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Wheat Marketing Arrangements
Productivity Commission
Locked Bag 2
Collins Street East
MELBOURNE VIC 8003

RE: Wheat Export Marketing Arrangements

AgForce is the peak representative body for rural broad acre producers in the cattle, grain and sheep and wool sectors of Queensland. AgForce Grains is the grain commodity representative of the peak Queensland rural lobby group AgForce Queensland. AgForce has established a vast regional and rural network in Queensland and represents a comprehensive geographical coverage of the Queensland grains industry.

AgForce Grains also provides strong representation for Queensland's farmers nationally through its federal affiliations with the Grains Council of Australia (GCA), and National Farmers Federation (NFF).

Through the combined strength of our members, AgForce Grains is an extremely effective lobby group for Queensland Grain producers and we continue to work closely with government, industry and the community to ensure the viewpoints and concerns of farmers are professionally represented at the highest level.

AgForce Grains has identified that the questions asked for in the submission are wide ranging and some are out of the scope of our knowledge and resources; therefore unable to answer every one. We will endeavour to give our view or opinion where we deem it necessary to have our say.

Whilst every effort is made to accurately provide accurate information, we realise that not all our members may agree with the following statements.

1. Accreditation of Exporters

Why Accredite Bulk Wheat Exporters?

Have market participants benefited from accreditation of bulk wheat exporters?

- From a grower's perspective, having accreditation for bulk wheat exporters; wheat growers are reassured that the companies are credible. As a result growers have been able to trade with greater confidence. Had this accreditation not been in place prior to the impacts of the Global Financial Crisis, the outcomes may have been quite different. Just by having the system in place provides an automatic filter of assurance.

Does the information provided by WEA through accreditation assist growers with their export marketing decisions?

- Few growers are able to export bulk wheat directly. They usually sell to traders.
- Most importantly provides growers with assurance that the exporter is endeavouring to do the right thing by the industry.

Does WEA provide information that cannot be obtained from other sources?

- No other single body can provide such an independent and comprehensive process with the legislated power that WEA has.
- Some information can be obtained from other sources, it is much easier to get all the information from one source.
- The WEA seeks information from other sources which then provides the WEA with a balanced independent opinion

What role, if any, does accreditation play in the efficient operation of the wheat export market?

- Accountability and transparency are key elements that instil confidence. Efficiencies exist in a number of areas which may be out of the scope of WEA.
- It provides checks and balances to address industry concerns and keeps exporters on a level playing field.

Is there an ongoing role for accreditation of some form or is it needed only for a transitional period?

- It is very early days in the deregulated wheat market and to contemplate less stringent accreditation is premature, and AgForce Grains maintains that accreditation is very important. The export of wheat from Australia is significant on the world scene and this cannot be jeopardised.

If ongoing accreditation is required, are there alternative options for accreditation that would deliver better outcomes? What are the costs and benefits of alternative options for accreditation?

- WEA is well placed to develop alternate options. Clearly as time progresses some changes may well be in order, but it is essential that adequate consultation is undertaken with grower representation groups.

Is it appropriate that bulk wheat exporters be subject to an accreditation process when those in industries such as the following are not:

- *non-bulk exports of wheat and other grains*
- *domestically traded wheat and other grains*
- *other bulk export grains?*
- Part of the trade off for new exporters (to have a share of the business which previously did not exist), in the deregulated environment is to demonstrate their capacity to deliver equivalent or better outcomes for growers. Many of these companies already do business in other grains, so growers receive greater assurance through the accreditation process.
- Bulk wheat exports provide the majority of grain traded in Australia. The importance of this should not be underestimated. There are already problems being identified in the bags and container trade due to its deregulation. Two customers from SE Asia mentioned this at the Australian Grains Industry Conference in Melbourne in July. Bags and container exports are the weak link in the chain.

If ongoing accreditation is not required, what is an appropriate time for it to end?

- AgForce Grains believe the accreditation process is required and AgForce Grains policy is for continued regulation of bulk wheat exports from Australia. Government intervention is required to ensure that a monopolistic market place doesn't arise somewhere else in the supply chain; having disbanded the wheat marketing single desk.

What would be the consequences of removing accreditation?

- Growers would be exposed to greater risks not knowing the 'fit and proper' status of the exporter.
- Regional monopolies could arise which is against the rationale of breaking down the single desk wheat marketing arrangements in the first place.

In the absence of accreditation, would regulation of other aspects of bulk wheat exporting still be required?

- Yes

If so, which aspects?

- AgForce Grains supports strict controls on any party who has the market power to monopolise the supply chain in any way; via legislation or Government regulation.

Is there anything particular about the wheat industry that requires additional regulations that other grains and commodities are not subject to?

- It is the nation's largest export grain and for many growers represents the majority of their business. We cannot afford to jeopardise this industry which is vital to so many growers. Without the wheat industry, many of the storage and port facilities would never have been built. In reality wheat sets the base for pricing of other grains.
- Introduce checks and balances on the export bags and container trade with regard to quality and product identification.
- To jeopardise the export wheat market would also have a flow on affect to other grains

Criteria and Conditions

Are the eligibility criteria for, and conditions imposed on, accreditation of bulk wheat exporters appropriate? If not, what changes need to be made? What is the appropriate duration of accreditation? If accreditation is ongoing, should there be more stringent tests for initial accreditation than for renewals?

- Believe to have answered this question earlier in the submission.

Is there an overlap between the accreditation criteria (and conditions) set out in the Act and requirements of other existing regulations, such as the Corporations Act 2001 (Cwlth) and the Customs Act 1901 (Cwlth)?

- Do not have sufficient information to answer this question correctly.

Level Of Assessment

Is the level of assessment and number of audits undertaken by WEA commensurate with the exceptions of market participants?

- We believe that the current levels are appropriate.

What benefits are provided by the current level of assessment, including audits?

- The benefits that the assessments offer the industry are integrity and assurance to both the grower and the buyer, i.e that the supplier can actually supply the grain and that they can also pay the growers.

What compliance costs are associated with accreditation for bulk wheat exporters?

- There is application fee and a renewal fee; also variation fees are applicable to bulk exporters. Plus there is the export fee which applies to ALL wheat exporters, both bulk and non bulk.

What regulatory costs do WEA incur from running the accreditation scheme?

- We are unable to accurately answer this question at this time.

Could accreditation present an unnecessary barrier to entry for potential exporter of bulk wheat?

- Due to the relative high initial accreditation and subsequent renewal of accreditation fees and compliance, it will naturally eliminate smaller operators. This may disadvantage the likes of a small grading and packing shed operator who would like to include wheat as part of the business.

How might the compliance and regulatory costs of accreditation change as the Scheme matures? Is renewal of accreditation a less onerous process than initial accreditation? Should it be?

- As companies consistently demonstrate compliance, the period of accreditation and audit intervals could be extended.
- It should be remembered that once the initial accreditation has been achieved, that some checks and balances still need to be maintained. Penalties for not adhering to the protocols should be significant as to avoid any dilution of responsibility or role.

Role and Funding of WEA

Is there any ongoing role for WEA? If so, what should the nature of that role be and how should ongoing functions be funded?

- Yes, roll has not changed, continue to fund under current arrangements.

Are there any other organisations that could take on the role of accreditation? Is there scope for tendering out accreditation? If so, would this reduce the cost of the accreditation process?

- We don't believe that there are any other organisations who can take on the role of accreditation.

WEA is independent and under government control, this needs to be maintained. We don't believe that there are other parts of the industry which could be as independent.

Are the current funding arrangements for WEA appropriate and sustainable?

- The current funding mechanisms seem most appropriate at this stage. One would expect that after the initial year of winding up previous commitments and establishing new systems and procedures, WEA would emerge leaner in the future. The levy at 22cents/t represents about 0.001% of the value of Prime Hard wheat this year – reasonable insurance to ensure that the companies they do business with are 'fit and proper'.

Are market participants getting value for money in the services provided by WEA?

- No doubt the companies submitting to the accreditation process would say it is an onerous and costly process. Growers on the other hand have some peace of mind that WEA with its legislative power and skills holds grain traders accountable to a higher standard than would otherwise exist.

Can Australia learn for the approach that other countries take?

- Organisations such as the US Wheat Associates could offer ways to monitor sales and stocks on hand in a timelier manner. These options need to be explored.

Port Terminal Access and Services

How significant are competition concerns relating to port access? Is there evidence of owners of port facilities gaining a trade advantage over rival exporters?

- Very significant, port access test needs to be transparent
- AgForce Grains is aware that the BHC's developed the original code of conduct themselves which tends to portray a self interest or advantage to them. They would not adopt a model which would be detrimental to their business.

In the absence of access regulation, what is the likelihood of 'regional monopolies' being formed? Is the 'access test' under the Wheat Export Marketing Act necessary?

- The access test is necessary as there is only one company (in Queensland) who own port facilities. Therefore all exporters need fair access to the port/export facilities, and without regulation, there is no guarantee that the current owner would continue to grant fair access, even though we believe it is unlikely that they would do so.

What is the prospect of rival port terminal facilities being built?

- The growth sector for port development is coal in Qld and at this stage it is inconceivable that rival grain port terminals would be built in the foreseeable future.

- In Qld this seems very unlikely. The grain terminals are for most part underutilised now due to transport infrastructure issues.

Does this vary across jurisdictions?

- We are unable to accurately answer this question at this time.

Could access to port terminals be adequately regulated using only Part IIIA of the Trade Practise Act (without any link to bulk export accreditation)?

- Is this what the Melbourne Port Terminal operates under? If so, are there any emerging issues when compared with other port terminals.

Would the port terminals be declared under the National Competition Council process if the requirement for accreditation were removed? If not, why is there a requirement for access undertakings under the Act? What would be the consequence of removing the 'access test' from the Act?

- The issue is not only access but all exporters need access on an equal basis. For this to happen the process needs to be open and transparent.

How significant are the compliance costs (to exporters and other) and regulatory costs (to the ACCC) associated with the requirement to have access undertakings?

- We are unable to accurately answer this question at this time.

Have export opportunities for bulk handlers been disrupted due to the uncertainty stemming from the access process? Has the uncertainty around the access undertakings affected other exporters?

- We are unable to accurately answer this question at this time.

Is the requirements for port terminal access undertaking affecting investments in port facilities? If so, how?

- We are unable to accurately answer this question at this time.

Should terminal access arrangement be consistent across all grains? If so, what should be the nature of those arrangements? If not, what are the consequences, if any, of bulk wheat being treated differently?

- Yes, but if not all exporters should be treated equally for each grain type

Is the publish-negotiate-arbitrate approach to access regulation the best approach? If not, what would be better?

- Yes

Are the charging mechanisms used by bulk handler transparent? Do they advantage wheat exporting by the bulk handlers?

- We are unable to accurately answer this question at this time.

Is the ACCC well placed to deal with access disputes? Should another body be available to facilitate negotiation and arbitration of day-to-day issues where prompt resolutions is important to exporting opportunities?

- Is this not WEA's role?

Should the bulk handlers have their wheat exporting businesses 'ring fenced'? If so, what form should ring fencing arrangements take?

- We are unable to accurately answer this question at this time.

To what extent would ring fencing result in a loss of economic of scope from a more vertically integrated business? Would it affect investment and innovation decisions?

- We are unable to accurately answer this question at this time.

What is the relationship between the 'access test' under the Wheat Export Marketing Act and state legislation relating to bulk handling companies? So interactions between the Acts create unnecessary regulatory costs?

- We are unable to accurately answer this question at this time.

Is there evidence of land banking by bulk handlers? If so, is it of concern?

- We are unable to accurately answer this question at this time.

Are there any issues raised by the exemption of the Melbourne Port Terminal from the access undertaking requirements? Is the exemption appropriate? What are the likely consequences?

- Given that they have no conflict of interest as an accredited exporter it is appropriate.

Are the shipping problems experienced in the first year of deregulation likely to persist? To what extent were the teething problems in the first year of deregulation? Or are they symptomatic of broader problems, or typical of a peak loan situation?

- These questions will be answered with greater certainty after another year. At this stage the broader areas of transport and handling are presenting the biggest challenge.

What role did the Grain Express arrangements play in alleviating (or exacerbating) these logistical problems?

- Not applicable to Queensland, inappropriate to comment.

Did these logistical problems impede Australia's export performance?

- Not applicable to Queensland, inappropriate to comment.

Will the new CBH (auction based) shipping allocation system in WA work adequately to allocate port capacity at times of peak load? Could the scheme be improved?

- Not applicable to Queensland, inappropriate to comment.

Are similar problems likely to emerge in other state when whose states have larger harvests?

- We are unable to accurately answer this question at this time.

3. Transport and Storage

Do up country facilities exhibit natural monopoly characteristics?

- While GrainCorp owns the vast majority of up country facilities, competition exists by growers providing their own storage facilities. In terms of GNC storages, there is a natural tendency for those close to port or close to domestic end users to be given preference by traders holding stocks.

Are alternative transport and storage arrangements being inhibited by the current arrangements? If so, at what cost?

- Under the previous wheat export monopoly, wheat was accumulated at port and storage space was available to intake the crop. Under current arrangement with multiple exporters, less time is given to accumulate prior to shipping, less space is available and some up country facilities are working on a 'fill and close' philosophy. This has meant that growers have to bypass their closest receival point and deliver further away incurring by increased road delivery costs and in some cases increased freight to port costs.

Do the terms and conditions of access to upcountry facilities represent a barrier to entry for potential exporters?

- We are unable to accurately answer this question at this time.

What is the prospect of competing facilities emerging? Does it vary across the jurisdictions?

- There is virtually no investment in new facilities by the major grain companies. They have struggled to be profitable and are generally looking for alternate revenue streams to bolster profits. The main competition is from producers who continue to increase their own on farm storages.

Is there any evidence of owners of upcountry facilities gaining an advantage over rival exporters?

- There is a natural tendency for owners of port and up country storages to make sure they are not disadvantaged. There have been instances where delivering direct to port and not to their up country storages is being made difficult.

Should upcountry facilities be subject to access regimes? Can access issues be addressed through Part IIIA of the TPA? What about for grains other than wheat?

- We are unable to accurately answer this question at this time.

If upcountry facilities were subject to access regimes, what would be the impact on the efficiency of the transport and storage system as a whole? Would it distort the transport system in favour of road and container transport?

- Road transport is fast becoming the only option in many situations and will create long term major problems. Transport of grain is turning out to be availability – not what is most efficient. As coal consumes track access and rail services are terminated to storage facilities in some areas, roads are being hammered severely.

Do the Grains Express arrangements raise competition concerns? If so, to what extent do these offset benefits of economies of scale and scope provided by Grains Express?

- Not applicable to Queensland, inappropriate to comment.

Is the rail system a problem for the export wheat industry?

- The availability of rail is a huge problem as most of the network has not been maintained to a satisfactory level.

Has deregulation changed this in any way?

- Deregulation has exacerbated the problem. When there was one exporter, most wheat was railed to port and long term contracts were in place. There was greater continuity in the movement of grain, meeting shipping programs throughout the year. Now there is more pressure at harvest and immediately post harvest to satisfy all those in the bulk wheat export business to adequately have the right specification grain and volume at port to meet customer requirements and shipping deadlines for example.

Are limitations of the rail, road and receival and storage systems impeding Australia's wheat export performance?

- Very much so. Growers are being penalised financially because customers can't access the grain in a timely or efficient manner. In Qld it has been estimated that growers were losing \$20-25 per tonne because grain could not be accumulated or delivered to port in time.

Given the absence of commercial return on many rail lines, can large scale investments be justified?

- Government runs a number of rail passenger and public transport services at a loss for the greater community good. The long term cost of transport grain on road is yet to be realised. It will increase the costs of road maintenance, increase pollution and increase the risk to other road users. With freight rates to port reaching \$50-60/t, growing wheat for export in some regions will become unviable.
- How does the industry or government assess a commercial return? There is a major community interest and environmental aspect to consider when talking about rail transport. Rail should be the dominant mode of transport for bulk commodities. Some State Government Corporations [GOC's] don't recognise this fact.

To what extent is the system in need of rationalisation?

- There needs to be a major investment in the rail infrastructure in Australia to move to a standard gauge system which could then take or deliver grain and other bulk commodities to anywhere in Australia.

Could the rural road system cope with is some rail lines were closed?

- No, all that does is transfer the cost from one sector to another. Forcing more grain onto road is short sighted as mentioned above.

Are rail logistics a more significant problem on the East Coast? If so, to what extent does the road system alleviate this?

- It is important to note that the domestic requirements are already transported by road. The termination of rail services is already forcing the container trade to utilise road in some areas.

Is truck access to port facilities a problem?

- Yes, most bulk terminals at ports were designed for rail intake. The intake at the Port of Brisbane was congested yet the out loading was only running at 60-65% of capacity.

Do bulk handlers use the prospect to additional charges to discourage use of rival upcountry supply chains? To what extent are additional charges justified?

- Very few rival storages exist.

To what extent do bulk handlers continue to have relatively flat charging structures? Does this have efficiency implications?

- Flat fee charges that rise over time have been commonly accepted. Eg receival fee, outturn fee, storage fee/month.

Is there a need for rationalisation of supply chains and are current pricing practices impeding this?

- During the time since deregulation, the supply chain seems to have become more fragmented. Each grain trader is doing what they need to do meet their shipping deadlines and avoid hefty demurrage cost. This does not encourage efficiency.

Does the ownership structure (or previous ownership structure) of some bulk handling companies lead to supply chain inefficiencies? Does it make it difficult to price efficiently? Does it make rationalisation of uneconomic receival and storage facilities more difficult?

- In some instances receival depots that were nominated for closure, are now (under GTA's freight differentials), offering a lower freight rate to port. This has the potential to threaten closure of nearby facilities that were not previously at risk of closing.

Are issues of legal liability (transport related) constraining trade in wheat? How might this problem be solved?

- We are unable to accurately answer this question at this time.

4. Information Provisions and Market Transparency

Is the information currently provided by ABS and ABARE useful and timely?

- No, it needs to be more often and timely to reflect true transparency and information flow.

If timeliness is a problem, are there any mechanisms to facilitate more timely provision of information?

What amount and type of market information should be made available and who should pay for it?

- Monthly stock reports by port zone.

With what frequency should information be provided?

- At least monthly, but with modern technology it should be more frequent.

Is there a role for WEA to provide information on the performance of accredited exporters? Would this assist growers in making marketing decisions?

- Exporters do need to be benchmarked so the Australian grains industry is receiving appropriate value for money for its high quality produce. Too often we see deals done on price alone instead of value for money.
- A performance rating could be very helpful for growers. Banks are assessed and given a credit rating so that customers can make informed choices.

What are the requirements of disclosure of information on the amount and type of stock held at grain receival facilities? Should they be changed? If so, how?

- We are unable to accurately answer this question at this time.

Do industry participants have sufficient knowledge of how to use market information?

- Knowing what the price is in their location is important to growers. Port pricing is commonly used but there are cases of differing freight rates between traders and between commodities. The majority of traders provide adequate price and market information.

Who is best placed to provide market information and why? Can the industry deal with the provision of market information itself (for example, with code of conduct)? Or is Government involvement required? If so, what form should that involvement take? Regulation? Funding? Provision?

- We are unable to accurately answer this question at this time.

5. Wheat Classification and Market Segmentation

Is the WCC adequate for ensuring wheat quality and the usefulness of wheat classifications?

- Yes

Could the market deal with these issues without such a body?

- We don't believe so, based on the experience of other industries.

Does the market differentiate adequately between qualities of grain? Is the current level of co-mingling activity appropriate?

- Possibly, however growers do not receive enough market quality signals from exporters to be sure

Is there adequate scope for marketing of particular types of wheat to service niche markets that are more narrowly specified than GTA standards? Does exporting through containers and bags provide a satisfactory way to exploit non-standard marketing opportunities?

- Yes

Are growers able to extract an adequate value for the quality of their wheat?

- We are unable to accurately answer this question at this time.

Can quality control be left to market-driven forces, with commercial incentives placing a check on the quality delivered to overseas buyers?

- There is a real danger that without quality control in all markets, Australia reputation for high quality wheat is jeopardised.

Has deregulation affected the reputation of Australian export wheat?

- This is a question that our export customers should be asked.

Has de-regulation and the co-mingling of stock increased biosecurity risks?

- De-regulation has greater potential to increase biosecurity risks than the co-mingling of stock.

Is quality control more of an issue for container wheat exports than it is for bulk wheat exports?

- The same standards for both markets should apply. If it is branded 'Australian' then we should protect our reputation.
- Quality control for any export is required. It has been identified that there are issues with the deregulated container export. The current system for bulk exports does eliminate some of the concerns; but the industry is still in the first year of trading under the current arrangements. Any moves to dilute the current arrangements would be premature.

Is quality control an issue in the domestic market?

- Domestic markets often put buyer and seller in close proximity of one another and any quality issues are resolved much easier than overseas exports. If contracts have been signed then the standards are often the same as for exports, however it is not as critical as international trade.

6. 'Industry Good' Functions

Does the list above represent legitimate 'industry good' functions? How should 'industry good' function be defined?

- We are unable to accurately answer this question at this time.

Are there currently gaps in the provision of 'industry good' functions? If so, can these be left to the market to provide? Or is Government involvement required? If so, how should these be funded?

- We are unable to accurately answer this question at this time.

Is there scope to use other grains to other agricultural industries as case studies for how 'industry good' functions could be delivered for wheat? Is there potential for synergies in shared provisions of 'industry good' functions across industries?

- We are unable to accurately answer this question at this time.

Is there anything to learn from the way that other countries deal with the provisions of 'industry good' functions in the wheat industry? Or other industries?

- We are unable to accurately answer this question at this time.

7. Performance of the Wheat Export Marketing Arrangements

Does the market provide sufficient signals to growers to enable them to make informed decisions about growing and selling wheat?

- There are many ways growers can access information. Eg direct fax/email/text, internet direct to company grain prices. Many rural banks offer market information on a daily basis.

How easy is it for growers to enter into a contract with an accredited exporter? Are transaction costs an issue?

- Contracts are generally straight forward. The fine print may vary in terms of tonnage variance, freight rates applied, but most are fairly standard. Growers need to know the nett price to them. Most contracts reflect a port price with deductions.

Has deregulation opened opportunities not previously available to Australian wheat growers? has deregulation enabled grower to extract a premium for their wheat that was previously unavailable? If not, is there potential for this to occur in the future?

- Theoretically there should be more opportunities, but depending on location, distance to port, access to packing sheds, containers and freight services, capturing them may not be possible.

Has deregulation presented new challenges for growers? Have any developments been unexpected?

- Yes many. While under a single exporter wheat was transported and shipped all year round. Now we are experiencing congestion at harvest, receival depots being filled and closed and growers being forced to travel longer distances to deliver their grain.

Has deregulation affected large and small growers in the same way? Are smaller growers able to receive the same prices that larger growers receive? Have the distributional impacts carried across jurisdictions or regions?

- Smaller growers often don't have the resources to invest in marketing strategies and certainly don't have the same economy of scale. Having said that, there is no reason why a small grower can't achieve a similar price to a large grower via a trader. In terms of being able to export direct, obviously larger production is required.

Does the effectiveness of the current bulk wheat export arrangements vary across jurisdictions or regions?

Has the global financial crisis had an impact on the operation of the new wheat export marketing arrangements?

- As financial institutions tighten their lending policies the financial capacity of traders to purchase and pay for grain within the standard timeframe would be impacted.

What have the costs of transition to the new arrangements been? How do these compare with the benefits of the new arrangements?

- It would be fair to assume that the transitional costs have been higher than the nett benefit to date. With so much variance in prices over the past 18 months it would seem impossible to be able to apportion such benefits. Most wheat growers would be at least \$120/t worse off this year compared to last season.

Has deregulation altered trends in the share of wheat exported in bulk and in bags and containers? If so, will the trend continue to change if current arrangements remain in place?

- Historically it has always been said that there a limit to this market is due to the availability of containers.

Given the relatively recent introduction of such major changes, how do you see developments in the wheat export sector in the medium to long term under the existing arrangements? Do you consider that there is still some way to go in allowing the arrangements to 'bed down' and for industry participants to adapt to, and further exploit, the opportunities that a more open marketing arrangement allows?

- There is still some way to go in allowing the arrangement to "bed down".

If some form of regulation is required only for a transition period, how long should this transition period last?

What indicators could be used to assess:

- *the effectiveness of the current wheat export marketing arrangements;*
- *whether ongoing regulation is required?*
- It is important that growers are protected as much as possible from companies/traders who are not 'fit and proper'. Growers already carry large risks in producing grain and traders who are 'risky' to do business with are usually only known after the fact.
- A register of companies that have been independently accredited goes a long way toward instilling confidence and trust for the growers and the rural communities they live in.