



23 July 2014

Committee Secretary
Senate Standing Committees on Rural and
Regional Affairs and Transport
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir/Madam,

Please find attached a submission from the intensive livestock sector to the Senate Rural and Regional Affairs and Transport References Committee inquiry into grain export networks.

The intensive livestock sector is the major domestic user of grain in Australia. Even in a good season, a minimum of 21 percent of Australia's grain production (representing two thirds of total domestic grain consumption) is consumed by these industries. In a drought year, more than 50 percent of domestic grain production might be consumed by the intensive livestock sector.

While the focus of this inquiry will be on Australia's grain export system the intensive livestock industries have a direct interest in the efficiency of the grain supply chain. We would welcome the opportunity to appear before the Committee to respond to any matters contained in this submission that the Committee may wish to pursue further.

Yours sincerely

Dr Andreas Dubs
Executive Director, ACMF
- on behalf of the organisations listed below

Australian Pork Ltd
PO Box 4746
Kingston ACT 2604
PH: 02 6285 2200
FAX: 02 6285 2288
ABN 83 092783 278

Australian Lot Feeders' Association
GPO Box 149
Sydney NSW 2001
PH: 02 9241 6988
FAX: 02 9241 6986
ABN 16 009 928 018

Egg Farmers of Australia
c/- Suite 4.02, Level 4, 107
Mount Street, North Sydney
NSW 2060
PH: 02 9409 6999
Fax: 02 9954 3133

Stock Feed Manufacturers' Council of Australia
PO Box 383
Beaconsfield VIC 3807
PH: 03 9769 7170
FAX: 03 9769 7174
ABN 84 816 063 155

Australian Chicken Meat Federation
PO Box 579
North Sydney NSW 2059
PH: 02 9929 4077
FAX: 02 9925 0627
ABN 24 077 883 026

Intensive Livestock Sector's Submission to the Senate Rural and Regional Affairs and Transport References Committee Inquiry into Australian Grain Networks, incl. the On- and Off-farm Storage

Summary

As a major user of Australian grains, the intensive livestock sector has a direct interest in the inquiry's terms of reference (Attachment 1) particularly as they relate to the principles and practices required to ensure an efficient grain supply chain and the transparency of transport, storage and handling arrangements.

The intensive livestock sector believes that the recommendations by the Wheat Industry Advisory Taskforce, as adopted by the Government, will not ensure there is a transparent and efficient grain supply chain.

The sector proposes that the Committee consider recommending to the Government that its current policy be revised to ensure a comprehensive coverage of all stocks in the supply chain including on-farm and up country in addition to stocks held by bulk grain handlers.

The sector further proposes to the Committee that it consider recommending to the Government that report of grain stocks be made mandatory rather than voluntary to ensure there is a comprehensive, accurate and timely picture of stocks available to the market.

Introduction

The Australian wheat industry alone generates income of around \$8.8 billion and exports of well over \$6 billion.¹

While the wheat industry's focus is on bulk exports, there has been a steady growth in the demand for feed grain from the domestic intensive livestock sector. The key industries in the intensive livestock sector are dairy, feedlot beef, pork, chicken meat and egg. They add significant value to grain production and are major employers and generators of income across rural and regional Australia.

The intensive livestock sector collectively employs over 100,000 workers directly and up to 500,000 workers indirectly across the country and has an income multiplier of up to 1:5 (see Attachment 2). Much of this employment is in rural and regional areas.

Even in a good season, a minimum of 21 per cent of Australia's grain production (representing two thirds of total domestic grain consumption) is consumed by these

¹ ABARES, March 2014, Agricultural commodities – vol.4 no. 1 – March quarter 2014, pages 196 and 202.

intensive livestock industries². In a bad (drought) year, more than 50 per cent of domestic grain production might be consumed by the intensive livestock sector.

Feed grains also represent the single biggest cost in producing a kilo of grain-fed beef, pork, chicken or eggs, accounting for around 60 per cent of on-farm input costs.

The main grains used by this sector include wheat, barley and sorghum.

As major users of grain, these industries have a direct interest in ensuring the efficient operation of the grain market in Australia. They also have a need for access to timely and reliable information on stocks of their primary input – feed grain.

The intensive livestock sector therefore welcomes the Senate Rural and Regional Affairs and Transport References Committee's decision to establish this inquiry.

We would also welcome the opportunity to appear before the Committee to respond to any matters contained in this submission the Committee may wish to pursue further.

The Value of Stocks Information

As access to adequate grain stocks information is critical to the efficient operation of the grain supply chain from the farm gate to port the intensive sector proposes that it be a priority area of inquiry for the committee.

In its report "Wheat export marketing arrangements; Inquiry Report", released in 2010, the Productivity Commission stated that grain stocks information was important for facilitating 'day-to-day' market operations and trading activity.

But it noted stocks information could vary significantly in terms of:

- the extent to which the information is disaggregated
- the type and level of relevant detail provided at that disaggregation
- the frequency and timeliness of its provision.³

The Commission characterised stocks information in terms of three 'tiers'. It is the view of the intensive livestock sector that the approach taken by the Productivity Commission provides a useful framework for the Committee's deliberations.

² http://www.sfmca.com.au/info_centre/documents/497/

³ Wheat export Marketing arrangements. Productivity Commission Inquiry Report number 51. 1 July 2010 page 320.

Tier 1 Information

In the Commission report tier 1 information was defined as stocks data in its most aggregated form; namely national wheat stocks information.

The Commission said that information was most useful for international market participants and supported the competitiveness of the Australian wheat market in the global context.⁴

The Commission concluded that tier 1 information was of net benefit to the industry.⁵

Tier 2 Information

Tier 2 information was a further disaggregation of tier 1 data to wheat stocks held by state.

The Commission said tier 2 information would provide volume and price signals to domestic wheat users, could facilitate efficient purchasing decisions, avoid domestic price volatility, inform trading decisions of exporters and coordinate the efficient marketing of export wheat.

The Commission said administrative costs associated with tier 2 stock information would be marginal.

It concluded that tier 2 information was also of net benefit to the industry and therefore the industry should pay for it.

Tier 3 Information

Tier 3 information captured all subsequent disaggregations of stocks information.

The Commission said tier 3 would allow traders to better 'match' wheat with customer requirements and removed any advantage 'informed' traders had in trading decisions.

The Commission said that administrative costs associated with tier 3 information were potentially significant and included resolving issues of:

- ownership of information;
- confidentiality requirements;
- the commercial rights and interests of information owners; and
- managing and coordinating information disclosure.

⁴ Wheat Export Marketing Arrangements. Productivity Commission Inquiry Report number 51. 1 July 2010 page 328.

⁵ Wheat Export Marketing Arrangements. Productivity Commission Inquiry Report number 51. 1 July 2010 page 329.

The Commission stated that as the costs of providing could be high it was unlikely that mandatory provision of the information would represent a net benefit to the industry.

The Commission stated however, greater disclosure of this information would improve the operation of the wheat market and its voluntary implementation was strongly encouraged.

It said there was scope for traders and growers to pressure the bulk handlers to voluntarily disclose this information.⁶

The Wheat Industry Advisory Taskforce

The matter of grains stocks reporting was also the subject of a further inquiry by the Wheat Industry Advisory Taskforce.

The taskforce was established by the former Government to examine a number of issues along the wheat export supply chain, including the adequacy of grain stocks reporting.

The taskforce concluded that access to certain types of information could improve transparency and therefore the efficiency of the grain market.

The taskforce made six recommendations which it stated were designed to balance the interests of all stakeholders while delivering the best outcome for the industry overall.⁷

The taskforce report recommended:

- monthly reporting to an independent third party of total volume of wheat stocks held in storage, including the three major grades, by all commercial storage providers (with total storage capacity of 5 000 tonnes or more) in each port zone.
- a portion of the Wheat Industry Special Account be used to identify and commission an independent third party to collate and publish stocks information provided by commercial storage providers.

That is, the taskforce proposed a voluntary reporting system limited to wheat held off farm.

The Agriculture Minister, the Hon. Barnaby Joyce, released the taskforce report and the Government's response to its recommendations on 24 December 2013 (Attachment 4).

The Minister accepted all of the taskforce recommendations.

⁶ Wheat export Marketing arrangements. Productivity Commission Inquiry Report number 51. 1 July 2010, page 329.

⁷ The Wheat Industry Advisory Taskforce recommendations are at attachment 3.

Key Features of an Effective Grain Stocks Reporting System

The intensive livestock sector, and the regional economies and communities it supports, would be major beneficiaries of the enhanced market efficiency that would flow from a grain supply chain featuring a high level of transparency in its transport, storage and handling arrangements.

The Australian grains market will only be properly transparent if there is a comprehensive, accurate and timely grains stock reporting regime in place.

That could be achieved through the establishment of a system based on an expanded version of the tier 3 information category as defined by the Productivity Commission; that is, disaggregated grain stocks reporting based on port zones.

The coverage of the stocks reporting regime should be expanded to include on-farm stocks and be disaggregated according to grade, stock average quality and location. The reporting regime should be supported by a mandatory system of stock disclosure.

The sector is of the view that the matters of concern identified by the Commission relating its tier 3 category; that is, information ownership, confidentiality and coordination would be addressed if data was collected on a port zone basis rather than individual receival points.

Further, that data could be collected by the Australian Bureau of Statistics; an organisation with considerable experience in managing commercially sensitive information.

The intensive livestock sector notes the Commission's statement in the report that bulk handlers would already collect stocks data as part of meeting their operational responsibilities.⁸

In our view, the limited reporting regime proposed by the Wheat Industry Advisory Taskforce would need to be enhanced for the potential efficiency dividends in the grain supply chain to be released.

The sector supports the Taskforce recommendation that the cost of providing stocks information be met by the Wheat Industry Special Account.

⁸ Wheat export Marketing arrangements. Productivity Commission Inquiry Report number 51. 1 July 2010, page 303.

Proposed Amendments to the Taskforce Recommendations

Coverage

The Taskforce defined wheat stocks information as follows:

“For the purposes of its inquiry, wheat stocks information is defined as the aggregated volume of wheat held in storage at any particular point in time

- either up-country, including on-farm or commercial facilities (those facilities which store grain for a fee) or at port, and;
- which can be disaggregated according to grade, stack average quality and / or location.⁹

The intensive livestock sector supports this definition and believes that it should be the basis for the collection of data on grain stocks rather than the narrower definition in Taskforce Recommendation 4.

On-farm stocks

The inclusion of on-farm stocks is necessary for the following reasons.

In its report the Taskforce found that an increasing percentage of stocks was being held on-farm. It stated that on the east coast 28 per cent of storage capacity, or around 11 million tonnes, is now on-farm and increasing.¹⁰

Given that on-farm storage is approaching a third of total storage, on-farm storage is a significant contributor to grain in the system and must be taken into account in the proposed reporting of stocks.

We note that the Taskforce report referred to a study by GHD that found the collection of data on wheat held by growers and users was more expensive to implement, on a price per tonne basis, than surveys aimed at bulk handling companies.¹¹

According to the Taskforce the GHD report concluded that, on a price per tonne basis, the grower / end-user survey did not represent value-for-money when compared with surveys aimed at other participants and, from this, the Taskforce drew the conclusion that it “would not be economical to capture stocks information held on-farm under current circumstances”.¹²

⁹ <http://www.wheattaskforce.gov.au/documents/wheat-stocks.pdf> The Wheat Industry Advisory Taskforce, An inquiry into wheat stocks information, Final Report , page 7 (accessed on 4 March 2014).

¹⁰ GrainCorp, 2013, Submission to the Senate Rural and Regional Affairs and Transport References Committee inquiry into Ownership arrangements of grain handling. Cited in the Wheat Industry Advisory Taskforce report, op. cit., page 15.

¹¹ Wheat Industry Advisory Taskforce, op. cit., page 15.

¹² Ibid. page 15.

We would argue that, just because it is “more expensive” to collect such data does not mean there is not a net benefit to do so, or that the return on that investment is not justified. We believe that the benefits will outweigh the costs.

The intensive livestock sector also notes the Taskforce’s view “ that restricting stocks disclosure to the major bulk handling companies may only provide an incomplete picture of the actual stocks situation, which could potentially result in a misinformed market and lead to inefficiencies.”¹³

It is agreed that ideally, all major participants in the supply chain should disclose their committed and uncommitted grain stocks data. Should this scenario be unrealised however, surely the provision of stocks information from bulk handling companies (still the major handlers of grain) is a superior outcome from the status quo? GrainCorp for example handle approximately 60% of the east coast grain harvest¹⁴.

Given these risks, and the value of the data to users, the intensive livestock sector believes that the cost of compiling data on grain held by growers is justified. This data could be collected via an online survey.

In view of the costs of on-farm stock data collection and reporting, we would propose that such data be collected and released on a quarterly basis.

Committed vs Uncommitted Grain in Storage

Information on grain volumes in storage is less meaningful if the amount of that volume which is actually available for purchase is not known. Therefore, ideally, there should be differentiation between committed and uncommitted stocks held by the commercial grain storage providers.

Voluntary vs Mandatory Disclosure of Information

It is the view of the intensive livestock sector that, in order for the information collected to be comprehensive and reliable, it is a prerequisite that the vast majority of major holders of grains in storage participate in the system and disclose grain volumes stored. This will not occur if reporting on stocks held is on a voluntary basis.

The intensive livestock sector notes that the Taskforce states that it was unable to substantiate the existence of market failure which would warrant the intervention of government.¹⁵

The intensive livestock sector believes that there is significant risk of market failure in the domestic feed grain market, particularly in a situation such as a prolonged and widespread drought.

There is a legitimate role for government to intervene where there is a risk of market failure. That risk is real and exists in the feed grains sector. We therefore argue that

¹³ Ibid. page 15.

¹⁴ Reading, Peter (2012), *Information requirements for an effective bulk wheat export market*, sourced from the internet 7/7/14, http://www.daff.gov.au/_data/assets/pdf_file/0011/2157770/information-req-for-an-effective-bulk-wheat-export-market.pdf

¹⁵ Ibid. page 12.

a comprehensive system of reporting on grain stocks, supported by a mandatory system of stocks disclosure, is required and will lead to a more efficient market and therefore lower costs through the whole supply chain. With access to this information, the intensive livestock sector can continue to operate efficiently, with the resulting income and employment benefits created by a healthy and competitive intensive livestock sector flowing to rural and regional economies.

We note that the taskforce also relied on an analysis of the link between stocks information and farm gate prices prepared by the Centre for International Economics that indicated only a marginal benefit to growers.¹⁶

We argue that the Government needs to take into account the economic benefit that would flow to all major grain users, not just grain producers, from access to comprehensive data on stocks.

Clearly, the market for information is much wider than just growers, with the intensive livestock sector consuming at least 21 per cent of all grain produced in Australia.

This represents a further justification for mandatory and comprehensive data collection of grain stocks.

We would further argue that this can be achieved with only a minimal impact in terms of reporting requirements on entities holding grain stocks, since those entities holding grain (whether on-farm or under commercial storage arrangements) already know, for their own purposes, the quantum of that holding at any point in time. This fact is acknowledged by the Task Force, whose report states that a range of stocks data is already held by individual enterprises as a function of running their businesses.¹⁷

It is also assumed that the cost and method of data collection will be explored with potential service providers and be part of any tender specification to ensure it is undertaken in the most cost efficient way.

Grain types

The sector also proposes that barley and sorghum – the other key feed grains for intensive animal production - be included in the data collection system, in order to provide as comprehensive and meaningful a picture of the availability in the system of total grains for livestock production.

These three grains (wheat, sorghum and barley) can be used interchangeably in feed formulations, so it is important to understand the volumes and availability of all three to fully understand the availability of feed grains.

¹⁶ Ibid. page 12.

¹⁷ Ibid. page 13.

Grades

From the perspective of the intensive livestock industries, in the case of wheat, only feed and milling wheat volumes need to be reported. No other quality information is necessary.

In the case of barley, volumes should be reported for both feed and malting grades.

Level of Data Aggregation

For the purposes of reporting on the aggregated data, volumes of grains in storage must be on a state basis at a minimum, and where possible on a port zone basis.

The data would be of dubious value if they were only available on a national, aggregated basis.

Frequency of Release of Grains in Storage Data

It is essential that data on grain stocks be made available in a timely fashion. It is the view of the intensive industry sector that data on off-farm stocks should be made available on a monthly basis, by the 15th day of the following month.

As stated, on-farm stocks data should be released on a quarterly basis to ensure an appropriate balance between the financial and administrative costs of the data collection and value of the information to the national grains market.

Funding

The Taskforce recommended (Recommendation 5) that funds held in the Wheat Industry Special Account be used to both fund a tender process to identify a service provider and also to cover the cost of collecting data for a period of three years.

The intensive livestock sector supports this recommendation, noting that while the terms for the use of funds from this account contained in the Act appear narrowly defined and focussed on the export sector, clearly a more efficient grains industry in Australia will benefit growers and therefore the export sector as well as the major users of grain in the domestic market.

Who should collect the data?

While the intensive livestock sector is not opposed to the use of a tender process as proposed by the Taskforce to identify a third party to aggregate and publish data on grains stocks, it is our belief that the Australian Bureau of Statistics is best placed to do this work given both its experience and expertise and administrative structures already in place.

However, should a tender process be used to identify an appropriate party to collect this information, then the cost and convenience of data collection and reporting, for the suppliers of the data, should be a key consideration, as well as the cost of provision of the data collection/publication service.

Attachment 1

Terms of Reference

On 19 June 2014, the Senate moved that the following matters be referred to the Rural and Regional Affairs and Transport References Committee for inquiry and report by 3 December 2014.

Grain export networks, including the on- and off-farm storage, transport, handling and export of Australian grain, with particular reference to:

- a. the principles and practices underpinning an efficient grain supply chain from farm-gate to port;
- b. grain marketing and export arrangements and their impact on farm-gate returns;
- c. competition constraints on grain transport, storage and handling services;
- d. the extent to which transport, storage and handling arrangements are transparent and accountable; and
- e. any other related matter.

Attachment 2

The Intensive Livestock Sector

Dairy Industry

The Australian dairy industry is a \$13 billion farm, manufacturing and export business. Australia's 6,400 dairy farmers produce around 9.2 billion litres of milk a year with a farm gate value alone of \$4.3 billion¹⁸.

The industry directly employs 43,000 Australians on farms and in factories, while more than 100,000 Australians are indirectly employed in related service industries. Forty per cent of production is exported, making Australia the fourth largest exporter behind New Zealand, the EU and the USA.

Feedlot Industry

The feedlot industry has a value of production of approximately \$2.7 billion and employs some 9,000 people directly and indirectly.

Approximately 42% of Australia's total beef supply, 80% of beef sold in domestic supermarkets and the majority of beef industry growth over the last ten years, has been due to the expanding feedlot sector.

There are approximately 450 accredited feedlots in Australia located in areas that are in close proximity to cattle and grain supplies.

Pork Industry

There are around 2,000 pork producers in Australia and the total value of pork produced is in the order of \$2.8 billion. The industry directly employs around 8,000 people and indirectly generates a further 12,000 jobs.

Chicken Meat Industry

Chicken meat production has an annual value of around \$2.3 billion¹⁹ and the industry employs directly around 40,000 people, mainly in regional Australia. A further 100,000 people are directly dependent on this industry for their livelihood. If indirect jobs are included the industry is responsible for generating in the order of 200,000 jobs.

The meat chicken industry alone purchases over 5% of all grains produced in Australia.

Egg Industry

In 2013, the Australian egg industry produced 393.1 million dozen eggs (12.9 million eggs every day) from a layer flock of 16.583 million hens. The industry's value of production at farm gate totalled \$564.18 million²⁰ in 2012/13 and had a market value (grocery equivalent) of \$1.6 billion during 2013. The industry supports around 2,000 direct jobs and a further 12,000 indirect jobs.

¹⁸ ABARES, March 2014, Agricultural commodities – vol.4 no. 1 – March quarter 2014, page 197.

¹⁹ Ibid.

²⁰ ABS cat. no. 7503

Attachment 3

Recommendations of the Wheat Industry Advisory Taskforce²¹

Recommendation 1

The taskforce recommends that, as a market failure cannot be established, there is no need for additional intervention by government in the provision of stocks information.

Recommendation 2

The taskforce recommends that industry self-regulate to resolve the issue.

Recommendation 3

The taskforce recommends industry peak organisations increase the awareness and understanding of the available stocks information and associated marketing tools to enable participants to develop more informed and effective marketing strategies.

Recommendation 4

The taskforce recommends monthly reporting to an independent third party of total volume of wheat stocks held in storage, including the three major grades, by all commercial storage providers (with total storage capacity of 5 000 tonnes or more) in each port zone.

Recommendation 5

The taskforce recommends that a portion of the Wheat Industry Special Account be used to identify and commission an independent third party to collate and publish stocks information provided by commercial storage providers stipulated in Recommendation 4 for a period of up to three years, and the publication of stocks information only occur where commercial confidences can be maintained.

Recommendation 6

The taskforce recommends that, the most appropriate service provider is identified through a tender process to aggregate and publish stocks information as per Recommendation 4 and 5.

²¹ <http://www.wheattaskforce.gov.au/documents/wheat-stocks.pdf> The Wheat Industry Advisory Taskforce, An inquiry into wheat stocks information, Final Report, page 6 (accessed on 4 March 2014).

Attachment 4: Media Release by the Hon Barnaby Joyce MP

Minister supports taskforce recommendations

24 December 2013²²

The Minister for Agriculture, Barnaby Joyce, has supported all six recommendations in the Wheat Industry Advisory Taskforce report into stocks information, including monthly stocks disclosure by port zone.

“The taskforce found that while there was no market failure in the current levels of wheat stocks information, there would be benefit in improving access to the information,” Minister Joyce said.

“I have asked my department to work with industry to implement the recommendations.

“A key recommendation is to identify an independent, third party service provider to publish monthly wheat stock information, including total wheat stocks by port zone and the individual volumes of the top three grades in each zone.

“This will give industry participants better stocks information they can use to develop their production, marketing and technical strategies.

“For example, our wheat producers can use this information about storage, along with other market information – like area planted, seasonal conditions, yield, demand and price data – to make decisions about what to plant and how to market their wheat,” Minister Joyce said.

In delivering its recommendations the taskforce has balanced the need to make information public while protecting prices, and therefore the returns to growers are not negatively impacted.

“This is an example of industry taking responsibility for its own future after a period of significant transition from a monopoly exporter in 2008 to a competitive trading environment.

“Industry will have primary carriage of implementing the recommendations and making this voluntary approach to stocks disclosure work.

“I want to recognise the hard work of the Wheat Industry Advisory Taskforce members in developing this report and thank them for their efforts,” Minister Joyce said.

The taskforce members include industry experts recommended by representatives of each of the three key sectors of the industry.

²² <http://www.maff.gov.au/Pages/Media%20Releases/minister-supports-taskforce-recommendations.aspx>
(accessed on 4 March 2014)