Wheat Industry Consultative Committee – Wagga Wagga 12 February 2007

I am a wheatgrower from Barmedman, cropping 10000 ac each year, about 60% of it wheat. I am opposed to the single desk and support complete deregulation, the quicker the better. I will be making a written submission amplifying my views.

I am also a non-executive shareholder-elected director of Graincorp which is making its own submission. In addition, I have been an economic and policy consultant for the past 30 years, and have consistently opposed the single desk because it makes wheatgrowers worse off than under a competitive structure.

Maintaining the *status quo* in the light of the Cole inquiry is unrealistic. Nor will minor tinkering suffice. AWB's reputation among Australia's export wheat customers has been irreparably tarnished.

Most of AWB's problems are cultural and derive from its monopoly structure.

AWB has acted like a schoolyard bully for years – savaging those who dared criticise it, while duchessing potential allies left, right and centre. Paying supporters to attend last year's AGM is just one, if perhaps a particularly egregious, example.

Like any monopoly, AWB has had a bloated cost structure. Its excessive costs in operating the single desk have been conservatively estimated at $6-11 per tonne, or $80-140m pa.

The management fee and outperformance structure represent a massive transfer from wheatgrowers to AWB shareholders, while the still secret break fee is breath taking in its audacity. AWB's ship chartering operations – which should benefit wheatgrowers directly via the pool – have been siphoned off to shareholders. That wheatgrowers haven't rebelled against these unjust cost imposts and transfers reflects a combination of their ignorance, AWB's lack of transparency, and the effectiveness of its spin doctors.

The biggest hoax perpetrated on wheatgrowers is that we obtain price premiums in world markets <u>because</u> we have a single desk. We often do receive price premiums but they arise because of the quality of our wheat or our proximity to customers, hence freight advantage.

Many growers do not really understand what the obligations of the single desk are. It has an obligation to offer a national pool, receive all wheat delivered to it, perform an export function, and exercise a veto power over other potential exporters.

The minimalist change seeks to retain all these powers, while removing some of the existing conflicts. This is AWB's demerger proposal.

The next step would be to accept that other exporters should be allowed – that is, by removing AWB(I) export veto and giving it to an independent body – not the Minister nor the past WEA given its lamentable performance. This is similar to the licensing system for WA coarse grains.

Going further would be to relieve AWB of its obligation to operate a national pool, perhaps in favour of a series of regional pools. This is roughly equivalent to the proposed changes for barley in South Australia.

Finally, the market could be opened up to all comers, with desirably the development of an industry-run accreditation system, analogous to the task well performed now by NACMA for other grains, to safeguard Australia's quality reputation.

Given that change is inevitable, consideration needs to be given to the end point and the rate of transition. I advocate the end point be complete deregulation – that is, normal business structures that apply almost everywhere else in the economy including agriculture, with a minimal transition period. History tells us that prolonged transitions, while well intentioned, usually are counterproductive.

As a wheat producer facing increasingly competitive world markets, an exchange rate squeeze resulting from Australia's mineral and resources exports success, not to mention the vagaries of Australia's climate, I cannot afford to be captive to a high cost monopoly marketing organisation whose principal obligations are owed to its shareholders not wheatgrowers.

If my enterprise is to remain viable I must have the choice to shop around for marketing options and operators who will offer me the best net returns. While these separate organisations are also seeking to maximise their profits, they have to compete to attract my business, and so have to offer the best net prices (gross prices at the lowest cost), which is not the way a monopolistic AWB operates.

In my written submission I will rebut a number of other arguments that have been put forward in support of the single desk – like the national pool outperforms the world market by $20 per tonne, because the US hates the single desk it must be good, the single desk gives us market power in a corrupt world market, only AWB can operate a pool, the national pool is the buyer of last resort, AWB provides outstanding technical support to overseas customers, only AWB can sell a big crop, and without AWB regional monopolies – presumably such as Graincorp – will harm growers.