

**SENATE RURAL & REGIONAL AFFAIRS & TRANSPORT
REFERENCES COMMITTEE**

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Inquiry into Operational Issues in Export Grain Networks

Monday, 20 February 2012

CANBERRA

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Mr Bryan Nye, CEO, Australian Railway Association	Copy of two photos: <i>Picture 1: Victorian Grain Freight Consist.</i> An average freight consist only requires three locomotives. This grain line consist requires six locomotives due to the unreliability of the old engines. The cumulative age of the six locomotive consist is 301 years old. <i>Picture 2: Grain line in regional NSW.</i> This line is technically still in operational. However, given the variability of the grain task, it has been left unused for years and very little maintenance work has been undertaken.	2
Mr Peter Woods, CEO, Wheat Exports Australia	Opening Statement; Wheat Exports Australia, <i>Report for Growers 2010/11</i> . See attached link: http://www.wea.gov.au/ReportForGrowers.php ;	5 40





Senate Standing Committees on Rural Affairs and Transport

Inquiry into operational issues in export grain networks

Wheat Exports Australia – Opening statement

20 February 2012

I will use the acronym WEA to describe Wheat Exports Australia in my opening statement.

WEA was established on 1 July 2008 under the *Wheat Export Marketing Act 2008*. WEA's role is to accredit fit and proper exporters, monitor those exporters and ensure continuous disclosure of the shipping stem. WEA has no role in storage and handling, transport, marketing, publishing statistics, setting receival standards or classifying wheat varieties.

At this point, I would like to table the 2010/11 Report for Growers. This was published in December 2011 and provides:

- an overview of the operation of the *Wheat Export Accreditation Scheme* for the 2010/11 marketing year;
- key export statistics;
- accredited exporter activity;
- commentary on WEA's recent visit to South East Asia;
- a history of wheat industry regulation in Australia, and;
- world wheat price trends.

In 2010/11, Australia exported 18.5 million tonnes of wheat, of which 16.3 million tonnes was bulk. This was despite a wet harvest in eastern and southern Australia and drought in WA.

Nineteen accredited exporters shipped bulk wheat to 36 countries.

Seven exporters shipped over a million tonnes in 2010/11, compared with three in 2009/10 and four in 2008/09.

Most bulk wheat exports went to Asia with exports to the region increasing by 37% from 2009/10 with 8.1 million tonnes to 11.1 million tonnes in 2010/11.

For the first three months of the 2011/12 marketing year to December 2011, 4.33 million tonnes of wheat was exported to 37 Countries with ABARES forecasting total wheat exports of 21.6 million tonnes.

I would like to bring your attention to three key areas observed by WEA and endorsed in other submissions to this committee.

a. Unequal access to wheat stocks information.

Upcountry wheat stocks information is not currently published in sufficient detail nor in a consistent and timely manner to be useful to industry. Industry requires detailed and timely information to facilitate accurate pricing and competitive tendering for international contracts.

This results in a significant marketing advantage to the associated accredited exporter of the bulk handling company (BHC). The Committee will note a number of public submissions presented to this inquiry state that the retention of stocks and quality information by BHC's creates market asymmetry, provides them unfair advantage in marketing and trading of grain and reduces effective competition in the market.

The bulk handlers have tried to counter this by pushing that there is some kind of disadvantage to growers by having transparency of information. Clearly no market can function properly with incomplete or one sided information and failure to provide that information will lead to market failure. This is why the ASX have their listing rules that ensure complete disclosure to prevent this type of market failure.

WEA noted in its submission to the Productivity Commission Inquiry Report on Wheat Export Marketing Arrangements dated 1 July 2010 (the PC Inquiry Report) that:

- *“Exporters have consistently indicated to WEA that to have information on stocks available at up-country storage facilities with the data aggregated by grade and warehouse position (thus ensuring that the stocks of individual growers/owners were not identified), would aid pricing and help target purchases or stock swaps.*
- *Exporters have indicated to WEA that publishing wheat stocks both in volume and quality segmentation by port zone, would support:*
 - *more efficient execution of export sales, particularly improving scheduling of logistics and port terminal operations*
 - *more efficient wheat marketing including improved capacity for arbitrage and swaps*
 - *exporters more closely meeting customer quality specifications*
 - *exporters better servicing their customers”.*

The PC found that:

- *“timely and accurate information is important for supporting an efficient bulk wheat export market”;* and
- *“Unequal access to more disaggregated stocks information confers a marketing advantage on the trading bulk handling companies and expects that greater disclosure of this information to all participants would improve the operation of the wheat market.”*

Grain handlers state that stocks information is not theirs to release, that it belongs to those who are holding the grain in storage i.e. growers, endusers or traders. Yet all but one bulk handler (CBH) openly use this information for commercial gain within their own organisation.

WEA believes that bulk handlers are fabricating the situation when they state that growers need to agree to the release of aggregated stocks information. WEA considers that such information can be released, provided it does not identify individual growers or their grain.

WEA is of the view that the following issues are relevant in this matter:

- Grain that has been sold, transferred or delivered by a grower to a buyer is the property of that buyer (usually a company). In most cases this will be a domestic user, trader or accredited exporter.
 - All such industry participants want the publication of aggregate stocks information.
- In the case of grower warehoused grain, the grower retains title to his/her grain, but only the quantity and quality - and not a specified parcel of grain, as on delivery grain is comingled.
 - WEA is of the view that growers would have no objection to aggregated data being published.
- All bulk handlers have installed computerised stocks systems. Growers and traders receive almost instantaneous details on a delivery ticket basis following unloading and taring of trucks.
 - As such, bulk handlers' claims that they cannot provide aggregated and timely information, or that it would be very expensive to do so, needs to be queried.

Historically, stocks information was provided publicly by both Vicgrain Ltd and AusBulk Limited prior to being incorporated into GrainCorp Ltd and ABB Grain Ltd respectively.

The view of industry and WEA is that this information should **not** be considered proprietary to the bulk handlers as they now operate what were once State-owned enterprises, state mandated monopolies or are grower-owned (in the case of CBH) enterprises, and receive the information as a consequence of their monopoly position.

Thus there appears to be no valid reason not to require all storage facilities which store wheat for commercial gain to publish site-aggregated stocks information.

Recently, Tom Vilsack, the US Secretary of Agriculture was quoted in World Grain Magazine, September 2011 in an article entitled 'Data Transparency: Hugely important for markets' The article said:

“[he declared that nations] should share information on stocks and production... We need a concerted effort by the private sector, governments and multilateral institutions to increase transparency and market information, increase agricultural productivity and facilitate trade.

The article went on to say:

Sheltering farmers from reliable information that will help them make wise decisions, as some nations have sought to do, is a counter to progress in food production as any man-made negative could be”

WEA considers timely and transparent information critical to the efficient operation of the market.

b. Mandatory objective testing of grain receivals.

The industry is using objective testing to as large a degree as is possible given the type of equipment available. There is considerable money being spent on new testing methods by GRDC and others to enable full objective testing but this is simply not yet available.

Varietal integrity is currently a key issue for the Australian wheat industry. You will note on page 17 of the Report for Growers tabled earlier that, on my recent trip to South East Asia, which is Australia’s biggest market for export wheat, millers consistently indicated that the preservation of Australian Wheat classification was essential and that the integrity of varietal classification was particularly important. Further, wheat exporting countries with official Wheat Export Standards are preferred by millers over those without such standards, Australia has no official wheat export standards. WEA understands that both the USA and Canada check for varietal integrity on export this ensures consistent performance of the wheat flour.

c. Management of the shipping stem.

Based on substantial feedback from exporters, and echoed in submissions to this committee, WEA is of the view, in order for industry to capture all the benefits of a deregulated market, the supply chain needs to be transparent and equitable to all players in the market. This includes uniform and transparent booking of shipping slots and the publication of comprehensive port capacity tables.

On 23 September 2011, Minister Ludwig, the Federal Minister for Agriculture, Fisheries and Forestry announced that the Government had substantially accepted the Productivity Commission Inquiry Report into Wheat Export Marketing Arrangements but determined that their implementation would occur in three stages.

Stage one was the application of a “lighter-touch” Scheme under current legislation. This commenced 1 October 2011.

Stage two will see the abolition of the Scheme and the Wheat Export Charge on 30 September 2012. WEA will be wound up by 31 December 2012.

The ACCC will continue its oversight of the access undertakings and will monitor continuous disclosure rules.

Removal of the access test will be conditional upon a non-prescribed voluntary code of conduct being developed and implemented prior to 30 September 2014 for port terminal operators that export bulk wheat. The code of conduct will include continuous disclosure rules which require the maintenance of a publically available shipping stem on the port terminal operator's website.

Stage three will operate from 1 October 2014 with full deregulation of the bulk wheat export market. Port access issues will be governed by general competition law and the abovementioned voluntary code of conduct.

It is anticipated that the necessary legislative changes will be introduced into Parliament in the Autumn session of this year.

Thank you.