



Australian Government

Wheat Exports Australia

13 June 2012

Mr Steven Palethorpe
Committee Secretary
Senate Rural and Regional Affairs and Transport Legislation Committee
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Mr. Palethorpe

Thank you for providing WEA with an opportunity to respond to CBH Group's Supplementary Submission to the Senate Rural and Regional Affairs and Transport Legislation Committee, dated May 2012.

WEA wishes to comment on CBH's submission with respect to the operation of CBH's port capacity allocation auctions and information provision.

A. Operation of CBH's port capacity allocation auctions

CBH state:

"Another area of concern on which questions were asked was the suggestion that CBH's port capacity allocation auctions have been manipulated and that the continuation of Wheat Exports Australia is required to oversee them. Concerns were also raised that the manipulation evidenced itself in very high premiums for shipping slots¹. This question and concern, again without any factual basis highlights the very risks of continuing with the WEA and now unnecessary regulation entailed in the Wheat Export Marketing Act".

In response WEA makes the following comments:

1. Operation of CBH's port capacity allocation auctions – September, November and December 2011

- a. In late 2011 and early 2012 a number of accredited exporters conveyed (verbally) their displeasure to WEA of the results of the three Shipping Slot Auctions that were held on 27 September, 17 November and 13 December 2011.

¹ See for instance p 5, Transcript of Senate Rural and Regional Affairs and Transport Legislation Committee, Monday 14 May 2012.

- b. In response to these complaints, WEA analysed the three Auctions. A summary of the results can be seen in Table 1.
- c. Of particular note is the fact that the demand in the First and Second Annual Period Auctions was 51% and 121% oversubscribed respectively, but only 54% and 15% of Capacity Offered was awarded.
- d. Furthermore, despite only 15% of the Capacity Offered for the Second Annual Period Auction being awarded, the Average Auction Premium was \$34.61 with the Highest Premium being \$47.50 per tonne.
- e. Of note is the Second Period Auction; Lot 1482 for 50,000 tonnes, only 5,000 tonnes awarded at a premium of \$47.50 per tonne (the balance of 45,000 tonnes was passed in).

Table 1. Summary of CBH Shipping Slot Auction Results

Auction	Capacity Offered at Auction (tonnes)	Demand 1st Round of Auction (tonnes)	Demand % First Round of Auction	Auction Duration (days)	Total Capacity Awarded (tonnes)	Percentage of Capacity Awarded vs. Capacity Offered	Average Auction Premium	Highest Auction Premium where the Capacity Offered was not fully awarded
Harvest Period Auction (27 Sept 2011)	3,230,000	3,030,600	94%	2	1,731,100	54%	\$3.31	\$8.50
First Annual Period Auction (17 Nov 2011)	9,625,000	14,577,500	151%	6	5,172,500	54%	\$18.99	\$34.00
Second Annual Period Auction (13 Dec 2011)	3,742,500	8,272,500	221%	7	556,500	15%	\$34.61	\$47.50

Source: Information was obtained from the Tradeslot Pty Ltd Port Capacity website: <https://www.portcapacity.com/Site.mvc/AuctionSchedule> . Data relating to Demand 1st Round Auction (column three) was obtained from accredited exporters.

- f. WEA requested additional auction data from Tradeslot and CBH Operations Ltd (using a s.29 request for information). Tradeslot informed WEA that they have a contractual obligation not to disclose information beyond that published on their website. CBH Operations Ltd stated that the operation of the auction system resides within the remit of the Australian Competition and Consumer Commission (ACCC). Given this, CBH stated that they would not be providing information to WEA but would continue to provide it to the ACCC as and when requested. CBH also declined to meet with the WEA to discuss the matter and address WEA's concerns and questions.

2. ACCC objection to Viterra Auction System

- a. On 28 September 2011, the ACCC accepted Viterra Operations Limited (Viterra) proposed access undertaking in relation to the provision of port terminal services to exporters of bulk wheat. This undertaking required Viterra to introduce an auction system to allocate port terminal capacity by mid May 2012.
- b. On 11 April 2012, the ACCC issued an Auction Objection Notice objecting to some of the proposed variations set out in Viterra's Auction Variation Notice published on 17 February 2012.
- c. The ACCC stated (in its Notice Summary):
 - i. *"The ACCC acknowledges that Viterra has acted in good faith in the development of its proposed auction system, However, recent actions in Western Australia using substantially the same auction design as proposed by Viterra have highlighted a number of problems which the ACCC considers could also arise with the operation of Viterra's proposed auction system"*.

Further:

- ii. *"Having regard to the outcomes experienced in WA this season, and the submissions from stakeholders, it is the ACCC's current view that the system adopted in SA should, so far as practicable, be modified to avoid or minimise the undesirable features of the CBH auction model prior to the introduction of the auction system in SA"*.
- d. On 9 May 2012 the ACCC consented to allow Viterra further time to work with industry and the ACCC to develop a more effective auction system, prior to implementation.

3. CBH Operations presentation to Grains Industry Western Australia Crop Updates February 2012

Grains Industry Western Australia (GIWA) annual Crop Updates were held on 28 and 29 February 2012. Mr Colin Tutt, General Manager Operations CBH provided a presentation on 'Delivery issues in 2011 and changes for 2012 - Grain Express, Quality Optimisation etc'. This included an overhead on the shipping slot auctions.

Mr Tutt in discussing the shipping slot auctions described what happened as "like boys playing in the sandpit".

Such comments do not reflect a robust auction system for fair and equitable allocation of shipping slots.

4. CBH Operations presentation to GIWA Trade Council May 2012

In May 2012 CBH gave a presentation to the GIWA Trade Council meeting - see **Attachment A**.

Page six of this presentation states:

- *"CBH Operations undertook a review of the auction timing and associated rules in response to concerns raised by industry around the potential manipulation of the auction system.*
- *A list of suggested changes were taken to a forum held in Melbourne in February.*

- *14 exporters were represented at the forum that sought to gain consensus from industry on potential improvements to the auction system.*
- *Following the forum, we called for written feedback on suggested changes to the rules.*
- *(14 changes were listed)”*

This acknowledgment by CBH of industry concerns and its subsequent actions is at odds with its statement in its Supplementary Submission that the *“question and concern (about the auctions), again without any factual basis highlights the very risks of continuing with the WEA and now unnecessary regulation entailed in the Wheat Export Marketing Act”*.

5. Conclusion

WEA has prudently monitored the operation of CBH’s port capacity allocation auctions. WEA has reviewed:

- the auction results;
- comments by the ACCC about problems with the CBH auction system and the need for Viterra to develop an auction system that avoids such problems; and
- presentations made by CBH that acknowledge problems with the auction system and areas for improvement.

Clearly there have been some problems and /or apparent manipulation or gaming with the CBH auction system, though CBH states in its Supplementary Submission that concerns about the auctions are *“again without any factual basis”*.

WEA stands by its comments made to the Senate Rural and Regional Affairs and Transport Legislation Committee on Monday 14 May 2012.

Whilst ever the Wheat Export Accreditation Scheme is operational, matters relating to accredited exporters’ fit and proper status and more specifically trust and candour are within the remit of WEA to monitor and (in general terms) comment on. However, whenever issues related to port operations arise, WEA works with the ACCC to ensure there is no duplication of oversight or imposts on accredited exporters.

B. Information provision

CBH state:

“At this point, we are not convinced that providing detailed information on stock levels will provide better returns for Western Australian growers”.

CBH’s initial submission to the Committee states among other issues:

“The CBH Group’s concerns about releasing more detailed information on grain production and stocks in WA include:

“It contains information that is relevant to CBH’s core business of storage and handling and which may be detrimental to CBH if it were released”.

CBH further state in their Supplementary Submission:

“Further to the matters raised above, and whilst CBH prefers not to comment on the actions or motives of others CBH notes that submissions by the ASX and WEA have made certain comments regarding an information asymmetry for which they have offered no evidence to the contrary. These statements have been made many times without any substantiation and despite CBH offering evidence to the contrary.”

1. Ring-fencing a company’s bulk handling and marketing divisions

The three Bulk Handling Companies (BHCs) (Co-operative Bulk Handling Limited, GrainCorp Operations Limited, Viterra Operations Limited) dominate both up-country and at-port storage information. Their respective marketing arms (except CBH’s) have access to this information, but their competitors do not. This provides the relevant BHCs’ marketing arms with a clear advantage over other grain marketers, reducing competition to the detriment of the industry and in particular growers. This is the asymmetry of information that WEA refers to.

In the case of CBH, due to the ACCC’s acceptance of the exclusive dealing notification of “Grain Express” this up-country stock information is ring-fenced. The ACCC is currently reviewing Grain Express and if the exclusive dealing notification is removed CBH will no longer be required to ring-fence its stock information from its marketing arm.

WEA advocates that all traders and marketers should have access to up-country stock information (see next sections). If such transparency of information does not eventuate, WEA advocates the separation (ring-fencing) of each company’s bulk handling and marketing divisions to ensure a “level playing field” for all marketers.

2. Current Wheat Stocks Information

Up-country wheat stocks information provided by the BHCs is not consistent and is not published in sufficient detail nor in a timely enough manner to be useful to industry. Industry requires this information to facilitate accurate pricing and competitive tendering for international contracts.

For example:

- Viterra publishes daily wheat average quality data for each grade at each up-country site that has received more than 500 tonnes. There is no associated volume data.
- Other than port stocks information, to WEA's knowledge CBH does not publish any stocks or quality data.
- From 15 May 2012 Australian Bulk Alliance Pty Ltd (ABA) will publish for the first time end-of-month grain inventory totals with stack average quality details by commodity, for each individual ABA country storage site.

Since the removal of the single desk, additional wheat market information has been collected by the Australian Bureau of Statistics (ABS) in conjunction with the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES). The Australian Government allocated \$3.38 million to ABS and a further \$0.45 million to ABARES for the three-year period to 30 June 2011 for this purpose.

Following the cessation of government transitional funding Grain Growers Limited in conjunction with the Grains Research and Development Corporation (GRDC) decided to co-fund for 12 months the ABS Grain Handlers Stocks Survey (GHSS) and Wheat Export Sales Survey.

There are two monthly reports:

- ABS – Stocks of Grain held by Bulk Handling Companies and Grain Traders
- ABARES – Wheat Supply and Exports Monthly.

It is the view of industry (except the three BHCs) and WEA that this information is not sufficiently timely or detailed.

ABS publishes stock volume estimates of wheat held by bulk handlers and major grain traders at port and up-country. These estimates are compiled from the GHSS and published on a monthly basis, six weeks in arrears. This measure was put in place following recommendations made by the Wheat Industry Expert Group in 2008. The scope and coverage of the GHSS includes all major grain bulk handlers, however the survey does not measure the total amount of grain held in individual storage facilities, nor is it reported by region (only by State).

Port terminal service providers (Co-operative Bulk Handling Limited, GrainCorp Operations Limited, Viterra Operations Limited and Australian Bulk Alliance Pty Limited) are required to publish aggregated stock on hand at each port terminal on a monthly basis in accordance with their port terminal service access undertakings approved by the ACCC. Unfortunately this information is of little value as the stocks at port change constantly and there is no provision for up-country information.

3. Arguments advanced by BHCs to justify their opposition to the publication of stocks information

- a) *The information is considered proprietary to the BHC and therefore should not be available to other parties.*

Two bulk handlers (GrainCorp and Viterra) state that stocks information is not theirs to release, that it belongs to those who are holding the grain in storage i.e. growers or traders. Yet both bulk handlers use this information for commercial purposes within (the

marketing arm of) their own organisation. (Also, such information is provided for grain stored in their port facilities, as required by their access undertakings.)

WEA believes that bulk handlers are misrepresenting 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 owners (including 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 industry participants (other than the trading arms of the BHCs) 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 grain is comingled on delivery.
 - WEA is of the view that growers would have no objection to aggregated data being published.

There appears to be no valid reason not to require storage and handlers of grains to publish site-aggregated stocks information - on a daily basis during harvest and less frequently outside of the harvest period. In fact, as stated by the Productivity Commission in its review of Wheat Export Marketing Arrangements, the provision of timely and accurate information is important for supporting an efficient bulk wheat export market.

b) *The information is difficult to provide.*

Historically, this information was provided to the market in a timely fashion. With computerised stock systems installed, BHCs already provide growers with details of their wheat deliveries almost instantaneously. There should not be any major cost involved in also publishing this information (on a de-identified basis) on their website or supplying it to a central repository for publishing.

c) *Growers will be disadvantaged on release of this information.*

Despite this belief, BHCs other than CBH provide this information to their own marketing arms. If only information aggregated by stacks is released, no individual grower specific data should become public.

d) *(In the case of CBH) It may be detrimental to CBH if the information were released.*

In its initial submission, CBH stated that more detailed information on grain production and stocks in WA is relevant to CBH's core business of storage and handling and its release may be detrimental to CBH.

The only connotation that WEA can put to CBH's concern is that if in future CBH provided this information to its marketing arm, as currently is the situation with the other two BHCs, and was subsequently required to release the information publicly,

then CBH's marketing arm would lose the competitive advantage of having exclusive access to this information.

4. Arguments in favour of the release of stocks information

Mr John Crosby (formerly Chairman of the Wheat Expert Committee) provided a Submission to the Senate Standing Committees on Rural Affairs and Transport Inquiry into Operational issues in export grain networks - **Attachment B**. In this submission Mr Crosby clearly articulates the reasons why transparency of stocks information is important.

The provision of transparent national stocks information is not unique. Both the United States and Canada provide this sort of information not only to their growers and industry participants but publicly.

The US Department of Agriculture (USDA) World Agricultural Supply and Demand Estimates (WASDE), published each month, are a key source of supply and demand information for world agricultural markets. Agricultural futures markets keenly await monthly WASDE updates for cues to the direction of market prices.

WEA has previously suggested that all providers of storage facilities over say 10,000 tonnes in capacity which store grain for financial gain should be required to release specified information regarding the grain held in their system. It is WEA's view that provision of such information would have an overall positive effect on the industry as:

- a. Growers would be able to determine the levels of their grade of wheat in the market, assisting them in making marketing decisions.
- b. It would remove information asymmetry between BHC marketers and other marketers, negating competition concerns and associated supply chain inefficiencies.
- c. Growers, traders, transport and logistics providers in addition to storage operators would be assisted in their decision making processes relating to planning, investment and purchasing decisions.
- d. International market participants - Australia's customers – would have greater insight into the production system, quality and where to source fit-for-purpose wheat.
- e. Traders would be able to confidently enter into tenders to supply a specific quality and quantity of Australian wheat. With the vast majority of stocks information held by only three key industry participants, only they can confidently enter into these contracts. Other exporters require an increased risk margin (putting them at a disadvantage and reducing the competitiveness of the market).

The ability of all participants in the wheat industry to access timely and accurate information on wheat stocks will enable traders and exporters to negotiate better outcomes and lower-risk margins with growers and end-users alike. Growers will also benefit as there will be even greater competition for their grain and they will be better able to ascertain supply and demand fundamentals in the market and adopt marketing strategies to suit.

Markets thrive when there is comprehensive transparent information. The arguments put by CBH for withholding of wheat stocks information have been couched on the pretext of protecting the interests of its cooperative member growers but do so at the expense of the wider market (including growers). Those arguments (with which WEA disagrees), if accepted, would continue to frustrate industry, BHCs aside, and the process of reform.

Another relevant point to consider is that the uniform release of such information will benefit all marketers, including the BHC marketing arms in those regions where their parent company does not own storage facilities.

WEA would refer the Committee to an article published in *Company Director Magazine* in March 2012, entitled 'Q&A with Rod Sims', Chairman of the ACCC. In this article Mr Sims stated:

“Finally, I want to promote a much better understanding of why, when and how to regulate monopolies. It is fair to say this is a bit confused at the moment. While as a country we probably have too much regulation generally, when it comes to monopolies our regulation can be too light-handed.”

Yours sincerely

Peter Woods
Chief Executive Officer
Wheat Exports Australia

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GIWA Presentation – May 2012





Our biggest harvest on record

- 15 million tonne harvest
- Late start and patchy harvest throughout the state
- Several weather events created quality issues
- Quality issues created delays at site due to wheat testing

But good management and communication with growers, local communities and contractors saw a very successful harvest receival program.





Harvest Receivals vs Nominations

Commodity	Receivals	Nomination %
Wheat	10,775,938	94%
Barley	2,422,976	96%
Canola	1,160,487	99%
Lupins	464,019	96%
Oats	201,021	89%
Field Peas	27,302	97%



Shipping to date

PORT	TONNES SHIPPED TO DATE
Albany	1,267,000
Esperance	1,147,000
Geraldton	2,040,000
Kwinana	2,847,000
TOTAL	7,301,000



2011/12 Port Capacity Allocation

- Harvest Period Auction – 1.7mt awarded.
- Harvest Period rebate of \$3.42 per tonne paid to eligible marketers in February.
- Annual Period Auctions – 5.6mt awarded.
- Annual Period auction rebate estimated at \$20.73 per tonne to be paid in November.
- Capacity not awarded in the three auctions was allocated via the secondary Spare Capacity process.
- Total Capacity allocated for 11/12 – 12.77mt.



Feedback from the market

- CBH Operations undertook a review of the auction timing and associated rules in response to concerns raised by industry around the potential manipulation of the auction system.
- A list of suggested changes were taken to a forum held in Melbourne in February.
- 14 exporters were represented at the forum that sought to gain consensus from industry on potential improvements to the auction system.
- Following the forum, we called for written feedback on suggested changes to the rules.



Discussed changes

- Closing slots that are in balance.
- Power to CBH Operations to close the auction at any stage
- Baseload allocation to large volume customers
- Increasing and decreasing premium for over and under demand slots
- Maximum premium
- Hard Caps vs Soft Caps to control initial demand
- Maximum percentage drop per round/per marketer
- No rebate – premium paid retained and invested in network
- Smaller tonnage lots not auctioned (ie less than 20,000mt)
- Higher \$ increase per round
- Quarterly auctions – auctioning less periods at one time
- Run auction earlier in line with EA allocation processes so that marketers can balance supply/demand Australia wide
- Combining harvest and annual periods and therefore rolling spare harvest capacity
- Working with Tradeslot to develop platform for spare capacity online and to manage secondary market



Next steps

- Drafting changes to agreements where required
- Variation notice to ACCC for formal submissions from industry on changes
- Some changes will not require a variation notice and we will implement immediately
- We will run first auction in July AGW
- Further consultation with exporters over the next 2-3 weeks.

Grain Express Update



- CBH is awaiting a decision from the ACCC following completion of the hearing in early May.
- If the Tribunal agree with ACCC, Grain Express becomes voluntary possibly 30 days from the decision day.
- The Tribunal can take as long as it needs to decide.
- Grain Express is still in place until CBH are otherwise advised.



If Grain Express is revoked.

- CBH will continue to offer the Grain Express product to growers which includes:
 - coordinated transport of grain to port
 - access to Quality Optimisation
- Growers get the choice. They are the ones to opt-out.
- There are timeframes for growers to opt-out of Grain Express. Once opted out growers cannot opt back in.
- CBH has developed comprehensive business rules to manage operational changes associated with Non GE transactions.



Non-Grain Express: What does it look like?

July – October 2012

- Growers must opt-out within 30 days of revocation
- Opt-out in same transaction as nomination
- Grain nominated prior to revocation moves under Grain Express

October 2012 onwards

- Growers must opt-out within 7 days of delivery
- Opt-out and nominating are separate functions
- Marketers must provide a forecast of shipments.

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.