GIWA

Grain Industry Association of Western Australia

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SUPPLEMENTARY SUBMISSION TO THE PRODUCTIVITY COMMISSION

Review of Wheat Export Marketing Arrangements

Summary of recommendations

1. The Grains Industry Association of WA (GIWA) recommends the establishment of a not for profit industry organisation with a working title of *Grains Australia* to provide the following industry good functions for all sectors of the Australian grain supply chain:

   a) A national grains industry forum for communication and information sharing for the entire grain industry supply chain, identifying and overcoming supply chain constraints, and assisting in the provision of technical information for industry and government policy development.

   b) Pre-competitive market information on crop production, stocks and exports on a timely basis for all grains.

   c) Wheat variety classification.

   d) An authorative forum for whole of supply chain input into grain receival standards set and administered by Grain Trade Australia that facilitate differentiation of Australian grain into various grades and qualities suited to various domestic and export trade uses.

   e) Promotion, training and technical support for the Australian grains industry, especially for export.

2. *Grains Australia* should not duplicate any existing provision of industry good activities, except by agreement of existing grain industry bodies. The immediate gap in the provision of these industry good functions is in the wheat industry. To some extent these functions are already being provided for other grains through the activities of Australian Oilseeds Federation, Pulse Australia and Barley Australia. However, for efficiency it is recommended that *Grains Australia* be established as an alliance of these bodies together with a *Wheat Australia* committee.

3. The GIWA model could be used as the basis of the design for the establishment of *Grains Australia*, with GIWA transforming into an export focused subsidiary node of *Grains Australia*.

4. The principal source of funding for *Grains Australia* should be from the grains industry, either through a levy mechanism or through fee for service. However, recognising the considerable ongoing government funding to our main grain export competitors USA and Canada, the Australian Government should provide ongoing, or at least transitional funding for five years until appropriate industry levy funding can be put in place, for the establishment and operations of *Grains Australia*. It is recommended the Australian Government commit as a minimum $12 million over 5 years ($3 million in the first year) to fund the establishment and operation of *Grains Australia* to undertake the roles outlined above.

5. GIWA recommends, in the absence of an immediate funding mechanism and start up of *Grains Australia*, GIWA should also be charged with temporarily hosting a national *Wheat Australia* committee to take on the role of the Wheat Classification Council from 1 July 2010. The Australian Government should provide transition funding of between $500,000 and $1 million for GIWA to take on this role and to continue to operate in the five industry good areas outlined above until *Grains Australia* is established.

Introduction

The Grain Industry Association of Western Australia (GIWA) was established in 2008 to represent the interests of the grains industry across the supply chain. It was formed through an alliance of NACMA WA, Oilseeds WA, the Western Oat Alliance, the Western Region Barley Council and Pulse WA.

This supplementary submission is in response to the Productivity Commission's draft report and covers five functions that GIWA believes should be performed by an industry body, not only for wheat exports but where there is a need for the export and domestic sales of all major grain crops. These are:

- National grains industry supply chain forum
- Market Information
- Wheat Variety Classification
- Standards for Australian Grain
- Promotion and Technical Support

The supplementary submission also provides options for mechanisms for implementing industry funding for these pre-competitive industry good activities and makes the case for transitional funding from Government, and consideration of ongoing partial funding as occurs in the USA and Canada.

Grains Industry Forum

GIWA has provided an important 'clearing house' for industry dialogue and communication for all across grain specific grain organisations, and for grain industry supply chain issues. This has helped to overcome supply chain constraints and blockages, provide rapid two-way communication on industry policy development and facilitate better returns for producers and those in the trade.

GIWA's experience is that its formation has assisted the efficiency of the operations of Pulse Australia, Australian Oilseeds Federation and Barley Australia, particularly for issues that affect all grain types.

GIWA recommends a similar forum should be provided at the national level. This does not need to be expensive or involve a large infrastructure.

Market Information

GIWA recommends Grains Australia should oversight the development of an industry system for the determination of what and how information is collected and disseminated. For efficiency this should not just cover wheat but be extended to cover all major grains.

Pre-competitive market information is required on crop production, stocks and exports on a timely basis. The PC recommends that ABARE and ABS are in the best position to undertake these activities. Industry experience is that these agencies tend to produce information that is not timely enough to meet industry needs and any solution would need to overcome this problem. It may be that some of these functions are best undertaken by industry bodies or commercial providers. GIWA believes an independent national industry body should be established to oversight the determination of what and how information is collected and disseminated. For efficiency this should not just cover wheat but be extended to cover all major grains.

In GIWA's initial submission a list of market information needs were identified based on input from an industry forum held on 22 October 2009. GIWA has since developed a prototype of the pre-harvest forecast information that the forum identified should be collated and made publically available during the growing season, and will be developing a prototype template of the post-harvest information that the forum identified should be provided on a weekly basis.

As indicated by the Productivity Commission a lot of the information was already publically available and like the Productivity Commission reported there was asymmetry in access to information that wasn't publically available with the international buyers and large traders largely having access to the information they needed, but with growers and smaller traders not having access. The Productivity Commission did not see this as a problem and argued that overall industry efficiency was not significantly affected. GIWA would challenge that conclusion. Surely, full transparency of market information is essential to industry efficiency.

GIWA recommends that all Australian industry participants should have access to the following national information on all major grain stocks:

- Pre-harvest monthly forecasts of hectares planted by variety and by state
- Post-harvest weekly information on stocks by crop type, grade and port zone

Some of this information is currently collected by the ABS and published monthly in *Wheat Stocks and Use.* This is not usually available for 4-6 weeks after the end of the month and is considered too late for the information to be of operational use.

A copy of the GIWA interim prototype template for the monthly pre-harvest forecasts of hectares planted by crop type is shown as Attachment 1.

Wheat Variety Classification

The Wheat Classification Council (WCC) is an industry representative body composed of representatives drawn from wheat breeding companies, exporters and domestic users. Established in April 2009 under the chairmanship of Robert Sewell it is funded by the GRDC until 30th June 2010. It is expected to report on the ongoing requirement of the classification process and, if needed, how it should be funded. It is the understanding of GIWA that the Council will recommend there is an ongoing need for the wheat classification process but the industry remains divided on who should do this and how it should be funded.

Standards for Australian Grain

It is important that Australian Grain Standards are market driven. The core responsibility for setting and administering these standards should lie with Grain Trade Australia, however it is GIWA's experience, and is indeed noted in the Productivity Commission's draft report, that there needs to be a collective industry forum with a strong grower input and understanding of the reasons behind standards.

Grower input is certainly needed, through existing associations or through a new national grower organisation. However, there is also a need for an authoritative forum for dialogue and resolution of grain standard issues. In Western Australia this function is currently undertaken by GIWA.

There is also a role for the development and recognition of a standard for QA schemes to be recognised as of sufficient rigour and scope to qualify for branding as *Australian Quality Assured Grain*. This could be achieved by recognition through the GTA but credibility would be increased if this was endorsed by a body representing the entire industry interests.

The Productivity Commission identified the central role for government, or at least government funding, for the setting and monitoring of standards in both the USA and Canada. GIWA can see no difference in the requirements for this level of involvement in Australia.

Promotion, Training and Technical Support

Promotion, training and technical support is also essential in support of this major export industry for Australia. Whilst individual companies can undertake much of this, there is demonstrable payoff from having an independent government or industry body that can focus on opening up new opportunities and cementing strong trade relationships by providing technical support and training. This approach is common across competing grain export countries and is a feature of all other major Australian agricultural industries.

A tangible example of this that GIWA is aware of is the efforts by the GRDC, the Western Australian Department of Agriculture and Food in combination with BRI Australia to examine the Saudi Arabian usage of wheat to ascertain if they can overcome the criteria which excluded Australian wheat companies from being successful in winning any wheat export tenders to the Saudi Arabian market since this market opened up in 2008. There is no one company that would undertake this work as it would be difficult to capture all the benefits from undertaking this market development activity. This is the sort of pre-competitive industry good promotion and technical support that is best undertaken by an industry funded body.

There is an ongoing need for industry education and training which could be used for professional development of people involved in the Australian grains industry as well as the development of training courses for international customers on how to get the maximum performance out of Australian grain. The Canadian International Grains Institute provides a model for these services. Courses and seminars can be user pays with support from companies seeking training for their staff and government aid and trade development agencies. Infrastructure already exists in the industry and TAFE sector to support training and education services.

As part of the promotion of Australian grains it would be desirable to see the annual publication of crop quality reports for all major grains. These would be along the lines of *The Quality of Australian Canola 2008-09* report produced by the Australian Oilseeds Federation and the NSW Department of Primary Industries (now part of the Department of Industry and Investment) or the Wheat Quality report prepared for the industry by BRI Australia. Such annual reports would provide a technical base for the domestic industry and the promotion of Australian grain exports by the industry.

GIWA does not agree with the Productivity Commission draft report that this can be left to individual exporters and “various industry associations” to pursue, especially for wheat which is by far the biggest grain export earner for Australia, and for which there is no industry association equivalent to Pulse Australia, the Australian Oilseeds Federation and Barley Australia.

Industry bodies required to effect these functions

GIWA recommends the establishment of an independent national industry association *Grains Australia* to provide the above industry functions, and to act as a communication forum for the entire industry, helping to identify and overcome supply chain constraints.

Grains Australia should be formed as an umbrella organisation bringing existing industry supply chain organizations together for coordination and resolution of cross industry issues. This would involve having *Grains Australia* recognize Pulse

Australia, Australian Oilseeds Federation and Barley Australia as sub-committees. Rather than set up another organisation it is suggested that a *Wheat Australia* committee be formed as a subsidiary of *Grains Australia*. The *Wheat Australia* committee could be formed to replace the current Wheat Variety Classification Council and Wheat Export Australia, with GTA and Grower organisation representation.

Grains Australia should be established as a technical support and information organisation, not as a lobby organisation. It need not be a large organisation. It should only seek to provide those industry good functions that industry supports and is prepared to fund and that could not be supplied by others in the marketplace.

Grains Australia should be established as a secretariat and an industry forum, not necessarily with a large in-house operational capacity. Operational activities can be contracted out to specialist organizations wherever possible to provide flexibility and efficiencies. For example grain classification, standard testing and monitoring could be effected by BRI Australia or other commercial testing laboratories. Market information collation and analysis could be outsourced to ABS, ABARE, private companies or existing industry organisations.

Grains Australia is not a substitute for either Grain Trade Australia, the organisation representing grain buyers, nor grower organisations. There is an ongoing important role for Grain Trade Australia to represent grain buyers' interests and set consistent delivery standards for grain for export and domestic purchases. There is also an important role for a strong producer representation through either the existing state farming organisations interacting through a National Farmers Federation or a separate national grain producers association.

Based on GIWA's two year experience, establishing *Grains Australia* as an industry body solely funded by voluntary member subscriptions will not be viable. Government funding and/or an industry levy mechanism would need to be put in place.

Grains Australia could evolve from broadening the mandate of the existing Grains Research and Development Corporation, to something more akin to Meat and Livestock Australia, or Australian Pork Limited. It is understood this would require a change to the PIERD Act.

Alternatively, a separate stand alone entity could be established to undertake these functions. It may be possible to establish this by amending the *Wheat Export Marketing Act 2008* and the *Wheat Export Accreditation Scheme 2008*. GIWA has not examined this option and it may be that completely new legislation may be needed. In any event, either of these two options would take more time as appropriate legislation and levy funding mechanism would need to be established.

Given the different foci of the domestic and export industries it is recommended that *Grains Australia* be headquartered in Sydney with an export secretariat node based in Western Australia. This would reflect the pre-eminence of exports as the focus of the Western Australian industry and would represent the interests of the export supply chains which are particularly represented in Western Australia and South Australia compared to a greater domestic focus on the east coast.

Under this scenario, GIWA would transform into the western node of *Grains Australia* and operate as *Grains Australia* export office, with essentially the same functions as currently undertaken by GIWA but with a national remit.

Funding for these Activities

The Productivity Commission draft report recommended industry good activities should be funded by industry. It suggested the only ongoing functions that would need ongoing government funding would be the provision of some basic retrospective annual, quarterly and monthly market information on production, stocks and exports and trade advocacy.

By contrast the US Government provides $US13million annually to US Wheat Associates (73% of its annual budget) and the Canadian Government provides $CA4million annually to the Canadian Grains Commission for a suite of similar "industry good" functions. For the ten years ending 2008/09 the United States had 27%, Canada 15% and Australia 12% of world wheat trade. Given these are our main competitors in high value export markets it is considered entirely appropriate that the Australian Government provide commensurate ongoing funding for the industry.

The Productivity Commission draft report notes the high level of government intervention and financial input in the USA and Canada, our main competitors in exporting high quality wheat to the world, particularly to the provision of market information and export development. The Productivity Commission concluded "most participants acknowledged that Australia could not replicate the scale of information provision that is undertaken in these countries given the cost involved and the relative size of the industry here" (Productivity Commission Draft Report: Appendix C: page 334). GIWA does not accept this line of argument. If Australia wants a competitive grain export industry these are not good reasons to shy away from considering Government funding for these activities.

GIWA has no problem with the concept of industry funding industry good activities provided an industry funding mechanism can be put in place. This is probably best achieved through the modification of the *Wheat Export Marketing Act 2008* and the *Wheat Export Accreditation Scheme 2008* to enable the collection of levies on all grain exports or the modification of Grains Research and Development Corporation mandate to enable it to raise levies for these industry good functions.

GIWA would advocate an ongoing Government funding, or at least transitional funding (5 years until appropriate industry levy funding can be put in place), for the collation of pre-competitive market information, the setting of industry standards and the promotion of Australian exports of wheat and other grains.

Current industry bodies were formed under a regulated environment with AWB Limited undertaking the majority of pre-competitive functions. It will take some time for appropriate industry bodies to be formed or morph from existing mandates to take on industry good roles. It will also take considerable time to get levy systems in place, be they regulated or voluntary. For example, the Government would need to agree to change the mandate of the GRDC if it was to act as a levy collection agency for funding such activities.

GIWA concludes there is a need for an independent industry body to fulfil these functions in Australia and recommends this be done with ongoing, or at least transitional funding from government until appropriate industry levy functions can be put in place to fund this activity.

The Productivity Commission estimated the costs of basic market information collection and collation for wheat alone at $1 million per year. It is recommended that the Australian Government commit $12 million over 5 years ($3 million in the first year) to fund the establishment and operation of *Grains Australia* to undertake the roles outlined above. This is considerably less than the $7 million per year spent by AWB on these industry good functions for the average of the three years to 2005/06 (Productivity Commission Draft Report: derived from Table 9.2. on page 275 – excluding Research and development expenditure).

Interim funding for GIWA

The Productivity Commission's final report is not due until 30th June 2010 and then there will be a period of consideration by Government and then the development and implementation of agreed infrastructure and funding mechanisms. This means there could be a potential hiatus for the industry unless something is immediately put in place.

GIWA already exists as a model of what is considered to be required at the national level and has been operating for two years. It already provides a valuable service for a third of Australia's grain industry.

GIWA could readily host a national *Wheat Australia* Committee to provide Wheat Variety Classification and other industry good functions for the wheat industry, pending the establishment of *Grains Australia.*

During this transitional period the Australian Government would need to provide funding to GIWA to take on this role. It would be expected that this would come with a proviso that GIWA agreed to the establishment of *Grains Australia,* into which it would be subsumed as a subsidiary office of *Grains Australia* with a national remit for servicing the export grain sector.

GIWA recommends, in the absence of an immediate funding mechanism and start up of *Grains Australia*, GIWA should also be charged with temporarily hosting a national *Wheat Australia* committee to take on the role of the Wheat Classification Council from 1st July 2010. The Australian Government should provide transition funding of between $500,000 and $1 million for GIWA to take on this role and to continue to operate in the five industry good areas outlined above until *Grains Australia* is established.

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Attachment 1

"GIWA Crop Report"

In order to provide a timely crop prediction and receival report GIWA has formed a **Crop Working Group** to collate and report on new crop prediction and grain delivery on a monthly basis during growing and harvest. The report will be known as the **"GIWA Crop Report"**.

It will source advice from key industry members including regionally based agronomists to form a composite view of final yield predictions. It will rely on receival data from CBH Operations on a monthly basis for delivery information. This information will be supplemented in future by surveys of on farm and other receival data to estimate production results as harvest gets underway.

Working Group composed of

Coordinator – **Alan Meldrum** Pulse Australia Industry Development Officer

Cindy Parsons Department of Agriculture and Food

Colin Tutt CBH Operations

Agronomists – one from each Port Zone (members of GIWA endorsed by AAAC) Suggestions only at this stage have not been approached

Key Dates

2nd Wed each Month telephone hook-up of working group e.g. 12th of May 2010 – proposed date for first telephone hook-up

From October 2010 onwards - CBH will supply to GIWA a report on all crops (including wheat in the ABS format) (opportunity to include ABS export data as progresses)

Timing

A report will be issued immediately to GIWA members for comment *(Consider template to be designed by Clarity Communications or similar org?)*. Following comment it will be posted on the GIWA Website (Crop Report Page) 5 days after members comment.

Reporting by

Port zone - Kwinana, Geraldton, Albany, Esperance

Report Format - *Two pages, Crop x Region (Port Zone)*

Month May 2010 Report 1/2010/11 Season

Predictions (*as of May 15, 2010)*
May, June, July planted area forecast

		Wheat	Barley	Canola	Oats	Lupins
Central	Kwinana					
Southern	Albany					
South East	Esperance					
Northern	Geraldton					

Production commentary
Collective advice from the agronomists & panel
Yield predicted from average adjusted for seasonal conditions
Agronomist advice becomes more important as season develops

Receivals
October to February or March

	Wheat	Barley	Canola	Oats	Lupins
Kwinana					
Albany					
Esperance					
Geraldton					

CBH *Operations***? Comment** on ……….*season, production factors, market factors?*

Market Comment

Each report would contain a market comment (1 to 3 paragraphs < half page) from a Guest marketer (alternate between GIWA members with a disclaimer on current price and prediction of price?) e.g. Glencore, AWB, Viterra, Graincorp, Emerald, Plum Grove e.g.
Price comment ……. Current & futures contracts – e.g. Chicago Exchange? Winnipeg – ASX….?

If this proves popular could be increased and vice a versa – will never be allowed to become a direct advertisement for the member.