

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 284

Topic: Wheat exporting arrangements

Hansard Page: Written

Senator Eggleston asked:

- a) I just want to ask some questions on the draft wheat marketing report. What did the draft report have to say about the deregulation of bulk wheat exports?
- b) Did the report say anything about what is driving falls in wheat prices and increases in transport costs in the sector? Is there any connection between these effects and the deregulation of the marketing of bulk wheat exports?

Answer:

- a) In its draft report *Wheat Export Marketing Arrangements*, the Commission found that the transition to competition in the exporting of bulk wheat had progressed remarkably smoothly, particularly given that deregulation coincided with a pronounced commodity price cycle and the global financial crisis.

The regulatory arrangements for marketing bulk wheat exports were found to have generated net benefits during the transitional phase:

- giving growers confidence in adjusting to the deregulated marketing environment
- facilitating the entry of 29 accredited traders in the first year after deregulation that exported 12 million tonnes of bulk wheat to 41 countries.

Looking to the future, however, the draft report concluded that the benefits of accreditation would diminish in the post transition phase, leaving mainly costs. Thus there was a strong case for ceasing accreditation requirements for all exporters from 30 September 2011 (including operators of port terminals), winding up Wheat Exports Australia and abolishing the Wheat Export Charge.

The access test was found to have provided greater certainty during the transitional period and made access easier, more timely and less expensive than by relying on Part IIIA of the Trade Practices Act. As for accreditation, however, the benefits were expected to diminish over time while the long-term costs of the access test could be significant absent the checks and balances of declaration under Part IIIA of the Trade Practices Act.

To embed commercial and competitive behaviour between port terminal service providers and traders, the Commission concluded that:

- the access test should remain in effect until 30 September 2014

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- from 1 October 2014, regulated access should rely primarily on Part IIIA of the Trade Practices Act, with continuation of the mandatory publication of daily ‘shipping stem’ information and port access protocols, supplemented with a voluntary code of conduct by port terminal service operators.

Monthly information by state on wheat stocks, exports and domestic uses was found to be facilitating the efficient operation of the wheat market, and should continue if the industry is prepared to pay for the information.

The draft report also found that the provision of most ‘industry good’ functions was best left to the industry. Exceptions were trade advocacy and some market information. Rural research and development is the subject of a separate Commission inquiry.

- b) The Commission concluded in its draft report that there is variability over time in the price of Australia’s export wheat, principally reflecting three factors:
- variability in the international market price of wheat over time, which in turn is affected by global demand, production and stocks
 - variations over time in the Australian exchange rate
 - variations over time and geographically in international shipping rates, which changes the relative costs of Australia and its competitors in delivering wheat into regional markets supplied by Australia.

The Commission also noted that the links between domestic wheat prices in Australia and the world price vary regionally (essentially by state), reflecting differences in domestic regional wheat markets around Australia.

Following deregulation, growers are observing prices that more closely reflect the costs of marketing, transporting, storing and handling export wheat. Clearer price signals and reforms in the transport sector are creating pressure for structural change in the bulk transport, storage and handling of wheat and other grains. The trends include:

- greater use of on-farm storage by growers
 - giving rise to trials of on-farm grading and blending and development of quality assurance systems to facilitate delivery of stored grain to bulk receival sites or direct to port
 - giving growers greater flexibility about where and when to deliver wheat
- greater use of large trucks to deliver grain from farms to receival sites or to ports. The lower marginal cost of using larger trucks means growers have more choices about where to deliver grain
- consolidation and rationalisation of receival sites and the development of super-receival sites close to main rail lines

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- consolidation and rationalisation of branch lines, particularly low volume lines linking small remote receival sites
- bulk handling receival sites being developed by rivals to the three incumbent bulk handling companies offering port terminal facilities
- rationalisation of the use of rail rolling stock (grain wagons) and greater use of trucks by bulk handlers to move grain from bulk receival sites to ports
 - this is particularly efficient for handling the peak load associated with larger harvests in good seasons, or to temporarily increase peak load capacity to assemble large shipments of grain
- an increase in the export of premium quality wheat (and other grains) in containers.