



SUBMISSION TO

Rural and Regional Affairs and Transport Senate

Committee Inquiry

into

Wheat Export Marketing Amendment Bill 2012

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 Chair Grain Producers Australia

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“The farmer is the only man in our economy who buys everything at retail, sells everything at wholesale, and pays the freight both ways”
John Fitzgerald Kennedy

Executive Summary

Grain Producer's Australia (GPA) as the recognised Representative Organisation (RO) for the grains industry has an obligation to provide an industry response to government given its responsibilities under the *Primary Industries and Energy Research Development Act 1989* (PIERD), the *Primary Industries (Excise) Levies Act 1999* and the *Primary Industries (Customs Charges) Act 1999*. Specifically in this matter GPA is responsible in determining industry views on the Wheat Export Charge which is utilised to fund Wheat Exports Australia.

GPA does not support the *Wheat Export Marketing Amendment Bill 2012* (the Bill). GPA asserts that further deregulation of the wheat export market is premature and poses significant threats to the efficient and fair operation of the wheat export supply chain.

The rationale and justification for the Bill is based almost entirely on the outcomes of the Productivity Commission into Wheat Export Marketing Arrangements (the Commission). GPA asserts that the Commission findings are not a suitable base to make recommendation for further deregulation of the wheat export market because:

- The Commission was held only one year after the *Wheat Export Marketing Act 2008* (the Act) was enacted. In hindsight this was too soon to effectively review the performance of the market and the Act under deregulation.
- The post farm gate sector of the wheat export supply chain has evolved considerably since the Commission and is likely to continue to change dramatically over the next five years at least, undermining the relevance and reliability of the Commission's findings around market performance.
- There is credible evidence emerging that the quality systems that underpin Australian wheat value capture are being eroded under deregulation

Based on extensive consultation GPA has determined a clear direction from the production sector that statutory oversight of the export wheat market should be maintained and that the Wheat Export Charge (WEC) should be maintained and deployed to fund this activity.

GPA does support an amendment to the Act that would see the retention of a lighter touch accreditation scheme to bulk and non bulk exports administered by a statutory body funded by the WEC.

GPA has presented a position that:

- There is no evidence that the current marketing arrangements have delivered the promised benefits of competition to maximise growers' returns and improve value capture of Australian wheat.
- There is evidence that the export wheat supply chain is not currently mature enough to self regulate.
- The proposed abolition of all statutory oversight is premature and such a decision should be based on evidence of effective and efficient operation of the export wheat supply chain.

- The current accreditation scheme is largely obsolete, but there should be an accreditation scheme based on performance rather than character. The accreditation scheme should not be draconian, but should address:
 - the asymmetry in the supply chain around stocks intelligence which is potentially anti competitive
 - maintenance of the integrity of the Australian wheat varietal classification system
 - contract terms and specification compliance
 - the need for greater transparency and improved confidence in the integrity and quality of Australian wheat
- There needs to be a monitoring role of export cargoes, bulk and non-bulk, to provide assurances around the quality and varietal integrity of wheat exports.

There is adequate capacity and resources, utilising the WEC as the primary funding source, to provide ongoing effective oversight of the export wheat market. In order for any structure to provide effective oversight, it will need a charter that provides an appropriate scope for the new role and function.

GPA is effectively and capably developing industry positions with input from a diverse group of stakeholders that provide the best current coverage of levy paying grain producers across the entire Australian grain belt. That said, GPA recognises that national grower representation is still fractured and it is unlikely that this critical function is likely to be reconciled in the near future. GPA is mindful of the current representative impasse and acknowledges that in itself makes further deregulation of the wheat export market in the absence of a stable national representative landscape dangerous for growers.

Producers have identified two key mechanisms that will improve performance of the export wheat market and returns to growers: firstly, bringing down transaction costs along the supply chain, primarily by reducing risk premiums; and secondly, differentiating and building confidence in our product to achieve a premium for it in the market. It is growers' view that both of these functions are currently undermined by a lack of transparency and the breakdown of clear market signals throughout the supply chain.

Australian grain producers through GPA are seeking a sensible evolution of wheat export marketing arrangements. It is fair to say that all markets have some form of regulation. Arguably the most efficient market in Australia, the ASX, is heavily regulated. GPA considers carefully constructed statutory oversight of the wheat market to augment trade, foster effective competition and provide clear market signals for an efficient supply chain is appropriate at this time.

GPA remains committed to work constructively with all stakeholders to ensure the ongoing evolution of the wheat marketing system will provide the best possible outcome for all stakeholders including growers.

Yours sincerely,

Pete Mailler
Chairman

Purpose of this paper

This paper has been prepared specifically to provide useful background to the Rural and Regional Affairs and Transport Senate Committee Inquiry into the Wheat Export Marketing Amendment Bill 2012. GPA recognises that the Bill implements the Australian Government's response to the Productivity Commission review of wheat export marketing arrangements.

The Wheat Export Marketing Act 2008

“The *Wheat Export Marketing Act 2008* (the Act) came into effect on 1 July 2008. The Act established a new regulator, Wheat Exports Australia (WEA), to formulate and administer an accreditation scheme for bulk wheat exports. The *Wheat Export Accreditation Scheme 2008* (the Scheme) also came into effect on 1 July 2008.

The Scheme requires exporters to meet strict probity and performance tests to satisfy WEA that they are fit and proper entities to hold accreditation. In addition, to be accredited exporters that own or operate port terminal services need to meet an access test under the Act, which requires them to have access undertakings approved by the Australian Competition and Consumer Commission (ACCC) in place by 1 October 2009.

Compliance of accredited exporters with the conditions of their accreditations is monitored by WEA which has the power to vary, suspend or cancel accreditations in certain circumstances.”¹

Section 3 of the Act states:

“The objects of this Act are as follows:

- (a) to promote the development of a bulk wheat export marketing industry that is efficient, competitive and advances the needs of wheat growers;
- (b) to provide a regulatory framework in relation to participants in the bulk wheat export marketing industry.

The following is a simplified outline of this Act:

- This Act sets up a system for regulating exports of wheat (other than wheat in bags or containers).
- Exporters of wheat must be accredited under the wheat export accreditation scheme.
- An exporter will not be eligible for accreditation unless the exporter is a company that satisfies the eligibility criteria set out in the scheme.
- The eligibility criteria include being a fit and proper company.
- An accredited wheat exporter must comply with conditions of accreditation (including reporting conditions).
- Wheat Exports Australia (WEA) will administer the wheat export accreditation scheme.
- WEA has power to:

¹ Wheat Export Market Arrangement Productivity Commission Inquiry Report

- (a) obtain information from accredited wheat exporters; and
 - (b) direct the audit of an accredited wheat exporter.
- The Minister may direct WEA to carry out an investigation.
 - WEA will report to growers on an annual basis. ²

The current accreditation of bulk exporters of wheat is deemed to have worked in that it has provided a stable transition from Single Desk marketing to the current partially deregulated environment. However, the scheme could not predict or pre-empt all the implications and outcomes of the deregulatory process which now require resolution to ensure the wheat export market operates fairly and fosters efficient and robust competition. The current scheme can now be streamlined to provide more efficient and effective use of resources. This would reduce the burden on exporters and enable a re-direction of WEA resources to other industry requirements.

There are a number of reasons as to why retention of statutory oversight and provision of some services to the market is considered the most appropriate and expedient in the short to medium term:

- **Stability** – The ongoing instability around producer representation generally means that it is imperative that the oversight functions are housed and managed in a stable structure not affected by the ongoing rationalisation of the representative space. Furthermore the post farm gate sectors of the export supply chain are also undergoing rapid and ongoing evolution that is unlikely to stabilise within the next five years.
- **Independence** – the WEA is an independent statutory authority;
- **Corporate Governance** - the WEA is independently governed by a Board and is required to report to both Government via the Minister and to Growers ;
- **Existing Funding Mechanism** – WEA has an existing funding mechanism through the Wheat Export Charge (export levy) ensuring continuity of funding. This being a major constraint of public good service provision given such services are non-excludable and the resultant free-rider effect means companies are usually reluctant to fund such services;
- **Synergy** – Wheat Exports Australia is funded by the Wheat Export Charge a levy on wheat exports and has natural synergy with public goods such as wheat varietal classification. Wheat is the largest single cereal grain produced by the industry for which other industry good services are required;
- **No vested interest** – the objects of the WEA under legislation is to promote the development of a bulk wheat export marketing industry that is efficient, competitive and advances the needs of wheat growers. It does not have vested interests in specific aspects of the supply chain, other than in maximising overall value for the industry; and
- **Importantly, having the WEA provide industry good services may be achievable **without legislative change**, or with minimal change to the existing Wheat Export Marketing Act 2008.**

The Wheat Export Marketing Amendment Bill 2012

² Wheat Export Marketing Act 2008 No. 65, 2008, page 2.

“This Bill implements the Australian Government’s response to the Productivity Commission review of wheat export marketing arrangements.

The transition to a fully deregulated bulk wheat export market began on 1 July 2008 with the abolition of the single desk wheat marketing arrangements. The *Wheat Export Marketing Act 2008* (the Act) established a system for regulating the export of bulk wheat, where exporters of bulk wheat must be accredited under the Wheat Export Accreditation Scheme (the Scheme), administered by Wheat Exports Australia (WEA) and primarily funded from the Wheat Export Charge (WEC).

The Productivity Commission report on its inquiry into wheat export marketing arrangements was tabled in Parliament on 28 October 2010. This Bill will implement the Commission’s recommendations relating to the Act but under a staged approach to ensure the full benefits of the 2008 reforms are realised.

It will abolish the Scheme and the WEC on 30 September 2012, and wind-up WEA on 31 December 2012. This will give WEA time to complete outstanding tasks such as its final Annual Report and the 2012/13 Report for Growers. The requirement for providers of grain port terminal services to pass the access test as a condition for exporting bulk wheat will be retained until 30 September 2014. The access test will then be abolished, on the condition that a non-prescribed voluntary industry code of conduct covering access to grain export terminals is in place. “³

Section 3 of the Bill states:

“The objects of this Act are as follows:

- (a) to promote the operation of an efficient and profitable bulk wheat export marketing industry that supports the competitiveness of all sectors through the supply chain; and
- (b) to provide a regulatory framework in relation to participants in the bulk wheat export marketing industry.”

The following is a simplified outline of this Act:

- This Act provides a system for regulating exports of wheat (other than wheat in bags or containers).
- A provider of a port terminal service who exports wheat, or who is an associated entity of a person who exports wheat, must pass the access test in relation to the port terminal service.
- An exporter of wheat:
 - (a) who provides a port terminal service; or
 - (b) who has an associated entity that provides the port terminal service;must not export wheat using the port terminal service if a person who was required to pass the access test in relation to the port terminal service at a time during the previous 12 months did not pass the access test at that time.

³ Wheat Export Amendment Bill 2012 Explanatory Memorandum

- The Minister may approve a code of conduct dealing with the provision to wheat exporters of access to port terminal services by the providers of port terminal services.”⁴

GPA asserts that the Government should not rely on the findings of the Commission entirely in determining the most appropriate regulatory framework for the wheat export market. This is particularly relevant given the amount of evidence that is available since the Commission concluded its inquiry, not least of which is the Rural and Regional Affairs and Transport Senate Committee’s report into Operational issues in the export grain networks.

Productivity Commission Review of Wheat Export Marketing Arrangements

Section 89 of the Act required the Productivity Commission (the Commission) to conduct an inquiry into the operation of the Act and the Scheme.

Under the Act, the Commission was compelled:

- the operation of the Act, including the costs and benefits; and
- the operation of the Scheme, including the costs and benefits.

In conducting the inquiry, the Commission was to assess the effectiveness of the arrangements in meeting the objectives of the Act and considered the operation of the Act and the Scheme, including the role of WEA, as a whole. The Commission also considered how individual components of the Act and the Scheme affect relevant stakeholders and the costs and benefits they deliver. The Commission was to provide comment on those aspects that were working effectively and identify those that require change. The Commission was to take into consideration recent reports and studies into Australia’s grain supply chains.

The Commission was to give consideration to issues that may or do affect the effective operation of the Scheme including, but not limited to:

- the suitability of the eligibility criteria required for, and conditions imposed upon accreditation;
- the appropriate level of assessment of each applicant for accreditation by WEA against these eligibility criteria;
- the appropriateness and effectiveness of the access test requirements that apply both before and after 1 October 2009;
- the effectiveness of, and level of competition existing under current arrangements for the transport, storage and distribution of wheat in contributing to a sustainable supply chain from farm gate to export load port;
- the availability and transparency of relevant market information to participants in the export supply chain; and
- any other factors that may affect the performance of WEA. ⁵

The Productivity Commission Recommendations and findings

The key recommendations of the Productivity Commission are outlined in this section with brief responses provided:

⁴ Wheat Export Marketing Amendment Bill No. ,2012 page 3

⁵ Wheat Export Market Arrangement Productivity Commission Inquiry Report

4.1 *The Wheat Export Accreditation Scheme 2008 should be abolished on 30 September 2011. This timing would coincide with the end of the 2010-11 marketing year and give the Australian Government sufficient time to put the required legislative changes in place.*

GPA does not concur with this recommendation, because the powers WEA has in requesting information is enshrined in the Scheme. GPA does consider that the Wheat Export Accreditation scheme has been applied in an overly prescriptive manner with respect to accreditation of exporters. GPA does concur with the Commission's comments that:

"...this would include streamlining the level of assessment employed by Wheat Exports Australia..."

GPA considers that time and effort currently devoted to the accreditation process could be more efficiently re-directed towards other functions that support the efficient operation of the market. GPA considers this streamlining can be achieved with no, or minimal, legislative change.

4.2 *Regulation 9AAA of the Customs (Prohibited Exports) Regulations 1958, which prohibits bulk exports of wheat unless by an accredited wheat exporter, should be repealed effective September 2011.*

As above, with the retention of the accreditation scheme GPA do not concur that this Regulation should be repealed as it empowers the accreditation process.

4.3 *Wheat Exports Australia should be abolished on 30 September 2011*

GPA disagrees with this recommendation as the Wheat Exports Australia presents a viable and stable vehicle to facilitate a range of industry good functions with an established funding stream.

4.4 *The Wheat Export Charge should be abolished on 30 September 2011*

GPA disagrees. The Wheat Export Charge should be retained and applied to Wheat Exports Australia to facilitate a range of industry good functions.

4.5 *If the Australian Government decided not to abolish accreditation, a system similar to that administered by ESCOSA for bulk exports of barley in South Australia would be the next best alternative.*

- *A less attractive alternative would be to amend the Wheat Export Accreditation Scheme 2008. As outlined in this report, this would include streamlining the level of assessment employed by Wheat Exports Australia and more clearly defining its role to ensure that its powers do not extend into matters of competition policy.*

If the Australian Government decided not to abolish accreditation, the application fees and the Wheat Export Charge would need to be reviewed. A Cost Recovery Impact Statement should be formulated, in line with the Australian Government Cost Recovery Guidelines. The Wheat Export Charge should no longer be levied on exports of wheat in bags and containers, as they are not covered by the accreditation scheme.

Any new or amended arrangements put in place by the Australian Government should be reviewed after no more than five years.

As mentioned, GPA considers that the level of assessment in the accreditation process can and should be streamlined to achieve a more efficient and cost effective process for the industry. GPA considers this can be achieved under existing legislation at the direction of the Minister, as the level of accreditation and regulation is subject to interpretation and application of the Accreditation Scheme under the Act. Alternatively, and if deemed necessary, the scheme could be amended by Disallowable Instrument rather than amending the existing legislation. That is:

“8 *Wheat export accreditation scheme*

(1) WEA may, by legislative instrument, formulate a scheme (to be known as the wheat export accreditation scheme) about any or all of the following matters:

- (a) the accreditation of companies as accredited wheat exporters;*
- (b) a matter required or permitted by this Act to be included in the wheat export accreditation scheme;*
- (c) ancillary or incidental matters..”⁶*

The new arrangements should be reviewed after no more than five years.

- 5.1 *The Australian Government should proceed with the scheduled independent review of the National Access Regime. This review should commence no later than 31 December 2011.*

The Access Regime should be independently reviewed in conjunction with the revised arrangements after no more than five years.

- 5.2 *The requirement for grain port terminal operators to pass the access test contained in the Wheat Export Marketing Act 2008 (continuous disclosure requirements and an ACCC accepted port access undertaking) as a condition for exporting bulk wheat should remain in place until 30 September 2014. Responsibility for determining if the access test is met (including the continuous disclosure requirements component) should rest solely with the ACCC beyond 30 September 2011, whether or not accreditation continues past that date.*

Ideally, grain port terminal operators not subject to the access test between 30 September 2011 and 30 September 2014 would voluntarily publish their shipping stem and port access protocols.

GPA considers the most expedient solution is for the Access Regime obligations to remain under the Act, therefore not requiring legislative amendment. Further, to improve efficiency and availability of information that shipping stems, port access protocols, and inventory information should be provided under the existing provisions of the Act with respect to Port Access and/or the Accreditation Scheme at direction of the Minister.

The requirement for port terminal operators to pass the access test as a condition for exporting bulk wheat should be abolished on 30 September 2014.

Disagree. The decision to abolish the access test should be dependent on the confidence and assurance that the ACCC can manage the assessment of the port access arrangements in a way that provides at least an equal level of comfort as the

⁶ Wheat Export Marketing Act 2008 No. 65, 2008, page 12

access test. In the short to medium term GPA considers the most expedient solution is for the Access Regime obligations to remain under the Act, therefore not requiring legislative amendment. Further, to improve efficiency and availability of information that shipping stems, port access protocols, and inventory information should be provided under the existing provisions of the Act with respect to Port Access and/or the Accreditation Scheme.

The requirement for continuous disclosure should continue after 30 September 2014, although this should no longer be a condition for exporting bulk wheat. From this date, the continuous disclosure rules should be applied to all grain port terminals, regardless of ownership. Responsibility for monitoring compliance with continuous disclosure rules should remain with the ACCC after 30 September 2014.

Disagree – GPA considers that this should be subject to review in 5 years. Existing continuous disclosure obligations under the Access Test and incorporation of inventory disclosure requirements under the Accreditation Scheme would ensure transparency of market information and a more efficient market. Without appropriate regulation there is no incentive upon exporters to provide information, often third party inventory information, that they may consider has an intrinsic value and provides a competitive advantage.

From 1 October 2014, access disputes (other than those relating to the continuous disclosure requirements) should be dealt with by the National Access Regime under Part IIIA of the Trade Practices Act.

Ideally, port terminal operators would supplement these arrangements with a voluntary code of conduct from 1 October 2014.

Should the access test continue beyond 30 September 2014, it should be reviewed after no more than five years.

See above.

- 6.1 *The ACCC has announced that it will review the exclusive dealing notification granted to CBH, regarding the use of Grain Express. In light of market developments and concerns over the contestability of CBH's supply chain, the Commission endorses the decision by the ACCC to review Grain Express. The Commission recommends that the ACCC makes its determination as soon as practicable.*

Concur and note that the ACCC has subsequently determined that Grain Express be disbanded.

- 6.2 *When considering investment in road and rail infrastructure for the transportation of grain, decisions should be based on thorough cost-benefit analysis, including both economic and social costs and benefits. Where possible, the analysis should consider the benefits that can be obtained throughout other parts of the grain supply chain.*

Agreed

- 7.1 *The Commission sees value in the provision of stocks information by state to support the effective operation of the domestic and export wheat markets. However, if the industry wants this information, it should pay for it. The most efficient approach to*

funding this information would be via an existing compulsory industry levy. Specifically, the GRDC levy collection framework appears to be the most practical and cost-effective option for funding stocks information by state.

The proposal to provide a new charter to WEA and extend the Wheat Export Charge to help fund it will provide some capacity for industry to fund this work. It is contested that the provision of stocks information should be much more detailed to include individual stack descriptions. Disclosure of inventory levels could be included in streamlined requirements under a revised Accreditation Scheme which would ensure transparency of market information. This information would provide statistics about the grain crop delivered into central handling systems, enabling cheap real time data to be collated by the existing industry authority.

8.1 Reforms and initiatives to improve the collection and enforcement of End Point Royalties, such as those recommended by the Advisory Council on Intellectual Property's Review of Enforcement of Plant Breeders Rights, should be implemented expeditiously.

The recommendations around the ACIP review provide some suggestions around enforceability of Plant Breeders Rights that producers consider destabilising and a deterrent to uptake of new varieties with increasing compliance issues. GPA suggests that the collection of End Point Royalties should be streamlined and focus shift from policing compliance to facilitating uptake and reducing administrative costs to improve returns to breeders and ensure correct market signals are being delivered along the supply chain.

Wheat Export Charge

The Wheat Export Charge was struck under the *Primary Industries (Customs Charges) Act 1999*. The WEC exists to fund WEA to administer the Wheat Export Accreditation Scheme and can only be used by WEA in the execution of its duties in line with its charter under the *Wheat Export Marketing Act 2008*.

The WEC is a cost recovery levy with the sole purpose of funding the operations of WEA. The recent strong export performance and reduced expenditure under the “lighter touch” scheme has meant that WEA is earning more revenue than required to meet its operating expenses. In the event that WEA is wound up and the accreditation scheme abolished any WEC funds remaining in WEA’s account will become the property of the Commonwealth.

GPA has a legislated responsibility in determining the industry views on the WEC. The overwhelming recommendation from the production sector, the ultimate source of the WEC revenue, is that the WEC be left unchanged and that the WEA not be abolished.

GPA asserts that the WEC is ultimately paid by growers. This point was acknowledged by the Commission which found: “...*Previous experiences with levy arrangements suggest that levies are typically ‘passed through’ the supply chain by market participants, and ultimately paid for by the primary producer (grower)*”⁷ (emphasis added).

⁷ Wheat Export Marketing Arrangements, Productivity Commission Inquiry Report, no.51, 1 July 2010, page 319.

The fact that growers in effect contribute the majority of funds to provide oversight of the wheat market is instructive in that growers do tangibly support the service provision. It is therefore understandable that producers feel a degree of ownership in what they regard as their industry, and a desire for a commensurate amount of influence in the continued provision of services.

Therefore overall support from the grain producer sector should be paramount to any Government legislative intervention. It is this sector that ultimately funds the industry in one form or another

GPA considers that the Minister for Agriculture, Fisheries and Forestry can direct WEA to undertake a number of functions on the grounds that they are “...to promote the development of a bulk wheat export marketing industry that is efficient, competitive and advances the needs of wheat growers...”, as per the existing objects of the Act.

Therefore GPA believes that the WEC can be legitimately deployed in the provision of services to the wheat market through a less prescriptive accreditation scheme without the need for extensive redrafting of Legislation.

Market Observations

The process of deregulation of the wheat export market has delivered measurable changes in pricing signals, logistics operations and market penetration. The transition has been relatively stable. However, the performance metrics used to evaluate the success of deregulation are proving to be problematic and do not reflect satisfaction, confidence or even real returns to growers who were supposed to be the primary beneficiaries of the process.

Basis, the difference between the real Australian price and the US futures price for wheat, has been touted as a useful measure of performance. Basis has improved in the west, but the real driver for this change is unclear and may be as simple as freight differentials to market. Basis has deteriorated in the East. While the basis movement provides some comfort that one region is no longer subsidising another through a national pool, the overall benefit of deregulation is mixed. Furthermore the actual gain in basis in the west still can not be assessed against the potential gain that could be achieved through greater transparency and improved competition.

The number of accredited exporters and the relative volumes of grain exported by each exporter have also been suggested as indicators of the relative competitiveness of the market. However, this analysis is currently only considered nationally and serious concerns exist in relation to the relative performance within each port zone and the degree of real competition within the bulk handling regional monopolies that exist. It is clear that the east coast has a distinct advantage through a much higher level of port competition.

A further indicator used to highlight the success of deregulation has been the performance of the logistics networks to move record tonnages through the export supply chain. Unfortunately the reality is that there are still massive inefficiencies through the networks and delays in loading ships and associated hidden costs are significantly eroding returns.

Supply Chain

Producers are particularly concerned about the apparent disincentive for grain traders to maximise the value of the crop as opposed to maintaining trading margins and this is perceived as a decline in real marketing of the Australian crop. There is a perception that the wheat crop is being devalued and undersold with domestic receival standards becoming the default export standards.

Producers invariably end up carrying the costs and/or the losses associated with an inefficient supply chain and articulate real concerns about their ability to effect change in the system and realise the true farm value of the crop.

There is a physical disconnect between producers and end users that acts as a disincentive for producers, bulk handlers and traders to cooperate to maximise value capture. In effect the Australian wheat crop is exported through a series of transactions which are focused on achieving a trading margin per transaction. The crop is traded and not marketed in the truest sense.

Wheat Exports Australia (WEA) and the associated regulatory arrangements for the export of Australian wheat have provided relative stability through the transition from Single Desk. In review of the performance of the regulatory arrangements it is clear that the industry requires ongoing oversight of the export wheat supply chain albeit in a different format to the current regulation.

Producer influence in the supply chain has been undermined by a fractured representative framework over many years. Given the ongoing instability around representative roles in the industry it is essential that industry good functions and facilitation of market support services be delivered through a stable statutory mechanism.

Information Flows

The system is crippled by a lack of information and accurate description of the crop as it is harvested and delivered into the central storage systems. The bulk handlers companies (BHCs) effectively operate regional monopolies and restrict and control the intelligence around up country stocks quantity and quality. This lack of transparency severely impacts the ability of producers and traders to make informed decisions in delivery and compete in the aggregation of cargoes.

BHCs appear to use internal stocks information to achieve a competitive advantage for their related marketing arms either through direct release of the stocks information or through preferential dealing in cargo assembly. Producers and exporters are seeking greater transparency of up country stocks information and propose continuous disclosure rules should apply to provide fair trading conditions.

Various arguments have been presented to justify non disclosure of stocks including cost, privacy, commercial intellectual property and even market exposure.

While BHCs argue they may not release stocks information to the trade, the same argument should apply internally because stocks information has not been approved by growers for internal transfer to BHC traders.

The stocks information is already collated and the cost associated with provision of this information is relatively minor. It is not dissimilar to the current continuous disclosure of shipping stem information.

Growers have a higher investment per tonne in logistics than most BHCs and often retain ownership of grain in warehouse and finally knowing when the market is short is as important in pricing as knowing when the market is long.

There should be a clear demarcation of logistics and handling in terms of costings and returns on investment as opposed to trading enterprises to ensure real contestability in the market.

Quality Systems

The logistics section of the supply chain has now been compromised to the point that there are major issues in relation to maintaining the integrity of traded grain and ultimately functional compliance to end users. Wheat receival standards are becoming the default export standards and these minimum specifications are increasingly failing to meet customer needs.

In addition we are seeing the reputation of Australian wheat being undermined by relatively high instances of non compliance to performance expectations through the container trade out

of Australia. Jock Laurie, President of the National Farmers Federation has been quoted in the press recently on the recent trade delegation to Indonesia where he heard first hand from millers about their concerns in this matter.

There is anecdotal evidence that the varietal classification system that is used to describe the milling functionality of Australian wheat varieties is also being undermined with cross grade blending becoming prevalent and even blatant misrepresentation of wheat grades. There are penalties for producers who are found to misdeclare wheat varieties, but no such compliance standard for bulk handlers who out turn to physical specifications. As a result cargoes may comply on specification, but fail to meet the functional requirements of the end user.

This in turn highlights Australia's lack of competence in providing independent quality assurances on wheat exports in direct contrast to our major competitors. The US operates the Federal Grains Inspection Service and Canada operated the Canadian Grain Commission to provide oversight and compliance monitoring on export cargoes. These independent statutory structures provide a high degree of confidence amongst end users and a clear accountability of the trade. In many respects this provision is a pre competitive industry good function that the trade has failed to provide and subsequently will erode the performance of the Australian export market.

Recent discussions with key stakeholders including the National Residue Survey (NRS) have also highlighted a range of problems that highlight systematic failures in the supply chain and strongly suggest there is a need to maintain regulatory capacity in the export wheat market to establish standards of behaviour and information disclosure to facilitate maximum compliance and value capture and a healthy supply chain.

Regulation

The Australian experience and history in protecting agricultural industries has been ostensibly through regulation of the market and or market access. Often this has a distorting effect on true market signals to these industries. While all markets are regulated to some degree, the best regulation should not distort real supply and demand forces.

We are generally heavily dependent on export demand with relatively limited domestic demand. As a result the ability to foster competition in our supply chains has been challenged through limited or controlled access to either our products or services with a limited market exposure.

The wheat market in Australia is relatively small in world terms, but the export portion of the crop is significant. The challenge that we face is that the domestic market is so small that the supply chain is geared to service the export market and can not offset costs to the domestic market in the same way our major competitors can.

The US has had a history of protectionism and subsidies to producers, but to maintain an efficient and competitive supply chain they have regulated information rather than the physical market. In many respects the relevance of the US Futures markets is borne on the back of a high degree of confidence in stocks and production intelligence which is heavily regulated. In this way the market functions with relative efficiency and provides relatively equal access to any investors interested in soft commodities. Indeed the Australian wheat price tracks very closely to US wheat futures with the obvious currency interaction.

The Australian Stock Exchange is arguably the most efficient market in Australia and it is heavily regulated around disclosure. The banking sector in Australia is a healthy and competitive industry, but is heavily regulated around disclosure under the Australian Prudential Regulation Authority.

While it is desirable to have less regulation in a market, the reality is that not all regulation will stifle innovation and reduce competition. In fact it can be demonstrated that by

regulating information rather than the mechanics of the market you can foster and increase competition.

GPA is concerned that there is a prevailing all or nothing approach to regulation in markets and considers that light touch oversight with an ability to disallow delinquent traders would provide safeguards and protect all sectors of the industry without unduly distorting the market.

Conclusion

The problem producers see is that any loss of confidence in our product leads to discounting.

Agricultural value chains start at the processor and work backwards to the producer. In the wheat industry this means that the miller ultimately determines the price of a tonne of wheat at their mill and then transaction costs are deducted back down the chain devaluing the product to the farm gate. The domestic market more or less works to export parity pricing.

Therefore, producer's net price for grain is derived from the gross end user price less all the margins taken at each transaction point along the supply chain. The lack of transparency and subsequent lack of compliance means each effectively "blind" transaction incorporates a risk margin applied by each transactor. End users also discount the price to offset risk associated with contract or functionality compliance.

In contrast to the Government's current policy position there is strong evidence to support the continuation of statutory oversight of the wheat export market with a modified charter to preserve the integrity of wheat quality systems and oversee the compliance of all export wheat pathways with a modified accreditation scheme that can ensure that the current obstruction of information is managed to provide confidence in unbiased stocks intelligence to the supply chain.

The underlying premise is that the export wheat supply chain is not yet achieving acceptable standards of efficiency and subsequent value capture to provide comfort in further deregulation of the marketing arrangements at this time.