

Productivity Commission Inquiry into Wheat Export Marketing Arrangements – Supplementary Submission from the Department of Agriculture and Food – Western Australia.

The Department of Agriculture and Food (the department) is of the view that, in general, the grains industry in Western Australia (WA) has adapted well to the removal of the 'single desk' for wheat exports. It is unfortunate that the second season of exports under the new scheme has coincided with a period of low world wheat prices and a high Australian dollar and this has resulted in low on-farm prices for wheat. On a positive note, despite the falling market there were no signs that growers in WA were being unfairly treated by marketers. There was strong competition for wheat and a large number of marketing options and products available to growers. This alleviated grower's fears they would have to accept prices below export parity.

The department is concerned that the Productivity Commission (PC) draft report does not give sufficient acknowledgement of some of the issues that have arisen in WA with the move away from a single exporter of wheat to multiple exporters. These issues are probably more evident in the exporting states of WA and South Australia where storage, handling and transport systems were developed for single exporters of grain and are now having to cater for multiple exporters in a very short period of time. There are also issues arising from the vertical integration of storage, handling and marketing of wheat in WA. These issues revolve around ownership and access to information, equal access to port facilities and the ownership and operation of CBH Group. It should be noted that CBH Group has rapidly become the dominant player in WA with its acquisition of 50% of wheat receivals in the first two seasons.

1- Accreditation of exporters

As outlined in the original submission, the department is comfortable with the removal of the requirement for accreditation of exporters and, therefore, supports draft recommendations 4.1, 4.2, and 4.4. The department is of the view that the benefits of maintaining the Wheat Export Authority and the accreditation of wheat exporters cannot be justified on the basis of cost.

If the Federal Government does not support the removal of accreditation, the process to obtain a renewal should be relatively easy, if the conditions of accreditation have been adhered to in the preceding period. This should be considered if the ESCOSA model is to be used.

In relation to the Wheat Export Charge, the department suggests the continued collection of this charge could be considered as a mechanism to fund 'industry good' functions that may be beneficial for the industry (as outlined below).

2- Port terminal access and services

The department supports draft recommendations 5.1 to 5.4. The large cost imposed on the bulk handlers in meeting port access requirements does not appear to be justified particularly as part IIIA of the Trade Practices Act can be used against owners of port facilities that are also grain exporters and who unfairly exploit their monopoly position.

There is evidence in WA that alternate operators and larger growers are looking at alternate storage, handling and port facilities. This will create competition with CBH. Over time, there will be developments in the sector that will result in greater competition but this is likely to take a few years as development of new infrastructure requires planning and capital.

The department is of the view that it would be preferable for CBH to respond positively to the potential competition to improve services to customers as the growers have paid for the infrastructure built by CBH to handle the WA crop. Duplication by competitors may result in a short term gain but raise the prospects of higher charges in the longer term as new operators 'cherry pick' profitable parts of the storage and handling system. This could result in CBH being left with the high cost areas and a lower throughput and lead to a devaluation of the asset base of CBH that has been built up by growers over a long period of time.

3- Transport and Storage

The department agrees with draft finding 6.1 as it does not see that upcountry storage facilities in WA exhibit strong natural monopoly characteristics as outlined in our original submission.

The department supports recommendation 6.1 and makes two observations:

- The current Act allows for the overriding of State legislation that restricts grain to rail (Section 86A). This raises the question as to whether this section should be retained if Government chooses to adopt the draft recommendations of the PC draft report and would, in effect, leave a 'shell' of the Act.
- Rail in WA is largely unregulated. It was a decision of the owners of the rail system to split above rail operation from the running of the rail itself. Reintegration of rail operations was not a recommendation of the Strategic Grain Network Review (SGNR) which recently submitted its report to the State Government.

Draft recommendation 6.2 is supported by the department. It needs to be noted that this was carried out to a large degree by the SGNR process which engaged the consultants Sd&D to provide rigorous analysis.

4- Information provision and market transparency

While the department supports draft finding 7.1, it does not support draft finding 7.2 or draft recommendation 7.1.

By taking a 'purist' economic line on the provision of information in the draft report, the PC is missing a number of key issues. It has been due to the intervention of government over many years that three grain handling, storage and marketing companies have emerged in Australia (CBH, Viterra and GrainCorp). Their domination of the industry has created an asymmetry in information available to the 'big three' and the rest of the industry including growers. To eliminate the role of government and anticipate that industry will adapt quickly is a high risk approach. There are indications that some in the industry are having difficulty adapting to the new environment. With minimal government intervention, however, there would be a more orderly transition for the industry and growers while all players adapt to the new market environment.

To reiterate from our previous submission, the department believes that there is a case for greater disclosure of market information to improve pricing and with equal access to market information for all players. This could be achieved with a national system that provided market information. This may involve mechanisms by which users pay for the information.

5- Wheat classification and market segmentation

The department disagrees in part with the draft finding 8.1. While it may be the case that design, delivery and funding of wheat classification functions is most appropriately undertaken by industry, the department sees a role for government in initially setting up a policy environment that enables such an industry run body to operate effectively. This may include setting up a structure that delivers the desired outcome and a funding mechanism that ensures all beneficiaries of wheat classification contribute.

6- 'Industry good' functions

The department disagrees with much of draft finding 9.1. The approach seems to be a 'pure economic' view on the provision of industry good functions and ignores the problems that are being experienced, particularly in the exporting states of WA and SA, in moving from a 'single desk' seller to multiple exporters.

An example of progress being made through government involvement is the progress being made with Saudi Arabia in getting the market to accept imports of Western Australian wheat by illustrating that it will meet their end-use requirements. The process is outlined in attachment 1.

While the department agrees that the providing industry good functions deliver private benefits, there is a role for government in:

- Setting appropriate policy settings to allow industry to put in place mechanisms to provide such functions where it sees these are appropriate, and
- Providing seed capital and finite funding to assist in the setting up of appropriate structures/bodies to carry out tasks industry sees are required.

An example would be for government to put legislation in place to allow for the collection of funds for identified activities. This could be as simple as maintaining the Wheat Export Charge in legislation or altering the legislation related to GRDC to allow additional levies to be collected at the same time that the research and development levy is collected.

It is important to note that the GRDC does not have a significant investment in post farm-gate research and development or fund work on improving supply chain efficiencies. Its justification is that the benefits of this work do not flow back to the levy payers (growers). There is an opportunity to develop a new national funding model that uses some grower levy funds and funds from a levy on traders and processors to fund such activities. While such a scheme would see traders and processors looking to transfer the cost back to growers through a reduced price to offset the levy cost, if the levy was based around each transaction as grain passes through the supply chain, there could be additional benefits. It appears that Australia exported 20 million tonnes of grain last year but 60 million tonnes were traded. This suggests that each tonne was traded three times and ways to create greater efficiencies, such as a transaction levy, could be useful.

The department believes that the model provided by the setting up of GIWA in WA is useful for Australia. The department encourages the PC to reconsider its position and look at options for the government to assist industry to adapt and make the transition to a deregulated environment.

Grain Silos & Flour Mills Organisation (GSFMO) delegation from Saudi Arabia to Perth and Sydney: 19-26 March

Saudi Arabia: The GSFMO is a government organisation responsible for all wheat purchases and flour milling. Saudi Arabia has had a policy of self sufficiency in wheat production for the past 30 years. The supply of wheat from local production has been based on a single wheat variety for over 20 years. Saudi wheat has been produced under consistently hot conditions with high inputs of fertiliser and water and this has resulted in the supply of very consistent, high quality wheat with protein levels in excess of 12.5% (at 11% moisture basis). This means that the millers are inexperienced at handling different wheat types or producing a variety of flour types.

In 2008, Saudi introduced a new policy to reduce annual wheat production to conserve groundwater. Saudi is now substituting locally produced wheat with the imported wheat from international suppliers through a tender process. In 2009, GSFMO purchased 1.9 million tonnes, mainly from Canada, USA and Germany. In the next couple of years, imports will increase to 2.8 million tonnes. This new access to the Saudi market provides a significant opportunity for Australian wheat. To manage the transition to imported wheat, the GSFMO has set wheat tenders with specifications to match their domestic supply with an initial request of 12.5 % protein.

WA: The Hon. Terry Redman invited the Director General (DG) of GSFMO to visit WA in early 2010 following a trip to Saudi in 2009. It was GSFMO's first visit to Australia. It was a high level delegation which attracted a lot of interest by grain marketing companies and the media. There were eight delegates including the DG and senior technical staff from GSFMO. The purpose of the visit was to further develop relationships in research, industry development and trade between Saudi and Australia as well as building confidence and knowledge of Australian wheat as being high quality and well suited to the Saudi market. The trip also provided the opportunity to demonstrate Australia's educational capacity.

For WA to become a major wheat supplier to Saudi, two issues need to be addressed:

- The minimum protein requirements specified on the wheat tenders be reduced from 12.5% to 10.5% which is suitable for APW wheat.
- Nil ergot tolerance to be changed to the International code of 0.05%.

Following a technical delegation to Saudi in July 2009 by Dr Rob Loughman, DAFWA and Ken Quail, Bread Research Institute (BRI), samples of Saudi wheat were sent to Australia for testing and evaluation and compared with Australian wheat samples. Dr Larissa Cato conducted this research and presented the findings to the delegation. Dr Cato presented results on grain, flour, dough and baking properties including both traditional Arabic flat breads and conventional rapid dough bread baking. Research included the potential benefits from different blends of Saudi and WA wheat. The work was

comprehensive and the delegation was very satisfied with the scientific approach and positive outcomes of the research and the performance of the Australian APW wheat.

Outcomes: GSFMO was impressed with the Australian wheat industry and is keen for Australia to become a regular supplier of wheat. GSFMO has indicated that it is willing to consider importing lower protein wheat. It has acknowledged that flour with lower protein appears suitable for many of their customers and the product range it produces. However it acknowledges that it requires assistance to manage change in flour quality as the bakers have no experience with using different flour types. The bakers will require training and support to ensure they are confident in the use of the flour types and products from these specific flour types. There is also the opportunity to incorporate wheat blending into their operations.

Another constraint to importing wheat into Saudi Arabia was the specification of nil tolerance of ergot. This currently presents a potential barrier to Australia supplying wheat to Saudi. Both Department of Agriculture and Food and CBH discussed this issue with the delegation. The delegation then met with Biosecurity Australia in Sydney to discuss the level of ergot specified in the GSFMO tenders. Biosecurity Australia has been working on this issue for the past 12 months and has recommended that GSFMO adopt the international standards of 0.05%. The DG of GSFMO said that he would recommend that Saudi adopt this standard.

Part of the delegation visited BulkWest, a subsidiary of CBH. GSFMO is reviewing its infrastructure requirements as it modernises its business and adapts its storage, handling and milling operations to streamline wheat imports. WA has the expertise to assist with the re-construction and building of new grain facilities.

Saudi is a major trading partner with WA. As a result of this visit there are further opportunities to work together. GSFMO currently train their staff overseas, AGWEST International is currently scoping the potential to tailor training for the GSFMO, including English language, milling and baking training. This should further strengthen the relationship into the future.