

Pete Mailler
Chairman
Grain Producers Australia Limited
PO Box 3517
Manuka, ACT, 2604.



Stephen Palethorpe
Committee Secretary
Senate Rural & Regional Affairs & Transport Committee
Suite SG.62 Parliament House Canberra ACT 2600

12th June 2012

Dear Mr Palethorpe

I am writing seeking leave to make a supplementary submission to the RRAT Inquiry into the Wheat Export Marketing Amendment Bill 2012, as follows:

GPA is the current Representative Organisation (RO) for Australian grain producers recognised by government in legislation. GPA acts for and on behalf of approximately 27 000 grain producing entities with a direct focus on protecting and enhancing value capture for the Australian grain crop estimated at over 10 billion dollars at the farm gate.

Based on extensive consultation GPA has presented evidence to the Senate Inquiry into operational issues in export grain networks based on the production sector's position determined through extensive industry consultation in response to the Productivity Commission final report and the Minister's subsequent announcement. In summary:

Issues with current wheat export marketing arrangements:

- End users expectations of milling performance are not being met consistently in line with single desk supply and this is resulting in Australian wheat being discounted and failing to achieve market premiums
- Non bulk exports are also impacting on the reputation of Australian wheat
- So called commercial resolution to contract breaches ultimately means loss of overall value capture in the wheat export supply chain and reduced returns to growers
- Lack of transparency about stocks and inventory data is hindering real competition in the supply chain and driving up transaction costs reducing returns to growers
- Evidence now shows that the quality systems that underpin the differentiation of Australian wheat are being undermined under the current regulatory framework, reducing overall value capture of Australian wheat and reducing returns to growers
- Physical specifications currently used to describe grain for contract purposed do not address milling performance parameters or reflect the quality metrics of Australian varietal classification systems that differentiate Australian wheat.
- Currents metrics used to assess market performance and success of deregulation are flawed by scale and scope and misrepresent the health of the export wheat market

What is needed?

- Accreditation of Exporters and Bulk Handlers to be eligible to service the export wheat market. The scheme should incorporate:
 - All bulk and non bulk export pathways and operators
 - Light touch eligibility with defined basis for disaccreditation
 - Fit and proper criteria include scrutiny of legal record and trading background including GTA arbitration history
 - Compel provision of stocks information in the same way shipping stem information is now compelled under access undertakings
 - Compel maintenance of the Australian wheat quality system
- Statutory oversight, scrutiny and reporting on reporting, description and performance of marketing pools in line with their nature as financial products
- Ongoing specialist oversight of port access undertakings
- Better targeted market performance assessment reporting to provide assurances of the integrity and capacity of the market to self regulate prior to further deregulation
- An internationally recognised and independent ombudsman with meaningful powers to receive and investigate issues around cargo integrity, trade behaviour and market access.
- Maintenance of the Wheat Export Charge and ongoing review of this cost recovery model.

How do we achieve it?

- Maintain a Government Agency to oversee the operation of the export wheat market
- Block the *Wheat Export Marketing Amendment Bill 2012* in its current form
- Amend the *Wheat Export Marketing Act 2008* by changing the prescribed criteria for the Accreditation Scheme to make it less prescriptive and allow it to address the issues outlined above
- Recommend that a thorough and current investigation of the wheat export marketing arrangements be conducted prior to any further deregulation of the wheat export market
- Recommend that a separate non-regulatory industry body be established to provide and or coordinate industry good functions that have declined or disappeared since the single desk was abolished. Ideally this body would service all grains, not just wheat.

Further to the articulated position and in consideration of a wide range of submissions evidence and subsequent information, GPA would like to address some comments and sentiments arising through the inquiry process and subsequently.

Wheat Exports Australia

Faced with the outcome of the *Wheat Export Marketing Amendment Bill 2012* as opposed to the retention of WEA in its current form under the *Wheat Export Marketing Act 2008*, growers overwhelmingly will support the retention of WEA in its current form with the current charter.

WEA has the capacity and resources, utilising the WEC as the primary funding source, to provide ongoing effective oversight of the export wheat market. In order for WEA to be able to provide more effective oversight, it would need a new charter that provides the necessary powers and scope.

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 be retained with a renewed charter.

WEA is not widely regarded by growers as expensive albeit that the current lighter touch accreditation scheme is demonstrably improving efficiency in the provision of the core function of WEA.

Industry Maturity

Several submissions propose that the industry is currently capable of self regulation.

GPA asserts that under guidance and with input from WEA, ACCC has now overtly had cause to specifically intervene and curtail activities of two bulk handlers. This demonstrates that without specialist oversight of the business it is likely that anti competitive and unfair trading practices would likely have been established in the wheat export market.

The reality is that in a commercially competitive environment all players will continually jostle for a trading advantage. The current regulatory framework for the wheat market has delivered a trading framework in that the system rewards a trading mentality and investment or commitment to the broader industry benefit is limited to the short term benefit it might deliver.

In the absence of an effective regulatory framework that actually provides incentive to engage in long term marketing strategies to increase premium market access and achieve best premiums for the operating benefits of all sectors of the supply chain, growers will suffer.

The objective of the *Wheat Export Marketing Act 2008* was to promote the development of a bulk wheat export marketing industry that is efficient, competitive and advances the needs of wheat growers.

It is clear that growers do not feel that the current marketing framework is not yet mature enough for further deregulation and there is increasing evidence that there are problems in the system that are not well resolved through standard commercial processes.

Evolution of the wheat market away from single desk marketing has not been all bad and there are clear examples of benefits to both growers and the trade. The underlying premise is that the full and critical benefits promised with deregulation have not yet been realized.

Stocks Reporting

DAFF commissioned a report (the report) on stocks by Peter Reading titled, Information for an effective bulk export wheat market. This report is attached for your information.

The report acknowledges that unallocated stocks information should be made available and while there is some divergence on the mechanics of this process.

Some bulk handlers have indicated that they actively use stocks information from within their networks to provide a commercial advantage to their trading enterprise. The report recommends that growers must consent to release of their stocks to an aggregated report. However, this information is currently being used in some instances without grower consent and it is now imperative that this information is made uniformly available to the trade and growers alike.

GPA argues that the regulatory framework for the wheat export market should manage the provision of this information through the accreditation scheme, where exporters are engaged in the provision of warehousing services of untransacted grain commercially, which is essentially all bulk handlers.

Precautionary Principle

GPA feels it is necessary to reinforce the position that further deregulation of the export wheat market is premature. There is little current evidence that demonstrates how further deregulation of the export wheat market will address the identified issues in the current framework and/or improve the performance of the wheat market.

Furthermore GPA asserts that there is a real risk in removing statutory oversight of the market and subsequently losing the expertise that exists in WEA. The market is evolving rapidly and further deregulation without an understanding of the structural constraints of the marketing framework presents an unacceptable risk to growers in the event of poor market performance.

Growers are expressing real and justified concerns in a deregulatory process which has no proven safeguards in place and presents no demonstrable advantage to the sector.

Conclusion

Australian grain producers through GPA are seeking a sensible evolution of wheat export marketing arrangements. GPA strongly urges all federal representatives to oppose the proposed wheat marketing legislation and seek drafting of new wheat marketing arrangements in line with the key points raised above.

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.

I would be pleased to discuss this issue further and provide necessary background information as required. Thank you in anticipation of your assistance in this matter.

Sincerely

Pete Mailler
Chairman - GPA