

Productivity Commission Review of the Wheat Marketing Arrangements.

Introduction:

My name is Wally Newman, I am a third generation medium size wheat grower 16 km South east of Newdegate. I am actively involved in our rural community with 21 years shire council experience.

I should also declare that I am a shareholder in AWB, CBH and a member of a rural lobby organisation. I am also a director of CBH and have been on the board since 2000.

I make this submission in my personal capacity as a grain producer in Western Australia and not in my capacity as a director of Co-operative Bulk Handling Limited (CBH). The views set out in this submission are my own and do not constitute the official position of CBH.

Accreditation of exporters;

Have market participants benefited from accreditation of bulk wheat exporters?

The simple answer is a few but not all, other grains and including wheat in bags or containers, bulk domestic can be handled by anyone and the accredited participants for bulk wheat offer no more than their counterparts.

From my observations of accreditation it has in effect worked against Australian bulk handlers who were the last to receive accreditation. Multinational companies who are vertically integrated with storage, marketing and processing facilities all around the world were issued licenses almost on application.

One hundred percent of W.A. growers and a percentage of Eastern states growers own the bulk handling facilities in Australia and should not be penalised or even have to pay for an organisation which adds considerable frustration and costs that are passed back to growers of wheat.

The WEC is currently set at \$0.22 per tonne, and is levied on all wheat exports on top of this cost to the grower he then has to pay compliance and lost opportunity costs incurred by the bulk handler marketer.

In all it appears to myself that deregulation of the wheat industry actually means more regulation of our co operative CBH at the total expense of W.A. wheat growers.

What would be the consequences of removing accreditation?

The answer to this is obvious, we have very good examples of other grains and commodities that are marketed without the need of costly Re Regulation by accreditation

2 Port terminal access and services

How significant are competition concerns relating to port access?

Any concerns by competitors of CBH are no more than perceptions, CBH has always operated under the Bulk Handling Act which gives individual growers or others in the industry the ability to use the port facilities.

Interestingly the owners of Port of Melbourne – AWB, ABB and Sumitomo do not have to have an access undertaking in place as determined by the WEA

despite the fact all three are accredited exporters similar to CBH.

CBH being a cooperative, owned and controlled by Western Australian grain growers has no incentive to deny access to its infrastructure. It aims to maximise return on investment in infrastructure by maximising throughput of tonnes and revenue is reinvested back into the network to further benefit WA growers.

Should the bulk handlers have their wheat exporting businesses ‘ring fenced’?

Absolutely no, we compete on a world market when selling grain. Some of our toughest competition comes from the U.S.A where co operatives similar to CBH are exempt from many regulations in regards to national competition regulations verses non co operatives that have to comply. In the USA cooperatives are not only exempt from the Sherman Anti Trust legislation and benefit from the Copper- Volstead Act, the Cooperative Marketing Act, the Agriculture Marketing Act, the Agriculture Agreement Act and the Export Trading Company Act allowing farmers the ability to vertically integrate and be in control of all aspects of their agricultural processes.

There should be no good reason for ring fencing CBH if it is the desire for government to have grain growers that can compete on the international markets.

Are the shipping problems experienced in the first year of deregulation likely to persist? This is very unlikely since the new shipping allocation system has been adopted. Even if nothing had been changed the chances of marketers requiring all their grain in a three month period is out of the normal demands on the handling system. Earlier in that very year during harvest boats were having trouble because there was no grain for sale then alone all wanting to ship at the same time as it turned out only weeks later.

If marketers require a capacity to ship the annual crop production out of W.A. in a three month period it will increase logistics, rail and road costs considerably as the level of service to complete the task will be substantial. By spreading this task over the whole year and fully utilising the capital tied up in logistics, costs can be kept to a minimum.

3 Transport and storage

Do upcountry facilities exhibit natural monopoly characteristics?

Since 1989 with the deregulation of the bulk handling system in W.A. anyone or company has been able to operate in W.A. Many companies have established and operate totally separate from CBH. Any monopoly by CBH is a natural monopoly and is not by legislation. To somehow impede growers belonging to the co operative to gain tax benefits and scale of operation defies common sense. If we have to shackle CBH which has growers as its sole beneficiaries to make others outside of our communities competitive then that is not in the best interests of rural communities and there growers..

Do the Grain Express arrangements raise competition concerns?

I believe that Grains Express is without doubt the envy of marketers throughout the world. For marketers who come to W.A. and utilise its services and have equal access to every grain growers production is only a dream in most other parts of the world.

Is the rail system a problem for the export wheat industry? Has deregulation changed this in any way?

Rail is definitely a problem due to its run down state since being privatised by the W.A. government. Corporate companies have capitalised any profits and are now expecting to socialise the losses back onto the communities that depend on them. The system has been developed for maximum efficiency over the whole year and is not able to cope with sudden demand as was experienced last year. It could be said that the system will impede the Australian wheat export system and would have happened even without deregulation.

To have sufficient road transport available to replace even portion of the rail system will be extra costs on rural communities and growers. These costs will be made up of capital invested in road vehicles that will only be required for part of the year with no other use, road maintenance, community impact with many more trucks on roads and associated dangers, extra energy required in fuel for the task, environmental impact and carbon credit implications.

Is truck access to port facilities a problem?

This is already a problem where rail is not fully available in areas of W.A. such as Esperance and Geraldton and to a lesser degree in Albany. With the demise of rail this problem will grow proportionally.

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?

Ownership structure should have no bearing on how a company is run, previous regulation in the bulk handling act certainly did make it difficult to provide best practice however those sections in the act were removed in 2003. CBH already have different charging regimes to encourage more efficient use of the supply chain and user pays principles.

4 Information provision and market transparency

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

The information is both timely and somewhat useful. One has to be reminded that this information is not demanded on other grains or commodities and one would have to ask why it is required on wheat. It is my thoughts that its like playing cards with the grain marketers and they get see your hand but you do not get to see theirs so as a grower it could be said that it is in fact a disadvantage for growers.

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

As above if this information is not required for other grains and commodities why should growers have to pay and if marketers pay growers will wear that cost.

With what frequency should information be provided?

Is there a role for WEA to provide information on the performance of accredited

exporters? Would this assist growers in making marketing decisions?

What are the requirements of disclosure of information on the amount and type

of stocks held at grain receival facilities? Should they be changed? If so, how?

Do industry participants have sufficient knowledge of how to use 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 a code of conduct)? Or is government involvement required? If so, what form should that

involvement take? Regulation? Funding? Provision?

To the above questions I maintain that other commodities and grains have no such reporting demands and I for one believe that this information is being sort not for the best interests of growers but for the advantage of marketers and should not be provided.

5 Wheat classification and market segmentation

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

For W.A. and maybe S.A. which are predominately export orientated we need a body that is not driven by marketers that will naturally build guide lines that best suit their needs. GRDC maybe appropriate.

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

Yes as with other grains and commodities these issues are covered.

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

Growers wheat quality is set not by any human standard but by the growing conditions during the season. No matter what standards are set a grower presents what he has produced for that year and will attempt to attain the best possible price.

As the quality changes from season to season the people that have the best knowledge of grain being delivered are the bulk handlers. These are the people that have less interest in the price of the product and have a high interest in meeting the expectations of the marketers who they out turn grain to. I believe that they are best placed to set standards and are more likely to give growers a fair assessment.

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

Yes market forces as with other grains and commodities delivers quality where it is in the best interests of all for price and quality.

Has deregulation affected the reputation of Australian export wheat?

No

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

wheat exports?

Quality is an issue for both and market forces will control in both cases

Is quality control an issue in the domestic market?

Quality is tied to price and market forces determine price so is no greater or lesser issue for domestic wheat.

6 'Industry good' functions

- industry strategic planning
- research and development
- wheat variety classification
- wheat receival standards
- information provision
- crop shaping activities
- technical market support
- wheat promotion
- branding
- trade advocacy
- regulatory advocacy.

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

'industry good' functions be defined?

Yes the list provided covers most issues and Industry good functions can best be described as any service or benefit that promotes the use and price of wheat.

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?

There are always gaps in any situation, it is best that a body such as GRDC co ordinate industry good functions with its government contributions promoting the industry with a production based levee.

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

The American Wheat Associates is a good example of how they benefit American

wheat growers.

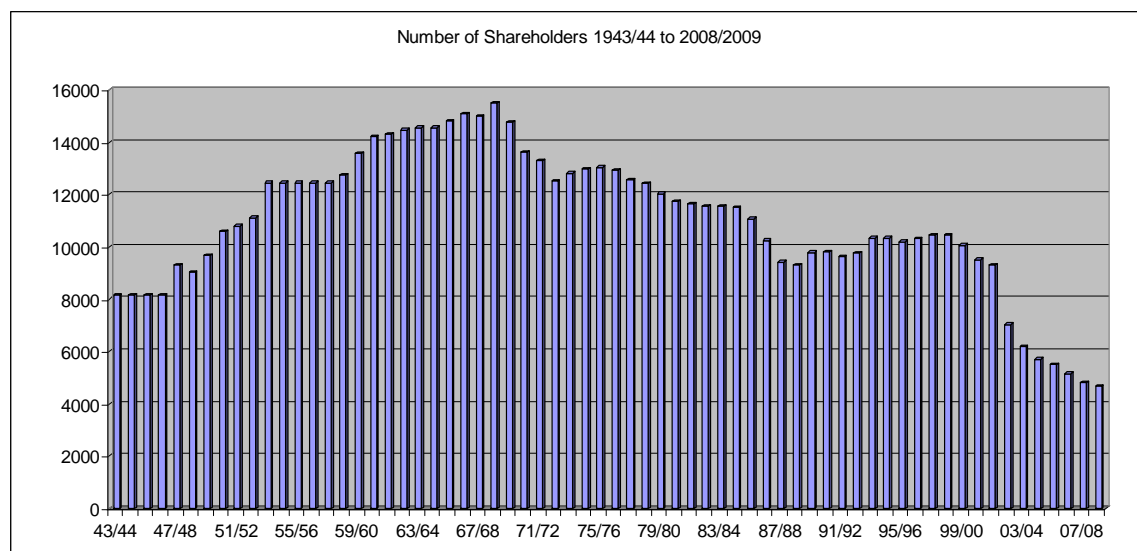
7 Performance of the wheat export marketing Arrangements

The Productivity Commission is the Australian Government's independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians.

Its role, expressed simply, is to help governments make better policies in the long term interest of the Australian community and hopefully this includes rural communities.

The best gauge of rural communities prosperity and in particular grain growers is the number of participants involved. The number of participants in any sector is influenced by how government relates to the sector. The more money generated the more farmers an industry can support. Farmers in most cases only leave the farm when they can no longer provide adequately for their families and are forced or elect to sell out leaving the industry.

From the graph below which indicates the number of members in CBH it is very easy to see how government policies have affected rural communities that depend on grain.



“The terms of reference ask the Commission to assess the operation of the current wheat export marketing arrangements (including the costs and benefits), and inform the Australian Government on the effectiveness of the arrangements. The Commission is therefore interested in feedback from stakeholders on how the current arrangements are operating overall”

From the graph it is very clear that rural grain growing regions are not fairing very well at all with a marked drop in participants from 99/00 when AWB was corporatised along with many other statutory bodies throughout Australia which has benefited those other than farmers.

In contrast the period 67/68 was when farmers enjoyed substantial fertiliser subsidies along with many tax exemptions on inputs.

Australia is treating its farmers harshly by comparison with many other countries who Australian farmers have to compete with on the international market place.

The feed back I would like to mention to the commission is that there are a lot wider ramifications to rural population decline. To mention a few; due to the huge areas operated by a single farmer today the ability to control such things as noxious weeds and vermin is greatly reduced as it is impossible for a grower to have the same observation and control measures for an area that once was looked after by as many as 20 farmers in 1960. This is putting pressure on our native flora and fauna. Rural communities are struggling with low numbers for sporting events, schools are closing and some towns are non-existent. These are communities that have all the infrastructure and only lack people, the total opposite to our city cousins.

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

Yes ample signals to the point where most farmers are sick of being badgered by marketers.

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

Very easy just weaken to a marketer.

Are transaction costs an issue?

No we have always picked up all the costs and nothing has changed.

Has deregulation opened opportunities not previously available to Australian wheat growers? Not that I have experienced personally

Has deregulation enabled growers to extract a premium for their wheat that was previously unavailable?

Yes, we no longer cross subsidise the east coast growers, pick up the freight advantage and are able to sell to other than AWB.

Has deregulation presented new challenges for growers?

Yes we no longer know who we will sell our grain to and spend new dollars on so called experts to get such advice which in most cases no better than our own judgement.

Have any developments been unexpected?

Yes, No one expected the rush on grain exports out of W.A. in the early part of the year or sudden drop in grain prices and this year will likely be in reverse.

Has deregulation affected large and small growers in the same way?

Yes, but in most cases the small grower can not purchase his inputs for a similar price.

Has deregulation altered trends in the share of wheat exported in bulk and in bags and containers?

This ratio is driven mostly by freight costs and with the drop in bulk freight there has been a reduction in the amount of container trade.

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

I believe that the current period is sufficient and that deregulation of the barley GLA in W.A. clearly shows growers adapt to the new system and marketers provide the services that best suit the growers.

What indicators could be used to assess:

• the effectiveness of the current wheat export marketing arrangements

This can be measured by how many more growers have to leave the industry or by how many more join the industry if it becomes as lucrative as would be expected by those who believed the changes necessary.

Whether ongoing regulation is required?

This needs to be monitored to make sure that growers are benefiting from the new system or whether marketers seize the opportunity to exploit growers.