

20 April 1999

Committee Secretary
Standing Committee on Primary Industries and Regional Services
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Sir or Madam

Enclosed please find AWB Limited's submission to the inquiry of the House of Representatives Standing Committee on Primary Industries and Regional Services into Infrastructure and the Development of Australia's Regional Services.

As a major exporter of rural produce the quality of rural and regional infrastructure services is of vital importance to our business and that of our customers, Australian wheat growers. We trust that the deliberations of the Committee will go some way to ensuring the provision of adequate, low cost services, in particular telecommunication services.

Should the Committee wish to discuss any aspect of this submission they may contact Andrew McConville, Manager Government Relations on ☎ (03) 9209 2098.

Yours sincerely

W Murray Rogers AM
Chief Executive Officer



Submission to the
House of Representatives Standing Committee
on
Primary Industries and Regional Services

**“Infrastructure and the Development
of Australia’s Regional Services”**

16 April 1999

Executive Summary

AWB Limited is the Australian Grains Marketer, exporting wheat to over 50 countries on behalf of Australia's 40,000 wheat growers. As an exporter of products sourced in rural areas, the provision of adequate infrastructure services is vital to our business and that of our suppliers who are Australian wheat growers.

In particular, the provision of adequate telecommunication services is vital to our business and to growers. Communication systems are the backbone of our recently established National Acquisition Network.

The National Acquisition Network is based on putting people in the bush to talk with growers about their business, about the market and marketing options. This task is made more difficult by a lack of mobile network coverage and low levels of access to the internet. Inability to access real time market information places Australian wheat growers at a competitive disadvantage to their North American counterparts.

A poor telecommunications network also makes it difficult to simply arrange meeting times with growers to talk about these things. Missed meetings, additional travel and out of hours office communication impose costs on both AWB and growers. Similarly, with low levels of internet access, our ability to use the internet as an information tool is limited and so costs of information preparation, handling and dissemination are higher than may otherwise be the case.

The Committee's inquiry should, it is hoped, go some way to addressing these issues.

Introductory Remarks

AWB Limited welcomes the opportunity to make this submission to the inquiry of the House of Representatives Standing Committee on Primary Industries and Regional Services into Infrastructure and the Development of Australia's Regional Services.

As the Australian Grains Marketer, exporting wheat on behalf of Australia's 40,000 wheat growers, we consider the inquiry to be of great importance. We would welcome any efforts by the Government towards the improvement in the provision of infrastructure to support rural and regional areas and in particular, the provision of adequate and effective telecommunication services. Such infrastructure is vital to the business of marketing wheat, both domestically and overseas and improvements would benefit both our company and its shareholders who are Australian wheat growers.

The incomplete nature of such services at the present point in time impacts on our ability to communicate with growers and on their ability to extract market information which is vital to the effective marketing of Australian wheat. While AWB recognises the significant steps the Government has taken to promote the development of rural and regional infrastructure, not least of which is the creation of a dedicated Regional Services portfolio, we consider that further progress is necessary to ensure our ongoing competitiveness in marketing wheat overseas.

The prospects for future progress and development will, we believe stem from inquiries such as this which canvass views and seek solutions from those on whom infrastructure services have the greatest impact.

Background on AWB Limited

The AWB group [AWB Limited, AWB (International) Limited and AWB (Australia) Limited] is Australia's major national and international grain marketing organisation and Australia's third largest exporter with annual sales revenue of around \$4 billion. We market and sell Australian grain on behalf of Australia's 40,000 grain growers to more than 50 countries and 100 individual customers.

Each year, AWB is responsible for also managing the price risk on 10-20 million tonnes of wheat. This makes AWB one of the largest managers of commodity price risk in the world, with much of this management undertaken through futures markets in the United States. In 1997/98 we were the third largest exporter of wheat in the world and the company made a significant contribution to the community through its generation of wealth and employment as outlined in Table 1 below.

AWB is undergoing transition from a statutory authority to a grower-owned and controlled company operating under Australian Corporations Law. The statutory Australian Wheat Board remains the parent body until full ownership and control is transferred to Australian grain growers on 1 July 1999. In December 1997 the *Wheat Marketing Amendment Act 1997* received Royal assent. The Amendment Act provided the legislative base for Australian Wheat Board to operate as four separate entities:

- Australian Wheat Board, the statutory body which will continue as the parent organisation, until 1 July 1999
- AWB Limited, the corporatised holding company formed under the Corporations Law, and its two subsidiaries:
 - AWB (International) Limited (the export pool subsidiary)
 - AWB (Australia) Limited (the domestic marketing subsidiary)

In its corporatised form the holding company and its two subsidiaries, which commenced operations on 1 June 1998, provide the framework for AWB Limited to become a fully grower-owned and controlled public company from July 1999.

Table 1: AWB's Value Added Contribution

\$'000	1996-97	1997-98
Remuneration to employees and contractors	31,220	34,863
Interest to financial institutions	120,470	110,884
Reinvestment in business	5,060	9,003
Payments to growers	3,361,876	2,662,947
Contribution to storage, handling, transport industry	787,770	621,258
Payments to government	3,113	3,056
Total	4,309,509	3,442,011

Under the *Wheat Marketing Act 1989*, the objectives of AWB Limited are summarised as:

- To maximise the net returns to Australian wheat growers who sell pool return wheat to the AWB by securing, developing and maintaining markets for wheat and wheat products, and by minimising costs as far as is practicable.
- By participating in a commercial manner in the market for grain and grain products, to provide Australian grain growers and especially wheat growers, with a choice of marketing options.
- To participate in value adding activities for the purpose of benefiting Australian grain growers.

AWB's National Acquisition Network

In addition to the marketing of grain and grain products, we provide innovative and competitive products and services, such as freight and logistics, risk management and marketing, all tailor-made to individual customer requirements. This is linked to our comprehensive quality control system from varietal selection through to grain export. It

is facilitated through AWB's extensive local and industry knowledge backed by a National Acquisition Network.

The new acquisition approach centres around the establishment of three grain growing regions – Northern (Queensland and northern New South Wales), Southern (Southern New South Wales, Victoria and South Australia) and Western (Western Australia). New regional offices will be based in Perth, Melbourne and Sydney and will replace the State Office structure, better reflecting the division of Australia's grain belt.

The National Acquisition Network is supported by a 40 per cent increase in AWB staff with account management responsibility, responsible for day to day contact with farmers in each of the regions. In addition to offices already established across the wheat belt, seven new Area Acquisition offices have been established. These new offices are sited at Emerald, Gunnedah, Griffith, Yarrowonga, Wongan Hills, Kadina, and Bordertown and there will be a representative based in Esperance. This new network places more staff in the right places – the bush – enabling them to respond to growers, requests efficiently and effectively. Area Acquisition Offices will be staffed by an Area Business Manager and Area Service Managers.

An integral component of the new National Acquisition Network will be an increased emphasis placed on the provision of services through the AWB Service Centre. The Service Centre is a free telephone information service for growers which aims to provide them with up to the minute, relevant information about prices, products, contracts and deliveries. With the renewed acquisition focus, the Service Centre will operate all year round and is premised on access to adequate telecommunication services.

The Importance of Adequate Regional Infrastructure Services to the National Acquisition Network

Efficient infrastructure services (in particular telecommunications) are tantamount to AWB effectively performing its acquisition task. Inadequate regional services make it more difficult to respond quickly to the needs and requirements of growers – where they need it, in the bush.

AWB's acquisition strategy is based on responding directly to the needs of growers and this requires low cost communication services to be available, in particular, mobile telephones and internet access. In a related manner, if telecommunication services are inadequate, other infrastructure components become more important, for example suitable road access to all areas of the wheat belt. Without adequate communication services, acquisition officers may need to travel long distances in order to speak directly with growers. This can impose significant costs on the organisation and we would suggest that reduction in the costs of, and greater access to, communication services would provide significant benefits to growers and AWB Limited. It would also enhance the take-up rate of innovative new services such as that offered by the Service Centre, or else the investment in these services may be under-utilised and growers may bear this cost.

Deficiencies in Infrastructure

For a commodity to be marketed in an effective manner, good communication is essential. Communication systems are the lynch-pin to the provision of market information on which decisions to buy or sell are made. Information is crucial to decisions and strategies that mitigate risk. For example, AWB offers a "Basis Contract" to enable farmers to actively manage their own US wheat futures and foreign exchange exposure through forward contracting. Without access to the internet and real time market information (out of the Chicago Board of Trade) a farmer may be constrained in his or her ability to make informed decisions in response to market conditions. As a result, the "Basis Contract", which is an extremely effective and sophisticated marketing tool is currently unavailable to a large percentage of growers.

It is imperative that there be recognition at all levels (both commercial and Government) of the importance of communication services to rural and regional areas. These developments must occur in response to globalisation. Over 85 per cent of all Australian wheat grown is exported, with Australia supplying around 15 per cent of the world trade. This reliance on world markets means that if supporting information systems are inadequate, our international competitors are at a distinct advantage. For example, almost every US grain farmer has access to mobile phone services which, in turn means access to real time market information including brokers and traders. This access enables farmers to capture market peaks which Australian farmers may not even be aware of, let alone in a position to capture.

Executive Director of the National Farmers Federation Wendy Craik pointed to this problem recently when she noted, "In practical terms, it means their lack of access to new technology can lose markets, because (farmers are) competing against farmers overseas who literally have the world at their fingertips".

Access to Mobile Telecommunication Services

As mentioned, AWB's acquisition strategy is premised on being grower focussed. However, in some instances, this focus is difficult to maintain given problems in accessing farmers within the normal course of business, for example, by mobile phone. A face to face approach is costly at best and costs may increase markedly if in travelling to meet with farmers, acquisition officers encounter delay or difficulty caused by problems in actually speaking with growers to arrange meetings or to discuss options. In our view, both farmers and AWB staff are at present, not adequately supported by a mobile telecommunications network totally in tune with our way of doing business.

Costs of travel, accessibility of staff, liaison with farmers and market information are all adversely affected by difficulties with mobile telecommunication and the level of mobile network coverage. It is clear that wheat growers are disadvantaged by the lack of mobile coverage - while the mobile network may cover over 90% of the Australian population, this claim is merely one of demographics and does not recognise the disperse nature of the rural and regional community. Moreover, the area of Australia for which there is mobile coverage accords mainly to coastal areas and around regional population centres. The wheat belt by its very nature lies inland and away from populated areas.

Apart from growers and AWB Limited, we believe that both the rural community and businesses generally would benefit enormously from improved mobile network coverage.

Access to Internet Services

AWB Limited operates a website containing useful information on grain prices, corporate information, information on the Australian grains industry, international grain market commentary, restructure information and press releases. We estimate that less than 20 per cent of wheat growers have access to the internet and yet this service offers the opportunity for growers to access a continuous flow of information regarding AWB products, grain prices (futures, pool and cash) and general market conditions. It is an interactive medium which allows growers to tailor the information required to their needs and offers a mechanism (potentially) for growers to track pool payments, complete online sales and access a range of other information - agronomic, weather, farming systems, government policy and market news.

In the medium to long term as the grains industry changes shape and evolves both globally and domestically the use of internet technology will, we believe be essential to preserve the competitiveness of the Australian grain grower and the industry. The internet also offers the opportunity to reduce costs – both for AWB and for growers by:

- ❑ Replacing paper based communication systems saving print and dispatch costs for AWB as well as postage and telephone costs for growers,
- ❑ Providing a range of self help services for growers again reducing their telephone and possibly transport costs; and
- ❑ Eliminating duplication in the handling of information – a saving to both AWB and growers.

Without improvements in the access levels to internet services for rural and regional communities, these significant benefits and cost savings may go unrealised.

Concluding Remarks

This submission has focussed on the importance of good communications in supporting marketing of wheat in the global grains market. AWB's national acquisition strategy is premised on effective communication, as is marketing and risk management by growers. While AWB recognises the significant progress of the Government in improving rural and regional infrastructure services, including telecommunication services, we believe there is more work to be done.

Progress in internet access and extending the mobile telecommunication network will help place Australian wheat farmers on an equal footing with their American counterparts. Progress can also be instrumental in improving the risk management and marketing skills of farmers and reduce the costs of doing business for companies with a rural or regional focus. This can translate into productivity gains and additional employment opportunities.