



Australian Grain Exporters Association

Submission to the Senate Standing Committees on Rural Affairs and Transport Inquiry into the Ownership Arrangements of Grain Handling

Background to AGEA

The Australian Grain Exporters Association (AGEA) was formed in 1980 and is the representative body for exporters of Australian grain. AGEA represents its members to facilitate an efficient and effective export industry. Members are active in grain accumulation, storage, handling and processing, as well as risk management and hedging strategies involving commodity futures, foreign currency and counterparty risk. AGEA member companies also have substantial investments in non-grain sectors of the rural economy, such as meat processing and intensive livestock production, oilseed crushing, fertiliser distribution, cotton trading and ginning, ocean freight ownership and bulk and container shipping.

AGEA supports open and contestable markets. AGEA's focus is on assisting Australia to grow its exports of grains and oilseeds. It brings the export sector together to focus on pre-competitive issues that underpin the position of Australian grains and oilseeds in world markets and to ensure that the export supply chain operates efficiently.

Further information about AGEA may be sourced via <http://www.agea.com.au> and a list of members is provided in Attachment I.

Introduction

The Australian grains industry has responded favourably to the new marketing environment that has resulted from the deregulation of the wheat and barley marketing arrangements over the last decade. Australian grain remains in strong demand globally and growers now have more flexible access to a selection of buyers, offering a variety of marketing options.

Since deregulation of wheat and barley market arrangements, the industry has seen renewed interest by offshore companies. The grains industry is a global business and foreign investment is one mechanism for ensuring the industry can build economies of scale and can access and leverage global knowledge, technologies and innovations.

Competition has and will continue to deliver a better industry outcome

Open and contestable markets will deliver a profitable and competitive industry. The Australian grains industry has benefited from deregulation. This is demonstrated by:

- More customers buying Australian wheat
- Australia has not lost a bulk wheat export market
- Container trade is growing also without market loss
- The quality of Australian wheat being exported is meeting market demands
- There is choice for growers in meeting end use requirements
- Increased investment across the supply chain

While the industry has adapted to and is benefitting from deregulation, Australian supply chains remain high cost compared to competitors and further investment is required to ensure supply chains are competitive and efficient.

Exporters are seeking a globally efficient supply chain in which they have certainty and the ability to execute sales; where relationships through the supply chain are commercially based; and where port capacity is contestable.

The Australian grains industry has responded to the deregulated market by ensuring it has the tools required for the market to operate efficiently. This includes:

- Expanded role for Grain Trade Australia in standards, contracts and dispute resolution including investment in a number of functions that support the standards
- Wheat Quality Australia manages the functions of classification and ensures Australia's classes and products match customer requirements
- Establishment of the Grains Industry Market Access Forum (GIMAF) which includes growers and the wider industry, to provide a strategic and proactive approach to managing market access issues
- Development of an Australian Grain Industry Code of Practice
- The industry was working towards a voluntary code on port access, but is now working with the Government on a mandatory code and the industry has worked positively together to provide to Government key principles for the Code

The global market environment has changed

- Changes in the global wheat market before and since deregulation has changed the nature of grain trade flows; customer requirements; and quality system requirements
- Key changes in the global marketing environment over the last decade, and particularly in the period since deregulation of the Australia export wheat sector, include:
 - Focus has shifted from country to customer relationships
 - Emergence of 'Non- Traditional' Exporters i.e. Black Sea Origins as well as India and Pakistan which has seen a more competitive trading environment
 - Decline of single origin buyers i.e. the availability of low priced wheat has led to all mills blending to meet their requirements
 - Increased incorporation of wheat into feed rations as corn prices have been impacted by alternative energy policies
 - Technology and development of additives that are used to obtain equivalent or improved end use performance from a variety of milling wheats
 - Continued presence of 'Price Buyers' (typically purchasing through tenders)

Investment important to promote efficiency, competitiveness & innovation

Further regulation has the potential to inhibit the ability of the industry to be efficient and competitive through adversely impacting investment.

Investment, including foreign investment, has played an important role in the Australian food and agribusiness sector by supporting employment, economic growth and prosperity. Foreign investment inflows support the sector by potentially providing expanded access to cost effective capital and increasing productivity by attracting international know-how and competition.

Foreign investment has played an important role in enabling the grains sector to take advantage of growth opportunities where this has required investment in infrastructure and capital equipment.

AGEA believes the current policy settings around foreign investment in agriculture are appropriate. Considerations in relation to investment by foreign companies that are important include the commitment to transparent pricing to farmers; commitment to continue to invest in Australian based R&D to maintain skills and secure quality improvement in Australia; guarantee open access to essential infrastructure; and commitment to further investment in and actively seeking to grow the Australian production base and value adding sector.

Foreign capital investment can also play a role in relation to broader policy issues such as food security. Food security is increasing in global importance and the grains industry, in particular, has a key role to play as a supplier of food to world markets.

AGEA cautions that any policy shift to a more restrictive environment in relation to foreign investment and/or ownership of supply chain assets may give rise to concerns about sovereign risk amongst investors. This will influence future investment decisions that could impact on growth in the industry and may see capital allocated to other origins/enterprises.

Information

AGEA believes the current level of information disclosure required in the Access Undertakings at port is adequate. Additional information at port will not provide the transparency of stocks information that is sought by some elements of the industry.

Stipulating additional stock quality and quantity information held within commercial storage providers across Australia could assist in creating a more informed and competitive market. Two relevant categories of aggregated grain stocks information collected by grain storage providers along the supply chain that may provide valuable transparency to industry participants are:

- Receipts – ticketed grain delivered by a grower to a commercial storage facility during harvest
- Stocks on Hand – aggregate stock held in storage at a location/zone at a certain point in time

AGEA recognises that there is diversity of opinion across the industry about the level of information that may provide value to the industry with the key issue being around the level of disclosure in relation to quality. AGEA believes that some level of disclosure relating to quality would be useful and suggests a 'composite grade' disclosure may be appropriate.

There are potential market inefficiencies and risks of competitive distortions across port zones unless this information is collected from all relevant parties. As characteristics of grain export supply chains vary significantly between regions, reporting of either receipt or stocks on hand by port zone would not be uniform across Australia if imposed exclusively on PTOs

Thus cooperation of all storage providers operating within a port zone is required to provide meaningful information.

Summary

- Deregulation has been successful: grain exports have been maintained, number of buyers has increased, more choice for growers, grower payments have occurred unimpeded, increased investment across the supply
- As a major global grain exporter, it is important that the Australian grain industry remains competitive and efficient. There is a need for certainty in the investment environment if investment is to continue and support the export business
- Foreign investment is one mechanism for ensuring the industry can build economies of scale and can access and leverage global knowledge, technologies and innovations
- Any policy shift to a more restrictive environment in relation to foreign investment and/or ownership of supply chain assets may give rise to concerns about sovereign risk amongst investors and consequently influence future investment decisions that could impact on growth in the grains industry

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Attachment 1: AGEA Members

Bunge Agribusiness Australia Pty Ltd
Cargill Australia
PentAG Nidera Pty Ltd
Alfred C. Toepfer International (Australia) Pty Ltd
Emerald Group Australia Pty Ltd
Gavilon Grain Australia Pty Ltd
Glencore Grain
Goodman Fielder Consumer Foods Limited
Louis Dreyfus Commodities Australia Pty Ltd
Mitsui & Co (Australia)
Noble Resources Aust. Pty Ltd
Plumgrove Pty Ltd
Quadra Commodities Pty Ltd
Queensland Cotton/Olam
Riverina (Australia) Pty Ltd
Touton Australia

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