

Senate Rural and Regional Affairs and Transport Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Supplementary Budget Estimates October/November 2005

Agriculture, Fisheries and Forestry

Question: Additional F&A 01

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

How regularly, and to what degree does the Wheat Export Authority review the contracts entered into by the Australian Wheat Board?

Answer:

WEA reviews the performance of the national pool at an aggregate level and has reviewed individual contracts on an as needs basis to cross check the data provided by AWB(I).

The primary purpose of the WEA's examination of AWB(I) contracts has been to check the consistency of the contract sales price details with the sales contract data provided by AWB(I) to the WEA for its annual performance monitoring activities.

Almost all sales contract data received by the WEA is on a Free-on-Board (FOB) basis. FOB prices are the returns to the National Pool achieved for each shipment of wheat.

The WEA board decided to review AWB(I)'s policies and procedures in regard to its relationship and conduct in the Iraq market on 11 February 2004.

The WEA liaised with AWB, seeking information relevant to these reports. Further, staff from the WEA subsequently attended the AWB offices on 11 August 2004, and examined various records, contracts, certification of export details and authorisation letters from the UN, and verified that the details were consistent with information and data previously obtained by the WEA.

Question: Additional F&A 02

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

Does the Wheat Export Authority review all such contracts?

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Answer:

No, the Wheat Export Authority (WEA) reviews AWB(I) performance under the Performance Monitoring and Reporting framework. Not all AWB(I) contracts are viewed as part of this process.

Question: Additional F&A 03

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

In a contract as large as that with Iraq (US\$2.3 Billion between 1997 and 2003), what form of due diligence does the Wheat Export Authority carry out in assessing these contracts?

Answer:

Under the Performance Monitoring and Reporting framework the WEA follows a risk based approach to reviewing contracts. This is done on the basis of checking for consistency with information provided by AWB(I) to the WEA.

In relation to matters concerning Iraq, WEA sought further details from AWB (I).

Details of this are outline in answer to Additional Questions on Notice F&A 01 and 04.

Question: Additional F&A 04

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

Did the Wheat Export Authority have concerns at any stage about the Australian Wheat Board's role in the programme? If so, how were these concerns acted upon?

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Answer:

No. The WEA found nothing unusual about the AWB(I)'s performance in maximising returns to growers who deliver to the National Pool.

In 2003/2004 there were press reports alleging AWB Ltd/AWB(I) had paid 'kick backs' to Iraq for Australian wheat sales made under the Oil-for Food-Programme.

On 11 February 2004 the WEA board agreed that WEA should review AWB(I)'s policies and procedures regarding its conduct in Iraq.

The WEA then liaised with AWB, seeking information relevant to these reports. Further, staff from the WEA subsequently attended the AWB offices on 11 August 2004, and examined various records, contracts, certification of export details and authorisation letters from the UN, and verified that the details were consistent with information and data previously obtained by the WEA.

The WEA also examined AWB Ltd's Corporate Ethics and Code of Conduct Policies. The WEA's examination of these policies indicated adherence to stated policy guidelines and procedures and that there was nothing untoward regarding Iraq.

Question: Additional F&A 05

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

Is the Wheat Export Authority (WEA) concerned that Australian Wheat Board was able to spend a total of US\$221 million on 'transport fees' and 'after sales service' without anyone from the WEA being aware of such expenditure?

Answer:

The Wheat Export Authority's (WEA's) role relates to monitoring the export performance of AWB (I) and reporting on the resulting net benefits to growers. The WEA's focus is therefore on returns to the National Pool.

Free-on-Board (FOB) prices for the wheat sale are negotiated and then chartering costs (including freight and insurance) and any additional costs are added and charged to the customer. As these are a direct expense to the purchaser they do not impact on the pool return.

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WEA has conducted a detailed analysis of the costs of operating the national pool between 1994 and 2000. WEA concluded that the cost of operating the national pool was largely attributable to fixed costs and averaged \$47.87m in 01/02 dollars.

The process of allocating costs to the National Pool was consistent with commercial practice. There was nothing unusual identified in assessing the costs or the processes of cost allocation.

Question: Additional F&A 06

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

Is the Wheat Export Authority (WEA) satisfied with the level of regulatory oversight performed by the WEA in this instance?

Answer:

Yes, the Wheat Export Authority (WEA) has performed its functions consistent with its legislative obligations.

Question: Additional F&A 07

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

Do you consider that this represents a breakdown in government regulation of this company? If not, why not?

Answer:

No. The Wheat Export Authority believes it has fulfilled its functions within the scope of its legislative obligations.

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Question: Additional F&A 08

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

Did the Wheat Export Authority check that there were valid/legal contracts for the total volume of wheat exported to Iraq? If not, why not?

Answer:

The nature of the contracts entered into is a commercial matter for the board of AWB(I). Checking the validity of these contracts was not the responsibility of the Wheat Export Authority.

Question: Additional F&A 09

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

Did the Wheat Export Authority ever question the total costs including transport fees incurred in the export of wheat to Iraq?

Answer:

The Wheat Export Authority (WEA) questioned AWB(I) on the arrangements under the UN Oil-for-Food Programme and how they related to the returns to the National Pool. This did not include an examination of costs of shipment to or land transport costs in Iraq as these costs did not impact on the export performance of the National Pool. WEA understands that these costs were charged to the ESCROW account operated by the United Nations.

Almost all sales contract data provided to WEA is on a Free-on-Board (FOB) basis. FOB prices are the returns to the National Pool achieved for each shipment of wheat.

FOB prices for the wheat sale are negotiated and then any chartering costs (including freight and insurance) are added and charged to the customer. As these are a direct expense to the purchaser they do not impact on the pool return and hence are not examined.

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Question: Additional F&A 10

Division/Agency: Food and Agriculture

Topic: **Wheat Export Authority**

Hansard Page: Written question

Senator Siewert asked:

Did the Wheat Export Authority even question why the Australian Wheat Board never tried to negotiate the fee structure imposed by Alia?

Answer:

No.

Question: Additional F&A 11

Division/Agency: Food and Agriculture

Topic: **Wheat Export Authority**

Hansard Page: Written question

Senator Siewert asked:

Did the Wheat Export Authority ever ask whether the contracts with Iraq were legal in an international legal perspective?

Answer:

No.

Question: Additional F&A 12

Division/Agency: Food and Agriculture

Topic: **Wheat Export Authority**

Hansard Page: Written question

Senator Siewert asked:

Why did Wheat Export Authority never examine the supply chain costs at the 400% increase?

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Answer:

There were no unusual changes to the pool returns for sales to Iraq observed by the Wheat Export Authority over the period in question.

Question: Additional F&A 13

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Siewert asked:

How can Wheat Export Authority convert raw data to wheat figures without freight costs? Can they describe process? Why if they didn't have freight costs for Iraq sales didn't they ask for them?

Answer:

Almost all sales contract data provided to Wheat Export Authority (WEA) is on a Free-on-Board (FOB) basis. FOB prices are the returns to the National Pool achieved for each shipment of wheat.

Cost and Freight (C&F) or Cost, Insurance & Freight (CIF) data which includes freight, is not routinely provided. FOB prices for the wheat sale are negotiated and then any chartering costs (including freight and insurance) are added and charged to the customer. In the few cases where C&F or CIF data has been provided to the WEA the freight and the FOB components are included.

The WEA's assessment is based on the Performance Monitoring and Reporting (PMR) framework and is conducted in this context. Pricing data provided to the WEA has from its inception been primarily on a FOB basis, as requested by the WEA. FOB prices are the returns to the National Pool achieved for each shipment of wheat.

The WEA's assessment of the performance of previous pools has confirmed there was no statistical evidence that the pool returns were compromised by AWB(I) sales under C&F or CIF contracts. The WEA had no reason to investigate the freight costs beyond Australia.

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Question: Additional F&A 14

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Milne asked:

What was the reasoning and justification for the increase in the Australian Wheat Board base fee to \$65 million in 2003-04?

Answer:

The increase reflected the:

- actual costs of managing the National Pool; and
- increased investment to implement new strategies, arising from a Boston Consulting Group study commissioned by AWB (I).

Question: Additional F&A 15

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Milne asked:

What were the net farm gate returns at that time?

Answer:

The Wheat Export Authority (WEA) does not estimate net farm gate returns. The WEA focus is at the national level on the basis that AWB(I) manages a National Pool. The WEA's interest is therefore from the point of transfer of ownership to AWB(I) which occurs at the delivery point and not the farm gate.

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Question: Additional F&A 16

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Milne asked:

What was the return to Australian Wheat Board in 2002-2003 in out-performance bonus?

Answer:

AWB Ltd received an out-performance bonus payment of \$19.4 million.

Question: Additional F&A 17

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Milne asked:

What was the state by state breakdown of the 4.9 million tonnes wheat crop in 2002-2003?

Answer:

The 2002-2003 wheat crop was 9.385 million tonnes.

Export of the wheat crop for 2002-2003 was 4.5 million tonnes. The table below outlines state receivals and production as reported in AWB National Pool performance report on page 45.

2002-03	WA	SA	Vic	NSW	Qld	Total
Production (approx)	3.9	2.0	0.95	1.95	0.55	9.385
National Pool Receivals (approx)	3.06	1.3	.058	.036	.054	4.509

(source: 2002/03 AWB(I) pool report pp.45)

(Million tonnes)

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Question: Additional F&A 18

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Milne asked:

Is Wheat Export Authority satisfied with the balance it struck between return to growers and return to shareholders between 2000-2004?

Answer:

The Wheat Export Authority's (WEA's) function is to monitor the export performance of AWB (I) and report on the net benefits to growers which result from that performance.

The WEA is not in a position to specifically comment on the balance between return to growers and return to shareholders.

Question: Additional F&A 19

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Milne asked:

How many and who are the members of the Export Consent Arrangements Working Group (ECAWG)? Are there any representatives of potential exporters on the working group? If not, why not?

Answer:

There are four (4) member organisations represented on the Export Consent Arrangements Working Group (ECAWG). These include the Wheat Export Authority (WEA), AWB (I), the Grains Council of Australia and the Australian Government Department of Agriculture, Fisheries and Forestry.

WEA consults individually with non-AWB (I) exporters, and on occasions an exporter's nominated representative has participated in ECAWG meetings.

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Question: Additional F&A 20

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Adams asked:

How can you effectively judge whether the pool is maximising the benefit to growers (your stated objective) with no reference point outside Australian Wheat Board (International)? Surely the benefit to growers can only be measured in terms of modelling against alternatives?

Answer:

The export arrangements are unique and cannot be directly compared against an existing alternative. For this reason the Wheat Export Authority (WEA) breaks down the individual components of the arrangements AWB(I) has with service providers and assesses the net impact on pool returns. The outcomes of WEA's assessments are reported in the annual Growers Reports.

- WEA disaggregates the sub-benchmarks contained in the AWB(I) Wheat Industry Benchmark (WIB) to test the sub-benchmarks and then reports on its own assessment of AWB(I)'s performance.
- WEA also assesses and reports on the arrangements that exist between AWB(I) and its service provider. For example, are there performance indicators, and are these appropriate and measurable.
- WEA has assessed and reported on the reasonableness of the remuneration arrangements that remunerate AWB Ltd for the provision of services to AWB(I).
- WEA has also assessed the costs of operating the national pool and how the historic pool operating costs compare with the base fee that exists under the remuneration arrangements.
- Using raw data from the WIB the WEA has also conducted its own assessment of the domestic supply chain performance outcomes.

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Question: Additional F&A 21

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Adams asked:

It is clear from the ACIL Tasman Report that an effective case can be made for the fact that WA grain growers are suffering a financial penalty at the hands of the export monopoly because they are large, export-focussed growers. Do you take into account this effect when assessing whether the pool is maximising benefit to growers?

Answer:

No. AWB(I) manage the National Pool which averages returns to growers. It is the National Pool that is therefore the focus of the Wheat Export Authority under the Performance Monitoring and Reporting framework.

Question: Additional F&A 22

Division/Agency: Food and Agriculture

Topic: Wheat Export Authority

Hansard Page: Written question

Senator Adams asked:

Could you advise us of why Co-operative Bulk Handling had to buy their wheat from the Black Sea market to supply their Asian flour mills?

Answer:

No. This is a commercial matter for CBH.