



Grain Growers Association Limited

Submission to the

**Productivity Commission's inquiry into Wheat
Export Marketing Arrangements Issues Paper.**

November 2009

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Grain Growers Association Ltd (GGA) is a not-for-profit, member based, industry services company operating for the promotion and development of agricultural resources in Australia. GGA represents the interests of 17,000 members, the majority of whom are active producers in the grains industry.

GGA is a company working for industry good, building a portfolio of services to support the development of the grains industry. GGA's corporate structure now includes BRI Australia and Agricultural Reconnaissance Technologies (Agrecon) as wholly owned subsidiaries and we are also a joint venture partner in Kondinin Information Services (KIS) with Aspermont Ltd.

BRI Australia is an independent organisation engaged in research, training and the provision of analytical services for the grain and grain foods industries. These services include:

- Market analysis and economic assessment,
- Technical expertise in grain quality nutrition and processing
- Education and training
- Offshore market development (milling and baking)
- Range of analytical testing
- Efficiency of raw materials and energy use
- Market based national research programmes

Agrecon is a research and development company specialising in the delivery of remotely sensed satellite image products, advisory and consultancy services for the agriculture sector. Services include crop forecasting, development of predictive intelligence tools, satellite image processing, computer-based mapping and geographic information systems (GIS).

Kondinin Information Services (KIS) is Australia's leading farm improvement group. KIS supports agriculture by providing the agricultural sector with independent, reliable and practical information. Kondinin's unique position enables it to provide services to both farmers and businesses. These include the flagship publication Farming Ahead, membership and information services, publishing, training and consultancy services.

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In our response we have followed the questions contained in the issues paper but there are a number of these which were not relevant to us or to which we have no comment to make. We have removed those areas which were not applicable to our response to facilitate ease of reading of our response.

We express a concern that the timing for this inquiry has aligned with the main grain harvest of our members and so there has not been adequate time for our internal response structures to appropriately consider all of the questions raised by the Inquiry. Notwithstanding this issue, GGA wishes to be involved with the inquiry and we look forward to further opportunities to discuss the key issues and assist to shape the future of our industry.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'John Eastburn', with a long horizontal flourish extending to the right.

John Eastburn
Chairman

1 Accreditation of exporters

Have market participants benefited from accreditation of bulk wheat exporters?

The presence of an accreditation scheme has been an important stage in providing confidence to the industry within the initial stages of the new marketing arrangements, however as pointed out in the preamble, accreditation only applies to exporters of wheat in bulk. A substantial portion of the industry is not covered by this scheme as it is either domestic consumption or exports in containers which don't require accreditation. In this way the presence of the accreditation scheme may have been a barrier to entry for some players to engage in the bulk export of wheat.

Some growers have drawn to our attention that they have not had satisfactory commercial dealings with some of those players accredited under the scheme and so have suggested that if accreditation is continued, that provision should be made for growers to make comments about their commercial dealings with grain trading companies as a component of the probity process.

Does the information provided by WEA through accreditation assist growers with their export marketing decisions? Does WEA provide information that cannot be obtained from other sources?

In the vast majority, growers do not export their grain in their own right. Growers typically sell grain to grain buyers in the domestic market which may be directed either into a domestic or export supply chain. If growers are directly exporting grain, this will most likely (but not exclusively) be in containers where supply chain control is greater and the product can in some cases be managed to extract a greater premium than is available via generic bulk exports.

WEA does provide useful information that is difficult to obtain from other sources but that is not to say that the same information could not be obtained from another provider, so long as the powers to acquire that information remain available and exercised by a responsible entity.

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What role, if any, does accreditation play in the efficient operation of the wheat export market? Does it alter the incentive to export wheat in bags or containers rather than bulk, or vice versa?

See comments above. The accreditation process adds an additional administrative burden to the industry which doesn't exist for either exporters of wheat in containers or other grains / commodities in bulk, nor the domestic market. It is difficult to see that the presence of accreditation in its current form will be necessary in the longer term as the industry matures into complete deregulation.

The presence or absence of accreditation is probably not a major consideration for many larger exporters when taken in the context of other matters for consideration such as client demands, comparative shipping rates, etc. However there may be smaller companies who would like to export in bulk but are perhaps more inclined at present to export in containers and avoid the accreditation process.

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

We don't believe that the accreditation process will be necessary in the long term, but that there are important powers that are required to ensure a fully informed and transparent marketplace which must be enshrined with the Minister and exercised by an appropriate entity.

These powers include:

- Export trade information in a timely fashion. This information should be expanded to consider all wheat exports irrespective of the shipment method.
- National stocks and disappearance data for all grains (not just wheat) in a timely fashion to ensure a fully informed and transparent marketplace.
- Grain quality reports for all grain in all receival points to ensure that the industry is not only informed of the volume but also the available quality of the crop in any given location.
- Investigative powers to ensure that any alleged detrimental actions by grain traders can be investigated and appropriate penalties applied if required.

- Appropriate powers in relevant bodies (eg ACCC and ASIC, etc) to ensure that anti competitive behaviour is overcome expeditiously.

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?

If accreditation is maintained it should be logically expanded to include all exports irrespective of the shipment method. Such an approach avoids the regulatory confusion and avoidance of the current scheme.

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?*

Our view is that the current system is not sustainable due to the regulatory arbitrage that can occur between exports in containers and in bulk.

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

If the accreditation scheme were removed it should be aligned to the current decision process and terms of the WEA board and approvals timeframe. If it is to be removed, the industry should also receive appropriate notification of the system so as not to provide any commercial distortions of companies being accredited or not.

Currently there are no accreditations past Sept 30, 2012, so this would seem like a reasonable date for removal of the accreditation requirement.

In the absence of accreditation, would regulation of other aspects of bulk wheat exporting still be required? If so, which aspects? Is there anything particular about the

wheat industry that requires additional regulations that other grains and commodities are not subject to?

Yes. There is a need to ensure that the industry can operate in a fully informed and transparent manner and without coercive powers we believe it is likely that industry players with significant market power will continue to seek to protect and advance that position at the expense of growers and smaller players.

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?

The accreditation criteria are appropriate but we understand that there is a need to ensure that these criteria are applied evenly and equally by WEA if accreditation is to continue. The current system provides discretion to WEA as to the level of evidence required to satisfy the accreditation process. It would be more helpful if the required standard were agreed and published by WEA so that companies seeking accreditation were fully aware of the standard they needed to meet for accreditation. Such an approach may have a number of tiers that could be applied depending on the size of the company or level of shipment volume, etc.

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?

GGA does not believe that there is an ongoing role for WEA, however there are important powers required to ensure a functioning and transparent marketplace and to protect the reputation of Australian grain in the international marketplace.

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?

On the basis that provision of information to the market and technical servicing is a critical function then this could be delivered by a group such as the GGA group of companies in partnership with the Government under a service contract with powers held by the Minister.

The GGA group of companies includes:

- BRI Australia – providing quality assurance and research capacity to the grains industry
- Agrecon – providing remote sensing information systems, data analysis services (including crop forecasting) and predictive intelligence
- Kondinin Information Services – providing information extension, research and training services

Can Australia learn from the approach that other countries take?

Yes there are international precedents upon which we can draw and improve our own systems. One example is:

The USDA Export Sales Reporting Program

<http://www.fas.usda.gov/info/esrbrochure04/esrbrochure04.htm>

The program encompasses both daily and weekly reports. Weekly reports are required for certain designated commodities: feed grains, wheat, wheat products, rye, flaxseed, linseed oil, cotton, cottonseed, oilseed products, rice, cattle hides and skins and beef.

U.S. exporters are also required to report all large daily sales of certain commodities by 3:00 p.m. Eastern time on the business day after a sale is made.

Large sales for all reportable commodities (except soybean oil) are defined as 100,000 metric tons or more of one commodity in one day to a single destination, or cumulative sales of 200,000 tons or more of one commodity during the weekly reporting period to a single destination. Large sales for soybean oil are 20,000 tons daily or 40,000 tons or more in one weekly reporting period.

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The commodities covered by the Export Sales Reporting Program have been selected for monitoring through consultations between USDA and organizations that represent commodity producers and traders. The Secretary of Agriculture has the authority to add commodities to the list of products that are monitored.

U.S. exporters provide information on the quantity of their sales transactions, the type and class of commodity, the marketing year of the shipment and the ultimate destination. They also report any changes in previously reported information, such as cancellations or changes in destinations.

About 370 exporters report on a weekly basis via online fax and e-mail, with approximately 1,300 data entries each week. All data are kept confidential as required by law, and released only in aggregate form.

2 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?

The recent report from the NSW Grain Freight Review highlighted that ports can be regarded as natural monopolies but the report findings were that the existing processes of the ACCC were at present dealing with any issues of this nature.

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?

Regional monopolies already exist, as recognised by the NSW Grain freight review in the sense that some port operators are fully vertically integrated businesses covering upcountry storages, freight operations (often to ports where truck access is limited) and ship loading operations.

However, since the introduction of the Wheat Marketing Act, new commercial entrants have entered the wheat bulk export market in spite of these monopolistic features.

As we understand though, some of these new entrants have been somewhat frustrated by the service provided by the port operator and we have also seen an unintended consequence of the bulk handlers only guaranteeing minimum standards for grain outturn when loading cargoes for third party grain marketers who are trying to satisfy contract conditions.

We also note that the traditional bulk handling companies are working to find commercial solutions to grain freight bottlenecks such as tiered pricing for premium freight movements and the virtual storage and handling systems.

While the powers within the Trade Practices Act and exercised by the ACCC would seem to be adequate, taking an action using these powers may be lengthy and costly.

One alternate proposition may be similar to the current discussions about facilitating a competitive environment for telecommunications where one player has control of the service infrastructure. That is, consideration should be given to

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the forced separation of port and other monopoly assets from the trading arms of bulk grain handling companies. Such a move would mean that the operators of these assets would not be able to provide any commercial privilege to their parent entities and would service all customers in an equal manner.

What is the prospect of rival port terminal facilities being built? Does this vary across jurisdictions?

Port assets are expensive capital items and so while there may be no technical barriers to the construction of alternate facilities, the reality is that there would probably be limited interest in such a move, notwithstanding the environmental hurdles of new port developments.

An alternate seen in Western Australia this year was the commercial deployment of other non grain storage and loading facilities at an existing port to loading grain for export. This was done through utilising existing non grain storage sheds and relocatable grain handling equipment. Thus while these situations may not be utilised in the long term, there are innovative alternatives that can be deployed in the short term if needed.

The NSW Grain Freight Review also raised the prospect that the Port of Newcastle may not be available for grain exports in the long term. If this scenario eventuated, it would place more pressure on alternate ports at Port Kembla and Fisherman Islands. We are confident that these ports will be able to cope with any additional capacity requirements but of greater concern is the freight paths and quality of rail services to deliver grain from major production areas currently directed to Newcastle.

It should also be noted that there is potential for container based export expansion under certain conditions. 5 million tonnes of grain will fit into 227,000 containers. This is roughly equivalent to 25% of Port Melbourne current total container movements. Theoretically containerised grain exports could utilise the existing capacity of container ports to increase export capacity – notwithstanding the need for food grade containers to undertake such a task, price relativities of bulk versus container freight and the logistics requirements of end users.

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

Yes but the process for dispute resolutions may need to be streamlined as we understand that the current process may be lengthy and costly.

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 consequences of removing the 'access test' from the Act?

We would like to think that the generally available provisions and institutions existing within Australia, governing the general nature of trade and commerce should apply to the bulk export of wheat, as they do for all other agricultural enterprises. Therefore, there should not be a need to specifically require an access test within the Wheat Marketing Act.

Should terminal access arrangements 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?

We are unable to see the need for special treatment for bulk wheat exports that does not apply to other grains or in fact the export of wheat in containers. We think it would be desirable to align the arrangements so that they are consistent across all grains, as in general, the exporters are dealing with multiple grains and this would streamline the processes for these exporting companies.

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

The system appears to have worked well this year with the ACCC demonstrating that it has appropriate powers to ensure a competitive environment. These powers should be retained by the ACCC, irrespective of their continuation within the Wheat Marketing Act.

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 resolution is important to exporting opportunities?

Grain Trade Australia has a disputes resolution process which is often embedded into grain transactions as a first step in dispute resolution. This appears to be an effective process to deal with most claims in an expeditious manner. This process does not exclude a legal dispute resolution in the courts (a point which perhaps should be made more strongly) but provides a low cost first step in the case of a dispute.

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

Yes see comments above – port operations, bulk upstream management and trading divisions should be separated to ensure transparent and competitive behaviour.

We are not in a position to advise about the structural nature of such a separation, except that it should provide appropriate Chinese walls to ensure fully transparent and competitive behaviour that will be of benefit to the whole industry.

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

No doubt the current bulk handling companies will argue that the costs will be significant. An alternate would be to prevent bulk handling companies from trading in grain. Such a move would reduce competition for grain and so while some individual companies may suffer a cost from reduced integration, others will benefit and this question should be considered at an industry level and not on the commercial interests of individual companies.

A further alternate would be to force these assets to be relinquished and held within an “industry good” body with the sole purpose of ensuring that these assets remained available to the whole industry on a competitive basis.

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3 Transport and storage

Do upcountry facilities exhibit natural monopoly characteristics?

This is a difficult issue in that each site would need to be considered to determine the extent to which a natural monopoly existed or not. In many instances there are few barriers to new entrants developing a receival site with road access but there may well be barriers to entry where rail operations are concerned, particularly now that the rail operations have been controlled by a small number of players who are operating mainline and or branch line storage networks. While in some instances this vertical integration will lead to improved synergies and reduced costs, in other instances the control of the entire supply logistics chain could be seen to create a less than competitive environment.

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

The principle inhibitor at present is the state of the branch line rail network and the lack of certainty for the future of these lines which is holding up investment and innovation for grain freight.

Related to this, as identified in the NSW Grain Freight Review is the lack of a dedicated and connected heavy vehicle route for grain transport by road.

If a secure environment for investment were created for these issues, we are confident that innovation and investment would follow.

A further issue is the lack of a transparent domestic grain freight market which we believe would assist to drive a more efficient transport system. There are transparent marine freight markets and indices such as the Baltic Dry index and the US and other countries have transparent and well reported bulk transport markets, but Australia does not.

Grain Trade Australia publish a set of generic location differentials (LD's) to support their contracts and we have observed that in the absence of a transparent freight market, these LD's are being used as proxy freight rates for grower contracts. In some cases, growers have informed us that such rates are not representative of the freight market available in their specific area, but as each

individual grower has a lack of market power, they cannot force the buyers to use an alternate or negotiated freight rate.

In some cases growers are suggesting that the lack of a transparent freight market means that the bulk handling companies can effectively apply any costs they choose to the captive grain along these lines – including offering to pay the state governments a “co-payment” to keep lines open. The implication of this is that the bulk handling company simply adds this cost to the general costs of grain in their system which reduces grower returns and does not drive any whole of system efficiency.

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

We cannot comment on the barrier to entry for new exporters, but again growers have informed us that they have delivered grain to warehouse in certain locations in good faith that they could market their grain at a later date, only to find that they were unaware of limitations that that site may have had in respect to commercial dealings with third party buyers. That is, that not all buyers are able to commercially deal with all storage sites. This situation resulted in a limited competition for the grain at that site and/ or the grower having to relocate the grain to another site in order to complete the desired transaction.

Again, no doubt the bulk handling companies will argue that their terms and conditions are publicly available, but in the intensity of harvest and delivery to storages, growers do not have the time to read and understand these contracts, particularly when they are delivering to traditional sites that have been their partners for a long time and they are expecting custom and practice to apply.

This situation will change over time and the transitional arrangements should consider the capacity of growers to participate in the changes and support them to transition to the new system.

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

The major development in competing facilities is that growers are developing increased levels of on farm storage and so not necessarily delivering into the bulk system at harvest. It may be that growers will continue to utilise the bulk system

for marketing post harvest and so the on farm development should be seen as an adjunct to the bulk system and not a direct competitor.

It is important to consider the issue of market information though, in that if grain is held on farms, there will be a lack of transparency in the grain supply statistics immediately post harvest.

This will be overcome by companies such as Agrecon who are able to make assessments of harvested volume using remote sensing techniques.

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 would imagine that the operations of upcountry facilities should be regulated under the general provisions and institutions governing commerce in Australia. Again the trade dispute resolution service provided by Grain Trade Australia should be able to assist with most claims, with the caveat that this process does not prevent disputing parties from seeking recourse through the full legal system if necessary.

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?

It would be difficult to see why this would occur. It is more likely that the marine freight costs and other factors would determine some decisions about the nature of the shipment more than upcountry arrangements.

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

We refer the Inquiry to the recently released report from the NSW Grain Freight taskforce on the issues of rail and road transport.

4 Information provision and market transparency

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

The current information provided through this system has improved in moving from quarterly to monthly reporting; however the USDA is the standard with a range of reports at varying timeframes starting from daily. The GGA group of companies could take on responsibility for this as a service provision to the Govt as industry is expected to fund this in time in any case.

In order for this to occur however, the information acquisition powers must be available to the Minister and the Minister must then devolve the application of these powers to an industry good body such as GGA. This is essentially the same as the current operation of the powers being devolved to a State Owned Corporation in WEA.

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

The essential component to this is the power of data acquisition. The Minister must have vested powers to ensure that the industry has a transparent and efficient marketplace. These powers already exist but are somewhat dispersed through various Acts and agencies. The Minister can require daily reporting if he so desires.

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

It is important that certain information is available on a continuous basis to ensure an informed and transparent functioning market. Such information could include stocks on hand and quality information as well as location, details of sales volumes, prices and destinations, etc. It may be better that an independent group / agency has the power to require information about market sensitive information which it then treats in a confidential manner and releases aggregated information

to the marketplace in a known schedule similar to the manner the Australian Reserve Bank makes announcements in relation to monetary policy. If the industry is not compelled to provide sufficient information to the marketplace in a timely manner, then there is potential for market failure and growers and traders will not be able to respond appropriately to either market requirements or appropriately manage risk.

GGA sees it as important that under the new regime for wheat marketing, growers must have easy access to reliable information about the market, production potential, ending stocks, etc on a continuous basis in order to be able to plan and market their own grain as well as understand the positions being taken by the traders on the opposite side of the equation.

To ensure that the market remains competitive, a detailed range of information on prices, supply chain costs, wheat supply and demand, will need to be readily available to all participants. The provision of this information will ensure that the market remains transparent, small to medium sized operators are competitive, and there are lower barriers to entry for new entrants.

The broad areas of information that will need to be collected to ensure market transparency, can be summarised as:

- opening stocks
- sources of grain (total supply)
- disappearance (total demand)
- implied ending stocks.

Opening stocks are the stocks held in store at the beginning of the reporting period. This would include grain held in the bulk handling system, buyers' stores, growers' stores and stock in transit. Much of this information is currently not collected and/or not publicly available. There is considerable concern about the commercial sensitivity of this information, and it is at present, for good reason, closely guarded by the bulk handling companies. Grower stock information is not collected in any systematic or consistent way.

If any of the bulk handling companies released this information individually, it would be costly, as they would lose a competitive advantage. However, if all companies released the information anonymously, it is likely that any competitive disadvantage would be offset by all players knowing the stock situation across the country. If there is mutual gain in providing the information, bulk handling

companies, buyers and sellers may be inclined to collaborate and provide the information to a trusted source.

Other useful statistics would include (depending on the stage of the season):

- planting intention and actual sowing area
- crop condition and moisture profiles
- seasonal outlooks
- harvest statistics.

Useful total demand information would include:

- export statistics and stock in transit data
- likely demand from major markets
- livestock on feed data
- domestic flour market demand
- seed requirements for the following crop.

Once all of this information is collected, an ending stock and demand position can be implied. This process could be conducted on a regular basis and published monthly as a minimum.

We also consider that the stock on hand by site would be beneficial to the marketplace on a daily basis so that the market can see not only the quantity but also the quality being delivered and the potential stack average which will determine the outturn quality.

Over recently years Grain Trade Australia has provided a forum where the grains industry can consider issues related to grain quality. One issue which has been identified is that bulk grain handlers will only guarantee to load bulk cargoes at the minimum industry standard that that specific grade and so grain traders are sometimes finding it difficult to meet the grade standard required to fulfil commercial contracts. It would seem that this problem is surmountable if the traders had access to the quality details for grain held in specific storages and then they could negotiate with the bulk handlers to purchase specific quality and expect the delivery to meet the desired grade.

We believe that such transparency will provide market signals across the whole chain including providing grain breeders with information about the delivery standard of their varieties.

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Other information that would add value to the industry is transport statistics. Transport information may include:

- shipping capacity and location,
- container capacity, availability and location
- rail capacity reports and location of rail cars
- road freight costs
- grain freight indexes and differential prices between different transport modes.

Not only is the collation and dissemination of this information likely to increase transparency, it will assist the regulators responsible for competition regulation to be able to ensure firms comply with competition laws.

Some examples of the type of information that could be assembled and published to increase transparency in the grain freight market are shown below. These charts and tables are produced for the Grain Transport Report, a weekly publication from the Transportation and Marketing Programs/Transportation Services Branch of the Agricultural Marketing Service of the USDA.

Table 1 US export balances and cumulative exports (1,000 metric tonnes)

Week ending ¹	Wheat					Corn	Soybeans
	HRW	SRW	HRS	SWW	DUR	All wheat	
Export Balances							
11/1/2007	4,845	973	2,683	1,443	355	10,300	7,856
This week year ago	1,543	456	1,168	1,089	89	4,344	7,497
Cumulative exports-marketing year²							
2007/08 YTD	6,560	3,685	3,563	1,967	522	16,296	5,296
2006/07 YTD	2,348	1,636	2,832	2,048	417	9,281	6,460
YTD 2007/08 as % of 2006/07	279	225	126	96	125	176	82
Last 4 wks as % of same period 2006/07	347	228	255	139	424	259	109
2006/07 Total	6,800	3,866	6,480	4,996	761	22,902	30,261
2005/06 Total	10,459	2,037	7,244	4,159	930	24,828	25,570

¹ Current unshipped export sales to date

² Shipped export sales to date; new marketing year now in effect for corn and soybeans sales

Note: YTD = year-to-date. Marketing Year: wheat = 6/01-5/31, corn & soybeans = 9/01-8/31

Source: Foreign Agricultural Service/USDA (www.fas.usda.gov)

Data source: USDA AMS 2007

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The provision of transport data augments the stocks data, as the market would know not only what is on hand and roughly where it is, but also how, and when, it can be moved to domestic or export customers.

The collection of port transport (road, rail and barge) and up-country statistics in the US, encourages competition between all of these sectors. Up-country operators adjust their prices to retain stocks and through put if grain is flowing out to ports and export markets. If not enough grain is moving through export terminals, export operators and long haul transport modes will drop prices to attract up-country grain.

Chart 1 Rail grain deliveries to the Pacific Northwest

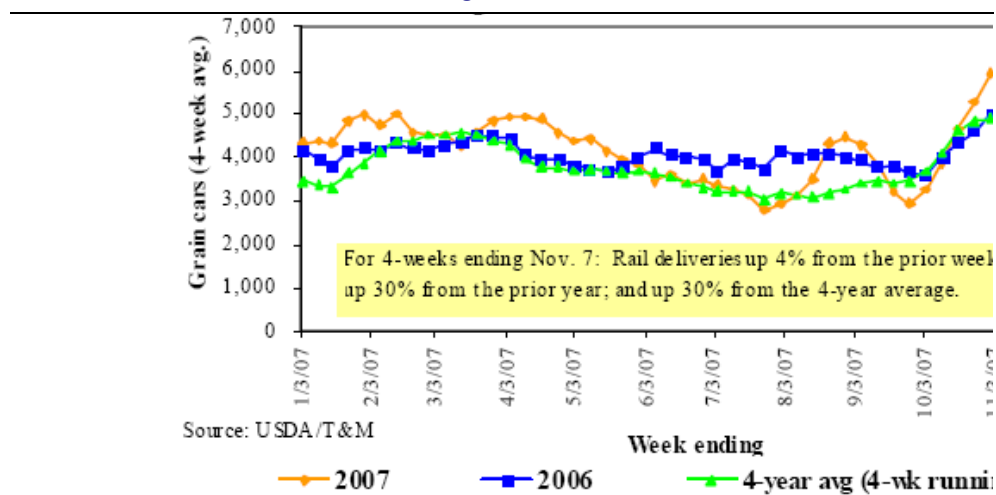


Table 2 Grain transport cost indicators

Week ending	Truck	Rail ²	Barge	Ocean	
				Gulf	Pacific
11/14/07	230	33	243	514	652
11/07/07	222	55	232	514	660

¹Indicator: Base year 2000 = 100; Weekly updates include truck = diesel (\$/gallon); rail = nearby secondary rail market (\$/car); barge = Illinois River barge rate (index = percent of tariff rate); and ocean = routes to Japan (\$/metric ton)

²The rail indicator is not an index. It is the difference between the nearby secondary rail market bid for this week and the average bid for year 20 (+) 100.

Source: Transportation & Marketing Programs/AMS/USDA

Data source: *USDA ARS 2007*

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The publishing of transport statistics also encourage the development of secondary markets in transport modes in the US. The information in Table 2 and Table 3 help inform the secondary market depicted in Chart 2 below.

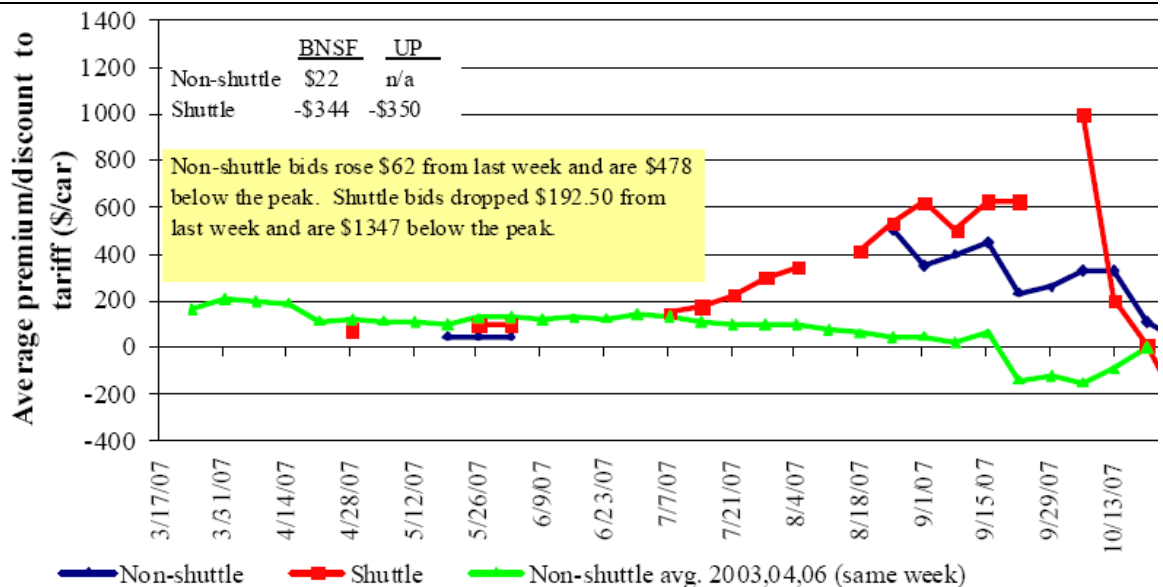
Table 3 Class 1 Rail Carrier Grain Car Bulletin (grain carloads originated)

Week ending	East		West			U.S. total	Canada	
	CSXT	NS	BNSF	KCS	UP		CN	CP
11/03/07	3,910	3,751	12,666	802	7,631	28,760	5,731	4,77
This week last year	3,968	3,023	10,084	534	6,575	24,184	5,996	6,24
2007 YTD	122,416	141,185	445,733	28,659	245,230	983,223	211,601	201,92
2006 YTD	138,109	142,787	434,526	24,756	257,923	998,101	217,631	198,01
2007 YTD as % of 2006 YTD	89	99	103	116	95	99	97	102
Last 4 weeks as % of 2006 ¹	96	109	123	138	120	116	98	93
Last 4 weeks as % of 3-yr avg. ¹	104	107	128	131	120	119	109	106
Total 2006	164,056	168,819	515,102	28,629	301,197	1,177,803	258,932	238,76

¹As a percent of the same period in 2005 and the prior 3-year average. YTD = year-to-date.

Source: Association of American Railroads (www.aar.org)

Chart 2 Bids/offers for railcars to be delivered in November 2007, secondary market



Excluded 2005 from the 3-year non-shuttle average due to abnormally high rates following Hurricanes Katrina and Rita.

Non-shuttle bids include unit-train and single-car bids. n/a = not available.

Source: Transportation & Marketing Programs/AMS/USDA

Data source: *USDA ERS 2007*

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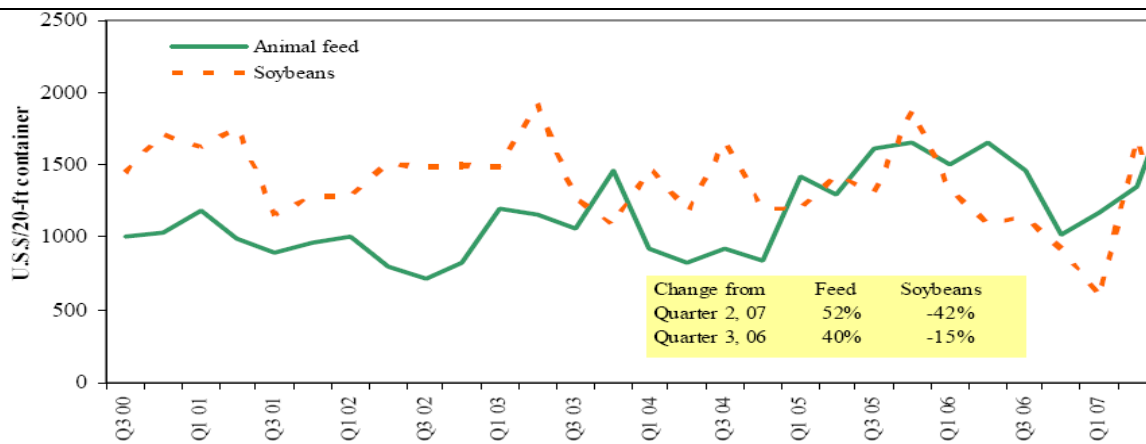
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Chart 3 Ocean rates for containerised shipments to select Asian countries



¹Rates are weighted by shipping line market share and destination country. Rates provided are publicly filed tariff rates, not those negotiated in a confidential service contract.

Countries include: Animal Feed: Bangkok-Thailand (1%), Busan-Korea (30%), Hong Kong (17%), Kaohsiung/Keelung-Taiwan (32%), Tokyo-Japan (20%). Soybeans: Kaohsiung/Keelung-Taiwan (98%), Tokyo-Japan (2%)

Source: Ocean Rate Bulletin, Quarter 3, 2007, Transportation & Marketing Programs/AMS/USDA

Data source: *USDA AMS 2007*

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

This is a human capacity issue and will obviously be specific to each individual. However, at the grower level, many growers are still not confident to develop or use marketing plans and how to seek and find relevant information.

GGA has sought to assist in this with the development of our web enabled pricing information tool, PriceWise (see www.pricewise.net.au).

GGA has also experienced an increase in trade related inquiries coming to our office since the introduction of the new Act, although this has declined over recent months. One of these inquiries was from a new international buyer who was seeking to buy direct from growers or groups of growers. This opportunity came to us from Austrade and we attempted to put the buyer in touch with potential grower sellers. In this process however we found that growers had little understanding of how to develop an CIF or FOB price, nor who to contact to provide the logistics to such a deal.

This experience highlighted to us that growers in general did not have the capacity to seek, secure and manage the trade in grain at an individual level and that some who were involved with direct grain trade could really only deal in domestic delivery or limited to *free alongside ship* basis.

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GGA has previously written to the Government on this issue and sought support for industry capacity building along these lines, however to date the Government has not supported this pre market capacity development.

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?

As discussed above, GGA is well placed to deliver market information services in partnership with the Government. In order for this to occur however, we need to have the appropriate powers vested in the Minister to address market failure in information terms and then an appropriate funding partnership model.

A code of conduct will not suffice as it is in the interests of the market players to withhold commercially sensitive information from the general marketplace.

5 Wheat classification and market segmentation

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

GGA and BRI are currently working in this area and providing support to the industry through the Wheat Quality Report and operational management of the Wheat Classification Panel. There is a clear need for an independent body to reflect on these issues but it would be possible for this function to be conducted through an industry good body such as GGA and our group of companies in partnership with the Government.

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

We have previously called for a complete review of wheat standards and we are about to commence work on a review of our previous study *What the World Wants from Australian Wheat* with support from DAFF.

The current receival standards, particularly for wheat, have been driven by historic supply chain management efficiency and so don't necessarily reflect the requirements of a deregulated market environment. Often the historic standards reflected only 2 broad possible end uses - milling / human consumption and livestock feed. This approach fails to recognise the multiple end uses for crop products and the growing consumption of grains by livestock as a competitive end use and not just a lower value use for off spec grains.

The current system for most grains provides little transparency in terms of market signals to growers to provide characteristics desirable to the marketplace (this is arguably an overhang from a regulatory system). In many cases the standards only provide growers and breeders with incentives for yield and protein. In certain instances, it may be more appropriate to produce lower yield if other characteristics are acknowledged and price signals are provided to growers.

It is also our view that in a deregulated marketplace, buyers will seek to shorten the logistics chain and may seek to deal directly with growers, thus bypassing some of the traditional logistics chain, or alternatively, seeking to add value

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through increased segregation and product differentiation with the major logistics service providers.

Grain standards should be reviewed to ensure that the standards reflect the contemporary range of end uses for any given grain or variety. Standards should reflect end user requires such as:

1. final end use requirements
 - a. human consumption range of products
 - b. livestock consumption requirements
 - i. protein substitution based on price
 - ii. digestibility
 - iii. metabolisable energy
 - c. industrial
 - i. oils
 - ii. plastics
 - d. varietal demand
 - i. specific end user demand for a particular variety
 - ii. GM segregation which will develop for wheat
 - e. biofuels
 - i. Starch
 - f. Specific protein properties for end use requirements
 - g. Specific other properties for end use requirements
2. Novel grains
 - a. Red wheat
3. Changing market characteristics with buyers developing new relationships with growers, breeders, traders and logistics providers. The removal of the regulated system will require greater transparency in market signals and price and quality and may see the rise of closed loop marketing arrangement which by-pass the traditional wheat classifications.

This will lead to:

1. An improved description of grain standards to reflect the contemporary end use requirements and improved transparency about market needs and commercial values.
2. Improved signals to grain breeders about desirable characteristics of value to the market. This may mean that the system of EPR should reflect more than just yield.

3. More informed system for varietal classification to more comprehensively reflect market requirements
4. Improved incentives and grower returns to provide grain that meets the markets needs.

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

As a general statement, growers are not able to target specific markets for grain due to a lack of market transparency. The market continues to operate on the basis of only providing the international CBOT prices for pre-planting decisions by growers and then a scramble at / post harvest to secure the grain in terms of quality and volume.

There is a real opportunity for the Australian grain industry to lift itself to some extent out of the commodity business and into a value added service business providing quality grain to specific valued end point partners.

For example, the consumers of noodles, bread, biscuits, cake and pasta are value based customers who are looking for a specific satisfaction level for which consumers are prepared to pay. We need to facilitate a transition in our industry from a general grow, ship, delivery model to one where the value is fully extracted and growers are a valued member of a supply chain partnership. This requires trust and information sharing across our industry at all levels.

In general the current bulk wheat model is still a commodity based price taking system. The only supply chain where product can be differentiated, identity preserved and innovation generated to any significant degree is at present the container trade.

Growers are presently not able to receive full value for their crop in most cases, but also growers must embrace a new model if they want to receive full value as a partner in this opportunity. It is important that the government supports our industry to move forward and grasp these challenges in partnership with bodies like GGA.

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Has deregulation affected the reputation of Australian export wheat?

We cannot see any evidence that the introduction of the Wheat Marketing Act has had any impact on the reputation of Australian Export Wheat in bulk, however we note that there is circumstantial evidence that some grain buyers have been disappointed with the quality of grain delivered to them in containers, which is having a negative impact on the reputation of Australian wheat more broadly.

This demonstrates that it is not the accrediting of exporters which is important but that controls on delivery of quality assured product should be considered. There is an argument that the marketplace will manage this through commercial means, however we are concerned that in the absence of a Government controlled export monitoring program, the damage may be occur before action is taken.

We suggest that in partnership with the Government, BRI Australia would be well positioned to undertake a long term monitoring programme of customer satisfaction to ensure that the reputation of Australian wheat was protected and that market information flowed back to the entire Australian industry – ensuring we deliver what the World wants from Australian wheat.

6 ‘Industry good’ functions

Does the list above represent legitimate ‘industry good’ functions? How should ‘industry good’ functions be defined?

The list above is an appropriate starting point. The definition of industry good implies non exclusive goods and services and that there are spill over costs or benefits that apply to a wider group than an individual company or group.

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?

To be able to technically support Australian wheat our industry will need access to highly skilled grain industry practitioners, scientists and technicians.

There are two reasons why industry may not invest in human capacity in the grains industry:

- Human capital is largely non-excludable, that is scientists and technicians are largely free to work for whom they choose, unless they are bound by long-term contracts, which are not common.
- Many companies, all but the largest, do not have the financial capacity to make such long term investments, particularly when there is no certainty of capturing the returns.

Thus there is likely to be significant underinvestment in grain industry skills and technical capacity. To correct this, investments need to be made to establish grain technology courses, and attract students in grain science and technology and general agricultural careers.

Examples of activities in this area include:

- the establishment of post graduate grain science and technology scholarships
- the establishment of a dedicated place for grain science and technology undergraduate and post graduate lecturers and supervisors, in major Australian universities

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- the production of a number of vocational courses and associated material for the grain industry and international customers

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

This is really an issue for the entire grains industry to work on and develop. Suggestions along these lines were covered by the *Single Vision Grains Australia* initiative of the mid 2000’s.

Notwithstanding this however there are many instances of industry good operations from which we can draw for inspiration. One issue is that the grains industry tends to talk about “grains” in a comprehensive way when in fact what is meant is “wheat”.

Organisations upon which to draw include:

International:

- US Wheat Associates (USA)
- Home Grown Cereals Authority (UK)

Domestic grains:

- Australian Oilseeds Federation
- Pulse Australia
- Barley Australia
- Maize Association of Australia

Other industries

- Wine and Brandy Corporation
- Meat and Livestock Australia
- Horticulture Australia

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?

At present the marketplace is still in a state of transition but as discussed above the new model is still developing and relies heavily on the old system of growers having faith in the market with little real market knowledge pre planting and the market reacting to available volumes post harvest.

This system is not one that allows the full value chain for grain to be exploited and maximised.

The GGA group of companies is actively working on improving the information available to the whole marketplace through the following initiatives:

- *What the world wants from Australian Wheat* – project supported by DAFF expected to commence late 2009, revisits a previous project and aims to provide contemporary market and consumer information.
- *Commercial performance of Aust wheat* – project conducted in 2004-06 to evaluate the end point performance of Australian wheat varieties, as opposed to the national variety trials and classification process. This project has only ever been conducted once but should become a regular feature to add value to the national crop report to provide actual commercial performance information back to the breeders, agronomists, farmers and marketers.
- *Annual crop quality report*¹ – historically developed by AWB and now under the auspices of GRDC. BRI developed this report under contract to GRDC as a pilot programme in 2008/9 to assist with providing vital wheat industry information and will prepare the report again for the 2009/10 season.
- *PriceWise* – a new initiative of GGA to assist to improve the transparency and harmonisation of grain prices being offered at local silos and to reduce

¹ http://www.bri.com.au/images/Downloads/BRI_crop_quality_report1.pdf

the transactions costs of growers seeking this immediate pricing information.