

WHEAT EXPORT MARKETING ARRANGEMENTS
AMMENDED VERSION

SUBMISSION

To

PRODUCTIVITY COMMISSION

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Summary

The Western Australian Farmers Federation (Inc) (WAFarmers) represents over 4,000 members, the majority of whom grow wheat as a component business.

The Western Australian grains industry is in the unique position of exporting around 90 percent of its wheat production making an efficient and fair logistics system from farm-gate to port vital to the continuity of the viability of Western Australian grain growers.

Of primary concern to our membership is the fact that as a grower owned co-operative, Co-operative Bulk Handling (CBH) should be entitled to use its infrastructure and facilities to operate at a profit, just as any other marketer in the wheat export market place.

As owners and shareholders of CBH, the grain producers of this state should be the beneficiaries of a co-operative that is able to fully utilise its hard-earned assets for a commercial gain without unnecessary cost burdens resulting from unnecessary requirements for compliance when these are already covered by current legislation.

WAFarmers believes that some system of 'checks and balances' to ensure the financial and operational reputability of marketers wanting to export wheat in bulk is maintained.

In the deregulated marketplace there is the requirement for a cohesive body engaged in proactively promoting Australian wheat internationally now that AWB no longer holds the single desk. This organisation should play a role similar to that being played by the US Wheat Associates.

In the immediate term, the role and jurisdiction of Wheat Exports Australia (WEA) should be made clearer so that they add value for Australian wheat producers rather than creating further compliance burdens and costs that growers ultimately pay for.

WAFarmers questions the requirement for an expensive Port Terminal Access test given that access to CBH's port terminals is required under Section 19 of the Bulk Handling Act 1967 (WA) and the fact that there are provisions under the Trade Practices Act 1974 (Cwlth) to ensure that the Australian Competition and Consumer Commission (ACCC) has a generic brief to monitor the management and performance of Australian ports and the achievement of National Competition Policy guidelines and objectives. In addition, WAFarmers believes that Section 24 (4) of the Wheat Export Marketing Act already provides for disclosure and transparency.

The exemption of the Melbourne Port Terminal from access undertakings appears to be grossly unfair.

WAFarmers seeks an understanding from the Productivity Commission that CBH was established to work in the best interests of growers first and foremost. Any requirements placed on CBH in order to achieve acceptance of the Access Undertaking should not work against the best interests of Western Australian grain growers.

There has been no evidence of CBH gaining a trade advantage over rival exporters, nor any previous history of any marketers being denied access to CBH yet there has been a concerted effort by marketers to break down CBH control with potentially misleading claims which would have greater implications with regards to Non-discriminatory Access. Both the ACCC and WEA should take a firm stand against these un-founded comments being aired publically and instead any evidence of wrong-doings should be directed to the ACCC to be investigated immediately.

CBH's innovative Grain Express logistics system brought operational efficiencies and lowered the barriers to entry for acquirers in the WA market. It should be acknowledged that Grain Express provided growers with an unprecedented choice of marketers across the wheatbelt in 2008. WAFarmers is of the view that Grain Express could be improved by removing the requirement for growers to pay for freight services until that service is actually provided.

Issues with regards to shipping congestion following the 2008/09 harvest need to be mindful of the impacts of a non-adequate rail transport system and that CBH has introduced a new auction-based shipping allocation system to reduce such problems in the future.

WAFarmers totally rejects any move to impose unnecessary and costly access regimes to upcountry facilities due to the fact that all exporters have equal opportunity to access CBH's upcountry facilities by way of purchasing growers stored grain and/or accessing equal freight arrangements through Grain Express.

Western Australia's current rail problems are posing significant issues to the ability to transport grain from upcountry locations to port in a timely, efficient and safe manner especially given that CBH's storage and handling facilities have arisen around the States rail network. Urgent intervention is needed to ensure the sustainability of the grain freight rail network as Western Australian roads are not fit for the task.

WAFarmers is of the view that adequate market information should be available on a single website that is accessible to all members of the co-operative, as well as other participants in the trade in order that informed marketing decisions can be made by all parties wishing to maximise the benefits that may flow from the deregulation of grain marketing.

There is concern that Grain Trade Australia (GTA) is given the task of developing receival standards when growers are not adequately represented on GTA and therefore votes of growers are ineffective within this body. This results in GTA tending to set standards that benefit marketers to the disadvantage of growers.

It is vital that producers are provided with the best comprehensive intelligence to sustain and shape future production and to ensure continuing demand based on quality, price and relevance.

WAFarmers believes that there is insufficient data to evaluate any potential benefits of deregulation at this point in time.

WAFarmers requests due consideration be given to the future timeframes of submissions, Public Forums and Public Hearings as the current dates have fallen within peak harvesting periods in Western Australia.

Submission

The Western Australian Farmers Federation (Inc) (WAFarmers) represents over 4,000 members, the majority of whom grow wheat as a component business.

As having the largest, by far, membership base of any rural lobby group in Western Australia, WAFarmers is confident that they are truly representative of this State's wheat producers, and as such welcomes the opportunity to address the Productivity Commission on the topic of Wheat Marketing Arrangements.

WAFarmers has reviewed the Productivity Commission Issues Paper on Wheat Export Marketing Arrangements and is familiar with the contents of both the Wheat Export Marketing Act 2008 and the Wheat Export Accreditation Scheme 2008.

In this submission, the organisation will not make comments on a 'line by line' basis, however we will provide specific comment on the primary issues of concern to our membership with particular reference to the role of Co-operative Bulk Handling (CBH).

At the outset it is important to note that WAFarmers is extremely disappointed with the timing of the submission as well as the dates provided for the Public Hearings and Forums in Western Australia which are set for the busiest and most important time for grain growers, being in peak harvest times. This has meant that many grain growers have not been able to play as active a part in the debate as they would have liked.

ACCREDITATION OF EXPORTERS

In the newly deregulated wheat marketing arrangements, accreditation was important to allow growers the confidence that potential marketers have been subject to a criteria test and deemed acceptable.

Criteria such as the financial resources available to the company, the company's risk management arrangements, business records and any offences related to dishonest conduct and whether a company has contravened a condition of the company's accreditation are important.

A valid concern for growers remains that there is no guarantee for payment / financial security. Losses of payment would potentially significantly hurt the growers business.

It is important to note that any accreditation system should not place unnecessary cost and compliance on the business as these costs will inevitably be passed on to growers and that renewals of accreditation should be less stringent and less costly than initial accreditations.

WAFarmers would be open to a more streamlined approach to accreditation but believes that some form of accreditation to deem a potential wheat exporter as 'fit

and proper' is vital to ensuring the growers confidence in marketing decisions as well as best ensuring payment and therefore the on-going viability of individual farming enterprises.

WAFarmers is of the opinion that a system such as employed by the Essential Services Commission of South Australia may be compatible with the needs of Western Australian growers. Under this system, wheat exporters would pay a fee and attest legally to a number of requirements. If the company does not legally comply, then accreditation to export is lost. This would reduce operational costs of the WEA, reduce cost of compliance for all exporters and ensure more efficient wheat exporting arrangements.

It is important that any system which is developed should not overlap the Bulk Handling Act 1967 (WA) and could be defined in a Bulk Handling Code of Conduct. In addition, it is this organisations belief that the Corporations Act and Trade Practices Act provide more protection than does the Wheat Export Marketing Act and should be used.

ROLE AND FUNDING OF WEA

At this point in time, WAFarmers cannot see the Wheat Export Authority's (WEA) current role providing value to growers that is equivalent to the Wheat Export Charge of \$0.22/tonne of exported wheat.

This organisation acknowledges WEA's important role in the accreditation of wheat exporters however, other than deeming a marketer as 'fit and proper' to export wheat, due to the lack of information available to the public via the accreditation process (that is any details of the commercial operations) the information supplied via WEA accrediting exporters does not assist growers with their export marketing decisions.

It is also important to note that as the 2008/09 grower report will not be made public until December 2009, this would be too late for growers to make any marketing decisions for the 2009/10 harvest. Information would be more beneficial coming out mid-year.

It is this organisations belief that the operations of the WEA should be examined closely for relevance, practicality and impact on international customers seeking certainty of sales from preferred suppliers on a long-term basis.

With grower's current concern at the lack of a cohesive body engaged in proactively promoting Australian wheat in the world market place now that AWB no longer holds the single desk, there is an obvious need for such a body and that any levy imposed on wheat production should be critically examined to ensure maximum benefit flows back to growers.

This is a pressing issue as the US Wheat Associates are aggressively campaigning into the void left by the sudden retraction of promotion of Australian wheat.

As part of its duties, WEA should take the role of monitoring the quality of Australian wheat exports to protect the excellent reputation of Australian wheat in international markets.

In the immediate term, the role and jurisdiction of WEA should be made clearer so that they add value for Australian wheat producers rather than creating further compliance burdens and costs that growers ultimately pay for, this will be discussed further under Port Terminal Services and Access.

PORT TERMINAL ACCESS AND SERVICES

Comments with regards to Access Undertakings

WAFarmers understands that the rationale for the Access Test in the Wheat Export Marketing Act is to ensure that owners of port terminals who wish to market bulk wheat for export do not attempt to use their ownership of port terminals to derive an unfair advantage to their marketing operations.

As any costs will eventually find their way back to growers, with due respect, WAFarmers questions the requirement for an expensive Port Terminal Access Test when:

- CBH is already bound by the State Governments Bulk Handling Act (1967) (WA) to provide access on fair and reasonable basis to its infrastructure under Section 19. Subject to this Act and the regulations, the Company shall allow a person, on payment of the prescribed charges, the use of any bulk handling facilities and equipment controlled by it at ports in the State
- Access to CBH's port terminals is required under section 19 of the Bulk Handling Act 1967 (WA) (Bulk Handling Act.)
- CBH also retains a legislative obligation to receive grain from all growers under section 42 of the Bulk Handling Act
- The provisions of the Trade Practices Act 1974 (Cwlth) to ensure that the Australian Competition and Consumer Commission (ACCC) has a generic brief to monitor:
 - 1) The management and performance of Australian Ports
 - 2) Achievement of National Competition Policy guidelines and objectives
- WAFarmers believes that Section **24 (4)** of the Wheat Export Marketing Act already provides for disclosure and transparency

CBH also has clear and equitable Export Accumulation Guidelines and Port Queuing Policy that operate in conjunction with the customer's Grain Services Agreement that will allow disputes to be resolved in a logical and binding manner.

WAFarmers believes that the ACCC has sufficient powers to ensure that the management of infrastructure, particularly port terminals, is carried out in a competitive and transparent manner and that the market power of any participants is not misused for any anti-competitive purposes.

The incentive to provide open access under the Acts and constraints on anti-competitive conduct means that further intrusive and prescriptive regulation is not necessary. Such an approach will add unnecessary costs which will be ultimately passed on to exporters and growers and make CBH less competitive relative to the other handling companies around Australia and the world.

WAFarmers are also seeking an understanding from the Productivity Commission that CBH was established to work in the best interests of growers first and foremost. Any requirements placed on CBH in order to achieve acceptance of the Access Undertaking should not work against the best interests of Western Australian grain growers.

The Access Undertaking process must remain true to the intention of the legislation. WAFarmers do not believe that it was the real intent of the Government to cause such disruption and uncertainty – moreover we believe the intention was to ensure all participants have access to utilise Port Infrastructure. CBH is already bound to provide this under the Bulk Handling Act and its proposed Direct to Port service means anyone can utilise its port facilities even if they choose not to participate in Grain Express.

Access Undertakings come at significant cost and time invested. These costs in this particular case are borne by the Western Australian grain grower at the end of the day. Our preference of course is to have our company focused on keeping our costs low and on preparing to receive and, if we choose, market our impending harvest.

Comments with regards to the exemption of the Melbourne Port Terminal from the access undertaking requirements

WAFarmers strongly questions the huge anomaly with regards to access undertakings in that the Melbourne Port Terminal is free from access undertaking requirements.

It is our understanding that the Melbourne Port Terminal is a joint venture with assets owned in 50 per cent shares by ACN 089443407 Pty Ltd (which is wholly owned by AWB Limited) and Melbourne Terminal Operations Pty Ltd which is indirectly owned by ABB Grain Limited and Sumitomo Australia Pty Ltd who are both accredited wheat exporters.

As such, given that the provider, in relation to a port terminal service, means the entity that is the owner or operator of the port terminal facility that is used to provide the service (refer *Wheat Export Marketing Act*, s 5) by definition AWB Limited (which although not an accredited wheat exporter but wholly owns both AWB Australia Limited and AWB Harvest Finance, both of which are accredited wheat exporters), ABB Grain Limited and Sumitomo Australia Pty Ltd are providers and exporters and so should be required to meet access undertaking requirements.

The WEA Port Terminal Access test page as found on the WEA website clearly states that if an exporter, or an associated entity of an exporter, is the provider of

one or more port terminal services, WEA must be satisfied that they pass the access test in order for the exporter to be eligible for accreditation.

There is a clear anomaly here and may result in the situation whereby in the future, companies who wish to provide a port services will ensure they set their structure up as a joint venture in order to avoid the access undertaking and while CBH, ABB Grain and GrainCorp continue to be financially burdened by the costly compliance to an unnecessary and additional oversight in the form of infrastructure access monitoring.

Comments specifically pertaining to CBH's role in the Western Australian Grains industry and their innovative and successful Grain Express logistics system

While there has been no evidence of CBH gaining a trade advantage over rival exporters, nor any previous history of any marketers being denied access to CBH, WAFarmers is aware that some organisations within the Western Australian wheat industry are spreading un-founded and misleading statements in a bid to break down CBH to achieve the ultimate goal of gaining more market share.

WAFarmers is very concerned about the concerted effort being made by marketers to break down CBH's important role in the Western Australia grains industry especially as it relates to allegations of discrimination to port access.

Both the ACCC and WEA should take a firm stand against these un-founded and therefore slanderous comments being made by individual marketing companies and make public a requirement that any evidence with respect to discriminatory behaviour be directed to the ACCC to be investigated immediately.

If these marketers believe that costs are too high, then it is their responsibility to prove marketwise that these inefficiencies would be alleviated by by-passing the CBH system.

It is also important to address the perception, which some marketers appear to promote, that CBH's grain marketing subsidiary, Grain Pool Pty Ltd, benefits from information gained via access to information that disadvantages other infrastructure service consumers.

With the introduction of Grain Express, a logistics system which has brought multiple benefits to the Western Australian grains industry, particularly as this is in the unique position of exporting 90% of its wheat, CBH imposed a voluntary ring-fencing arrangement to ensure that its storage and handling business and grain marketing business were distinct entities.

Notwithstanding some first year problems with shipping, Grain Express brought operational efficiencies and lowered the barriers to entry for acquirers in the WA market. It should be acknowledged that Grain Express provided growers with an unprecedented choice of marketers across the wheatbelt in 2008.

Whilst we all observed the shipping problems that emerged in Western Australia last harvest, CBH has assured us they are taking action to rectify those issues in their control.

Unfortunately, one of the biggest contributors to the shipping congestion which was experienced is directly related to one of Western Australia's most current pressing issue, that being the matter of rail line investment and the urgent need in this State to improve the performance of rail transport from silo to port.

In addition, many of the complaints about port management or access to ports revolved around the allocation or prioritisation of ships in the shipping stem, at-port grain storage management and ship loading schedules.

These complaints need to be categorised into those that are a result of the logistical challenges which have arisen within the first year of deregulation, and those that are not, to get a clearer indication of supposed non-performance and scrutiny.

Having gained a thorough understanding of CBH's new auction based shipping allocation system, WAFarmers believes the new system is the fairest way to allocate shipping capacity in a deregulated market and that it will improve Australia's export performance and alleviate the problems associated with the 2008/09 harvest.

WAFarmers are also confident of CBH's commitment to continually improve not only the shipping system but also make improvements to Grain Express logistics systems through their willingness to consult with market participants as well as the relationship with our organisation.

3 TRANSPORT AND STORAGE

Comments with regards to upcountry facilities

WAFarmers totally rejects any move to impose unnecessary and costly access regimes to upcountry facilities due to the fact that all exporters have equal opportunity to access CBH's upcountry facilities by way of purchasing growers stored grain and/or accessing equal freight arrangements through Grain Express.

This organisation believes that the provisions as outlined under Grain Express ensure that the terms and conditions of access to upcountry facilities do not represent a barrier to entry for potential growers and there has been no evidence of owners of upcountry facilities gaining an advantage over rival exporters.

As outlined in the previous section, any valid concerns or examples of an anti-competitive nature should be referred immediately to the ACCC to be dealt with accordingly. Otherwise, such claims are only hearsay and can be concluded to be slanderous and made with the ulterior motive to dissect a world-leading logistics system.

All access issues should be addressed through the provisions of the Trade Practices Act 1974 (Cwlth) and the fact that CBH is also required under the Bulk Handling Act to provide fair and reasonable access to all of its facilities, both port and upcountry.

Comments with regards to transport

Western Australia's current rail problems are posing significant issues to the ability to transport grain from upcountry locations to port in a timely, efficient and safe manner.

Stretching from Geraldton, out to Southern Cross and down to Albany and Esperance, Western Australia's grain rail network has been the backbone of our Wheatbelt for nearly 100 years.

There is currently 5,100km of rail network in WA's south west region – just under half of which is almost exclusively used to transport grain from growers to ports.

2,300km of this grain rail network is in urgent need of upgrading in order to keep grain on rail, and support Western Australia's \$4.5 billion grain export industry.

About 65% of the State's grain freight task is transported along the grain rail network – representing approximately 5-8 million tonnes of freight per year.

As a grower owned co-operative, CBH has reinvested 100% of the profits made through storage and handling back into its infrastructure which has included rapid rail out-loading facilities and the development of strategic bins, all of which has been completed with rail in mind.

WAFarmers are currently in the process of lobbying the state government in an effort to see much needed maintenance carried out on this vital infrastructure and the organization is also represent farmers on the Strategic Grain Network Review Committee established by the Western Australian government.

Deregulation has definitely seen a big impact on rail transport as multiple marketers moved to ship grain in the first four months of the year which created a big surge period whereby in the months of March and April in 2009, the demand for shipping was almost double of that pre-deregulation.

The inability to move grain quickly enough from country bins to port was extremely limiting to the ability to ship out grain and it was reported that large demurrage costs resulted from this.

While there is expected to remain an increased demand for grain to be shipped in the front-end of the season, it is expected that the confusion that resulted in marketers jostling for grain will become less in the future and the transport system will be better able to cope.

Calls from industry to Government have included the maintenance of rail lines, the provision of extra wagons to boost the fleet for use in peak demand periods,

a dramatic reduction of the more than 700 individual speed restrictions on rail lines, a request for the State Government to take back full ownership of the narrow gauge rail system and changes made to the current cost structure which makes it nearly impossible for rail to compete with road, namely that in Western Australia it is our understanding that Westnet Rail currently charges Australian Railroad Group (ARG) a track access fee which equates to roughly 40 % of freight rates.

It is WAFarmers belief that as much grain as possible be kept on rail for environmental, long term economic and social gains as the rural road system would never be able to cope with the closure of rail lines.

Although in the short-term, commercial returns on rail investments may not be justifiable, it is the medium to long-term returns that need to be considered and WAFarmers would refer you to a recent case study on wheat.

The Future Directions International (FDI) *Report on the Strategic Importance of Agricultural Innovation – A Case Study of Wheat in 2009* found:

- There is often a narrow focus on production of food to the detriment of the transport and infrastructure systems which deliver food to the site of consumption.
- If transport costs start to form a large component of the total costs of wheat, there can be a number of short-term economic incentives which create major long-term weaknesses.
- Australia has now become one of the lowest cost grain producers. This has been due to major investment in a suite of long-life infrastructure systems. The evolution and investment in railway and other infrastructure saw the rise of Australia as a major surplus grain producer as it opened up new land and made grain production in inland zones commercially attractive.
- Based on short-term economic considerations, it makes sense to place a greater reliance on road networks. Rail networks are expensive and have pay-offs over decades rather than years. However, in the short- to medium-term, greater use of road networks are costly. In terms of efficiency and variable costs, rail transportation uses 1.5 to 2 litres of diesel per tonne of wheat transported, compared to nine litres for road transport.
- As the trend towards reduced investment in long-term rail infrastructure continues, there could be a change in the economics of producing outlying areas, especially if transport costs rise through the cost of diesel increasing or a shortage of trucks.
- The key issue for nations importing bulk agricultural produce as well as those nations exporting bulk agricultural products will be the average relative cost in procuring the necessary food requirements for a society. Should this reach a disproportionately high level, the responses will be varied and could lead to greater international tension. For exporting nations, such as Australia, it could also mean the erosion of market share and relevance as an agricultural producer.

WAFarmers would argue that given that the majority of this State's wheat is exported, and given that storage and handling facilities have developed around the rail system, the issues surrounding rail freight are far more significant than in other states.

While there are sections of the grains industry espousing that the road system can alleviate the current issues with rail logistics, the Western Australian Auditor General's Report *Maintaining the State Road Network* as released in June 2009 highlighted many flaws in such a simplistic 'quick fix'.

- The condition of the State road network has deteriorated since Main Roads contracted out its road maintenance function
- The average age of the road network is steadily increasing with nearly one third of the network having now reached the end of its design life
- Road maintenance contracts have not delivered adequate levels of planned maintenance
- The estimated cost of eliminating existing overdue maintenance may exceed \$800 million.

Truck access to port facilities is problematic in Western Australia. For example the Kwinana port, which receives about 3.5 million tonnes of wheat a year, is located just south of Fremantle meaning trucks are required to move through metropolitan areas.

In addition, as already mentioned, CBH has spent significant capital on increasing rapid rail outlet facilities and the ports are not designed for the congestion of trucks.

Given that the Esperance Zone is comparatively 'younger' as a grain growing region and has not relied as heavily on rail services, this zone is not as fully impacted by rail issues and has a very good road system.

Comments with regards to freight rates and other charges

WAFarmers is aware of the push being made by CBH towards a more true cost approach in terms of freight rates and some of its charges.

The complexities of a system without relatively flat charging structures would be extremely difficult to manage and WAFarmers sees the current cost structure as being indicative of a co-operative structure and the historical evolution of the network.

4 INFORMATION PROVISION AND MARKET TRANSPARENCY

The transition of the single desk into a deregulated market place occurred with the Government's assurance that there would be a provision of market information to enable growers to be better equipped to make marketing decisions and that there would be market transparency.

From the growers perspective, the absence of adequate market information means that marketing decisions are made in a vacuum. The release of timely and accurate supply and demand information would provide clearer market signals for growers and therefore make an important contribution to their marketing decisions accordingly.

The information currently provided by ABS and ABARE does not provide meaningful information (that is information by which they can make important marketing decisions) because it is not readily accessible and available to wheat producers in a meaningful way.

Similarly, although CBH provides weekly Harvest Reports showing total grain receipts by port zone along with daily updates to the shipping stems of the four port facilities, on its own, this data provides little or no value.

As grain producers spend much of their time out in the field, they need a 'one-stop-shop' whereby meaningful data is collated and useful to them.

Such a 'one-stop-shop' would not necessarily mean any large increase in cost burdens to growers as computer technology means that data can be automatically transferred from one portal / location to another so a tabled and graphed presentation of figures should not be costly.

If there was to be a regular written independent summary made of the data this would no doubt cost more and then questions would be raised as to who should pay for this information and who really benefits.

It is for this reason that WAFarmers is of the view that information should be available on a single website that is accessible to all members of the co-operative, as well as other participants in the trade in order that informed marketing decisions can be made by all parties wishing to maximise the benefits that may flow from the deregulation of grain marketing.

In the Western Australian grains industry there is currently a debate about the provision of real time information as well as the amount and type of market information that should be available.

CBH have advised that they are opposed to real time information due to the fact that it would damage the competitiveness of Western Australian grain and is not provided by other service providers.

They have also advised that there needs to be industry confidence that the release of information will not result in the throwing out of a shared industry benefit at the expense of perceived individual gains and that there would also be issues with regards to confidentiality matters with customers and growers.

This debate seems to have reached an impasse in Western Australia however it would appear fair to suggest that the Western Australian grains industry should not be compelled to release information in its own right if there is no such

requirement in the Eastern States. It is therefore our view that information should be released at a national level to ensure competitive advantage is not lost and that Western Australia should not suffer because of the lack of information provision in the eastern states.

5 WHEAT CLASSIFICATION AND MARKET SEGMENTATION

Given the short timeframe since formation of the Wheat Classification Council (WCC) WAFarmers finds it difficult to comment on whether the WCC is adequate for ensuring wheat quality.

WAFarmers would however make mention of it's concern whereby Grain Trade Australia (GTA) is given the task of developing receival standards when growers are not adequately represented on GTA and therefore votes of growers are ineffective within this body. This results in GTA tending to set standards that benefit marketers to the disadvantage of growers.

In addition, the market does not differentiate adequately between qualities of grain as subsequent to deregulation, marketers pushed for a cliff-face pricing regime. This would ensure that profits from down-stream co-mingling accrued to the benefit of marketers at the expense of the quality grain producers and as such the current level of co-mingling activity is not appropriate.

WAFarmers believes there is adequate scope for the marketing of particular types of wheat to service niche markets that are more narrowly specified than GTA standards and that exporting through containers and bags provides a satisfactory way to exploit non-standard marketing opportunities.

Unfortunately, in many instances growers are not able to extract an adequate value for the quality of their wheat because generally the highest protein and lowest moisture wheats are produced in regions that are remote from port. These wheats are critical to creating and maximising the volumes of quality blends available for export.

WAFarmers believes that the commercial terms imposed for the receival of wheat into the CBH storage system in Western Australia act as an inbuilt quality system and that until a reliable traceability system is developed a true Quality Assurance system is not achievable.

Regarding whether or not deregulation has affected the reputation of Australian export wheat, based on the first season of deregulated wheat export marketing, there were more critical observations made by our overseas clients than there were approving comments. This was especially the case in terms of reliability of supply.

Blending has always been an important function of the wheat industry in order to achieve maximum value and Western Australia is fortunate that it has CBH who can coordinate this activity to ensure proper hygiene prevailed.

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

wheat exports because the container trade represents an opportunity for substandard wheats to be exported simply because of the ability to limit risk by volume.

6 'INDUSTRY GOOD' FUNCTIONS

WAFarmers believes that the list of 'industry good' functions included on the Issue Paper as provided by the Productivity Commission defines the parameters that influence the mix of types of wheats produced to meet current market demand and help define future consumption trends.

It is vital that producers are provided with the best comprehensive intelligence to sustain and shape future production and to ensure continuing demand based on quality, price and relevance.

The information provided by market forces is contemporary and gives little guidance to producers as to international demand and there is a definite role for government in ensuring information flow to growers.

In addition, wheat production within Australia warrants an independent status as to 'industry good' functions and as such it should be a trend-setter.

7 PERFORMANCE OF THE WHEAT EXPORT MARKETING ARRANGEMENTS

While there are many variables that dictate a grower's ability to make informed decisions about growing and selling wheat, the answer to whether the market provides sufficient signals would have to be 'no'.

It is very easy to enter into a contract however it is often very difficult to fulfil the terms of the contract due to production risks. Generally transaction costs are not an issue apart from consequential costs arising from production failure.

WAFarmers believes that if the national single desk had evolved to meet changing conditions and operated regional pools, it was the preferred option for the majority of Western Australian wheat producers and that there is insufficient data to evaluate any potential benefits of deregulation at this point in time.

Deregulation has transformed marketing from an orderly process completed over an 18 month period to a market driven process. This has created new national infrastructure demands that will impact on social amenity aspects as well as creating significant expenditure requirements to develop transport networks to meet the new marketing environment.

It is a sad fact that the fall-out of deregulation in Western Australia has seen some observers publically classifying wheat producers as falling in to two categories: the vital few and the meaningless many.

Western Australia, South Australia and New South Wales contribute significantly

to the wheat export crop, especially WA who exports around 41 % of the nation's wheat, therefore deregulation has effected producers in Western Australia more than in other states.

WAFarmers believes that deregulation has not altered trends in the share of wheat exported in bulk and in bags and containers as the main driver has been the freight cost, that is bulk freight cost as opposed to container freight cost.

With the relatively recent introduction of such major changes to the wheat industry, there is definitely a long 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.

Indicators to the effectiveness of the current wheat export marketing arrangements would have to be inclusive of:

- Seasonal carry-over stocks
- Business failures
- Seasonal plantings to wheat
- Export comparisons to single desk history
- Grower sentiment
- Port performance
- International client assessment