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Senate Rural & Regional Affairs Committee

Inquiry into Australian Grain Export Networks

Introduction

The Pastoralists and Graziers Association of WA (Inc) (PGA) is a non-profit industry organisation established in 1907, which represents primary producers in both the pastoral and agricultural regions in Western Australia.

The PGA Western Grain Growers Committee specifically represents the interests of Western Australian grain growers and welcomes the opportunity to provide comment on the Senate's Rural and Regional Affairs and Transport References Committee inquiry into Australian grain export networks.

Summary

The export wheat industry was deregulated in 2008 as a result of comprehensive government failure. The industry has been in an adjustment phase since, but there is no evidence of market failure. Investment has increased, services have improved, and commercial pressures are driving the industry into a better place.

There is no need for more government intervention. Therefore the industry will proceed to complete deregulation and operate under the existing *Competition and Consumer Act 2010*. This can be achieved by adhering to option 4 within the regulatory impact statement released for the Mandatory Code of Conduct for Grain Export Terminals (Bulk Wheat Exports) June 2014.

Grain marketing and export arrangements and their impact on farm gate returns, past and present;

The Australian export wheat industry is in its fifth year of a transition phase to a free market. From 1939 to 2000 the industry was under statutory control and administered by the Federal Government. In 2000 the government outsourced the management and control of the industry to a private company Australian Wheat Board Limited (AWBL) granting it an unqualified license to exploit Australian grain farmers. The then government claimed that these modified arrangements were for the benefit of growers, generating between 14 and 32 extra dollars a ton more than that which the market would have provided. A claim that was devoid of rigour and like the politically driven privatisation process itself, was notable for its deliberate avoidance of any proper due diligence.

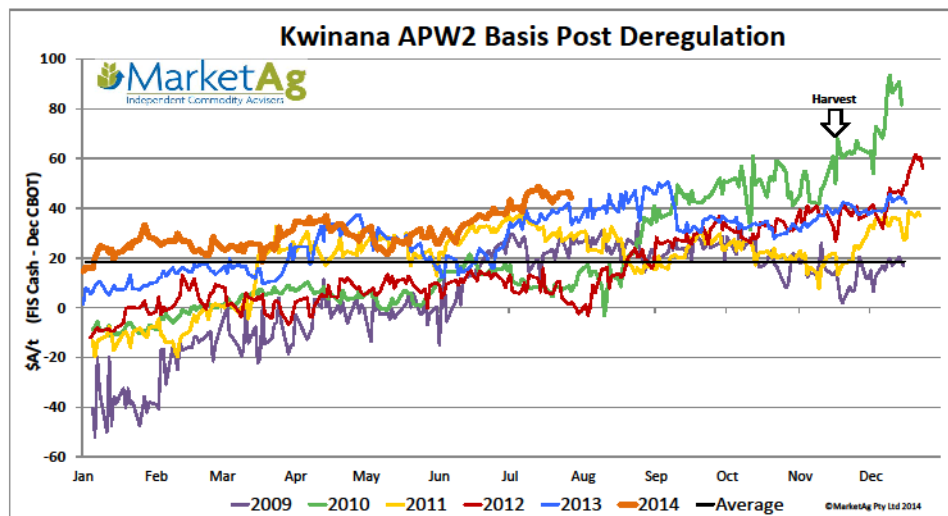
The result was a scandal that blighted Australia's reputation, and cost export wheat growers hundreds of million dollars, fraudulently removed from the 2000 to 2008 wheat pools which still have not been accounted for.

The disappointments of the former AWB can be attributed to many factors, some of which include privatizing a monopoly on purely political criteria, creating perverse incentives through a dual class share holder structure, and failing to include rigorous systems to guarantee that transparency, accountability, reporting and disclosure obligation arrangements were met.

This was especially so as the legislation forced export wheat growers to surrender their product to AWB irrespective of the growers own judgement of the wisdom of doing so.

Since monopoly procurement of export wheat by statute was replaced by competitive buying by voluntary contract in 2008/9 there has been a remarkable transformation of the grains industry especially in the export states.

Farmers now have choice and more opportunity to improve their circumstances through their own efforts and decisions. Western Australian wheat prices have improved by at least \$20/ton as the post deregulation basis chart demonstrates.



On the 28th of July 2014 the advantage over Chicago Board of Trade (CBOT) December wheat was \$50/ton. WA wheat has gone from being the cheapest wheat to sometimes the most expensive. As well as an improved trading basis there has been a noticeable improvement in liquidity and a vigorous cash market which has seen a significant shift away from pools.

The farm service sector is expanding. Investment in the industry is increasing. There is substantial interest in new infrastructure projects including a recently commissioned grain port terminal at Bunbury. This is the first private grain terminal project in WA for eight decades.

All of these positive developments are the result of reduced government and political interference in the market. It follows that introducing ad hoc interventions by regulation that are divorced from the needs of the market, risks the gains already made and reversing the positive trend that is in place.

The PGA's view is that the deregulation of the export wheat industry has been entirely beneficial. Deficiencies and problems that have emerged would not have been revealed under the regulated system. For example it is now clear that the international market requires our wheat in the first half of the year. More export capacity is required particularly in WA. We doubt that the remedy for this problem is more regulation rather than more investment.

The principles and practices underpinning an efficient supply chain from farm gate to port;

Depending on the system employed to manage the supply chain whether it is centrally planned and proceeding by bureaucratic direction, or a system where each organization operates according to its own plans and is governed by the balance sheet and the disciplines of the market, there are at least two ways to respond to this proposition.

In the first case the trade occurs at the leisure and discretion of separate government entities providing and receiving the grain. The single supply chain handling a bulk commoditized, blended product and meeting minimal specifications without regard to downstream processing requirements or costs to growers is the traditional practice by which Australia has managed the logistics problem (see the McColl Royal Commission).

Under government direction the task must be simplified as it is impossible for a single person or authority to obtain the information and knowledge necessary to organize an industry.

But in reality the wheat industry like all modern industry consists of extremely elaborate networks of different stages of production which are interconnected in a highly complicated manner, made even more complicated when diverse periods of time impact on every decision.

Market competition is a dynamic process where rivalry between competing businessmen constantly making decisions and taking new actions, particularly buying and selling, creates new information that continually materializes in the form of new market prices. It is this new information which can never be available to the bureaucrat that makes sound business judgement possible.

Under market competition it is the customer who drives the direction of the industry, or should. Unfortunately the wheat industry has been producer governed, therefore politically driven since 1940. Our systems are only just beginning to be brought into alignment with customer needs. This requires adjustment even before the farmgate and also implies that there is no such thing as a single supply chain from farm gate to port.

If we are to be integrated into thousands and possibly tens of thousands of supply chains in Asia we will need many competing supply chains. The requirements to meet this challenge are; respect for private property and contracts, the suppression of the use of force, fraud and theft, security of investments eg no retrospective regulation or arbitrary government intervention and adhering to the underlying principles of the rule of law.

Participants in the trade have the knowledge, experience and the disciplines of the market to execute these functions competently. The ACCC has a good record with regard to legacy competition issues.

Now that farmers have choice they too are influencing the discovery of the most efficient supply chain providers by accepting the best net farm gate bid. Unlike the government, which told us in all sincerity that in 2002 that thanks to their stewardship we were making an extra \$32 /ton when in fact we were being penalized \$20 /ton, the competitive trade bid will reflect the true state of the market.

Transport, storage and handling;

Since deregulation, the grain industry has gradually moved away from the cost plus pricing model used by the centralised bulk handling system operating under statutory protection. There are no legislative impediments to prevent new or existing participants expanding or investing in the industry. Six new grain port terminals have been built and expansion has occurred at existing ports.

Competition and the prospect of competition is providing the incentive for the commercials to discover the best way to serve their customers at the least cost. Growers benefit from the better servicing of markets and the competition to accumulate supplies. Although the PGA concedes that some legacy organizations are handling the adjustment better than others there is no doubt that the industry is working its way through these issues via mediation and cooperation with the occasional prod from the ACCC.

With ten current Port Operators working from 24 terminals and indications of more to be commissioned (two additional proposals in WA for example) any further interference by the government will only be detrimental. There is no demonstrated market failure that justifies more statutory controls.

All that needs to be done is for the Commonwealth Government to follow the recommendations of the 2010 Productivity Commission Inquiry Report into Wheat Export Marketing Arrangements and fully deregulate the wheat market after its successful transition.

Related Matters;

On the 30th of June 2014 the Wheat Industry Advisory Taskforce tabled its final report into a range of issues concerning the wheat export supply chain. Its findings are relevant to this enquiry.

To summarise, the Taskforce recommended that; *“as evidence of market failure could not be established, there is no need for additional intervention by government in the provision of stocks information”* and that; *“based on the volumes of wheat being sold and the lack of evidence to suggest losses in market share, the Taskforce believes that there is no market failure in the quality management of Australian wheat exports that would warrant government intervention.”*

Conclusion;

Export wheat growers have endured decades of heavy handed government intervention in the industry culminating with the issue of exclusive marketing rights to a monopoly company. No safeguards, transparency or accountability to protect the disenfranchised growers from the predatory behaviour of the monopoly beneficiary occurred. Neither was the conservative government in any hurry to safeguard the grower's interests when it was clear that pool contributors were being exposed to crippling costs.

Now, five short years later, presumably as compensation for previous dereliction of duty, deficiencies are being found every where. Stifling regulations, obligations and controls are threatened for industry participants when there is no evidence of market failure and even less grounds to show that more government interference will lead to better outcomes.

If recent history is any guide more intervention particularly in the form of the vindictive regulations that are being canvassed will only discourage investment, duplicate existing arrangements, disrupt supply chains, damage customer relations and compromise market liquidity.

Recommendation;

The PGA recommends the unconditional repeal of the *Wheat Export Marketing Amendment Act 2012* and the *Wheat Export Marketing Act 2008*.

Yours faithfully

John Snooke
Chairman
PGA Western Grain Growers Committee