

Information requirements for an effective bulk wheat export market

Ensuring a 'level playing field'

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Table of Contents

2 RECOMMENDATIONS AND FINDINGS	5
3 INTRODUCTION	10
4 SCOPE OF THE REVIEW	11
5 METHODOLOGY	11
6 BACKGROUND	12
7 REVIEW OF CURRENT WHEAT MARKET INFORMATION	13
8 CURRENT WHEAT MARKET INFORMATION AVAILABILITY	15
8.1 Grower Demographics	15
8.2 Pre-harvest and crop production estimates	15
8.3 Pricing Information	17
8.4 Shipping Stem Information	17
8.5 Information on international stocks levels	18
8.6 Grain stocks data across the supply chain	19
On-farm	21
Post farm gate	22
8.7 Marketing Strategies	23
8.8 Post-harvest information	23
9 INDUSTRY PERSPECTIVES	25
10 FILLING THE GAPS	28
11 WHEAT MARKET STOCKS - BALANCE, COSTS AND DELIVERY	29
12 INTERNATIONAL INFORMATION AND MARKET SUPPORT	30
13 EXPORT GRAIN QUALITY INFORMATION	32
14 EXPORT GRAIN QUALITY CONCERNS AND MARKET SIGNALS	33

15 CONCLUSIONS	36
APPENDIX 1 DESKTOP AUDIT	37
Summary of submissions to Productivity Commission Inquiry into wheat export marketing arrangements	37
Growers	37
Grower Organisations	38
Bulk handling companies	40
Other industry bodies	41
Productivity Commission inquiry into wheat export marketing arrangements	44
Independent Wheat Market Information Study – GHD Ltd	45
APPENDIX 2 REFERENCES	46
APPENDIX 3 STAKEHOLDERS INTERVIEWED	47

1 Executive Summary

The Australian grains industry continues to evolve rapidly due to changes in both the national and international trading environments.

Since the removal of 'single desk' marketing arrangements in 2008, there are now more marketing and price-risk management options available to Australian growers. However, while there has been a significant increase in trading opportunities, some issues have emerged.

Some sectors of the bulk wheat export marketing industry believe that the limited availability and transparency of market information impedes the operation of an efficient and competitive domestic and export market. In particular, there are concerns that significant gaps in grains 'stocks-use' balance data are negatively affecting competitiveness. Critics claim that integrated bulk handling companies (BHCs) have information on the volume, grade and location of stocks that is not available to the rest of the market. They believe that this results in market asymmetry, an unfair market advantage and lower grower returns.

A wide variety of potential solutions to this issue have been articulated. Views have ranged from satisfaction with the present available information; thereby negating the need for action, through to legislating BHCs to supply further information on grain stocks in their networks.

The Department of Agriculture, Fisheries and Forestry commissioned this report to provide an independent analysis of the availability and importance of stocks information to support and maintain an effective bulk wheat export industry. This report makes a number of recommendations to improve the availability of 'stocks-use' balance information to achieve this goal.

Ultimately, to overcome the major concerns over stocks data transparency, growers need to agree to make their information on uncommitted warehoused stocks available at an aggregate level. The provision of this information, together with the reinstatement of the '*Wheat Use and Stocks, Australia*' report (revamped) and continuation of existing reports, will provide a good overall stocks-balance for Australian wheat.

Achieving a resolution to this issue presents an opportunity for grain grower organisations to coordinate a common issue approach to take to growers and develop a united vision across industry.

2 Recommendations and findings

Recommendation 10.1

Aggregated data on the volumes of uncommitted warehoused grain held in commercial bulk storage and handling systems should be made available by grade and location on a weekly basis.

This information should only be published with the consent of growers through an 'opt-out' arrangement with the storage and handler. Once grain becomes committed, the information becomes the property of the buyer, and therefore should not be publically disclosed.

Recommendation 8.4

Shipping stem information should continue to be published under the voluntary Code of Conduct. Information should be published in a consistent format and coverage should be extended to all ports where grains are exported.

Recommendation 8.8b

The '*Wheat Stocks and Exports Australia*' report, funded by the Grains Research and Development Corporation and Grain Growers Limited, should continue to be funded for a further 12 months, during which time industry should be surveyed to assess the future usefulness and funding of the report.

Recommendation 8.2

Pre-harvest and crop forecast information can be improved through better coordination between state governments to remove inconsistencies and improve data accuracy.

Recommendation 8.3

Organisations associated with the industry, such as GRDC and GGL, should continue to provide training programs to increase grower knowledge and confidence in utilising price-risk management strategies.

Recommendation 8.6

To provide an accurate stocks-use balance, growers should supply further information on stocks held in on-farm storage. Information could be supplied at completion of harvest and then on a quarterly basis via an on-line survey. Data should be aggregated to avoid identification of individual growers.

Recommendation 8.8a

To determine the overall stocks-use balance equation, industry should reinstate a revamped '*Wheat Use and Stocks, Australia*' report to deliver data on the domestic use of grain stocks, on-farm storage and end-user consumption. The private sector should be encouraged to fund and disseminate this information in a more timely and cost effective manner than previously provided by government.

Recommendation 13.0

Industry should monitor the effectiveness of GrainGrowers Limited's '*Australian Wheat Quality Report*' and '*What the World Wants from Australian Wheat*' in positioning Australian grain in the international market.

Feedback from the market place could help determine whether increased focus is needed on providing international customers with additional generic information on crop quality characteristics.

Recommendation 11.0

If industry decides that a body is needed to co-ordinate and deliver wheat market information, it should utilise an established industry structure.

Recommendation 14.0a

Industry needs to determine whether it should develop and adopt out-turn and export standards, and examine the need to certify the quality of wheat exports.

Recommendation 12.0

Industry should verify the need for a generic body to support Australian wheat internationally or to deliver other industry good functions. Industry would need to adopt a mature approach to determine the strategic need versus structural and control implications.

Recommendation 14.0b

Industry should consider funding an annual / bi-annual wheat quality forum to facilitate industry dialogue on wheat classification requirements and future grain quality needs. The forum could also provide a mechanism to improve feedback from international and domestic customers.

General Recommendation

Industry should consider providing similar stocks information for other crops, including barley, canola, sorghum and pulses, as it does for wheat.

General Recommendation

Due to the continued evolution of the grains industry, mechanisms to address market information issues should be implemented for a 3-year period and then reviewed.

Finding 8.1

While long-term data trends, such as grower demographics, are useful for both the public and private sector, growers do not use this information to significantly inform their marketing decisions.

Finding 8.2

Australia is relatively well served with pre-harvest and crop forecast information. Although no major gaps in this information have been identified, the timeliness and accuracy of data could be improved.

Finding 8.3

The availability of pricing information and price-risk management products is superior to what was available prior to deregulation. This has provided more options for growers in marketing their wheat however there is still a general lack of confidence amongst growers in understanding and utilising price-risk management strategies.

Finding 8.4

There is a lack of consistency in the level of detail and format of shipping stem information published in accordance with the 'continuous disclosure rules'.

Finding 8.5

The general view from industry is that adequate information is available on international grain stocks.

Finding 8.6a

There are significant quantities of grain stored on-farm and growth is expected to continue. The amount of grain stored on-farm is a significant proportion of the grains stocks balance, which is presently not being effectively accounted for.

Finding 8.6b

Growers can retain the title to grain held in commercial storage for up to 3 months following delivery.

Finding 8.7

Once harvest has been completed, growers develop strategies for their uncommitted grain. The major influences on marketing strategies are cash flow needs, basis levels and potential future grain prices.

Finding 8.8a

Reinstating a more efficient form of the 'Wheat Use and Stocks, Australia' report, previously published by ABS, will address data gaps in the increasing volumes of grain stored on-farm.

Finding 8.8b

While industry is able to access certain post-harvest data, there are gaps in this information resulting in an incomplete stocks-use balance equation.

Finding 9.0a

The major divergence of industry views relates to the provision of current-season (short term) information on stocks from the completion of harvest until when the grain is sold and dispersed.

Finding 9.0b

Outside of the BHCs, some industry sectors argue that incomplete grains stock information places them at a significant marketing disadvantage. These sectors believe that a range of additional stocks information should be published to reduce market information asymmetry.

Finding 10.0

The supply of aggregated uncommitted warehoused grain data should overcome most industry concerns related to stocks information. The provision of this data would enable industry participants to start on a 'level playing field' in developing pricing and accumulation strategies.

Finding 11.0a

The retention of current production reports, introduction of a revamped 'Wheat Use and Stocks, Australia' report and an agreed way forward on publishing uncommitted warehoused stocks data will provide a good overall wheat stocks balance.

Finding 11.0b

Industry needs to further investigate the need for an industry body to co-ordinate, analyse and deliver wheat market information.

Finding 12.0a

Feedback was mixed on whether the stocks information provided in the US and Canada leads to higher grain prices for farmers. In the time available, it was not possible to verify or quantify if any such advantage exists.

Finding 12.0b

Over time, there has been debate about whether Australia should have a USWA or CGC equivalent to promote Australian wheat abroad and undertake other industry good functions such as trade advocacy and grain quality certification

Finding 13.0

International customers have provided industry with mixed feedback on the importance of national crop quality information. A number of customers believe there is a need for a report on Australian grain quality, while others do not see a need for such a report.

Finding 14.0a

While there have been claims that the quality of Australian wheat is deteriorating, grain is being supplied according to contract specifications and there have been no rejections of bulk shipments of Australian wheat.

Finding 14.0b

There have been claims that Australia needs a body to oversee the quality of grain export shipments.

Finding 14.0c

If industry agrees to provide information on the volumes, grade and location of uncommitted warehoused grain, this should help the trade accumulate stocks that meet market requirements and help address specific quality concerns.

3 Introduction

Following the removal of 'single-desk' marketing arrangements in 2008, there has been much debate within the industry with regard to the availability and usefulness of wheat market information. Market information covers a range of data along the grain value chain from supply (areas planted, seasonal conditions, yield and production estimates and actuals), demand (domestic and international prices, and volumes by grade and quality) and stock levels, including carry-in and carry-out stocks, domestic usage and international consumption.

A number of market information projects were included as part of the \$9.37 million transitional assistance package announced by the Australian Government in 2008. The transitional funding arrangements finished in July 2011.

In 2010, the Productivity Commission conducted an inquiry into wheat export marketing arrangements as required by the *Wheat Export Marketing Act 2008*. The Commission was asked to assess the effectiveness of the new arrangements in meeting the objectives of the Act, including consideration of the availability and transparency of market information.

As part of the consultation process associated with the review, stakeholders expressed differing views relating to the provision of wheat information. The Commission's final report acknowledged the benefits of stocks information (by state) to industry and recommended that if industry wanted the information, it should pay for it.

To assist industry to identify long-term funding arrangements to provide stocks data, the Department of Agriculture, Fisheries and Forestry (DAFF) funded an independent Wheat Market Information Study managed by GrainGrowers Ltd (GGL) and undertaken by GHD Pty Ltd in July 2011. As a result of this project, GGL and the Grains Research Development Corporation (GRDC) entered into a co-funding arrangement for the provision of particular market information over a 12 month period.

On 23 September 2011, the government announced its response to the Commission's inquiry, agreeing in-principle with the recommendations and detailing a staged transition to full deregulation by 1 October 2014. On 21 March 2012, legislation was introduced into the Australian Parliament to give effect to the government's response.

In February 2012, DAFF commissioned this report to provide an independent analysis of the availability and importance of stocks information in order to support and maintain an effective bulk wheat export industry.

4 SCOPE OF THE REVIEW

The terms of reference required the review provide:

- An analysis of various industry sector positions, including growers, grower organisations, industry support companies, local and export customers, exporters and integrated bulk handling/marketing companies, in relation to market information needs and demands;
- Details of possible information packages to support industry needs, including a qualitative analysis of the impact on the various industry sectors and advice on the main beneficiaries;
- Examination of the benefits to industry stakeholders of the provision of a post-harvest crop quality report in a deregulated environment;
- Examination of what data could/should be generated, who could generate it and options on who should pay for the data generation;
- Review of the usefulness of reports that have been provided to industry from both government and non-government sources;
- Review of the data provided by international competitors and the potential impact on Australian exports;
- Conclusions on the most appropriate distribution of market information to support a competitive, internationally focused and deregulated industry; and
- Provision of potential options for the implementation/delivery of the information.

5 METHODOLOGY

The methodology for the preparation of this report followed a number of steps:

- A review of the Wheat Market information that is currently provided by both the public and private sectors in Australia and in the United States and Canadian markets;
- A desk-top audit of industry sector views expressed to the PC review and other reports on Wheat Market information;
- Detailed consultations with the various industry sectors including; growers, grower organisations, industry support companies, local and export customers, grain traders, exporters and integrated bulk handling/marketing companies;
- An analysis of wheat market information needs and gaps and who are the major beneficiaries of the various wheat information data;
- Recommendations of possible information packages to support industry needs including a qualitative analysis of the impact on the various industry sectors and the main beneficiaries;
- A review of the usefulness of reports that are currently provided to industry from both government and the private sector;

- Recommendations on the most appropriate distribution of market information to support a competitive internationally focused and deregulated industry; and
- Potential options on the way forward for the generation, funding and delivery of this information.

6 BACKGROUND

Prior to the abolition of the 'single-desk' wheat marketing system in 2008, the Australian Wheat Board (AWB), later AWB Ltd, had complete control over the wheat supply chain and access to detailed wheat stocks information. As a result, AWB provided the majority of market intelligence related to wheat, and was able to decide what information to publish.

One of AWB's publications was the annual *AWB Crop Report* that provided production year data as well as commentary on the suitability of each grade for particular uses, such as noodles. The report cost around \$3 million to produce and was published several months after harvest. A prime use of the report was to promote the merits of Australian wheat to new and existing customers.

The Australian Bureau of Statistics (ABS) and Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) continue to provide a range of data on grower profiles, historical production and consumption, seasonal production forecasts, and world demand, consumption and prices for wheat and other crops.

Following deregulation and the recommendations of the Independent Expert Group (IEG), the Australian Government allocated \$3.38 million to ABS and \$0.45 million to ABARES to provide information on production, committed and uncommitted stocks and exports for a 3 year period until June 2011.

ABS produced 2 monthly reports, '*Stocks of Grain Held by Bulk Handling Companies and Traders*' and '*Wheat Use and Stocks, Australia*', while ABARES produced the '*Australia Wheat Supply and Exports Monthly*'. Copies of these reports can be accessed via www.abs.gov.au and www.abares.gov.au.

As a result of the *Independent Wheat Market Information Study*, funded by DAFF in 2011, GGL and the GRDC agreed to co-fund the ABS '*Wheat Stocks and Exports Australia*' report for a 12 month period. The report is based on the '*Wheat Use and Stocks, Australia*' publication.

The integrated Bulk Handling Companies (BHCs) contribute to the '*Wheat Stocks and Exports Australia*' report and also provide a range of data on production forecasts, stocks and infrastructure. As part of their access undertakings with the Australian Competition and Consumer Commission, BHCs are also required to publish a range of Shipping Stem information.

The majority of state departments also provide data on crop production including areas planted, seasonal and agronomic conditions, and production forecasts. There is also increasing private sector involvement in the provision of wheat market information, with a number of companies providing daily and weekly summaries of prices and crop forecasts. The Rural Press also publishes regular updates on wheat markets and prices publically.

It is common practice for large grain traders to develop their own detailed supply and demand forecasts while the small traders tend to rely more on the publicly provided data and information from private forecasters.

The PC review, discussions with industry stakeholders, and an analysis of a number of reports, showed significant differing views on the timeliness, accuracy, usefulness and transparency of the current wheat information, and in particular access to stocks data held by the BHCs.

The views range from satisfaction with the present information availability through to a desire to compel the BHCs by legislation to provide more complete and transparent information on grain stocks in their systems.

7 REVIEW OF CURRENT WHEAT MARKET INFORMATION

Market information covers a range of data along the grain value chain from supply (areas planted, seasonal conditions, yield and production estimates and actuals), demand (domestic and international prices, and volumes by grade and quality) and stock levels, including carry-in and carry-out stocks, domestic usage and international consumption.

The timely and accurate information along the grain value chain is important in supporting efficient domestic and export markets for wheat and other crops. Access to information contributes to price discovery, increases competitiveness, and reduces transaction costs and variability in markets.

Currently, wheat market information is provided by both public and private sources and is provided free of charge or by subscription. The information can be categorised as short-term/long-term, pre-competitive/competitive, and industry good/ private good.

The Productivity Commission inquiry into wheat export marketing Arrangements and the GHD '*Independent Wheat Market Information Study*' both provide detailed explanations of the history and level of wheat market information provided since deregulation.

The below table summarises wheat market information by category, timeframe, and provider.

Market information matrix

Category of Information	Description	Data term*	Provider
Grower Demographics	<ul style="list-style-type: none"> ➤ Farm numbers ➤ Average farm size ➤ Average farm production 	Long	ABARES State government Private
Pre-harvest (production forecasts)	<ul style="list-style-type: none"> ➤ Area planted ➤ Anticipated yield ➤ Anticipated quality** 	Short & long	ABARES State government Private
Harvest forecast	<ul style="list-style-type: none"> ➤ Production forecast by location, yield and quality** 	Short & long	ABARES/ABS State government Private
Post harvest (actuals)	<ul style="list-style-type: none"> ➤ Total harvest by location & quality** ➤ Total exports by feed & milling and port zone ➤ Total domestic use (feed & milling) 	Short & long	ABARES/ABS Private
Stocks	<ul style="list-style-type: none"> ➤ New stocks (carry-in) / old stocks (carry-out) ➤ Volumes held by growers on-farm ➤ Volumes held by BHCs ➤ Volumes held by traders ➤ Volumes held by end-users ➤ Volumes committed / uncommitted ➤ Volumes allocated/unallocated 	Short	ABARES/ABS Private
Prices	<ul style="list-style-type: none"> ➤ Domestic prices for milling and feed wheat ➤ International prices for wheat by quality** 	Short & long	Domestic buyers / traders Consultants Private
Shipping stem	<ul style="list-style-type: none"> ➤ Capacity at port ➤ Exports by Volume & Crop 	Short	Port Operators
International stocks information	<ul style="list-style-type: none"> ➤ World production estimates ➤ World stocks ➤ Stocks to use ratios 	Short & long	ABARE Private IGC
Wheat Quality	<ul style="list-style-type: none"> ➤ Quality** and functionality by port zone/shipment 	Short	GGL Exporter (ship)

*Long = > 1 season; Short = < 1 season

**Quality = according to grade standards such as APH, AH, etc.

8 Current wheat market information availability

8.1 Grower Demographics

Data on grower demographics provides longer-term data on changes in farm numbers, farm size, production trends and grower profiles. The principal supplier of grower demographic data is the public sector.

The data is published annually and is important for both the public and private sectors. For the public sector, it provides information on socio-economic trends and contributes to policy development. For the private sector, the data is helpful for the development of business strategies, including investment decisions in logistics and infrastructure.

Desktop audits and discussions with industry stakeholders demonstrated support for the usefulness of this data and satisfaction with the timeliness and accuracy of the reports provided. In general, growers found the data of limited use and did not represent a significant factor in their decision-making.

Finding 8.1

While long-term data trends, such as grower demographics, are useful for both the public and private sector, growers do not use this information to significantly inform their marketing decisions.

8.2 Pre-harvest and crop production estimates

This information provides forecast crop production data related to planted areas, seasonal forecasts, agronomic conditions, yield and quality (APH, AH, etc) for the current crop and beyond.

Pre-harvest and crop production estimate reports are generated by the public and, increasingly, by the private sector.

ABARES provides quarterly and annual reports on crop production forecasts, seasonal and agronomic conditions and yield forecasts. The *Australian Crop Report*, published quarterly by ABARES, provides details on stocks, usage (by flour, seed and residual) carryover stocks and prices.

The ABARES *Australian Commodity Statistics* is an annual report of historical data including production (area, yield, and value by state), exports (destination, volume, value and prices) domestic usage, supply and demand, and prices.

A number of state governments also generate data on crop production. Information generally includes planted area, yield and production forecasts by crop, but can extend to varying degrees of information on rainfall data, soil moisture profiles and disease/pest incidence. The level of detail varies between

states, with varying data scales from state wide to regional. The New South Wales, Victorian and West Australian governments provide monthly reports through their relevant departments; while South Australia publishes quarterly. The Queensland Government prepares limited crop report information. Feedback from industry participants expressed a desire for information to be better co-ordinated between state governments, to ensure accuracy and limit potential duplication.

Increasingly, private companies provide details on seasonal conditions and production forecasts. These reports are provided by subscription and also include other relevant market information. In general, major clients include grain traders, banks, farm input suppliers, domestic and international buyers and consultants.

Feedback from growers is that the information is of some use in determining price-risk management strategies; however there appears to be a limited uptake of these reports.

A number of attempts are being made to improve the accuracy of technologies in predicting crop yields and production figures. For example, GGL has developed 'ProductionWise', an online crop management tool for growers that uses high-resolution satellite imagery to predict yield and production. GGL also provide a monthly crop and weather report, the *Australian Wheat Page*, utilising this technology.

In addition to public and private sources, larger grain traders develop their own detailed production forecasts utilising the available data with additional input from their own field forces. For BHCs, the information is a useful input into developing supply forecasts for determining grain logistics requirements.

For grain traders, pre-harvest and production estimates assist the development of supply and demand forecasts and accumulation strategies. Domestic and international buyers also utilise the reports as an aid in preparing purchasing plans. The reports have also been used by farm-input and farm finance suppliers.

Finding 8.2

Australia is relatively well served with pre-harvest and crop forecast information. Although no major gaps in this information have been identified, the timeliness and accuracy of data could be improved.

Recommendation 8.2

Pre-harvest and crop forecast information can be improved through better coordination between state governments to remove inconsistencies and improve data accuracy.

8.3 Pricing Information

As discussed, there has been rapid growth in the availability and accessibility of detailed grain prices and price-risk management products since deregulation.

Domestic and international price data is readily available in real time at receival points, online, in the daily and weekly media, by subscription and directly from grain buyers and consultants. This data is accessed by all players in the market, including growers. Feedback from participants pointed to a CBH survey that showed 80% of Western Australian growers accessed pricing information online.

Growers also have access to a range of price-risk management options including cash sales, pools, forward contracts (fixed grade contracts, multi-grade contracts), futures contracts, options and commodity swaps. Discussions with participants indicated satisfaction with the number of options available, although there was general lack of confidence in utilising some of the strategies. This reluctance appeared to stem from lack of education or familiarity in some products.

The only negative comments from growers in relation to prices were that traders do not always stand in the market, the increased prevalence of 'cliff face' pricing and a lack of market signals on what varieties to grow to achieve price premiums.

Finding 8.3

The availability of pricing information and price-risk management products is superior to what was available prior to deregulation. This has provided more options for growers in marketing their wheat; however there is still a general lack of confidence amongst many growers in understanding and utilising price-risk management strategies.

Recommendation 8.3

Organisations associated with the industry, such as GRDC and GGL, should continue to provide training programs to increase grower knowledge and confidence in utilising price-risk management strategies.

8.4 Shipping Stem Information

In accordance with the *Wheat Export Marketing Act 2008*, port terminal service providers have to comply with the 'continuous disclosure rules' by publishing information related to their port on their websites daily. The provision is focused on ensuring access to terminal infrastructure by third-party traders, rather than the publishing of stocks data. However, shipping stem information provides a valuable service to industry by publically disclosing the vessel name, when it was nominated and accepted, expected and actual times of arrival, completion and

departure dates of bulk wheat exports by port. Details are also provided on the shipper, grain type and volume.

This data contributes to ABS/ABARES reports, the supply and demand schedules of traders and international buyers, and provides information related to competition. Consultancies also aggregate shipping stem data to provide customers with an overall summary of the quantities of bulk grains being exported from Australia. Few growers are known to actively access shipping stem information directly.

The requirement to publish shipping stem information does not cover all terminals that export bulk wheat, such as ABA's Melbourne port terminal and the terminal in Brisbane. However, ABA provides Shipping Stem information on a voluntary basis.

The legislation does not extend to cover information on grain exported in bags or containers. However, ABS and Customs record this data by grain type, quantity and grade that is available by subscription (approx. \$1,000 p.a.). However, shippers can request restrictions on the publication of certain data, for example CBH has restrictions related to barley and oats.

Discussions with stakeholders found that improvements could be made by ensuring information was published in a consistent format. Currently, data can be reported in varying levels of detail. For example, GrainCorp and Viterra provide a breakdown of exports by all crop types, while CBH only disaggregates crop data into 'wheat' and 'other'.

On 23 September 2011, the government announced that access issues, including continuous disclosure rules, be covered by a voluntary industry code of conduct. The code must be approved by the Minister of Agriculture, Fisheries and Forestry and in place by 30 September 2014.

Finding 8.4

There is a lack of consistency in the level of detail and format of shipping stem information published in accordance with the 'continuous disclosure rules'.

Recommendation 8.4

Shipping stem information should continue to be published under the voluntary Code of Conduct. Information should be published in a consistent format and coverage should be extended to all ports where grains are exported.

8.5 Information on international stocks levels

A wide variety of institutions provide data on international grains supply, demand and prices. In Australia, for example, the ABARES *Agricultural*

Commodity Statistics Report provides analysis and commentary on world grain stocks and usages on a quarterly basis.

The London based International Grains Council (IGC) supplies regular reports on a wide range of data on grain supplies and demand including global production, trade, consumption carryover stocks and the very important stocks/use ratio. Data is also provided on daily export prices and weekly freight rates.

International grain traders also develop their own detailed global stocks information. Comments from a number of Australian grain traders were that the international companies, such as Cargill, Glencore and Viterro, have a natural competitive advantage in this area due to their ability to source data from their international operations.

Companies such as Australian Crop Forecasters and Profarmer also provide information on global stocks to their clients.

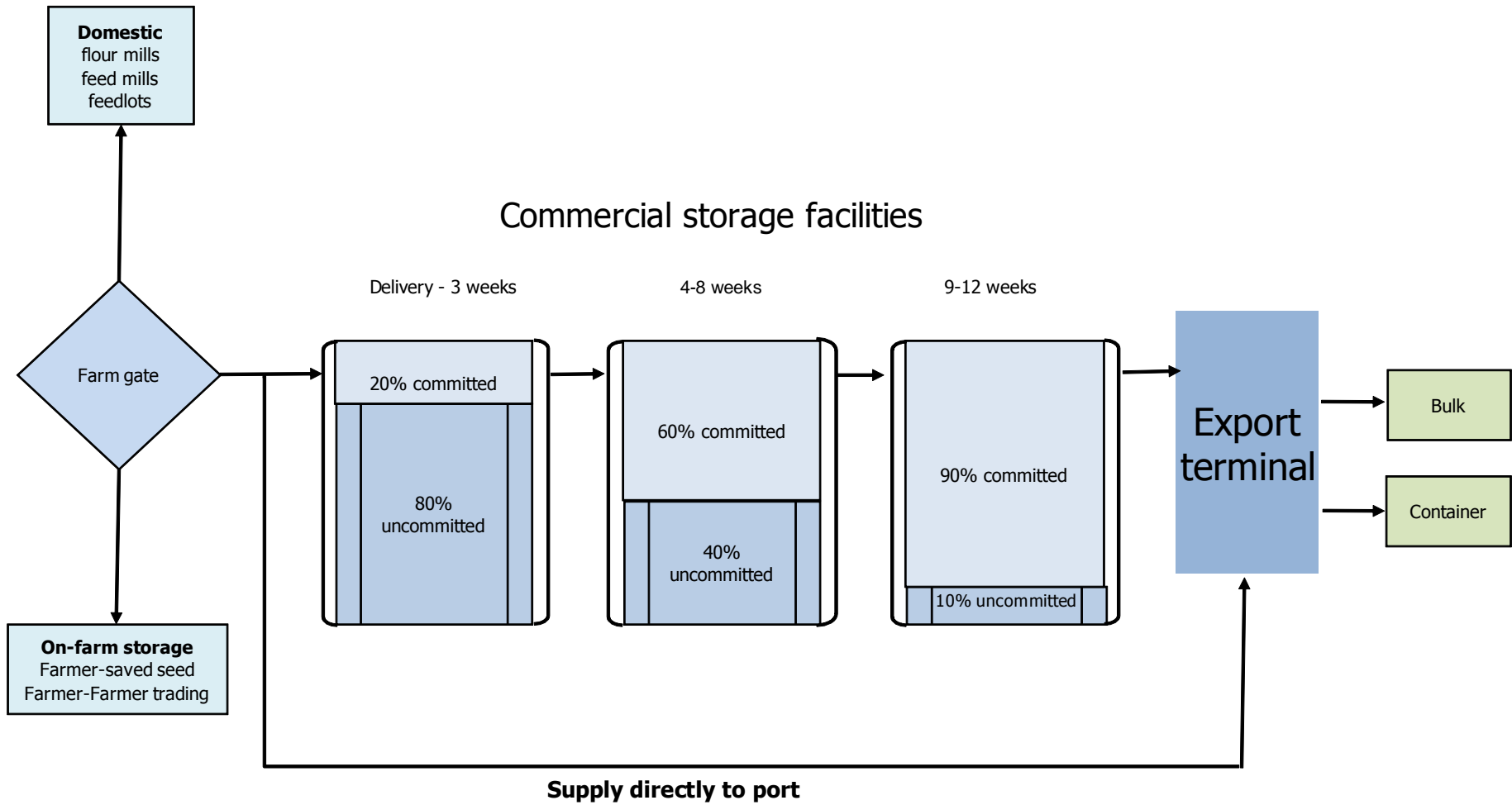
Finding 8.5

The general view from industry is that adequate information is available on international grain stocks.

8.6 Grain stocks data across the supply chain

When grain is harvested there are a number of routes it can follow.

Generic Grain Stocks Flow Chart



On-farm

Once grain is harvested, a percentage is retained in on-farm storage as either farmer-saved seed or for direct sale to other farmers, local feed mills, dairies, piggeries, feed lots, flourmills or grain traders at a later date. There is an increasing trend where growers, either individually or in groups, are exporting grain directly, primarily in containers. It is expected that this trend will expand to bulk exports as well.

Storing grain on-farm can enable growers to better manage their own price-risk and grain quality as it increases their flexibility as to when to price grain. It also provides options to 'value-add' or arbitrage through actions such as drying, grading and blending.

Ownership of the grain remains with growers until the grain is sold or allocated. From discussions with industry stakeholders, it is estimated that approximately 20% of grain may be committed prior to harvest. Grain can be committed but not yet allocated against a specific contract.

Following deregulation there has been a large growth in on-farm storage from grain silos through to silo bags. The major growth has been in the eastern states where there is an estimated 15 million tonnes of on-farm storage. In Western Australia, there is only around 0.4 million tonnes of grain stored on-farm. The higher percentage of on-farm storage in the eastern states is primarily due to the larger domestic market and increased selling options available. It is estimated that BHCs have access to approximately 50 million tonnes, Grainflow and ABA have a combined 4.3 million tonnes and there is an additional 1.5 million tonnes in other commercial storage facilities.

The ABS '*Wheat Use and Stocks, Australia*' report contained details on domestic use, end user stocks and on-farm stocks. However, when this project finished in July 2011, it was not carried on by industry as it was deemed too expensive, underutilised and that monthly variations were insignificant.

There was considerable feedback, particularly from domestic users, that the lack of this information has left a significant gap where industry does not know the real stocks and usage position until at least 18 months after harvest, when ABS publish findings from its census surveys.

It is understood that industry players are looking at filling this gap and believe it can be provided at a lower cost and in a shorter time than the previous ABS report. It is also proposed that the report should include barley, canola, sorghum and the key pulses.

Finding 8.6a

There are significant quantities of grain stored on-farm and growth is expected to continue. The amount of grain stored on-farm is a significant proportion of the grains stocks balance, which is presently not being effectively accounted for.

Recommendation 8.6

To provide an accurate stocks-use balance, growers should supply further information on stocks held in on-farm storage. Information could be supplied at completion of harvest and then on a quarterly basis via an on-line survey. Data should be aggregated to avoid identification of individual growers.

Post farm gate

Once grain leaves the farm, it usually enters the bulk handling system or is sold directly to the domestic market for various uses.

When grain does enter the commercial storage and handling system, the majority is delivered to the three large integrated BHCs; CBH, GrainCorp and Viterra. It is estimated that GrainCorp receives around 60% of the grain harvest in the eastern grain belt. The percentage of grain that enters the Western Australian-based CBH system is higher than GrainCorp and Viterra achieve in their regions as there are generally more delivery and storage options in Eastern Australia and a larger domestic market.

When storing grain, BHCs offer a period of 'free-carry' to growers, allowing grain to be stored for free for a specific period of time. For example, Viterra and GrainCorp provide free-carry for up to 8 weeks while CBH provides free-carry from harvest to the following September. CBH has also introduced a quality optimisation program whereby a grower can conduct arbitrage on their total deliveries into the system depending on the grades delivered.

There is an estimated 6 million tonnes of commercial grain storage outside the integrated BHCs, which is expected to increase. Examples include Woods Grain, Riordan Grain, Moore Bulk Storage, Emerald and Cargill. Grower co-operatives have also emerged, providing additional options such as FREE Eyre, a grower co-operative that has a number of bunker storages, and Mallee Farmers, which has a joint-storage venture with Emerald.

When grain is received at the silo it is graded according to receival standards, including test weight, moisture and protein level, screenings and falling numbers. Growers can either deliver their grain to up-country silos or, to avoid some of the storage and handling charges, deliver directly to Port where it is graded according to the same standards.

The majority of grain enters the commercial storage and handling system as grower warehoused grain. This means that the title remains with the grower until the grain has been committed. Discussions with stakeholders confirmed that around 80-90% of delivered grain is initially received as grower warehoused stock. Estimates vary as to how long grain remains uncommitted, but approximately 50% of warehoused stock is committed within 30 days and within 3 months more than 90% has been committed and allocated.

Finding 8.6b

Growers can retain the title to grain held in commercial storage for up to 3 months following delivery.

8.7 Marketing Strategies

Growers have a number of options available to them to market their grain.

A number of grain traders and BHCs still operate a range of pools, even though their use has declined significantly since deregulation. It is estimated that on the east coast only 10-20% of wheat is marketed through pools, while in Western Australia the volume is around 25-30%. Once the grower elects the pool option, the title of the grain transfers to the pool operator.

Growers can also sell their grain to a range of domestic users (feed mills, flour mills, feedlots, piggeries, dairies, ethanol producers), to a range of small domestic and export traders, to the trading arms of integrated BHCs or to the other international grain trading companies.

There has been an increase in the number of consultants who provide advice on price-risk management for growers. As is the case for agronomic consultants, the highest percentage is in Western Australia where there are around 30 consultants offering marketing advice to growers. Some of these consultants also act effectively as 'brokers' for a number of growers that have grain of a similar quality.

There are currently 26 registered exporters under the Wheat Export Accreditation Scheme with CBH, GrainCorp, Viterra, Glencore and Cargill representing around 80% of the export volume with the remainder covered primarily by Emerald, Bunge, Gavilon and EldersToepfer. Discussions with Viterra confirmed that there are 60 different buyers of grain in their system.

Once a grower has allocated his grain, title transfers to the purchaser and the grain can then be on-traded a number of times. The grain is eventually consumed by the domestic market (feed/flour/fuel) or exported in containers or bulk. Stakeholders quoted that more than 2 million tonnes of grain are exported in containers. Domestic grain purchases can be out-turned from up-country silos or from the port zone.

Finding 8.7

Once harvest has been completed, growers develop strategies for their uncommitted grain. The major influences on marketing strategies are cash flow needs, basis levels and potential future grain prices.

8.8 Post-harvest information

Following deregulation, on recommendations from the Independent Expert Group (IEG), the government allocated \$3.38 million to ABS and \$0.45 million to ABARES to provide additional information on production, committed and

uncommitted stocks and exports over a 3 year period. Funding for these reports has since ceased.

In late 2011, GRDC and GGL agreed to co-fund the Wheat Export Sales Survey (WESS) and Grain Handler Stock Survey (GHSS), through ABS, for a one-year period until 30 September 2012. As a result, *'Wheat Stocks and Exports Australia'* is published monthly. The report provides data on stocks held by the BHCs broken down by milling or feed grade, wheat stocks exported and wheat stocks committed for export. The report is said to be provided in a timelier manner and at considerably less cost than previously supplied. The GHSS report is published 3 weeks after month-end while WESS takes around 5-6 weeks. Feedback on the current report was that the information provided is useful; however there is still a timeliness issue.

There were also concerns that the data provided does not meet the complete needs of growers and grain traders. The new arrangement does not include all the elements of the *'Wheat Use and Stocks, Australia'* report as it was deemed too expensive, underutilised and the monthly variations were small (0 to 4%). However, as mentioned above, a number of industry players believe there is a significant gap in estimates of real stocks and usage as a result of not having the data previously provided.

Finding 8.8a

Reinstating a more efficient form of the 'Wheat Use and Stocks, Australia' report, previously published by ABS, will address data gaps in the increasing volumes of grain stored on-farm

Recommendation 8.8a

To determine the overall stocks-use balance equation, industry should reinstate a revamped *'Wheat Use and Stocks, Australia'* report to deliver data on the domestic use of grain stocks, on-farm storage and end-user consumption. The private sector should be encouraged to fund and disseminate this information in a more timely and cost effective manner than previously provided by government.

In addition to publishing shipping stem information and contributing to the GHSS, the BHCs provide a range of data on grain stocks.

Viterra provides data on weekly stocks on hand at the port terminals for all crops and includes the top 3 wheat grades; APW, APH and H. Data is also published weekly on daily average receivals at each port terminal. The *'ezigrain'* website enables growers to access information on their deliveries, warehoused grain, warehouse advances, transfers and weather. It also provides daily weighted average quality data for each grade at each site where there is more than 500 tonnes, including wheat grade, moisture, test weight, protein content and screenings. Fumigation schedules are also provided. However, data is not provided on volumes and committed/uncommitted stocks through this tool.

Viterra offers growers an 'opt-in' option for the disclosure of personal information on their warehoused stock to be released to registered buyers. However, the Viterra 2010/11 Post Harvest Review Grower Questionnaire found that 67% of the 1,100 grower respondents were aware of the opt-in option, however only a small amount of growers had taken up the offer.

CBH offers growers and traders access to volume and quality data on the grain they own using LoadNet. They also provide updates throughout the season on forecast grain production and weekly harvest reports that show total grain receipts by port zone.

GrainCorp provides growers and grain traders with average stack quality data for the stacks in which they hold grain (a ticket) via GrainTransact. Industry cannot access data on volumes and committed/uncommitted stocks or data from stacks in which they do not own grain. Graincorp also provide a crop report on grade and quality by port zone.

Finding 8.8b

While industry is able to access certain post-harvest data, there are gaps in this information resulting in an incomplete stocks-use balance equation.

Recommendation 8.8b

The 'Wheat Stocks and Exports Australia' report, funded by the Grains Research and Development Corporation and Grain Growers Limited, should continue to be funded for a further 12 months, during which time growers should be surveyed to assess the future usefulness and funding of the report.

9 Industry perspectives

Some sectors of industry believe that additional information is essential to achieve a well-functioning, competitive and transparent marketplace. They believe the regular provision (daily or weekly) of data on grain volumes and grade, committed and uncommitted by site and by port zone, result in a better informed market. The various industry stakeholders' views on what additional information should be made available are shown in the Appendix 1.

Growers believe the additional data will aid their price-discovery and will increase competition from traders who, by having additional data, will not need to discount price due to a 'risk component' of incomplete information. From discussions with industry, an estimate of the potential price-benefit to growers was suggested in the order of \$2-3 per tonne.

In their submissions to the Productivity Commission inquiry, Grain Producers Australia (GPA), Pastoral and Graziers Association (PGA) and NSW Farmers Federation stated that the BHCs should be compelled by legislation to supply this

information. GGL, then Grain Growers Association (GGA), also argued for legislation, however, recent discussions revealed that this position is being reviewed as GGL believes that the value growers may gain from the various wheat stocks information is questionable. GGL is in now the process of doing market research in this area and hopes to have completed an analysis by the end of May 2012.

PGA has also advised that their position on the provision of wheat market information is being reviewed. They now advise that the supply of aggregate information on the quantity and quality of unallocated stocks in the BHCs should be on a voluntary basis and there should be no government intervention to compel the release of this information.

Grain traders believe this additional information would enable them to be better positioned to 'match' the requirements of international and domestic customers with the available supplies of wheat. They also argue that BHCs have an unfair market advantage due to their knowledge of wheat stocks in their storage and handling networks.

Domestic grain consumers also believe that the additional stocks information is essential to allow for a competitive and efficient domestic market. They highlighted a critical need for this information when there are grain shortages.

In discussions with the BHCs a number of reasons were given for their reluctance to supply additional stocks information. The key reasons given were;

- The data requested covers information on grains that in most cases are not owned by them and therefore not theirs to divulge;
- Provision of the requested data could disadvantage growers. For example, in Western Australia following harvest growers are normally long (ample amount of grain on-hand) and hence the supply of greater detail on stocks could enable buyers to exert downward pressure on prices;
- There would be significant costs in providing the additional information;
- The BHCs all have major investments in infrastructure and access to the stocks data gives them a deserved competitive advantage. However, CBH pointed out that it has an effective ring fence in place that prevents their marketing arm gaining any access to stocks information;
- That 'asset-light' traders should not be given a free-ride on grain stocks information that has been generated by others who have developed their own supply and demand work sheets and/or have significant investments in storage and handling assets; and
- Considerable and increasing quantities of grain are being stored and handled outside of CBH, GrainCorp and Viterra.

The BHCs could rightly argue that the publication of any additional information would also need to be made available for the considerable and increasing amounts of grains that do not pass through their storage and handling systems. This concern could be addressed if all companies that offer commercial storage and handling and store uncommitted warehoused grain agree to provide the

data and there was an improved method of capturing the amount of grain stored on-farm.

As part of this review, 25 growers from across Australia were asked for comments on wheat market information. The feedback showed a variety of views on the current information available, potential gaps and what, if any, action should be taken.

A number of growers were happy with the currently available information and did not believe there were any significant gaps. Some growers went further and stated that it would be detrimental to publish additional data on stocks information due to concerns that more information could result in lower prices, particularly if the market was long.

The growers who wanted more information tended to have concerns regarding the power of the BHCs due to their position in the market and access to complete stocks information in their systems. These growers believed that due to incomplete stocks information BHCs had an unfair advantage; reducing grower returns and limiting their ability for price discovery and for other grain traders to compete for their grain. A number of growers commented “we have gone from one monopoly to where we now have three”.

When asked what action should be taken there were a number of responses. Some argued that trading arms should be ringed- fenced from storage and handling operations, others suggested that the trading arms should be removed from the BHCs and they should revert to being storage and handling providers. A number of growers were in favour of the BHCs being compelled to provide more information on grains stocks while others believed this could be achieved as part of a Code of Conduct. There were also a range of views of what additional data should be provided but most mentioned volumes, locations and grade.

The growers who wanted more information were asked for their views on agreeing to having aggregated information published on warehoused uncommitted stocks. Most were in favour; however there was disagreement about whether it should be available on an ‘opt-out’ or ‘opt-in’ basis.

Finding 9.0a

The major divergence of industry views relates to the provision of current-season (short term) information on stocks from the completion of harvest until when the grain is sold and dispersed.

Finding 9.0b

Outside of the BHCs, some industry sectors argue that incomplete grains stock information places them at a significant marketing disadvantage. These sectors

believe that a range of additional stocks information should be published to reduce market information asymmetry.

10 Filling the gaps

Timely and accurate wheat market information is important to support and maintain an efficient bulk wheat export market. If industry, including growers, domestic users, small and international grade traders and the integrated BHCs all agreed to have their data freely available on stocks this would provide ultimate transparency.

However, there are a number of practical, privacy and market advantage issues that will most likely prevent this from happening. Acknowledging these limitations, there are basically three options that could be pursued by industry, including maintaining the status quo, lobbying for legislative provisions or reaching an agreement that is implemented through an appropriate protocol.

The recommended option is for industry agreement to be reached where growers and commercial storage and handlers supply additional information to improve market transparency. This option would be implemented as part of an agreement under suitable protocols, such as a Code of Conduct.

The key points to consider are who owns the grain and when does ownership transfer. As discussed previously, when grain first enters the grain storage and handling networks, the majority of grain is warehoused and is owned by the growers. Therefore, the opportunity to increase market transparency lies with growers.

To ensure a 'level playing field' for all market participants, aggregated data on the volumes of uncommitted warehoused grain held in commercial bulk storage and handling systems should be made available by grade and location on a weekly basis.

The various grower organisations, with relevant support from industry, would need to communicate with growers and convince them that it would be in their best interest to make this data available on an aggregate basis, so as to help them optimise their pricing opportunities. Growers would be given an opt-out option if they did not want their information included.

While it is recognised there may be significant challenges in obtaining grower agreement to provide this data, all grower organisations have, at one stage or another, argued for the release of more wheat stocks information.

This approach provides grower organisations an opportunity to develop a 'united vision' and agree a common way forward on wheat stocks information to present to growers and industry.

The additional wheat stocks information could either be published on the BHCs website or collated and disseminated by a third party. The costs to the BHCs in supplying the data would need to be determined but should not be significant, perhaps with the exception of adjusting systems to cater for opt-out/opt-in warehousing agreements. This approach would still enable the BHCs to realise competitive advantages through their ownership of logistics infrastructure.

Finding 10.0

The supply of aggregated uncommitted warehoused grain data should overcome most industry concerns related to stocks information. The provision of this data would enable industry participants to start on a 'level playing field' in developing pricing and accumulation strategies.

Recommendation 10.0

Aggregated data on the volumes of uncommitted warehoused grain held in commercial bulk storage and handling systems should be made available by grade and location on a weekly basis.

Information should only be published with the consent of growers through an 'opt-out' arrangement with the storage and handler. Once grain becomes committed, the information becomes the property of the buyer, and therefore should not be publically disclosed.

11 Wheat market stocks - balance, costs and delivery

It is possible to achieve a relatively accurate picture of the stocks-use balance equation for Australian wheat. Maintenance of current reports, introduction of a revamped '*Wheat Use and Stocks, Australia*' report and an agreement on uncommitted warehoused stocks will result in a reasonable overall stocks balance equation to meet the needs of industry.

It has been estimated that the cost of producing the current GHSS and WESS reports and a revamped '*Wheat Use and Stocks, Australia*' report through the ABS would be around \$0.85 million per annum.

In terms of delivery, there were a variety of views on who should collect/collate/publish the various wheat market information reports. There was general agreement that the government should continue to fund the ABS and ABARES to provide core, long-term wheat market information and that state governments should continue to provide reports on seasonal conditions and production estimates. There were differing views on the provision of short-term wheat stocks information.

The GHD *Independent Wheat Market Information Study* (2011) recommended that post 2011/12 industry should seek to transfer the *Bulk Handler Stocks* and *Wheat Export Sales Survey* from ABS to the National Grower Register (NGR) or an

alternate private service provider. It recommended that funding could be obtained via a GRDC Research Project with appropriate contributions from other sections of industry. A second option was to broaden the roles and responsibilities of Wheat Exports Australia (WEA), if it was to be retained, to fund the reports through the Wheat Export Charge (WEC).

The Productivity Commission's inquiry recommended that if the industry wants stocks information, particularly short-term information, it will need to pay for it. It recommended that an industry body should be tasked with establishing industry agreement on what stocks information (if any) industry participants are willing to pay for, and the preferred information provider.

Grower organisation submissions to the PC largely argued for continued government funding and potential ongoing role for the WEA.

From extensive discussions with industry, further consideration is needed to determine if there are benefits to tasking an industry organisation with a national role in collating, and possibly interpreting and disseminating, this information and how they would be funded. Rather than create a new body, it should be possible for existing organisations to fill this gap.

Finding 11.0a

The retention of current production reports, introduction of a revamped 'Wheat Use and Stocks, Australia' report and an agreed way forward on publishing uncommitted warehoused stocks data will provide a good overall wheat stocks balance.

Finding 11.0b

Industry needs to further investigate the need for an industry body to co-ordinate, analyse and deliver wheat market information.

Recommendation 11.0

If industry decides that a body is needed to co-ordinate and deliver wheat market information, it should utilise an established industry structure.

12 International information and market support

As in Australia, international markets develop and provide wheat stocks and use data. For example, the United States and Canada supply a range of wheat market information on stocks, use, and stocks by class and export sales. Funding in both countries is provided by a combination of industry and government.

The US Wheat Associates (USWA) is an export development organisation that provides training, information and promotional services for US wheat farmers. USWA receives the majority of its funding from the federal government. In 2009,

USWA was allocated US\$16.8million, with 74% of the funding from the federal government and the remaining 26% from grower levies.

USWA provide a number of reports including weekly price reports covering a range of wheat classes and locations, weekly commercial sales reports which tracks year-to-date and historic sales for the six US classes of wheat, monthly world supply/demand statistics, weekly reports on crop conditions throughout harvest, and an annual crop quality report. USWA also does significant market development in promoting the crop to international buyers and also training them on the functional milling quality of existing and new varieties.

The Canadian Grain Commission (CGC) is a federal government agency which provides a range of information on wheat and other grains. Weekly and year-to-date reports are published on grains and wheat flour exports, the movement of grains by shipping point, the movement of grains from farms to domestic and export use, stocks in commercial facilities and grain prices.

The CGC is also the regulator of Canada's grain handling industry, is the official certifier of grain quality, conducts research into grain quality and provides technical expertise and support to overseas customers. However, a decision has been recently made to deregulate wheat marketing in Canada which could significantly impact the activities of the CGC, including the provision of wheat market information.

Industry feedback was mixed on the impact of US and Canadian activities on competition to Australian wheat in key markets. Comments varied from minimal impact on Australian wheat to that it is being seriously undermined by not having a USWA or CGC equivalent.

Finding 12.0a

Feedback was mixed on whether the stocks information provided in the US and Canada leads to higher grain prices for farmers. In the time available, it was not possible to verify or quantify if any such advantage exists.

Over time there has been debate about whether Australia should have a USWA or CGC equivalent to promote Australian wheat abroad and do other industry good functions such as trade advocacy and grain quality certification. Pulse Australia and Barley Australia do this to a very limited degree with the crops they represent. For wheat, stakeholders have raised several potential options for delivery, including an industry funded model, such as Barley Australia, through to a version of USWA that is funded by both industry and government.

In 2011, GGL launched an Australian wheat brand with the aim of providing a national umbrella for the promotion of Australian wheat. To date there does not appear to have been widespread support for this approach.

Finding 12.0b

Over time, there has been debate about whether Australia should have a USWA or CGC equivalent to promote Australian wheat abroad and undertake other industry good functions such as trade advocacy and grain quality certification.

Recommendation 12.0

Industry should verify the need for a generic body to support Australian wheat internationally or to deliver other industry good functions. Industry would need to adopt a mature approach to determine the strategic need versus structural and control implications.

13 Export grain quality information

Prior to deregulation, AWB provided the majority of market information on wheat quality, including production year data and comments on the suitability of grades for particular uses. The reports cost around \$3 million to produce and were published several months after harvest. A prime use for the *AWB Crop Report* was to promote the merits of Australian wheat to new and existing customers.

In today's market, major grain exporters provide detailed quality information on parcels of grain to international customers directly. While this is serving individual companies, a number of international customers have given feedback that a report on the quality of the national crop is lacking.

In 2008-09, GGA (GGL) and GRDC co-funded a pilot Australian Crop Quality Report based on samples of wheat produced in each port zone, covering the eastern Australian wheat belt. In discussions with GGL, they stated that the report was well received by both domestic and international grain customers including those in Taiwan, Malaysia and Indonesia.

As a result of the pilot, GGL is planning to fund an annual national crop quality report based on samples collected by its own field staff from growers across the country. They plan to run the report for a 3 year trial period. The report will be distributed to domestic and international grain customers and will be provided by GGL as an industry good function.

GGL also funds a report called '*What the World Wants from Australian Wheat*', initially released in 2004 and updated in 2010. A further report funded by GGL and DAFF was released in April 2011. These reports provide detailed summaries of Australian and international wheat industry data and feedback from international buyers. Reports were prepared based on interviews with domestic flour and stock/feed manufactures and flour millers in South East Asia, the Middle East and Europe.

Customer feedback in the GGL reports indicated that Australia is not providing adequate information on national crop production and quality to its markets. The report recommended that Australia should provide regular, accurate and timely information on a national basis to better support purchasing decisions of all buyers of Australian wheat. This feedback no doubt influenced GGL's decision to fund the preparation and distribution of the national crop quality report for a 3 year period.

Finding 13.0

International customers have provided industry with mixed feedback on the importance of national crop quality information. A number of customers believe there is a need for a report on Australian grain quality, while others do not see a need for such a report.

Recommendation 13.0

Industry should monitor the effectiveness of GrainGrowers Limited's 'Australian Wheat Quality Report' and 'What the World Wants from Australian Wheat' in positioning Australian grain in the international market.

Feedback from the market place could help determine whether increased focus is needed on providing international customers with additional generic information on crop quality characteristics.

14 Export grain quality concerns and market signals

Although not within the scope of this report, a number of traders, industry organisations and growers expressed concerns about grain out-turns, and the quality of grain exported from Australia.

Under the single desk arrangements, AWB basically controlled the export wheat quality system. By having control of all exports, AWB were able to set the receival standards, control segregations, undertake selected blending and reserve products to meet customer specifications, and control shipment sampling and testing. It is believed that in many cases AWB supplied customers with grain that exceeded contract specifications.

In a competitive environment, some stakeholders believe that grain is now only guaranteed at the minimum or average receival standards, rather than the actual quality of grain delivered and purchased by traders in the system. The term 'dumbing down' of wheat specifications was mentioned several times in discussions with grower organisations and grain traders. However, stakeholder discussions also confirmed that grain is being supplied to contract specifications and there have been no rejections of bulk shipments of Australian wheat.

Since deregulation, multiple buyers and accumulators have entered the market, individually blending grain in stacks and at ports. As such, the BHCs only deliver grain that match receival standards. Some argue that this is not of major concern as the majority of shipments contain a blend of grades, and over 80% of Australian grain is bought on price, with the remaining 20% on quality.

Grain traders argue that they have no certainty that they will receive the grain quality they paid for and or from which location it will be supplied. Grower and some industry organisations believe this is reducing grower returns and Australia's competitive position in world markets.

In the US, the Federal Grain Inspection Service checks the quality of all grain as it is being loaded onto ships, and there are penalties for out-of-specification or misquoted grain. This service is provided on a user-pay basis. In Canada, the CGC certifies the quality of export grain shipments. Some stakeholders within the Australian industry are calling for a similar body to oversee the quality of wheat exports be established in Australia.

Going forward, there will be an increasing trend for grain marketers/traders to have direct relationships with end-use customers that will include specific segregations to supply these customers either in containers or bulk. Growers with significant on-farm storage will also be able to offer more specific grain quality to the trade, thereby attracting price premiums.

Finding 14.0a

While there have been claims that the quality of Australian wheat is deteriorating, grain is being supplied according to contract specifications and there have been no rejections of bulk shipments of Australian wheat.

Finding 14.0b

There have been claims that Australia needs a body to oversee the quality of grain export shipments.

Finding 14.0c

If industry agrees to provide information on the volumes, grade and location of uncommitted warehoused grain, this should help the trade accumulate stocks that meet market requirements and help address specific quality concerns.

Recommendation 14.0a

Industry needs to determine whether it should develop and adopt out-turn and export standards, and examine the need to certify the quality of wheat exports.

The Wheat Quality Council expressed concerns that they now receive less feedback on what the market wants from wheat grades, causing difficulties in determining wheat classifications and market signals to breeding companies. They also argued the need for additional resources to analyse and interpret the wide variety of data on wheat quality.

Recommendation 14.0b

Industry should consider funding an annual / bi-annual wheat quality forum to facilitate industry dialogue on wheat classification requirements and future grain quality needs. The forum could also provide a mechanism to improve feedback from international and domestic customers.

15 CONCLUSIONS

The availability of timely and accurate information along the grain value chain is important in supporting efficient domestic and export markets for wheat and other crops. Market information contributes to price discovery, increases competitiveness, and reduces transaction costs and variability in markets.

Currently, wheat market information is provided by both the public and private sectors. However, there are a number of gaps and inconsistencies in the data.

To address this issue, additional data on uncommitted warehoused stocks owned by growers in the commercial storage and handling systems should be published, with the consent of growers. In addition to the continuation of currently available production and stocks reports, and a revamped '*Wheat Use and Stocks, Australia*' report this additional data will result in a reasonable overall stocks balance for Australian wheat.

The face of the Australian wheat marketing is constantly changing and adapting. Achieving a resolution to this issue presents an opportunity for grain grower organisations to coordinate a common issue approach to take to growers and develop a united vision across industry for the long-term.

APPENDIX 1 DESKTOP AUDIT

Summary of submissions to Productivity Commission Inquiry into wheat export marketing arrangements

In 2010, the Productivity Commission undertook an inquiry into wheat export marketing arrangements. As part of the inquiry, the Commission held 10 public hearings and received 100 written submissions.

Initially, fifty-six submissions were received from stakeholders. An additional 44 submissions were received following the release of the draft report.

Information presented in the submissions and public hearings relevant to wheat market information were used to inform this report and are summarised below.

Growers

Of the initial 56 submissions received by the Commission, 22 were from individual growers. Of these, 5 submissions referenced the provision of wheat market information. The major comments were:

- Growers have access to all manner of information provided by marketers and brokers and ABS;
- The current information sources are more than adequate;
- BHCs should publish state-wide receival figures by grain type and grade, but there should be no obligation to state the owner of the grade;
- ABS provides enough information already;
- The ABS data and its timelines is somewhat useful, however it should also be provided for crops other than wheat; and
- The information on my grain is my business and should not be disclosed to other parties.

Following the release of the Commission's draft report, 15 additional submissions were made by growers. 3 of these mentioned information provision, stating:

- There needs to be more accurate information on stocks and their profile. This information could be provided by ABS and ABARES, although it will be more difficult to obtain grain profile information. The parties should be forced to provide this information; and
- Not in favour of the provision of monthly statistics especially if they are funded by a levy mechanism. Believes that the provision of this data will do more harm than good.

The majority of grower submissions were from Western Australia. These individuals also made a number of other relevant comments, including:

- 'Ring fencing' of BHCs from their marketing arms will not work. 'Ring fencing' was a failure with AWB; and

- The demise of AWB's Golden Rewards has taken away premium opportunities and has been replaced by 'flat pricing'. There are less 'market signals' to growers on what varieties they should plant.

Grower Organisations

8 grower representative organisations made submissions to the inquiry; Agforce, Western Australian Farmers Federation (WAFF), Victorian Farmers Federation (VFF), South Australian Farmers Federation (SAFF), New South Wales Farmers Federation (NSWFF), Grain Growers Association (GGA), Pastoralists and Graziers Association of Western Australia (PGA) and the WA Grains Group.

Key comments from the submissions were as follows:

- Most organisations recognised that the ABS/ABARES reports provided some useful data but it was generally agreed that the timeliness and breadth of information was grossly inadequate; and
- The ABS/ABARES reports did not assist growers in making effective marketing decisions for their grain.

Many of the submissions did not make specific reference to who should collate and pay for data collection. It could be assumed that ABS/ABARES would continue to provide the service, but with a broader scope and in a much more timely fashion, with funding continued to be provided by the Australian Government.

Agforce Queensland

Agforce believed that the minimum requirement included monthly reports on grain stocks by port zone. They also noted that the emergence of new technology should enable the data to be provided more frequently. Agforce believed that information should be available on a continuous basis for stocks on hand by location and quality and sales volumes, prices and destinations.

Grain Growers Association (now GrainGrowers Ltd)

The Grain Growers Association said that information was required on opening stocks, sources of grain (total supply), disappearance (total demand) and implied ending stocks. Useful supply data would include planting intentions and actual sown areas, crop condition and moisture profiles, seasonal outlook and harvest statistics. They also noted that useful demand data would include export statistics and stock in transit, demand forecasts by major market and seed requirements for the following crop. Since making its submission, GGL is now reviewing its position on wheat market information.

The GGA submission mentioned that it would be prepared to coordinate the collection and dissemination of data, provided there was a legislative requirement for this. They also suggested a compulsory industry levy could fund these activities.

WA Grains Group

In its submission, the WA Grains Group called for information on planted areas and varietal data be provided on a regular basis, pre-harvest. Grain stocks by type, grade and zone (committed and uncommitted) should also be provided on a daily basis. The WA Grains Group suggested that WEA fund and carry out these functions.

Pastoralists and Graziers Association of Western Australia

PGA said that growers and industry need access to information relating to crop production, export sales, domestic usage, and stocks on-hand at port and at country silo locations. They argued that growers require aggregate stock level information at up-country sites and it should be collected and reported electronically on a weekly basis. PGA suggested that the Australian Government should legislate for the provision of data and be involved in the funding, however this position is now being reviewed. PGA also called for robust ring-fencing provisions so that the trading divisions of the BHCs did not gain an advantage over access to information. As discussed in the report, PGA has since altered its position on wheat stocks information.

Western Australian Farmers' Federation

WAFF stated that the information currently provided by ABS and ABARES is not readily accessible to growers in a meaningful way. They recommend a 'one-stop-shop' on a single website that should provide wheat information to growers. Accurate supply and demand information would provide clear market signals to growers and contribute to marketing decisions, and should be provided on a national level.

Victorian Farmers' Federation

In its submission, VFF noted that ABS data is 6 weeks old and does not assist growers to make effective market decisions. It believes that WEA should be able to acquire data from customs, as the permit issuing agency, and publish aggregate data as it has done in previous roles. WEA should publish data at least at the state level to ensure transparency of information and enable growers to make more informed marketing decisions.

New South Wales Farmers' Federation

NSWFF also believe that the powers of WEA be extended to include the collection and dissemination of wheat market information. NSWFF believed that growers want information on stocks on hand at port zone on a weekly or monthly basis, in addition to supply and demand data. This data would include:

- Daily domestic and international market price and currency movements
- Top ten-price comparisons between cash and pools
- Weekly crop sowing data
- Weekly harvest reports
- Weekly stock on hand and export tonnage reports
- Monthly export and domestic sales
- Data on receivals, quality, variety, stock balances and outturns

South Australian Farmers' Federation

SAFF believe there is a lack of information on what grain is in bins on volume and grade, and stated that there is no transparency on information. They believe BHCs have the ability to manipulate grain flows, and recommend that all participants have access to base data on receivals, quality, domestic out turns, export shipments and stock balances. SAFF also believe that with ABB (now Viterra) there is not an effective ring-fence between the storage and handling and grain-trading arm of the company.

Bulk handling companies

ABB Grain (Viterra), AWB Limited, CBH Group, GrainCorp Operations Ltd, and Australian Bulk Alliance (ABA) made submissions to the inquiry. The key comments are summarised below.

AWB Ltd

AWB stated that the ABS/ABARES data provide a useful base level of market intelligence and transparency. However, there are issues on timelines and accuracy of the data, and believe the data should be collected electronically and provided monthly, with greater inter-agency collaboration.

AWB believes that the BHCs can access data more effectively than others and this gives their trading operations considerable advantages creating market asymmetry. They believe BHCs should be compelled to provide the information and they should disclose month end stocks on hand (without disclosing ownership) on their website. Port zone information should be provided for all grains monthly on a user pays basis.

ABB (Viterra)

This submission stated that wheat production data is supplied by PIRSA and ABARES, buyer intention information is available via the shipping stem and post terminal static capacity is available on the ABB/ Viterra website. ABB said that there would be a diminution of benefit of supplying any additional data and the costs of providing any additional data would need to be recouped.

Graincorp

Graincorp said that the information supplied by ABARES/ABS is useful for the purposes of budgeting and strategic planning. Daily pricing information is readily available, and there are multiple businesses and press articles that provide daily and weekly summaries of prices and crop forecasts. This information should continue to be provided by the private sector and should not be done by government as the industry is best to supply the data it needs. GrainCorp already supplies information to ABS on stocks and this should not change.

CBH Group

CBH believe that the wider industry already provides detailed information to aid decision making on farm and in the supply chain, and the release of any further information should only be by agreement of those who own the grain. CBH, as a co-operative, does not want to release any information that could disadvantage growers. The company claims it already releases more information than any

other like organisation in Australia. The publication of stocks by type, by grade, by location and sold versus unsold could be very valuable to buyers, particularly if there was a large crop. They reported mixed views from farmers on what levels of information should be provided.

Other industry bodies

Stock Feed Manufacturers Council of Australia (SFMCA)

The Australian grain market is limited in the amount of accurate and timely information that is published in relation to grain stocks and demand. SFMCA believe that the ABS '*Wheat Use and Stocks, Australia*' report provides essential information for end-use markets to assess the level of grain supply within the market. This report also allows the market to assess the amount of grain held post harvest and rundown of stock through the year. They also said that access to bulk handler stocks information is critical to ensure the Australian market operates in a fair and transparent manner.

Should wheat stocks cease to be published, SFMCA believe the major difficulty will be market distortions during years of reduced supply. During short supply years domestic users and AQIS need to assess the potential likelihood of insufficient grain and trigger points for the need to import grain.

SFMCA strongly supports continued provision of both ABS and ABARES reporting and believe that if Australian stocks information is less than what is provided within the USA, it will limit market transparency and opportunity for all participants to operate equally. Data needs to be more frequent to allow the market to combine bulk handler, end-user and on-farm stocks to gain better knowledge of what wheat remains in Australia.

SFMCA believe essential supply and demand data (at the state level) includes:

1. Monthly stocks held by bulk handlers, including major grade traders/marketers operating storage sites.
2. Quarterly stocks held on farm – derived from farmer surveys.
3. Monthly stocks held by end-users.
4. Monthly grain contracted to either domestic or export markets.
5. Monthly grain use by major end-users.

SFMCA believes there is a sufficient public benefit for the federal Government to continue the provision of funding for stocks and use data gathering and reporting. They further note that the ABS is the only independent body with credibility and capability to obtain and publish wheat stocks and use information.

Flour Millers Council of Australia (FMCA)

FMCA stated that information availability, and a system to provide it, is vital to a fair and efficient market. The market needs to have full knowledge of grain stocks to allow a truly free market where knowledge of supply leads to efficient price discovery, therefore enabling effective supply and price risk management systems to operate. Without this system, those who control grain stocks will seek

to profit from that control. FMCA believe that the current system for collection and supply of information for use by the market is inadequate.

FMCA have indicated a need for a responsible agency, funded by shared commitment of government and industry, to collect and disseminate wheat market information. In their submission, FMCA referenced the USDA as a mechanism that has a documented history.

FMCA believe information requirements include:

- Stocks held by BHCs, accumulators, marketers, farmers and end-users with storage facilities
- Grain used or disposed by ports
- Grain committed for forward supply of use by parties
- Reports should be weekly reporting during harvest and pre-harvest, but in most cases monthly reporting would be adequate
- Information should be collated based on port zone and list stocks by grain type and grade

FMCA believe that government involvement is necessary, ideally without regulation. However, failing agreement of participants, regulation may be necessary to some degree.

Department of Agriculture and Food Western Australia

In 2009, the Grains Industry Association of Western Australia (GIWA) and the department conducted a review of wheat information. The review made a number of recommendations, including:

- There should be a national scheme for the provision of market information;
- Pre-harvest information should be provided monthly on hectares planted and variety;
- Post-harvest information should be provided on crop type and port zone;
- Further research is needed on the inter-relationship between type and frequency of information, price and international competitiveness; and
- The efficacy of government or an industry body to deliver industry good functions should be examined.

The review found that there may be a case for greater disclosure of market information to improve pricing and pricing signals. However, the review noted that the WA industry should not be disadvantaged against the eastern states if only WA were to provide full disclosure. The review suggested that this could be overcome by having a national system.

The review found that an absence of information facilitates the trade in arbitrage. Arbitrage can operate to the detriment of some sectors in the industry as it can deliver financial benefits that do not flow across the industry. However, arbitrage is less likely to occur where there is full disclosure of information.

While there were some sections of the industry that felt that the release of information will have a negative impact on grain pricing, the overwhelming feedback was that information should be available through a 'one-stop-shop' to

be provided by an impartial body with no vested interest in releasing or withholding data. The collection of this information should be under the Census and Statistics Act.

DAFWA/GIWA believes that the role for government was to ensure market information is provided to all market participants, and recommends a national joint industry/government body be established for all grains. This mechanism could evolve to a user-pays model. However, they are concerned about eliminating the role of government in this space, and anticipate that industry will quickly adapt a high-risk approach.

Grains Industry Association of Western Australia

GIWA has recommended the establishment of a not-for-profit industry organisation, known as Grains Australia, to provide a number of industry good functions. This would include the provision of 'Pre-competitive market information on crop production, stocks and exports on a timely basis for all grains', funded by a levy mechanism or fee for service. GIWA has developed a prototype of the pre-harvest information that should be collated and made publicly available during the growing season.

GIWA also recommends the injection of \$12 million over 5 years to fund establishment and operation of Grains Australia, until an industry levy could be put in place. Grains Australia would oversee the development of an industry system for the determination of what and how information is collected and disseminated, and should cover all grains.

Wheat Classification Council

The WCC stated that a revised Wheat Classification Council should include in its remit the gathering of market data and information.

Australian Grain Exporters Association

AGEA believe that the Australian Government should continue to require reporting on stocks, which should be delivered through an independent agency such as ABS or ABARES. AGEA sees that this could become a function of a smaller and refocused WEA.

Elders Toepfer Grain

In its submission, Elders Toepfer stated that information regarding wheat volumes, grades and varieties, committed and uncommitted stock should be made available to all industry. This should also be the case for other grains.

Productivity Commission inquiry into wheat export marketing arrangements

In 2010, the Productivity Commission undertook an inquiry into wheat export marketing arrangements. The Commission found that timely and accurate information is important for supporting an efficient bulk wheat export market. It also found that:

- Core, long-term wheat information is useful for historical analysis, future policy development and industry investment and planning
- Short-term information facilitates the 'day-to-day' operation of the market
- Prior to deregulation, AWB managed and provided the majority of wheat market information. In a post-deregulation environment it is necessary to determine what information should be provided, who should provide it and who should pay for it.
- The Government should continue to fund the ABS and ABARES to provide core, long-term wheat market information.
- The current arrangements for provision of short-term information, particularly in relation to stocks, are more contentious. The Commission considers that provision of regular and timely information on stocks by state is essential to support an efficient wheat market.
- If the industry wants stocks information by state beyond 30 June 2011, it will need to pay for it. An industry body should be tasked with establishing industry agreement on what stocks information (if any) industry participants are willing to pay for, and the preferred information provider.
- To manage the free rider problem, a compulsory payment mechanism – such as an industry levy – is the best approach to fund stocks information. This levy would need to be administered by an organisation with the appropriate legislative powers. The GRDC would appear to be an efficient option; given it already has a compulsory levy collection mechanism in place.
- The existing ABS stocks publications provide a good example of the type of stocks information the industry might choose to commission. The ABS is well placed to continue to provide stocks information by state, although some industry participants question its timeliness.
- The Commission acknowledged that unequal access to more disaggregated stocks information confers a marketing advantage on the trading bulk handling companies, and expects that greater disclosure of this information to all participants would improve the operation of the wheat market.
- However, the cost of imposing a mandatory information disclosure requirement on the bulk handlers is expected to exceed the associated benefits, and the Commission encouraged the bulk handling companies to disclose more disaggregated stocks information on a voluntary basis.

Independent Wheat Market Information Study – GHD Ltd

The report found that the large majority of industry stakeholders were satisfied with the availability of the following market and production information:

- farm profile data
- area planted
- expected yield
- actual yield
- domestic use
- exports
- exports (by destination)
- carry-in (new stock)
- carry-out (old stock)
- port capacity
- domestic prices
- international prices

It also found that the 3 year ABS/ABARES Wheat Information project had a number of performance issues and needed to:

- Reduce the lag-time in collection and publishing of data;
- Improve the accuracy of the estimates;
- Provide aggregate stocks data by port zone/storage location;
- Provide stocks data aggregated by grain class; and
- Provide comparable stocks data for other grain.

The report found that the ABS/ABARES study on monthly domestic use estimates was underutilised and could be provided as a quarterly report, as monthly variations were small (0-4%).

GHD Ltd noted that industry is increasingly relying on commercial forecasters to fill information gaps; however, they also rely on the ABS/ABARES data. As such, commercial forecasts alone could not be considered a direct replacement for the ABS/ABARES project.

To meet various market information gaps following the cessation of the ABS/ABARES Wheat Market Information Project, a number of delivery and funding options were considered from both the public and private sectors.

The report recommended continuation of the *Bulk Handler Stocks Survey* and *Wheat Export Sales Survey* as they represent approximately 75% of the total stocks and 88% of total usage.

For 2011/12, the GHD report recommended that ABS should be contracted to deliver the *Bulk Handler Stocks Survey* and *Wheat Export Sales Survey* to be funded by co-contributions from industry.

After 2011/12, industry should seek to transfer the surveys from ABS to the National Grower Register (NGR) or an alternate private service provider. It recommended that funding could be via a GRDC research project with appropriate contributions from other sections of industry. A second option was that if Wheat Exports Australia (WEA) was to continue, its roles and responsibilities could be broadened to allow the Wheat Export Change (WEC) to fund the reports.

APPENIX 2 REFERENCES

- *Australian Crop Report*, ABARES, 2011-12
- *Australian Commodity Statistics*, ABARES, 2011-12
- *Independent Wheat Market Information Study*, GHD, July 2011
- *South East Asian Trip Report*, Wheat Exports Australia, September 2011
- *Wheat Export Marketing Arrangements*, Productivity Commission Inquiry Report no. 51, 2010
- *Wheat Quality Information Requirements To Support an Efficient Export Supply Chain*, Grain Producers Australia, 2011
- *What the World Wants From Australian Wheat Stakeholders Report*, 2011

APPENDIX 3 STAKEHOLDERS INTERVIEWED

ORGANISATION	CONTACTS
Australian Bureau of Agricultural and Resource Economics and Sciences	James Fell, Wheat Commodity Analyst
Australian Bureau of Statistics	Nigel Gibson
Australian Government Department of Agriculture, Fisheries and Forestry	Peter Ottesen, Assistant Secretary, Crops, Horticulture and Wine Roxanna Auld, Assistant Director, Crops Policy
Australian Grain Exporters Association	Rosemary Richards, Executive Officer
Cargill	Mitch Morrison, General Manager, Commercial
CBH Group	Dr. Andrew Crane, Managing Director Jodie Ransom, Supply Chain Manager Bryce Banfield, Strategy Manager
Department of Agriculture and Food, Western Australia	Barry Cox, Senior Business Analyst
Emerald	David Johnson
Gavilon	Matt Rutter
George Westons Foods	Hugh Robinson, Procurement & Risk Director
Glencore	James Maw Philip Hughes
GrainCorp	Alison Watkins, Managing Director & CEO Neil Johns, Chief Development Officer David Ginns, Business Development Manager Angus Trigg, Communications Manager
Grain Growers Limited	John Eastburn, Chair Mark Allison, CEO Michael Southern, Grower Development Manager Ken Quail, General Manager Technical Services Gordon MacAulay, Principal Economist Paula Fitzgerald, General Manager Industry Development Georgie Aley, National Business Development Manager
Grain Producers Australia	Pete Mailler, Chairman Andrew Weidemann, VFF Stephen Sheridan, VFF John Agnew, AgForce Jamie Smith, Grains Producers SA Wayne Newton, AgForce
Grain Producers S.A.	Darren Arney, CEO
Grains Research and Development Corporation	John Harvey, Managing Director
Grain Trade Australia	Tom Keene, Chair Sean Flannery, Operations Manager

Grains Industry Association of Western Australia	John Slee, Chairman Ian Longsdon Johanna Gastevich, Executive Director
Industry expert	Di Souter
Interflour	Greg Harvey, Managing Director
Pastoral and Graziers Association of Western Australia	Sheldon Mumby, Media and Communications John Snooke, Chairman Grains Committee
Plumgrove	Andrew Young, Managing Director
Viterra	Caroline Rhodes, Government Relations Manager Damien Fitzgerald, Director Legal Dean McQueen, Executive Manager, Grain Tim Krause, General Manager Strategy and Compliance
Wheat Exports Australia	Peter Woods, Chief Executive Officer
Wheat Quality Australia	Christine Hawkins, Chair Cindy Mills, Executive Officer