

Submission to the Senate Enquiry into Grain Handling

John Crosby

Formerly Chairman of the Wheat Expert Committee

This submission does not go to the full range of issues relating to the current transitional phase to a free market in grain in Australia. It concentrates on two key issues which have progressed less satisfactorily than many other areas.

These are:

- Availability of information necessary to underpin an efficient market
- Continuing problems with the handling of near monopolies and their influence.

Availability of information necessary to underpin an efficient market

The Wheat Expert Committee took the view that the greatest likelihood of a distorted grain market is the possibility of unequal information in the hands of some participants. Previous experience in the US market included one spectacular year when the traders in that market sold nearly double the available wheat to Russia, when the Russians had a sudden shortage. This occurred essentially because no one knew who was selling how much and from where. Many relied on being able to purchase stocks from the merry go round of inter-trader sales.

As a result of this and other examples of problems in a market with unclear information, an act/regulation was passed requiring all holders of stocks to report monthly to a division within the USDA. The USDA publishes that information in order to ensure that all players have at least a baseline of information from which to make informed decisions.

Indeed the USDA has acted as the leading source of reliable information about stocks and crop forecasts worldwide for some years.

There are three key factors needed to make judgements about the market:

- Grain in store
- Grain shipped in the period
- Grain unsold

A fourth factor, the size of the coming harvest is important in the lead up to harvest.

Grain in store is a measure of what is in the system. From this must be deducted that which is in the hands of the end user or sold and scheduled for shipment overseas. The balance then becomes the available pool of grain, owned by farmers or intermediaries with no home designated as yet. It is the movement in this figure which allows farmers, traders and end users to make judgements about whether they should be in the market or awaiting a change in conditions.

For instance, a big disappearance of available stock in March will indicate that the market may tighten in the winter; thereby lifting farmer's or grain accumulator's expectations of price. Conversely a small clearance in this period may indicate a flooded market, or the asking price is too high and lead to a lowering of price expectations. To this players add international information and local information and make a call on their marketing options.

However, if this information is not freely available, then the risk is that a number of players will make poor decisions, leading to loss of income or profit or both.

The Wheat Expert Committee recommended that a system be implemented which made this stock information available on a basis which did not disclose the positions of individual players. As a result of this recommendation a system was set up under the control of ABARES, using ABS's ability to collect information. I understand that the contract for this service has just ended and it appears there is resistance to continuing this service.

The information has been collected from end users on a monthly basis and published on the ABARES or WEA's web site. The three main grain handlers have essentially refused to participate, and from comments from Allison Wadkins, CEO of Graincorp at Outlook, would appear to be hardening their attitude.

This service cost about \$2million to set up (DAFF paid ABS is my understanding) and would represent very poor value for money if it were allowed to lapse after only three years. My understanding is that the ABARES report has ceased and only one of the three areas is still reported by ABS and is so broad as to be useless.

At the time of establishing this system, the grain handlers raised all sorts of objections, from unnecessary cost to too much detail to unfair use of their information.

It is important to note that a significant portion of the information which the handlers claim as theirs, is really the property of the owner of the grain, be they farmer, in the first instance, or end user or exporter, where the grain has passed ownership. The only grain which the grain handlers can claim any privilege is that which they have purchased themselves.

There is no conceivable reason for withholding this information other than the handlers wish to use their superior information to their own benefit and therefore to the detriment of other players in the market.

It is also very difficult to see how, with the concentration of handling in effective regional monopolies, that Australia's need for disclosure of stocks and disappearance is less important than in the very diverse market in the USA where there is much greater competition.

It is notable that the reluctance of the major grain handling companies will have led to some reticence on the part of end users who have supported the system of information over the past three years.

It should also be noted that the ASX would not allow this type of behaviour from any public company. It is well understood that comprehensive market information is one of the significant cornerstones to people's confidence to trade in a market.

Recommendation:

That a comprehensive stocks and clearance information system be maintained and includes all holders of grain whether they be owners or contract handlers. That reporting be mandatory and monthly for all companies holding or trading more than 10,000T per year.

That this service may well be more economical if provided by a specialist firm not involved in grain trading or storage, on a commercial basis, but would need the support of regulation to ensure compliance.

Continuing problems with the management of near monopolies and their influence, and market power.

One of the most significant hurdles to a competitive and vibrant grain industry, as seen by the Wheat Expert Committee is the ability of the major grain handling and storage companies to manipulate their dominant position to the detriment of the trade and farmers.

There are a number of ways this can manifest itself. One foreseen problem was monopolising shipping schedules to increase the cost of competitors through demurrage and extra holding charges. The bidding system put in place has been shown to have some problems, and as I understand it has been modified to stop hoarding of timeslots.

However, there are multiple ways the near monopoly supplier of services can extract extra margins:

- Charging a higher fee for deliveries to port from an upcountry storage not belonging to the port storage owner. Can be in excess of \$4/T.
- Charging growers an extra fee for direct delivery to port.
- Using their information systems to the benefit of their trading arm, by a number of means including targeting wheat which is near the top of the specification for grade, using all of the grain from a silo where a competitor has a natural freight advantage, stranding small parcels of grain and then offering a lower price. And so on.
- Locking up rail capacity on over-burdened lines, requiring competitors to use road, usually at a higher cost.
- Leaning on port authorities to make it hard for competitors to find suitable alternative arrangements. This occurs as a result of the port authority not wanting to upset a major customer, and deals on volume.
- Reducing competition by keeping up-country fees lower, but then overcharging where they have the monopoly at the port.
- Offering a rebate of about \$2/T to buyers who allow the handler to ship from any site rather than the grain specifically bought by the buyer.

This last point would seem to be a benefit to buyers, and in some instances it is. However, it has two perverse effects. This rebate is not available to grain stored by people other than the port attached grain handler and therefore becomes a penalty to storing grain other than with the major handler. When coupled with the first point above where costs can be \$4/T higher, we find that to be competitive an outside storage operator has to do for \$10/T what the major port operator can charge up to \$16/T for, before the port operator becomes uncompetitive. That is a 40% competitive advantage in the pricing of a service.

It is these types of practices which are stifling the introduction of true competition in to the system of storage and Handling, which is in turn directly affecting the free competition within the marketplace and therefore the price to end users and the net return to growers.

Buying subsidiaries of grain handlers.

Both Viterra and Graincorp are very large maltsters. WACBH has a major Asian marketing affiliation. These arrangements, particularly in a system where these same companies dominate information gathering and hoarding, and in a system where disclosure is not enforced, can and will lead to market distortion.

When a maltster can individually get access to information about the size and quality of the crop, which his independent competitors do not have, he can achieve some major advantages.

- Buy up the grain with the best specifications, knowing how much there is and where it is.
- Enter and exit the market causing major disruption to price and supply, knowing their own position is covered.

Example of the difference competition makes.

In the 1970's an independent group set up what was known as the Pinkenba terminal. It was a small privately run competitor to the Statutory Qld handling system. It was fiercely opposed but gained good support from trucking companies and smaller shippers particularly of barley and sorghum. It had the effect of taking about \$15/T from the cost structure of shipping grain from our farm at Moree to export. Because of this stark and obvious difference we got an enquiry into the cost of handling and transport in NSW. In the meantime the port became so valuable and no doubt such a nuisance that it was purchased by their larger competitor.

Recommendation:

Continued surveillance by the ACCC of anti-competitive behaviour of all players but with particular emphasis on grain handlers and vertically integrated subsidiaries.

Look at incentive (or removal of disincentive) programs for Ports or other parties to provide competing facilities, where both sellers and buyers may be able to access unfettered and competitive service delivery.