

Productivity Commission Inquiry into Wheat Export Marketing Arrangements - Submission from the Department of Agriculture and Food Western Australia.

The Western Australian Department of Agriculture and Food is committed to a progressive and profitable grains industry. The department recognises that the supply chain needs to operate efficiently and effectively if the industry is to maintain its international competitiveness.

Value to the WA economy

The Western Australian (WA) grains sector makes a significant contribution to the state's economy and is WA's fourth largest resource industry. In 2008/09, the grains industry generated more than \$4.7 billion, or 59 per cent, of WA's gross value of agricultural production (Figure 1). The total value of the industry to the economy, based on an output multiplier of 1.51, was \$7.1 billion.

In the past thirty years, WA's grain growing area has increased by 60 per cent from five million hectares to 7.5 million hectares while grain production has increased almost two and a half fold from five million tonnes to twelve million tonnes.

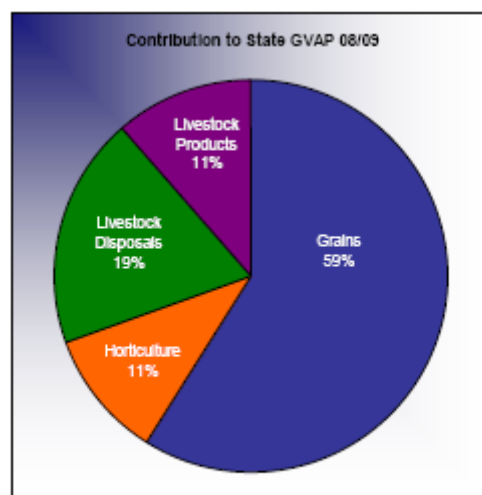


Figure 1: Contribution of agricultural industries to WA gross value of agricultural production 2008/09.

WA: the dominant grain-export State of Australia

WA exports over 80 per cent of its total grain production. For individual grains, WA produces around 60 per cent of the wheat, 80 per cent of the canola, 42 per cent of the barley and 96 per cent of the lupins that are exported from Australia (2008/09 estimates). In 2008/09, the grains harvest in WA was 13.4 million tonnes and accounted for more than 40 per cent of the national harvest of 31.8 million tonnes. Wheat is the dominant crop grown and is the driving crop for rotations in most grain growing areas.

As WA's grains industry is heavily export-oriented, its long term viability is dependent on the industry being internationally competitive. This is less important in the eastern states (with the exception of South Australia) as those states predominantly service domestic customers and have a smaller export industry. Although South Australia is also export oriented, it is better placed to benefit from its proximity to the major domestic grain users. WA's reliance on the export market for wheat sales means that decisions made by government have a greater impact in WA than in other states.

The department welcomes the opportunity to make a submission to the Productivity Commission in respect to its *Issues Paper on Wheat Export*

Marketing Arrangements. The department's response follows the same format as the *Issues Paper*.

1- Accreditation of exporters

1.1. Why accredit bulk wheat exporters?

Industry feedback to the department is that the accreditation of bulk wheat exporters should be a transitional arrangement to allow growers, and the industry more generally, sufficient time to adapt from a single bulk exporter to a competitive market environment. The marketing of bulk grain exports has evolved into a more mature market and that the requirements for accreditation could be removed after the 2009/10 season.

The Western Australian Government deregulated export marketing of the prescribed grains (barley, lupins and canola) from the 2009/10 season. In 2008, prior to deregulation of wheat export marketing, the Economic Regulation Authority reviewed the *Grain Marketing Act 2002* (GMA). It recommended that:

- Barley, canola and lupins should no longer be prescribed;
- An accreditation system for the export of prescribed grains is unlikely to deliver significant benefits; and
- The Minister may move to allow the Act to expire, thereby removing the current restrictions on the bulk export of barley, canola and lupins...preferably in time for the 2009-10 harvest.

The Review of the GMA involved extensive consultation with key stakeholders. The Economic Regulation Authority published an Issues Paper in 2007 and invited feedback from industry, government and the general community. Seventeen submissions were received in response to the Issues Paper and Draft Report. Submissions were received from industry associations, grain traders and government departments. There was broad based support across the industry for deregulation of export grain marketing and accreditation was not raised as an issue during the review process.

The Minister for Agriculture and Food announced in October 2008 that a decision would be made after the 2008-09 harvest on export marketing arrangements for the prescribed grains. This was to ensure that growers and grain exporters time to plan for the 2009-10 season. On 10 March 2009, the Minister announced that the Western Australian export market for barley, lupins and canola would be deregulated from October 2009, prior to the start of the 2009-10 harvest. The timeframe for implementing deregulation was twelve months. There has been minimal criticism from industry on deregulation. (The press release making the announcement is included in appendix 1.)

1.2. Criteria and conditions

If it is deemed appropriate that an accreditation scheme should continue, the process to obtain a renewal should be relatively easy if the conditions of accreditation have been adhered to in the preceding period.

1.3. Level of assessment

Accreditation appears to be an unnecessary barrier to entry for potential exporters. This is particularly relevant in WA where some larger growers have expressed a desire to export their own wheat but are required to set up a company and gain accreditation. There is no substantive reason why wheat should be subject to accreditation that is not required for other grains or in other export industries.

1.4. Role and funding of the WEA

There is a role for an independent organisation to deliver 'Industry Good' functions. The WEA has the legislative authority to collect the Wheat Export Charge from exporters. This levy may be a suitable mechanism for industry to provide to a body that can deliver industry good functions. This is discussed in more detail in sections 4, 5 and 6.

The department has not seen a substantive case to support the transfer of the WEA's accreditation functions to another body. If the WEA does operate as a peak industry body, there may be a case for maintaining other bodies to carry out key roles. An example may be that the Wheat Classification Council maintains an on-going role in classifying Australian wheat and working with other organisations that provide 'industry good' functions.

2- Port terminal access and services

The issue of port terminal access and services was addressed by the department as part of the ACCC's review of Port Terminal Services Access Undertaking. The department's submission is attached for your information (see Appendix 2).

Part IIIA of the Trade Practices Act provides sufficient legislative protection for grain exporters against exploitation by monopoly owners of port facilities. It is predicted that the issue of monopoly ownership is likely to reduce over time as it is highly likely that alternate storage, handling and port facilities will emerge and compete with CBH.

In the 2008/09 season, there were constraints for the grains industry in transferring the harvest from upcountry receival sites to port facilities. The delays were predominantly due to the shipping stem and road/rail infrastructure, however, there were additional problems including:

- A large and delayed harvest along the WA coast;

- Exporters wanting early shipments based on an increase in cash sales;
- Multiple exporters (increased from one to 23);
- Moving large volumes from farm to port; and
- The timing of receipt point fumigation.

There is evidence that the delays had an impact on wheat sales and that potential buyers were considering using other Australian ports or alternate overseas suppliers. If these delays occur in future seasons, this will affect Western Australia's reputation as a reliable supplier.

The industry is working to overcome these constraints. For example CBH has stated that its Shipping Capacity Allocation will operate over two periods throughout the year:-

- The Harvest Shipping Period 1 Nov – 15 Jan where capacity will be allocated on the basis of expressions of interest.
- The Annual Shipping Period 15 Jan - 31 Oct where capacity will be allocated on the basis of a price/volume based auction.

The Shipping Capacity Access Allocation mechanism will ensure that shipping capacity is allocated on equitable, transparent, commercial and competitive terms.

In respect of rail, an agreement has been reached where the Strategic Grain Network Committee (SGNC) will take a leading role in examining and providing advice and recommendations to government on the future of the State's grain rail network and the government's possible investment in it. The committee, which is comprised of industry representatives and headed by leading transport expert, Professor Fred Affleck, has the task of developing a plan to ensure that Western Australia's grain rail network is best placed to service the sector into the future. The SGNC will provide the Government with its recommendations before the end of 2009.

3- Transport and Storage

3.1 Upcountry receipts

The department has not seen evidence that upcountry storage facilities in WA exhibit strong natural monopoly characteristics as:

- Growers, in general, have the option to deliver direct to port;
- Growers can utilise on-farm storage and
- The barriers to entry for upcountry storage facilities are not substantial.

There is already significant investment and competing service providers in certain parts of the WA wheatbelt.

Part IIIA of the TPA is sufficient to address any access issues that arise through the owners of the sites also being accredited exporters. This applies to all grains, not just wheat.

CBH developed its Grain Express logistics scheme to allow it to deal with the requirements of multiple exports in a co-mingled storage and handling system. CBH's storage and handling system was set up to deal with the requirements of 'single desk' sellers of wheat, barley, lupins and canola. With the deregulation of the exporting of wheat and the proliferation of exporters, CBH is endeavouring to implement a system that allows fair and equal access to its facilities without imposing undue costs.

In the longer term, it is likely that the storage, handling and transport system will continue to evolve. In the short term, Grain Express provides a storage, handling and transport package at a reasonable cost and is accepted by the industry. The major cost of Grain Express would appear to be the loss of a focus on quality through the loss of identity of grain through the system. As a result, customers with specific quality requirements need to negotiate with CBH for a separate arrangement or operate outside the existing storage and handling system. Container trade is likely to play a role in this area.

Deregulation has clearly had an impact on the grain rail network in WA. This year CBH has announced that it is moving from a Network Pricing system, that has allowed for cross-subsidisation of uneconomic lines to keep the majority of grain on rail, to a Site Cost based pricing system. This will see grain transported by road where rail costs are not competitive. This issue is compounded by a number of factors:

- WA has a combination of narrow and standard gauge rail lines
- Some spur lines run away from port don't run direct to port and they are not viable when compared with road
- Capital expenditure on roads is picked up by government (federal, state and local) and is not covered by licence fees on large grain trucks.
- Capital expenditure on rail is covered by the operator and must be recouped from users.
- Rail hauls in WA are short by world standards and this makes it difficult for rail to compete with road.

As mentioned previously, there is a review of the grain rail and road network in WA. The review has identified structural issues for industry and government to overcome. There will be a significant increase in road usage and this may result in the additional regulation leading to restrictions on grain trucks of certain sizes travelling on roads that cannot cope with the axle loads.

There is little doubt among observers that the deregulation of wheat marketing, combined with the increasing farm size in WA, is increasing the pressure on CBH to rationalise its receival sites. The cooperative structure of CBH, and the non-proportional voting of grower Directors to the Board, makes it problematic for the Board to make decisions on commercial grounds. There is also pressure on CBH to move towards less aggregated pricing of services for both growers and end users. The cooperative structure and its history of pooling costs and charging 'average' fees is making this transition difficult for CBH. This is an issue for CBH to work through with its grower shareholders.

4- Information provision and market transparency

The Minister for Agriculture and Food requested that the Grains Industry Association of Western Australia (GIWA) and the department to conduct a review on market information and identify if there is a consensus view within industry on the need for, and access to, additional market information.

The Review has been conducted in two stages. Stage one was a research project to investigate options available to industry for the collection and publication of market information. Stage Two centred around an industry forum on market information and the most appropriate strategy to address the industry's needs. A copy of the Report is attached (see Appendix 3).

There are divergent views across industry and within industry sectors on the type, quality and frequency of market information that should be available. From an industry perspective, the question is what level of market information will ensure that the industry remains internationally competitive and that it is responsive to changing market requirements.

It is clear that growers, consultants, traders, advisers, breeders and storage and handlers utilise information in the course of their strategic plans and their operational business plans. The issue is what level of information should be publicly available and at what cost to industry.

The recommendations arising out of the forum were that:

- There should be a national scheme for the provision of market information;
- Pre-harvest information should be provided monthly on hectares planted and variety;
- Post-harvest information should be provided on crop type and port zone;
- Further research needs to be undertaken on the inter-relationship between the type and frequency of market information, price and international competitiveness; and
- The efficacy of a government or industry body for the delivery of industry good functions should be examined (such as the US Wheat Associates).

There appears to be a case for greater disclosure of market information to improve pricing and pricing signals and to ensure equal access to market information by the industry. The challenge is to avoid the situation where the WA grain industry is disadvantaged against the grains sector in the eastern states if only WA has full disclosure. This would be overcome by having a national system of providing grain market information.

There is a need for additional research to be conducted on whether the provision of market information in Australia has an impact on price and the international competitiveness of the Australian industry. The department proposes that the Productivity Commission, as part of its a Review of Wheat Export Marketing Arrangements, undertake an analysis on the next between market information and price. The issue of market information needs to be examined within the broader context of 'industry good' functions and the

efficacy of establishing an organisation that provides similar services and functions to the US Wheat Associates.

5- Wheat classification and market segmentation

There is a need for a central, unified body to oversee wheat classification. The Wheat Classification Council (WCC) has until June 2010 to develop a model for the future operation of wheat classification in Australia. It is questionable whether the market would adequately handle this issue without an overarching body. Vested interests and different time-horizon of various industry players are likely to mean that if left unregulated there are likely to be issues for Australia's reputation if an independent system of classification is not maintained.

The services provided by Grain Trade Australia and the Australian Quarantine Inspection Service appear to be sufficient to assure our overseas customers that they will receive the agreed quality of wheat from Australian exporters. There are issues with customers who are seeking very specific quality requirements and, at the extreme, identity preserved wheat. These customers will be poorly serviced by a storage and handling system that relies on co-mingling and out-turning to specification. The department sees that these markets will be serviced, in the short run, by the container trade and, in the longer term, new supply chains developed to meet specific end-use requirements.

6- 'Industry good' functions

The Wheat Industry Expert Group (IEG) provided advice to the Federal Government on the delivery of wheat industry development functions. Its terms of reference were to:

- Identify essential industry development functions;
- Describe how the functions were delivered; and
- Detail options for the delivery and funding of the functions under the new wheat marketing arrangements.

In April 2008, the IEG published its final report on the Provision and Transition of Industry Development Functions for the Australian Wheat Industry. It made a series of recommendations on providing 'industry good' functions. The IEG assessed the delivery of each function based on the following criteria:

- If the function or service is essential;
- If there are options available;
- If the industry has the capacity to deliver the function;
- If there is a role for Government; and
- If there are transitional issues

The final report did not include a detailed analysis on the options for delivering the full range of industry good functions. It would be apposite, after the first year of deregulation, for the Productivity Commission to make a more detailed assessment of industry good functions. At this time, it may be more apparent which functions are required, the options available and whether there is a role

for government. The ability for the WEA to raise the Wheat Export Charge (WEC) may be an appropriate means of funding industry good functions. The WEA could deliver these functions itself, or it could contract out these services to relevant industry bodies such as the Wheat Classification Council, The Australian Bureau of Statistics or the Australian Bureau of Agriculture Research Economics. It is preferable to have a single entity to deliver 'industry good' functions.

It may be useful to examine the role, functions and funding of the United States Wheat Associates (USW). The USW provides assistance to US wheat buyers, millers, wheat food processors and government officials around the world and is funded cooperatively between the federal government and wheat producers.

The USW provides the wheat industry with market information. The information covers:

- Weekly Harvest Reports on the condition of the US wheat crop (from June);
- Crop quality reports (hardness, the kernel colour and planting time);
- Weekly Price Reports of all classes of wheat;
- Commercial sales reports; and
- US and World Supply and Demand reports (updated monthly).

7- Performance of the wheat export marketing arrangements

The department is not aware of any significant issues for growers under the new wheat export marketing arrangements. This may be due, in part, to the fact that harvest occurred in a rising market and exporters were looking to source grain in the early selling period and were prepared to pay to attract wheat sellers. The 2009-10 season is likely to provide a contrast with the harvest coinciding with a depressed world wheat market and a strong Australian dollar putting downward pressure on prices.

The department has noted the following costs and benefits of moving to a deregulated system:

Costs

- Reduced control/coordination of grain infrastructure (loss of rail, duplication of storage and handling, stranded assets that were paid for by growers).
- Reduced control by the marketer of wheat through the supply chain (quality issues).
- Loss of some of 'industry good' functions.
- Growers who were previously subsidised by pooling and cost averaging will need to adjust.
- Loss of a single 'brand' to promote Australian wheat.

Benefits

- Competition has resulted in a wider range of selling and pricing options for growers.
- Emergence of both new markets and niche markets and, with these, new segregations.
- Growers and new exporters are looking for lower cost pathways for the export of grain to maximise farm-gate returns for wheat.
- New exporters have introduced WA wheat to new markets that were not previously serviced by the AWB.
- Increased transparency of costs and pool objectives.
- More direct payment for quality signals for growers.

It will clearly take a number of years before the industry adjusts to this new environment.

In recognition that growers need to improve their knowledge of marketing and pricing their wheat in a deregulated environment, the department has offered the following support to growers and staff.

- The department, in partnership with Curtin University and the Grains Industry Association of Western Australia (GIWA) successfully conducted **“Understanding Grain Marketing”** (UGM I & UGM II) workshops in 2008. These have been continued in 2009 and a more advanced course, UGM III has been developed. A post workshop evaluation showed that these workshops were well received by participants and they are now being delivered in the eastern states. .
- The department coordinated and prepared a series of five (5) grain marketing articles, **“Making the Most of Your Grain”** and they were published in the Agmemos to growers throughout the wheatbelt. They include Comparing Prices (July), Changes to Wheat Export Legislation (August), Grain Pricing Tools (September), Comparing Contracts (October) and Seeking Advice (November).
- The department presented **“The Future of Grain Marketing”**, workshops to staff in Northern and Southern Agricultural Regions in July and August.

Recommendations

The department recommends that the Productivity Commission consider the following issues as part of its Review of Export Wheat Marketing Arrangements:

- That wheat export marketing arrangements be deregulated for the 2010-11 harvest;
- An analysis be conducted to determine the inter-relationship between the type and frequency of market information, price and international competitiveness;

- That a national scheme be supported for the provision of market information;
- Examine the efficacy of a government/industry body that can deliver industry good functions (such as the US Wheat Associates); and
- That a funding mechanism be developed to apply to all grain types and industry participants.

Appendix 1 – Media Release on the deregulation of the export of prescribed grains from Western Australia.

Terry Redman

Minister for Agriculture and Food; Forestry; Minister Assisting the Minister for Education

Tue 10 March, 2009

Reducing red tape in the grains industry through deregulation

Portfolio: Agriculture and Food

The Western Australian export market for barley, lupins and canola will be deregulated before the start of the 2009-10 harvest, Agriculture and Food Minister Terry Redman announced today.

Mr Redman said removing the export restrictions on these grains would improve market competition which would reduce costs for traders and provide growers with more selling options and potentially higher prices.

The State Government would repeal the 'Grain Marketing Act 2002' which would dismantle the Grain Licensing Authority (GLA). This followed the Economic Regulation Authority (ERA) review of the Act last year and extensive industry consultation.

"The deregulation of the national wheat export market last year significantly changed the way the grains supply chain does business in an increasingly sophisticated global market," the Minister said.

"The Western Australian grains industry needs to be able to respond to this changing environment to create opportunities for investment and development of the grains industry.

"In the current regulated market barley, lupin and canola traders need to apply for a licence from the GLA to export grain. The new deregulated market will allow traders to deal directly with overseas markets.

"Deregulating these other grains will not result in a significant change to the way WA farmers currently do business and I anticipate there will be a smooth transition to a fully deregulated market.

"There is no indication that regulation achieves a higher price for these grains in export markets or that there is any benefit to retaining the restrictions on export grain marketing.

"Deregulation will reduce costs to industry and provide greater certainty and flexibility to grain traders, who will no longer have to wait to find out whether they have secured an export licence or not."

Growers would continue to be supported by the Department of Agriculture and Food in the deregulated market.

“All grain growers will have access to the ‘Understanding Grain Markets’ course, developed by the department, Curtin University’s Muresk Institute and the National Agricultural Commodity Marketing Association to help them adapt to the new market conditions,” Mr Redman said.

The repealing of the Act would involve a Parliamentary process and while the Act is in place, the GLA would continue to operate. However, to ensure market arrangements for the coming harvest are not disrupted by the Parliamentary process, barley, lupins and canola would be de-prescribed under the ‘Grain Marketing Regulations 2002’ to effect deregulation before the next harvest.

More information is available on the department’s website
<http://www.agric.wa.gov.au>

Minister's office - 9213 6700

Appendix 2 – Submission to the ACCC port access undertaking review

PORT TERMINAL SERVICES ACCESS UNDERTAKINGS – COMMENTS ON THE ISSUES PAPER RELEASED BY THE ACCC.

The Department of Agriculture and Food (DAFWA) wishes to make a short submission on the Issues Paper released by the ACCC on 29 April. The interest of DAFWA in this issue is the efficient and effective operation of the supply chain for grain in Western Australia (WA), leading to a more profitable industry and improved international competitiveness.

General Comments

DAFWA is strongly of the view that the Undertaking should cover all grains, not just wheat. The WA Government is in the process of removing restrictions on exports of barley, lupins and canola from WA, hence these grains will be in a similar position to wheat in regard to alternative exporters having equitable access to CBH port handling facilities. While the *Wheat Export Marketing Act 2008* requires the ACCC to look at access arrangements in relation to wheat, it is disappointing that none of the providers took the opportunity to broaden their undertakings to all grains.

DAFWA suggests the Undertaking from Cooperative Bulk Handling Ltd (CBH) be examined to ensure that it achieves the aim of ensuring that the port storage and handling monopoly CBH currently holds does not lead to distortions in the supply chain that will limit the benefits that are starting to flow from the introduction of multiple exporters of Australian wheat. It would also be beneficial if all of the Undertakings were standardised, adopting a national approach in terms of the period of application of the undertakings, and the shipping stem and other market related information that needs to be made available.

As stated by CBH in its supporting document to its Port Terminal Services Undertaking, bulk handling of grain is a volume business; hence it is not in the interests of CBH to carry out its business in a way that is likely to encourage new entrants. The risk is that new entrants will 'cherry pick' areas of the existing system that can be provided at lower cost. This could, over time, lead to far higher costs for the remainder of the activities and a significant amount of 'stranded' assets being held by CBH that have been paid for by growers over the years. DAFWA believes that it is not in the interests of industry, particularly growers, to have duplication of resources in the storage, handling and ship-loading area when there is already sufficient capacity. To this end it is hoped that the threat of competition will be sufficient for CBH to make its operations attractive to all parties seeking to utilise them.

Should there be a successful introduction of competition at the port level, DAFWA believes that there is still a requirement for an access regime to be in place unless CBH has less than 40% of the throughput at any individual port in WA.

Running through some of the Issues as presented in the Issues Paper:

6.1 Introduction

There is no ability to shift wheat from Western Australia out through ports in other States, due to the prohibitive cost involved in freighting grain over the Nullarbor. This is critical from a State grain industry perspective, as if exporters see WA ports as being 'difficult' to export from they will look at utilising alternative origins to source their requirements.

For the export of grain, ports in WA are not readily interchangeable. There are limitations due to quality differences that occur, for example heat out of Esperance is not the same as APW out of Kwinana, and the freight differentials to end point markets (typically Asia). Port infrastructure constraints appear to be a minor consideration, although 2-port loading and the positioning of suitable grain type at port can be issues.

There are currently discussions of new entrants in WA establishing a port terminal to compete with CBH. From a DAFWA perspective this is not a desirable outcome. There is already sufficient ship-loading capacity in WA to handle even a bumper crop. In our view it is far more desirable for the current assets to be utilised efficiently and equitably rather than investing in duplication of resources.

CBH has taken a number of steps to constrain the ability of their Port Operators from favouring its own grain marketing business – most notably the efforts to 'ring fence' the two operations. DAFWA is of the view that the best solution for this issue would be for CBH to 'spin off' its grain marketing operations (Grain Pool Pty Ltd) as a separate commercial entity and retain CBH purely as a grower owned and operated storage and handling entity. In the event that this occurs the need for a Port Services Access Undertaking would appear to be redundant.

6.6 Term and Variation

It is the opinion of DAFWA that the undertakings of the Bulk Handlers should all expire together, preferably in 2012. This will allow a single review of the operation of the undertakings over the period and the need for their continuation.

6.8 'Price and Non-Price Terms'

DAFWA has the strong view that there is a need for key information to be made available if the marketing chain is to operate efficiently and effectively. CBH have rectified their initial inaction regarding information provision and now provide shipping stem data sufficient to meet the 'Non Price' standard terms.

From an industry perspective, DAFWA believes that the US model, where all parties have a high level of information available on which to make their decisions should be the guiding principle, as long as information is aggregated enough so that individual transactions cannot be identified. DAFWA would like to see, as part of the undertakings, an agreement to publish key information on wheat receivals, stocks and shipping information on a timely basis. Ideally this should be provided for grains other than wheat as well, although this may be outside the scope of this review.

6.12 'Information flow restrictions' – ring fencing

The 'ring fencing' efforts by CBH have been briefly addressed above. Often perception is as damaging as reality, hence DAFWA suggests the only way to overcome this issue is true separation of the two entities.