



Submission to the
Productivity Commission Inquiry
Into
Wheat Export Marketing Arrangements

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EXECUTIVE SUMMARY

The Pastoralists and Graziers Association of WA (Inc), (PGA) welcomed the introduction of the *Wheat Export Marketing Act (Cth) 2008* (the 'Act') that came into force in July 2008 and enabled the Australian wheat industry to move from a regulated environment under the single desk to an open and contestable market in a managed and orderly manner.

The establishment of Wheat Exports Australia (WEA) under the Act was an appropriate transitional measure. The first year of deregulated export wheat marketing has shown the ability of the Australian grains industry to respond to adapt and respond to the opportunities of a contestable market environment. The new marketing era has been a success and has enabled large volumes of Australian wheat to continue to be shipped in both bulk and containers.

The first year of operating in deregulated wheat market has also allowed growers' understanding of the Australian Wheat market to mature and for their skills to develop. As a result the vast majority of growers are now comfortable operating in a competitive market, and as such the transitional arrangements established under the Act are no longer required as an ongoing measure.

Issues do, however remain in relation to the efficiency of the supply chain and specifically in relation to port access for Australian wheat exporters. The PGA strongly believes that a regulatory oversight role in relation to the Port Access Undertakings must be maintained and believes that further monitoring of the bulk handling companies (BHC) outside the scope of their current Australian Consumer and Competition Council (ACCC) Undertakings is warranted.

The PGA believes that a sunset clause for Wheat Exports Australia (WEA) should be put in place and that the accreditation of bulk wheat exporters is not required beyond this. However the PGA believes that the Port Access Test within the Act is necessary and should be maintained even beyond the sunset of WEA if the ACCC finds that BHC behaviour has not changed as a result of the Port Access Undertakings.

The deregulation of the wheat export market is part of a long process of change for the Australian wheat industry. As a result of the freeing up of markets, Western Australian grain growers have seen greater opportunity (an increase in the parity value of their wheat of \$35 to \$40 per tonne compared with their Eastern States competitors) at a time of increased volatility in domestic and international financial markets. There has also been the development of a number of industry and grower functions and activities to ensure the operational efficiency of a deregulated market. One such example is the development of Grain Trade Australia (GTA) to assist in the facilitation of trade, and the development of a professional development program to ensure all parties understand their obligations.

The PGA supports the industry moving to a self regulated model similar to that which operates in other major export industries both domestically (Meat and Livestock Australia, and Australian Wool Innovation) and in other countries (US Wheat Associates).

This self regulation model could be expanded to include an industry code of conduct for Australian wheat (grain) exporters through other regulatory bodies such as GTA.

The PGA believes that an industry self regulation approach would also provide the most efficient method of ensuring that the interests of growers, and the wider Australian wheat industry are safeguarded. PGA does however see an ongoing requirement for ACCC to continue its oversight of port access arrangements, which should be amended into the *Wheat Export Marketing Act 2008*.

The PGA also supports the retention of the Act and in particular the retention and safeguard of *Section 86A Operation of certain State and Territory Laws* which prohibits a State or Territory from enacting legislation or regulation on the marketing of grain. Without this section of the Act, growers may be subject to forced State regulation and possible levies on the transport, storage and marketing of grain which would impact competition and returns.

PGA believes that wheat marketing arrangements after 1 July 2010 should deliver a maximum net benefit to growers through a structure which contains:

1. Maximum competition amongst exporters in purchasing transporting and storing and marketing Australian wheat.
2. Clear separation of roles and responsibilities within BHC's to a point where they are seen as professional storage and handling providers who will be prepared to accept performance responsibilities on operational efficiencies
3. Clear separation of the commercial, market development, trade access policy, monitoring and oversight activities of the wheat industry.
4. Clear access to information on aggregate stack levels both at port and upstream.
5. Industry self regulation which promotes industry and grower responsibility.

This will enable the industry and growers to work together to develop a system of oversight for exporters of Australian wheat that is responsive to their needs of growers now and in the future.

The PGA submits the following recommendations:

1. WEA accreditation for exporters of bulk wheat should not continue past 2010. Accreditation for bulk wheat exporters with three year approvals should not continue past 2010, and accreditation for new entrants should be maintained until 2012. Bulk Handler accreditation should be reviewed in 2011 when the ACCC Undertakings expire.
2. WEA to sunset in 2012 to coincide with the current extensions to accreditation. In the interim, the mandate of WEA should be defined and restricted to those activities where a net benefit to community, market participants and growers is clearly demonstrated.
3. The Port Access Test as defined in *Section 24 Access Test Port Terminal Service of the Wheat Export Marketing Act 2008* is necessary and should be maintained beyond 2012 if the ACCC finds that the behaviour of the BHC's has not changed as directed by the Undertakings.

4. The ACCC approved Undertakings should continue for the current term (30 September 2011) and BHC accreditation beyond this period should be linked to a review of their performance against the Undertakings.
5. A number of areas in relation to port access need to be strengthened beyond those in the current port access Undertakings. These include:
 - Improved accountability by BHCs to act commercially and be accountable for services provided including implementation of commercially based risk sharing of activities such as demurrage and despatch.
 - Provision of robust ring fencing provisions to ensure that the trading divisions of BHC's do not gain an advantage due to release of information.
 - Inclusion of upstream activities into the Port Access Undertakings, especially in Western Australia where CBH operates a bundled monopoly service under *Grain Express*, including upstream aggregate stack levels.
 - Port loading protocols that provide fair access for all exporters; are transparent; and promote supply chain efficiencies.
6. The ACCC exclusive Undertaking for *Grain Express* should not continue as *Grain Express* has it has not demonstrated any indicated improvements in performance and service; and CBH has not honoured its commitments in regard to responsibility for performance against the service outcomes identified and the accountability for non performance.
7. *Section 86A Operation of certain State and Territory Laws* of the Act should be retained and reinforces as it prohibits a State or Territory from enacting legislation or regulation on the marketing of grain.
8. Non discriminatory pathways and opportunities to move wheat and other grain from private third party upcountry facilities to port terminal facilities should developed to facilitate competition in transport and storage areas.
9. Government support and requirement for reporting of stocks information should be maintained and should include upstream stack levels.
10. Wheat classification needs to be maintained and widely promoted to, and better understood by market participants.
11. Consideration should be given by the industry on the need for monitoring and reporting on conformance with grades shipped.
12. Monitoring- the industry should give consideration to the need for monitoring and reporting on conformance with grades shipped.
13. The industry should be encouraged to move to a self regulatory model.
14. The industry should give consideration to the development of a forum that represents the whole of the grains industry supply chain in policy formulation and wider interests of the industry. This forum should involve growers and industry participants on a national representational level.

INTRODUCTION

The Pastoralists and Graziers Association of WA (Inc) (PGA) is a non-profit industry organisation established in 1907, which represents primary producers in both the pastoral and agricultural regions in Western Australia. The PGA represents around 1250 progressive Western Australian grain growers who believe in the benefits of competition and the reduction of government regulation within their industry. Our membership produces on average one third of the Western Australian grain harvest per annum.

On 1 July 2008 the *Wheat Export Marketing Act 2008 (Cth)* (the Act) came into effect. Under the Act a new regulator – Wheat Exports Australia (WEA) was established to formulate and administer an accreditation scheme for bulk wheat exporters. The *Wheat Export Accreditation Scheme (Cth)* (the Scheme) also came into effect on 1 July 2008.

The Scheme requires exporters to meet strict probity and performance tests to satisfy WEA that they are fit and proper entities to hold accreditation. In addition, to be accredited those exporters that own or operate port terminal services need to meet an access test under the Act, which requires them to have access undertakings (Undertakings) approved by the Australian Competition and Consumer Commission (ACCC) in place by 1 October 2009.

Compliance of accredited exporters with the conditions of their accreditations is monitored by WEA which has the power to vary, suspend or cancel their accreditations in certain circumstances.

Section 89 of the Act requires the Productivity Commission (the “Commission”) to conduct an inquiry into the operation of the Act and the Scheme. On 29 September 2009 the Australian Government asked the Productivity Commission to examine the operation and effectiveness of the current wheat export marketing arrangements.

Under the Act, the Commission must review:

- the operation of the Act, including the costs and benefits: and
- the operation of the Scheme, including the costs and benefits.

Under the Act the Commission is required to commence its review by 1 January 2010 and report to the Government before 1 July 2010.

The PGA makes this submission on behalf of its members and the structure of this submission follows the structure of the Issues and questions section outlined in the Commission’s Issues Paper including:

- a) Accreditation of exporters
- b) Role and funding of WEA
- c) Port terminal access and services
- d) Transport and storage
- e) Information provision and market transparency
- f) Wheat classification and market segmentation
- g) ‘Industry good functions
- h) Performance of the wheat export marketing arrangements

COMMENT ON ISSUES AND QUESTIONS

Accreditation of Exporters

The accreditation process has permitted an orderly and managed transition to a more competitive market environment and was an appropriate transitional measure. However there are significant compliance costs associated with obtaining and maintaining this accreditation; and accreditation does not apply to non bulk wheat exporters. This disparity places bulk wheat exporters at a disadvantage with their compliance burden over their counterparts.

The accreditation process does not provide growers with any guarantees in regard to security of payment or performance and as a result provides very little additional benefit. While the accreditation process provided growers with initial comfort in regard to the capacity and capability of the exporters during the first year of deregulation, it is important to note that most growers were already dealing with the accredited exporters in relation to other grains and services and their capability was already known. Similarly many of the accredited exporters currently have global operations and well established customer relationships which were already known to growers.

The accreditation process has not had any direct impact on growers regarding the efficiency of the industry and the condition of markets. Market conditions (grain, freight, and finance) and individual positioning are the major driver of exports in terms of markets and prices.

As the newly competitive market continues to evolve and mature, and more services to support growers continue to increase, it is unlikely that the need for an accreditation process would be warranted.

The PGA does not believe that the net benefits of the accreditation process warrant its continuation, and the accreditation process should be sunsetted.

Current accreditations have been renewed for a three year period, which provides an appropriate date to sunset the accreditation. As a result, accreditation for exporters with three year approvals should not continue past 2010, and accreditation for new entrants should be maintained until 2012, and Bulk Handler accreditation should be reviewed in 2001 when the ACCC undertakings expire.

In the period to 2012 the mandate of WEA should be defined and restricted to those activities where there is a clearly demonstrated net benefit to growers and industry. The other aspect of accreditation and regulation is in relation to port access. The existing legislation requires those companies which operate port facilities and seek accreditation to submit access undertakings to the ACCC. The undertakings need to be approved by ACCC before accreditation could be renewed in 2009.

As the current undertakings have a two year term, the access arrangements should remain under the ACCC and the requirement for the undertakings should be reviewed prior to the end of this period. There would also be the need for ongoing ACCC oversight.

The port access test is a necessary requirement to ensure that there remains open and transparent competition. The ACCC approved port operator undertakings should continue for the current term (30 September 2011) and Bulk Handling Company accreditation beyond this period should be linked to a review of their performance against the undertakings and demonstration of appropriate behaviours. The port access provisions should be maintained beyond 2012 if the ACCC finds that BHC behaviour has not changed as directed by the Undertakings.

Port Terminal Access and Services

The PGA has significant concerns regarding competition for port access, which was documented in the PGA submission to the ACCC. The PGA submission highlighted the areas of concern in regards to the behaviour of Bulk handlers, and in particular Cooperative Bulk Handling, or CBH in disadvantaging competitors through imposing unfair terms and conditions which would restrict access to port terminal services.

The Access test under the Act is necessary, and the undertakings need to be allowed to continue for the nominated term (September 2011), and accreditation of Bulk Handlers should be linked to a review of their performance against the undertakings and demonstration of appropriate behaviours.

According to the Wheat Export marketing Act 2008, the access test was intended to ensure that accredited wheat exporters that own, operate or control port terminal facilities provide “fair and transparent access to their facilities to other accredited exporters”.

As the Undertakings were only approved by the ACCC at the end of September there has not been sufficient time to see whether the ACCC Undertakings have made any impact on the behaviour and practices of BHC’s and in particular CBH.

In Western Australia CBH is the monopoly provider of port terminal services and upstream port terminal services. CBH offers a consolidated or bundled wheat export supply chain logistics service under an exclusive dealing notification provided to the ACCC, known as *Grain Express*. Under *Grain Express* CBH supplies grain and handling services, grain supply co-ordination services, and grain transport services to growers while the grain remains in CBH’s custody. When the grain is marketed the storage and handling fees are charged to the marketer.

CBH controls 197 receival sites throughout the Western Australian grain belt. Typically, wheat is unloaded at receival sites, sampled, analysed, weighed, graded and sorted. Wheat may also be warehoused for varying periods of time at a site by growers before being sold (where title is transferred to another person). If grain requires fumigation, this is carried out prior to being loaded for transport from a receival site.

Wheat is transported from upcountry receival and storage sites to port by rail or road. Under *Grain Express*, CBH arranges transport to port, using rail and road service operators which are determined by CBH.

Access to port terminal services is essential to export bulk wheat from Western Australia. In Western Australia all grain for export is allocated to Grain Express, so Western Australian growers have no option but to utilise Grain Express in marketing their wheat.

The absence of alternative upcountry receival sites and port terminal facilities in Western Australia means that it is unlikely that growers who wish to acquire port terminal services on a standalone basis would be able to do so, as currently these services can only be accessed as part of a bundled service.

In Western Australia fumigation is carried out at facilities which are upcountry from the port terminal facilities for a minimum period of 28 days. The upcountry activities of CBH are closely related with the port activities, and cannot feasibly be separated under the Grain Express system.

The likelihood of a new entrant establishing a new port terminal facility to compete with CBH is negligible given the cost and geographical spread of port terminals in servicing the Western Australia wheat belt. Not only is the cost of building a new port facility very limiting, obtaining suitable land, development approvals, capital, and access to road and rail infrastructure are prohibitive in the short to medium term.

There is little economic justification for the establishment of competing facilities in Western Australia; however there remains great potential for the development of upstream facilities in competition to CBH. However the investment in these facilities would only occur if unrestricted port access is available.

The ACCC undertakings also establish robust and enforced ring fencing policies, even if the BHC Undertakings contain robust non discrimination and no hindering access clauses. Removing the ring fencing policies will remove any protection of BHC's providing confidential and preferential information to their marketing arm.

The PGA believes that the ring fencing policy may need to change if current measures do not stop BHC's from discriminating in favour of their trading arms. As the industry is currently in transition, it is essential that robust ring fencing rules are put in place, however short the duration of the Undertakings.

Infrastructure

Western Australia's grain production is sourced from approximately 4800 growers spanning a grain belt of 320,000 square kilometres. WA's harvest is typically around 10 million tonnes annually with a peak season of around 15 million tonnes. The Western Australian grain market is predominantly export focussed with around 80 per cent of grain exported.

The grain supply chain in WA utilises an extensive network of branch and main rail lines, a network of Local feeder roads and State arterial roads, as well as privately owned and operated grain storage and handling facilities.

The WA grain supply chain is characterised by:

- Short haul farm to silo freight flows by road; and
- Longer haul silo to port freight flows utilising both road and rail.

The supply chain is dominated by three key companies:

- WestNet Rail- manages the WA intrastate freight rail network (below rail components), which comprises both standard and narrow gauge;
- Australian Railroad Group (ARG)- the sole rail operator; and
- CBH – which controls most storage and handling facilities including the facilities at the three export ports: Kwinana, Geraldton, and Albany; as well as Esperance.

In 2004 the WA Government established the Grain Infrastructure Group (GIG) to review the grain freight network. A key component was to consider the viability of the narrow gauge branch line network used solely for the transport of grain. The GIG recommended that:

- The freight rates applying in 2005 provided insufficient returns to infrastructure and service providers to warrant long term investment in long term assets;
- There was an increase diversion of export freight to the road sector and a fragmentation of the grain supply chain;
- A sustainable grain supply chain will require one or more of: i) some rail rationalisation and branch line re-sleepering; ii) road network investment; iii) upgrading of rail and grain receipt rail loading infrastructure; and iv) subsidisation of some current rail services.

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In 2009 the Commonwealth Department of Infrastructure engaged KPMG and SAHA International to undertake an independent review of the GIG report. The Commonwealth report concluded that the:

“costs of the proposed investment package are likely to exceed the benefits...{and}the operating environment for rail including lower payloads than roads on most routes, poor track conditions, deteriorating cycle times, and the pressure to move greater volumes during a compressed period are reducing rails ability to compete on both service and price. In view of the limitations for rail to meet current and likely future demand, further work should be undertaken to ensure there is adequate infrastructure at port(s), upcountry and within the road network for road haulage to provide the necessary surge capacity.”

The report also recommended that:

“regulating grain to rail by way of road restrictions or higher permit costs will only serve to further erode grower returns and increase pressure on Government for a greater investment in rail infrastructure.”

In 2009 the WA State Government the Strategic Grain Network Infrastructure Committee (SGNIC) to review the GIG report and place a recommendation for Commonwealth investment if warranted. The SGNIC consisted of the original members of the GIG group, with the exception of grower group representation. The SGNIC did not utilise any part of the Commonwealth's report in the making of its recommendations, which have not yet been presented to the Government.

The PGA supports the retention of the Act and in particular the retention and safeguard of *Section 86A Operation of certain State and Territory Laws* which prohibits a State or Territory from enacting legislation or regulation on the marketing of grain. Without this section of the Act, growers may be subject to forced State regulation and possible levies on the transport, storage and marketing of grain which would impact competition and returns.

Information Provision and Market Transparency

In order for growers and other industry participants to have an effective and accurate understanding of market dynamics access to information relating to crop production, export sales, domestic usage and stock on hand (both at port and in commercial up country storage) is necessary. Such information will assist all market participants to make informed decisions regarding the operation of their respective businesses.

The main issues in this regard are accuracy and timeliness of the information. From a growers perspective the accuracy of stock levels is essential for positioning, as is how soon the information can be provided to the grower. The required information from ABS and ABARE is useful; however by the time it reaches the grower is often out of date. Presently there is no ability to obtain accurate information on the amount and type of stock held at up country grain receival facilities, and this may result in creating a significant commercial advantage if the information is transferred to the trading arms of the BHCs.

In Western Australia CBH is the monopoly provider of both port terminal services and upstream services in Western Australia. CBH controls 197 receival sites; and the export supply chain through *Grain Express*. Growers sell their wheat to a wide range of grain traders or marketers at any point along the export supply chain, and wheat may be traded several times while it remains in the CBH system before being sold to the end user.

Growers require aggregate information of upcountry stock levels to ensure that they have a fair and competitive position in the market place. This information should be collected electronically and reported on a weekly basis. Government involvement will be required, and Government agencies should be given power through amending the Act to compel provision of information.

Quality

Quality remains an important issue for the Australian wheat industry, including the aspects of standards, classifications, branding and quality management. In a competitive market, wheat quality standards are maintained through competition which will force industry participants to meet or exceed the standards required by buyers in order to achieve market share.

Trade in the Australian grains industry is based on contractual relationships which set down grain receival standards, which are clear in their description. Grain Trade Australia (GTA) plays a key role in establishing industry wide grain standards and contract terms and conditions, which allow buyers and sellers a basis for establishing their contractual relationship.

As the industry moves to a fully competitive market, there may be a need to ensure that the industry maintains high levels of classification, standards, and monitoring.

Industry Good Functions

The deregulation of the wheat export market is part of a long process of change for the Australian wheat industry. The wheat /grains industry continues to adapt to a new market environment. In Western Australia the Grains Licensing Act is in the process of being repealed, which will allow the WA grains industry to finally be deregulated. As a result of the freeing up of markets, Western Australian grain growers have seen greater opportunity (an increase in the parity value of their wheat of \$35 to \$40 per tonne compared with their Eastern States competitors) at a time of increased volatility in domestic and international financial markets.

As a result of these opportunities there has also been the development of a number of industry and grower functions and activities to ensure the operational efficiency of a deregulated market. One such example is the development of Grain Trade Australia (GTA) to assist in the facilitation of trade, and the development of a professional development program to ensure all parties understand their obligations. In WA there has also been the creation of Grains Industry Association of WA (GIAWA), of which the PGA was an inaugural founding member.

There has been, however developments which have identified gaps in the system which need to be identified. These have included the winding up of the Grains Council of Australia (GCA); the lack of accountability of the Grains Research and Development Corporation (GRDC) in the handling of grower levies; attempts by State Governments to place levies or tolls on the grains industry; and attempts by the National Farmers Federation (NFF) to increase membership through becoming the national industry representative body.

The PGA supports the industry moving to a self regulated model similar to that which operates in other major export industries both domestically (Meat and Livestock Australia, and Australian Wool Innovation) and in other countries (US Wheat Associates).

This self regulation model could be expanded to include an industry code of conduct for Australian wheat (grain) exporters through other regulatory bodies such as GTA. The PGA does however see an ongoing requirement for ACCC to continue its oversight of port access arrangements, which should be amended into the Act.

The PGA believes that an industry self regulation approach would also provide the most efficient method of ensuring that the interests of growers, and the wider Australian wheat industry are safeguarded. As a result there is need for a whole of industry representative body which will represent the interests of growers and other industry participants. However the PGA does not support in any way the retention of the GCA as it was not representative of the industry or growers, nor does it support the NFF becoming the national interest body as the organisation is State farm group representative and as such does not distinguish between export growers and domestic growers.

The structure and development of any national representative body should continue to evolve based on market, not political considerations.

With industry moving towards a self regulated model, the PGA is concerned over the accountability of levy funded organisations, such as the GRDC to growers, and the possible moves by State Governments to initiate fee for service levies under State legislation such as the *Agriculture Production Act*. The PGA believes that the GRDC should be held to an independent review every three years, which is similar to bodies such as MLA or AWI, and that *Section 86A Operation of certain State and Territory Laws* which prohibits a State or Territory from enacting legislation or regulation on the marketing of grain be amended to include State governments from legislating any form of levy on broad acre cropping.

Recommendations

1. WEA accreditation for exporters of bulk wheat should not continue past 2010. Accreditation for bulk wheat exporters with three year approvals should not continue past 2010, and accreditation for new entrants should be maintained until 2012. Bulk Handler accreditation should be reviewed in 2011 when the ACCC Undertakings expire.
2. WEA to sunset in 2012 to coincide with the current extensions to accreditation. In the interim, the mandate of WEA should be defined and restricted to those activities where a net benefit to community, market participants and growers is clearly demonstrated.
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The Pastoralists and Graziers Association of WA (Inc)
November 27 2009