accreditation system in place is - clearly, as I read the rationale you're proposing it is because to kind of keep the bulk handlers honest, if I can use those terms - and they're my words, not yours - but the accreditation should also apply then to every other exporter in the industry. I mean, so the grower pays 22 cents a tonne and really the focus of your attention is a fairly small number of exporters, as I read it, but you're suggesting keeping the system in place for everybody.

MR WILSON (PGA): If the job of overseeing the bulk handlers could be done for less than 22 cents a tonne, then by all means change the levy; surely that's not beyond doing. But we see that the cost - and we've seen with the cost to Western Australian growers of this auction system amongst the traders talking about $15 a ton FOB out of Western Australia. What's 22 cents a tonne levy to ensure that that sort of thing doesn't happen in the future? The cost of the levy is - I mean we are philosophically opposed to levies but in this particular case we can see that for the next three years that levy would be justified. At a lower level would be great, but I doubt that that would happen. But I don't see any reason why it couldn't if the WEA's job was really wound down to oversight of the bulk handlers.

MS THOMPSON (PGA): We did go through several iterations before coming up with this fall-back position. We did look at it from various perspectives of way to give teeth to the port access undertakings.

DR CRAIK: Yes.

MS THOMPSON (PGA): I think at the end of the day this is probably still our least-cost option.

DR CRAIK: Our view was that when you got rid of accreditation and the access undertakings were still in place you would still need some kind of a sanction for those where the access undertakings weren't met and we hadn't been specific about what kind of a sanction.

MR WILSON (PGA): We looked at the ACCC, but we just don't think under the current act they have the power to bring those people to the table as effectively as the current system does as we saw last September when CBH tried to call the bluff of the WEA and had to come back with their tail between their legs at the last minute and come out with a better access undertaking. Not good enough, from our point of view, but at least it brought them to the table.

MR BRADLEY (PGA): Our understanding of the Trade Practices Act, primitive as it might be, is that under the wheat export arrangements we have now CBH, for example - and under the Bulk Handling Act as well, although they ignore that whenever it suits them - they have to give fair and equitable access to their port capacity; but under the Trade Practices Act, if we've read it correctly, is that they don't have to give spare capacity. There would be a big difference, I think. All the capacity would disappear just under clear, you know, straight Trade Practices Act.

MS MacRAE: But like us you probably didn't come to the date of 2014 lightly. Probably the fact that we came up with a date might have guided you somewhat, will give you some idea about where you might see it. But I'm just interested from your point of view what made 2014 the date for you? I mean obviously you wanted it somewhat longer than immediate removal but what do you see might be happening in - I guess one of those things you might want to comment on would be James Point and how you see that.

MR BRADLEY (PGA): Absolutely.

MS MacRAE: But if there are other things - - -

MR BRADLEY (PGA): I mean competition obviously would solve a lot of the problems that we're sitting around talking about here today.

MS MacRAE: Yes.

MR BRADLEY (PGA): I guess yes, James Point is the key to that. When you look at the proponents of James Point they've still got to get final approval. It will be 18 months from that point of getting final approval to the first boat berthing beside James Point. So I mean really in the best case scenario we were probably looking at two to three years. We've had very strong indications from people within the trade and also the proponents of James Point that there will be a loading belt available at that port. So I guess three years is the time frame that we - minimum time frame that we would need to see the competition that we want to see in the industry develop, and then we could probably hopefully move on in a completely deregulated environment and let the cards fall where they will.

DR CRAIK: Just going back to the issue you raised, Leon, about spare capacity or total capacity. I think it may be somewhat unclear what the answer is. I think, our view when we put the draft report together, it's probably excess capacity if you just rely on the Trade Practices Act. What would your - I mean would you be concerned if the access undertakings were removed in 2014 and reliance back just on the TPA and it was an issue of only making excess capacity available? What would you think if - - -

MR BRADLEY (PGA): Well, I think that if that happened it would be unfortunate but three years is enough time for the trade, if they're really serious about investing in the supply chain in WA to do something about it. If the legislation lapses and they haven't done anything about it, well, they can't complain, can't they? We'll just have to go about addressing the problems we have with CBH in another way.

DR CRAIK: Okay.

MR BRADLEY (PGA): There is a WA Bulk Handling Act which is a bit of a sleeper, I believe.

MR WILSON (PGA): Trying to address it from a political angle it would be three years before - even if we started today it would be three years before we got an outcome. So we just see that the most effective and short-term measure is to continue the current arrangements for another three years.

DR CRAIK: Okay. What are your views of Grain Express? We get very different views about Grain Express.

MR WILSON (PGA):   I'll throw it to Leon for that one. He's had some experience personally with dealing with Grain Express.

MR BRADLEY (PGA):   I've had a bit of practical experience with it, yes. In principle it sounded good when it was introduced but I think what CBH have done is used it to extend their monopoly up country. While they have structured their charges the way they have nobody is going to build storage because they're going to get full ticket anyway, because they're charging $17 fobbing or $17.10, whatever it is. I don't think it's an accident they have rearranged their pricing structure.

DR CRAIK: So it costs the same to use Grain Express or not use Grain Express?

MR BRADLEY (PGA):   Yes, that's right. So you won't get - people just can't invest in storage if they're not going to be able to fob it at a commercial rate. Second thing is that it has given them control over transport. Thirdly, it has allowed them to maintain their network pricing across the whole system where there's huge cross-subsidies that they don't want to eliminate, and because they've got network pricing they're basically bound to run a cost-plus system. In here at one point it says that they wouldn't do those sort of things because their overseas buyers wouldn't pay for it, but the fact is they send the cost back to us. So they can do what they like. We're paying for that.

But thirdly, it has also enabled them to eliminate competition between the port zones. So say in a case I have to confess is my own - and it has occurred this year to other people, because you don't get burnt twice - I bought 1000 tonnes of wheat in Cranbrook and I wanted to deliver it to a buyer who wanted it in Metro Grain Centres. So I thought you could just do a virtual transfer, but you can't. Then I said, "Okay, well, I'll move it from Cranbrook to Metro," and they said, "That will be $35 a tonne." I said, "But my agent can do it for $25 a tonne." They said, "Your agent can move it for $25 a tonne but then we'll charge you $10 receival fee."

MR WILSON (PGA):   To reintroduce it into the system of Metro Grains.

MR BRADLEY (PGA):   Yes. That's why we need competition between the ports, because if there was a line between Bunbury across to Esperance and it was a different state I mean they wouldn't get away with that under section 96 of the Constitution, would they? I think there's actually significant tonnes of grain that do cross those artificial port zones and they're probably - even if it's only 500,000 tonnes it's $5 million they're getting for nothing that the farmer shouldn't be getting. They're also hindering the movement of grain around the state. This year it applied to noodle wheat in the great southern area. The noodle wheat prices peaked at about 240 or something in Perth and people wanted to shift it down to those bins up to Metro. But once they'd done that, once they'd factored in the cost that CBH - which seemed to be completely artificial, if they are done commercially - they couldn't do it. When I started my feed wheat enterprise last year I did under multigrade contract. I started 40 or 50 dollars a tonne in the money and by the time we'd finished arguing I was pleased to get out square.

DR CRAIK: Do you think the authorisation that the ACCC has given to CBH in relation to Grain Express - I mean do you think that should be reviewed?

MR BRADLEY (PGA): Absolutely.

MR WILSON (PGA): Absolutely, on an ongoing basis, and I have serious concerns. I mean they talk about ring fencing the information and so on. I mean who today is monitoring that? How do we know that whatever commitments CBH gave are being abided by? Excuse me for being a cynic but me and a lot of other people in the industry just don't believe that they are being abided by.

DR CRAIK: Has anyone raised these issues with the ACCC?

MR WILSON (PGA): We have had dealings with the ACCC on not these specific issues but other issues such as closed-loop marketing and so on; and an issue that we started raising with the ACCC in February last year is still ongoing. It regards closed-loop marketing for some new wheat varieties and I wouldn't have thought - - -

MR BRADLEY (PGA): No, that has been resolved, Rick.

MR WILSON (PGA): Has it? Sorry.

MR BRADLEY (PGA): Yes, they've made a quiet announcement that they've given up on that.

MR WILSON (PGA): Was that quiet? I didn't hear about it. So the ACCC are, what, saying there has to be a clear-cut case of a third party forcing, and the ACCC have given up on trying to do anything about it? The grain industry, I'm sure the ACCC deal with a lot of industries and they have specialists that they can call on, but one wonders whether they have got people in their organisation who understand the grain industry and monitor it on an ongoing basis. That's I guess where we see the Wheat Exports Australia as a body that has the correct skills that at least know how the grain industry operates and can provide the oversight. We just don't have faith that the ACCC, with the best will in the world, have got the skills and the resources to do what we need them to do.

DR CRAIK: So would you say it's not possible to really bypass Grain Express?

MR BRADLEY (PGA): Not now, no, unless you want to lose money, if you're desirous of losing money, because you're paying the $17.

MR WILSON (PGA): Yes, the $17 FOB fee is the killer. That was passed by the ACCC, and it seems to me self-evident that if you're an up-country grain handler and you want to fob grain through CBH's Kwinana facilities, then you don't need time based storage charges. The $8.50 charge went to $17 on the basis that they had rolled the time based storage charge into a flat fee. Now, if I want to introduce grain into their port system and just put it from the grid onto a belt, I don't need the time based storage charge, yet the ACCC ticked that off. So once again, you question whether they actually have the knowledge of the industry to be able to analyse those type of arrangements properly.

MR BRADLEY (PGA): Other instances that have been related to me at Grain Express is with grain at port that farmers have delivered directly to port, some farmers have sold their grain to a trader, thinking it was at the port, but it wasn't. CBH had moved it, put it on a boat to fill one of their own contracts, and they have to go out and procure grain from an up-country bin to deliver against their contract. That happened up in Geraldton.

DR CRAIK: Okay. The auction system, do you think the idea of the auction system is a good idea, is a good way of - - -

MR BRADLEY (PGA): It depends how many iterations they go through before they get it right. But at the moment, they seem to be brutally - CBH always designed the rules to suit themselves. Of course it's not working out too well for the trade, and from a growers' aspect, next season how willing will the trade be to put their necks on the line when they go to get - you know, cop the pain they are now through this auction system. So if they had an auction system that had integrity, had fair rules, had a second-tier market for the slots - an aspect that's affected the growers rather badly in the pools, not that they're aware of it yet, is that some of the trade are facing a $20 a tonne loss on their slots. So what they've decided to do is only lose $10 by discounting wheat in the spot market, filling this, doing the trade, losing $10 on the wheat trade and that's brought the spot price of wheat down and the biggest long in wheat in WA at the moment is the Grain Pool, so it's kind of worked its way round to hit the growers on the head again.

MS THOMPSON (PGA): I suppose you've seen in Rural Press what has been written about - it didn't come from anybody at this table - so people are talking about this quite widely but are hesitant to talk about it publicly and to put themselves on the record and say, "I've got copies of this."

MR WILSON (PGA): We'll table that.

MR BRADLEY (PGA): I don't know whether it would be unrealistic but we think there should be some sort of third party who actually supervises all these terminal operations and with arbitration powers - - -

DR CRAIK: I guess the ACCC would see with the access undertakings that that's its role because it has the access undertakings in relation to all the ports that export bulk wheat.

MR BRADLEY (PGA): If they did that, I think they need more expertise to understand that, what the implications are. Naturally CBH have specialist people and know what the lurks are when they design it.

MR WILSON (PGA): The trade told us that they were reasonably happy with the auction system initially. Unfortunately it just doesn't appear to have worked the way that everybody hoped it would work. We're in the second year of a deregulated market and these things are working their way through the system. I'm sure they will find their natural level, provided everyone is obliged to operate fairly and everybody is treated equally.

DR CRAIK: Yes, I guess that's the tension between overregulating and having the system try and sort itself out and have some time to kind of shake out in the next couple of years.

MR BRADLEY (PGA): CBH would say that they don't want a second-tier market because the trade would game the system, but the fact is CBH are gaming the system. From our perspective, we think it will have a bad effect on the cash crisis come next harvest as the trade factor in the losses that have fallen this year.

DR CRAIK: Are you concerned about the link between the auction system and the fact that - and I know CBH have indicated that there may be some changes next year, but the link between buying a slot with the auction system where you get a shipping slot but the link between Grain Express and you had to nominate whether or not you're going to use Grain Express within a very short period of time from actually getting that auction slot and then if you didn't use it, all that went to the secondary market, presumably including your Grain Express nomination as part of what you were actually buying. So you weren't just buying a shipping slot, you were buying the whole supply chain.

MR BRADLEY (PGA): Some members of the trade have complained about it to us but as we're not actually doing the execution we can't really explain the implications of it, but I know they're very unhappy with it. There seems to be a rule that has made it unnecessarily inflexible.

MS THOMPSON (PGA): I just think in general with the auctioning system, the important thing to get competition into the market in Western Australia and I'm sure nationwide is to have flexibility. That's another thing with the auctioning system, there was that block. The rebate would only go to the original person that bought that block, so the secondary trade of those blocks is limited or at least it becomes cumbersome. I think anything we can do to free up the secondary trade as well as the primary trade is a good thing.

DR CRAIK: You've got a comment in relation to wheat classification, related to the problems with wheat classification, relating to bulk-handling companies. Can you explain that?

MR BRADLEY (PGA): We're responding to articles we've seen in the press where the issue, according to what we think is the wheat classification problem, is not wheat classification, it's a quality issue. We think they can be resolved commercially. But under the system of CBH having complete control of the bulk-handling system and the logistics under Grain Express, that means there's a lot of blending going on and all they can do is guarantee a minimum level of standards on the out-turn. You can't just approach them and say, "I want to buy such-and-such out of such-and-such stack." They won't do it. We've got documentary letters that say they won't do it. So part of that comes to the natural failing of the system that you wouldn't necessarily apportion blame to anyone. But on the wheat classification side, I suppose there is work to be done there in working out which varieties fit which grain, what you want to call them, but I don't see it as a real expensive problem to solve.

DR CRAIK: You've got any more questions, Angela?

MS MacRAE: Just make sure there's nothing else on the next page, but I don't think so. No, that's all, thank you.

DR CRAIK: I think we're right. Thank you very much for coming today.

MS MacRAE: Thank you.

DR CRAIK: Thanks for the submission, thanks for appearing. Thanks very much.

MS MacRAE: Thanks.

MS THOMPSON (PGA): Thank you.

MR BRADLEY (PGA): Thanks very much.

MR WILSON (PGA): Thank you.

(Luncheon adjournment)

DR CRAIK: Okay, we might start. Could we ask you to first off identify yourselves and your organisation for the record and then if you have a few opening remarks we'd be pleased to hear it. Thank you.

MR DUFF (GIWA): Okay. My name is John Duff, I'm the executive officer of the Grain Industry Association of Western Australia, acronym GIWA, and with me is Dave Falconer, who is a member of the GIWA executive.

MR FALCONER (GIWA): I suppose in our supplementary submission we wanted to re-emphasise the issue regarding the industry-good functions. We saw the draft report recommended the industry-good functions could be funded by the industry alone. We think there's good reason why that may not be able to happen.

One of the issues relates to our competitors in terms of US Wheat Associates and Canada, who receive substantial government funding. US Wheat Associates is 13 million; Canada, I think it's in the order of six to seven million. US account for 27 per cent of the world tradeable wheat, and that's who we're largely competing against: 70 per cent of our wheat is traded against theirs. So when we convert that to a cents per tonne basis it would appear they're putting 25 to 40 cents a tonne, the government, into wheat exports, who we're a direct competitor with. We are concerned that in a market going forward where you have a number of people who are traders, as against marketers, the same effort won't be put into developing new markets, as it was when we had a single AWB or even Grain Pool, to some extent, with coarse grains. So that's one of our major concerns.

One example recently is the opening up of the Saudi market which a lot of work was done by the WA Department of Agriculture and Food - and which I think they will expand on in their submission. But basically the work by the WA government there has given access to that market from Australia, which was previously excluded because of ergot levels. That was one where it wasn't driven by marketers. It was actually driven by the government in doing something about it. The concern going forward is if we only have industry relying on it they will focus on existing markets but not put work into market development. Saudi, for example, has a grain market of up to six million tonnes. Previously they went down the line of growing to be self-sufficient. If they come up and need a market of six million tonnes it's obviously a very significant market for Australia and Western Australia in terms of our total exports.

In our submissions we have made some suggestions about a structure in Grains Australia, and that that could be a group that could be funded. In other areas there is - the government through GRDC provides some matching contribution, and whether that was something the commission would consider going forward: rather than a total funding a matching contribution by industry. If that was in the order of

30 cents a tonne on a 15-million tonne export would have significant funds to maybe compete with the larger US Wheat Associates as compared to where we would be left if we totally rely on industry.

The other problem with some of the industry issues, we're seeing it now with the deregulation which the government has suggested is good, is that we have a large divergence in how things should be run and it's very easy as an individual company to look after your own patch because there's little gain to go in doing something that benefits the total industry. So that's the main thrust of our submission.

DR CRAIK: Okay, thanks. I guess if we could just talk about that Saudi Arabia case for a second, if the federal government was funding some marketing arrangements, why would it be any different from - I mean, if the Saudi thing was developed and pursued by the Western Australia government initially, why federal government money was coming into a Grains Australia - I don't quite understand why it would be any different, if the WA government wanted to pursue an issue like that anyway, presumably they just would.

MR FALCONER (GIWA): I think the issue there is that when you have grain produced across all of Australia, we're not just relying on the WA export market, we've got grain produced across all of Australia, then who is the benefit, so the work by the WA government - and it's not just the WA government, it's Grains Research and Development as a group - has highlighted that Australia's wheat has a place in that market. Now, the WA government as such can't say, "Well, it's WA wheat." It's Australia's wheat that now has a potential home in that market. That's part of the problem. When you segment it down, you could say CBH could have done that, but they then can't go and protect that market from their own market development, and they have less incentive to do it.

DR CRAIK: Yes. I guess the first question that occurs to me is - I mean, it's good to see that you've actually got some agreement within the industry with something approaching a structure, given other comments we were getting during the draft hearings and things, the difficulty of the industry actually getting together and agreeing on something - but I guess the question would be why should the government fund something like this when they don't fund it in other industries? Why should they put $12 million in over five years when they don't do anything equivalent in other grains or in other industries?

MR FALCONER (GIWA): They do it in research and development in terms of GRDC.

DR CRAIK: Yes, but in, say, for instance, Dairy Australia, that I'm on the board of, they match the R and D funds but they don't match the remaining levy collection funds for other activities. It's all funded by the industry. I mean, Dairy Australia, the

R and D is matched but the marketing and the promotion is funded by the levy, the additional non-matched levy.

MR FALCONER (GIWA): Is that easier with one, two or three people with a concentration of ownership as against within grains, we're now sitting with deregulation with 28 wheat marketers with licences in Western Australia?

DR CRAIK: I don't know. Our members are dairy farmers, plus the companies, yes; there would probably be less. I don't know how many companies - - -

MR FALCONER (GIWA): I understand in dairy there's a lot less marketing companies or we've certainly seen a concentration in Western Australia from a number down to two or three.

DR CRAIK: Yes, there's certainly probably fewer of them.

MR FALCONER (GIWA): Whereas in grains we're sitting with 28.

MR DUFF (GIWA): But also you've got a situation in grains where we've had a Wheat Board for a hundred years or so and all of a sudden you cut them off; I'm sure Diary Australia has developed over the years.

DR CRAIK: They were highly regulated until about 2002.

MR DUFF (GIWA): Okay. It's been able to develop a levy; I don't know how. What we're suggesting is that the grain industry could develop some sort of funding mechanism but it just takes time to establish that and get it going and get acceptance from the industry. So you don't go from a situation where the industry is not putting anything in to a situation where they're fully funding all their industry-good functions overnight, so that's why we're suggesting a transition.

MS MacRAE: I guess to the extent that the industry-good things were previously undertaken by AWB, growers were paying for it, they just didn't see the price on that, so that's one of the issues. The other question that comes to my mind is just in relation to this body of Grains Australia, do you think that Australia-wide you would get agreement on that structure? You might get agreement on what it might do, which is one thing, and then who might be on it, because we have still heard a diversity of views around whether there should be grower-only groups and if there were, if they should be grains or wheat only. I guess there still seems to be a lot of fracturing within the industry and if government was to put some money into something like that, would it be confident of getting the backing of industry as a whole? Do you think the industry could agree on a structure that would work well, with or without the funding, I suppose? The funding might grease the wheels a bit, "We've got some funding, we've got to get a group together to do it," but are you confident that what you're proposing here - I guess is what I'm asking you is are you confident that something like the Grains Australia model - and you have put quite some detail in which is helpful for us - but would that be widely agreed, do you think, as an Australia-wide model?

MR FALCONER (GIWA): It came out of five individual groups forming together and part of that, there was a frustration of a number of those people of the political arguments that were involved and probably at that stage the argument was what the marketing structures were. Now, that's largely got away, but people along the supply chain get frustrated with the political argument as against what does the supply chain need. I think that's the bit that's easily sellable. You can still have your individual farm organisations, and in WA we've got two that have quite different views on it, but they have some common views that we'd need success for Australian growing. So if you can take out some of their political arguments, I think you would be able to encourage them to be part of that. We've certainly seen that nationally, some interest in a model that is supply chain driven as against just one small segment of the market. GIWA has certainly enabled a lot of people to understand each person's problem along the supply chain, whereas in the past, we've probably understood maybe the farmers' problem or the marketers' problem or the shippers' problem, but the GIWA model has worked to get a bit of understanding of all of that.

DR CRAIK: With the people that agreed to this sort of model, does it include non-Western Australian - - -

MR FALCONER (GIWA): John has had a discussion in the eastern states.

MR DUFF (GIWA): Yes, there is one major association over east who is very interested in providing technical services into it. If I can just step back a little bit, the bodies that form GIWA in Western Australia are represented nationally, or vice versa, we're part of those national bodies, GTA, AOF and Pulse Australia. I think maybe rather than greasing the wheel, an incentive - which is probably the same thing - for those organisations to get together could well make it happen. I think GIWA has demonstrated the pitfalls and the things that work well and the reasons for doing it. It's certainly attracted a lot more interest than we ever had before as industry organisations and people are seeing the potential and opportunities for it, so I don't think it would take too much but I think there seems to be more inertia over east. I guess there's more people to agree, whereas in Western Australia we seem to get on and do it more and see what happens as we go.

DR CRAIK: So do you think you'll get the other states' bulk handlers in as well?

MR DUFF (GIWA): I don't see why we wouldn't because they Viterra and GrainCorp are both members of GIWA now.

DR CRAIK: Okay.

MR FALCONER (GIWA): In Western Australia, yes.

MR DUFF (GIWA): I think what we're suggesting is the template, the prototype or the test case.

MR FALCONER (GIWA): The other thing, US Wheat Associates, when Alan Tracy came out, GIWA brought them out here and I think he met with the Productivity Commission.

DR CRAIK: Yes.

MR FALCONER (GIWA): It was interesting in talking to him about how did he end up in the role, and he ended up in that role because they wanted someone that didn't have all the baggage from the grains industry and part of his challenge he said was to drag the cross-industries together, and in a way, that's what GIWA has tried to do, to shift away from some of the historical disagreements which people want to carry for a long time to a step forward. It was just interesting, his analogy, he didn't start from a big knowledge of grains but his ability was to draw it together and they have been pretty successful I think when you look at some of their measures.

DR CRAIK: Yes.

MR DUFF (GIWA): I think you see that with the producer groups who are putting forward models which seem to be more based on the producer, producer rights or producer positions. All we're trying to do is get everyone's position - - -

DR CRAIK: Go right through the supply chain.

MR DUFF (GIWA): - - - and maximise, yes.

DR CRAIK: I was going to say one of the things you suggest is possibly a broadening of the mandate of GRDC, something more like MLA or Dairy Australia fits into that category. I guess one of the challenges we have in this inquiry is that because there is a Productivity Commission inquiry into research and development we're trying to avoid a discussion of the structure of the RDC so if you have views about the structure of RDCs it would be useful if you could communicate those to the Productivity Commission. You might just want to send them a copy of the submission to the R and D inquiry, that's what I'm really saying, because we're a bit limited in what we can say because of the nature of the inquiry.

If we move on, you talk about market information. Do I read you correctly when you're suggesting that this new body could collect and produce the information? Is that equivalent to the information that we were recommending in our report that be continued, the information that the ABS collects? Is that that information? Is that what you're talking about?

MR FALCONER (GIWA): Yes. One of the issues in Western Australia has been that CBH has provided some of that information previously and there has been some comment or perception, I suppose, that because CBH is collecting it and that the information is biased and they're getting it for their own benefit so when GIWA did a review on the market information issues in their report and said it needed to be outside of CBH to clear up that perception and that they became an extension of this. The other thing was to try and make it more timely. What happens at the moment is information goes to ABS and then some six weeks later it gets turned around and the hope was in something like this it would happen a lot quicker.

DR CRAIK: I notice you haven't got as much information as the ABS actually do put out because they talk about committed and uncommitted stocks and a few other things as well. Would you be proposing the totality of information that ABS collect and put out or - - -

MR FALCONER (GIWA): I think in the first stage, in the first year it was a case of, "Let's start with these numbers," and then as there was acceptance move to the next level.

DR CRAIK: Okay.

MR DUFF (GIWA): The Department of Agriculture, CBH and other members such as agronomists are members of GIWA and they've agreed to cooperate in the prediction of the crop and CBH has agreed to provide the information that ABS would get, so I guess we could, depending on resources.

DR CRAIK: Because ABS go the various other traders as well and I guess the fact that they have a legislative provision that people have to provide information is quite compelling in terms of collecting statistics.

MR DUFF (GIWA): Yes, and I think internationally they have a fairly good reputation as well. I think David's got the key point though, it's the timeliness.

DR CRAIK: The timeliness, yes.

MS MacRAE: I guess that when we talk to the ABS about it, and obviously it was a key issue that many people discussed. To get the same credibility in the data that they have, they basically ran us through the processes that they go through and what they do and they have basically cut that back pretty much as hard as they think they can. So we then went and said, "Well, given this six-week lag, what information is required? How and when do people need it?" and it does take you back into the complicated issue about why are people really wanting this information and it seems to us that a lot of it's about trying to find arbitrage opportunities on a very short-term basis and if that's the reason you're collecting the information but all that information then becomes readily available to everybody in the market, those arbitrages are probably going to disappear anyway.

It's about who gets what when and if you do have a separate collection system that doesn't give you the same integrity in the data that you're getting now, if you didn't continue to run the system that's better, if you want to call it, in terms of the quality and you're using that information for things other than that day-to-day opportunity, is that the best use of the resources? It is a very hard issue and we spend a lot of time looking at it. I guess our bottom line was that it seemed to us that if you want to really have the integrity of the data and what the traders really need to make a market function effectively, it seemed to us that what ABS and ABARE are currently producing is probably about the best we could do.

But having said that, I guess, your view, if I'm reading the submission correctly, is to say that there is still this other value from having this more timely information. Would you be replacing ABS? Would you say you would be doing this in place of what the ABS and ABARE are funded to do or would you say you would do it in addition to what they're currently doing?

MR FALCONER (GIWA):   I think initially it would parallel and then what I've seen of the ABS data it's actually reducing by region. We used to previously get yield by shire, we get yield by region. It's coming back over time and we think to be more useful it needs to come back to some more specifics. So yield by shire needs to be there as against yield by region or yield by state, so I think the resources have come. The other thing, there is no doubt every company is actually doing their own estimates. What a lot of growers have said is, "We're way behind in getting this information, so someone has got it well before we have." I think one of the things when we did the report into the information was that there was a lot of information out there that was there already but it just wasn't in a form people could access. Okay, was that a market thing or was that someone's job to do and this certainly suggested that it was something that GIWA could contribute to.

MR DUFF (GIWA):   The people who were in a way most protective of the information in the first place did a bit of a turnaround during the study and said, "Oh, no, we're actually the least informed sector," and that was the growers.

MS MacRAE: What would the growers do with that information, is the other question, given that many of them say they're already overwhelmed with the amount of stuff they're trying to assimilate? What value is there for them in it? I can appreciate that they're saying, "We don't feel we're as well informed," or, "We're not equipped to make the informed guesses or the guesstimates that these other traders are making," but they can get access to that information maybe at some cost but it might then be interpreted for them as well because that is the other point you've made, that sometimes making this information available is fine but it's the interpretation that's often difficult. So getting to the heart of what value growers see in that information and why they would want it and what they would do with it if they did have it, whether or not they'd end up going to a secondary source to get some kind of interpretation on that, those sorts of issues occupied us a bit as well.

So I guess it doesn't surprise me that growers might say, "We've got less information than other players," they probably do, but is that a real impediment and, to the extent that it is, is the solution to that to be accessing those people that have got the information anyway?

MR DUFF (GIWA): Certainly the marketing decisions by a grower are complex and they're not just a price issue, they're a season issue and as the year unfolds it's very complex. The marketing decisions of a mining company are relatively simple because production is so much more constant by month whereas you have a farmer whose grain is produced in one month of the year and then has a multitude of marketing options. It is difficult. I think the concern from growers has been in a deregulation maybe there is less information available so that makes it then they feel they don't have that information to make a decision. Their decision might be as simple to have a better estimate on what state production is versus other production and whether to sell grain early or late.

But I think in the end the individual grower has to make the decision for themselves otherwise you go back to where we were with a statutory market who made every decision.

MS MacRAE: Yes, I guess "it wasn't so much asking someone to make the decision, it's more interpreting that data so that I can make sense of it in a way that then I can take it back to my farm and decide what I'm then going to do." But anyway we've probably said enough about that, unless you wanted to say any more. Yes, it is complicated.

DR CRAIK: In terms of you were going to try to convince the government that it would be a good thing for the government to actually fund a body like this for a period of time, how would you demonstrate given the fairly public history of disagreement in the grains industry, how would you demonstrate to the government that in fact there was a high degree of support in the industry for something like this across the industry? It seems to me if the government were to be convinced that would be one of their major issues, I would have thought.

MR FALCONER (GIWA): If we accept that the philosophical battle of whether it's a deregulated market or regulated market is over, then there's a lot of the disagreement that gets taken away. I think that has occupied the space - - -

DR CRAIK: No doubt.

MR FALCONER (GIWA): - - - for the last 10-plus years. So I think with that gone, and I think that's why some of the organisations are struggling a little bit about well, what do they argue over now? Well, a lot less than they used to. So I think by default probably 70 per cent of what to argue over is gone. I think then it becomes a fundamental argument about - from different groups whether government should put any money in at all. I get back to the simple argument then: well, that's great if no other government is putting money in. But we know that the Saudis came to Western Australia and we know where they're going in June and July, and that's Canada and US. Now, if we haven't got the resources going in then we will miss the opportunity. I think that's why we'll get commitment from a lot of industry players that it's a good idea. So we're not arguing about a philosophy of free market or deregulation from that. We're arguing about should we get a bigger share of the world grain? If we don't, all of the marketers are in trouble and all the growers are in trouble.

DR CRAIK: Yes, I guess the government would need some convincing answers as to why they need to put money into the grains industry.

MR DUFF (GIWA): Yes.

DR CRAIK: You know, why they even need to fund something in the grains industry.

MR DUFF (GIWA): Sure.

DR CRAIK: As they don't in other areas.

MR FALCONER (GIWA): Well, in dairy they did. In dairy they funded a deregulation package of significant amount for dairy farmers.

DR CRAIK: Yes, several million dollars. I guess the circumstances were somewhat different.

MR FALCONER (GIWA): Yes, we paid 10 cents a litre, I think, as a consumer to fund it for a number of years. The grains hasn't had anywhere near that on a pro rata per farmer basis as a deregulation sweetener.

DR CRAIK: That's true, but the circumstances were a bit different, I think, in dairy, yes.

MS MacRAE: I mean I just note the CBH submission, just because I've got it to hand, but they are basically saying look, the industry will fund these things. So they're not asking for - it's just an example but I imagine they would be one of the bigger players involved saying that they agree with our findings and haven't thought - I mean they go through quite a lot of things that they've been doing and how they've - you know, they do some of the market development and all that. So it was the point you were making earlier. I guess in the absence of the government stepping in on the Saudi case, you know, would someone have stepped up to the plate there? Now, your reading of that is no, they wouldn't have, and maybe that's right.

MR FALCONER (GIWA): Yes, I think it might be a timing issue of when they would have.

MS MacRAE: Yes.

MR FALCONER (GIWA): It might have been two years down the track or three years down the track, but the opportunity might have been missed. I think that's - so where you invest your risk capital - - -

MS MacRAE: Yes. I mean in general if it's in your own best interest, the industry's best interest, and you're saying there's market opportunities there that the government is seeing that an organisation who is going to make money out of it isn't seeing, it's a pretty hard case to run in general. I mean you're generally expecting business to be more fleet-footed than government, especially seeing market opportunities. I mean it's not generally something that you look for government bureaucrats to find for you. So I just think that argument - we would have to push that pretty hard and find a reason why we would say that on average we think that governments getting involved here - and I know the US Wheat Associates had a study that suggested that for every dollar their government is putting in they're getting a whole lot back, but we'd have to run a very strong case there, I think.

DR CRAIK: Well, I think the government might respond and say, well, they already put - at least in the information side of things they already put $3 million into funding information during the transition period for three years. So how many more transition periods are they going to have to fund, I think will probably be a question they would ask as well.

MR FALCONER (GIWA): Yes.

MR DUFF (GIWA): Yes, and I guess we would have to put a case to them on that basis.

DR CRAIK: Yes.

MR FALCONER (GIWA): I wouldn't like to think that the funding would be for the government to make the decisions on the best markets to approach. I think it would be a joint exercise and whether it would fund a incentive for market development or something like that, as against thinking that people from government would be picking the right markets to develop. I don't think that would be the best structure. I think we're more thinking well, it would be hand in hand and a contribution.

MS MacRAE: Yes.

MR FALCONER (GIWA): Whether it was based on new markets or whatever, I think that's the way we think it would work. I just come back to the US Wheat. It's fine to say, "Well, our government doesn't need to do it," but we're not on a level playing field and if we keep getting put down the bottom then that's where we will end up. They have got capacity to keep supplying more grain and get more markets now. The government maybe has got a choice of where they want to see us. If they want to see - - -

DR CRAIK: The Australian governments haven't historically had a track record anything like American governments of supporting agriculture, government support of agriculture.

MR FALCONER (GIWA): And to that, they've let the horticulture industry demise and let anything be imported. If that's the government's view then it's hard to compete with the US when they've got the support.

MR DUFF (GIWA): You see, in WA, something like 80 per cent of their grain is exported.

DR CRAIK: Yes.

MR DUFF (GIWA): So it's major significance. It's the biggest agricultural industry, I believe, in Western Australia. If you take away mining then you've only got grain. So it's pretty important to the state.

DR CRAIK: I think it's important to the country too.

MR DUFF (GIWA): GIWA started off - we were started off by industry and one of our biggest members is CBH Group. Department of Agriculture have supported it well and the minister for agriculture supported it well. What we found is that we put these organisations together for efficiency and it seemed like the right thing to do at the time, for obvious reasons. We find that every time we develop one unit of output of industry good we get asked for two units. So that's our experience of what's happening. So every time you start and do something good then they want twice as much.

DR CRAIK: Okay.

MS MacRAE: I guess just on the WCC and your submission. You talk about the WCC and what's happening with it. You say that it's your understanding that there will be an ongoing need for the wheat classification process. We heard from Robert Sewell this morning that - you've made the point the industry remains divided on who should do it and how it should be funded. We did ask Robert while he was here if he supported the kind of model that you've got here and you'll be relieved to know he said yes, he did. I guess even within that there was a - he certainly supported the model but it would be like a sort of a subgroup or something of GIWA, that you would have the Wheat Classification Council as a sort of a - I don't even know if subgroup is the right word, but almost like a separate little independent kind of entity that would sort of be attached. Is that how you would see some of the other industry good type functions occurring? So you'd have like sort of separate little units within the overarching body that would take care of those things?

MR DUFF (GIWA): That's right. GIWA was set up across all grains, so that was a bit unusual in that, and it runs with a series of councils under that; so there's wheat, barley, oilseeds, pulses, trade and oats and derivatives. You would think wheat classification would fit obviously neatly under wheat.

MS MacRAE: Yes.

MR DUFF (GIWA): Across that within GIWA it has six councils and then across that it has a number of other groups that run horizontal. So it has a group that's involved in storage and handling across all grains or R and D or transport across all grains. So the recent one with standards, with GTA, has come to GIWA for Western Australia and GIWA is coordinating the process for updating standards. So that involves all the grains and the different commodity councils that are involved. Obviously the wheat would work exactly the same. The benefit of that has been people in different industries - some people think of themselves as being wheat or pulses - but they've learnt from each other. There's a lot of common things so you can cut out a lot of the inefficiencies, I suppose, because in the quarantine issue, for example, with containers, it was a container issue, not just for peas. It was a container across all grains. So what was learnt for one area could be applied to all. So that structure has worked very well.

MS MacRAE: Those bodies that are under your umbrella, are they national bodies or are they all WA - like is it Oilseeds WA and Pulses WA?

MR DUFF (GIWA): Yes.

MS MacRAE: Yes, okay.

MR DUFF (GIWA): But they're members of the national body.

MS MacRAE: Yes, okay. So really what you're saying is you would be sort of replicating that structure but instead of being GIWA you would be Grains Australia and all those bodies that currently sit under your umbrella would become the national bodies?

MR DUFF (GIWA): That could well potentially be that, yes.

MS MacRAE: Yes, okay, just to be clear about that.

DR CRAIK: It's just good to see some agreement on the structure issues.

MS MacRAE: Yes, it's amazing.

DR CRAIK: Any more questions?

MS MacRAE: No, that's all.

DR CRAIK: I think we've finished with our questions, thanks very much. So thank you for coming along today. Thanks for your submission and thanks for your comments - - -

MR DUFF (GIWA): Thank you very much.

DR CRAIK: - - - and responses, thank you.

MR FALCONER (GIWA): Thank you.

DR CRAIK: Thank you for coming along again today. If we could ask you to start by saying who you are and the organisation so we have it on the record and then if you have a few opening remarks, we'd be happy to hear them. Thank you for your lengthy and detailed submission.

DR CRANE (CBH): Good afternoon and thank you, Wendy and Angela. Andrew Crane, CEO of the CBH Group.

MS MUCJANKO (CBH): Karlie Mucjanko, corporate affairs general manager for CBH Group.

MR CODLING (CBH): And Richard Codling, group general counsel for the CBH Group.

DR CRANE (CBH): Thank you for our opportunity to meet and talk this afternoon. For opening remarks, we'd just like to emphasise again that CBH is a grower-owned cooperative. We believe our views are truly aligned to the interest of growers, so when we are discussing answering your questions or making our points, we just really want to emphasise again that we're here for growers. They are our primary reason for existing, although clearly we operate the system for all to come and use and bring as many of those new entrants to trade with our growers as possible.

We welcome your draft report. We agree that considering the enormity of change, of deregulation, that it has progressed smoothly. In my travels around the world, visiting other major agricultural exporting and importing destinations that have different degrees of regulation, they have asked us many questions about deregulation and certainly I've talked about considering the length of time we had regulation in place and how big a change, that it has been smooth, and we would agree with you on that.

Equally, we also agree that the benefits of accreditation will diminish and will ultimately then leave just the costs involved in those processes, so again we also agree on the intention to phase out the accreditation. The question that then is left with us is: what is the evidence that exists to say that the access tests shouldn't be abolished in the same time line? Why is that being left to continue until 2014? We believe it's a purely theoretical risk that hasn't been brought into being, either prior to deregulation since the original deregulation of bulk handling or since deregulation. That's just our last question really: why the difference in dates?

DR CRAIK: Okay. Thanks very much. Also we thank you for your detailed comments on pools and pool transparency. That's actually quite useful information for us. Thank you. Responding to your third issue first, the issue about the access test, our view was that while I guess from your point of view things appear to be going very smoothly, certainly some of the traders have raised a whole range of questions and others in the industry have raised a whole range of questions which I guess they're uncomfortable with the idea of no longer having access regulation and access undertakings in particular. One of the things that makes them I guess particularly nervous is the possibility that reliance on the Trade Practices Act might mean that only excess capacity as opposed to total capacity were available for their use, so I guess that's one particular area. Issues like the auctioning system or the system for - and of course CBH isn't the only bulk handler at play here - you know, issues about how shipping slots are allocated across the board, not only CBH but across the board, are raised with us.

Some of those uncertainties, and given the long period of regulation which you mentioned yourself, our view is that a five-year period of access undertakings provides an opportunity for commercial arrangements to become negotiated and agreed over a period of time because clearly you're changing your arrangements over time, some of the other bulk handlers are changing their arrangements over this period, still consistent with the access undertakings and agreements for protocols have been negotiated between traders and companies. Our view was that five years gives an opportunity for these arrangements to become embedded in the system and that at that point, our view was it was appropriate to consider or to recommend that the access undertakings disappear after a period of five years. I guess one of the things that we're faced with in this is that on the one hand, we get one lot of opinions and on the other hand we get another lot of opinions and trying to find our way through and looking at what evidence there is, and trying to find our way through I guess is where we come out on that.

So if you could turn to the issues about access, one of the things that you say - and you've made the point earlier to us - is that you would be prepared to go to a code of conduct once the access undertakings are removed. How would you see the code of conduct differing from the access undertakings? I mean, what wouldn't you see included in the code of conduct that's in the access undertakings? What would be different?

DR CRANE (CBH): I think it's moving to an environment for me that is where, okay, there's a code of conduct, but we're making the market work. If everybody is advocating free market, let the market work. Let commercial arrangements emerge between those providing a service and those demanding it. Of course the code of conduct can set some rules within that but in so many other environments, we allow the market to work.

My concern - and I understand it may be just a difference in timing - perhaps is that this actually, the access test and our absolute rigour and focus on making sure that we do everything right with these rules makes us sometimes more afraid of entering into commercial arrangements. We're better off just sticking with providing a vanilla solution to everybody because that's just the safest place to be. So the commercial world where a large buyer or user of our service might negotiate different terms from another one or we provide different types of services tailored to different customers, we're so afraid of our shadow because we're afraid of doing anything different for someone else because we may be selling preference or stepping into some area where we might trip over a rule. So it's difficult; you either have a market working and allow the market to work as it does in so many other environments, or you run the place with rules, but then that might not necessarily deliver everybody's commercial outcome.

MR CODLING (CBH): Absolutely, Andy. On the code of conduct, I guess when you look at some of the penalties that are there for CBH in how it runs its business, certainly you've got the standard Trade Practices Act ones which we hear the comments about whether or not they're binding. Our view is that they certainly are and they contain very large penalties and prohibitions. You then look at the loss of wheat accreditation, another very significant stick to wield across the CBH Group and one which would cause significant detriment to our growers and members if it were withdrawn for something. What we've found is that when we deal with these customers is that they will say one thing to us about how happy they are with the service, then they will come out and say publicly quite a different thing. What they're trying to do is use the regulatory regime to force us into a position that is more advantageous to them. It's not about a commercial outcome, it is about using the stick of regulation to try and achieve extra gain for them in that sense. We've noticed that over the last few years.

We've also noticed that the commercial market has been developing for the last seven years or so with the partial deregulation of coarse grains and now we've had two harvests' worth of wheat market deregulation, so it is developing and we see it will further develop this year and we don't see that necessarily we're going to get the long-term benefit out of it, and I guess with an additional four years or three more years of access undertaking we'd have to reconsider whether or not the concessions we made in giving up or obtaining accreditation in the first year needs to be clawed back somewhat because of the lack of safeguards that revolved around how the access undertaking process interacted with the accreditation process.

So we had several of the safeguards of the normal Part IIIA access undertaking process stripped out which then impacted on how we gave that and what our potential downside was if we couldn't reach agreement on an access undertaking. So that's where we'd see that happen and we'd see that ultimately instead of the regulator being the stick, we'd see the market and the market reputation as being ultimately where we go. I mean, to use an example from yourself, if we were to have only spare capacity and there to be no uncertainty for other customers as to whether they could obtain capacity or not, we feel that would drive people outside of our system, it would drive them to creating a system in competition to us and that would ultimately be to the detriment of our organisation and we feel Western Australian growers as a whole; we need volume for the system and therefore we're keen to retain it. But it's very difficult when each time something doesn't go another organisation's way they complain to a regulator to see if they can get a call on a decision like that and they talk about discrimination and other large, weighty topics like that.

DR CRAIK: So even if the access undertaking ceased, you would still provide a capacity, say, your auctioning system for the total capacity that you have as opposed to the excess capacity? So post-2014 - if the access undertaking remained in place till 2014 - your system, whatever you used, an auctioning system or whatever it was for providing - - -

DR CRANE (CBH): That's a mechanism for providing equal access to what is a potentially limiting resource.

DR CRAIK: That's right.

DR CRANE (CBH): We're trying not to make it a limiting resource, yes.

DR CRAIK: You wouldn't just make that available for the excess capacity that CBH didn't use, would make it available for all capacity so it would be - - -

DR CRANE (CBH): I think so. I think the point is we're trying to operate to provide a service to all comers to store their grain in the system absolutely.

DR CRAIK: Okay.

DR CRANE (CBH): You've got to provide some mechanism with which to achieve that. I think the key point is that we feel that the access test was really put in fairly quickly and if it's to stay for an extended period of time we think it would need some modification and we would need to challenge that.

DR CRAIK: If it were in place till 2014, we recommend it be in place with minimal changes until 2014, do you think that it would be better if it was reviewed every couple of years as the ACCC - - -

MR CODLING (CBH): Every time we review it we increase the costs of dealing with the access undertaking. We put our view at the time of the access undertaking that it should last until 2012 and subsequently that appears to be where it perhaps should have gone. But we're due to start considering what access undertaking needs to be in place in a few months in order to be ready for 30 September 2011. So we need certainty on that quite quickly or else we're unsure where we're going to go. But on the whole we've been providing access to people now, as we say, since 2002 when the first course grain exporters came into the market and we can't see that stopping and the systems that we've put in place like Grain Express are there in fact increasing competition in the grain marketing sphere because they're making it a lot easier to get a very tailored and cheap supply chain service, even if you're not a major shipper. If you ship only one ship a year, then the Grain Express system enables you to get entitlement at port without having to worry about how many sites you're getting it across and whether you've got a logistically valid solution because CBH is handling that portion of it.

DR CRAIK: So how does Grain Express increase competition.

DR CRANE (CBH): It has dramatically lowered the barriers to entry into the state.

DR CRAIK: For whom?

MR CODLING (CBH): Grain marketers.

DR CRANE (CBH): For grain marketers. So nowhere else in the world can you from scratch just turn up on a day and register with a company like us and post your price at 197 receival sites across a large grain-acquiring area. You can't do that in the Ukraine, you can't do that in Brazil or in Argentina. Those places you have to go and build and buy your own network and start growing it or try and lease it or whatever. Here they can turn up and anybody can do it, so whether you're a multinational trader or a small one-man operation. So that's brought as many possible traders to the system as possible and put as many possible prices in front of growers as possible, which is a good thing.

The interesting thing, as Richard is alluding to, it's actually levelled the playing field which may or may not suit different people. In other words, whether you ship one ship or a hundred ships, you can only demand pretty much the same service at the moment.

DR CRAIK: Can people bypass Grain Express to get to the port and do they to go direct to port?

MR CODLING (CBH): Not to date.

DR CRANE (CBH): The answer is, yes, of course, we've got direct port access in place and it's only second harvest so we expect other supply chains to emerge both through our ports and through alternative ports. There are plenty of articles in the paper saying that they've been established or are being established. I don't believe they're idle threats. Some aren't, which is great, keeps us honest. Others are real threats and they will emerge absolutely.

DR CRAIK: We had someone from Tamma Grains this morning who came and spoke to us and said they wanted to ship their own grain direct - take it direct to port and put it in direct at port but your $17 a tonne fobbing charge which had gone up from last year which was $8 a tonne and the $17 a tonne involved a time based storage charge but they didn't actually want to store it, they just wanted to ship it and $17 a tonne actually made it prohibitive and they compared that with having questioned port operators at other ports, Esperance and somewhere else where the fobbing charge was about five to eight dollars a tonne and so basically it was prohibitive in terms of bulk exports for them. I guess the information that we get from traders just seems to suggest that whether you use Grain Express or you go direct to port or you wanted to go direct to port the charge would end up being the same so effectively people are forced into using Grain Express, that's the view that's put to us.

DR CRANE (CBH): I don't think that's the case.

MR CODLING (CBH): It's an interesting question, I guess, on whether or not the fee is right or wrong but all we could say is that we had a very close examination of the fees that we were charging as a result of the access undertaking process and it's really this requirement to disaggregate charges across the network which led to the increase in the fobbing charge because we had to do something that was sustainable and supportable under the access undertaking as opposed to network based pricing that we'd previously had in place as a cooperative. It's interesting that they say that it's unsustainable at $17.10 and the reason that it would be is that the price of throughput perhaps at Tamma Grains has gone up in comparison, so that when they put it through their system and then take it out and then bring it to port. The port-portion of it is the same; whether you've CBH's up-country supply chain or not; because it's at the port and the ACCC said you must not discriminate unless you've got a very logical basis for discrimination, a very economic basis for discrimination at the port.

DR CRAIK: Sorry, I'm not quite sure I understand. If they're not using the up-country services - - -

MR CODLING (CBH): What they're really saying is that their up-country service isn't efficient enough to get it through the port at a price that then makes it economic for them.

MS MUCJANKO (CBH): Wendy, just to clarify, it's a $10 up-country charge and then $17.10 at the port. So they're not paying that $10 up-country charge to us. They may have a charge within their own facility to out-turn that grain or to receive it and then out-turn it, so that would be added to the - - -

MR CODLING (CBH): We understand that that's higher than $10.

DR CRAIK: But it's the $17 they're complaining about when they say the actual charge for what they want to do at other ports would be significantly less and in fact CBH charged only $8 a tonne the year before but, as they explained, some flat storage fee is rolled into the fobbing charge.

MR CODLING (CBH): And that's incorrect.

DR CRAIK: Okay.

DR CRANE (CBH): That's not correct.

MS MacRAE: Anyway, that wasn't how he described it, it was someone else.

DR CRAIK: Someone else described it that way.

DR CRANE (CBH): I think there is an issue that everybody wants to disaggregate the little bit of our service that they want and they're not interested in what anything else costs and let's just start again by saying our focus is our growers have built the system and it's their system, they paid for it and, for instance, the flat-time based storage fee rolled in or a flat fee is something that's very much in the interest of growers. You know, our growers are saying, "I don't want to be under any other pressure to market my grain and I don't have to and if I've bought and paid for the storage and handling system, I'd like that to be used for my advantage," and so we're saying, "Okay, a flat fee. That way then you can take your time over the year to market it when you see fit, not because you're being pressured by a rising storage and handling fee."

So the motivations are different. Marketers want to extract certain value from just certain ports at certain times and disaggregate what's advantageous to them. Also, I think a key point, ignoring what their own costs are and saying, "Look, it's uneconomic when I add the CBH fee," but it's uneconomic maybe because they're adding their own fees, which are too high plus ours, and then it is not economic to get to the market. We're really interested in saying what that supply chain cost is between our growers and the marketplace as a whole.

DR CRAIK: If I'm correct, Alan Tracy observed to me that the fobbing charges are much higher here in Australia than they are in the US and Canada. I think I'm correct in that's what he observed to me; quite significantly.

MR CODLING (CBH): It's very hard to get accurate figures for the price of fobbing in the US. One of the ones that we did find was for Pacific Northwest Terminal, which on basis of exchange rate turned out to be quite similar to what we're seeing in both Western Australia and South Australia.

MR CRANE (CBH): I think also many of those ports are owned privately by the growers operators themselves. This is the thing. You're trying to compare what people are trying to drive to be a public system versus commercial operations who often get a lot of advantage through the grain that they trade and will often charge you very low throughput fee to get the grain into the system, and they make value in other ways; quite often for companies to run their ports at a loss and cross-subsidise on some of the arbitrage value they make through the quality of grain that comes through. So very difficult to compare apples with apples.

DR CRAIK: Okay. I guess one of the other things that has been brought up a lot is the link between your auctioning system and Grain Express, and while I know you're proposing changes for the next year it seemed to be that if you actually were bidding for an auction slot you were effectively locking in Grain Express as well, because you had to make a bid for your - you know, to say whether you were going to use Grain Express or not within a relatively short period of time. So you weren't actually just effectively buying a shipping slot. You were probably buying the up-country services as well. Then if you didn't want to use it that went to a secondary market, but presumably the Grain Express part also went to a secondary market; so someone would be buying on the secondary market both the shipping slot and the Grain Express component of the exercise.

MR CRANE (CBH): We are proposing some modifications to change that.

DR CRAIK: Yes.

MR CODLING (CBH): But it is interesting that ultimately the person that has to perform against that logistics task is CBH. Whilst it wasn't linked in the auction and you had perfectly free choice as to which supply chain you elected to use, CBH as the operator of the supply chain said, "Look, if you want to use us and you want us to give you a commitment that we will get your grain to port then you need to tell us so that we can arrange that transport." It's quite a large task that we have got to perform every year and there's quite a bit of uncertainty that goes out there with acquiring transport resources, for which there are significant fixed portions that we need to pay up-front. Obviously what we don't want to be doing is paying for transport up-front and then not having any use of it as we go through later in the year.

So it's a little bit each way. I mean if we were then to say, "We could give you more flexibility but we will take away some of the surety that you will actually get to the port. If you don't give us sufficient notice we just won't have the transport in place for you," then it ends up being a suboptimal outcome for us as well because there's an increased risk of them defaulting on getting the grain to port. So for us it's swings and roundabouts, but we certainly have opened up the system so that you could bring grain in from any other alternative supply chain and you are not penalised on the basis of cost for that.

MS MacRAE: Just in relation to the authorisation that the ACCC have given you in relation to Grain Express, I would be interested in your views about - I guess on the one hand there's the argument that Grain Express is very competitive and people will of course use it because it has got all these efficiencies within it. So to that extent I guess what value does the authorisation give you? It's compelling people - well, it's giving you a power that you wouldn't have without it, but to the extent that you think you're more competitive anyway what's the value of it to you? So I guess I would say if the ACCC was to review that what's the pluses and minuses of that for you for Grain Express? I guess related to that there is this shipping stem issue and the link within the auction system. The authorisation, as I understand it, predated the auction system. Has the ACCC looked at the Grain Express thing again since the link was made between the shipping slots and the link to the GE arrangements?

MR CRANE (CBH): Maybe I could answer somewhat broadly on Grain Express and then Richard could answer a couple of those more detailed questions. You mentioned the word "competitive". I mean Grain Express - not really competing against anything else. It's trying to give all the benefits of deregulation, lower the barriers of entry and provide our growers with every - 29 different grain offers or different buyers possible. But then say, "Let's keep the task consolidated," I mean of course you understand the premise of it, but it has worked. It has really brought a lot of efficiencies. We think we've increased the grain back on rail. Just at the moment there's a major debate about grain on rail, but we've moved the grain back on rail from about 50 per cent to about 64 per cent under Grain Express. We've lifted that by consolidating the task and providing a more efficient system. We think that - I haven't got the actual dollars but the streamlining of our receival process and the reduction in the number of sites that we have to open at different times, particularly the fumigation improvements and not having to break open sites and so on, have real benefits for growers and for the system as a whole.

MS MacRAE: Yes.

MR CRANE (CBH): So the system itself is delivering those benefits and I think it is making growers competitive against their Ukrainian, Brazilian, Argentinian and Canadian competitors. As for some of the particular details its links and ACCC?

MR CODLING (CBH): Yes. The first step is in relation to the notification that was done by CBH and the compulsory bundling it's really partly there to support the whole notion of port based stock entitlement. If we end up with a situation where we have some site-based entitlement and some port based entitlement running the stock system becomes almost impossible. You lose the benefits of being able to move grain, because if you don't know who is responsible for moving it you can't move the grain. It must sit in those up-country storages and then you're taking little pieces from each storage as and when people tell you that they want you to transport them or they want to transport them. So that's the main reason behind that.

There's already so many things going on in the year and the seasonality aspect that we would end up having to renegotiate all of these agreements in a very short window. You run the risk that people are going to claim that they're putting adverse pressure on them. I mean that happens already, that the only reason they can't negotiate is because they have to have your service and they want to then use your service without having terms and conditions in place. So that's the reason we opted to go down a notification route to provide the greater simplicity for running the system so we could maximise the savings. That ultimately means that we have to go and get that notification from the ACCC, which held that there was a public benefit, and take that and then implement it.

On the auction system that was notified to the ACCC as part of the access undertaking process and they had a great deal of input into that. I would presume that as between their internal divisions they had some information flow going on. To the extent that that has taken place outside of the notification it has been done through an open and transparent process and is part of an enforceable undertaking with the ACCC in any event. So it hasn't been separately reviewed, apart from the access undertaking process, and we'd propose that it has already had two reviews in the last 18 months. For it to undergo another review - - -

MS MacRAE: The GE?

MR CODLING (CBH):   Yes, GE, because there's an auction component to it now; would not necessarily be in the interests of growers.

DR CRAIK: So you said that's had two reviews, one because you've got the auction in place and two because you changed the - proposing to change the auction system again. Is that the two - - -

MR CODLING (CBH):   No, sorry, the two reviews are we had the general Grain Express notification, which was a public submission process - - -

DR CRAIK: Yes.

MR CODLING (CBH):   - - - that went in, and that went in on the basis of a different way of allocating capacity.

DR CRAIK: Yes.

MR CODLING (CBH):   Then throughout the first year of Grain Express we changed to the auction system to alleviate concerns that had arisen during the first year of operation and for the undertaking purpose. So there's two reviews. They are two formal reviews and there has been all the customer interaction in between each one.

DR CRAIK: Reading the ACCC's initial decision they quoted your submission suggesting that about a million tonnes would be shipped outside the Grain Express system under their notification. But from what you say that would appear not to have been the case?

MR CODLING (CBH): Yes, correct.

DR CRAIK: So that in fact people aren't using alternative supply chains?

MR CODLING (CBH): That's a fact.

DR CRAIK: That's a fair comment?

MR CODLING (CBH): That's a fact, yes.

DR CRAIK: Yes. Is it because you're so good or because you're so expensive not to?

DR CRANE (CBH): No, if we were too expensive, then people will go elsewhere.

DR CRAIK: Is it because GE is so good or do you make it so expensive for them not to?

MR CODLING (CBH): We think it's because it has logical sense to use the Grain Express system. Unlike I guess the AWB submission, it's not just about moving a tonne of grain onto a ship. It's not that simple. It's not just turn on the conveyor and it flows into the ship and that's it. There is a real skill in moving it to port efficiently. There's a real skill in managing grain quality and there's a real skill in ensuring the right grain quality ends up on the vessel.

MS MUCJANKO (CBH): I think it's fair to say there's real benefit in being able to acquire grain around the state irrespective of where you might need to be - you're not out-turning the individual sites and having to factor those costs in, you are getting port based entitlements. So you can post a price and if you get small parcels at 10 different sites, it's not as prohibitive for you to do that. If you were doing that under your own steam, you would then need to pay to transport all of those smaller parcels of grain into port. Under Grain Express, you own that grain at port. We worry about getting them to port for you when you need it to.

DR CRANE (CBH): There'd be a mobilisation fee for us sending staff to every site to open up to take the 10 tonnes, because these sites are unmanned and closed up during the season.

DR CRAIK: Do you see that it gives you a monopoly in WA, the whole supply chain?

MR CODLING (CBH): It doesn't give us a monopoly.

DR CRANE (CBH): It gives the growers buying power in their freight bills. So we're a grower organisation. We're going out to tender at the moment, so you've got a consolidated task, so it gives the growers - saying, "This is something that's going to be charged to us." We do that, we run a freight fund. It's transparent. We rebate any surplus. So it's giving them real control and consolidating their tasks. So they're saying, "I want maximum benefits of deregulation. I want everybody trying to bid for my grade, as many people as possible, and I don't want the supply chain in between being fragmented. I want to be able to buy that task."

MR CODLING (CBH): What we've noticed previously was that it really aids transparency of price at port. You can compare prices a lot more easily under a system like Grain Express than you could under the old system where there'd be a price, less storage and handling costs, transport costs; the grower wouldn't necessarily know what those costs were until they received their final return at the end of the day. Those costs often would not in a pooled sense be picked up at the beginning. In a cash sense, they might sometimes be, but you can bet that the people who are experts at it, which is the traders, make sure that the error comes down on their side.

DR CRAIK: Would you think if the authorisation wasn't there that the system would operate so well if it's so efficient?

MR CODLING (CBH): It could do.

DR CRAIK: I don't know if you want to talk about it here or not, but the changes that you're proposing to the auctioning system and the Grain Express, I don't know if you want to talk about the changes you're proposing, but in relation to the secondary market, what are you proposing there - I mean, that's if you want to talk about them here.

MR CODLING (CBH): Sure. The change to the secondary market is simply that we'll start facilitating a little bit more of the trade in terms of just putting up a very simple bulletin board style ability for somebody to post a position if they wish to exit from a port position. But ultimately they had the capacity to trade in this year past and going forward they will retain that capacity. It's not really the secondary market structure which was the problem, it was the lack of demand for the shipping capacity which came off with a large drop in global prices. So if the market had been going the other way, then you can bet that shipping demand would be rising and that we would have less carry-over than we're currently forecast to have.

DR CRAIK: Okay.

DR CRANE (CBH): It's certainly been a dilemma for us to balance modifications to the auction system versus allowing the market to get used to how it works. So you could say that there were a lot of slots booked based on the previous years' problems, so there was a hunger to secure it and then of course the market has been much slower and slacker, so that's produced a surplus. We consulted with the marketers and they're going to make changes to the system that we think helps them and keeps the system viable, but you don't want to keep moving too many goalposts because some of it is about people modifying their behaviours as well. Once they know the rules are clear, then they will operate accordingly.

MS MacRAE: The 30-day prior notice, one of the things we heard most about, was having to nominate Grain Express so early and the 30 days would be a dramatic change. It's probably an impossible question for you to answer but in terms of how these things have been modified, I guess the traders' view to us has been, "Look, we feel that CBH has had to be more accommodating of our concerns," even though obviously they feel they haven't, as you would expect, have all their concerns - no side is ever completely happy - but their view is that it's been easier for them to get changes in areas where they feel they most require them to remain as a result of the regulation that's still in place than it would have been in the absence of it. It sort of comes back I guess to Wendy's question that after 2014, what happens. One of the reasons I guess for having the access undertakings in for a period a little longer than you might have preferred is that I think there is learning on all sides, and trying to make sure that there's genuine negotiating on both sides is one of our concerns. As you have said, you want those market forces to operate but no-one has kind of been in a situation where this has been working for a long time and it's a way of getting all parties to agree and negotiate on what might be sort of more equal terms than it would be in the absence of that. Certainly I think in relation to the port access protocols and those sorts of things, the traders' view at least is that they have been able to negotiate - I shouldn't say "better terms", but it's been easier for them to have everyone come to the table I think in what they regard is a more genuinely competitive sort of setting than it would be in the absence of regulation.

DR CRANE (CBH): That's the balance that's got to be struck between saying what environment you're creating where everybody can achieve something equal - there will come a point when those traders who compete with each other and secure large volumes on a regular basis will want to negotiate something separate and different and then the access undertaking might become a hindrance.

MS MacRAE: Yes.

DR CRANE (CBH): If we're truly saying, "Well, we want to let the market work," then that's what the market delivers, or people say, "No, I don't want the market to work, I want to legislate so that everyone gets it equal." Perhaps whilst there are more small voices and each make a single submission, that's what might sound like the balance of demand is for, but I think in the end - - -

MS MacRAE: We try not to make it a lottery.

DR CRANE (CBH): Again, it's a real dilemma we have, about how do we negotiate in this restricted environment.

DR CRAIK: Just going back to the issue of port charges again, does CBH have a policy, so that the charges of going direct to port are equivalent to the charges of using Grain Express? Is there that kind of a policy?

MR CODLING (CBH): Sorry, if - - -

DR CRAIK: So the total charges that someone would pay to directly deliver something to port would be equivalent to what they would pay - - -

MR CODLING (CBH): Not the total CBH charges. The total CBH charges, if you deliver direct to port, should be about $17.10 a tonne. If you use Grain Express, it's $27.10, so it's not fair to say that they're equivalent. What we're saying is that they're equivalent at port per tonne handled between people using the Grain Express system and people coming from another supply chain, just for the port component.

DR CRAIK: Yes, okay. That does answer my question. The discussion about road and rail, we get different messages, and in our report we suggested that the majority went by rail, I think, and it's since been suggested to us that that's not the case, even here in WA, that two-thirds went by road. If you look at your table on page 15, you have movement types, and where you use 2008 as a kind of benchmark worth 100 per cent where it's just the port zones, and if you look at the increases between 2008 and 2010, the percentage increases in the amount, volume, some metric, the increases, the road increases are significantly greater than the rail increases - - -

MR CODLING (CBH): That's so.

DR CRAIK: So how do I reconcile that with your statement that more required rail this year?

MR CODLING (CBH): Yes.

DR CRAIK: It's not quite - - -

MR CODLING (CBH): What that is a reflection of is that we've been able to get into road much quicker than we have into rail, that we were dealing with legacy agreements from rail which have hung over from the single desk days as opposed to road where in Grain Express in the first year we moved very quickly to tender and tie up some good efficiencies in road. So what you saw is that there were much greater tonnages moved on road per move and that's really what's driving. So what we're saying with that is, yes, we haven't achieved the same efficiency gains on rail yet. That's one of the key reasons we're going out to tender and that's one of the key benefits that we see from Grain Express, it enabled us to go out and really drive some good bargains, hard but fair, that gave the road transport operators greater incentives to do things better and gave us a better rate and a better movement style from them.

But rail is a little bit harder than road. You've got a much greater capital base and much greater capital investment for changes and so what we're finding is that we're just having to step our way through a bit more carefully and it just does take a while when you're going out and tendering. So what we're doing is that on the tendering we have offered the potential to disaggregate the rail movement across three different zones within Western Australia for the first time to really try and drive efficiencies - and efficiencies by line section rather than a network price. So we're increasing that transparency and increasing our focus on doing that. So we hope that in the years to come that you'll start seeing those percentage improvements for road occur in rail as well.

DR CRAIK: Notwithstanding all that, are you still saying that two-thirds - and it's really just to get clarification of this - that more went by rail than road in this last year?

MR CODLING (CBH): Yes, it was very close in the last year - sorry, if we're talking 2008-2009?

MS MacRAE: Yes.

MR CODLING (CBH): We had a massive increase in road, so a massive drop in rail. Part of that was because we couldn't gear up the rail to respond to that shipping backlog that we had, whereas the road with our new agreements provided a much better response. We noticed in this year where we shipped the same tonnage in the year to date to the end of April as the prior year, we've had a greater proportion on rail and we've also had no concerns raised whatsoever and we've done the same or more tonnage.

DR CRAIK: That wasn't really an issue of concern, it was just a matter of what's the correct - - -

DR CRANE (CBH): We have a philosophical belief, but not to the point where it costs growers; we're trying to target up to 70 per cent of grain on rail going to port we think would be where you try and get to but it really does depend on the efficiency of rail and we can't force ourselves to use rail when it's more costly than road transport and expect growers to pay for it and not for alternative supply chains to materialise using road. We are working hard with government to make sure that either the charging structures or the funding is balanced right. Rail is the right way to move grain to port.

DR CRAIK: I think you're hopeful, aren't you, that the Strategic Grains Network Review will lead to significant investment by the state and federal governments in rail.

DR CRANE (CBH): We got some and that's more than we've had for a while, so I think the hope was founded. I mean, yes, absolutely, funded a complete solution. But certainly the Strategic Grain Network Review did yield funding which yielded this transition assistance package that will allow us to bridge the gap between some of the road and rail rates to keep grain on rail which is a step in the right direction and also funding for the Albany line. We believe the same process should yield further support and we know there's match funding that we want to see from federal and state.

DR CRAIK: Wasn't there a subsequent review to the Strategic Grain Network Review that the federal government was involved in that wasn't quite so rosy about the issue of investment?

MS MUCJANKO (CBH): I think that was actually prior to the Strategic Grain Network Review.

DR CRAIK: I know it was somewhere in that series of reviews.

MS MUCJANKO (CBH): Yes, and it was a review of the Grain Infrastructure Group report from about five years ago.

DR CRAIK: Okay.

MS MacRAE: Just again in relation to clarification of the facts, but in relation to Kwinana, is it possible to truck grain into Kwinana and is it only CBH that can truck in there or others can truck directly - - -

DR CRANE (CBH): At the moment it's been purely a rail destination site but we're starting to expand its road capability.

MS MacRAE: That would be open access for anyone, the road?

MS MUCJANKO (CBH): If it was direct to port?

MS MacRAE: Yes.

MR CODLING (CBH): If it was for the purpose of a shipment, yes, but not as a grower access.

MS MUCJANKO (CBH): Not grower deliveries.

MR CODLING (CBH): Not just for an undetermined shipment.

MS MacRAE: Right. Can I just ask - it's completely unrelated so we go back to the others but I'm going to forget it otherwise - we've heard a lot from growers about Golden Rewards and how they wish the Golden Rewards could come back and they can't get the value for their grain that they used to get out of that arrangement. As we've now had it explained to us - and I'll try and do it very briefly and so probably won't do a very good but you probably know what I'm talking about - given that the way the segregations are made at the moment - a specific example we're given was that some guy said, "Look, I put my grain in at 14 per cent protein and the best price I could get for it was 11 and a half because that all we can get out of the - that's the sort of stack average that was the best around and so that was as much as I could get for it." Then the view is the quality of Australian grain is going to go down, "No-one is getting premiums for doing good quality any more, so I might as well get down to 11 and a half, what does it matter? Why strive to get more because I'm not going to get paid for it anyway?"

There are a couple of issues in that but I guess if you could comment on that and is that a true kind of summary of how the market currently operates and, secondly, if you're free to talk about it today, I understand that you're doing out-turn trials and it seems like there would be an option there of people being able to put in a certain quality and be guaranteed they could get that similar quality out. So if you could comment on both of those issues.

DR CRANE (CBH): Whose value is it? Is it the grower's value or the guy who's buying it and the 29 people competing for the grain, do they sometimes now start to pass that value back even though it's not perceived by the grower? In fact this issue put to you by growers, from a grower's point of view they're saying, "I want to be paid for what I deliver," and certainly we're going to be trialling in our right something that might achieve that which is looking at the way they're rewarded for the actual quality they deliver. The next question is, what does that mean for the marketers if the grades are then more finely divided or there was value in there that marketers built into their pricing because they knew they'd get some of that anyway and they don't now build that in. So the value can move around regardless. It's going to be a perception thing but we are trialling a mechanism this year to offer growers more access to that value.

MS MacRAE: Yes. But would you agree it's harder for a grower to access that directly now than it would under the old system? Would you say that that is a fact?

DR CRAIK: It's just what they say to us, you know, they just don't get the - they only get paid at 11 and a half per cent, they can't get the reward for 12 or 14 and so they actually end up getting less so they say, you know - - -

DR CRANE (CBH): It's so difficult to answer that question. If you take the case of a pool, a pool owner will look at all the quality and market it differentially and that value goes back into the pool, goes back into the payments so growers don't always necessarily see it.

MS MacRAE: So a difference, you're thinking perception between what they were getting as an up-front payment and what they got as the final endpoint return?

DR CRANE (CBH): Yes, or even, "What did I get as my base price and then what do I get on my Golden Rewards versus what am I getting now?" How are you able to compare what one was against another and what's been the impact of suddenly just the one buyer buying your grain and setting what that base price is and setting those Golden Rewards to now 29 people buying your grain and competing in the market, what value has been given to growers already through that process that may have swamped any perceived Golden Rewards. I can understand the perception that, "I'm getting a base and I'm getting paid for my quality."

DR CRAIK: It's certainly widespread and something that we hear wherever we go; not much here but certainly in the eastern states.

MR CODLING (CBH): It's a very difficult one because there's no control from year to year to determine whether that base price is higher or lower now or just where it sits and given particularly quality changes from year to year as well, it's certainly the perception because they felt they were getting something extra.

DR CRAIK: That's right.

MR CODLING (CBH): But whether they actually were getting anything extra or not, yes, that's the million dollar question, I guess.

MS MacRAE: I wish we had an answer. It's complicated. We've tried to cover it to some extent in our report but we obviously haven't satisfied people.

DR CRAIK: No.

MS MacRAE: So we keep asking, but I guess your answer sort of accords with where we've got to with everyone that it's hard to say one way or the other.

DR CRAIK: One of the things that we asked you last time was, was it possible to see the annual audits of Grain Express that you had done, I think, with KPMG. We had a bit of a correspondence, they sent us something but wanted us to sign our lives away in terms of confidentiality which we can't do as a government agency. So we sent it back, I think in March, and we've heard nothing since.

MR CODLING (CBH): You sent back the letter?

DR CRAIK: We sent back a letter saying that we couldn't agree to their terms of confidentiality because of the nature of - we just can't, under federal government - - -

MR CODLING (CBH): I think yes, the - - -

DR CRAIK: So it has kind of gone into a black hole. So I was just wondering if you could follow it down the black hole and see if there's any chance that we could actually get to a point where we could have a read of it?

MR CODLING (CBH): Yes, certainly.

DR CRAIK: We'd be grateful, thank you. The other question I was curious about, you have a dual-gauge in WA. Does it run to Kwinana? I gather there's a narrow gauge - - -

MR CODLING (CBH): Yes, it does.

DR CRAIK: I'm not a real expert on this.

MR CODLING (CBH): Dual-gauge runs to Kwinana.

DR CRAIK: Okay. So you can go right in with either size of train?

MR CODLING (CBH): Absolutely, yes.

DR CRAIK: Thank you.

MR CODLING (CBH): The difference in train size is typically about 2200, 2500 tonnes on a narrow-gauge train versus four to four and a half, I think, on a standard-gauge one.

DR CRAIK: Quite a bit.

MR CODLING (CBH): So there's quite a bit of difference, but you will pay the same access fee.

DR CRAIK: So you'd want to use the bigger one, you would think.

MS MacRAE: One of the other issues that we've heard quite a lot about is quality. It's in your submission but I would just be keen for you to discuss your perception of that issue, because again we've heard very wide views around that. I think in general people have accepted that in the main the market will sort it out, to the extent there is a problem. But just be interested in your views about that, particularly in relation to bulk, because it's only since the draft came out we've had a couple of submissions talking about quality issues in relation to bulk as well as containers.

MR CRANE (CBH): I'm interested in that specific comment you make because I would say that most quality issues have been containers.

MS MacRAE: Yes.

MR CRANE (CBH): So to say there's quality issues with bulk is surprising.

MS MacRAE: Sorry, mostly with - yes, so it's only since the draft has come out that anyone has said, "Oh look, we think in bulk there might be a bit of an issue as well."

MR CRANE (CBH): I'm surprised at that. I'm not saying that there might not be. The question is would that be any more or less than previous - prior to deregulation that either a contaminant is found at a later stage on arrival; or a shipment is out of spec, judged by different laboratories. I mean that can always happen. I think the question though is probably more clearly about how does the trade and the industry present itself and set its own standards and so on. We definitely think that the industry will sort that. It has with canola, it has with barley and it will do so with wheat. I can't really answer, you know, "Well, why not now?" You might say, "Well, why haven't" - I mean in many cases we're putting our store in some existing organisations. There's GIWA here in WA and there's Grain Trade Australia, of course, which we put a lot of store in as a very credible trade-based organisation that sets standards and has a long reputation of doing so. So we see the best solutions are those that the industry generates, because they tend to be more sustainable than ones that are based on some other compunction.

DR CRAIK: This morning we had the Pastoralists and Graziers Association in and they pointed out they were a pro-deregulation, generally pro-deregulation, but they had changed their position a bit between the wheat industry pre-deregulation and now. Whereas before they were very keen to get rid of WEA now they're very keen to keep WEA because they see it as an effective sanction, potential sanction, I guess, on the bulk handlers, and I guess they're particularly referring to one bulk handler, given their location. So they see it as important that WEA remain in place because of that link between accreditation and access arrangements while the access undertakings are still in place. I guess my question to you would be does that surprise you; because from my experience, going back, they certainly weren't in favour of regulating things. They appear to have had a change of heart on this one.

MR CRANE (CBH):   I really that's their decision to express their opinions. I think more generically I would still be saying that - or caution why people more generically advocate deregulation but then stop short when it may not be favouring a particular entity or a particular interest. That if generically within Australia we're looking for free markets and for commercial outcomes and for that to drive the best outcome within reason then we should be letting that happen.

DR CRAIK: Okay. Have you got any more questions?

MS MacRAE: I don't think so. I'm just having a quick look to see if there was anything else in my notes here. I think that was all. I guess the final thing, just in relation to the industry-good functions, we've had it put in a couple of submissions now that government should be funding a role here. I see that you're basically agreeing with us, that there isn't much of a role there for government. Do you think that's partly because there isn't a good perception in the industry about the things that you do do in - that you personally do and that maybe other bigger players in the industry are doing in relation to that sort of market development, looking for market opportunities, assisting in education of buyers, all those things. Is it that they're - I guess is there a perception that there's less of that than there used to be with AWB and is that perception correct or not? To the extent that it is happening is there a lack of understanding within the grower community more generally in relation to how much of that is happening in the absence of government being involved?

MR CRANE (CBH):   Very possibly, where particularly many of the examples you cited - market development, market promotion - are things that large exporters, who are more than the smaller players, do devote time to as part of their competitive positioning; and that industry good I see is something quite different to that, which is the promotion of the reverse: is bringing those market signals back to growers, back to breeding organisations, going the other way.

MS MacRAE: Yes.

MR CRANE (CBH):   That in fact industry-good organisations tend to fall foul when they start to get involved more in the post-competitive environment where then individuals come and say, "No, that's our territory." The pre-competitive environment, this end of the chain, bringing those market signals back, allowing breeders to still get strong signals from the market, from the industry, is very important. Certainly industry views on new varieties giving growers a steer on what varieties are going to be well-accepted in the marketplace and so on - all those sorts of things prior to that competitive line where then individual companies really wish to sort of present their own case to customers - there's clear area there for industry goodwill to happen. Again, those same trade-based organisations fill those gaps and then invariably fund them themselves because there's good merit to it.

MS MacRAE: Right.

MR CRANE (CBH): As opposed to them being funded off a levy which needs to get spent, I suppose.

MS MacRAE: Yes, okay. So even in relation to wheat classification, you think that the industry will fund that itself without anything - that that sort of function that GRDC have been funding for a couple of years?

MR CRANE (CBH): Well, I think actually - we actually have a very good system in place with GRDC and with that particular levy. I'm not advocating any change to that.

MS MacRAE: Sorry, not in relation to the R and D side.

MR CRANE (CBH): But it may be that there is a bigger role to play there or some involvement, for sure; but we're in close communication with key trade bodies.

MS MacRAE: That's all for me, thanks.

DR CRAIK: Okay. I think we've asked all the questions that we have. So thank you very much. Thanks for answering those questions.

MS MacRAE: Thank you.

DR CRAIK: Thanks for coming along too. Thanks for you submission and detailing it. We'll take it all on board.

MS MacRAE: Thanks.

MR CRANE (CBH): Thanks very much.

DR CRAIK: If we have any further questions we'll get back to you.

MS MacRAE: Thanks very much.

MR CRANE (CBH): Thank you.

DR CRAIK: Thanks very much.

DR CRAIK: Okay, well thank you very much for your submission and thanks for coming today. If we could start by you identifying yourselves and your organisation for the record and then if you have any opening remarks we would be pleased to hear them. Thank you.

MR WILKINSON (DAFWA): Ian Wilkinson, senior economist - sorry, senior policy officer, Department of Agriculture and Food, Western Australia.

MR BOWRAN (DAFWA): David Bowran, I'm manager, agriculture systems research and have also been a past program manager for grains in Western Australia.

MS EDWARD (DAFWA): Alex Edward, grains policy officer, for Department of Agriculture.

MR BOWRAN (DAFWA): I'll leave it up to Ian to open it up.

MR WILKINSON (DAFWA): Okay.

MR BOWRAN (DAFWA): Ian wrote most of the submission, I believe, so he is the person with the most relevant experience in this area.

MR WILKINSON (DAFWA): Okay, yes. Well, I'd like to, on the behalf of the department, congratulate the Productivity Commission on a very comprehensive report, the draft report, which we agree with in the main. As you probably know we've got some points of difference. I think it's important to note that DAFWA, while we have an interest in the whole supply chain in Western Australia, we probably have a greater weight on the impact that issues have on growers, naturally.

So just running through our submission very quickly, I think it has been interesting the first two seasons that we have had one season where the market was rising and there was a huge demand for services, and the next season that we've hit is very flat and probably a declining market. So we've seen both markets. I think in both cases the system has worked as well as can be expected, given the changes, and we haven't really seen any signs that growers have been disadvantaged by the system or have been done over, if you like, by traders in either market.

We were a bit disappointed that the Productivity Commission, we don't believe, gives significant acknowledgment to the issues that have arisen, particularly in WA and probably South Australia in the move away from the single exporter of wheat to multiple exporters. As it states which export - probably 95 per cent of our production the export market is critical. Of course we have a storage - and both states have a storage and handling and marketing system that was set up on this very linear marketing route and now we've got 28 sellers, and it has caused some interesting issues. It's also interesting to note that CBH Group has rapidly become the dominant player in WA and has acquired around half of the wheat in the first two seasons.

Accreditation of exporters. We agree with the draft recommendations and see that the benefits of accreditation are probably more of perception than reality. The growers in Western Australia - I'll only speak for Western Australia - have safe marketing options through CBH and AWB. I'll use "safe" in inverted commas as to the meaning. So if growers want to choose smaller players and smaller operations then that is their choice and I think they would go into that with their eyes open. I don't think there's any real excuse to require the accreditation process, given the costs.

Port access and services. We've had a bit to say on that but we're probably not in a strong position to talk about that because we don't deliver any grain and we don't have to deal with CBH, obviously. But from our perspective at least the threat of competition and the prospect of people setting up alternate supply chains plus Part III of the Trade Practices Act, we believe that those combined are probably sufficient force, I guess, to keep CBH meeting the requirements of all the people who want to use the system. But as I said, there are, as you've heard, a number of different views on that.

Transport and storage. We were interested that you said that there should be an abolition of rail regulation. Our understanding was in WA the rail is already deregulated due to the using of section 86A. Our rail has been prescribed, I think is the term, therefore the state can't make rail regulations relating to the export of wheat. So we were unsure as to why other states were allowed to regulate their rail. Rail in WA is largely unregulated. The government decided to sell the rail system some time ago and it was then split into two bits. We are not quite sure why you are recommending putting it back into one bit. The Strategic Grain Network Review didn't put that up as an option. No-one I really know of has talked about it as an option for going forward.

Information provision and market transparency. We take a bit of a counter-view to the draft report. We believe that because of the way that the industry has been set up over the last seven years and then has moved to a deregulated state you've got the three large handling, marketing and storage operations, and that because of this there is an asymmetry of information. We believe that it is in government - there is an argument for government intervention to try and get rid of some of this asymmetry of information and assist, we believe, the market to operate in a better manner. So what we're looking at is equal access to market information for all players and probably more information than is currently available.

Wheat classification and market segmentation. I believe that has largely been covered by the Wheat Classification Council in their submission.

Industry-good functions. Similar to the information. We believe that in the changeover that there is room for government intervention. We have used the example of Saudi Arabian wheat again. Obviously that's a bit of a current flag-waving exercise, I suppose, in that we had a bit of a win there in establishing a market that's available for everybody but was developed largely through government to government research and negotiation. Probably leave it at that and open up to your questions.

DR CRAIK: Thanks very much for your comments. I guess your comment about the wheat export charge - I mean you support our view on accreditation and the wheat export charge.

MR WILKINSON (DAFWA): Yes.

DR CRAIK: You suggest that it might be considered as a mechanism to fund industry good functions.

MR WILKINSON (DAFWA): Yes.

DR CRAIK: It might be beneficial to the - - -

MR WILKINSON (DAFWA): We put that in. I don't think it's the ideal mechanism but it is something that is in place. From a political perspective often it can be easy to use something that's in place but I would prefer to see a purpose-built - I mean I - I personally would like to see it voluntary but I'm not sure whether that's the go, yes.

DR CRAIK: I guess governments would need to see some evidence of market failure as to why they should have a compulsory levy system to do that for this industry.

MR WILKINSON (DAFWA): Exactly, yes.

DR CRAIK: Whereas they don't for others.

MR WILKINSON: No.

DR CRAIK: You know, above and beyond say what's under MLA and APL and DA, you know, where there is a compulsory levy and some of it is used for things other than R and D.

MS EDWARD (DAFWA): Because in the grains it's not possible to use our levy for anything other than R and D.

DR CRAIK: No, it's a different - because they're under a different arrangement, the other three are companies limited by guarantee, whereas GAC is a statutory authority, not a company; but you're right. I guess when you get to port terminal accessing services there is evidence in WA that alternative operators - and growers are looking at alternate storage, handling and port facilities. Do you think that's likely, possible? I mean people said this to us last time around and we keep reading the odd thing in the newspaper and hearing the odd thing, but I mean do you think it's plausible? We had someone this morning saying James Point is very close, a credible option. It's been close for a while. David, have you got any comments?

MR BOWRAN (DAFWA): I think it's available for every grower to think about on-farm storage and there are some very big growers down at Esperance who have started to do that, recognising that there is an opportunity to spread when they sell, but they've still only got one delivery mechanism which is through the port, short of taking it very long distances to other ports. I think the general experience globally is that people do start to move towards more and more on-farm storage as a mechanism to spread their risk around market options. The thing at the moment is CBH because it's effectively grower owned as a cooperative, it's your own storage and you pay for it, just in the same way that you pay for it if you go and put your own in place. Maybe if one day CBH was a different structure, then growers might consider that, "Yes, I would put more in place." But I think a lot of where it's put in place, certainly in eastern Australia, is because you do have big domestic markets in other parts of the world, so therefore you want to spread your risk, but for us it seems logical at the moment while you have basically all your wheat to be exported that you might as well use the infrastructure that's there that provides you with good quarantine, effectively a quarantine-type facility, because you can disinfest, you can guarantee the quality of the wheat that goes out of the system. But ultimately I believe some growers will start to do it and as I said, we have seen specialty niche areas moving that way.

DR CRAIK: With the linkage between Grain Express and shipping slots, in your view, is it possible to bypass Grain Express? I know in theory it is.

MR WILKINSON (DAFWA): It's hard for us to say. CBH assure you that you can. People who are interested in it say the costs are too high. So you can do it; you can decide to, for instance, take a truck from Merredin down to Fremantle and go through one of the private people who will put it in a container. Yes, you can get your wheat out but trying to do it in bulk is very, very difficult.

MR BOWRAN (DAFWA): I think you're talking about bulk through CBH as in outside the Grain Express system.

DR CRAIK: Yes.

MR BOWRAN (DAFWA): So that's why I think growers will not go that route and that they will stick with the alternate strategy of the bulk export for the time being.

MR WILKINSON (DAFWA): As CBH pointed out, Grains Express for all its problems does give you that lovely ability to be able to accumulate your grain over the whole of the wheat belt and out-turn it - I mean, it is a flawed system but given the way that the bulk storage and handling system is set up, I couldn't see that they had a lot of options than to have the out-turn spec. The flipside of it, as I say, is that I could export - if I was a larger company - you only have to be a small company, you can get accreditation, you get export wheat because you can source it all over the wheat belt and you get it accumulated automatically for you. It would normally cost you a lot of money. The flipside of it is that you would lose control of that micro-control of quality. So if you're trying to, for example, develop a niche market for noodle wheat to Japan, like we like to talk about in WA, it's probably not going to be the system for you and that is probably where direct deliveries to port are going to come in with a very specific market like that, where you want a certain quality growing a certain variety, a certain quality spec is grown probably in a certain area down to that level of specificity.

DR CRAIK: But it seems the costs at port are essentially an impediment to anybody - - -

MR WILKINSON (DAFWA): We can only go by what we're told. As I said, we're not in a strong position to judge because we don't export much grain. We put ours into Grains Express. But it would appear that if it was economic, people would have probably had a go by now. The first season you could understand it not being done because people are still getting the feel of it. You would expect after two seasons someone would have done the sums.

DR CRAIK: Do you think it gives CBH a monopoly over the whole supply chain?

MR WILKINSON (DAFWA): Not quite. It gives them a strong hold though. I mean, up-country, as David says, there's a lot of on-farm storage being built.

DR CRAIK: Leaving aside on-farm storage?

MR WILKINSON (DAFWA): Yes, and you've still got containers in WA. I mean, don't forget we just came off that period when shipping was way out of kilter and the containers were ridiculously cheap compared to bulk and we were putting hundreds of thousands of tonnes of grain out in containers. You can put a lot of grain out in containers if the market is suited to that method of providing it. Again, you're probably looking at the higher quality end of the market.

DR CRAIK: This comment you make about section 86A, perhaps explain that to me.

MR WILKINSON (DAFWA): In the Wheat Marketing Act, it's got a section that allows the federal government to override state legislation in certain areas and one of the ones is the transport of grain on rail. Basically our rail act - which name I've probably forgotten, Rail Transport Act or something - is one of the prescribed legislations, so we cannot use that to regulate grain to rail, if that makes sense.

DR CRAIK: I'm not really sure what the point of this - - -

MR WILKINSON (DAFWA): Okay. The point was that you were saying that there was state legislation restricting grain to rail and that it shouldn't be there and my point was that at the stroke of a pen, it could be got rid of if the federal government decided they didn't want it. I was intrigued that WA was the only one that was prescribed. It was the same with bulk handling because back when this section came in, we had legislation that made CBH the only bulk handler of grain and this section of the legislation again took away that right.

MS MacRAE: We'll check that.

MR WILKINSON (DAFWA): I guess the reason I put it in there was I was intrigued as to whether you were going to recommend that was left or taken out of the legislation.

MS MacRAE: Now we're not sure. We might have said something we didn't mean to say, I think.

DR CRAIK: So we'll have a further look at that, yes. That's why we're looking a bit vague. We'll certainly follow that one up.

MS MacRAE: I don't know if you were here for the earlier discussion we had with GIWA about market information but we did do an awful lot of toing and froing on this in our own minds just in relation to what information is currently available to the market, who needs it, why they need it and what for, and it seemed to us that there were a lot of calls from people for a lot of information. What we were most interested in was to try to get to that base to mandate at least the level of information that was required to make the market work effectively. Our starting position was once we've got that, if the industry wants more and it's prepared to pay for it, all those things, then so be it, but we wanted to try and ensure that at least that base level of information was available to ensure an effective market. So I guess to the extent that your view is that we need more information than we've currently got and that there might be other mechanisms required to pay for it, what do you see in relation to specifically what that information might be and who you think is missing out at the moment and I guess then how you think it might be paid for.

MR WILKINSON (DAFWA): The big problem at the moment is the asymmetry of information, in that, as I said, you've got the three big organisations that basically control the pipeline. I know they've got Chinese walls et cetera and we're hoping they're working well, but even in the event that they are working well, you've still got the asymmetry of information and you've still got people making marketing decisions based on - I won't say an information vacuum but based on very limited information on wheat qualities, wheat types and where they're sitting. At the moment the information is extremely generic and broad and, as has been pointed out, it's extremely - not "extremely", that's unfair - it's quite delayed in nature. So yes, as you've probably gathered, there's broad disagreement as to what information is required and I guess we're from the "more information is better" school, but as you know, there are problems in who's going to pay for it and also the legalities, I guess, if you talk to people like CBH they're not quite sure what they can actually make legally available. I don't know if that answers your question but it's probably one of your biggest stumbling blocks in trying to get something into the report, I guess.

As I said, there's broad disagreement depending on which part of the supply chain people fit in as to what they think they need or whether they need any change. But we're of the view that for the chain to work properly that there is a need for more information than there currently is.

MS MacRAE: Is that primarily, do you think, the growers that are missing out or is it broader than that? Do you think it's the traders that still haven't got enough or - - -

MR WILKINSON (DAFWA): I would have thought the smaller traders and the growers would be the two disadvantaged groups.

DR CRAIK: Who would pay?

MR WILKINSON (DAFWA): Who would pay? Yes, well, everyone likes the government to pay - - -

MS MacRAE: Except the government.

MR WILKINSON (DAFWA): - - - but that's unlikely.

MR BOWRAN (DAFWA): I think it's interesting other parts of the world there are legislated requirements around the type of information that's available. You look at the US, for instance, and you can collect all sorts of information about wheat statistics on a very regular basis but you don't necessarily have that in Australia.

Other parts of the world do a similar sort of thing because they're very interested in making sure that there is free and open market access for people to make the decision.

MR WILKINSON (DAFWA): I suppose we look jealously at the US model. I can get on the USDA web site and find out a lot more about the US wheat crop than I can about ours and you sort of think, "Well - - -"

MR BOWRAN (DAFWA): You can get information about where their wheat stocks are stored, how much they hold and there is a whole lot of information that they're - - -

MR WILKINSON (DAFWA): The quality.

MR BOWRAN (DAFWA): They're forced to make that information available.

DR CRAIK: The Australian government doesn't routinely do that with other grains or other commodities, so why would they do it for wheat?

MR BOWRAN (DAFWA): I think the US does it for most of its commodities from corn, soya beans, they're all in the same category. There's an information stockpile you can go and access and help you in making decisions.

DR CRAIK: But the Australian government - - -

MR BOWRAN (DAFWA): No, I know that it doesn't.

DR CRAIK: So why should they do it for wheat, I guess, would be the question?

MR WILKINSON (DAFWA): It's a very valid question.

MS EDWARD (DAFWA): In Western Australia we've also been in the unique situation where we have had the other grains that were prescribed: canola, lupins and barley. So in effect we've had complete deregulation in - - -

MR BOWRAN (DAFWA): What, the same time frame, two years,

MS EDWARD (DAFWA): Yes. So we've gone from a situation where CBH has held on the information on those three grains as well so we're not even the same as the eastern states where we've been lacking that information, we've had it all in one repository for quite a long time.

MR BOWRAN (DAFWA): It may not be important as long as you've got very good pricing information coming from all of your major buyers of the grain. If that's completely open and transparent and you've got a good futures market, you may actually get sufficient information. But, you know, as a grower I want to go and find out how much wheat is held at the local terminal, I can't find any of that information out even though I'm supposedly a shareholder in CBH. So I can't find that information out, I'd like to know that sometimes in terms of saying, "Well, would I actually deliver it to there or somewhere else or put it on a different market; would I hold it for 12 months versus holding it only for three months." They're sorts of decisions that can ultimately make quite significant price changes.

MR WILKINSON (DAFWA): Particularly for something like in WA when you've got a noodle wheat for udon noodles in the Japanese market that's only a million tonnes. So you really want to know how much is being produced and how much is being delivered and where it is because it can really influence your decision on where and when you sell it.

DR CRAIK: So would you expect the government to legislate all this or do you think all these bulk handlers are provided voluntarily?

MR WILKINSON (DAFWA): No, I don't think they're provided voluntarily. I think we'll require some form of legislation.

DR CRAIK: Which again would be uncharacteristic of the Australian government in relation to agricultural commodities.

MR WILKINSON (DAFWA): Yes, that's right.

DR CRAIK: They would need a compelling reason.

MR WILKINSON (DAFWA): More compelling than, "Our competitors do it"?

DR CRAIK: I suspect they've heard that before in relation to a lot of agricultural issues.

MR WILKINSON (DAFWA): Yes, I realise that.

MS MacRAE: It is complicated.

DR CRAIK: Would you have a view that the GRDC should have a broader role in its R and D - and I should just preface this by saying we won't be getting into those sort of structures but I guess if you do have a view about that, you should actually put this submission or something into the R and D inquiry because we can't really touch the structure or we won't touch the structure of GRDC in relation to these issues given the R and D inquiry. So if you do have a view about that, it will be worth writing something to them.

MR BOWRAN (DAFWA): I think GRDC have taken the very strong view that their act is written in a certain way and, therefore, we will limit the type of work outside the farm gate quite strongly and, you know, I suppose they're very cognisant of AWI and the fact that it went very strongly down one end of the market and got rapped over the knuckles by the growers a lot so I think they're very conscious of those sorts of approaches. They have been involved in some cases. They are certainly involved in the R and D sector with regard to the quality that is required of a marketplace but not necessarily about developing the market itself. If you take the view that there was to be a shortage of wheat in the world then, yes, it's probably not going to be an issue. But I don't see a shortage of wheat in the world for the next possibly 10 or 20 years in which case trying to development markets is going to have to be a key component of an industry.

Will the big players like Cargills do it? I doubt it very much. Their interests in Australia are relatively small. Will CBH do it? Well, yes, they may continue to do it in specialists markets but the Saudi example is a classic one where they're exiting out of wheat production, it's a one-in-a-lifetime opportunity and unless we're prepared to be in there right at square 1, we'll find the US, Russia, Ukraine are in there at the same time flogging something to our disadvantage. So you've got to really grab opportunities very, very quickly in this type of game simply because there are so many global players.

DR CRAIK: Can I ask how the Saudi thing actually was discovered, found out, worked out?

MR BOWRAN (DAFWA): We had a group go to Saudi Arabia by the then Minister Chance which was with regard to the Grain Licensing Authority and I was one of the people on that group. So we were going to talk to them about opportunities with regard to barley and lupins and other products because the Grain Licensing Authority only had control over the export of those - or the bulk export. But while we were there we'd heard some rumours about the fact that they were looking at changing how they were going to produce wheat, so one of our first ports of call was actually to go and talk to basically the single buying authority for wheat in Saudi and they said, "Look, we're prepared to talk, you come and exchange information with us, government to government level," so from that point onwards we got the foot in the door and then it's just been a case of saying, "Okay, what do we do? We've got to show you the quality of our wheat and you come and visit us," and we'll go and visit them, so it has just been a constant series of meetings backwards and forwards.

At least we're getting to a point now where they recognise that Western Australian wheat probably does have some capacity to be an alternate for the wheat that they produce in Saudi Arabia and if we can get the quality parameters right and show them how to bake with Western Australia wheat, then it is actually quite a big opportunity for us. So it's just somebody has got to be prepared to do it and in many cases it's not something that will be done simply by a big multinational corporation.

MR WILKINSON (DAFWA): Occasionally - and I don't know whether this was the case - they like dealing with a government agency - "We're from the government, we must know what we're doing."

MR BOWRAN (DAFWA): It's very much the case that our relationships with many Middle Eastern countries with regard to agricultural products start at a government-to-government level first and then they gradually evolve into, "Well, yes, now it's back to the commercial players being involved in it." Ian is right, it's very much that way. Our relationships with Libya in the past, potentially a couple of other countries now have all been started through government-to-government meetings in the first instance.

DR CRAIK: Okay.

MS EDWARD (DAFWA): Would it also be true that because Saudi Arabia firstly baulked at the idea of Western Australian wheat, if someone like Cargills went to them then Cargills would go, "Okay, we'll just supply it over here then," and we lose that opportunity?

MR BOWRAN (DAFWA): Cargills can go and buy in Ukraine, they can buy in Russia. If they say, "Look, we don't know anything about Western Australian wheat but we regularly buy Russian wheat," then that makes it very easy for them to source a commercial supply.

DR CRAIK: Yes, I suppose there's no incentive for them to buy WA wheat.

MR BOWRAN (DAFWA): Absolutely, so we've just got to be sometimes very proactive in the approaches when we see a market opportunity and, as I said, in most cases that's not going to be funded by a GRDC of the world and it's not going to be funded by a big multinational. It really does require - I suppose in some sense it is a public good function for all of us.

MS MacRAE: It's almost an extension of the trade advocacy sort of thing, isn't it?

DR CRAIK: Yes, that's right. Okay, fine. Got anything else?

MS MacRAE: No.

DR CRAIK: I think we've exhausted our questions for you. Thank you very much for coming today. Thanks for explaining all that to us. That's very helpful. If we have any further questions we'll get back to you.

MR BOWRAN (DAFWA): Okay, thank you very much, yes.

DR CRAIK: Thanks very much. Well, that completes the day's scheduled proceedings and for the record is there anyone else who would like to appear today before the commission who hasn't appeared?

MS MacRAE: Everyone has.

DR CRAIK: So adjourn these proceedings and we resume in Sydney on Tuesday 11 May. Thank you very much.

AT 3.49 PM THE INQUIRY WAS ADJOURNED UNTIL
TUESDAY, 11 MAY 2010