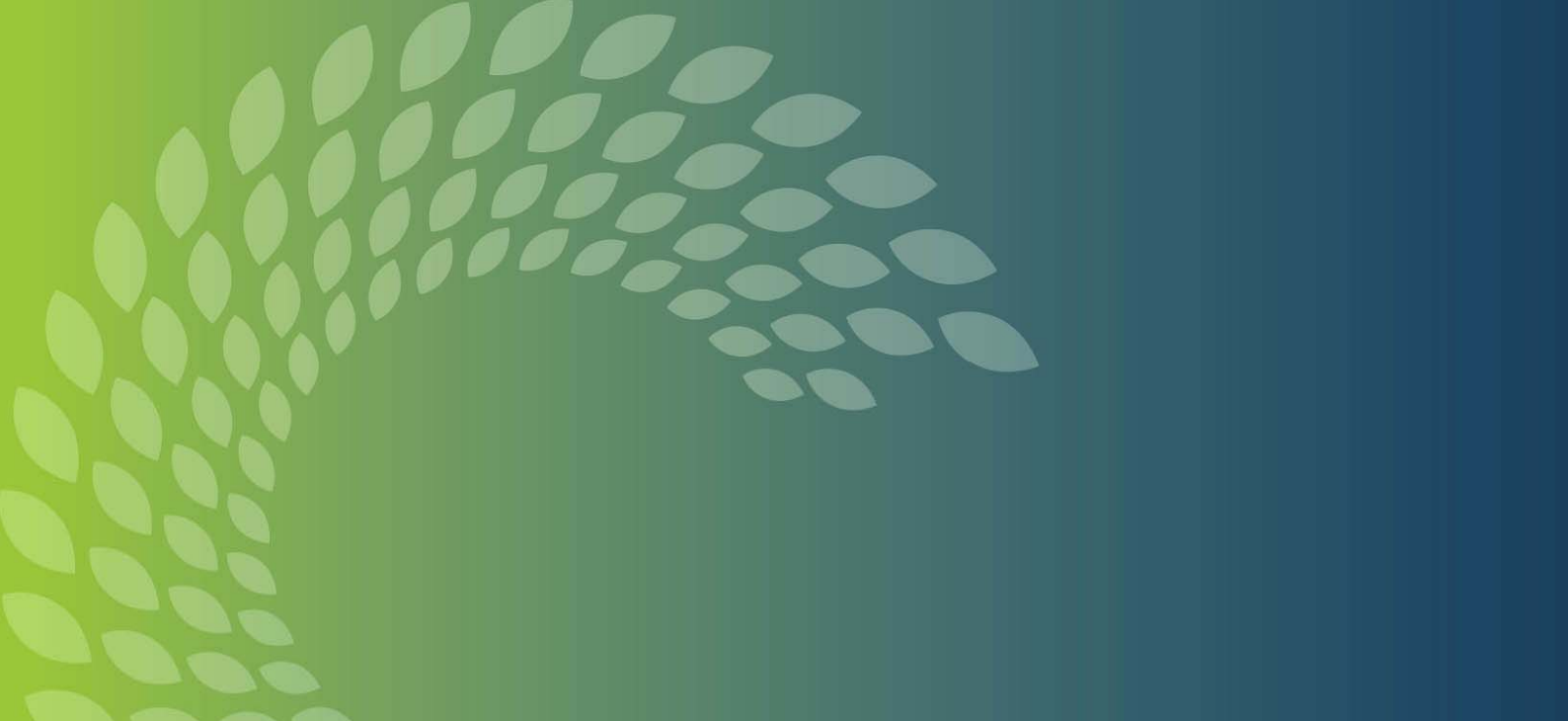




***Submission on the  
Draft Report of the  
Productivity  
Commission into Wheat  
Export Marketing  
Arrangements  
(Public)***

*File Name: #905331*

*Date: March 2010*



## Table of Contents

1	Introduction.....	1
2	Draft recommendations and findings.....	1
3	Marketing and pricing .....	1
4	Accreditation of exporters.....	2
5	Access to port terminal facilities .....	3
6	Transport, storage and handling .....	9
7	Information provision .....	19
8	Wheat quality standards and market segmentation .....	19
9	Other industry good functions .....	20
10	Conclusion.....	20

## **CBH Group Response to Productivity Commission Draft Report on Wheat Export Marketing Arrangements**

### **1 INTRODUCTION**

The CBH Group provides this submission in response to the draft recommendations and findings and subsequent issues raised by the Productivity Commission in its draft report.

The CBH Group welcomes the Productivity Commission's Draft Report into Wheat Export Marketing Arrangements released in March 2010 as an objective overview of the Australian wheat export industry post partial deregulation of wheat exports in July 2008 effected by the *Wheat Export Marketing Act 2008* (Cth) (WEMA).

With the second harvest under the new arrangements now complete, industry can clearly see the growth in participation and innovation as a consequence of the transitional arrangements introduced in 2008.

In Western Australia, innovation in grain logistics has been evident with the introduction of Grain Express and the CBH Group's Port Capacity Allocation System. These initiatives are designed to facilitate a more competitive environment whilst maintaining the efficiencies of the grain logistics system for the benefit of Western Australian growers.

CBH concurs strongly with the Commission's findings that the transition to competition in bulk wheat exports has progressed smoothly. Given the smooth transition, CBH supports the Commission's assertion that the benefits of accreditation will diminish quickly, leaving only costs that are ultimately borne by the grain grower.

It is both practical and prudent for the remaining arrangements to be phased out and complete the transition to full deregulation.

Whilst CBH acknowledges and supports the Commission's recommendation to abolish accreditation in September 2011, there is little evidence in the report to support the need for the Access Test to continue until 2014. It is CBH's contention that the Access Test should be abolished at the completion of the current access undertaking arrangements in September 2011, saving significant costs that are ultimately borne by growers with questionable benefit.

### **2 DRAFT RECOMMENDATIONS AND FINDINGS**

Please refer to Schedule 1 for the summary of the CBH Group position in relation to the findings and recommendations contained in the draft report.

### **3 MARKETING AND PRICING**

- 3.1 The CBH Group supports draft findings 3.1 and 3.2. The CBH Group considers that there is a need to focus on ensuring that value is returned to growers rather than taken from them. As the only grower owned and controlled co-operative currently accredited to export wheat, the CBH Group's interests are driven by and aligned with its grower members.

### 3.2 Pool Regulation

CBH Grain applied for and was granted a specific exemption from compliance with certain provisions of the Corporations Act 2001 (Cth) relating to managed investment schemes in 2004. CBH Grain relies on that specific exemption and the general class order to minimise compliance costs associated with running pools.

### 3.3 Pool Transparency

CBH Grain, the CBH Group's marketing and trading subsidiary believes the transparency of pools in the context of monitoring of pool performance, could be improved. Given the lifespan of pools, it is more difficult to monitor the reasonableness of pool performance against promised returns for many growers.

Anecdotal evidence suggests that some pool managers inflate estimated pool returns at harvest time to attract grain with prices subsequently declining post harvest.

However, increased transparency need not be mandated solely by formal regulatory oversight of pools. Rather 'industry experts' such as marketing consultants, with skill in comparing pool performance are growing in number and can be utilised by growers for this purpose. These experts are capable of making sense of more transparent pool advice already provided by a number of marketers. Further we note that the Kondinin Group in Western Australia reviews the operations of pools on an annual basis.

Those entities which do not provide sufficient transparency in relation to their pools should be rated an inherently riskier proposition than those that provide the detail. Pool returns can rise or fall, however, it is important that there is some comfort that the estimated pool return is based on sound information and reasonable positions.

Growers will readily work out who they can "trust" and who they can't. This is no different to any other market where credibility and reputation become important. Regulation on its own will not protect growers or enhance their returns in a responsible manner, just as accreditation is not a guarantee of solvency.

If pool providers act contrary to the interests of the pool participants the use of pools by growers is destined to shrink as they will lose credibility as an alternative to taking a fixed cash price on the day.

## 4 ACCREDITATION OF EXPORTERS

### 4.1 CBH Position

- (a) The CBH Group supports draft recommendations 4.1, 4.2 and 4.4 and considers that all requirements for accreditation to export wheat end on 30 September 2011 and that the WEA be wound up and its activities finalised in due course thereafter.
- (b) The CBH Group does not support draft recommendation 4.3 but considers that if the Australian Government were minded to implement this recommendation that the proposed streamlined version of accreditation should not continue beyond 30 September 2014.

### 4.2 Quality control issues with containers

- (a) The CBH Group contends quality control problems with wheat container exports are not widespread. Australian quality remains the best and industry bodies such as Grain Trade Australia, the Grain Industry Association of WA and the bulk handlers are closely involved in all aspects of grain quality and the management of this for the industry good.

Quality issues would be sporadic and should be considered with all facts at hand. In time, the market will determine the reliable suppliers of quality Australian wheat and those not complying will lose market share.

Certainly it is CBH's experience in its dealings that container quality problems are not widespread.

#### 4.3 Costs associated with complying with accreditation processes

As previously noted in its first submission, CBH observes that there are significant costs associated with the accreditation process and the implementation of access undertakings. Further, it is unclear what costs can be claimed back from Wheat Exports Australia under processes designed to deal with the impact of this accreditation.

Normal corporate structuring would appear to prevent the recovery of costs incurred in dealing with information requests from WEA.

**Confidential Text Deleted**

#### 4.4 Wheat Export Charge

The CBH Group considers that if the WEA is abolished that there will be no need for the continuation of the Wheat Export Charge and therefore supports draft recommendation 4.5.

### 5 ACCESS TO PORT TERMINAL FACILITIES

#### 5.1 CBH Position

The CBH Group:

- (a) endorses the Commission's view that existing laws are already in place to ensure access to port infrastructure
- (b) contends there is no case for maintaining the port access test
- (c) notes that no disputes have been lodged to date and that there was no precedent for any disputes prior to the access test. The CBH Group notes that the Productivity Commission did not acknowledge that access to port terminal facilities had been provided to other shippers without incident both prior to the deregulation of wheat and during the period of deregulation where no access undertaking was in place. The CBH Group considers that the access test costs were incurred to avoid an entirely theoretical risk without any real evidence that the risk would or could come to pass.
- (d) Introduced a shipping capacity allocation auction system voluntarily to provide transparency of shipping allocation to all parties and offered the ability to trade any capacity acquired.

- (e) Feels there is little evidence to support continuation of the access test as has been shown in the draft report of the Productivity Commission. Given the lack of evidence supporting the access test, the real costs incurred by industry and the stifling impact of the access undertakings, the CBH Group proposes that the access test is abolished at the end of current access undertaking terms

## 5.2 MPT exemption

- (a) The CBH Group notes that Melbourne Terminal Operations Pty Ltd is now proposed to be a 100% subsidiary of Sumitomo Corporation. Further, Sumitomo Corporation is the ultimate owner of a 50% share of accredited wheat exporter Emerald Group Australia Pty Ltd and the ultimate owner of 100% of Sumitomo Australia Pty Ltd.
- (b) WEMA discusses associated entities owning or controlling port terminal facilities, see section 5 of WEMA and the definition of provider. It does not require ownership and control to be vested in one party nor does it merely focus on control.
- (c) The CBH Group will watch to see whether there is any consistency in the treatment of accredited wheat exporters under the WEMA access test should it be continued indefinitely or until September 30, 2014.

## 5.3 CBH Auction System

- (a) Performance to date

In response to the port congestion experienced in Western Australian grain ports in March/April 2009, CBH developed in a short period of time, a mechanism to allocate port capacity utilising an online "clock auction" mechanism.

This approach to port terminal capacity allocation and the system itself was the first of its kind in the grain export world. Whilst CBH recognises that there are a number of areas that require improvement, like any new process, CBH and the trade have learnt a great deal from the first year of operation of CBH's auction system.

CBH agrees with the Commission's view on page 176 of the draft report that the market seems best placed to offer a solution on demurrage/despatch risk sharing.

**Confidential Text Deleted**

- (b) Rationale behind rules

In implementing the auctioning of port capacity CBH had a number of objectives including:

- (i) Provide fair & equitable access to all market participants.

- (ii) Be governed by a framework that is transparent & accountable.
  - (iii) Be designed to efficiently allocate capacity and minimise associated administrative costs.
  - (iv) Pass costs of non-performance to those acquiring capacity.
  - (v) Return any surplus auction revenue to the trade.
  - (vi) Provide operational flexibility for all parties.
  - (vii) Allow market forces to set price in the (unilateral) primary market.
  - (viii) Ensure maximum flexibility and transparency in the primary market.
  - (ix) Ensure the primary market is highly efficient.
  - (x) Facilitate the secondary market but allow it to operate independent of CBH and ensure that the purpose of the secondary market is to maximise efficiency of the allocation process NOT to allow profit taking through speculation.
  - (xi) Be based upon a robust technology platform given the value at risk.
- (c) Questions from the Productivity Commission

The Commission is seeking feedback on experience with the CBH auction system. CBH's feedback to questions posed by the Commission is as follows:

- (i) Do participants believe it has been effective in dealing with infrastructure capacity constraints?

CBH acknowledges and agrees with the Commission's comments that the auction model 'appears to be more likely to result in an efficient allocation of slots' (p169). The CBH Group considers that the auction system has been a very efficient and equitable means of allocating port capacity.

Despite some limited concerns raised by certain members of the industry regarding complexity, the CBH Group considers that exporters that wished to obtain port terminal capacity were able to do so in an open, transparent and independent marketplace.

The CBH Group agrees with the Commission's understanding that any attempt to "book out the system" by CBH Grain would result in real and significant costs due to the rebate system.

- (ii) Has it been beneficial?

The CBH Group believes that the auction system (as is the case for Grain Express) should be allowed to mature and develop over a number of seasons. The market will naturally find stability in the years following de-regulation and the auction system will mature and the market will learn to better utilise it.

- (iii) Has it created problems for exporters?

At page 167 the Commission cites the following quote from AWB:

*The auction model is labour intensive, time consuming and complicated. Loading ships with grain is a relatively straightforward activity. The proposed detail in CBH's auction system will make the auction model unnecessarily rigid and complex. The auction process needs to match the fluidity of the grain and shipping markets, otherwise it will likely lead to confusion and chaos. (sub. 24, p. 12)*

CBH believes the Auction process is appropriate as it permits the market to see time based premia for a fixed capacity and adjust their behaviour accordingly. The rigidity stems from the access undertaking and port terminal rules being fixed at a point in time. CBH is endeavouring to change the port terminal rules to further accommodate the fluidity of shipping for 2010/11.

Some of the complexity is a direct result of some members of the trade wishing to have CBH prevented from exercising any discretion at all<sup>1</sup>. The process can be less rigid but this does not necessarily result in a lower level of disputation from industry participants. There are inherent trade offs between certainty, rigidity, price, throughput and timeliness.

At page 168 the Commission draws the following quote from AWB's submission:

*The first auction undertaken since the access test has not been successful. In many cases, AWB and other wheat exporters have only been allocated partial shipments. It is neither efficient nor cost effective to deliver bulk wheat to a discharge port in several ships, instead of one. Failure to load an entire ship will generally result in the charterer incurring ... payment for failing to load the ship to full capacity ... This can make the allocation worthless unless it can be combined in the secondary market. CBH should be providing slots that are sufficient to load whole vessels. (sub. 24, p. 12)*

The CBH Group notes that AWB and all other auction participants have the choice of how much port terminal capacity they buy in a slot at Auction as they are in control of the size of their bid. If an auction participant buys capacity that is only useful for a part cargo then that is the participant's issue to control within the auction process and not a function of auction design or limitation.

At page 168 the Commission highlights the following quote from AWB's submission.

*It should be noted that the CBH 'rebate' unnecessarily complicates the understanding of costs. It is a season average which favours large volume exporters, like CBH over small players. The rebate only applies to the actual shipper, this means the secondary market is unlikely to trade except under duress. The cost for non use ... is very high and the rigidity of CBH rules make non-performance likely or force rolling shipping positions at great expense. (sub. 24, p. 13)*

CBH notes that the rebate will only assist shippers who have acquired capacity in the auction at a premium that is below the Average premium – that could be a small, medium or large shipper. The key determinant as to whether the auction premium rebate provides an exporter with an advantage is when its grain is shipped.

If an exporter looks to acquire capacity in the auction and ship grain in off-peak months then it will benefit from the rebate. The CBH Group considers that AWB's misunderstanding of the auction system (as evidenced by its submission) could result in an uninformed bias against the auction process.

---

<sup>1</sup> See submission I2(iii) on page 45 of the AGEA submission to the Australian Competition and Consumer Commission dated 29 May 2009. See paragraphs 12.4 and 12.5 on page 25 of the AGEA submission to the Australian Competition and Consumer Commission dated 3 September 2009.



**Confidential Text Deleted**

In addition, the CBH rules do not contribute to whether or not an exporter can perform against capacity purchased. The exporter determines whether or not it will perform against capacity purchased.

At page 168 of the draft report the Commission comments that there appears to be widespread dissatisfaction with the process put in place by CBH. The CBH Group has not had any direct complaints about the auction itself. The CBH Group consulted widely within the trade as a part of the formulation of these business rules.

CBH considers that the trade was calling for the take or pay arrangements currently in place if that was the cost of certainty of shipment.

CBH believe that any complaints are largely directed at the port terminal rules and the inherent lack of flexibility that was created by fixing these as part of the access undertaking as requested by the AGEA, amongst others.

CBH notes the Commission's quotation from AWB's submission at p168 of the draft report

*CBH claims that the reason for auctioning shipping slots is that they anticipate that demand exceeds supply after the harvest period and therefore additional capacity, in the form of 'surge' capacity, will be made available at a premium over the base core price. However, the capacity either exists or it does not. Describing it as 'surge' capacity is a misnomer – it is the capacity at which CBH charges a premium for the service. (sub. 24, p. 12)*

The CBH Group considers that AWB's statement is incorrect in part and disingenuous in part. In the first, the capacity CBH auctions is independent of supply chain. The "surge capacity" referred to by AWB is a level of capacity above which a user of CBH's up-country supply chain will incur additional freight costs. It is not additional capacity at the port terminal which incurs additional costs. CBH is endeavouring to ensure that users of the CBH supply chain do not incur additional unknown costs. If an exporter acquires "surge capacity" but does not use CBH's up-country supply chain it will not be "charged the surge fee."

This is disingenuous in the sense that prior to de-regulation, AWB charged the national wheat pools for "contestable freight" in circumstances where AWB's contracted freight was unable to meet shipping demand. Contestable freight pre-deregulation and surge freight under Grain Express are exactly one and the same. The difference is that CBH is transparently showing the additional freight cost and giving marketers the opportunity to decide whether to incur it or not.

(iv) Is it a model for other bulk handlers to emulate?

CBH considers that its Port Capacity auction system is one that could be suitable for other bulk handlers to emulate following its development. In that circumstance CBH and its auction system partner Tradeslot would consider licensing the system.

(v) Could improvements be made?

CBH considers that improvements can always be made in relation to any system providing those changes are carefully considered and a process of consultation with the industry is observed. The changes set out in the box below are currently being contemplated for the 2010/11 season. These proposed changes will shortly be advised to the trade and remain subject to a period of industry consultation.

**Summary of Proposed Changes to the Auction System for 2011/12**

- The Harvest Shipping Period will be auctioned as was forecast at the conclusion of the Harvest Shipping Period for 2009/2010.
- Rather than a two phase, multiple auction process, CBH will only conduct four auctions in 2010/11. These auctions will continue to be hosted by Tradeslot. We expect this will make the process simpler to understand and less onerous on the user,
- Each auction will be known as an "Auction Period" covering 5 – 6 shipping windows.
- Each Auction Period will stand alone from an administrative point of view with the Auction premium collected for an Auction Period will be reconciled and rebated to the trade at the conclusion of each Auction Period. This will mean that the auction system will not tie up exporter's capital for as long (notwithstanding that interest is accruing on the Auction Premium).
- A Secondary Market platform will be developed and provided by Tradeslot. This will essentially be a bulletin board to allow the trade to post and bid on an offer.
- Capacity can be forfeited at late notice. Fees will be payable but these will be lower than in 2009/10.
- Capacity can be repositioned within an Auction Period if there is spare capacity within the preferred shipping window. The Auction Premium Rebate will still apply to this capacity.
- An increased operational tolerance of 10% will be applied to the reconciliation of Lost Capacity by port/shipping window.
- Exporters will be asked to nominate Grain Express or Direct to port at least 30 calendar days prior to the shipping window.

CBH believes that the reduction to just four auctions for the year will address industry concerns about the relative complexity of the system whilst still allowing the industry to book capacity ahead of usage.

The quarterly payment of the rebate further improves equity and the placement of the secondary market on a public bulletin board will improve visibility and add to liquidity.

(vi) Does the secondary market function effectively?

The CBH Group considers that the secondary market operates effectively. In the current year, the perceived lack of effectiveness is symptomatic of a drop in demand following harvest.

(vii) If there are problems, do these stem from an auction system per se or from the particular features of this CBH auction system?

The CBH Group considers that the “problems” raised by certain members of the industry stem from the auctioning of port terminal capacity up-front when combined with a drop in demand post auction. Any auction which does not offer a discrete item as opposed to a variable capacity will be subject to some of these criticisms.

- (viii) How does it compare with the ‘first come, first served’ approach used by other bulk handlers?

Each has their own strengths and weaknesses. An auction system provides greater point in time capacity to avoid a single player dominating the stem and real cost levers against doing so. A first in time approach may allow more flexibility in terms of time of acquisition of capacity but carries an inherently greater chance of missing out on capacity. CBH considers at present that its auction approach is preferable as it does not transfer the potential value of shipping capacity to users and encourages utilisation of off-peak capacity thereby avoiding unnecessary infrastructure development to cater for peak demand.

- (ix) The Commission is seeking feedback on why CBH requires such early notice of whether exporters will be using Grain Express or direct port access.

CBH requested early feedback on whether an exporter was using Grain Express or not as it was required to obtain transport resources to service the level of demand under Grain Express. It is inefficient to acquire transport resources on a monthly basis. The best rates are achieved using volume and certainty. If an exporter were to switch at the last minute from Grain Express to Direct to Port, then CBH would have transport resources standing around idle. This is inefficient and costs CBH and its grower shareholders, money.

To date CBH has had an extremely limited interest in Direct to Port access (ie access to CBH port terminals through an alternative supply chain). CBH contends that this is because the basic CBH service is addressing the market needs as there is no discrimination between grain delivered from the CBH supply chain versus that from an alternate supply chain.

- (x) Further, does the requirement to nominate Grain Express or direct port access so far ahead of shipping effectively ‘lock’ exporters into using Grain Express?

The Commission should note that among the proposed changes to the Auction system for 2010/11, CBH is considering providing Exporters with the ability to nominate Grain Express or Direct to port at least 30 calendar days prior to commencement of the relevant shipping window.

If this is implemented this will resolve some of the issues raised on pages 170 and 171 of the draft report.

## **6 TRANSPORT, STORAGE AND HANDLING**

### **6.1 How does the wheat supply chain operate?**

The CBH Group notes that some comments by the Commission at pages 179 and 180 of the draft report indicate that storage capacity may not be completely understood. CBH’s storage capacity is spread throughout 330,000 square kilometers of Western Australia yet grain production is rarely evenly distributed throughout the same area nor distributed in the same manner twice.

### CBH Storage Capacity

20 million wheat tonnes capacity (as per Table 6.1 of the draft report) if every storage facility is used

Less 1.6 million carryover (long term average)

Less 3.8 million due to loss by division – i.e. segregations and location of grain types and Storages (approximately 20% of capacity)

Less 0.93 million loss by commodity – i.e. barley takes more space than wheat and oats even more (average 6% of 15.6 M receivals)

Add 1.3 million Harvest shipping and domestics demand = additional utilization (but declining)

This means that the real maximum storage capacity in the CBH storage network available for receivals from growers is closer to 15 million

## 6.2 Recent developments in the wheat supply chain

CBH is currently in the process of running a tender for the above rail services with the aim to develop a long term competitive grain supply chain. This is the first time this work has been tendered in the history of the grain business and CBH Operations' first opportunity since taking control of freight under Grain Express in 2008. As a part of this process CBH aim to restore the rail competitiveness of many sites when compared with road options. Ultimately, CBH aims to ensure that grain flows along the most sustainable pathways throughout Western Australia to port.

CBH considers that grain transportation is essentially a scale business. Grain Express permits CBH to maintain volumes transported along the most efficient pathways.

Under Grain Express CBH transports all grains delivered by its grower members to port, effectively aggregating demand for transport services by growers. This is possible because over 90 percent of grain is exported from Western Australia. Competition already exists as growers choose where to transport their grain within the CBH system with an option to take it to port in most cases. Grain Express does not discourage alternate supply chains from emerging. The alternate supply chain can freely exist and simply utilise CBH's direct to port access service or bypass the CBH port facility altogether.

Accordingly the potential for alternative supply chains already exists within CBH's Grain Express system.

## 6.3 Access and Competition in the supply chain

CBH agrees with the Commission that there is no evidence to suggest that bulk handlers systematically refuse growers and traders access to their storage sites. Further CBH is pleased to support draft finding 6.1.

CBH notes that the quote shown below is an oversimplification of the Western Australian Market and that competition is developing in the market for bulk grain storage and handling in both a public and private nature.

*In Western Australia, CBH operates all of the up-country bulk handling facilities. Anyone who stores wheat at these up-country storage facilities is required to use CBH's transport supply chain — known as 'Grain Express' (box 6.1).<sup>2</sup>*

There exist a number of storage and handling operators who service the domestic market and a number of port based handling business appear to be evolving<sup>3</sup>. The on-farm storage plans of large growers also represents a private entry into the bulk

<sup>2</sup> Page 199 of the draft report of the Productivity Commission dated March 2010

<sup>3</sup> Examples of such operators include Tamma Grains and Premium Grain Handlers.

grain storage and handling market<sup>4</sup>.

Lastly, CBH notes that port terminal facilities often service a domestic demand in addition to the export market and it is incorrect to describe them as exclusively servicing the export market. Accordingly, port terminal facilities have a component of regulated and unregulated use.

### **Competition Concerns under Grain Express**

Please note that there is significant contestability for freight within the CBH Grain Express model. Grain Express is a logistic coordination model, focussed entirely on providing the most efficient means of ensuring the right grain stock is in port at the right time.

By necessity Grain Express controls the up country freight component however CBH believes that it is best placed to efficiently purchase freight services on the Grower's behalf. Grain Express has numerous other benefits, all of which are designed to maximise the return to the Grower. CBH Group surveys have consistently found Growers to be satisfied with Grain Express.

CBH does not make any margin on the freight component of Grain Express. Surplus funds from the Grain Express freight pool for a given season are returned to Growers in full, less the direct cost of administering the freight pool. CBH will shortly be returning approximately \$8 million in savings that it made on its initial estimate of grower freight in the 08/09 season.

As the Commission evaluates the land based transport operations of CBH Group it should note that CBH has only had total control of the grain freight component since the inception of Grain Express in October 2008 (a little over 18 months).

Within the first year of Grain Express CBH has conducted open road transport tenders for Geraldton, Albany and Esperance export grain zones. CBH also retains a policy of re-tendering all major road transport contracts every 5 years to ensure contestability

As mentioned above, the CBH Group is currently in the process of a global tender for the provision of above rail services. CBH recognises the importance of rail transport for bulk grain and is seeking all opportunities to maximise its share of the upcountry transport task.

CBH has continued to invest in rail transport with over 34 country storage sites having specialised rail or rapid rail loading facilities (RRLF)<sup>5</sup>. These investments (at some sites worth up to \$8 million for the rapid rail component alone) coupled with further investment in conveying systems to connect our up country storage infrastructure to these RRLF demonstrates CBH's long term commitment to rail transport and to capturing operational efficiencies that will assist in greater productivity of rail assets.

It is CBH's clear position to deliver the most cost efficient transport services to its grain grower members while delivering the maximum daily / weekly / monthly haulage capacity for export marketers. Whilst this puts CBH in a unique position of control, CBH considers efficient use of land transport a significant responsibility as the effectiveness and efficiencies of the land based transport system is the foundation of a sustainable business future with Western Australian grain growers.

Further, the scale of Grain Express, allows CBH to provide road and rail service providers with the volume necessary to invest in efficient plant and equipment required to serve the grain industry supply chain under appropriate commercial terms that allow a balancing of commercial risk in years of poor grain production.

---

<sup>4</sup> Farm Weekly, 21 January 2010, *Albany grain venture marks new era*, Colin Bettles

<sup>5</sup> 9 CBH sites have been up-graded with RRL facilities since 2000

CBH considers that the following quote is an oversimplification of the report by Synergy Economic Consulting.

*Nevertheless, given that possibly the greatest benefit of GE cited by SEC (2008) was that it would reduce the leakage of rail freight to road, it would appear that the importance of having GE coordinate the (rail) logistics task has now lessened. If GE is evolving towards a more efficient supply chain solution, it appears to be one that replicates developments already occurring in other states — where there are no equivalent restrictions on alternative supply chains being used<sup>6</sup>.*

Of course one of the most important objectives of Grain Express is to find the most efficient export pathway for grain. But it does not necessarily follow that under Grain Express, rail's share of the export task will decline nor that the sole purpose of Grain Express was to save the rail network at any cost to growers. Grain Express allows aggregation of volumes that makes rail possible, but it is not a blank cheque for rail transporters to charge whatever they see fit.

Whilst the proportion of grain transported by rail during the 2008/09 season may have declined, 2009/10 has seen an increase in the percentage of rail use to port year to date<sup>7</sup>.

The coordination mechanisms within GE mean that CBH can utilise rail to its best advantage, optimise an inter-modal approach where appropriate and ensure capital investment is best placed where it will produce the greatest overall benefit.

An integrated, industry based approach such as Grain Express should always ensure the use of rail is maximised and that the export task is efficiently coordinated. In the absence of Grain Express, the share of the export task on rail in 2008/9 would have been even more dramatically reduced.

The expectation that industry use of rail will be higher under Grain Express remains the case. Further, the coordinated approach to the recent State Government Strategic Grain Network Review (SGNR) was largely as a result of the impact of Grain Express. The SGNR will likely lead to significant network investment by the State and Federal Governments which further guarantees the future of rail in the West Australian export task.

Key Grain Express benefits identified in the Synergy Economic Consulting report (Synergies Economic Consulting report, May 2008, *Benefits of Grain Express*):

- Streamlining of grower receival process, increase in site turnaround times and reduction in errors;
- Reduction in costs associated with open bulkhead storages and reduced risk of resistance to Phosphine;
- Enhanced rail efficiency, insurance sharing, increased negotiation capability , increased transparency of freight costs;
- Port benefits
- Better investment decisions
- Better marketing decisions, increased availability of marketing options and efficiency gains in secondary trading markets.

<sup>6</sup> Page 201 of the draft report of the Productivity Commission published March 2010.

<sup>7</sup> Proportion of CBH's transport task on rail: 2008/9 [55%]; 2009/10 [64%]

The CBH Group would like to advise the Commission that it does not have a flat fee structure across its network as suggested by the following quotation. CBH's charges vary according to the status of the site that the grower delivers to and commodity and freight varies according to location.

*Up-country storage sites can vary in size and efficiency. If CBH has a flat fee structure across its network of storage sites, inefficient sites might be subsidised:*

*A consequence of flat receivals pricing will be the continuation of smaller, otherwise uneconomic sites thereby placing an additional cost burden on the entire system. Additionally, while the very small or outmoded receivals sites continue via cross subsidies, this hinders the possibility of either rationalisation by CBH, or the entry of new storage and receivals operators. (IPA 2008, p. 20)<sup>8</sup>*

The Commission's statement:

*Storage facilities in outer regional areas are usually less efficient than those near main rail lines<sup>9</sup>*

is not necessarily a true statement. Some CBH bins in outer regional areas have rapid rail loading facilities, for example: Hyden, Beacon, and Kulin. Where above rail transport is operating efficiently, sites such as these can outperform road based operations direct to port if an appropriate segregation mix is selected.

CBH also considers that Growers will not blindly deliver to freight disadvantaged sites. Freight rates in 2009/10 are based on the cheapest mode to port and so have less cross-subsidisation than ever before. Since assuming control of freight of bulk wheat from AWB in 2008 CBH has moved comprehensively to provide growers with transparency on freight costs from its sites in Western Australia. CBH will continue the process of removing freight cross subsidisation in 2010/11.

CBH does not consider that cross subsidisation always makes it difficult for rivals to compete and notes that the opposite is usually the case. CBH is actively moving away from network pricing arrangements in freight because CBH recognises that it is open to competition at any point in its network. If efficient sites are cross-subsidising freight for uneconomic ones; it makes it easier for competition to compete against the efficient freight lines.

CBH notes that the following quote from IPA's submission is unfairly targeted at Grain Express:

*IPA (2008) highlights another potential issue with GE — traders might not know where the wheat they have purchased has originated from. For example, a trader might purchase wheat from a particular region. Under GE, it may be cost-effective to source the wheat from a destination closer to port — and not the destination from which the trader acquired the wheat. As a result, the trader only knows the grade of the wheat, and not its origin.<sup>10</sup>*

CBH notes that it was never the case in a bulk wheat handling system that a trader knew where certain wheat was from. What is required to be returned is wheat of a certain quality as opposed to wheat of a certain origin and it is incorrect to say that Grain Express causes this outcome. This is a function of a bulk handling system and an entitlement for a grade of wheat or share in common wheat.

---

<sup>8</sup> Page 201 of draft report of the Productivity Commission dated March 2010

<sup>9</sup> Page 201 of the draft report of the Productivity Commission dated March 2010

<sup>10</sup> Page 202 of the draft report of the Productivity Commission dated March 2010

## **Logical partnerships and supply chain leadership under Grain Express**

CBH has taken a leading role in strengthening the working relationships with Main Roads Western Australia (MRWA) and the West Australian Local Government Association (WALGA). CBH acknowledges each parties responsibilities within the supply chain and the over-arching benefit of working together in transport grain flow pathways.

Since the introduction of Grain Express, CBH has been working closely with the State Government Department of Transport, MRWA, WALGA, Local shires and our transport service providers to both clearly communicate the grain industry export requirements of the network whilst working together to create integrated and coordinated investment strategies for the future.

Strategic and tactical issues such as prioritising road networks, utilising State roads wherever possible, communicating to Shires the proposed where/when road transport activities of CBH, minimising transport activities around school bus timetables are all evidence of a closer working relationship since Grain Express was introduced.

Some relevant points in relation to Grain Express:

### **(a) Performance**

- (i) Grain Express enabled CBH to hold its average charge per tonne handled steady notwithstanding that other costs increased.
- (ii) Between October 2008 and end of April 2009, CBH shipped 6.2 million tonnes compared to 3.26 million tonnes in the same period the previous year. Between October 2009 and end of April 2010 CBH is forecast to ship 6.37 million tonnes
- (iii) If GE had not been implemented CBH estimates that less than 3.26 million tonnes could have been shipped in between October 2008 and April 2009 given the emergence of multiple shippers due to deregulation.
- (iv) Shipping congestion in early 2009 would have been significantly worse if GE had not been implemented as upcountry movements of grain would have been hampered with multiple, smaller parcels of grain needing transport rather than whole stacks.
- (v) Grain Express has enabled CBH to clear grain out of open bulkheads 10% faster than prior to Grain Express. This reduces the amount of time grain is stored in open bulkheads (which are inherently riskier and costlier to operate).

### **(b) Reduction in mobilisations**

- (i) Intra-silo movements cost per tonne received have been dropped by 48% in the year 2008/2009 following the introduction of Grain Express. In the year to 31 March sector, intra-silo movement costs dropped 44% in the part year to 31 March 2009 following the introduction of Grain Express and in the same sector to 31 March 2010 have dropped a further 20%.
- (ii) The average number of tonnes moved per stack has significantly increased reflecting greater productivity. The table below shows increases from the 2007/2008 baseline.



Movement Type	Zone	2008	2009	2010
Road	ALBANY	100%	127.3%	144.5%
	ESPERANCE	100%	100.6%	116.9%
	KWINANA	100%	195.8%	213.6%
	GERALDTON	100%	181.7%	233.7%
Rail	ALBANY	100%	107.5%	109.3%
	ESPERANCE	100%	0% <sup>11</sup>	0% <sup>12</sup>
	KWINANA	100%	117.8%	131.7%
	GERALDTON	100%	104.4%	113.1%

- (iii) Grain Express has allowed CBH Operations to clear and close a higher number of stacks than was possible pre-Grain Express

Stack Status	As at 31st March				As at 31st October		
	2008	2009	2010		2008	2009	2010
Cleared	999	1,285	1,342		3,474	4,290	
Still Open	2,010	1,796	646		1,094	863	
<b>Total Opened as at</b>	<b>3,009</b>	<b>3,081</b>	<b>1,988</b>		<b>4,568</b>	<b>5,153</b>	
Cleared	33%	42%	68%		76%	83%	
Still Open	67%	58%	32%		24%	17%	

#### Receival Tonnes

2008 = 8.59 million tonnes

2009 = 12.32 million tonnes

2010 = 11.06 million tonnes

- (iv) Fewer sites are required to be open at the same time in order to achieve the same tonnage and in other cases significantly greater tonnage was achieved without a consequent increase in the number of sites open. For example, post the introduction of Grain Express:

- Albany shipping increases 24% number of sites open drop 8%
- Geraldton shipping increases 400% number of sites open increases 100%
- Kwinana shipping increases 65% number of sites open increases 25%

#### (c) Freight

- (i) Grain Express allowed all growers to use the rail transport resources acquired by CBH.
- (ii) Economies of volume on rail were achieved thereby ensuring greater certainty of freight contracts for rail operator

<sup>11</sup> Rail not used in zone

<sup>12</sup> Rail not used in zone year to date

- (iii) Grain Express delivers a simpler management of freight invoicing
- (iv) Grain Express provides greater transparency of freight costs
- (v) If Grain Express wasn't introduced, it would have been highly unlikely a single marketer would have taken the risk of paying the "flagfall" fixed component of the contract. This is likely to have led to further freight rate increases.
- (vi) On the standard gauge lines CBH can move around 4,000 tonnes in a single train; that's equivalent to 58 x 70 tonne trucks on the road.
- (vii) Given a standard site working day of 9 hours and an average of 15 minutes a truck to load, the maximum by road using the same resources is 2,520 tonnes per day.
- (viii) Therefore, trains reduce both the cost of freight through faster accumulation, and CBH/grain industry operational costs.
- (d) Public Benefit
 

These are the intangible benefits that flow from Grain Express including:

  - (i) the potential for the continued use of less toxic and contaminating fumigants by controlling the spread of resistance; and
  - (ii) lower externalities associated with the transport of grain on rail resulting in safer roads and lower environmental impact.
- (e) Grower and marketer benefit
  - (i) 91% of grain was nominated using the Loadnet system by growers and/or their representatives. Growers could sell their grain via Loadnet to any acquirer in the system 24 hours a day, seven days a week.
  - (ii) Growers and their consultants had access to over 400 marketing options across the State.
  - (iii) Acquirers had the ability to acquire grain from growers at every site all over the state, not just at selected sites where they felt they could acquire a commercial volume.
  - (iv) Grower satisfaction with turnaround times increased by 4% to 70% under GE<sup>13</sup>.
  - (v) 74% of growers believe GE made a positive contribution to the WA grain industry<sup>14</sup>.
  - (vi) 88% of farm consultants believe that GE had a positive impact on the industry<sup>15</sup>.
- (f) Contestability
 

Grain Express does not restrict the development of alternative supply chains. Further the access undertaking offered likewise does not restrict the use of alternative supply chains.

Quite simply, if Grain Express does not perform for exporters, they will seek to establish alternate supply chains. Exporters are seeking their grain at port at the required time at the required specification. If CBH fail to provide comfort that it will deliver this, exporters will seek to go around CBH.
- (g) Market developments that may warrant a review of GE
 

There are no significant market developments that warrant a review of CBH's

<sup>13</sup> Source: CBH Harvest Satisfaction Survey 2008/09

<sup>14</sup> Source: CBH Harvest Satisfaction Survey 2008/09

<sup>15</sup> Source: CBH Consultants Survey 2009

Grain Express notification. Grain Express was designed with heavy consultation with industry and growers to operate an efficient supply chain in a market where multiple owners of grain would require efficient movement of that grain to port for export.

CBH has responded quickly to areas of improvement under Grain Express with the auctioning of shipping capacity being the main example.

It should be recognised that CBH has introduced a Direct to Port product allowing others to select only CBH port terminal services rather than the whole CBH supply chain.

## 6.4 Transport Infrastructure

### (a) Above and Below Rail

Deregulation of the wheat export markets has placed further demands on the WA grain supply chain, especially the rail track network. Since privatisation, grain branch lines have been starved of investment dollars which continue to place the mode under continuing pressure of road transport competition. The current rail lease holder (WestNet Rail) is seeking Federal and State funding commitments to keep grain lines open as major cyclical maintenance regimes are now well past due their initial dates of implementation.

The privatisation of the Western Australia's grain rail network may not be considered a success for Western Australian grain growers when measured against:

- increases in overall rail freight rates of up to 40% since late 2007;
- the premium for rail access rates compared to access rates present in the Eastern States;
- narrow gauge rail lines in WA are under constant and major "heat restrictions" from November to April which typically aligns with peak export demand and represents a major impost on the industry in terms of cost and performance. These heat restrictions force less than optimal rail resource schedules given full grain trains are warned not to run from 1000hrs to 2000hrs during these restricted months. They also drive up the cost of export as grain is pushed off rail to road in a bid to meet vessel loading schedules.

#### Rail Privatisation

With the initial owners Wesfarmers and subsequently Queensland Rail earning significant capital gains through successive sales of the track lease business. This is evidenced by the fact that when Wesfarmers sold the combined above/below rail business to QR in 2006 the public announcements quoted the sale price being \$1.3 billion dollars with the below rail component believed to be in the order of \$853.4 million plus upfront provisions and transaction costs<sup>a</sup>.

The original sale price for the combined Westrail business in 2000 was \$455 million, and therefore at face value, the Westrail privatisation outcome has represented a redistribution of wealth from the State to private shareholders. Western Australian grain growers now bear the burden through below rail access fees that are significantly higher than in the rest of the country.

<sup>a</sup> [http://www.primeinfrastructure.com/media/52744/asx%20announcement-](http://www.primeinfrastructure.com/media/52744/asx%20announcement-%20bbi%20acquires%20northwestern%20corporation%20&%20westnet%20rail.pdf)

[%20bbi%20acquires%20northwestern%20corporation%20&%20westnet%20rail.pdf](http://www.primeinfrastructure.com/media/52744/asx%20announcement-%20bbi%20acquires%20northwestern%20corporation%20&%20westnet%20rail.pdf)

### (b) Access Arrangements for Rail

Westnet Rail has to offer open access to the lines, so the Grain Express rail

contract is by no means a deterrent to alternative supply chains.

## 6.5 Commission questions

- (a) The Commission would like further information from participants regarding the efficiency of Grain Express and the degree of contestability. Are there any impediments to alternative supply chains developing?

Grain Express enables the efficiency of the CBH system, paid for through reinvestment by growers, to be maintained under a multi-owner system. Grain Express does not create impediments to alternate supply chains developing other than by transparently showing the value of all services. Put simply, if CBH and the Grain Express system do not perform for growers and customers, they will seek alternate supply chains outside.

As noted above, there is no impediment to access to rail given the access arrangements put in place at the time of rail privatisation in Western Australia.

- (b) If GE does not provide a commercially competitive offer, it will lead to grain leakage out of the CBH system with more customers taking up the Direct Port access options.

It is true to say that Grain Express significantly lowers the barriers to entry through providing an extensive accumulation network for any marketer entering the Western Australian market. The online marketing of grain through Loadnet allows marketers to target grain at any location throughout the state without consideration to the requirement to acquire volume at a reduced number of sites to keep cargo accumulation costs down.

- (c) What difficulties do traders have in trying to develop their own supply chain?

Traders face the same difficulties that CBH faces in deciding where to locate their capital investment and balancing the risk/reward equation in their own supply chains including the management of grain.

However, one difficulty that a competitor will not face is the obligation to provide access to their storage and handling system to all participants that exists on CBH. Any new entrant has the advantage of scaling their system to meet the demand

- (d) Would growers and traders prefer to use a supply chain other than Grain Express?

Growers and traders have the option today to use alternate supply chains. CBH remains acutely aware of this.

- (e) How easy is it for growers to use on-farm storage and their own trucks to bypass Grain Express? To what extent is this occurring?

Growers have always been able to decide whether the freight rates under Grain Express are competitive for them and accordingly to determine where is the most efficient point of entry to the CBH system all the way to the port.

Trials have been conducted in 2009 in the Geraldton Zone. Reports in the Farm Weekly (April 15, 2010)<sup>16</sup> indicate that alternate supply chains will be in place for the 2010/2011 harvest whereby growers will truck grain to port and load ships outside of the CBH system.

---

<sup>16</sup> Farm Weekly, 15 April 2010, *Farmer storage plans gather momentum*, Colin Bettles.

- (f) Are there any market developments since the ACCC's decision not to oppose the exclusive dealing notification by CBH that would now warrant a review of the Grain Express arrangements??

There are no market developments of a significant nature to warrant a review of the Grain Express arrangements. Grain Express was designed to operate an efficient logistics system in a multi-owner environment. This is the nature of the current environment that Grain Express operates in today.

## **7 INFORMATION PROVISION**

- 7.1 The level of information available has increased since deregulation with the regular provision of wheat stocks by bulk handlers. The level of detail disclosed on the shipping stem on a daily basis has only marginally increased as this information was predominantly available before.
- 7.2 Without doubt the number of online price discovery services for growers has increased significantly since deregulation. In a recent CBH survey, 80% of growers listed online price discovery mechanisms as their 1<sup>st</sup> choice for grain pricing information<sup>17</sup>.
- 7.3 The CBH Group believes that this is evidence that the market is moving to meet its information needs and that there is no over arching requirement to legislate for information provision.

## **8 WHEAT QUALITY STANDARDS AND MARKET SEGMENTATION**

The CBH Group's view is that it is inappropriate in a deregulated marketplace to re-establish a major peak industry body funded by a compulsory grower levy to carry out these functions. The CBH Group does not see the merit in burdening growers with further levies.

However, it is vital that Australia continues to maintain an agreed set of wheat quality classification standards that meet the needs of industry and customers and assists in ensuring the industry retains the current level of quality of Australian wheat and can improve into the future.

The CBH Group believes that a trade body, like Grain Trade Australia, should be explored as the most appropriate body to determine and manage wheat classification standards. Grain Trade Australia is an existing apolitical, commercial industry body which already manages wheat receival standards.

Promotion of Australian wheat and its quality should now largely be the responsibility of individual exporters. However, there is a continuing place for some high-level, industry-funded, pre-competitive promotion of Australia wheat to inform and assure the international marketplace that Australia's reputation for producing high quality wheat is being managed and maintained.

The CBH Group believes Grain Trade Australia could carry out these activities at modest cost to its members and growers, in a similar way to the way Barley Australia carries out "industry good" work for the barley industry.

There has recently been some discussion about concerns from international wheat buyers and the perception that Australian wheat quality is declining under deregulation. The CBH Group understands these concerns relate to a few individual cases, mostly associated with container exports, and do not represent an overall decline in the quality of Australian wheat.

---

<sup>17</sup> Source: CBH Grain Post Harvest Survey 2010

The CBH Group believes the market will balance itself out in the event that a particular exporter is continuously unable to deliver on the quality requirements of their customers. Most exporters, including CBH Grain, would not jeopardise their individual reputation by delivering wheat below the quality standards specified.

## 9 OTHER INDUSTRY GOOD FUNCTIONS

The CBH Group supports the findings of the Commission with respect to Industry Good functions.

## 10 CONCLUSION

The CBH Group views the draft report on Wheat Export Marketing Arrangements as a salient and valuable report for the industry two seasons into the new arrangements.

CBH supports the draft recommendations 4.1, 4.2 and 4.4 relating to the abolition of export accreditation requirements from September 30 2011 and the winding up of Wheat Exports Australia.

The industry has demonstrated its ability to respond to the changed arrangements and indeed, the example of increased industry participation and innovation provide strong evidence to suggest it is now time to allow the industry to move forward with certainty and flexibility.

Whilst the draft recommendations relating to accreditation are strongly supported by CBH, it is our view that there is no adequate and reasonable argument for maintaining the Access Test for bulk handlers until 2014. The Commission acknowledges that current regulatory options are in place through which aggrieved port terminal users can have disputes heard. Given the existence of appropriate legal tools such as the *Trade Practices Act 1974 (Cth)* and the Commission's own view expressed on page 127, that

*'the Commission is of the view that Part IIIA of the Trade Practices Act is better placed in the long run to balance these costs and benefits, and using Part IIIA to regulate access will bring the wheat industry into line with the general competition law applying to other industries.'*<sup>18</sup>

Given the smooth transition to the new arrangements and the lack of necessity to date for a specific Access Test and Undertaking, it is CBH's view that any argument made for retaining this condition any longer than the current term of the Access Undertakings in place is tenuous at best and will perpetuate the opportunity for hindrance by emerging competitors seeking to distract and disable incumbents.

It is CBH's view that the Access Test offers no value to Western Australian wheat growers who ultimately bear the cost, and should be abolished at the conclusion of the current Access Undertakings in place (September 2011).

CBH remains supportive of supplying shipping stem information and putting in place a voluntary Code of Conduct for storage and handling to identify accepted standards of behaviour in a non-prescriptive fashion.

In conclusion, the Australian export wheat industry has adjusted well to the transitional arrangements and as a result, it is now time to facilitate the full transition to a deregulated market and to allow the Australian wheat industry to continue to mature.

---

<sup>18</sup> Page 127 from the Productivity Commission Report dated March 2010

Recommendation or Finding	CBH Group Position	Submission reference
<b>Chapter 3 — Marketing and pricing</b>		
<b>DRAFT FINDING 3.1</b> <i>The key drivers of the export price of wheat (and the recent commodity price cycle) are:</i> <ul style="list-style-type: none"> <li>the global demand, supply and stocks of wheat</li> <li>the exchange rate</li> <li>relative transport costs from Australia (and other exporting countries) to export markets.</li> </ul>	Support	
<b>DRAFT FINDING 3.2</b> <i>The transition period of the current wheat export marketing arrangements has coincided with:</i> <ul style="list-style-type: none"> <li>a pronounced commodity price cycle – a short-term increase in the price of wheat of at least 150 per cent just prior to deregulation</li> <li>the global financial crisis.</li> </ul>	Support	
<b>DRAFT FINDING 3.3</b> <i>Wheat marketing, and production and price risk management, are more complex in the eastern states (particularly New South Wales). The local wheat price in New South Wales rises above the export price in periods of low production, when local demand absorbs almost all local production, almost no wheat is exported and wheat is imported from other states.</i>	Support	
<b>Questions</b> <i>The Commission is seeking further information on the transparency of pools and the relief provided by ASIC. Is pool transparency an issue? If so, what should be done to solve this problem? Are there any specific exemptions granted by ASIC, or are pool managers reliant on the general class order?</i>		3.3
<b>Chapter 4 — Accreditation of exporters</b>		
<b>DRAFT RECOMMENDATION 4.1</b> <b><i>The Wheat Export Accreditation Scheme 2008 should be abolished on 30 September 2011. This timing would coincide with the end of the 2010-11 marketing year and give the Australian Government sufficient time to put the required changes in place.</i></b>	Support	4.1
<b>DRAFT RECOMMENDATION 4.2</b> <b><i>Regulation 9AAA of the Customs (Prohibited Exports) Regulations 1958, which prohibits bulk exports of wheat unless exported by an accredited wheat exporter, should be repealed on 30 September 2011.</i></b>	Support	4.1
<b>DRAFT RECOMMENDATION 4.3</b> <b><i>If the Australian Government decided not to abolish accreditation, a system similar to that administered by ESCOSA for bulk exports of barley in South Australia would be the next best alternative.</i></b> <ul style="list-style-type: none"> <li><b><i>A less attractive alternative would be to amend the Wheat Export Accreditation Scheme 2008. As outlined in this report, this would include streamlining the level of assessment employed by Wheat Exports Australia to reduce the regulatory and compliance costs of accreditation.</i></b></li> </ul> <b><i>Any amended or new arrangements put in place by the Australian Government should be reviewed after no more than five years.</i></b>	Not support  In the absence of government supporting recommendations 4.1, 4.2 and 4.4 there is qualified support.	4.1
<b>DRAFT RECOMMENDATION 4.4</b> <b><i>Wheat Exports Australia should be abolished on 30 September 2011.</i></b>	Support	4.1





Recommendation or Finding	CBH Group Position	Submission reference
DRAFT FINDING 5.2 <i>Section 46 of the Trade Practices Act is unlikely to deal adequately with matters relating to port access.</i>	Do not support	
<b>Questions</b> <i>The Commission is seeking feedback on experience with the CBH auction system.</i> <i>In particular, do participants believe it has been effective in dealing with infrastructure capacity constraints? Has it been beneficial? Has it created problems for exporters? Is it a model for other bulk handlers to emulate? Could improvements be made? Does the secondary market function effectively? If there are problems, do these stem from an auction system per se or from the particular features of this CBH auction system? How does it compare with the 'first come, first served' approach used by other bulk handlers?</i> <i>The Commission is seeking feedback on why CBH requires such early notice of whether exporters will be using Grain Express or direct port access. Further, does the requirement to nominate Grain Express or direct port access so far ahead of shipping effectively 'lock' exporters into using Grain Express?</i>		5.3
<b>Chapter 6 — Transport, storage and handling</b>		
DRAFT FINDING 6.1 <i>Up-country storage facilities do not exhibit natural monopoly characteristics. There is no case to consider changing the current arrangements regarding third party access to up-country storage facilities.</i>	Support	
DRAFT RECOMMENDATION 6.1 <b><i>Unless there is a strong case to retain access regulation on regional grain rail networks, governments should seek to abolish existing access regulation. In those jurisdictions where regional grain rail lines are vertically separated from above rail operators, governments should independently examine whether their vertical separation provides net benefits and, if not, examine the prospects for re-integration.</i></b>	Do not support	
DRAFT FINDING 6.2 <i>Competition in the supply chain requires that participants have the ability to by-pass the bulk handling system.</i>	Do not support	
DRAFT RECOMMENDATION 6.2 <b><i>When considering investment in road and rail infrastructure for the transportation of grain, decisions should be based on thorough cost-benefit analysis. Where possible, the analysis should consider the benefits that can be obtained throughout other parts of the grain supply chain.</i></b>	Qualified support	
DRAFT FINDING 6.3 <i>Investment in transport infrastructure should be funded by those who benefit from the investment, which in many cases is likely to be both the community and industry. Where governments make investment in rail infrastructure based on perceived social benefits, payments should be made in the form of community service obligations.</i>	Qualified Support	6.4
<b>Questions</b> <i>The Commission would like further information from participants regarding the efficiency of Grain Express and the degree of contestability. Are there any impediments to alternative supply chains developing? What difficulties do traders have in trying to develop their own supply chain?</i>  <i>Would growers and traders prefer to use a supply chain other than Grain Express? How easy is it for growers to use on-farm storage and their own</i>		6.3 6.4 6.5

Recommendation or Finding	CBH Group Position	Submission reference
<i>trucks to by-pass Grain Express? To what extent is this occurring? Are there any market developments since the ACCC's decision not to oppose the exclusive dealing notification by CBH that would now warrant a review of the Grain Express arrangements?</i>		
<b>Chapter 7 — Information provision</b>		
DRAFT FINDING 7.1 <i>The ABS and ABARE should continue to provide core, long-term wheat market information, in line with what is currently provided by these agencies for other Australian grains and agricultural commodities. Government funding for this purpose is appropriate.</i>	Support	
DRAFT FINDING 7.2 <i>The cessation of government funding provided to the ABS and ABARE for additional wheat data collections and publications on 30 June 2011 is appropriate.</i>	Support	
DRAFT RECOMMENDATION 7.1 <b><i>If the industry wants the ABS to produce stocks information by state, it should pay for it. The cost of producing this information is not expected to exceed \$1 million annually. The most efficient approach to funding this information would be via an existing compulsory industry levy.</i></b>	Support	
<b>Questions</b> <i>How does the level of information currently provided by the bulk handling companies compare with the information that was provided pre-deregulation?</i>		7.1 7.2
<b>Chapter 8 — Wheat quality standards and market segmentation</b>		
DRAFT FINDING 8.1 <i>The design, delivery and funding of a wheat classification function is most appropriately undertaken by the industry. The Commission has not identified a role for government in this process.</i>	Support	
<b>Questions</b> <i>The Commission is seeking comment on the desirability of introducing a user pays approach to funding the Variety Classification Panel, or some other mechanism for funding varietal classification, in place of funding through the GRDC. The Commission is seeking further comment on the system of End Point Royalties, and on possible approaches to improving its effectiveness and efficiency.</i>		8
<b>Chapter 9 — Other industry good functions</b>		
DRAFT FINDING 9.1 <i>Arrangements for the provision of activities ('industry good' functions that are predominantly private in nature) such as technical market support, crop shaping, regulatory and policy advocacy, industry strategic planning, wheat promotion and wheat branding, are matters for the industry to determine.</i>  <i>Exceptions are trade policy advocacy and the provision of some market information on wheat stocks.</i>  <i>Research and development is the subject of an ongoing Productivity Commission inquiry.</i>	Support	9