

Submission to the Productivity Issues Paper into Wheat Export Marketing Arrangements

By John Hassell

I make this submission in my personal capacity as a wheat producer in Western Australia and not in my capacity as a director of Cooperative Bulk Handling Ltd. The views set out in this submission are my own and do not constitute the official position of CBH, however the experience I have gained as a director of CBH and as past transport spokesman for WAFarmers has made me feel able to answer a portion of the issues raised.

The issues covered have been in some sort of order without answering each and every point.

The government does not have a role in the accreditation of any other bulk commodity in agriculture, therefore apart from ensuring a smooth transition from the single desk to multiple exporters, which it has done, it should have no further role and should be disbanded. There may be some evidence that market participants, particularly a range of exporters chasing a profit, have benefited from deregulation but the accreditation and all that is involved with that accreditation has provided no net tangible benefit to any market participants apart from a smooth transition to a deregulated market. Even this is of little benefit than what would have been achieved by open slather.

There is little evidence that information provided by WEA provides any benefit at all to growers. All necessary information can be obtained from marketers ABS etc. Deregulation may play a role in the efficient operation of the wheat export market; accreditation has no net tangible benefit, just another layer of regulation.

Pricing of containers, shipping costs and the costs of accreditation all have an effect on the way wheat is exported. Accreditation would be a disincentive if all other things were equal.

Growers have access to all manner of information provided by various marketers and brokers. WEA cannot provide any guarantee that any business can or cannot pay for grain. Growers can rely on their own market information and judgement about who can and cannot pay and trade with whomever they think is the best fit for their business: those that can't pay will not be in the game for long. Underwriting can be purchased for a fee to guarantee income from the sale of grain. This is of course the choice of the grower. As a cost benefit analysis the WEA has all cost and purely to the grower and no net tangible benefit.

Assessment - As there is no need for the continuation of the WEA then eligibility criteria and conditions imposed upon bulk wheat exports become moot. The only changes that need to be made are complete removal. The WEA has done its job. It is now time to invoke the sunset clause.

Funding – no further role, no more unnecessary money out of grower's pockets. The fact that growers have to pay for accreditation, that has no net value or return, means that it should be disbanded.

Role – the role of WEA is to regulate bulk wheat exports. This is quite amazing as the Australian wheat industry is supposed to be DEREGULATED. Let it be deregulated.

Australia can learn from other countries in the way it has treated its only remaining grower owned and controlled cooperative in this supposedly deregulated market. Like Australia the USA has anti trust laws to stop any one business from getting too much market power. Here we call it the ACCC. But in the USA they have a law to protect cooperatives from this. It is the Capper Volstead Act and it is designed to allow cooperatives to gain market power because it is good for the participants. It is simple and it is good for the participants. We should have it here.

Port Terminal and access services. - If a business sees that there is a potential return on capital then alternative port facilities may be built. It all depends on whether port owners are providing fair access or not. If they are not then, as we know from economic theory a new port will materialise to satisfy demand. It may not happen instantly but it will happen and in the meantime the owners of the port facility should be able to make a reasonable return on their capital.

Ring Fencing – it seems bizarre to me that Sumitomo, ABB, and AWB have no port access requirements and probably no ring fencing requirements when CBH does (see above re: Capper Volstead). CBH is a grower owned and operated business. The returns should go back to the grower. The whole point of vertically integrated business is that business captures the benefits of the integration. ABB Viterro is doing it without any regulation but CBH is being penalised. I don't believe that CBH needs to be ring fenced as it is a cooperative, so that the benefits can be passed back to the grower. There are plenty of ACCC requirements in place already and have been shown to work so why the need for ring fencing? Ring fencing would only incur more costs for the grower. It would have major effects on investment decisions. One would almost have to ask whose pocket is the WEA in where a grower owned and operated cooperative is penalised by satisfying restrictive regulations and a corporate business owned by overseas interests does not have to.

Shipping – In the issues paper delayed shipping problems were highlighted. This is caused where outturn was spread over the whole year now being pushed into peak shipping periods. 2009 saw the shipping mostly up front and we may see the opposite in 2010. The delayed vessels were caused more by the ability of the transport system (road and rail) to keep up than by CBH not being able to fulfil its role.

Grains Express – Prior to Grains Express being implemented I was given a presentation and felt that (then as much as now) that Grains Express was essential to growers achieving maximum return with little or no cost to anyone else. It was essential that CBH could guarantee out turn (within limits) so that the grain met specification. As you are no doubt aware once the grain is in storage and commingled it cannot be guaranteed in any way that you will get your own grain out. Therefore it is natural to accept that it does not matter which bin the grain comes from to satisfy a contract as long as it meets specification. When you consider that the cost of opening

a storage for any amount of grain and closing and resealing is in the order of \$6000 per time it can be seen that we are far better off opening one storage to get the required grain than opening each facility where each of the marketers have accumulated the grain from. Once again if this had to be the case CBH could not do this as a love job for the marketers and the growers would be the ones footing the bill and we would ultimately have fewer operators in the marketplace. As an extra note CBH and western Australian grain growers are the last place in Australia where we don't have phosphine resistant weevils. It is implied in the question in the issues paper that Grains Express is a logistical problem. This could not be further from the truth. If we had not had grains express there really would have been a logistical nightmare.

Transport and Storage. There is ample opportunity for storage arrangements to be made outside the traditional system. Growers have been using on farm storage for niche markets for years. The only way that handling is being inhibited is that the existing storage and handling is already very good value. There is a very real prospect that alternative facilities will emerge but they need to have a return on investment to make it worthwhile.

Rail – or lack of efficiency in the rail system is a major impediment to the efficient use of grain transportation. The inefficiencies of the rail system are what caused the line-up of ships along with growers not nominating marketers. The lack of commercial return on rail particularly in WA is not based purely on lack of grain on the tracks. In my opinion Westnet Rail and ARG paid far too much for their respective businesses. Genesee-Wyoming and Wesfarmers made a massive profit out of selling the rail system in WA and that was after flogging off the best of the equipment. The reality is that if I pay too much for my farm and can't make a go of it I go broke. The farmers should not be propping up the inefficient rail business that was over priced by extortionate access and freight fees.

Also there are some ridiculous inefficiencies in the rail system because the above and below rail components are owned by different operators. One example is in Beverley WA where the train has to slow to 10km/hr coming from the south and to 30km/hr coming from the north. The problem is that the points that turn on the red flashing lights are too close to the crossing meaning the train has to slow down in case the oncoming traffic does not see the train in time. Obviously the points are further from the crossing coming from the north but they are still too close for efficient operation of the train. A cable extension would fix the problem but the key drivers for each business means that neither business has the incentive to fix it

Roads. - I am sure that the roads could handle the grain task if enough money were thrown at them. Fixing the rail system would be cheaper. The trucks could be handled by the roads physically but probably not politically.

Information – more than adequate. Transparent even. There is no role for the WEA. No role for government other than providing information via ABARE and ABS.

Terms of Reference. - are supposedly set by the government but of course they are advised by bodies like the WEA (who want to keep their jobs). While some still hanker for the single desk the fact is we have to move on. Time for the WEA to do so as well. It even seems to me that some of the scoping of some of the questions has gone way beyond what was in the broad sphere of wheat export marketing

arrangements in the vain hope that the WEA may still have a job: Has the Global Financial Crisis had an effect...?

Conclusion – What is happening now and what will happen in the future is that wheat will be exported in bulk and in containers of various kinds according to whether it is more economic to do it either way. Farmers and others will try to extract the maximum dollar for their efforts by utilising whatever is available to them at the time, whether it is exporting it themselves or through a marketer. If they are not happy with the way they did it this year they will do it by another method until they are happy with that. There is no role for the WEA in that process.