



Ms Wendy Craik  
Presiding Commissioner  
Inquiry into Wheat Export Marketing Arrangements  
Productivity Commission  
Locked Bag 2, Collins St. East, Melbourne, VIC 8003 Australia  
30 April 2010

Dear Ms Craik,

GGA welcomes the draft report of the Productivity Commission's Inquiry into Wheat Export Marketing Arrangements and the opportunity to make further comments. We have primarily directed our comments below towards the provision of information and "industry good functions" highlighted in the report.

### **1.0 Overview**

Broadly we are supportive of the general thrust of the review however as the Commission has correctly identified the industry is still in a state of early transition and appropriate market behaviours have not yet become institutionalised. In doing so we believe that the Commission has at the same time severely underestimated the collective capacity of the industry at this stage of its maturity to satisfactorily address a range of issues which would ensure that there are the right levels of "competitive tension" in the market place ie a level of market balance that creates and sustains value both for the industry and the national interest. In respect of Industry good functions the Commission notes that while achieving industry co-operation in this area might be difficult there is no case for Government intervention on the basis that predominantly, industry good functions are for the explicit private benefit of the industry. We would argue that at this stage of the industry's development there is a significant risk of industry under-investment in these areas largely as a result of a still maturing competitive environment and the lack of a co-ordinated cross-industry process. In this case it is our view that Government still has an important role to play to facilitate the next phase of industry transition.

We also note that the report appears to tend towards consideration of issues related directly to the current marketing and structural features of the current industry, rather than seeking to consider the opportunities available to the industry if alternate structures were to arise subsequent to this inquiry.

The consequence of the current draft recommendations is further structural reform of the wheat industry. This cannot be left to chance or create greater uncertainty within the industry, particularly given the likely electoral cycle over the coming year.

The Inquiry has correctly identified the industry should be able ultimately to self govern and self fund, further that an industry levy<sup>1</sup> may be appropriate in order for growers to invest in information and other aspects of their industry. The Inquiry has not however considered the capacity of the industry to actually take steps towards this outcome in the short to medium term.

For example, at present we understand that a levy in itself faces a difficult process in terms of meeting the Governments *Levy Principles and Guidelines* if a new levy is to be struck, or the need for legislative amendment of the PIERD Act if the current grower levy is to be altered and funds channeled via GRDC, as the current interpretation of the PIERD Act only provides for funds to be used for R&D related activities.

The alternate funding route in this case in the short term would be to maintain the current transitional funding arrangements and re-direct this towards new purposes until such time as the industry can completely transition itself into a self funding model and structure.

### **Specific comments:**

#### **2.0 Repeal of the Wheat Marketing Act**

We note that the terms of reference for the Inquiry include ***“If considering changes to the operation of the Act or Scheme, the Commission will examine how such changes would affect arrangements to fund WEA and the use of cost-recovery mechanisms.”***

We believe that this instruction should allow the inquiry to consider not only WEA and its fate, but also what will be required if in fact WEA were to be removed. Our view is that if Draft Recommendations 4.1, 4.4, 4.5 and 5.4 were to be accepted it would mean that a large proportion of the Wheat Marketing Act would become redundant and need to be repealed, an instance that would perhaps be best handled by the repeal of the entire Act and a new Act put in its place, reflecting the required powers and features to operate an efficient and transparent wheat market.

Such an instrument should create an appropriate tension across the industry (possibly through the inclusion of coercive powers) to ensure that a competitive environment is created that not only facilitates trade but which also drives the industry forward in terms of expanding the value of the industry to the benefit of the national economy overall. In this instance the right incentives for competitive rather than monopolised markets are important. These incentives should also create the opportunities for the flourishing of creative and innovative ideas and technologies. This requirement to ensure a competitive market also extends to infrastructure and port access arrangements. The removal or modification of the current access arrangements should be done in such a way as to ensure that unintended consequences do not occur and that the rise of regional monopolies does not occur.

A new Act may provide for:

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<sup>1</sup> PC draft report Chapter 7 p 253

- Compulsory wheat industry information collection and dissemination to ensure an efficient and transparent marketplace inclusive of information about customer (domestic and export) satisfaction and the commercial performance of Australian wheat.
- The capacity for the Minister to impose a wheat product integrity programme to underpin the industry's developing self regulatory process.
- The capacity for the Minister to undertake such other measures as are required to ensure a balanced, efficient and transparent wheat industry. ie the creation of sufficient competitive tension across the industry to ensure that all facets of the industry have appropriate competitive strength in terms of information and capacity to negotiate appropriate commercial outcomes that encourage the industry to add value across the supply chain.
- Maintenance of appropriate powers in relation to trade practices, storage and freight logistics and port access to ensure that the total capacity of the industry is available to competition and not only surplus capacity.
- Potential provision of a Wheat Industry Services Levy to be applied to all wheat produced to fund necessary industry services.

### ***3.0 Information provision (trade performance data)***

The Inquiry has considered information provision in chapter 7 in terms of “core” information related to production area and volume and stocks held, shipping stems, etc. This is a narrow view of the information required in order to assure that the wheat industry captures value across the entire chain. We contend that the appropriate information is not only the physical volume and location of stocks relating to bulk exports but that it also needs to consider the commercial performance of the grain at the end user (both domestic and export) and that of our competitors.

The Inquiry has identified a number of groups who may be able to undertake the work currently managed by ABARE / ABS. We do not believe that this information service in its current form is sufficient of itself to ensure a transparent and functioning marketplace. The Inquiry has commented on the need for this role to be paid for by industry but has not made any comments on the potential market failure of this and the capacity of industry to collectively pay for such a service or the consequences of a failure to have such information made available.

If industry is to pay for it<sup>2</sup> (via a levy or otherwise), then the service needs to fulfill the industry's information needs in an efficient and cost effective manner. The current system creates disparate pieces of information held by unrelated groups across the industry. For example ABARE / ABS are maintaining a stocks and use information set, GRDC are maintaining the national variety trials and wheat classification service. The Australian Customs Service is holding export information and WEA is holding corporate information.

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<sup>2</sup> Draft recommendation 7.1

There is little or no co-ordination in recording domestic market data or monitoring container export trade. There needs to be sufficient information to be able to easily understand the entire performance of the industry at any given time rather than in isolated reports.

We believe that an industry levy is an appropriate way for growers to pay for some of the industry services but that there is also the opportunity for the levy to provide for a wider range of services related to independent scrutiny of the commercial performance of the industry across the entire chain and not limited to stocks and use information.

The opportunity is not to replicate the current services inside a new framework, but to drive a more efficient end to end information model. We believe there is a developing recognition across the industry of the need to provide public information and services (at varying levels) in a number of areas including:

- Trade data/supply and demand information
- Seasonal data/crop quality information and systems
- Macro data/consumer trend analysis/commercial performance
- trade policy analytics
- wheat classification
- certification services, and
- education and training (technical/capacity building)

#### **4.0 Grain quality and product integrity**

The report has noted anecdotal evidence of customer dissatisfaction with the delivery and quality of Australian grain<sup>3</sup>. This is not limited to exports. It can be argued that commercial reality will ultimately resolve this problem as buyers will make the commercial choice whether or not to deal with certain exporters. The problem is that damage caused by one trader can flow on to impact the entire industry as a “public bad”—something that is overproduced and has collective consequences. While a self regulatory approach is the desirable long term outcome there is currently no process of third party validation across the industry to maintain product integrity. Further, it is our view that the current Wheat Industry Code of Conduct (which has been produced with the best of intent) of itself does not provide sufficient rigour and incentives to ensure appropriate market behaviours. In the short term there may be a need to resurrect the former *non bulk wheat quality assurance scheme* in a new format (certification services) to cover all wheat. In order to facilitate this, it may be appropriate for the Minister to have the discretion to require the industry to adopt a scheme if the industry is not prepared to develop its own.

We contend that at present the industry has not created sufficient organisational structures to deal with this matter and so it requires Government facilitation to support the establishment of a service to independently evaluate the current commercial performance of Australian wheat in the hands of end users (domestic and export).

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<sup>3</sup> PC draft report Chapter 8. Also see Wheat Quality Forum 2010 presentations and outcomes, presentation to AGIC 2009 and recent media coverage

The system should also capture the desirable traits that will lead to industry information about new products or modifications that are required for new variety development, classification and standards.

### **5.0 Other industry good functions**

The Inquiry draft finding 9.1 identifies a range of industry functions which it suggests can be paid for by industry with the exception of trade policy. In the case of trade policy the Commission has identified correctly that this is the role of DFAT and DAFF as the “front line” negotiators. However the Inquiry appears not to have considered how in fact the Government negotiators are expected to engage with the industry to determine what outcomes should be negotiated nor the analysis of current or potential trade outcomes. This is clearly an area of market failure.

We contend that this is an important technical service function that must be conducted by an independent group who have the capacity to analyse and understand the trade flows, barriers to trade, the implications of support systems of competitors and the marketing structures of Government buyers and competitor sellers.

Most other industries have some form of industry levy arrangements that provides for marketing and market analysis in a pre competitive form. We see this as one of the important functions that should be paid for initially by Government transitional support and then ultimately paid for through a Wheat Industry Services levy once one can be established.

### **6.0 Market failure**

The Inquiry identified many areas where spill over and free rider issues exist, particularly related to industry information systems, however we would like to add further comments on aspects of market failure within the industry at present. In doing so, it should be recognised that market failure is not only about the non-provision of goods and services but also about their under provision, which is also inefficient and a waste of resources from both an industry point of view and, importantly, from society’s point of view more widely.

#### **6.1 The quality of grain is not commercially excludable.**

While there are many traders of grain the quality that is available to one is mostly available to all unless there is a closed loop system in place. Thus it is not in the interests of any one trading company to invest in grain quality reports or to provide technical market services to their clients because others can free ride on their efforts. Thus grain quality reporting and technical market servicing suffer from market failure and for the sake of efficient use of resources should be supported through some form of public or collective means. Waste and loss of income and wealth through lack of available information as a result of information capture or under provision is a serious issue when grain is inappropriately blended and sold in ways which do not maximise value along the supply chain.

## **6.2 Trade and market analysis.**

Individual growers cannot invest in this area as there is currently no mechanism to do so and they can only do so collectively (ie via a levy of some kind) This is particularly true of the high level trade analysis re WTO / FTA where no commercial company would engage due to the free riding issue (as well as potentially not having the capacity and skills to do this in any case). Failure to establish a knowledge and data base within an industry to support government efforts in trade negotiations is also a pivotal point at which there can be serious loss of value if collective efforts are not undertaken. This is where the development of appropriate institutional and organisational arrangements is crucial.

## **6.3 Many wheat trading companies are margin traders and not value traders.**

Individual trading companies are now almost all publicly owned or international companies either public or private and so their key responsibility is to capture value and revenue solely for the benefit of their individual company and shareholders. Therefore it is not in their immediate interest to seek to expand the value of the Australian wheat crop per se. It is also in their interests to attempt to capture and quarantine key information that will enable them to maximise the margin between buy and sell prices. In this way there is a requirement for an independent group to act on behalf of growers and the wider industry to ensure that the performance of the industry at a commercial level advances the industry as a whole. If a greater symmetry of information is not established then market failure clearly results largely from the (mis)use of market power.

## **6.4 Industry structures are not sufficiently evolved.**

While it may be possible for the industry to create appropriate formal structures over time to undertake appropriate industry good functions, it is unlikely given current industry attitudes that this will occur in the medium term. This lack of a formal industry structure in itself is preventing the industry from determining what services are required and how they should be funded.

The Governments *Levy Principles and Guidelines* document sets out the process for justification of a levy. This is a lengthy and onerous process which would not be completed within the timeframe envisaged by the Inquiry recommendations.

Finally there is the prospect of a Federal Government election within the period under contemplation by this review. Thus any attempts to modify structures should be done in a way that prevents the development of further uncertainty within the wheat industry. That is, the final recommendations of the Inquiry should be taken up by the Government immediately, in consultation with major industry groups, so as to provide a certain pathway upon which the industry can progress. This is also a justification for the continuance of Government provided industry transitional assistance to facilitate the required reforms.



## Summary

We support the efforts of the Inquiry to identify and address the ongoing requirements of a functioning wheat industry, however we are concerned that the Inquiry has taken too narrow a view of our industry, and its potential, in considering the appropriate solutions that need to be developed.

During this inquiry the Commission has witnessed the highly variable and often disparate views of industry stakeholders and has noted in Chapter 9 previous attempts of the industry to develop a “single vision” and the ultimate inability of the industry to function in a cohesive manner. It is clear that the industry continues to require regulatory support in order to ensure that it moves through to a self governing and funding model. However this will not occur in the short term without continuing government support and explicit instructions to organisations such as GRDC and other institutional frameworks.

There is a wider range of industry good functions required than those considered by the Inquiry to date if the industry is to ultimately realise its potential in a deregulated framework. As one company, GGA itself has invested nearly \$9M over the past 18 months in the acquisition of businesses that provide a substantial industry platform with expertise covering a range of areas including grain and grain foods analytical services, research, technical support in the milling and baking industries, informatics, geospatial data gathering and predictive tools, farm technology testing and assessment and publishing.

The GGA group is in our view, the only national, independent and impartial body in the grains industry today that has existing capacity to provide end to end information and services in partnership with the industry and Government to assist with the continued development of the Australian wheat industry.

Yours sincerely,



John Eastburn

Chairman.