

**Initial Submission to
Productivity Commission**

**~ Inquiry into Wheat Export
Marketing Arrangements ~**

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Executive Summary

- The Association supports a return to a National Pool run by a grower owned and controlled not for profit company which allows multiple exporters as under the Australia Wheat Limited ('AusWheat') plan, and would have the following essential attributes:
 - Operate the National Pool.
 - Accountable grower based Board elected by grower shareholders.
 - Premiums returned to farm gate as against previous investor/shareholder of grain marketer return.
 - Ensures development of long-term premium markets with continuity of supply and quality and underpins the market as the buyer of last resort.
 - Not-for-profit company based on co-operative principles.
 - Industry inclusive marketing model that differentiates and discriminates products to extract maximum returns from market. This would reward excellence, innovation and adoption of new technology.
 - Downward pressure on costs at all levels of activity and delivers functional supply chain.
 - Assist establishment of independent organisation to promote and fund national industry good functions.
- The Association suggests the Productivity Commission, as part of its inquiry into the Wheat Export Marketing Arrangements, should survey every registered wheat grower in Australia using the National Grower Registration with relevant basic questions relating to their experience of deregulation.
- The Association believes the ongoing minimalist accreditation process provided by Wheat Exports Australia is essential until at least 80 per cent of Australian wheat growers are comfortable with the current deregulated wheat export marketing arrangements.
- The Wheat Export Marketing Act 2008 should include the extension of powers for Wheat Exports Australia to require it to benchmark the performance of all accredited exporters and publish export information in the interest of market transparency.
- Until the 'natural monopolies' created by the Australian rail system are eliminated by a western rail link from Melbourne to Brisbane, grain delivered into a receival point is committed to a specific port even if that port is inefficient, congested, or expensive to ship from.

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APPENDIX 1 – GOLDEN REWARDS MATRIX

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REWARDS**

Introduction

The NSW Farmers' Association (the 'Association') welcomes the opportunity to provide an initial submission to the Australian Government Productivity Commission's Inquiry into Wheat Export Marketing Arrangements to review the operation of the *Wheat Export Marketing Act 2008* and the *Wheat Export Accreditation Scheme 2008*, including the costs and benefits of both.

The Association represents the interests of commercial farm operations throughout the farming community in NSW. Through its commercial, policy and apolitical lobbying activities it provides a powerful and positive link between farmers, the Government and the general public. The Association is the key State representative body for both intensive and extensive industries ranging from broad acre, meat, wool and grain producers, to producers in the horticulture, dairy, poultry meat, egg, pork, oyster and goat industries.

This submission focuses on the increasingly negative effects that deregulation has had upon the Australian Wheat industry at a time when it could least afford it. The immediate requirement for cash-flow at harvest time for grain growers already suffering debt stress from prolonged drought means that few growers have the luxury of implementing a capital-intensive marketing risk management plan or storing grain on-farm, even if they did have the capital required available to invest in such a plan or large infrastructure item.

The ongoing drought conditions in parts of the country, a wet 2008-09 harvest, and the reality of the Global Financial Crisis adding to a collapsing wheat market and US dollar have all conspired to make the first year of deregulation of Australian Wheat Exports a most

challenging one. Even for those growers experienced in marketing their own grain, the transition has been difficult, however for the grower who is sowing, spraying, harvesting and then expected to also market his or her crop, their market risk is undefended and the task is challenging to say the least.

The WEMCC found that more than 70% of growers support single desk marketing, in one form or another.

The Association has reviewed the report from the Wheat Export Marketing Consultation Committee ('WEMCC'), published in March 2007. Many of the points raised in this submission are consistent with the findings of the report. The

WEMCC found that more than 70% of growers who expressed their views during the consultation process support orderly marketing, most commonly referred to as single desk marketing, in one form or another. The WEMCC reported that 20% of growers continued to support the status quo; that is, operation of the single desk under the AWB Limited corporate model. The remaining single desk supporters favour a single desk under a not for profit, grower owned and controlled entity with the single objective of maximising grower returns.

In 2008 a poll of 20,000 wheat growers by a Federal MP confirmed that 82% wanted to retain a single desk structure and only 14% support the existing system.

The deregulation of bulk wheat exports in Australia was introduced with the purported policy objective of improving competition in the market place between buyers of Australian grain. It has not done this, and cruelly during one of the worst droughts in Australian history, when Australian grain growers can least afford it; the only increase in competition has been between the growers of Australian wheat who are now competing against one another.

1. Existing Wheat Export Marketing Arrangements

1.1 Accreditation of exporters

During the transition period of deregulation, Wheat Exports Australia has the key information at hand to enable it to benchmark the performance of all accredited exporters. The Wheat Export Marketing Act 2008 should include the extension of powers for Wheat Exports Australia to require it to benchmark the performance of all accredited exporters and publish export information in the interest of market transparency.

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Ongoing accreditation of bulk wheat exporters by Wheat Exports Australia or a similar independent body is necessary to at least give growers some assurance they are dealing with a fit and proper company to export bulk wheat from Australia.

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Market participants have benefited from this accreditation, particularly when there are now 24 accredited companies under the Wheat Export Accreditation Scheme. The Association believes that the accreditation process gives growers some confidence which, under the present wheat export marketing arrangements, could not be obtained through any other process. WEA should also be required to revoke the accreditation of any licensed exporter that compromises the reputation of Australian export wheat. The Association also believes that the \$3344 fee applicable to the reconsideration of a licensed wheat exporter is excessive and should be waived.

The main reason why the accreditation process is so important for exporters of bulk wheat and not for exporters of other grains, or exporters in the bag and container trade, is due to the simple fact that bulk export wheat is by far the largest export of Australian grain and as the benchmark grain, affects the most growers. Additionally, most if not all companies that export grains other than wheat are already accredited under the Wheat Export Accreditation Scheme.

The Association believes this ongoing accreditation process is the minimum required and is essential until at least 80 per cent of Australian Wheat Growers are comfortable with the current deregulated wheat export marketing arrangements.

The WEA should continue to be funded by the Wheat Export Charge ('WEC') which is currently at \$0.22 per tonne for both bulk and non-bulk wheat exports. The Association would anticipate that the costs associated with the WEA should be significantly less from now on the basis that the renewal process is less "onerous" than initial accreditations. If these savings are achieved, as expected, the current WEC should be reviewed and may be able to be somewhat reduced as the WEA matures.

1.2 Port terminal access and services

The Association provided a submission in April 2009 to the Australian Consumer Competition Commission when it was undertaking the Port Terminal Access Test Undertakings, as required by the *Wheat Export Marketing Act 2008*. All three bulk handling companies operating port terminal facilities, who also wish to be exporters of bulk wheat, have now had their formal access undertakings accepted by the ACCC from 1 October 2009.

This acceptance provides reassurance for growers going forward that the operators of port terminal facilities, who also seek to export bulk wheat, cannot use access to their

facilities to inhibit competition from rival exporters. The Association is however concerned that during the freight and shipping of the 2008-09 harvest, that the commercial arrangements amongst participants in the wheat export system both restricted the logistics system's ability to reward innovation; and encourage diverse modes of delivery onto ship. This is because of the market power of the existing monopoly operators. The Association believes that this situation had never occurred under a single desk.

During the freight and shipping of the 2008-09 harvest, the commercial arrangements amongst participants in the wheat export system both restricted the logistics system's ability to reward innovation; and encourage diverse modes of delivery onto ship.

In its submission to the ACCC, the Association expressed these concerns referring to a media release made on 9 March 2009, titled 'Grey area for grain: Farmers voice concerns over grains delivery'. This media release referred to reports that grain growers were experiencing difficulties in delivering their grain straight from the farm to the port. Based on these reports the Association believes that some port operators may have demonstrated the market power required to manipulate the Port Access Agreements to the detriment of industry. In response the Association called for the removal of these new obstructions to the delivery of all grains direct from farm to port.

The Association raised this issue with WEA, and was advised that bulk handlers' policies do not preclude direct deliveries to port ex-farm for cargo accumulation.

However, recently the Association has been advised by WEA that within the bulk handling system the bulk handlers have informed exporters that

“ subject to terms and conditions contained within the Storage and Handling Agreement (a contract to which all exporters voluntarily agree to be bound), the company retains the right to negotiate with an exporter over the method of cargo accumulation, and to refuse particular methods of cargo accumulation, should such a method impact or potentially impact negatively on the efficient management of a port terminal. These caveats are contained in our vessel nomination protocols and in our Storage and Handling Agreement.”

The Association was advised by WEA, that bulk handlers have had a long standing policy of preventing the delivery of ex-farm loads direct to port, other than during harvest.

The Association was further advised by WEA, that bulk handlers have had a long standing policy of preventing the delivery of ex-farm loads direct to port, other than during harvest. WEA were advised that this is not a new restriction and this policy has been in place for a number of years, prior to the recent changes in bulk wheat export marketing arrangements. The Association is aware of this situation although consider the new multi-accredited wheat exporting system would deem this long standing policy as a restriction of trade, antiquated and potentially anti competitive.

While WEA could not comment on such commercial considerations, they informed the Association that accredited bulk exporters who also provide port terminal services, must fulfil all the requirements specified in accordance to Part 2, Section 24, Access test – port terminal service, of the Act. WEA has informed the Association that under these guidelines they are satisfied.

Key Points

1. The legislation states; that bulk handling companies can satisfy Section 24 of the access test by complying with the continuous disclosure rules in relation to the port terminal service. The Association is concerned that many of the terms and conditions presented in relation to the port terminal service may not be in the best interest of competition between the accredited exporters and create market inefficiencies and dysfunction.

2. The existing ownership base of grain loading port facility in Australia is extremely concentrated and there is little ability to move grain economically from one port zone into another to access an alternative port operator. Therefore if an accredited wheat exporter is not satisfied with terms and conditions of the existing port operator vessel nomination protocols, and/or storage and handling agreement, their potential options are limited to the non bulk system (containers and bags) or to move grain into a different port zone. This almost certainly results in a commercial disadvantage due to the sheer distances, cost of freight and lack of available infrastructure such as rail links. The few options available to those in the industry who do not own ports means there is no point in objecting.

3. There are concerns that many of the fees and charges set by bulk handlers who are port operators, at their port facilities are not a fair representation of the usual or historic commercial rates. For example interest on overdue accounts is outlined as follows in 'the bulk handler's' Storage and Handling Agreement Clause 3.9. *"the interest rate applicable under this Clause 3.9 is the rate which is 6% above the bank bill buying rate for bills with a tender of 90 days quoted from time to time by National Australia Bank."* The Association understands that in most industries the commercially accepted rate is 2% above the 90 day bank bill. The Association feels that many of the fees set by the port operators, and for that matter the upcountry grain storage and handling facilitators (as they often represent an extension of the port facilities business model), are not representative of a truly competitive market place nor is the environment conducive to the introduction of competition. For competition to survive and improve it would seem necessary to closely monitor the fees set by port operators until such time as adequate competition is available to regulate this situation in the market place. Furthermore policy makers should give serious consideration toward how the industry is to achieve improved competition within regional areas of the nation in particular within the natural geographic and infrastructure created monopolies surrounding ports and port zones.

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4. Another example of substantial market power related to the storage and handling terms and conditions of a port operator which limits their liability in relation to a claim, which is recognised by 'the bulk handler' to be valid and 'the bulk handler' agrees to compensate the Client or, in other event, where 'the bulk handler' is liable to compensate or indemnify the Client, then 'the bulk handler's' maximum liability in respect of a claim shall not exceed \$500,000 for grain out loaded onto any shipping vessel, and \$10,000 for grain out loaded onto rail or road truck on any one day for a site. In the situation where a ship haul can be worth in excess of \$25 million and the entire value of its contents can be placed in jeopardy if the ship fails to leave the port, it would seem to the Association that 'the bulk handler's' liability is uncommercial and unusually conservative.

A further issue arose in relation to the compliance and access to port costs associated with exporters who do not use a port operators 'upcountry storage and handling facilities. According to the Department of Agriculture, Fisheries and Forestry ('DAFF') website it was determined during the Senate Inquiry that; 'up-country storage and handling facilities would not create bottlenecks in the supply chain. Access requirements would impose a significant regulatory burden, with the increased compliance costs, that would be passed back to growers.'

The Association appreciates the principles behind this determination. However there are concerns that a lack of regulation has possibly led to the deterioration of competition, and therefore higher fees and charges which are inevitably passed on to the industry.

Supply Chain Costs and Barriers to Entry

The intake cost of delivering grain to a particular a port terminal facility was reported to the Association to be \$13 from a related upcountry storage and handling facility and \$19.50 if the grain has been stored in a farmer's storage facility. This results in a situation in which if a business believes it can carry out these procedures at a more competitive rate by using a more direct transport system, they are charged more upon entry to port because

If a business believes it can carry out these procedures at a more competitive rate by using a more direct transport system, they are charged more upon entry to port because the grain has not come from a related upcountry storage facility.

the grain has not come from a related upcountry storage facility. Furthermore they may face restricted access at the discretion of the port operator under their Storage and Handling Agreement.

The ability to implement such an access pricing model creates a growing potential for dominant vertically integrated business models. This in turn results in a lack of incentive for investment in alternative bulk storage and logistic paths to port for both controllers of port facilities or others who are forced to use 'their' loading facilities and therefore 'voluntarily' meet their access conditions.

The Association believes that 'Ring fencing' may not be required to separate bulk handling companies' storage and handling operations from their bulk wheat exporting operations if the provision of timely and accurate grain stocks on hand information is made available to the industry.

The shipping problems experienced in the first year of deregulation are likely to persist. The Association is of the view that these problems were not merely teething, rather seemed to be symptomatic of broader problems associated with numerous exporters operating without a centralised co-ordinated transport, storage and shipping strategy. Such a strategy which would have remained in place had the single desk still been in operation.

1.3 Transport and storage

For grain export, the dominance of a concentrated port ownership is compounded by the rail infrastructure supporting it. Currently there is very little opportunity to an exporter of grain to select the most efficient port to use. Until the 'natural monopolies' created by Australia's rail system are eliminated by a western rail link from Melbourne to Brisbane, grain delivered into a receival point is committed to a specific port even if that port is inefficient, congested, or expensive to ship from.

The lack of a western rail link also undermines domestic grain users' industry ability to access grain from other areas in times of drought.

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The NSW regional branch lines desperately need to be revitalised and the Association appreciates the Federal Government has received a report from the NSW Grain Freight Review. From the Association's involvement in the review we can appreciate the complexity of this issue and urge the Government to give consideration to the North South Inland Rail link. The Association strongly believes that the development of such a project would lead to both the further development of the domestic feed grains industry and increased efficiency through competition between ports. This investment in social infrastructure would have beneficial effect in increased investment confidence in rural and regional NSW, Queensland and to a lesser extent Victoria.

Greater transparency of the freight market must be enforced for the interim, in order to create an opportunity for competition.

Further to this the Association believes greater transparency of the freight market must be enforced for the interim, in order to create an opportunity for competition. The industry is badly in need of freight rates which accurately reflect real freight costs. In the absence of better information, the location differentials devised by Grain Trade Australia that are currently being used as a default freight rate for stack swaps and no. 2 track trades are unenforceable and insufficient for actual use. That these differentials are inserted into grain contracts, due to the lack of a better alternative is of concern to the Association and seems dysfunctional.

Under the single desk, the National Pool operator was able to negotiate storage and freight rates to a more competitive rate by committing large tonnages over several seasons to attract grain back onto rail. The reintroduction of this system would also provide a more compelling case for the NSW Government to fund the maintenance and in some case, upgrade of the NSW grain branch lines. The Association continues to support the use of rail as the most economically, socially and environmentally friendly means of transporting grain. Rail freight produces less than a third of the emissions of road freight, reduces wear on underfunded rural roads and reduces risk to health and safety on these roads. As such the Association actively endorses investment in rail infrastructure.

However, unfortunately the reality is that growers in many areas of the State can now send grain more economically direct to port by road than utilising a local silo and rail freight to Port. For example, at Tottenham in 2007, the freight rate was

\$34 per tonne. It now exceeds \$51 per tonne. Additionally the grower still has to get it from farm to the local silo which results in at least an additional \$11 per tonne. This spike in freight rates has also highlighted inefficiencies of outloading facilities at upcountry receival sites. The industry needs a real and competitive price link to be developed.

There has been bottle necks at port caused by logistical dysfunction of multiple exporters all wanting to move volumes of grain at the same time as others. By way of background, presently GrainCorp controls 7 out of the 8 ports on the east coast; dominates the above rail operation of the NSW grain branch line network; and owns approximately 180 grain receival and storage sites in NSW alone.

It is important that bulk handling companies also operating as bulk wheat exporters, in their position as a receiver of grain on behalf of both itself as a buyer and on the behalf of other buyers, have testing procedures that are consistent across their receival network and are compliant with the relevant receival standards. This may need to be enforced by an independent auditor. It is also important that these bulk handling companies, and all companies that receive wheat, have independently certified grain testing equipment, for example screenings sieves.

The breakdown in Insect Pest Chemical Control and the lack of suitable chemical choice has made the Storage of Grain on farm to reduce costs risk laden and expensive if growers have to build suitable on farm storage to stop insect pests. Delivering to trader owned storage is very expensive compared to when the National Pool was in existence.

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There is clear evidence of owners of upcountry facilities gaining a dominant advantage over rival exporters, where even considering the lighter harvest in 2008-09, receival and storage companies traded vastly more grain than those companies with little storage capacity.

The Association feels that at present some port operators exercise very substantial market power within the industry to the detriment of the efficient operation of the sector. This dominance has led to a historic under investment in

both regional and port infrastructure, as well as in alternative modes of transport which leaves little incentive for future investment.

While the existing market structure remains with one organisation having a clear and dominant market power in each port zone - from upcountry receival sites, and in some cases long term contracts with the major rail freight operator (and the possibility of controlling the grain branch lines), the full control of a majority of the port facilities, and the significant barriers to entry this poses for any potential new entrant - the market place displays dysfunction and appears well suited to any potential abuse of market power and in turn market inefficiencies.

1.4 Information provision and market transparency

It is widely known within the industry that Australian grain bulk handling companies have information readily available to them relating to stocks on hand, which can be updated on a real-time or daily basis.

Market dominance has the affect of restricting the timely flow of market supply and demand information required by the industry and currently formulated and released by the Australian Bureau of Statistics ('ABS'). This information can take the ABS up to three months to collect and publish to the industry. Meanwhile, the United States Department of Agriculture can publish their statistics inside one month.

The ABS has advised the Association that they cannot obtain or publish this information partly because of the breach of commercial in confidence laws. That is, if the ABS were to publish stocks on hand per port zone per week or month, this would be highlighting stocks held on hand within a particular bulk handler's system, and is therefore a breach of commercial confidence in the grains industry (although the same principle is apparently not a breach in the wool industry where export information is made available).

Therefore the information currently provided by the ABS and the Australian Bureau of Agricultural and Resource Economics ('ABARE') is not as useful as it could be and is not timely. The Association would prefer to see stocks on hand per port zone per

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week or month, and supply and demand figures. This may require the extension of powers for WEA, who the Association believe is currently best placed to deliver such information, and already has much of this information at its disposal.

The extension of powers within the Act for WEA to also benchmark the performance of the accredited bulk wheat exporters in the interests of market transparency would be useful in assisting growers make more informed marketing decisions under the current arrangements.

This current dysfunction further highlights the apparent significant market power held by bulk handlers to control the information flow to the market place. It may be feasible that the publication of this information would encourage commercial innovation to particular sectors of the industry simply by exposing opportunities currently vigorously protected by the existing participants.

The Government might consider the development of an online information site that would provide all the necessary information a farmer might require in order to market their grain. Such a site might also underpin a market reporting service as part of the ABC Country hour similar to the reporting service already given for livestock and horticultural industries.

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The type of information we envisage appearing on a central open access site might include:

- Daily domestic and international market price and currency movements. This information may be a live feed from futures exchanges.
- Daily Top ten price comparisons, cash, pool. This may require a direction from WEA but indicative prices could be posted by trading companies with contact details attached.
- Weekly Crop sowing progress. This may need to be an agreement of Primary Industries Ministerial Council ('PIMC') to supply information from regional agronomists.

- Weekly likely weather threats. This could be a post from Bureau of Meteorology's ('BOM') warnings site or more tailored for the grains industry.
- Weekly harvest progress reports. This could be a PIMC initiative.
- Weekly tonnage delivered. Direct feed from bulk handlers.
- Weekly stock on hand and export tonnage. Direct feed from bulk handlers and port operators – perhaps a directive from WEA
- Monthly Crop growth progress. This could be a PIMC initiative.
- Monthly export and domestic commitments or expected demand. WEA, PIMC, Meat and Livestock Australia Cattle on feed, Australian Pork Limited pig industry, Australian Dairy Farmers expected dairy demand.

If the site is well constructed it may cost a considerable amount to establish but may be quite easy to administer over time. The Association believes it would be attractive to grains industry participants to advertise on and may be near revenue neutral in the long term. The Association does not believe the proposed site should interpret the data provided as this is a legitimate role for consultants and other commercial interests to pursue.

Training

The last round of grain marketing workshops delivered by the Federal Government throughout Australia in conjunction with all the State Farming Organisation were generally very well received. A number of Members have said they would attend a second training session and many who did not attend the first round would like another opportunity. This may require the development and delivery of both an introductory course and a more advanced course.

The Association feels that further Government funded industry training delivered in conjunction with the proposed website, combined with the possibility of continued independent training would certainly help to improve grower's market capacity to compete with large international trading organisations.

1.5 Wheat classification and market segmentation

It is important that bulk handling companies, in their position as a receiver of grain on behalf of both itself as a buyer and on the behalf of other buyers, have

testing procedures that are consistent across their receival network and are compliant with the relevant receival standards.

The certification of testing equipment and testing procedures needs to be streamlined between exporters and within the networks of those exporters. The Association recommends that this be conducted by an independent organisation with no bias towards any trading company, perhaps to also be accredited by WEA, or alternatively the certification of testing equipment delivered by the National Association of Testing Authorities.

The receival standards should be set region by region by an independent organisation such as Bread Research Institute which has the access to the appropriate knowledge, expertise and research facilities.

The receival standards should be set region by region by an independent organisation such as Bread Research Institute which has the access to the appropriate knowledge, expertise, research facilities. In addition any changes to wheat receival standards need to be implemented over a long period to allow wheat breeders adequate time to provide the industry with appropriate varieties.

Attributes of varieties classified by the Wheat Classification Council should take into account agronomic characteristics with the interests of growers in mind, in addition to processing characteristics with the interests of the end-user in mind. Such agronomic characteristics should include but not be limited to rust resistance, yield and resistance to lodging and wet weather at harvest.

1.6 'Industry good' functions

Historically the Single desk operator provided the following industry good functions;

- Industry Strategic Planning and execution - development of strategic business plan for the wheat export industry.
- Wheat Receival Standards - quality assurance ('QA') function and regulatory compliance.
- Wheat Classification Panel - a framework providing market signals to new varietal development.
- Crop Shaping Activities - grade systems and incentives for matching production to customer demands.

- Australian Wheat Crop report - collation of data across Australian wheat grades.
- Technical Market Support - technical training to customers.
- Promotion of the Australian Wheat Industry - generic promotion of Australian wheat.
- Policy and Regulatory Advocacy - input into development of national and international policy and regulatory issues.
- Research and Development - to improve understanding and management of wheat quality across the industry.

Under the current wheat export marketing arrangements the Association believes the following industry good functions should be provided;

Industry Strategic Planning

The Association is supportive of the recommendation by the Wheat Industry Expert Group that industry strategic planning should be delivered by industry. This recommendation further emphasises the need for the establishment of an industry body as it would enable a coordinated plan across the entire industry to be developed and maintained.

Research and Development

The Association is supportive of the recommendation by the Wheat Industry Expert Group that research and development should be delivered by the Grains Research and Development Corporation as they have demonstrated a high level of competency in the ability to undertake research and development activities. The Association believes it is extremely important that no effective reduction occurs in funding by the introduction of additional research or development roles.

Wheat Variety Classification

The Wheat Industry Expert Group has made a recommendation that wheat variety classification should be undertaken by the Grains Research and Development Corporation with the Wheat Classification Council comprised of representatives from producers, major exporters, the domestic processing industry and independent expertise as required.

Wheat Receival Standards

The Association recommends that wheat receival standards should be provided by Grain Trade Australia with significant input from the Bread Research Institute, which has the significant resources and expertise at its disposal to do so.

Furthermore the Association believes there is also a role for the Australian Quarantine and Inspection Service, Australian Competition and Consumer Commission and the National Association Testing Authority in the delivery of this industry development function. This is because out turn standards and the independent accreditation of testing equipment are additional activities that should be included in this function.

Information Provision

Discussed earlier in this submission under Section 1.4 - information provision and market transparency

Crop Shaping Activities

The Wheat Industry Expert Group has made a preliminary recommendation that crop shaping activities should be undertaken by private organisations. However the Association believes that Wheat Exports Australia, the GRDC, Grain Trade Australia as well as grain marketers and end users should undertake this function as it is a national crop and not restricted to a region where one or two marketers may flourish.

Technical Market Support

The Association is supportive of the preliminary recommendation by the Wheat Industry Expert Group that technical market support should be delivered by the industry as accordingly this will be left to the market to determine and action. At the same time the Association believes there is a role for the accredited laboratories such as the Bread Research Institute and Australian Grain Technologies in assisting the delivery of this function.

Wheat Promotion and Branding

The Association is supportive of the preliminary recommendation by the Wheat Industry Expert Group that wheat promotion should be delivered by industry stakeholders, however the generic promotion of wheat may be an issue for consideration by both a peak grower and peak industry body. Currently there is no single body promoting Australian wheat, educating millers and bakers and

liaising with international Governments on residue issues. As a result the reputation of Australian wheat is suffering.

For example it has been reported in the Weekly Times on 18 November 2009 that 500 people attended a millers' conference in Turkey. In the past AWB would have been a sponsor and a prime speaker however Australia is no longer represented in similar forums.

Trade Advocacy

The Association is supportive of the preliminary recommendation by the Wheat Industry Expert Group that trade advocacy should be undertaken by the industry in conjunction with the Government and the Association believes this function would be an activity which could be handled in an effective manner by a peak industry and peak grower body.

Regulatory Advocacy

The Association is supportive of the preliminary recommendation by the Wheat Industry Expert Group that regulatory advocacy should be undertaken by bodies other than Government. The Association holds the view that this function could be carried out by a peak industry and peak grower body.

Quality Assurance

The Association believes that quality assurance should be established as a new industry good function as the reputation of Australian wheat in the export market should be protected by ensuring that manifest and contractual descriptions are met. Independent externally audited systems which underpin product integrity should be required by all wheat exporters. The independent auditing standards and accreditation are an appropriate industry development function.

1.7 Performance of the wheat export marketing arrangements

According to Malcolm Bartholomaeus, market analyst, as published in *The Land*, 'Learning from Pools', 12 November 2009;

"under the single desk system, growers were paid, on average, the end of November Australian dollar value of December futures, plus \$10 per tonne. The

\$10 per tonne is the basis over and above the underlying futures price. Over time the basis was relatively stable. The worst it ever got down to was -\$6.65 in 1995/96, and then -\$29.99/t in 2006, although very few growers delivered to the pool that year. The best basis from AWB was \$27.18/t in 1999-00. In the 2008-09 year the very best cash prices just delivered a basis of \$10/t. Most growers achieved a basis well short of this, and the best pool only had a basis of -\$23.60/t. With no quality increments, the basis in the cash market should have been closer to +\$20/t to match what AWB used to deliver via their pool. As we enter the peak harvest period this year, basis levels are running at about \$0/t to +\$5/t, or still up to \$20/t lower than what we would have expected from the old single desk system”.

‘As we enter the peak harvest period this year, basis levels are running at about \$0/t to +\$5/t, or still up to \$20/t lower than what we would have expected from the old single desk system’.
Malcolm Bartholomaeus.

Mr Bartholomaeus highlighted a similar point in *The Land*, ‘Wheat price still false’, 26 November 2009;

‘ Under the old single desk system...for Australian Premium White (‘APW’) wheat, most growers would end up with a price at least close to the dollar value of December futures plus about \$20/t. And at the very least that is what growers should expect from traders in the deregulated market. In fact, because growers now do a lot of their own marketing, some of the \$6/t that AWB used to charge the pool should now flow back to them as well’.

As reported by the Wheat Export Marketing Consultation Committee in March 2007, Australian growers would be more vulnerable to the effects of US and EU farm subsidies in the absence of the single desk. The Association believes that this was the major reason that the US grains industry and Government vigorously objected to Australia’s former single desk arrangements and the advantages it provided.

The lack of aggregation has seen the loss of large markets due to dysfunction in the supply chain caused by having multiple sellers and their unwillingness to make long-term investments in premium markets. The National Pool model in a "normal" planting year with average seasonal conditions had 8 million metric tonnes of wheat hedged for price, foreign exchange, part basis and freight

hedged by August each season. The hedge values (if the National Pool were in place) during season 2008-09, including plus/minus effects such as the dilutionary effect of additional export tonnes and uplift on domestic values would have generated in excess of one billion dollars to wheat producers' bottom line. There is also loss to wheat producers of wholesale negotiating power without the National Pool negotiating supply chain charges and discreet premium sales as a single seller of Australian wheat.

Growers have been very averse to hedging themselves due to production uncertainty and lack of strength in their farm balance sheet. Growers can't afford to protect the Australian dollar value against the US dollar. This was done by the National Pool operator in the past for a minimal amount of individual grower risk. The extreme risk associated with such marketing practices must now be borne by growers alone, where as in the past was capitalised and shared under a National Pool. The National Pool achieved more stable pricing and better insulated growers from negative international price shifts and foreign currency exchange rate volatility.

Currently most pools are of relatively similar values (when taking on board financing costs and standardising the payment tranches to a given time limit). The reason for this is as follows;

Pool operators have little idea what tonnages they will be receiving in advance, therefore no forward pricing can occur.

- a) When most of the domestic, cash and forward contracts are accounted for, the remaining proposed Pool tonnage's are now split among a multitude of wheat exporters. In other words pool operators have little idea what tonnages they will be receiving in advance.
- b) As they cannot expect or predict tonnages, no forward pricing can occur. In other words they are all "flat footed" until tonnages come in.
- c) As a result all pricing starts from harvest onwards. Thus with limited time to instigate hedging strategies, all Pools are relatively similar.
- d) The only transparency being put to growers is really the difference in tranches payments and when they are likely to occur.

e) For those creative Pool operators offering financial incentives to growers to commit tonnages early, one can only envisage that they are running a fine line regarding futures & basis and therefore could be crossing the boundaries of 'prudent' grain marketing towards 'speculation'. Furthermore, should this not be the case then no doubt these early Pools will close very early in order to retain some credibility of being able to obtain the expected predicted outcome provided to growers in the first place. However the Association believes that it is more likely that the later Pool contributors will be very disappointed with the results of the Pool as it is wound up, with these pool contributors paying dearly for the early incentive scheme.

Compare this to the previous single desk wheat export marketing arrangements whereby:

- a) AWB had a reasonable idea what tonnage would be contributed to the Pool.
- b) Pricing of this Pool and its various risks usually commenced some 6-9 months prior to harvest.
- c) The Pool was always conservative, in most cases due to the volatile international market, however the AWB was able to build on this opening expected pool return.
- d) Most Pools went for 18 months (effectively two world grain cycles) more effectively managing the risk of grain volatility over this time period.
- e) No need to entice growers to contribute tonnages as time was on their side.

The issue with the AWB run National Pool is in effect similar to many growers who subscribe to a marketing organisation whereby, marketing of grain commences (in most cases) six to nine months prior to harvest, either by derivatives or hedging in the physical market once production is progressively assured (a de facto private pool) and or "scale up selling" either by derivatives or the physical.

The issue currently is that current pools have a very short time span as buyers have a new season coming in 12 months time, on this basis the Association believes that this leads to a situation which fails to deliver the advantages seen in the former national pool.

The issue currently is that current pools have a very short time span as buyers have a new season coming in 12 months time.

Also the pools are very grade sensitive as they are local or regionally established. The "domestic basis" is established the same way. Hence the ultimate pool value is in effect pegged. In the past with the AWB, the "basis" was Australia in relation to an export market.

The extra exporters expected to be offering prices at silos under the deregulated system has not developed. More competition by having multiple exporters has not delivered better prices in fact it has reduced competition without resulting in an increase to price offered to grain growers as multiple sellers swamp the buyers.

The lack of export wheat quality monitoring is a major concern to maintain existing markets as well as to develop more. The misrepresentation of, and reputation risk to Australian wheat is already evident. The Australian Quarantine and Inspection Service are stringent and provided adequate analysis for a single National Pool operator. The Association believes that the additional demands placed upon AQIS with the requirement to analyse the operations of 24 organisations means that it is not able to deliver the same standard of control over biosecurity and quarantine. This creates the risk that in the future these controls will either be relaxed by the Federal Government or in the alternative be deregulated.

The original Golden Rewards removed cliff face pricing and paid increments dependent upon quality. The only way that such a scheme could be implemented effectively was through the use of a National Pool.

The loss of the Golden Reward system has been replaced with reward systems in name only. That is that they do little to reward growers for delivering quality grain. The original Golden Rewards removed cliff face pricing and paid increments dependent upon quality. This scheme not only removed harsh penalties for sometimes slight deviations from grade specifications, but also

provided incentive for farmers to adopt innovative technologies and farming techniques that increase grain quality. The only way that such a scheme could be implemented effectively was through the use of a National Pool. Growers are now forced to keep grain on farm and blend it themselves.

Appendix 1 provides an example of a Golden Rewards matrix from the 2007-08 AWB pool.

Appendix 2 provides a simulated case study of the losses incurred during the 2009-10 harvest by not having a Golden Rewards scheme in place. In the case study the

particular grower has 944.62 tonnes, binned as APH1, APH2, APW1, ASW1, AUH2 and H2, all delivered to Condobolin GrainCorp during November 2009. Based upon applying the protein and screenings increments and moisture increments which were applied during the 2007-08 season, the most recent year of the Golden Rewards scheme's operation, to the grower's 2009 crop enables a comparison of the different programs. This comparison reveals that the removal of the Golden Rewards program and the reinstitution of cliff face pricing has led to a reduction in income to the grower of \$15,820.20. This equates to an average loss of \$16.75 per tonne.

Market development and trade advocacy which was well co-ordinated and directed with a National Pool in place is now conducted in a much less synchronised fashion, if done at all.

Market development and trade advocacy which was well co-ordinated and directed with a National Pool in place is now conducted in a much less synchronised fashion, if done at all. Capital injection into markets to assist with processing functionality and infrastructure development such as port unloading facilities to reduce costs associated with shipping and demurrage are also now non-existent. This obviously leads to reduced market opportunities. Money and time developing markets and assisting with buyer infrastructure overseas, which was once done by the National Pool operator, are now not being done. The Association believes that this in turn has lead to reduced marketing opportunities.

The spreadsheets currently in use at grain receival sites are badly set out and confusing. This is evidenced with grade information not grouped well and buyers often identified by initials and acronyms. The Association believes that the lack

of co-ordination provided by a National Pool Operator has led to these fundamental principles of market transparency failing to be implemented.

It is only because of severe drought that the damage done by deregulation of the export marketing system has not created greater losses.

Due to the aforementioned numerous negative impacts associated with wheat export deregulation, the Association believes the Federal Government should fund a comprehensive study on the economic and social impact of export wheat deregulation. As a component of this study, the Association suggests the Productivity Commission, as part of its inquiry into the Wheat Export Marketing Arrangements, should survey every registered wheat grower in Australia under the National Grower Registration with basic questions relating to their experience of deregulation. The Association also requests to have input into the construction of the survey.

2. Strengths of a National Pool

2.1 The Auswheat Plan

The Association's wheat export marketing policy set at the 2009 Annual Conference states:

That the Association actively lobby the Federal Government and the Opposition parties for the amendment of the export wheat legislation to improve the marketing system for the export of bulk wheat. This would be managed by a grower owned and controlled not for profit entity.

This grower owned and controlled entity could be formed from using the Australia Wheat Limited ('AusWheat') plan ('the Plan') as a template, and would have the following essential attributes.

- Operate the National Pool.
- Accountable grower based Board elected by grower shareholders.
- Premiums returned to farm gate as against previous investor/shareholder return.

- Ensures development of long-term premium markets with continuity of supply and quality and underpins the market as the buyer of last resort.
- Not-for-profit company based on co-operative principles.
- Industry inclusive marketing model that differentiates and discriminates products to extract maximum returns from market. This would reward excellence, innovation and adoption of new technology.
- Downward pressure on costs at all levels of activity and delivers functional supply chain.
- Assist establishment of independent organisation to promote and fund national industry good functions.

AusWheat will fulfil a mandate to maximise returns to wheat growers from the bulk export sales of their crop.

Under the plan, Auswheat would be a grower owned, low cost manager of the single desk for wheat, with a mandate to maximise returns to wheat growers from the bulk export sales of their crop. A focus will be on minimising the fixed component of the cost base wherever possible.

AusWheat would be structured as a grower owned, single share class, special purpose company under the *Corporations Act 2001*, with a charter to maximise national wheat pool returns based on cooperative business principles, with full and direct accountability to shareholders. AusWheat would continue to provide growers with the security of a “buyer of last resort” facility based on the pool receival standards. The company will develop an inclusive approach to pool management and provide strong export market signals to growers, buyers and financiers.

AusWheat would operate sophisticated management tools to manage the price, foreign currency exposure, credit risks and regional costs of the AusWheat National Pool.

AusWheat would capture value through an integrated supply management system for wheat from farm to international destinations, adopting policies aimed at countervailing distortions in international markets and developing policies to

protect pool equity. The company will maintain current markets and develop new, high value markets based on the charter of quality, service and price.

AusWheat would operate sophisticated management tools to manage the price, foreign currency exposure, credit risks and regional costs of the AusWheat National Pool and reward growers financially and equitably based on:

- grain quality;
- regional storage costs;
- accurate freight costs ;
- ship-loading efficiencies; and
- proximity to market.

AusWheat would be the exclusive sole manager and marketer of the export of bulk wheat from Australia under the Wheat Marketing Act legislative mandate from the Federal Parliament. The term “Single Desk”, and its various derivations are used to describe this mandated marketing role. The Single Desk functions that would be managed by AusWheat under the Plan include:

- Wheat acquisition and pool product marketing;
- Pool strategy, planning, accounting, reporting, distributions and administration;
- Quality assurance;
- Logistics, storage, port tendered services and contract management;
- Sales and wheat product technical marketing;
- Governance and compliance issues; and
- Stakeholder relations.

The business plan of Australia Wheat Limited is proposed as a “special purpose” company with limited liability and a single class share structure. To qualify, potential shareholders must be active growers and deliverers of wheat to the company. The Board will be able to cancel the \$1.00 nominal value share of an inactive Member to ensure the Register of Members reflects only active growers. Member voting entitlements will be aligned to deliveries of wheat into the AusWheat National Pool.

The global wheat industry is dominated by a small number of privately owned, for-profit oligopolists who control approximately 70% of the global marketplace. Australian wheat growers rely heavily on export revenue compared with wheat growers in most other countries who produce mainly for their domestic market. Export arrangements for Australian wheat are therefore of critical importance to the sustainability of the wheat industry in Australia.

Single Desk marketing used to be a key tool that allowed countervailing strategies to be deployed in ways that helped Australian wheat to compete in distorted global markets. The Australian Single Desk system of marketing export wheat on behalf of producers made it possible to:

Single Desk marketing used to be a key tool that allowed countervailing strategies to be deployed in ways that helped Australian wheat to compete in distorted global markets.

- Establish an integrated marketing system which captures economies of scope and scale throughout the value chain.
- Manage relationships between production, quality and market demand to achieve the optimum outcome for the Australian export wheat industry.
- Capture efficiencies of scale in storage, handling and transport.
- Manage market price shifts and foreign currency exposure.
- Develop and promote Australian wheat as a branded product to secure premium paying and stable international markets.

2.2 Profit centre at farm gate

Under the Plan, AusWheat would work with providers of services in wheat storage, handling, transport and ship-loading, to select and manage the path to market that delivers the highest return to the grower.

The value created by AusWheat through this overall management approach will be passed to the individual wheat grower through an open and transparent AusWheat National Pool distribution matrix that reflects logistics such as:

- regional storage costs;
- site-to-sea costs;
- ship-loading efficiencies;
- blue water port costs; and
- proximity to market.

The new Single Desk will determine on its merit the value of calculating pool returns to growers where there is discernable increased value due to proximity to market or other clearly identifiable benefits and award a proper additional premium to those pool contributors who are entitled to such benefits.

2.3 Competitor analysis

The international grain market is characterised by oligopolistic structures. A few multinational, often privately owned, agribusiness firms – such as Cargill, Archer Daniels Midland ('ADM') and ConAgra – dominate agricultural commodity production, transportation and processing around the world. In 2003 Cargill, Louis Dreyfus, ADM and Bunge controlled 73% of global grain trade (Source: OneSource).

These multinational traders control annual revenues greater than the total value of the entire Australian grains industry. These corporations have considerable influence over the world wheat trade based on their market power backed-up by vertical integration and "closed loop" control over agricultural commodities.

With exceptions for bagged and container exports, the Single Desk system aggregates the annual output of producers Australia-wide and markets the output strategically to around 50 countries worldwide, managing the risks associated with this process over a period of some 15 to 18 months to clear stocks after each annual harvest. At the end of this period, growers receive the average (pool) of all prices earned by the AusWheat National Pool for the aggregated tonnes of the wheat grade. This process of aggregation and averaging of sales prices achieved throughout the season is one of the main strengths of the Single Desk marketing system.

Single Desk marketing allows Australian farmers to work at countervailing the power of the oligopolist traders and "fight above their weight" in a very tough marketplace. Current global markets include low cost producing countries and sellers operating with government assistance provided at either the production or trade level. With the benefits of an integrated supply chain and managed pathway to market, the Single Desk is able to maximise returns to growers and prevent the market falling to the lowest common

This process of aggregation and averaging of sales prices achieved over 15 to 18 months is one of the main strengths of the Single Desk marketing system.

denominator.

An important function of the Single Desk is to provide a market structure in which there is only one buyer. While the domestic market is deregulated, there are areas of market failure due to location and other factors. Growers therefore place a high economic value on the legislative obligation that requires AusWheat to “stand in the market” as a buyer whenever a grower is a seller of wheat that meets the minimum export quality standards. This obligation to purchase wheat when offered to the company goes hand-in-hand with Single Desk marketing.

The AusWheat National Pool model does not preclude internal competition.

The AusWheat National Pool model does not preclude internal competition. Domestic demand for wheat has been increasing in recent years. The liberalisation of wheat exports in other than bulk form will also result in increased tonnes being exported outside of the national bulk pool. Direct competition also comes in the form of redirected resource allocation such as land being redirected from wheat production.

Single Desk marketing of export wheat is strongly supported by Australian wheat growers. Growers base their support of Single Desk marketing on benefits including:

- Universal access to international markets and the countering, in part, of market distortion by foreign government subsidies;
- Income and price smoothing, with premiums extracted in export markets, while countervailing the power of traders and processors;
- The facilitation of risk management, economies of scale and “government to government” sales; and
- The ability to transform Australian wheat from a commodity classification into a higher value branded product, with better market promotion and quality control.

Single Desk marketing of export wheat delivers a level of confidence that:

- Allows growers to plant wheat with greater market certainty and a lower risk profile compared;
- with alternative systems of marketing; and
- Provides financial institutions a basis on which to lend to wheat growers ahead of harvest.

2.4 Co-ordinated risk management (hedging)

Under the Plan, the Directors of AusWheat would require the Executive to operate within strict risk management policies and procedures based on established and recognised best practice. The policies will combine the disciplines of gathering global market intelligence; strong operational performance and sound economic management.

AusWheat will be able to achieve more stable pricing and better insulate growers from negative international price shifts and foreign currency exchange rate volatility.

The company's role as the Single Desk marketing entity would extend beyond the obligation to develop international markets for Australia's bulk wheat exports. It includes acting in a manner that provides high level risk management tools. Through the process of "pooling" Australia's export wheat crop, AusWheat would be able to achieve more stable pricing and better insulate growers from negative international price shifts and foreign currency exchange rate volatility.

To achieve a level of stability that provides underlying support forward budgeting, cash flow and Estimated Pool Returns, Board policies and procedures will address:

- foreign currency exchange risk, principally between A\$ and US\$;
- price risk exposure, managed by participating in US futures commodity exchange and other exchanges eg. freight.
- timing of risk management implementation; and
- provision of grower choice in managing individual risk appetite and profile.

2.5 Industry inclusive marketing

Under the Plan, each grower who delivers wheat to the AusWheat National Pool accesses markets that supply many millions of end consumers in some 50 countries worldwide.

AusWheat would then capture benefits for these Australian growers, through relationships with markets that recognise the Australian wheat industry's product quality, reliable logistics and technical support. Having exclusive access to bulk exportable tonnes across Australia, that Association believes that AusWheat would be able to better service premium paying customers and deliver wheat products to meet end

Having exclusive access to bulk exportable tonnes across Australia, AusWheat can better service premium paying customers and deliver wheat products to meet end use requirements.

use requirements. Australian wheat can therefore be marketed as a highly reputable branded and differentiated product that attracts a higher net return compared with lower valued bulk commodities.

AusWheat, under the Plan will be responsible for develop operating plans that maintain and build on the wheat industry's 60 year history of sound customer relationships and market presence. The AusWheat National Pool will reward individual growers based on their delivered wheat quality and the logistical cost of getting their wheat to market.

As part of its mandated commitment to maximise returns to Australian wheat growers, under the Plan, AusWheat will be required to engage with existing and potential providers of services to the AusWheat National Pool in negotiations that will drive efficient use of resources throughout the supply chain.

The AusWheat approach to marketing pooled wheat is based on developing an "inclusive" business model. The company will focus on wheat marketing and securing the best possible network of service providers in a transparent and competitive manner. Company plans do not include the provision of grain handling, storage or transport services, removing the potential for significant conflict between AusWheat and existing service providers.

Under the Plan, AusWheat will be required to ensure the AusWheat National Pool maintains a professional and best practice approach to managing physical sales and execution, commodity hedging, foreign currency exchange exposure and international credit risk management. The Association believes that the underlying benefit derived from maintaining selling price confidentiality in international markets will allow AusWheat to extract market premiums and higher export earnings through price discrimination between markets. This critical approach is built into the Single Desk marketing model which ensures Australian wheat growers do not compete against each other internationally, to the detriment of the wheat industry.

As such, AusWheat will be best equipped to generate premiums under the Plan by offering customers:

- security of supply;
- product quality; and
- consistency.

2.6 Aggregation and efficiencies of scale

The Plan recognises the value of the Single Desk as represented by the following key success factors:

- It aggregates the output of wheat producers across Australia and markets the output through strategic plans that identify and capture the value of discrete markets worldwide. Australian growers are not “played off” against each other in international markets with day to day price confidentiality an important issue.
- It enables an integrated marketing approach which captures benefits for growers throughout the value chain. The manager of the Single Desk is mandated to ensure wheat producers receive the highest possible farm gate return.
- It ensures continuity of supply and quality and underpins the market as the “buyer of last resort”.
- Economic benefits accrue from scale with the cost of sophisticated tools for managing price, currency and credit risks shared equitably. The Single Desk enables growers to capture supply chain efficiencies and lift earnings through the elimination of waste, better asset utilisation and reduced costs.
- Clear and transparent signals communicating the link between price, quality, demand and farm gate returns are achieved through a national pool.
- The Single Desk system can connect the international customer base and Australian producers and plant breeders to convey emerging market requirements, in order to move from production based selling to demand based production and marketing with the aim to capture premiums.

AusWheat will be able to send clear market signals to Australian wheat growers.

Australian growers are not “played off” against each other in international markets with day to day price confidentiality an important issue.

2.7 Price strategy and transparent price signals

Utilising the Single Desk privilege under the Plan, AusWheat will be able to send clear market signals to Australian wheat growers. This will help migrate the industry from a production based marketing system to demand driven production which will move the Australian wheat crop towards customer requirements and in the process

provide greater opportunities for growers to capture a greater share of the value created.

Under the Plan, AusWheat will develop a payment for quality matrix, building on the former Golden Rewards system. Growers will receive market signals for the grain quality characteristics valued by international customers. Wheat storage segregations will also be managed in ways that support marketing into the high-return end of the market. The former Golden Rewards approach is a sophisticated grading and payment system that removes “cliff face discount pricing”, and severe penalties if a particular delivery narrowly misses the required quality attribute. The Single Desk allows a whole-of-value-chain approach to managing the quality of delivered wheat and the quality specifications of sales contracts.

The Board of AusWheat will establish operating guidelines and procedures that ensure the AusWheat National Pool will only fund expenses directly related to the marketing of pooled wheat.

2.8 Operating expenses

The AusWheat business model is based on the provision of management services free of obligation to generate profits for an investor class of share. The model also focuses on “right sizing” the management role and scope of administrative activities. The Board of AusWheat will establish operating guidelines and procedures that ensure the AusWheat National Pool will only fund expenses directly related to the marketing of pooled wheat.

The AusWheat Directors will seek to minimise the fixed overhead costs of managing the pool in favour of aligning costs to the variable nature of the tonnes of wheat delivered into the pool from one year to the next.

The Board will also explore the full range of risk management options to mitigate against blow-outs in unit price costs from one season to the next.

As an ongoing business, the estimated annual AusWheat National Pool administration cost for a 14 million tonne crop is estimated to be in the range \$35-45 million. This figure represents an aggregated cost of all Single Desk administrative functions i.e. the AusWheat and outsourced costs combined that would be funded from sales revenue. This compares favourably

AusWheat expects costs to market a 14.6 million tonne pool to be about \$5.50 per tonne less than the previous arrangements based on 2004/05 season figures.

with the average of \$95.5 million per annum paid to AWB Ltd from the 2002/03, 2003/04 and 2004/05 season pools.

The AusWheat model would reduce administration costs significantly. Removing the previous pool manager's out-performance margin ('OPI') will generate an immediate savings. OPI payments for seasons 2002/03, 2003/04 and 2004/05 totalled \$99 million. By removing all unnecessary layers of administration and reducing the burden of industry good costs the AusWheat National Pool marketing operations and the resultant support cost will also reduce considerably. Further cost reductions are achievable by adopting new and different business practices. More effective use of technology will further reduce operational costs. AusWheat expects costs to market a 14.6 million tonne pool to be about \$5.50 per tonne less than the previous arrangements based on 2004/05 season figures, or \$4.64 per tonne less based on the 3 year average.

3. Conclusion

Growers have been very averse to hedging themselves due to production uncertainty, farm capital and the skills required. Growers as individuals are unable and/or can't afford to protect against the range of daily values that are a risk to their business. This was done by the National Pool operator in the past for a minimal amount of individual grower risk. The extreme marketing risk growers now have to bear alone, which used to be shared under a National Pool.

Issues including a lack of quality assurance, market development and trade advocacy also mean that a return to a National Pool system is imperative.

Australian growers are more vulnerable to the effects of US and EU farm subsidies in the absence of the single desk, hence the US grains industry and Government's vigorous objection to the former single desk arrangements. The promised extra exporters offering prices at silos has not developed. More competition by having multiple exporters has not delivered better prices in fact it has reduced competition and increased dysfunction without resulting in increased prices offered to grains producers.

The extension of powers within the Act for WEA to also benchmark the performance of the accredited bulk wheat exporters in the interests of market transparency would be useful in assisting growers make more informed marketing decisions under the current arrangements.

Until the 'natural monopolies' created by Australia's rail system are eliminated by a western rail link from Melbourne to Brisbane, grain delivered into a receival point is committed to a specific port even if that port is inefficient, congested, or expensive to ship from. Further to this the Association believes greater transparency of the freight market must be enforced for the interim, in order to create an opportunity for competition. The industry is badly in need of freight rates which accurately reflect real freight costs.

The port monopolies and their apparent dysfunction have only been controlled by the countervailing power of a national pool manager, and in our view will only be resolved satisfactorily by this process in the future.

Finally, as part of its review of the Wheat Export Marketing Arrangements, the Productivity Commission should survey all Australian registered growers of wheat to assess their experience of deregulation. The Association requests to also have input into the formation of such a survey.



Base Rate

\$448.35

07 Jul 2009

2007/2008 Season

APH Estimated No. 1 Pool Return

(\$/t FOB GST Exclusive)

Screenings %	Protein %	6.0	7.0	8.0	9.0	10.0	11.0	11.5	12.0	12.5	13.0	13.5	14.0	14.5	15.0	16.0
0.00		(29.00)	(24.00)	(19.00)	(14.00)	(9.00)	(5.00)	(3.00)	0.00	6.25	12.50	18.00	23.50	28.00	32.50	32.50
1.00		(31.50)	(26.50)	(21.50)	(16.50)	(11.50)	(7.50)	(5.50)	(2.50)	3.75	10.00	15.50	21.00	25.50	30.00	30.00
2.00		(34.00)	(29.00)	(24.00)	(19.00)	(14.00)	(10.00)	(8.00)	(5.00)	1.25	7.50	13.00	18.50	23.00	27.50	27.50
3.00		(36.50)	(31.50)	(26.50)	(21.50)	(16.50)	(12.50)	(10.50)	(7.50)	(1.25)	5.00	10.50	16.00	20.50	25.00	25.00
3.50		(37.75)	(32.75)	(27.75)	(22.75)	(17.75)	(13.75)	(11.75)	(8.75)	(2.50)	3.75	9.25	14.75	19.25	23.75	23.75
4.00		(39.00)	(34.00)	(29.00)	(24.00)	(19.00)	(15.00)	(13.00)	(10.00)	(3.75)	2.50	8.00	13.50	18.00	22.50	22.50
4.50		(40.25)	(35.25)	(30.25)	(25.25)	(20.25)	(16.25)	(14.25)	(11.25)	(5.00)	1.25	6.75	12.25	16.75	21.25	21.25
5.00		(41.50)	(36.50)	(31.50)	(26.50)	(21.50)	(17.50)	(15.50)	(12.50)	(6.25)	Base Rate		5.50	11.00	15.50	20.00
5.50		(42.75)	(37.75)	(32.75)	(27.75)	(22.75)	(18.75)	(16.75)	(13.75)	(7.50)	(1.25)	4.25	9.75	14.25	18.75	18.75
6.00		(44.00)	(39.00)	(34.00)	(29.00)	(24.00)	(20.00)	(18.00)	(15.00)	(8.75)	(2.50)	3.00	8.50	13.00	17.50	17.50
6.50		(45.25)	(40.25)	(35.25)	(30.25)	(25.25)	(21.25)	(19.25)	(16.25)	(10.00)	(3.75)	1.75	7.25	11.75	16.25	16.25
7.00		(46.50)	(41.50)	(36.50)	(31.50)	(26.50)	(22.50)	(20.50)	(17.50)	(11.25)	(5.00)	0.50	6.00	10.50	15.00	15.00
8.00		(49.00)	(44.00)	(39.00)	(34.00)	(29.00)	(25.00)	(23.00)	(20.00)	(13.75)	(7.50)	(2.00)	3.50	8.00	12.50	12.50
9.00		(51.50)	(46.50)	(41.50)	(36.50)	(31.50)	(27.50)	(25.50)	(22.50)	(16.25)	(10.00)	(4.50)	1.00	5.50	10.00	10.00
10.00		(54.00)	(49.00)	(44.00)	(39.00)	(34.00)	(30.00)	(28.00)	(25.00)	(18.75)	(12.50)	(7.00)	(1.50)	3.00	7.50	7.50

MOISTURE	
%	\$
8.0	9.0
8.5	8.0
9.0	7.0
9.5	6.0
10.0	5.0
10.5	4.0
11.0	3.0
11.5	2.0
12.0	1.0
12.5	0.0
13.0	(2.5)

APPENDIX 1 – GOLDEN REWARDS MATRIX

APH is available in QLD and NSW only. Increments/(Decrements) in the active payment scales are estimated as at the date shown above. EPR = Base Rate
All payments will be active to 0.1 percent for protein, screening and moisture content. Base Rate refers to the Estimated Pool Return (EPR)
at a defined level of protein, screenings and moisture for each pool pay grade.

+/- Protein & Screening increment
+/- Moisture increment

APPENDIX 2 – ESTIMATED LOSS FROM ABSENCE OF GOLDEN REWARDS

Grower Delivery Summary

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GrainCorp GROWER DELIVERY SUMMARY

From : 1/8/2009
To : 24/11/2009

Date : 24/11/2009
Time : 10:04:41 PM

Receipt Number / Docket	Date	\$/T	Var et al Grade Tonnes	Truck	Contract	Pay Type	Var	Prot%/ Moist%	Chon / Scrn %	Other Code	Value	Per Tonne Loss	Per load Total Loss
Season 09													
Site 0600 CONDOBOLIN			Buyer	WARE	WAREHOUSING	Binned As Grade	APH1						
11020688001 / 3/11/2009			APH1	20.62	TWK623	W	SUV	15.1% / 8.8%	80.5 / 3.2%				
110206880													
11020704201 / 3/11/2009			APH1	19.44	TWK6263	W	SUV	15.1% / 8.7%	80 / 3.9%				
110207042													
11020784501 / 4/11/2009			APH1	23.64	TWK623	W	SUV	15.1% / 8.8%	81 / 4.7%				
110207845													
11020799601 / 4/11/2009			APH1	26.02	TWK623	W	SUV	14.9% / 8.8%	81 / 4.2%				
110207996													
11020842001 / 5/11/2009			APH1	21.36	TWK623	W	SUV	14.4% / 8.8%	81 / 4.2%				
110208420													
11020943301 / 6/11/2009			APH1	24.30	TWK623	W	SUV	14.1% / 9.1%	82 / 2.5%				
110209433													
11020959501 / 6/11/2009			APH1	22.34	TWK623	W	SUV	14.2% / 9%	82 / 2.4%				
110209595													
11020975001 / 6/11/2009			APH1	22.4	TWK623	W	SUV	14.2% / 9%	81.5 / 2.2%				
110209750													
11021096201 / 6/11/2009			APH1	21.48	TWK623	W	SUV	14.7% / 8.9%	81 / 4.3%				
110210962													
11021696001 / 14/11/2009			APH1	23.98	TWK623	W	SST	14.3% / 7.6%	81.5 / 2%				
110216960													
11021707401 / 14/11/2009			APH1	23.54	TWK623	W	SST	14.4% / 7.6%	80 / 2.7%				
110217074													
11021747201 / 14/11/2009			APH1	22.9	TWK623	W	SST	14.1% / 7.7%	81 / 4.9%				
110217472													
Subtotal				272.58				Average Test for Grade	14.54% / 8.56%	81.04 / 3.43%			
Grade								Total loss per grade					
												\$7404.53	
Season 09													
Site 0600 CONDOBOLIN			Buyer	WARE	WAREHOUSING	Binned As Grade	APH2						
11021072601 / 7/11/2009			APH2	23.42	TWK623	W	SUV	13.6% / 9.4%	80.5 / 5%				
110210726													
11021167301 / 8/11/2009			APH2	24.4	TWK623	W	SUV	13.2% / 9.5%	82 / 2.7%				
110211673													
11021257201 / 9/11/2009			APH2	24.6	TWK623	W	SUV	13.6% / 9.2%	82 / 2.8%				
110212572													
11021632601 / 13/11/2009			APH2	25.52	TWK623	W	HAT	13.5% / 7.9%	83 / 2.2%				
110216326													
11021649201 / 13/11/2009			APH2	23.5	TWK623	W	HAT	13.7% / 7.7%	82 / 2%				
110216492													
11021812401 / 16/11/2009			APH2	22.76	TWK623	W	SST	13.1% / 7.4%	80 / 4.6%				
110218124													
11021831201 / 17/11/2009			APH2	21.3	TWK623	W	SST	13.5% / 7.3%	79.5 / 4.4%				
110218312													
Subtotal				165.5				Average Test for Grade	13.46% / 7.3%	81.29 / 4.4%			
Grade								Total loss per grade					
												\$2879.98	

Grower Delivery Summary

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Grade		Grade		8.37%		3.34%							
Season 09		Grower						per tonne	per load				
Site	0600	CONDOBOLIN	Buyer	WARE	WAREHOUSING	Binned As	Grade	APW1	P/S	M	Total loss	Total loss	
11021382101 /	10/11/2009	APW1	25.02	TWK623	W	SUV	11.4% /	81.5 /	\$6.25	\$7	\$13.25	\$31.51	
110213821							9.2% /	4.7%					
11021416001 /	10/11/2009	APW1	24.66	TWK623	W	SUV	11% /	82 /	\$5	\$7	\$12	\$295.92	
110214160							9.1% /	3.9%					
11021429601 /	10/11/2009	APW1	20.9	TWK623	W	SUV	10.5% /	81.5 /	\$0	\$7	\$7	\$146.30	
110214296							8.7% /	4.9%					
Subtotal			70.58			Average Test for	10.99% /	81.67 /					
Grade						Grade	9.02% /	4.48%					
Total loss per grade								\$773.73					
Season 09		Grower											
Site	0600	CONDOBOLIN	Buyer	WARE	WAREHOUSING	Binned As	Grade	ASW1					
11021303601 /	9/11/2009	ASW1	25.98	TWK623	W	SUV	10.1% /	82.5 /	\$5	\$5	\$10	\$259.80	
110213036							9.9% /	2.6%					
11021544201 /	12/11/2009	ASW1	23.16	TWK623	W	SUV	9.9% /	82.5 /	\$5	\$8	\$13	\$301.08	
110215442							8.3% /	2.6%					
11021587301 /	12/11/2009	ASW1	26.62	TWK623	W	SUV	9.9% /	83 /	\$5	\$8	\$13	\$346.06	
110215873							8.4% /	2.7%					
Subtotal			75.76			Average Test for	9.97% /	82.67 /					
Grade						Grade	8.88% /	2.64%					
Total loss per grade								\$906.94					
Season 09		Grower											
Site	0600	CONDOBOLIN	Buyer	WARE	WAREHOUSING	Binned As	Grade	AUH2					
11020723001 /	3/11/2009	AUH2	20.64	TWK623	W	SUV	15.1% /	79 /	\$0.50	\$8	\$8.50	\$175.44	
110207230							8.4% /	5.9%					
11021029501 /	7/11/2009	AUH2	23.04	TWK623	W	SUV	15.8% /	79.5 /	\$4.50	\$7	\$11.50	\$80.63	
110210295							9% /	9.8%					
11021084401 /	7/11/2009	AUH2	24.54	TWK623	W	SUV	13.1% /	79 /	\$4.50	\$6	\$11.50	\$36.81	
110210844							9.3% /	7.6%					
Subtotal			68.22			Average Test for	14.62% /	79.17 /					
Grade						Grade	8.93% /	7.83%					
Total loss per grade								\$131.62					
Season 09		Grower											
Site	0600	CONDOBOLIN	Buyer	WARE	WAREHOUSING	Binned As	Grade	H2					
11021141501 /	8/11/2009	H2	26.06	TWK623	W	SUV	12.5% /	82 /	\$10	\$6	\$16	\$416.96	
110211415							9.3% /	2.2%					
11021180201 /	8/11/2009	H2	24.04	TWK623	W	SUV	12.7% /	82 /	\$8	\$6	\$14	\$336.56	
110211802							9.3% /	3.1%					
11021192001 /	8/11/2009	H2	24.52	TWK623	W	SUV	12.2% /	81.5 /	\$7	\$6	\$13	\$318.76	
110211920							9.3% /	2.6%					
11021241001 /	9/11/2009	H2	24.42	TWK623	W	SUV	12.9% /	82 /	\$10.50	\$7	\$17.50	\$427.35	
110212410							9% /	2.2%					
11021277101 /	9/11/2009	H2	23.68	TWK623	W	SUV	11.5% /	81.5 /	\$5	\$5	\$10	\$236.80	
110212771							9.7% /	2.8%					
11021320201 /	9/11/2009	H2	26.76	TWK623	W	SUV	11.5% /	81 /	\$2.50	\$7	\$9.50	\$254.22	
110213202							9.2% /	4.2%					
11021339001 /	10/11/2009	H2	22.5	TWK623	W	SUV	11.6% /	81 /	\$7	\$7	\$14	\$315	
110213390							9% /	3.1%					
11021366601 /	10/11/2009	H2	25.96	TWK623	W	SUV	11.6% /	81.5 /	\$4.50	\$7	\$11.50	\$298.54	
110213666							9.1% /	4%					
11021405301 /	10/11/2009	H2	24.34	TWK623	W	SUV	11.9% /	81 /	\$2	\$7	\$9	\$219.06	
110214053							9% /	4.8%					
11021495201 /	11/11/2009	H2	24.72	TWK623	W	SUV	11.6% /	80.5 /	\$12	\$7	\$19	\$469.68	
110214952							8.7% /	0.4%					
11021514001 /	11/11/2009	H2	24.8	TWK623	W	SUV	11.5% /	82 / 5%	\$0	\$8	\$8	\$198.40	

<http://apps.graincorp.com.au/Graincorp/Grower/Report/Warrant.asp?ID=2009112422...> 24/11/2009

11/11/2009	H2	20.18	TWK623	W	SUV	8.5%	11.5% / 81.5 /						
						8.2%	4.2%	P/S	M	Per Tonne	Per Load		
Subtotal Grade		291.98				Average Test for Grade	11.92% / 81.46	\$2.50	\$9	\$11.50	\$	232.07	
Subtotal Buyer		944.62				Total loss per grade.	9.04% 3.21%						
Subtotal Site		944.62											
Total Grower		944.62											

Grower : 10519420 - End of Records

To print this report, press the Print Button on your browser. You may need to set the page orientation to Landscape
This report displays information currently in the GrainCorp systems. Delay in display of manually processed receivals may be experienced

pjm1@bigpond.net.au

E-Mail Report

Total loss this year : \$15820.20

For any further operational or technical enquiries please [contact us](#).

Increased freight Costs : approx. \$17p/tonne
total = \$16058.54.

<http://apps.graincorp.com.au/Graincorp/Grower/Report/Warrant.asp?ID=2009112422...> 24/11/2009