



Response to the Draft Report of the  
Productivity Commission Inquiry  
Into  
Wheat Export Marketing Arrangements

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## Executive Summary

The Pastoralists and Graziers Association of WA (Inc), (PGA) appreciates the overall sentiment of the draft report of the Productivity Commission (Commission). There are three areas of the report that we comment on in follow-up to our original submission, and in response to the draft:

1. Cessation of Accreditation and Access Testing  
In light of ongoing monopolistic behaviour of the Bulk Handling Companies (BHCs), and cognizant of the Commission's advice with regard to removing barriers to competition, it is PGA's position that the Wheat Export Authority (WEA) be extended to coincide with the sunset of ACCC's oversight of port access undertakings. This will avoid amending the *Trade Practices Act 1974* (Cwlth) (TPA).
2. Auctioning of Limited Capacity  
PGA stresses that there are severe limitations to the auctioning process, which is cumbersome, expensive, and limits effective secondary market trading
3. Wheat Classification  
PGA suggests that excellence in grain delivery standards did not exist under the former Australian Wheat Board (AWB), nor does it exist in WA under the current monopolistic structure of CBH. Additional competition in the wheat logistics structure will facilitate market-based responsibility in delivering what customers demand.

## Comment on Issues and Questions

### Cessation of Accreditation and Access Testing

The Productivity Commission recommended in their draft report of March 2010 that

1. *accreditation cease and WEA and the Wheat Export Charge be abolished at 30 Sept 2011*
2. *the access test should remain in effect until 30 Sept 2014 and in the transition period (in the absence of WEA after 2011), additional reliance should be on Part IIIA of the Trade Practices Act (TPA)*

In PGA's original submission (27/11/09) to the Productivity Commission on this topic, we stated:

*The first year of operating in deregulated wheat market has also allowed growers' understanding of the Australian Wheat market to mature and for their skills to develop. As a result the vast majority of growers are now comfortable operating in a competitive market, and as such the transitional arrangements established under the Act are no longer required as an ongoing measure.*

*Issues do, however remain in relation to the efficiency of the supply chain and specifically in relation to port access for Australian wheat exporters. The PGA strongly believes that a regulatory oversight role in relation to the Port Access Undertakings must be maintained and believes that further monitoring of the BHCs by WEA for at least another round of accreditation is warranted.*

*The PGA believes that a sunset clause for WEA should be put in place and that the accreditation of bulk wheat exporters is not required beyond this. However the PGA believes that the Port Access Test within the Act is necessary and should be maintained even beyond the sunset of WEA if the ACCC finds that BHC behaviour has not changed as a result of the Port Access Undertakings.*

We now re-iterate that producers are quite capable of operating within a deregulated market, and have enjoyed the benefits that competition in marketing has brought.

However, it has become clear with the second full harvest since the wheat market was deregulated that there is a significant impediment that exists in Western Australia to true market conditions. That is the monopoly power of Cooperative Bulk Handling (CBH). CBH controls the entire wheat logistics structure (both port terminal services and upstream services in Western Australia. CBH controls 197 receival sites; and the export supply chain through *Grain Express*). They are able to extend their port monopoly up-country, and discourage investment in alternative pathways to the ports through Grain Express and business rules. It is quite possible that all the benefits of deregulation (of which PGA is in favour) will not come to fruition if the monopoly is allowed to function in its current state.

While we recommended the following last year, the overriding imperative of dealing with the existing monopoly causes us to reconsider our recommendation.

1. WEA accreditation for exporters of bulk wheat should not continue past 2010. Accreditation for bulk wheat exporters with three year approvals should not continue past 2010, and accreditation for new entrants should be maintained until 2012. Bulk Handler accreditation should be reviewed in 2011 when the ACCC Undertakings expire.
2. WEA to sunset in 2012 to coincide with the current extensions to accreditation. In the interim, the mandate of WEA should be defined and restricted to those activities where a net benefit to community, market participants and growers is clearly demonstrated.

The McColl Royal Commission 1987-88 identified the appalling culture of bulk handlers. A report<sup>1</sup> by Accenture in August 2002 commissioned by GrainCorp, stated “High costs to growers are being caused by barriers to competition and efficiency in the supply chain, grower services, and the operation of the single desk.” And “Opportunities for others to provide value for growers are being constrained.” The conclusion of Recommendation 1 was “What is needed is a more open, contestable supply chain...” In short, the report advocated the benefits of competition in driving cost reduction.

Indeed, the following aptly describes the WA grain industry in 2010, except now these practices are glorified under the name of Grain Express.

*Perhaps the most read section of the 1988 McColl Royal Commission report...was that which detailed the costs of moving grain from the paddock to the port. The Commission found the system of grain distribution did “not meet the criteria of economic efficiency, cost effectiveness and integration” principally because “most grain is channelled along a restricted number of predetermined paths with minimal scope for using lower cost paths.” The commission found fault with the BHA’s practice of pooling transport costs and charging growers an average price. “Hence, inefficient facilities are over-utilised, efficient facilities are under-utilised, and the cost of undertaking the grain distribution task is again higher than it would otherwise be.” Because the grain distribution system operated in a “an environment largely devoid of competition,” inefficiencies have proliferated.*

--A Shared Harvest by Whitwell & Sydenham; 1991; McMillan Education Australia; pgs. 148-150

PGA submits that the CBH monopoly is not a natural one, as asserted. The monopoly exists not through performance, but due to privileges. The total control is wholly due to the historical existence of the Single Desk, and within a normal competitive market, would not have developed as it has. Both the port facilities and the rail facilities which CBH control were developed under significant support by the State for a cooperative existing in a controlled (wheat) economy.

CBH is impeding competition through post-upstream services, such as fumigation, shifting grain, Grain Express, artificial port zones, information control, charging receival and outturn fees to offset freight differences and eliminating competition between port zones through network pricing.

For these reasons, PGA deems it necessary for WEA to continue for another round of accreditation, so as to lend additional teeth to the continued ACCC oversight of port access arrangements in the mean time.

### **Auctioning of Limited Capacity**

CBH’s previous undertaking took several attempts before ACCC could approve their undertaking. CBH has stated that they are holding \$60 million in auction premiums, and they have collected \$3/tonne from participants in the auction. Despite claims of separation of business activities, payment of the \$3/tonne fee does not have the same effect on GrainPool as it does other exporters, due to the vertical integration that CBH boasts. The auction premiums are to be rebated (net of costs), but in the mean time, opportunity cost of the premiums is significant. In the over-all scheme of things, it appears that the cost of complying with the access testing is relatively small.

CBH ties the rebate of net auction premiums to the original auction purchaser, which stifles secondary trading and the rationalisation of the trade that ensues. While the auctioning process appears reasonable, in actuality, the rights are inflexible and do not adequately address the problem of lack of port access.

## **Wheat Classification**

Australian wheat is valued because it is white, dry, and has a high percentage millability. The biggest impact on these characteristics is weather.

While it is commonly stated that AWB administered this function well, it has been documented<sup>2</sup> that under AWB, there was actually an increase in variation in quality (and decreased technical and market support vis a vis the customers for Australian wheat, which affected perception amongst those customers).

In addition, there are very real, practical problems with the existing system, once again relating to the monopoly power of the BHCs. The trade and BHCs should be able to resolve outturn specifications by negotiation. PGA envisions that in a true market environment, this will happen effectively, and additional controls are not necessary to oversee the classification system.

## **Conclusion**

The path of deregulating and rationalising the wheat industry in Australia is progressing, and in general, PGA is pleased with the progress. We as an industry are still working through the remnants of the regulated wheat export markets of our past, and hopefully, within the next three years, we will easily arrive at a fully de-regulated and competitive market.

Until then, we must be vigilant that those remnants of the past do not cause us to be pulled backwards instead of moving strongly and competitively into the future.

**The Pastoralists and Graziers Association of WA (Inc)**  
**April 23 2010**

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<sup>1</sup> *Grains Industry Review*, 14 August 2002, Accenture

<sup>2</sup> *Wheat Foods Market Intelligence Project*, Food South Australia and Grain Growers Australia, pg 39, June 2004