

30 May 2011

Committee Secretary
Senate Standing Committees on Rural Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Committee Secretary,

Grain Trade Australia welcomes the opportunity to comment on the operational issues in export grain networks

Please contact Grain Trade Australia should you require further information.

Yours sincerely

Geoff Honey
CEO



Senate Standing Committee on Rural Affairs and Transport
Inquiry into
Operational issues in export grain networks

Terms of Reference

Operational issues arising in the export grain storage, transport, handling and shipping network, with particular reference to:

- A. any risks of natural, virtual or other monopolies discouraging or impeding competition in the export grain storage, transport, handling and shipping network, and any implications for open and fair access to essential grains infrastructure;
- B. the degree of transparency in storage and handling of grain and the appropriateness of any consequent marketing advantages;
- C. equitable access to the lowest cost route to market, including transport options;
- D. competition issues arising from the redelivery of grain;
- E. the absence of uniform receipt, testing and classification standards and practices and any implications for growers and/or for Australia's reputation as a quality supplier;
- F. equitable and efficient access to the shipping stem; and
- G. any other related matters.

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Introduction

Grain Trade Australia, (GTA) was formed in 1991 to provide a standardised grain trading platform to enable the efficient facilitation of trade across the Australian grain industry supply chain.

These provisions include such industry good functions as the homogenisation of grain standards, trade rules, industry contracts, contract dispute resolution services, Australian Grain Industry Code of Conduct and *Australian National Training Information Services*, endorsed professional development programs.

GTA represents over 240 member organisations ranging from regional family businesses to large national and international trading, storage and handling companies.

GTA's members are responsible for over 95% of all grain storage and handling within Australian annually and more than 90% of all grain contracts refer to GTA's Grain Standards and/or Trade Rules.

Executive Summary

With 26 accredited bulk wheat exporters and many other grain exporters (including container exporters) that do not require accreditation, a large number of domestic buyers, pools and marketing organisations, risk management tools and an oversupply of storage, it would appear growers have a healthy and growing choice of markets competing heavily for their business.

There has been some discussion that the current market data offering is not sufficient by ABS and that the wheat stocks data should be split by port region and possibly an improved quality breakdown (currently feed wheat or milling wheat). Further, the timing of the release of the data is about a month old by the time it's released. While it would be nice to have more data which is released in a timelier manner, this view doesn't take into account the fragility of the current situation where the current short term data provision may cease if, in the eyes of the Productivity Commission, the industry isn't prepared to fund it. With this in mind, GTA believe it's appropriate to implement strategies aimed at locking in the current short term data provisions before even contemplating requesting additional data.

GTA would recommend that the current market data provisions should continue beyond 30 June 2011 and funding be a compulsory payment mechanism such as an industry levy. This could come from GRDC where funding can be collected and administered under the existing legislative collection mechanism.

GTA are the primary body responsible for setting and publishing the majority of industry grain standards. GTA have a Standards Committee (Committee) with members across the entire supply chain. This Committee undertakes the role of overseeing all grain Standards related issues for the entire grain industry. Standards may either be developed directly by this Committee, or be provided to this Committee for adoption after being developed by other industry organisations closely associated with a particular commodity. These include the Australian Oilseeds Federation (oilseeds) and Pulse Australia (pulses).

Another key task of the Committee is to ensure commonality of standards, tolerances, definitions, procedures and processes across commodities where practical. This reduces the complexity of the application of standards and ensures consistent methods and procedures are applied, no matter what the commodity. The Committee provides reference methods for the majority of tests for cereal grains. While industry is free to apply field methods for assessment, these must be calibrated against the reference methods.

The Australian storage system is set-up such that all operators in the supply chain are aware of customer requirements and the grain standards are created to meet those customer needs. Grain is traded on the basis of those grades and this uniform process by all in the supply chain has significantly enhanced Australia's reputation as a supplier of quality grain. This enables Australia to compete effectively in the international market.

In 2009, the Australian Grain Industry Code of Conduct (the Code) was developed and facilitated by GTA on behalf of the Australian grain industry. This was achieved with the involvement of participants from all sectors of the industry and financially supported by the Australian Government, Department of Agriculture, Fisheries and Forestry.

GTA Submission Regarding Operational Issues in Export Grain Networks

GTA welcomes the opportunity to supply the Senate Standing Committee on Rural Affairs and Transport on comment regarding operational issues within the export grain networks.

GTA will attempt to address, where appropriate, the issues outlined in the Senate Standing Committee's specific Terms of Reference, point by point.

Terms of Reference (a)

any risks of natural, virtual or other monopolies discouraging or impeding competition in the export grain storage, transport, handling and shipping network, and any implications for open and fair access to essential grains infrastructure;

Australian grain growers have arguably never had a greater choice of marketing options for their grain than what is available today.

The Australian grain market has developed rapidly since the introduction of deregulation in 2008 from one legal entity tasked with the entire bulk export of Australian wheat to what we have today.

Australia currently has 26 listed accredited bulk wheat exporters, and many other grain exporters (including container exporters) that do not require accreditation.

Australian growers are supported by a healthy choice of export and domestic buyers, traders, brokers and end users of grain. GTA represents 250 of these organisations across Australia.

Australian growers are being offered an array of export and domestic pool options managed by bulk handling companies, private traders, farmer organisations, advisory groups and co-operatives.

Banking, financial and marketing advisors are encouraging growers to adopt one of the many risk management options available to them to address risk derived from price variations throughout the year.

Both the export and domestic trade are equally well catered for with 50 million tonnes of grain storage capacity through the bulk handling system. This is complemented by 16 million tonnes of on farm storage and several million tonnes of end user storage. With this in mind Australia's average grain production for ten years to 2008 was only 37 million tonnes with the highest production year on record at 47 Million tonnes.

As bulk handler income is primarily derive from the receival of grain it is in their best interest to compete heavily for deliveries.

With all the above points in mind including; 26 accredited bulk wheat exporters and many other grain exporters (including container exporters) that do not require accreditation, a large number of domestic buyers, pools and marketing organisations, risk management tools and an oversupply of storage, it would appear growers have a healthy and growing choice of markets competing heavily for their business.

Terms of Reference (b)

the degree of transparency in storage and handling of grain and the appropriateness of any consequent marketing advantages;

There has already been considerable discussion regarding the provision of information to the grain market and its importance. The Productivity Commission (PC) considered this critical and devoted a chapter (ch.7 Information Provision) to the subject in its report late last year on Wheat Export Marketing Arrangements.

The Productivity Commission report refers to the short term information that the government currently funds, by this they mean the ABS grower surveys on planted area. This information is used as the basis for the current ABARE crops forecasts. It also includes the monthly grain export data by state (except for barley where they only provide national exports). There is no contention in this.

The PC says the current short term arrangements (ABS surveys that provide monthly wheat stocks by state, export commitments, grower stock surveys, end user stock survey) need to be funded by industry if they are to be continued beyond the end of June 2011.

There has been some discussion that the current offering is not sufficient by ABS and that the wheat stocks data should be split by port region and possibly an improved quality breakdown (currently feed wheat or milling wheat). Further, the timing of the release of the data is two months old by the time it's released. While it would be nice to have more data which is released in a timelier manner, this view doesn't take into account the fragility of the current situation where the current short term data provision may cease if, in the eyes of the PC, the industry isn't prepared to fund it. With this in mind, GTA believe it's appropriate to implement strategies aimed at locking in the current short term data provisions before contemplating requesting additional data.

The PC understands the importance of data to the industry but it is still insistent on the 'user pay's principle'. The PC recommended that the GRDC collect a levy to cover the cost of the ABS and ABARE services.

The current short term arrangements involves ABS surveying the major Bulk Handling Companies (BHC), exporters, end users and some growers. The core information is the reporting of monthly wheat stocks in

BHC's by state. This is critical as it allows the market to accurately assess monthly end stocks at a state level as well as giving much greater confidence in the crop forecasts. The market will survive without this data but is likely to take a larger risk premium to cover the 'unknowns'.

It would be difficult for any other body to undertake the core surveys as ABS is already set up with the resources and structures to undertake this function while others would have to implement them which comes at a cost.

The BHC's are the major custodian of the information that is being disclosed to the market under the current short term information arrangements. Three BHC's manage the bulk of the tonnes held in storage and five would possibly hold 95%. The recipients of the information is broad based as the information is extrapolated by ABARE and distributed to exporters, end users, growers etc.

Unfortunately the 'user pays' principle breaks down in the grain industry in determining who the user is and how will it be paid for. It is in the commercial interest of the BHC's to let the short term information arrangements lapse and capitalise on their own knowledge of grain stocks which is already in-house but not available to the broader market.

GTA would recommend that the current market data provisions should continue beyond 30 June 2011 and funding be a compulsory payment mechanism such as an industry levy. This could come from GRDC where funding can be collected and administered under the existing legislative collection mechanism.

Terms of Reference (c)

equitable access to the lowest cost route to market, including transport options;

GTA does not believe it is in a position nor has the authority to comment on issue (c).

Terms of Reference (d)

competition issues arising from the redelivery of grain;

GTA does not believe it is in a position nor has the authority to comment on issue (d).

Terms of Reference (e)

the absence of uniform receipt, testing and classification standards and practices and any implications for growers and/or for Australia's reputation as a quality supplier;

GTA are the primary body responsible for setting and publishing the majority of industry grain standards. GTA have a Standards Committee (Committee) with members across the entire supply chain. This Committee undertakes the role of overseeing all grain Standards related issues for the entire grain industry. Standards may either be developed directly by this Committee, or be provided to this Committee

for adoption after being developed by other industry organisations closely associated with a particular commodity. These include the Australian Oilseeds Federation (oilseeds) and Pulse Australia (pulses).

GTA Grain Standards are applied at all points in the supply chain, and relate to the trading of grain.

Standards may be applied at receipt of grower deliveries, on transfer from one Storage agent or marketer to another, and on outturn from storage to the domestic market or at export.

The standards that apply to grain tendered for delivery are developed for each commodity based on a range of factors. These include but are not limited to:

- Customer contract
- Importing country's Government regulations for quality or quarantine
- Relevant food safety laws
- Requirement to improve quality of grain supplies
- Competitor grades and quality
- Available quality of grain given restrictions of varieties, growing and harvesting conditions, pest and disease resistance of the crop
- International protocols such as Cartagena and Codex Alimentarius
- Ability of the storage system to segregate or commingle grain
- Land protection & Quarantine laws

All standards are based on a range of quality parameters, be they physical properties, defective characteristics or on contaminants present in the grain. A key to some commodities, such as wheat, is the inherent varietal characteristics and the varietal classification associated with that quality.

Another key task of the Committee is to ensure commonality of standards, tolerances, definitions, procedures and processes across commodities where practical. This reduces the complexity of the application of standards and ensures consistent methods and procedures are applied, no matter what the commodity. The Committee provides reference methods for the majority of tests for the cereal grains. While industry is free to apply field methods for assessment, these must be calibrated against the reference methods.

A range of other standards related activities are also outlined by GTA through various means such as:

- offering grain standards training courses in the correct interpretation and application of standards and use of testing equipment
- providing industry with Commodity Vendor Declarations detailing chemical application
- developing a Code of Conduct for industry that includes a range of core requirements when assessing grain

In addition GTA, through the Committee, developed various Competency Standards that industry use when developing courses for employees in regards to sample stand operations. This work was done in conjunction with NSW TAFE and the units have been adopted by Agrifoods Skills Australia as part of a training package for the preparation, use and management of grain storage facilities. There are various units that are outlined on the GTA website.

One of the primary goals of setting standards is commonality of processes, procedures and methods of analysis. The GTA Standards Committee ensures this occurs through adoption of industry standards and recommendations to industry on changes that may be required.

A secondary goal of GTA is to pursue technical issues that affect standards, their application and implementation by industry. New technologies and procedures are explored by GTA and recommendations are made for their introduction into industry practices and standards as required.

As can be seen from the above, the standards are developed based on a range of factors over time, learning from experiences in the past and from changing market forces.

The Australian storage system is set-up such that all operators in the supply chain are aware of customer requirements and the grain standards are created to meet those customer needs. Grain is traded on the basis of those grades and this uniform process by all in the supply chain has significantly enhanced Australia's reputation as a supplier of quality grain and enables Australia to compete effectively in the international market.

Terms of Reference (g)

equitable and efficient access to the shipping stem;

GTA does not believe it is in a position nor has the authority to comment on issue (g).

Terms of Reference (h)

any other related matters.

In January 2011 GTA wrote to Senator Nick Xenophon, a Member of this Senate Committee, in response to the announcement of this inquiry and, specifically to, comments concerning an Industry Code of Conduct.

In 2009, the Australian Grain Industry Code of Conduct (the Code) was developed and facilitated by GTA on behalf of the Australian grain industry. This was achieved with the involvement of participants from all sectors of the industry and financially supported by the Australian Government, Department of Agriculture, Fisheries and Forestry.

This Code sets out the principles and standards of behaviour that underpin and promote best practice throughout the entire grain supply chain. The Code is formally reviewed annually by representatives of the industry, addressing a variety of key objectives, including 'any problems or issues identified during the review process' and to ensure that it remains contemporary.

The 2010/2011 Australian harvest will be recorded as extraordinary, given the dramatic weather events, and any appropriate issues arising from this season which may require change to the Code of Conduct will be addressed accordingly by the industry.

Conclusion

GTA would appreciate the opportunity to address the Select Committee on The Grain Handling Industry.