<u>Submission to the Wheat Export Marketing Arrangements Inquiry Draft Report March 2010</u>

<u>From Ralph Billing "Rosemere" Marrar NSW</u>

<u>Introductory comments</u>

This submission follows our initial submission (No30, November 13 2009) and includes our experiences of a second harvest under the new arrangements and our reactions to the Inquiry Draft Report of March 2010.We are "small" wheat growers farming a 638ha mixed farm about 50km north of Wagga Wagga. Our area recently had its EC drought status extended for the 8th year (to March 31 2011) following another very poor harvest (168t of wheat for our farm compared with pre 2002 of 800t!)

As stated in our initial submission we believe the decision to deregulate bulk wheat export marketing has not been in the best interests of the majority of growers, the future of rural communities or the national economy as Australia fights for survival in a world market economy dominated by much bigger players supported by government subsidies and more and more influenced by speculators completely out of our control.

We are very disappointed the draft report has taken the "economic rationalist" approach and is now recommending complete deregulation within 3 years without any consideration of any alternative system. The inquiry has all the hallmarks of "rubber stamping" a system forced on our industry for political reasons and strongly supported by traders not growers.

From the beginning the terms of reference were too narrow and little effort was made to seek real input from growers. This is reflected in the submissions received to February 10 2010 of which less than half were from growers; only 3 growers addressed the public hearings; the public hearings were and will all be held in the capital cities; and there with no reports at all from the 6 regional meetings which had no status in the inquiry. <u>Note</u> The lack of submissions from growers reflects their feeling of hopelessness in trying to change a political decision to deregulate their industry against the wishes of 80% plus of them.

We are amazed and angry the Draft Report completely omits any examination of the impact of the new arrangements on growers and their communities both in the short and long term. Surely any evaluation of such a major change should include these issues. Where is the impact statement on growers?

The Draft Report and Recommendations

We have tried to read the full report in detail but do not have the time or the inclination to comment on all aspects of it- or to respond to all the recommendations. The following are general comments.

1.The conclusion that the new arrangements are working well seems to be based mainly the fact that we now have 29 accredited marketers, some new export markets, and we have exported 12.2mt of wheat in the first season! There is no analysis of whether growers or traders made any more money under the new arrangements, whether the new export destinations were for bulk or container trade, once off or likely to be lasting markets, how many of the accredited marketers/buyers were actually active and what is happening with the other 8mt of the 08/09 harvest and the 09/10 harvest- much of which is probably still on farms or in warehouse?

2.We believe September 2011 is too early to remove the need for exporters to be accredited, and too early to disband the WEA. We are very concerned the marketing of Australian wheat should be by Australian companies/cooperatives registered in, and paying taxes to Australia.

3. The port and up country access requirements are even more important to retain, especially given the moves by the three major players to link up more and more with the “multinational”traders. The ownership and control of Australias’ bulk wheat export facilities must stay with Australia.

4. We are very concerned at the increased use of road transport under the new arrangements when rail is the most efficient way to move bulk wheat and the current infrastructure is designed for it, both up country, and at the ports. We also believe the new arrangements have, and will continue to cause over capitalization of storage facilities- especially on farms- with the resultant quality problems and additional costs to growers. The draft report makes the comment Australia already has enough storage for 2 years grain production

5.We believe the government should continue to fund the ABS and ABARE to provide both core long- term wheat market information and the additional wheat data collections including stocks information by state. The cost is not high and it is only fair that our government makes some contribution to the industry given the huge funding our competitors receive from their governments: for example your report on the funding given to the US Wheat Associates by the US government.

6. Quality standards and market segmentation. This is a critical area for our industry as we cannot afford to lose our hard won reputation for quality built up over the years under the single desk marketing system. Maintaining quality and a premium for our product has to be good for the Australian economy and our international standing and therefore deserves government funding. One of the greatest losses to growers under deregulation has been the decision by all buyers to return to "cliff face pricing" without any price incentives for producing high quality wheat. The Reports' statement on page XXII that "growers are now seeing prices that more accurately reflect the quality of the grain they grow" is completely wrong.

The current system of end point royalty collection is an unnecessary cost to marketers (who will obviously pass it straight back to growers, and is offensive to growers who see it as money being deducted from their grain payments without authority. The collection system should revert to growers paying the royalties direct to the seed companies as an annual return.

7. We agree with the Report that other industry good functions need to be determined by the industry and believe GRDC, as an independent body, should provide them via an appropriate levy on growers and marketers.

Comments on the 09/10 season marketing under the new arrangements.

Our marketing was limited due to the small drought affected harvest but the wheat we did produce was of high quality with low screenings and high protein.
As in 08/09 there were no incremental quality payments within bin grades for cash and contract sales and only very limited protein increments paid on wheat sold into pools. ie all cash and contract prices were "flat price". As mentioned above under point 6 this is a direct loss under the new system and a transfer of grower income to the traders.

Also (as in 08/09) local buyers accepted all varieties of wheat into APH1 or APH2 bins (the highest quality) based solely on protein and with no concern for the milling quality of the varieties. In some cases varieties were not recorded on delivery dockets. This is a major threat to our quality reputation.

Silo prices during harvest fluctuated widely with at least a $20/t spread over the harvest period (2-3 weeks). Once warehoused, the prices offered for contracts out of warehouse were often much lower than the delivered silo prices for the same grade on the same day at the same silo.

Only one new accredited buyer (CBH) operated in our area but their prices were not competive and when questioned they said they were not really interested in buying wheat from southern NSW. Likewise Viterra(ABB) said they were mainly buying in South Australia and Victoria.Almost identical daily prices were offered at local silos by AWB, Graincorp and Cargill with unpredictable “spikes” when extra wheat was needed to “fill a ship”.

For grain still warehoused after harvest ie in our area from mid December to the end January, the prices offered declined with an occasional spike if you were lucky to spot it. Although several buyers offered pools these were not competitive with cash during harvest and although the positions changed as cash prices started to drop, the pool prices could not be sustained and the pools were closed. Cash and contract prices for wheat in our area are now $50/tonne less than at harvest and below the cost of production. The loss of the single desk has reduced the value of pools because the buyers operating them are not prepared to start hedging and currency strategies early in the year when the best opportunities for risk management occur.

Marketing is now a major stress for farming families in Australia and we believe, coupled with even lower prices predicted for the 10/11harvest season, and ever increasing costs, many people will leave the industry.

Ralph Billing April 23 2010