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SENATE

RURAL AND REGIONAL AFFAIRS AND TRANSPORT
LEGISLATION COMMITTEE

Reference: Wheat Marketing Amendment Bill 2002

MONDAY, 10 MARCH 2003

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SENATE**RURAL AND REGIONAL AFFAIRS AND TRANSPORT LEGISLATION COMMITTEE****Monday, 10 March 2003**

Members: Senator Heffernan (*Chair*), Senator Buckland (*Deputy Chair*), Senators Cherry, Colbeck, Ferris and O'Brien

Participating members: Senators Abetz, Boswell, Brown, Carr, Chapman, Coonan, Eggleston, Chris Evans, Faulkner, Ferguson, Harradine, Harris, Hutchins, Knowles, Lightfoot, Mason, Sandy Macdonald, McLucas, Murphy, Payne, Ray, Stephens, Tchen, Tierney and Watson

Senators in attendance: Senators Buckland, Colbeck, Ferris, Heffernan and O'Brien

Terms of reference for the inquiry:

Wheat Marketing Amendment Bill 2002

Committee met at 8.00 a.m.

CHAIR—I declare open this public hearing of the Senate Rural and Regional Affairs and Transport Legislation Committee. The committee is meeting today to continue its consideration of the [Wheat Marketing Amendment Bill 2002](#). Public hearings were held last week in Canberra on 6 and 7 March. On 5 February 2003, the Senate referred the bill to this committee for examination and report by Thursday, 20 March 2003. The purpose of the bill is to enable revenue to be raised for the continued operation of the Wheat Export Authority, the single desk exporter of the Australian wheat crop. The revenue will be raised by charging a levy on all exports of wheat, and it is intended that the levy commence in the first half of this year. Today's hearing is public and open to all. A *Hansard* transcript of the proceedings is being made and will be available from the committee secretariat or via the Parliament House Internet home page next week. It should be noted that the committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in an order of the Senate, dated 23 August 1990, concerning the broadcasting of committee proceedings.

Before the committee commences taking evidence, let me place on the record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee and evidence given before it. Any act by any person which may operate to the disadvantage of a witness on account of evidence given by him or her before the Senate, or any committee of the Senate, is treated as a breach of privilege. While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee to publish or present all or part of that evidence to the Senate at a later date. The Senate also has the power to order production and/or publication of such evidence. Any decision regarding the publication of in camera evidence or confidential submissions would not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

[8.02 a.m.]

RANA, Ms Susan, Chief Executive Officer, United Grower Holdings Ltd

WINNEY, Mr Alan, Adviser, United Grower Holdings Ltd

CHAIR—I welcome the witnesses from the United Grower Holdings Ltd. If you would care to make an opening statement, we would be delighted to hear it.

Ms Rana—Thank you. I will start by briefly explaining how United Grower Holdings came to be and then I will refer to our submission. UGH evolved from the former SACBH, the South Australian Cooperative Bulk Handling company that commenced in 1954. Basically, for a period of 50 years growers in South Australia who delivered grain to a SACBH silo paid a toll which went towards building further silos. In 2000, SACBH then demutualised and formed an operating company, AusBulk, and a holding company, UGH. UGH and AusBulk both issued shares to grain growers who delivered grain in the previous decade and two shares were issued for each tonne of grain that they delivered in that decade. Basically, in October 2000, growers predominantly from South Australia, were issued with the same amount of shares in both UGH and AusBulk. We are both unlisted public companies and our shares are equity shares. UGH's role is to own 50 per cent of AusBulk and to maintain the ongoing grower control of that company. To be a shareholder in UGH you must remain as a grain grower and once you stop delivering grain you are then compelled to sell your shares, transfer them or offer them to the company to buy back. At the moment we have about 11,800 shareholders in UGH and we have about 82.3 million shares on issue. Shareholders are paid dividends from the company and also from AusBulk. The UGH policy is to pay the same rate per share of dividend to our shareholders as AusBulk pays. Therefore, our grain growers get a double return from their shareholding.

In the information I provided to the committee I have included our financial statements for the last financial year so that you can see where we get our financial basis from. Essentially, we get it through the dividends we get from AusBulk, through our 50 per cent ownership of that company. We also earn interest from money that we have invested and a loan that we have to AusBulk. We are financially independent but obviously we are reliant on AusBulk's activities. The other roles that UGH plays are in the area of providing finance to farming systems groups for research, communication and education of growers in the area of share management. After this drought year we have also made an arrangement with BankSA to provide loans to growers.

Obviously we do have extensive interests in AusBulk's activities. I make no apology for the fact that that is where we get our money from. I would like to say that it does not stop us from having a say in the industry. Our shareholders are just grain growers and we certainly see that it is important that we represent the interests of our shareholders in the broader industry. That is a role that UGH is certainly stepping up because we feel that perhaps some of the more traditional grower methods for representation have not been working as well lately.

I would like to introduce Alan Winney who has been an adviser to UGH for almost a year now. Alan has fairly broad industry experience across the whole of Australia, so he is able to provide our board with some fairly relevant and up-to-date advice on these broader issues that are affecting our shareholders. I ask Alan now to talk about some of the areas covered in our submission.

Mr Winney—Thank you. In our submission we tried to clarify some of the matters raised in the explanatory memorandum that was put out by the minister. I will briefly run through a few of those. The memorandum says that there will not be a financial impact on growers as a result of the proposed bill and the levy. We disagree with that; there will be a net financial impact on growers as a result of the bill that is before the Senate at the present time. The bill suggests that WEA should continue at its current funding level. Our view is that WEA is not sufficiently funded to do its job properly at the present time, therefore an ongoing levy at the same rate is not necessarily going to improve the situation. WEA is currently underfunded and underresourced to be able to perform adequately the functions we believe it needs to perform. We believe the funding needs to increase and we believe that growers should pay a share of that, but it does not necessarily mean that growers should pay all of the costs of the ongoing funding of the Wheat Export Authority. We think the Wheat Export Authority is currently a creature of government and the reporting line is into government and therefore there should be a joint contribution to the funding.

We are concerned that the memorandum states that the wheat export monopoly belongs to the AWBI. We disagree with that interpretation. The wheat export monopoly belongs to the Wheat Export Authority as we understand it and the AWB has an exemption to that wheat export monopoly and a veto over its competitors. We are concerned that it is being written into parliamentary records and the like that the AWB owns the monopoly. We disagree with that.

The legislation also tends to narrow down the function of the WEA going forward. It is saying that they should be involved in cooperating with the AWB on all aspects. We are concerned that the WEA should have

a broader mandate than what it has at the present time and that the WEA should be a more effective watchdog and that it should have broader powers to be able to do that component properly.

The reporting that is coming out at the present time is primarily to the minister. The reporting to growers is, in our view, grossly inadequate. The type of information that is in the grower report really makes growers no wiser as to how effective the WEA is or whether the AWBI are managing their functions properly. We think the current reporting arrangements are not helpful and tend to also enhance the view amongst growers that the WEA is not necessarily doing its job. We recommend that the minister release the two reports to date that he has already received, and this information should be made available to the wider wheat industry so they can analyse the performance of the export wheat arrangements.

We agree that the WEA has an important role to play in going forward, but it needs to be effective. If it is to be effective, it needs to be better resourced and funded than it is today. So we are in favour of a continuation of the WEA, but with better resourcing. We believe that the WEA needs an adequate, secure, long-term funding base so that it can perform its function. We do not believe that the current legislation actually fixes the current inefficiencies in the WEA.

Of the options that are presented in the explanatory memorandum, we are in favour of a levy on all growers rather than an export tax. We think all growers get benefit from the single desk. They all get the same benefit and the current structure of an export levy alone that is favoured in the memorandum would be a burden on growers in South Australia and Western Australia, where the exports are higher than in the other states. We believe that fees associated with permit applications would not work under the current regime. With the WEA operating the way it is at the present time there is already a fairly major disincentive for people to apply for permits because they know that there is a high rejection rate. We believe that a fee attached to that would be a greater disincentive for people to apply for export permits.

We are concerned that government consultation on these issues is currently too narrow. It does not cover the whole wheat industry. It covers a select group that is primarily focused around the GCA. We think the industry dynamics have changed sufficiently in the last 10 years for the government to consult with a much wider group representing grain growers. In the handout that you have, and also in our submission, there is a list of what we see as the wheat industry stakeholders that need to be consulted. There is an older, traditional group that is above the line and there are 10 or 12 organisations that are below the line, many of whom have made submissions to the Senate inquiry today or in Canberra last week. Most of those groups are not being consulted on the structure of the industry, and I think you would find they had a different view from the Grains Council. For the Senate committee's reference, the Kronos report, which I understand Sue has left some copies of here, contains a history of many of the organisations in the grain industry and shows how they have evolved to where they are today. That may be a useful reference for the committee as it works through its proceedings.

Another issue we would like to comment on briefly is that we do not believe that this review is about the short-term funding requirements of the WEA. It needs to address the serious structural problems that are currently operating in the wheat industry. The independence and the authority of the Wheat Export Authority as they are today need to be enhanced. We are concerned about the regulatory capture of the GCA and the Wheat Export Authority. We are concerned about the consequent lack of grower voice in the discussions that are going on. We recommend that the Senate committee investigate how the GCA is funded. Is AWB a major source of funding for the GCA and does that cause some concerns? How are the state farmer organisations funded? Are they also funded by AWB?

There is a view from AWB, as part of the wheat industry process, that the export monopoly starts at the farm gate. Our view is that it is an export monopoly, it starts at the export point and AWB does not have any prior right to control everything in the interior logistics and all contact with growers. We think that growers are intelligent enough to make their own decisions and they should have that choice within the interior markets, where the market is supposed to be deregulated domestically.

We think the separation of powers is a critical corporate governance issue. There is quite a bit of debate in the industry at the present time about separating AWB Ltd and AWB International. AWB International is the subsidiary that manages the export special powers and the export privileges. AWBI has no staff. It has a board that is majority controlled and appointed by AWB Ltd and, as such, we are concerned that it does not have enough independence of its own. We recommend that AWBI should have its own staff and a board that is totally independent from AWB Ltd so that when a service provider is providing to the single desk exporter arrangements that are in place—that is, the exemption—the conflicts of interest that occur are taken out of play. Under the current structure, AWB Ltd, in our view, is answerable to no-one other than its shareholders. The WEA has no authority to monitor the activities of AWB Ltd and has insufficient capacity to look at the services that are being provided by AWB Ltd to AWBI. We understand that there are 77 services and that AWB is not even prepared to disclose what those services are.

Two industry reports have been issued recently. One was prepared by Kronos and the other by Accenture. They refer to a number of questions about practices that are occurring in the industry. Those reports are freely available to the Senate committee, and we would encourage you to look at them. With respect to the practices that are taking place that cause us concern, I would be happy to elaborate further during questioning, if the committee wishes.

We believe the GCA and the Wheat Export Authority are not addressing the issues that are causing concern. We believe that, overall, the industry has no current capacity to resolve the issues; it cannot resolve them commercially. We believe that the 2004 review of AWBI which is to be undertaken by the Wheat Export Authority needs to be extended further so that the wider industry is looked at, including AWB Ltd, and we think there is probably a good case to bring that 2004 review forward to 2003.

CHAIR—Obviously a lot of the things you have just said have already been said to us by other groups. There are the relationship issues, the benchmarks and how they are set, the non-disaggregation of costs, the non-reporting to growers. Generally, most people acknowledge the need for the WEA but they are unhappy about the way it goes about its job. Do you think if the WEA were more gorilla like instead of almost pansy like, and had a more robust way of going about its business, that the industry generally would have more confidence in its capacity?

Mr Winney—The WEA has a fairly narrow function, so that restricts it. It has limited resources. Its board and staff do not have a particularly wide amount of grain industry experience. That is a difficulty for them in terms of even asking the right questions. Its powers need to be enhanced and it needs to appoint some people who are in a better position to analyse some of the information that is provided.

The other concern is access to information, which has been restrained, late and slow. Certainly the WEA report mentions those types of issues, but it does not really have any power to do anything about that. When the structure was set up four years ago, there was a late change in the whole process regarding the role of AWB Ltd, AWB International and WEA. That has changed the dynamics and made the current structure a bit weaker than it should be.

CHAIR—Generally, if the WEA was more robust, to put it nicely, there would be more confidence on the part of your growers in South Australia in the outcomes of the review?

Ms Rana—Certainly that is what UGH is looking for. The growers want to know what is going on. We are concerned about the level of information and the integrity of the information that they are getting, so that is what we would be looking for.

Senator O'BRIEN—Thanks for coming to Perth. We normally hold hearings on this industry, particularly the wheat export industry, in Perth because of the importance of Western Australia to the export industry, but I note your comment about the South Australian industry's importance as well. We do have a fairly limited timetable, although I believe it should be extended. You have about 11,800 shareholders. I take it a great many of those would also be represented by the Grains Council of Australia through their membership of the South Australian Farmers Federation?

Ms Rana—I suppose that is the question: are they? I do not know what the membership level of the South Australian Farmers Federation is. From hearsay, it is actually decreasing. We made the statement that the shareholders in our company are virtually all the grain growers in our state. We also have about 400 other shareholders from Victoria and New South Wales. So we think that our representation is a lot wider than that. But we do not have any avenue at this point to communicate with anyone who has legislative power who will actually listen to us. We do wonder about the SAFF representation.

Senator O'BRIEN—A view might be put that, whilst you have members, you are not necessarily representing their point of view. How would you establish for us that the view you are putting to us has the support of the shareholders that you represent?

Ms Rana—Basically, our six directors of United Grower Holdings are elected by the shareholders and they have to be grain growers by definition. In 2002 we had an election—the first for UGH—where three of our six directors had to stand for re-election or stand down. In that election we got two new grain grower representatives on our board. Whilst it is new, there is a fairly timely process for growers to change the representation they are getting through UGH if they are not happy with it. One of the things that the UGH board sees as quite a pivotal role now is to provide leadership to growers.

As I am sure you have been hearing, the industry is in a state of flux and growers are being bombarded with a lot of information, so our board sees it as a key responsibility to be providing leadership. Obviously we have grower meetings. We have our board meetings in regional venues around the state. We have shareholder functions after each of those board meetings so that growers can talk to their directors and give their views first hand on differing issues. We have direct mailed all our shareholders on the issues that were raised in the Kronos report. Whilst we are new and probably do not have the track record, I think we are doing a lot to communicate to growers and we make ourselves available by being at a lot of industry events.

Mr Winney—Could I add to that. The Kronos report was prepared on behalf of UGH and the board of UGH has endorsed that unanimously. Many of the things we have said today address some of the findings from that report. At the UGH annual general meeting two weeks ago there was not one voice of grower dissent on any of the findings.

CHAIR—Do you have any other source of income besides some sort of subscription?

Ms Rana—No, we do not have a subscription; we are paid dividends from AusBulk because we own over 50 per cent of the shares in that company. Last year we earned almost \$9 million in dividend payments. We pass that same rate of dividend on to our shareholders. Since the shares were issued in 2000, there has been a slightly differing number of shareholders. There is not the even number that we had in AusBulk originally. We make a little bit of money from that dividend payment now because, as farmers leave the industry, they have to sell their UGH shares. Our other source of income is interest that we earn from money that we have invested in bank term deposits, because the share market has not been that great over the last 18 months, and we also have a loan to AusBulk and they pay a commercial rate of interest on that.

CHAIR—We will be writing to you to ask for your financial statements, so you will have time to think about that.

Ms Rana—I provided our full financial statements from last year in the information given to you.

Senator O'BRIEN—On the question of the levy, you say it will reduce grower returns. Is it purely and simply, as you explained in your submission, the impact—not just on returns from export wheat but also on the domestic grain market? That is, you say the levy will be factored in, effectively, assuming that the export price is lower by that amount and, therefore, we would use the domestic price as a bit of a ceiling—which is not working now, I must say, but I suppose that might be the case in normal circumstances. I am trying to understand exactly how you say it will impact.

Mr Winney—The market is effectively the market and the levy is something that will be deducted from that market value. We in the market would say, 'The market price today is \$200. If we have these particular costs to deduct, and the contribution, the amount that will be available to growers is that after the costs are deducted.' The benchmark for grain prices within Australia is very much the AWB pool returns, and the cash market trades off those pool returns. I think an unintended consequence of the suggested levy is that non-wheat grains will also trade lower because of the amount of the levy, because we are just competing with those other grains into the domestic market.

Senator O'BRIEN—That would be true whether the levy is as you suggest or as the government suggests, won't it?

Mr Winney—Either way—it would be the same.

Senator O'BRIEN—The effect of what you are saying is that there will be a double whammy. If you do not take the levy out of the domestic market as well, it will be taken out by the market, so the market will garner that share rather than it going into WEA et cetera.

Mr Winney—The transfer will be to domestic processors.

Senator O'BRIEN—On page 5 of your submission, you refer to 'narrow consultation' being carried out by AFFA. Have you been consulted by AFFA at all?

Ms Rana—No.

Senator O'BRIEN—I note the qualifications you have placed on this submission. Are you saying that if you had additional time, you would have added to the material we have before us today?

Mr Winney—Yes, we certainly have quite a lot of information from the review that was done during the last year that we would be happy to provide.

Ms Rana—I also think that there would be growers in South Australia who, if they had had additional time, would have liked to put submissions in.

Senator O'BRIEN—On page 6 of your submission, you say the Wheat Export Authority is underfunded, under-resourced and lacking in skills. Does that mean you think it needs to grow in terms of those factors and not necessarily in size—or should it be bigger?

Mr Winney—It struggles to perform its current functions in a timely manner, so that would suggest perhaps it would be faster if it had more staff. But I think it is also a matter of the expertise and the skills of the people there. It is primarily managed by people who have come out of the public service structure. We think that some industry expertise would also be beneficial in terms of the staffing structure.

Senator O'BRIEN—You express concern about the selection process for the Wheat Export Authority board positions. Can you expand on the options you prefer?

Mr Winney—Something that might come from wider consultation with industry would be preferred, particularly from the wheat industry stakeholder group that is listed on that structure. There might be recommendations from interests such as those that are involved in the wheat industry and whose income and livelihood depends on it, rather than from people put forward by GCA. They are part of a small narrow group that tends to take up a lot of the functions; they are agropolitically connected people that get appointed to a lot of these boards. I think there is expertise out there that is not being utilised.

Senator O'BRIEN—I note your strong concerns about where the single desk power resides. I had a look at the legislation this morning. It is certain that the Wheat Export Authority manages it and that there is an exemption. It is probably something this committee needs to look at to see whether the minister's comments are a fundamental misunderstanding of the government's own legislation. You say that independent directors of AWBI have not participated in discussions within the industry over the past 12 months. From where do you draw that information? Is it just common knowledge?

Mr Winney—We have offered to make presentations about the Kronos report to the independent directors of the AWBI. That opportunity has not been taken up. Generally, this information is in public debate that has been going on and there have been letters to the editor and articles in the rural press. There have been a number of calls for independent AWBI directors to be involved in the debate. We have seen no response.

Senator O'BRIEN—Who are the independent directors?

Mr Winney—There are three: Ian Donges, Wayne Gibson from Western Australia and I think Clinton Starr is the third.

Senator O'BRIEN—I note your comment on page 9 of the document:

Growers are likely to be reluctant to accept additional tax without increased accountability.

That is a general view, I must say, except from the Grains Council. On page 10 of your submission, you say that you have attempted on at least six occasions over a four-month period to give a presentation to the Grains Council on the findings of the Kronos report. What reason did the Grains Council of Australia give for their rejection of your offers?

Ms Rana—With the first attempts, or invitations, a lack of time was the reason given, even though we were in Canberra for three days and had said that we were available day and night. We had actually organised a time two weeks before, but we had it cancelled quite late in the day, so there was no time apparently on that occasion. Since then there have been written invitations through emails and phone calls, but there has been no response to any of those. There has not been a reason given; there has just been no response at all.

Senator O'BRIEN—In your submission, you say:

The relationship between GCA and AWB Ltd appears to be too close ...

What is the basis for that claim? Are you claiming that their relationship is damaging the interests of the growers, because that would be a fairly strong allegation?

Mr Winney—We are concerned about the capacity for independence that GCA has when AWB is the source of an important amount of their funding. I previously worked at AWB and I have seen how that structure operates. There is a carrot and stick approach in place. I think it is unhealthy for a grower representative organisation to be in a position where it is reliant for its funding on an organisation that it is monitoring.

Senator O'BRIEN—What do mean there is a 'carrot and stick' arrangement in place?

Mr Winney—Suggestions have been made in the past that if GCA had a contrary view to the AWB then the ongoing funding might be questionable.

Senator O'BRIEN—At what level were those suggestions being made?

Mr Winney—At a chairman level.

Senator O'BRIEN—In terms of the 2004 review, you refer to the fact that AWB provides 77 non-contestable services to AWB International and that these services provide the majority of income to the publicly listed AWB Ltd. If the review is carried out in a proper manner, would you expect that the cost of managing the single desk would be picked up?

Mr Winney—Yes, we would. We have tried to analyse the cost of some of those services and we have come up with the suggestion that growers in the pools today are \$9.33 a tonne worse off than they were prior to 1999 and the privatisation. That is looking mainly at four of the services that are provided. There are another 73 services. We do not know the cost of those additional services, but we know that the cost of running the export arrangements would be substantially cheaper with contestability. We estimate that a saving of at least \$100 million is there. We think that stacks up quite well and there have been other independent reports that have come up with similar or larger figures.

Senator O'BRIEN—I would expect any review to be fully transparent; I am not sure what the government thinks. What is your organisation's view of the review process?

Ms Rana—Certainly one of the big issues in the industry is the lack of transparency at the moment, so, yes, we would be fully supportive of that.

CHAIR—How much did the Kronos report cost?

Ms Rana—It cost \$27,000.

Senator FERRIS—Can I clarify, Mr Winney, that your organisation has never received any offers of sponsorship or accepted them from AWB?

Mr Winney—Kronos or UGH?

Senator FERRIS—UGH.

Ms Rana—No.

Senator FERRIS—Have you ever been offered any?

Ms Rana—No.

Senator FERRIS—I would like to explore some of the issues from the Kronos report that are probably most satisfactorily summarised in your press release, which you have attached to your submission as appendix 2. You say:

In regard to the WEA, the Kronos Report found it was not able to be effective in its current form—because—

it does not have sufficient power, funding or current expertise to adequately assess the performance ...

Section 5(2) of the Wheat Marketing Act states:

The Authority has power to do all things that are necessary or convenient to be done in connection with the performance of its functions.

Its functions are fairly well known, so I will not go through them. So where is the problem? Is the problem with the administration, because that section would seem to me to indicate that the problem is not in the act. Yet the Kronos report found that the WEA is 'not able to be effective in its current form'. Can we get to the nub of this: what is it that you say is preventing it from being effective? Is it the board, is it the people, is it the courage or is there something missing in the act that I cannot find?

Mr Winney—It may be the WEA's interpretation of its own functions in presentations that UGH have made to the WEA. They have advised us that they have no power to review the activities of AWB Ltd. Therefore, services that are provided to AWB are outside the scope of what they have been asked to do.

Senator FERRIS—But when they said that to you, why did you not say this back to them? I cannot remember seeing a piece of legislation that has something in it so all-covering and all-encompassing as:

The Authority has power to do all things that are necessary or convenient to be done in connection with the performance of its functions.

There would be many pieces of legislation that would come through the Senate where the major parties would express concern about the all-encompassing power of that statement. I am trying to get to the nub of what Kronos actually found underneath the statement 'power, funding or current expertise', because it is very easy to use generalisations like that. But I want to know what you think has to be done—and not just more money—because we are here to try to make sure that growers get greater returns, not less returns. What is it that you want done?

Mr Winney—We would like the WEA to have greater access to information in a faster manner—they say there have been some delays in getting that information—perhaps powers to subpoena information if it is not provided, and the capacity to have the analysis of that information and to get wider advisory services than just information from AWB itself—so a broader base of information and comparative analysis to the information they are being provided by the AWB.

Senator FERRIS—The last point on the first page of your press release says:

WEA noted—

this is quoting Kronos—

the survey used to monitor AWB performance was conducted by AWB Ltd and that WEA had conflicting evidence that disagreed with the survey ...

When I read that I wondered why the WEA did not take a more stringent role. Again I ask you: is it the courage of the board? Where does the problem lie? When you read this material it is hard to find the actual

problem. After all this material and everything that has been supplied to us—and I have tried to read as much of it as I can—you get to a point where you cannot quite work out if it is the push-me or the pull-you that is actually causing the problem. That is the question I am trying to get you to answer for me.

Mr Winney—I probably cannot give you the answer as to why the WEA is not performing with the powers that you have advised us that it has. It is just not doing it. It is not operating in such a manner that it is able to effectively perform a watchdog function for the wheat industry, monitor performance in a timely manner and give that information back to growers so that they can make some decisions.

Senator FERRIS—Yet you would agree with me that that is a pretty all-encompassing power.

Senator O'BRIEN—That is not what the WEA says.

Senator FERRIS—But there is an inevitable conclusion to be drawn, isn't there?

Senator COLBECK—On page 8 of your submission you say:

It has been strongly contended by various sources that AWB Ltd is making margins that are above the commercial returns in providing services to the export pool ...

Can you quantify that?

Mr Winney—Yes. There is a fair amount of detail in the Kronos report on some of those services. Some examples are that cash trading margins that have been made by AWB Ltd in their activities operating in the Australian wheat market are between \$12 and \$25 per tonne, whereas an industry average would be \$5. With regard to finance margins where AWB seek to achieve a rate in excess of two per cent above their borrowing costs, we think that those rates would fall substantially with greater competition. Underwriting fees on pools are currently at \$1.60 per tonne; there are other people who could provide underwriting for less than \$1. There are a range of those types of services. AWB have made the comment that there is no syphoning of the costs that are charged to pools. Some examples of differences in rail freight rates that are actually negotiated and of what has been deducted from pools are quoted in the Kronos report. So margins and information that AWB Ltd staff may be privileged to put them in a stronger position.

Senator COLBECK—In your submission and in the papers you gave us today you have given us your stakeholder structure. What sort of commonality do you understand to exist in the views of those below the line? As you note on page 8, overall industry has no capacity to resolve the issues. Where do you see that capacity lying? You are essentially looking to us to sort out all the problems. Is that a fair assumption?

Mr Winney—No, we think that part of the problem is due to the way the structure was put up. Government certainly had some involvement in the structure that was put up, so we are looking for some assistance in trying to resolve those conflict issues. But the organisations below the line, particularly the ones on the bottom left corner, are all grower organisations and in most cases have evolved in the last 10 years. The industry structure is really set up for how the industry may have operated during the regulated phase from 1939 to 1989 and there is no voice for those other groups that may have a contrary opinion. So we are suggesting that AFFA in particular be encouraged to actually consult wider and to look at the way the government views the wheat industry. The wheat industry is not just the Grains Council. The Grains Council represents a view of some farmers.

Senator COLBECK—What would you suggest has been the level of evolution that you have talked about in the last five years since, say, 1998, when this was all put together?

Mr Winney—There has been a major change in the industry. Again, the Kronos report is probably a good reference document for looking at that. Fifteen grower organisations have come down to five grower organisations on the commercial side of things today. A huge number of alliances and relationships have been put in place. We think that the industry today is totally different from what it was in 1989, when the domestic wheat market was deregulated. That led to a range of other issues.

Senator COLBECK—What do you think have been the main drivers of change since 1998?

Mr Winney—Some of the main drivers have been a complete change in the domestic price, which has meant an increase in domestic demand from about 5 or 6 million tonnes of grain a year to 12 million tonnes a year. So the intensive animal industries in particular have grown substantially. We have seen grower organisations take control of what were statutory authorities and generally turn them into public companies, either listed or unlisted. That has meant that some of those commercial aspects have increased efficiency in those organisations. They have started broadening their activities across state borders and across functions, so they are now competing with each other a lot more. So there is competition in a range of different services. Growers are shareholders as well as stakeholders in a number of these companies, so the competition that is occurring and the effectiveness that comes from some of that competition have meant that the structure that is there is inhibiting some of them. They are saying, 'Hang on, I think there is another way of looking at these issues.'

Senator COLBECK—To what extent are the commercial conflicts driving the issues?

Mr Winney—I think that, to some degree, that is part of it. But there is such widespread dissent and concern about some of the issues that I think it is not just the commercial drivers that are behind this. There is something wrong with the structure.

Senator COLBECK—What level of evolution do you see left to go?

Mr Winney—I think there will be still more mergers in the industry. The GrainCorp-Grainco discussions that are going on at the present time would create a very strong east coast entity. I think AWB is continuing to try to expand and move away from a traditional wheat marketing role into a range of other grains and into other functions, so I think there will end up being two or three strong grower organisations that need to be able to compete with each other and not be restrained by restrictive business rules and legislation in some sectors of the market.

Senator COLBECK—To what extent is AWB's commercialisation or continued growth in that area impacting on the issues?

Mr Winney—In about 1988 the royal commission into storage handling and transport virtually removed all of the legislation on the logistics side of things—on the storage and on the railways. But 70 per cent of Australia's grain exports are still controlled by marketing legislation and marketing single desk arrangements. It is AWB using those powers that come from the export marketing wheat rights to move back into the logistics sector as it is reforming, to move back into the domestic market and into other grains. They have a very strong position and a competitive advantage as they go back into those other sectors of the market and that is not necessarily creating true competition. It is an 800-pound gorilla, as the chair mentioned, that is back there in the market competing in a logistics sector that just cannot compete one-on-one with them.

CHAIR—Thank you. We are going to wind up in a second.

Senator FERRIS—I have one clarifying question. Mr Winney, you talked about the need to widen and bring forward the inquiry into the role of the WEA and the AWB, but I notice in the explanatory memorandum for the bill that the WEA has indicated that with its projected expenditure of \$1.8 million to \$2 million the capital and interest earnings will only be sufficient until the second half of 2003. Are you concerned about that in your request for bringing forward the inquiry or would you suggest that these amendments be passed to ensure the ongoing funding, and then bring forward the inquiry? How would you see that working, because clearly—

CHAIR—Could you be brief in your response.

Senator FERRIS—It is only a one-sentence answer, Chair, and it is quite important.

Mr Winney—I understand that WEA has funding until September. That still leaves a fair amount of time.

Senator FERRIS—So you think the other inquiry should start right away?

Mr Winney—I do not think we should rush through a result of this current Senate hearing, no.

Senator BUCKLAND—At the end of the day, what is in this for the grower?

Ms Rana—I suppose that what growers want is a powerful voice from WEA. If they are going to fund it they certainly would want to derive some benefits from that. That is one of the reasons why we do not want to rush through this now and have growers funding something that is not doing the job.

Senator BUCKLAND—What have WEA indicated will be the benefits? Or haven't they?

Mr Winney—I will answer your first question and build that into answering the second question. I think that what is in it for growers is a higher on-farm return, and that could be a substantial percentage higher—certainly \$5 to \$10 dollars per tonne from changes in the structure. A stronger watchdog, which we think WEA should be, would ensure that growers actually got those extra dollars.

Senator BUCKLAND—Your membership is 11,000 with about 82 million shares. What would happen to those shares? Would the value increase or decrease?

Ms Rana—The value of the shares?

Senator BUCKLAND—Yes.

Ms Rana—Do you mean currently?

Senator BUCKLAND—Yes; with the system we are looking at now.

Ms Rana—The value of the shares is fairly subjective because we are quite reliant on AusBulk—look at the value of AusBulk shares. Whatever happens to AusBulk has an influence on UGH.

Senator BUCKLAND—Does AusBulk or your group go out and seek independent export contracts?

Ms Rana—No, UGH does not.

Mr Winney—And AusBulk is not able to at present.

CHAIR—If you stop growing wheat you lose your shares; you hand them back and there is no consideration.

Ms Rana—No, you get paid for them. If a grower is retiring he might pass them to the son, daughter or whoever is taking over the farm, but the other option is to offer them back to the company and we will pay them for their shares.

CHAIR—How do you establish the value of them?

Ms Rana—We look at a number of different aspects including what they are trading at and the net asset backing price of the shares. Obviously, those two are quite a distance away at this point. We can also get external valuations done, and we have had that done too.

Senator BUCKLAND—There has been some criticism of the manner of consultation or lack of it. Has there been any direct consultation by WEA with the growers to inform them of what is occurring?

Ms Rana—No, not that I am aware of.

Mr Winney—They put out a grower report which is fairly narrow in what it says, but is the primary—

Senator BUCKLAND—Is that reporting any more effective to your own board?

Ms Rana—No; in fact, there is no approach made from WEA to our own board.

Senator BUCKLAND—Is that one of the major complaints that the growers have?

Ms Rana—That is certainly a complaint, yes.

Senator BUCKLAND—Regarding transport arrangements, who arranges to get the grain from the farm gate to the silos? It affects much of South Australia's grain growing area and is therefore of interest to me.

Ms Rana—At the moment it depends, I think. Certainly, I know that AusBulk have an on-farm pick-up system, where they can arrange to get it to the silo. Once it is in the silo, though, it is up to the marketing companies.

Mr Winney—The majority of the grain is delivered by the growers themselves to the silo, and then quite often the issue is regarding transport from the silo to the port. In most cases the export monopoly holders—be they AWB or ABB—try to move that grain. There has been a tripartite arrangement in South Australia, where ABB, AusBulk and AWB worked together. I understand that that has now been concluded and that AWB want to move all the wheat themselves.

Senator BUCKLAND—So, once it is delivered to the first silo—for holding, shipment or whatever—how does the farmer know where it is going?

Mr Winney—He does not know; he just delivers it there and AWB says, 'Trust me.'

Senator BUCKLAND—He takes his chances.

CHAIR—Earlier on you made a reference to the chairman regarding the Grains Council and the cross-funding, which seemed a pretty serious allegation. Can you clarify to whom and to what you were referring?

Mr Winney—We were not referring to the current chairman; it was a previous chairman.

CHAIR—Of what?

Mr Winney—AWB. It is to do with the relationship between AWB and GCA in terms of consultative funds that are provided by AWB to GCA. During times when they are not seeing eye to eye, the discussion of whether that funding would continue has been raised at the same time, and suggestions that—

CHAIR—Would you describe that as hearsay?

Mr Winney—I think people who were involved at the time probably could confirm it. GCA people may wish to make comment on it.

CHAIR—We may come back to you on that. Thank you for appearing this morning.

[8.53 a.m.]

SEWELL, Mr Robert, Deputy Chairman, CBH Group

WATSON, Mr Allan, Chairman, CBH Group

CHAIR—Welcome.

Mr Watson—I am chairman of the CBH Group in Western Australia. I will be assisted by my deputy chairman, Robert Sewell, who is also chairman of Grain Pool Pty Ltd, a marketing subsidiary of the CBH Group. I thank the committee for the opportunity to make a submission at this important time. CBH business handles all wheat in Western Australia for the single desk holder. Seventy per cent of our business is in wheat, and we are responsible for the storage, handling and logistics of the Western Australian grain production. The efficiency and cost-effectiveness in managing the single desk export of wheat has a significant impact on our business. How well the Wheat Export Authority performs in its monitoring role is also an important aspect and consideration.

CBH's primary concern is that before evaluating an appropriate costing of the Wheat Export Authority's needs there first needs to be a review of the Wheat Export Authority's role. We believe that this cannot be done without first evaluating how the Wheat Export Authority has performed in the past. The Wheat Export Authority has never sought CBH's opinion on how the operation of the single desk impacts on our business. Indeed, at a meeting that I, as a representative of the Australian Bulk Handling Association, had last year with the board of the Australian Wheat Export Authority I asked whether in its deliberations to determine whether the single desk is maximising returns to growers the authority took into account any negative impact that the single desk operation may have not only on the bulk handlers but on other members of the supply chain. The answer was that that was outside the scope of its work. I found that a rather amazing statement, in that if we are talking about maximising returns to growers we should be asking whether we are getting a maximum return to growers and not just a return to growers from the single desk.

Past and current experience of the single desk for wheat held here in Western Australia through Grain Pool Pty Ltd demonstrates to us that open exports in containers and bags do not threaten single desk marketing. For that reason, one of our major submissions to you is that exports in containers and bags should not require a permit. We also believe that the Western Australian Grain Marketing Act 2002, which passed through parliament last year to enable the merger of Cooperative Bulk Handling with the former Grain Pool of WA, which was until that time a statutory marketer, is far more modern than the Wheat Marketing Act. It takes cognisance of recent changes and also the national competition policy guidelines. I say that because all during the discussions we had with our local minister during the time that that legislation was being prepared, the minister was continually hindered by Mr Samuels and forced to comply with national competition policy guidelines. We feel that there is a need at this time to bring the federal legislation more into line with the state legislation, particularly when it comes to NCP guidelines. I cannot really see why the holder of a single desk under federal legislation should have more privileges than the holder of a single desk under state legislation if we are all supposed to be complying with national competition policy guidelines.

Finally, in the past the Wheat Export Authority has been totally funded by government. In going forward, we believe that if the growers are going to be asked to contribute there should be a lot more open reporting of the Wheat Export Authority's findings. In saying that, I realise that when drilling right down into some of the more intricate market-to-market issues there would be some confidential issues. These would need to be recognised, and the same level of reporting that is reported back to government may not necessarily be able to be made public. But we believe that a lot more information could be made publicly available than has been made available in the past. We have put forward five recommendations, and they basically revolve around the Western Australian Grain Marketing Act 2002. We ask you to seek out the latest copy and look at that in your deliberations.

Senator O'BRIEN—How important is the single desk to the Australian wheat industry?

Mr Watson—My experience of that, through my short association with a marketer here in Western Australia, is that the single desk is a good marketing tool. My concern is that if the single desk is used as a power back up the supply chain and it has a negative impact you truly then have to work out what is the real net benefit of single desk. We here in Western Australia have put forward a proposal to AWBI. We believe that there would be significant savings to growers if we had control over the single desk as the owners of the significant part of the infrastructure. The proposed savings that we have put forward are fairly consistent with suggested savings in doing it differently in the east, with both the Kronos and the Accenture reports.

Senator O'BRIEN—Do I take it that it is your view that the single desk should be the subject of an early review? We have the 2004 review and we have the review of the single desk in 2010.

Mr Watson—Again, I support the concept of single desk marketing, and when it is reviewed it is up to the wider industry and government to have the final say. Our concern is how the single desk is used back up the supply chain.

Senator O'BRIEN—Given the level of support you indicate for the single desk for bulk exports, how could the current export arrangements be improved? It has been clear from hearings to date that there is little detail about how the levy will work, how much it will cost and who will collect it. Is it your view that those details should be on the table before this committee makes any recommendations on how this bill should be progressed? Should we proceed before we get a full understanding of how the levy is going to apply? We do not know at this stage.

Mr Watson—It is hard to measure the true value of the single desk at the moment when you have, we believe, some cross-subsidisation in the supply chain and the impact of single desk holders on the supply chain.

Senator O'BRIEN—One thing you would say is that we should deregulate bagged and containerised wheat?

Mr Watson—We export about 30 per cent of Western Australia's grain through single desk. I am talking about the prescribed grains of barley, lupins and canola. The Grain Pool, previous to the new legislation coming into being on 1 November last year, for quite some time had a permit system in place but for about five years a permit had not been declined. In other words, the Grain Pool allowed permits for export in containers and bags and that had, we believe, no detrimental impact on our single desk.

Mr Sewell—Our submission is all about the efficiency of the Wheat Export Authority. On that point, we were saying that for five years, the Grain Pool of WA, which was the statutory authority—I was chairman of that group for 10 years so I have a fair bit of experience of how it operated—took a conscious decision at board level that we would not oppose the export in containers or the export in bags and the export of prescribed grain which had been processed to a standard which complied with a set of guidelines. That relieved a lot of the administrative work of applying for permits for those operators. The Grain Marketing Act 2002 goes even further and removes the requirement even to seek a permit. That starts to free up the administrative part of it.

Our understanding is that the Wheat Export Authority has to look at and consent to any application to export in containers and bags. What we are suggesting in our first recommendation is that if the Wheat Export Authority adopted the attitude that all containers and bagged grain were exempt and therefore they did not even have to view a proposal, it would significantly free up the time of the Wheat Export Authority. That is starting to make some efficiencies and starting to require less finance to administer the Wheat Export Authority, and we are really starting to address the concerns, which is finance of the Wheat Export Authority. We have to have that authority to work more efficiently.

CHAIR—Are you saying in the same breath that there should not be supervision of what goes out in the boxes and bags? Can we end up with another kangaroo meat situation?

Mr Sewell—We are saying that the experience of the Grain Pool for the last five years has indicated that there is no need for that. There is a distinct disadvantage in competing against bulk exports in containers, and most of that is freight. The other argument, of course, is that if the principal licence holder, company B, feels that they are being threatened—that is not the right word but it is the one I am thinking of—in particular markets then there is nothing stopping them getting into that market, just as nothing is stopping Grain Pool Pty Ltd getting involved in markets which require containers. I think it is an unnecessary piece of administration.

CHAIR—Do you think the industry is robust enough not to damage Australia's reputation as a supplier of good wheat without supervision of what goes in the boxes? That did not prove to be the case with meat, I have to say.

Mr Sewell—I think there are enough requirements from the markets now to say that that will not happen. We saw last year that one exporter tried to export grain in boxes that did not meet the requirements of the customer because of the presence of insecticide residue. That customer does not have access to those markets any longer. I think there is a bit of self-regulation there.

Senator O'BRIEN—Are you saying that the Western Australian experience in terms of exporting barley, canola and lupins in bulk has not been affected by effectively deregulating the export of those commodities bagged or in containers?

Mr Sewell—Yes, that is our experience.

Senator O'BRIEN—What sort of evidence have you got that would assist us to understand that?

Mr Sewell—Where those containers are going is not affecting the prime markets that we have, and those markets are basically bulk markets. A couple of markets that we used to supply in containers are no longer

buying containerised grain from Australia; they are buying other products from other parts of the world. There is nothing stopping us getting back in there.

Senator O'BRIEN—How long has that been operating?

Mr Sewell—About five years.

Senator O'BRIEN—You say that similar arrangements apply to the export of barley from South Australia. Do you again mean bagged or containerised barley?

Mr Sewell—Yes, bagged or in containers. You asked a very interesting question earlier on about the single desk. My long experience in marketing says that there is no better marketing tool than a single desk; it does not matter what commodity it is. The real question is how that single desk operates. We have gone through significant change in Western Australia, and we are seeing both sides of the argument. I have no difficulty with the single desk, but it is the manner in which it operates. Prior to this new legislation, where the Grain Pool of Western Australia was a statutory authority, it was very interesting that the single desk for barley was actually held by the parliament, because it was in the act, and for canola and lupins it was held by the minister of the day, who in all cases granted that licence to the Grain Pool. So the Grain Pool actually administered the licence of the single desk.

With this most recent change to the Grain Licensing Authority the operation of the single desk goes to the Grain Licensing Authority. That immediately puts more pressure on the Grain Pool to comply with reporting requirements to the Grain Licensing Authority if it wishes to continue operating the single desk. There is a provision in this new licensing authority to allow others to apply for bulk exports under permit if the Grain Pool is not performing. It puts in a benchmark and gives a measure of how well the Grain Pool is performing. I have no fear of that at all; I think we can perform quite well, so that does not frighten me. It certainly takes that actual licence away from the Grain Pool, so it is one of possibly a number of players.

It is very interesting—to back up my comments on the management of the single desk—that the Grain Pool, having the licence for barley in Western Australia, and ABB Grain Ltd, having a licence for barley out of South Australia, have formed a joint committee. We have named that committee 'Grain Australia'. That committee meets every couple of weeks. The members sit around the desk and administer the marketing of barley out of southern Australia and Western Australia. That accounts for about 80 per cent of Australia's exports of barley. It is 40 per cent of the world's tradeable malting barley—making us the most significant barley trader in the world—and yet two individual companies are doing their own thing, coming together every fortnight and administering a single desk. The argument here is that it is the administration of the single desk, and not the individuals who operate it, that is the most important.

Senator O'BRIEN—I take you to the section under recommendation 2 of your submission. You list a number of things that you suggest the Wheat Export Authority does not do in relation to the issuing of permits. I assume that it would seek advice from AWBI on matters of future market potential, both in terms of wheat and other grains. You say:

The communication between the applicant and WEA is limited to procedural issues ...

Are you saying that this work is not done at all, or are you saying that this work is based on the view of AWBI and is therefore skewed in the interests of AWBI and, therefore, AWB Ltd?

Mr Sewell—As the chairman has indicated, we would think that the Wheat Export Body, as the body in Western Australia which handles all the export wheat and 70 per cent of our business, would at least come to Cooperative Bulk Handling Ltd and ask for a review of the performance of the operations of CBH in Western Australia. We do not feel that is being done, and perhaps that is the basis of our submission to AWB International of *A blueprint for success in the west*. I believe you have a copy of that blueprint. That will detail where we think there is significant value to be achieved in the supply chain in Western Australia, which has not been questioned in the past by the Wheat Export Authority.

Senator O'BRIEN—You then list what follows, or does not follow, where consent has not been given for an application. Is that your direct experience?

Mr Sewell—Once again, it is very interesting. The only application through the Grain Pool is through its subsidiary company AgraCorp, which on previous occasions has applied for opportunities to export in containers. There is fundamental transparency between the operations of the Grain Pool and AgraCorp. I do not sit on the AgraCorp board and some of their operations are not communicated to me. Although that information has been given for our submission, I cannot comment on that any further.

Senator O'BRIEN—Can you find out from someone who knows?

Mr Sewell—We will provide that information for you.

Senator O'BRIEN—Perhaps it would be productive if I put on notice some questions which go to that functionality so that we can get an understanding, from the point of view of your company, of how the system

works now in terms of the applications for export permits and the rejections thereof, and some detail. Do you provide storage and handling services to AWBI?

Mr Watson—That is correct.

Senator O'BRIEN—How does that work from an administrative point of view? Do you deal with AWB Ltd staff? You cannot work with AWBI staff, can you?

Mr Watson—That is correct, so we work with AWB Ltd as the marketer.

Senator O'BRIEN—Despite the relationship between CBH and AWBI, there has never been any formal approach by the Wheat Export Authority to review the effectiveness of the system?

Mr Watson—That is correct.

Senator O'BRIEN—In terms of your claim about potential cost savings in the system in Western Australia, who paid for the report *A blueprint for success in the west*?

Mr Watson—CBH.

Senator O'BRIEN—It has the AWBI logo on it as well. Was there no contribution from anyone but CBH?

Mr Watson—No, it is purely a CBH proposal to AWBI.

Senator O'BRIEN—It says that there are a whole lot of savings in the system that could easily be realised. Have you received a response to this report from AWB Ltd and AWBI?

Mr Watson—Yes, we have. We have formed a working group between the two organisations to study the proposal. That group has had two meetings and it is due to meet again in the near future. There has been correspondence between the two boards, but at this time there is no formal acceptance of the total proposal.

Senator O'BRIEN—Did you communicate it to WEA?

Mr Watson—Yes.

Senator O'BRIEN—What has been their response?

Mr Watson—There has been no formal response.

Senator O'BRIEN—Was there an informal response or did they just tell you they had it?

Mr Watson—I made the WEA aware of the proposal.

CHAIR—Why is the AWB logo on your report, if it has nothing to do with it?

Mr Watson—It is our suggestion to AWBI that we can together put forward one face to growers in Western Australia, which would include CBH, Grain Pool and AWB.

CHAIR—Isn't that a bit deceptive to have their logo on it, if it has nothing to do with the report?

Mr Watson—I do not believe so.

Senator FERRIS—I want to explore an earlier statement which you made that Senator O'Brien touched on. You said that the WEA had never asked for your opinion on how your operations were working because they said, according to you a few minutes ago, that it was outside the scope of their work. Did you accept that statement from them?

Mr Watson—That statement was made at a meeting with the WEA board in their boardroom. With reference to your first question about the Wheat Export Authority's statement, there has never been any approach to our management to supply any figures or detail of any negative impact on our business through the operation of single desk.

Senator FERRIS—But when they said to you they believed it was outside their work, did you accept that statement or did you challenge it?

Mr Watson—I did not have any evidence to challenge it with. It was a simple question. I had to accept their answer.

Senator FERRIS—But you must know the words in the act—I have read them out twice now and I will not read them out again. They are all encompassing. Surely, you would have been familiar with those words. Why wouldn't you challenge those board members? Because it seems to me that you believe, based on what we are able to ascertain from your answers today, that there should have been some communication. In fact, the recommendation you have made here is that there be better communication. When you had the opportunity to open those channels, why did you choose not to?

Mr Watson—I was representing a wider group. I asked whether they considered it; I did not ask whether they sought information from the bulk handlers. The question was: do you consider any negative impact on other members of the supply chain? The answer was: it was outside their scope.

Senator FERRIS—You clearly did not believe that, though, did you? Otherwise you would not have made those recommendations or these statements this morning.

Mr Watson—I do not believe it should have been outside their scope.

Senator FERRIS—Did you say that?

Mr Watson—From memory, no. But I can also say from memory—there is a member of the Wheat Export Authority in the room—that, at the same time we were trying to finalise the discussion, the fire alarm went off and we got out in a hurry.

Senator FERRIS—I wonder who pressed that button. I must remember that. In exploring why it is that we have come to Western Australia and found all of this criticism—it does seem to follow a thematic approach, and I am not questioning that—I am puzzled and somewhat intrigued. Why is it that, where the opportunities have arisen on behalf of Western Australian grain growers to challenge some of the shortfalls and shortcomings perceived by you people of the WEA, there has been a reluctance to go past the point of identification, put the question and lay out the challenge? I believe the opportunities have been there. I am somewhat puzzled as to why individuals have not taken them up.

Mr Sewell—In the last 12 months, we have seen mergers and corporatisations, and we have seen reports such as the Accenture report and the Kronos report. It is a minefield out there. Everything is starting to jell. People were focusing on the review in 2004 and probably getting ready for the review in 2004. This Senate inquiry has come up in the meantime and has provided an opportunity. I have already heard this morning that people would have made more submissions if they had had more time. There has probably been a reaction, because we have put all our thoughts together in a hurry. Perhaps everything that has been festering for 12 months has come to a head this week. That is why you are getting it now.

Senator FERRIS—I am pleased to have the opportunity to clarify that.

Senator BUCKLAND—Mr Sewell, do you have any views about the 2004 review being brought forward to 2003?

Mr Sewell—There is so much happening in the industry. We hope that some things might get put back a bit. I think so many issues have been identified in the Accenture report and the Kronos report—and will be identified out of this review—that perhaps it is time to bring it forward.

Senator FERRIS—There is a huge group of grain growers out there trying to survive in the drought—they are struggling—and they pay an enormous amount of money to representative bodies. The power and influence of the big authorities, the well-paid boards, has always concerned me. Against that, I see the guy at the farm gate who is trying to deliver some grain and make a living, and it has been pretty hard this year. You are telling me that this has all come together over the last year—some consultants must have made some money out of it. I have to say that when I read it not much of it surprised me. You could just change the commodity—whether it is meat, wool or whatever—and see the same principle coming through over the years.

It is a great shame that it has taken this Senate inquiry to look at this amending legislation and for somebody like you, Mr Sewell, to say, ‘Well, this is the opportunity now.’ We have known about some of these perceived shortcomings from grain grower representations for a long time, but it seems to me that you are the bodies that are charged with the responsibility of taking it up to the WEA.

Mr Sewell—We are aware of that. We are also aware of the many things that are happening. For the record, both Mr Watson and I are active grain growers in a drought area. We understand the pain people are going through, because we are suffering the same as they are. You can do things piecemeal. You can have one organisation making a comment, and we saw that with the first release of the Accenture report, but it is when the industry becomes united that things happen. I do not think we would have had a Senate committee come to Perth to listen to the CBH Group or that you would all get together and listen to us if we went to Canberra. The industry has come together and that has provided the opportunity for everyone to have their comment.

Senator COLBECK—Mr Watson, you mentioned cross-subsidies in the supply chain. Would those be of the nature of the ones identified in the Kronos report?

Mr Watson—No, not necessarily. In this regard, I am referring to our case in Western Australia. This was touched on earlier in a question from, I think, Senator O’Brien to a previous presenter concerning the ownership of grain. Where the ownership of the grain takes place is up-country. Decisions made by the marketer impact on the operators of the supply chain from then on, between the country receipt point and the port. For example, at the port when grain is put forward ready to ship, the handler of the single desk can make other arrangements and the ship does not load that particular cargo of grain. There are also decisions concerning stock transfer orders, where the handler has to have permission from the owner of the grain to move the grain. That can create logistical problems, particularly at harvest time when growers are trying to

get their crop in very quickly and the grain needs to be moved in a hurry. In that particular case, it cannot be moved if the owner of the grain does not want it moved forward. We have many examples of that.

Senator COLBECK—You mention the removal of permits for export of bags and containers. Do you see that as the first wedge in the breakdown of the single desk?

Mr Watson—As we said earlier, although there has been a process in place in Western Australia for the last five years, permits were never not denied. I do acknowledge the quality concern and it is something that is needed, but I think that the overseas marketplace now is very cognisant of what is available to them in other areas. Anyone that puts grain out in a container, as Mr Sewell said, that does not meet the requirements of the end user very quickly loses that market. We believe that the advantage of the single desk relates to the big bulk markets, not to the smaller niche markets that are developing in many places, both local and, in particular, close to the Asian region.

CHAIR—If you blokes got the right offer, would you sell out to a multinational?

Mr Sewell—We cannot do it at the moment. We are a cooperative and the shareholders said, ‘No way.’ You are painting a very interesting scenario, Senator. Our role is to get the maximum return back to the growers. If somebody else can move in and do that at a better return than us, we would be standing in the way of that and not fulfilling our charter. However, I do not honestly believe that there is anyone with the same dedication for returning the value to the Western Australian grain industry as the CBH Group. It would have to be a very good and long-term sustainable offer for us to consider that. The short answer at this stage is perhaps, no.

CHAIR—Thank you very much for your presentation this morning. That concludes your opportunity and I thank you for attending.

[9.28 a.m.]

NICHOLL, Mr Colin, President, Western Australian Farmers Federation

WAHLSTEN, Mr Peter, Grain Section President, Western Australian Farmers Federation

WARREN, Mr Greg, Grains Executive Officer, Western Australian Farmers Federation

CHAIR—Welcome. If you would like to make an opening statement, now is your opportunity to do so.

Mr Nicholl—The Western Australian Farmers Federation has a keen interest in this inquiry. We represent the majority of grain growers in Western Australia. Our organisation is divided into commodity groups as well as a general group and we have a very strong grains section. We represent around 55 per cent of all farmers in Western Australia who are across most of the commodities. People like Peter and me have had to deal with droughts over the past two or three years. Amongst our membership we would have somewhere between 2,200 and 2,300 grain growers. In an average year, they would be responsible for producing between six million and seven million tonnes. Most of the grain we produce goes to export. It is becoming more apparent that in future years we will be more dependent on export grain because of the very small domestic market here and in many of the eastern states.

Our mission is to seek to maximise returns to growers. That is definitely part of our policy. We are very sensitive to the directions and are under the control of our membership having regard to the way our organisation is structured. We have supplied the committee with our submission. That submission has largely been prepared by our grains section under the control of Peter Wahlsten, so I will hand over to him.

Mr Wahlsten—I will make a short statement in order to clarify some issues. It is important to stress and for you to understand that we come from the position of reflecting only the growers' position. We have no other vested interests in listed companies and shareholders' returns. We represent the growers of Western Australia. With respect to this issue of the Wheat Export Authority and the [Wheat Marketing Amendment Bill 2002](#) the WA Farmers' view would be representative of 90 per cent of WA grain growers, members or nonmembers. We have a membership, as Colin said, of 55 per cent of farmers in WA—far more than any other body. I think the figures are seven per cent for PGA and three per cent for RAM.

There is 90 per cent support for single desk grain marketing and a national pool, as evidenced by public meetings held since we put the AWB restructure in place and during the NCP review of the Wheat Marketing Act. Under it, growers have options for guarantee of payment and security in budgeting. We have never not been paid. Growers can also freely sell on the domestic market, take out contracts, warehouse et cetera. So we do pretty well. We have the best marketing system in the world. Ninety-five per cent of the grain produced in WA is exported and single desk provides critical mass that results in premium prices to growers in a very contested world market.

Our task, as the major grower representative, is to work with other states through the Grains Council of Australia to see that there is the very best operation possible for growers and to see that the terms of the constitutions of AWB Ltd and AWBI are adhered to—namely, maximising returns to growers above all else. No other body has those stringent requirements protecting growers' interests. We still have some work to do with the Wheat Board, but that point should be remembered.

We have held discussions with GrainCorp, the Grain Growers Association, Accenture and United Grower Holdings over their recent reports. But single desk and the national pool were constructed by you, the government of Australia, for the benefit of the growers of Australia. The state bodies, such as WA Farmers, through GCA, and mindful of the recommendations of the various reports, are preparing a strategic industry plan to be released at Grains Week in April 2003, which is not far off. Because this will cover issues including the WEA role, AWB Ltd and AWB International structures et cetera, we do not want the water further muddied at this stage. I think one of the previous speakers mentioned that point.

The Wheat Marketing Amendment Bill was designed to enable revenue to be raised to fund the operation of the WEA and because of the foregoing we strongly recommend that it concentrates only on that matter. The review of AWBI's performance in 2004 is just around the corner, and AWB will certainly be under strong scrutiny.

CHAIR—Do you think the WEA—given the cross-fertilisation or level of incest in all of these bodies—are independent enough to make that assessment?

Mr Wahlsten—We believe so. We believe they are getting the support that is required from AWBI. Their last interim report showed that they were happier. We are still concerned about some of the issues. Through GCA, we are putting great pressure on WEA under our consults and on AWB under the consults to see that they do pass over the information that allows the Wheat Export Authority to do the job that you have given them, which is to make that report in 2004.

CHAIR—With AWB Ltd supplying everything to International—and there is a continuing criticism of the closed-shop view of life in some of that process—do you think that, given the cross-fertilisation of directors on both boards, they themselves can set the high-jump bar for the incentives?

Mr Wahlsten—We are on record as pushing the Wheat Board and they well and truly know that we are in favour of contracted contestable services from AWB Ltd, CBH or whoever in Australia. We believe that those contestable services will keep the pressure on. We want AWB Ltd to be supplying services under those restrictions.

CHAIR—But aren't you a voice in the wilderness on that? Is anyone listening?

Mr Wahlsten—Through GCA we have AWB listening. We are mindful of all of these reports and things that are coming out. There is a lot in them. There are things in them that I agree with and that we are using. But we are putting pressure on through the growers and my council—WA Farmers Federation—coming to GCA. Then, with the consult meetings, we are putting the pressure on. We have to be really on the ball. There has been some criticism of GCA and I take that—I take criticism from all angles. What is happening is a moving feast. It is up to us as growers—we own this flipping industry, or we thought we did.

CHAIR—Take, for instance, the seed growing enterprise by the AWB. Isn't it a no-brainer that there is a conflict there? What have you blokes done about it?

Mr Wahlsten—There is conflict in all of these areas. We are working through GRDC and through our controls on grower funding to see that Syngenta, which the AWB are involved in, does not use any of that restriction situation to create a position of strength where it can contest unfairly with, say, my state department of agriculture through Enterprise Grains Australia.

CHAIR—But do you think it is a no-brainer that the system should be altered where the referee and also the producer are competing against other seed growers?

Mr Wahlsten—Yes, you are dead right. That is exactly what the Grains Council of Australia strategic plan is addressing.

CHAIR—But how many times do you have to say it before anyone does anything about it?

Mr Wahlsten—I think if we have this plan out and if we get a bit of finality in the decision making on who works with whom, from the growers' point of view we will be able to bring very strong pressure. It has not been a long time. We have been shaking things down into a situation and now we have identified some problems and perceived conflicts and things like that. We have to work our way through it to find the best way to handle them, bearing in mind that there is a very strong constitution in place and it is very hard for us to throw that constitution open. It has to go back to growers with some very stringent voting requirements.

CHAIR—So, finally, if, in the future, ConAgra or Cargill or someone made a wonderful offer to CBH and bought them out, what would your blokes think?

Mr Wahlsten—They would be terribly disappointed. I think they would feel that their cooperative company, which they own, has sold them out. As that would have to go back to growers for a vote, I could not see it happening unless it was a hell of a good deal for Western Australian growers.

CHAIR—Money speaks all languages.

Senator FERRIS—Can I just clarify first the number of grain growers that are members of WAFF?

Mr Wahlsten—Colin quoted something like 2,300 enterprises. If you take my instance, my two sons and my son-in-law are farming on my property, yet we are one of those enterprises. We grow a reasonable amount of grain—we have to, in order to keep those three families out there. We are in the eastern wheat belt and that is not funny—I think we have done well to stay there.

Senator FERRIS—I agree with you, especially this year. Can you clarify for me the relationship between your grain growers and the Wheat Board? Have you ever been sponsored to attend any eastern states conferences or does the AWB give you any conference sponsorship or travel money? Can you outline for us any corporate funding that you have had from the Wheat Board?

Mr Wahlsten—The Wheat Board is a premier sponsor for our conference tomorrow, and you would be very welcome if you care to attend. But so is CBH and GRDC. We get funded a certain amount by farmers to operate right across the board for WA farmers. The funding of grower organisations is a big issue.

Senator FERRIS—I agree with you.

Mr Wahlsten—I have accepted support and I have been funded at times. Some money comes from AWB and some from GCA to us and to me to go to meetings now and then. But I have also had assistance from GRDC, GPPL, which is the grain pool, and CBH. Yes, we do receive assistance but in all our correspondence to these people we always write a paragraph identifying that we have to perform independently on behalf of growers and that where we do not agree with them we will say so. I think I have had three instances in the last

month or so where the Wheat Board have come back with some very strong comments to me because they felt I was being very critical of them. That is our job. If anyone is out of line, we will kick them. Colin, our general president, I can promise you, will see that that happens.

Mr Nicholl—Our organisation has a list of about 40-plus sponsors, and that is public. The major sponsors are on a sponsorship board displayed in our office.

Senator FERRIS—I do not want to get into the broad principles. I am interested in the particular because I was fascinated to hear the carrot and stick words being used to talk about the AWB a little while ago. I am interested in trying to understand whether you feel comfortable with representing growers at functions and conferences having regard to your fares or costs—what about the outlook conference, for example?

Mr Wahlsten—Yes, I do feel comfortable about that.

Senator FERRIS—What happens when people come back to you later and ask you, for example, ‘Have you read the Accenture report? Have you read the Kronos report?’ We already have evidence to say that the Grains Council of Australia have not taken the opportunity to be briefed on those in a formal sense. Do you feel in any way squeezed by the fact that you are taking money from a group that perhaps may be in some ways criticised when you are in fact representing growers and you are a grower?

Mr Wahlsten—No, absolutely not because of the position that I have just outlined—we outline to them that that is the position. I have been briefed. WA Farmers and I personally have been flown to Adelaide to be briefed on Kronos. I have been briefed on Accenture. I have had both those outfits in our office. We do not shut the door on anyone. We will listen to everyone but in the final analysis we have to weigh up what is best for growers. I stand by what we say, and I stand by the comments I made to you earlier. If I do not adhere to those, I am out the door.

Senator FERRIS—But you did say that you agreed with some of the things in those reports. What do you agree with?

Mr Wahlsten—I was looking at a better way to separate AWBI and AWBL. Under our constitution, under the way we have to work, and given our responsibility to maximise grower returns, it is a very difficult issue. In GCA we have had two meetings where we have had very strong interstate discussion on the subject and they are part of what is being looked at under this strategic plan. I would rather work together across the states in coming up with a policy or a position. That will still be open to Accenture’s comments, Kronos’s comments, CBH’s comments and everyone’s comments as to how we as an industry have to go forward.

Senator FERRIS—I am interested that you have not said you agree with the criticism of the WEA that is contained in those reports. Are you happy with the way that the WEA is functioning? Do you disagree with all the other submissions, which suggest that the WEA is a toothless tiger?

Mr Wahlsten—It is not a toothless tiger. It has put two reports out since it has been shaking down into a position and, with our help, it is now beginning to get the information that it requires—that is, commercial information from the AWB—to properly analyse their performance. It is building that into a report in 2004, which is next year. The performances of the WEA and the AWB will be well and truly open for view, criticism or whatever at that time.

Senator FERRIS—There must be some interesting debates down at the silos between your members and some of the PGA boys. I am somewhat intrigued that you appear to be suggesting that we should bring down our report and that the parliament should pass these amendments in the next fortnight of our sitting period, before Grains Week, because parliament will then rise for the month of April and the first two weeks of May. I am puzzled as to why you would not want us to take into account the Grains Week report that you have foreshadowed, along with the reports of Accenture and Kronos, so that as a committee we are able to make sure that we truly reflect the wishes of all grain growers in the amendments that might go through the parliament. Wouldn’t it be better to wait than to amend it now, get your report in two weeks time and wait until next year before we do anything about implementing any recommendations?

Mr Wahlsten—Senator Ferris, with respect, when this matter originally came up it was about the ongoing funding of the WEA and the contributions of industry to the funding. It was not about the performance of the Wheat Export Authority or the performance of the AWB. If you have time to wait, fine. But I think the government wants some money.

Senator FERRIS—I think the WEA wants some money.

Mr Wahlsten—Sure. You are right. I will not argue with that one. We will bring down a report next month but, if you think that report will be properly worked through by industry and that decisions will be made within another month, that is just not going to happen. We will need time to work through this, but we want to put our industry on a strong path forward, bearing in mind all the muddy water around us at the moment with various private companies getting together and using the industry. I think that we should stick to working out

the funding arrangements. Then, if things come up, by all means we should come back later to talk to you, to government or to whoever about things we may require. We may need parliamentary support to take the right path forward.

Senator FERRIS—But that is two seasons away. That is a lot of grower returns.

Mr Wahlsten—I have trouble with this. We have a system in place that is working. We are looking at the WEA and we are looking at the performance of the Australian Wheat Board. We do have concerns and problems, and there are things we are working on. There will be things, I hope, that we can do in-house that you will not have to bother with. But there will be other things that may need to go before parliament. I cannot see parliament jumping on those in May. I would be surprised if you could move that fast.

Senator O'BRIEN—So, Mr Wahlsten, you do not want us to pass any part of this bill that is not related to the levy concept?

Mr Wahlsten—Yes, that is our position. We think that too many things need clarifying at the moment.

Senator O'BRIEN—Is the import of what you are saying that we should not pass the proposed new sections 5A or 5B in the legislation?

Mr Wahlsten—Could you clarify that? I do not have it in front of me.

Senator O'BRIEN—In 'schedule 1—amendments' there are new provisions sought to be inserted, which go to the performance of the authority's wheat export control function. That is what the heading says. If I understand you correctly, we should not be getting into how this area ought to be reformed; we should be just looking at the levy.

Mr Wahlsten—Yes, that is our feeling. We should take the report of the WEA, with all the pressure that we can bring to bear on the Wheat Board to give them all the information they require, and the WEA will stand and be judged next year. It is as close as that. They will be judged next year on their performance in investigating the Wheat Board and the Wheat Board's performance in operating the single desk. I will not try to pre-empt what would happen from there, but I would say the important thing is that the Wheat Export Authority is funded to do its job.

Senator O'BRIEN—If there is criticism about its ability to do its job, should we be making sure that it is adequately funded to do its job?

Mr Wahlsten—Yes.

Mr Nicholl—Absolutely.

Senator O'BRIEN—We have not seen it yet, but the Wheat Export Authority tell us that they have legal advice about the part of the act that says:

The Authority has power to do all things that are necessary or convenient to be done in connection with the performance of its functions.

They tell us that that does not give them very much power at all; it is only an ancillary thing that gives them certain administrative rights. Therefore, if we think the act is deficient, should we be attending to it now or should we wait until after 31 December 2004 to correct what they appear to be telling us is a fundamental deficiency in the interpretation of the legislation?

Mr Wahlsten—All I can say is that we have not had a request from WEA at our consult meetings that that should happen. We have put them under a hell of a lot of pressure to make sure that they are, in fact, getting the information they require. Through GCA we have also put a lot of pressure on the Wheat Board to give them that information. I am not sorry to it.

Senator O'BRIEN—Because you are putting pressure on the Wheat Export Authority to get the appropriate information, should we understand you to be saying that you do not believe they are necessarily getting all of the information that they should get to perform their functions?

Mr Wahlsten—In the first couple of meetings with the Wheat Export Authority and the consults we were quite critical that they were not getting the information. Now they are saying that AWBI and AWBL have released a lot more information to them and that they are fairly happy with what they are getting. We have told them to keep pushing hard in that area because they have to make a very strong industry-covering report next year on the performance of AWB. As I say, it is not far away.

Senator O'BRIEN—Shouldn't the legislation empower the Wheat Export Authority to have unfettered access to all of the information it needs so that it can tell growers, by the end of 2004, that AWBI is appropriately performing its function and exercising its exemption from the controls of the Wheat Export Authority?

Mr Wahlsten—I have not discussed this with GCA. Although GCA has said that WEA should have access to all the information it requires, of course it has to deal with a lot of that stuff in committee because it is very commercial. Yes, I agree with you: they should have access.

Senator O'BRIEN—There should be no doubt, should there?

Mr Wahlsten—No: they have to be able to make that very strong report. I believe that, with the pressure we have been putting, that position is being attained. Of course, I am not privy to what they are saying to you people.

Senator O'BRIEN—I would encourage you to look at the evidence given by the Wheat Export Authority to this committee about what they think section 5(2) of the act means, which I think is critical to the performance of their functions.

Mr Wahlsten—Okay.

Senator O'BRIEN—This bill seeks to introduce a new section 5A, which seems to change the objects of the Wheat Marketing Act and therefore goes to the relationship between AWBI and the Wheat Export Authority. Given that, isn't it the case that this committee is charged with the responsibility of looking at that issue in the context of this legislation, and not in the context of the narrow issue that you are asking us to look at?

Mr Wahlsten—I believe you will read that however you will; you will ask the questions and investigate whatever you like. What we are suggesting and recommending to you is that we concentrate on these important areas of funding et cetera, because we do have other things happening in a very short time, such as strategic plans and reports by WEA on the performance of the Wheat Board. There is a hell of a lot happening in the next year.

Senator O'BRIEN—You are asking us to do one thing rather than the range of things this bill talks about. Are you therefore saying we should reject the amendments that go beyond that?

Mr Wahlsten—We are recommending that you concentrate on the funding. If there is an ancillary issue, such as the more minor ones, by all means address them. That is my suggestion, with respect. But when you get stuck into the structures, the restructuring of AWBI and AWB Ltd and a lot of these other issues, they are pretty major issues and have ramifications across the industry. I think we as the industry deserve the right to look at all of these reports and make a recommendation.

CHAIR—How do you know how much money they will need if you do not know what their job is?

Mr Wahlsten—The Wheat Export Authority?

CHAIR—Yes.

Mr Wahlsten—Well, they are going to need money. They are using—

CHAIR—A lot of people think they must have more teeth, that they are just a bed of pansies at the moment. How do you know whether they will need double the amount of money they have now, if they are to be as robust as some people would like them to be?

Mr Wahlsten—They are using about \$1.8 million a year at the moment. There would be a reserve fund. Certainly they have to be in a position to do their job.

CHAIR—There is a job description, but what about if it is inadequate? I think the point Senator O'Brien is trying to make involves part of this. Wouldn't it be inadequate to say, 'There's the money, do with that whatever the money will allow you to do,' and leave it at that?

Mr Wahlsten—If they are going to do the things we were just talking about—that is, having a good look at everything and being in a position to take advice on certain areas in order to make recommendations, which we are looking to do next year—they have to be well funded. I'm not in favour of them being a toothless tiger, and I do not seem them as that. They have had concerns. We are trying to help them with those. They need to be adequately funded to do the job, and I hope that that goes forward. Because of the job they are doing on behalf of Australia, you will see we have suggested that there is a public good in the funding and there should be a public contribution as well as having the growers pick up the tab.

Mr Nicholl—I understand at the moment they are required to use other government agencies to do part of their investigations. There is a charging regime that is required of them, whether it is done at high cost, low cost or actual cost.

Senator O'BRIEN—One of the points that seems to strike me about all of this is that there are a lot of criticisms out there about effectively the cost to growers of the management of the supply chain under the arrangements that are now in place. That seems to me to be fundamental when looking at so-called company B—that is, AWBI—in the context of a review as to how they are performing and what they are delivering to

growers. All of these issues are up for review. Isn't it in the interests of growers for the review to be the most robust possible and have the greatest possible credibility at the end of the day? Isn't it against growers' interests to have a review conducted by a body in which many parts of the industry have little or no confidence?

Mr Wahlsten—Many parts of the industry may. We have to see that they have the ability to ask the questions and get the answers that they require for their report. Through all of this there has to be a hell of a big heap of commonsense come out—and facts. That is all that we as growers can deal with.

Senator O'BRIEN—It has to be credible, hasn't it?

Mr Wahlsten—It has to be credible. My job and Colin's job as grower representatives—and of course Greg's, as he is working with us—is that we have to see that those facts are out. We have to cut the bullshit and get down to the facts. That is what we are trying to do; that is what we are doing. We have to have the WEA funded. The AWBI have separate legal advice when they are doing their negotiations between AWBI and AWB Ltd. They have a compliance committee which is independent and takes advice. They are endeavouring, under the act that we put them under, to do those things. That is in response to the criticisms that we and the WEA have thrown at them. They understand the pressures and the perceptions of the positions. Whether they are doing it right are not, it still looks as if you have a director that is wearing a couple of hats. We are making them very aware of that. But it is the industry that put the constitution together. The Wheat Board are operating under a constitution which you gentlemen and ladies put in place on our behalf.

Senator O'BRIEN—That is right. This is our first and, perhaps, only opportunity for some time to fix problems that might be very obvious.

Mr Wahlsten—With the review and the report coming down in 2004, with what has happened in the industry—with all the companies amalgamating and moving together—it is timely that we as an industry put forward a strategic plan of how we see the industry should go forward. Hopefully, we will discuss that very closely with government to see that it is in the best interests of the growers of Australia.

Senator O'BRIEN—So you are happy that there be no change before 2005?

Mr Wahlsten—Yes. If there are things you can do to give the WEA more strength in their inquiry or their ability to inquire and get information—if you can help them in anyway there—that is fine by me. But other than that, the Wheat Export Authority have this job to do by next year. We are doing everything we can in our meetings with the Wheat Boards and the WEA to see that that happens. We will have an overall identification of what we think should happen. So, yes, 2004 and 2005 are around the corner.

Senator O'BRIEN—It will be 2005, if the report is not due until the end of 2004.

Mr Wahlsten—Okay. Maybe that gives us time to fix up a couple of things that you are identifying to me.

CHAIR—Do you think that in the meantime the questions of apparent conflict between the two boards should be addressed, or should we just let all that go? I mean the seed thing and the various—

Mr Wahlsten—If you are going to address the apparent conflicts or the conflicts that are identified, or alter the structure of AWB—both International and Ltd—that throws the whole constitution open. You would have to go back for voting. There are the growers' votes and 50 per cent of regions and the 75 per cent vote; a lot of stuff goes on. So that is difficult. If it needs to be done we will still ask you and endeavour to do it. But, at this stage, let us put a plan together; let us use our commonsense and work through these issues. The problems and the perceptions have been identified. We have to work through them and come up with a plan. I can assure you it will be a plan that suits growers and no-one else.

CHAIR—Our difficulty is that the whole thing is driven by self-interest, like most things in life. Our job is to look after the best interests of the growers at the end of the day.

Mr Wahlsten—As I tried to say at the start, and so did my president, we represent growers; we have no other vested interests. I would like to see levy funding by growers in Australia and growers in Western Australia that funded the work that our organisation does, which should give us complete independence. Perhaps I should not say that. We have complete independence. We have assured the companies that we deal with that that is the only way we will use their money. But they do fund us to do the job, because they see it as important that a group like us represents the growers across Australia.

Senator FERRIS—And you don't think that people think that the GCA is too close to the AWB?

Mr Wahlsten—People will think all sorts of things.

Senator FERRIS—I am asking you to reflect on that statement.

Mr Wahlsten—I think there is a perception and I have had it said to me that, yes, GCA is in the pocket of AWB. I can only tell people and they can only judge by our actions that we are not in their pocket. We have written to the Wheat Board and told them clearly where WA Farmers come from. We are completely

independent. We have to look after growers' interests. If we do not, certainly Colin and I would be shot out of our jobs.

Senator FERRIS—Is your membership going up—that is, grain grower membership of WAFF?

Mr Wahlsten—Yes, WA Farmers membership is going up.

Senator FERRIS—No, not WA Farmers, the membership of the grains section of WA Farmers. Is that increasing or decreasing?

Mr Nicholl—You have the natural consolidation of farms and farmers retiring. It is one of the strengths of our industry in Western Australia that our farms tend to be the largest in the world and larger than those in the eastern states, although the ground is not quite as productive here. But we have been able to maintain our membership, and the bulk of our funding—it is about \$1.5 million—comes from membership subscriptions. But you need to take into account as well the cost of national representation on all the different bodies, if we were to be on all of them. We have maintained our membership of the Grains Council of Australia but we have downgraded our membership in the National Farmers Federation and, hopefully, we can regain that at some time in future. We are now associate members of the National Farmers Federation rather than full members but to us and to a lot of other farm organisations around Australia the cost is unbearable. I know that other farm organisations in other states would very much like to maintain the membership of the National Farmers Federation and all the other national bodies, but for our organisation it is half a million dollars a year. That is an enormous amount of money for us to find year in, year out, yet it is essential that we maintain that national representation wherever possible.

Mr Wahlsten—The funding of state grower bodies is very difficult. We have to use money wherever we can get it. But I can assure you that they cop a letter that tells them that everything I do—I know that for Colin it is the same—is done in the interests of the growers only and guided by the donor.

Senator COLBECK—You mentioned a couple of times your level of representation. You have just discussed your independence and what you are doing. Why then do you see the proliferation of other groups?

Mr Wahlsten—There is one other main group that has been in our state. A group was recently set up, but they are a single-issue shareholders association, to work on the Wheat Board along the same problems that we have identified. They feel that they have the ability as a shareholders group to hit those areas, but there is great coordination of policy in what we and they are doing.

Senator COLBECK—In your submission you talk about the technical working group made up at the request of the minister. In the next paragraph you say that you took into consideration invited contributions from industry representative bodies. What were your selection criteria for those groups?

Mr Wahlsten—We have the technical group. The GCA works with WEA on what it is doing. Are you referring to where I said that we took on board what the Accenture and Kronos documents—

Senator COLBECK—Accenture and Kronos are not mentioned. It is on page 1 of your submission. You mention the Australian Grain Exporters Association, the Durum Wheat Growers Association, the Flour Millers Council of Australia, and the industry working group facilitated by NACMA. There seems to be a perception that the consultation is very narrow. What were your criteria for selecting your invited contributions?

Mr Wahlsten—I am not on the technical working group—that is some of the guys in the east—but I cannot see that, if there were other people who made comment, those comments could not be taken on board by the TWG. Maybe that is a compromise that could be looked at.

Senator COLBECK—I would have thought that, if you were trying to get to the bottom of what is best for industry, you would consult as widely as possible, not go to a narrow invited group of people.

Mr Wahlsten—I will have to ask Greg whether that is an exhaustive list.

Mr Warren—That initial list—the technical working group—was actually when they were looking at the revised export consent arrangements for bagged and containerised product. That was the initial setting-up when they looked at those revised export consent arrangements. But there is a technical working group now in place on a continual basis with the WEA that the GCA are involved with which now looks at all aspects of what is going on.

Senator COLBECK—What is the level of consultation from that group? Indications that we have had are that it is fairly narrow and people are not being listened to. Those are your words not mine. I am just reading what is in your submission.

Mr Warren—In what respect are you saying that it is narrow?

Senator COLBECK—We have indications to that effect from other submissions that we have had and other evidence that we have had, even here this morning.

Mr Wahlsten—If there is something there that is reflected that is a concern to other people, I am happy for it to be taken on board and addressed.

CHAIR—There is no doubt about it: the meat industry is insane!

Mr Wahlsten—I have not got an answer to your question, Senator Colbeck, but I will certainly take it on board. It would certainly be reflected in GCA and I would undertake to do that if you recommend that something appears amiss.

Senator COLBECK—We have had evidence this morning that the opportunity has not been taken to get a briefing on some of the reports that have been prepared. Wouldn't that indicate to you that there is a narrowness in the base of information that is being sought?

Mr Wahlsten—That is incorrect. I think four, if not five, of the states of the GCA have attended meetings where the reports were covered. I was with the South Australian and Victorian delegates in South Australia when the three of us were briefed on the Kronos report. We have had quite a few visits here in WA. We have been well and truly made aware of those reports, so that is incorrect. The president of the GCA may not have had the full briefing, but I will not comment on that because I am not his keeper. If he has not got a full briefing or a full understanding, then that is something that he perhaps should get, but the states are well and truly aware of the contents and the recommendations of both those reports.

Senator COLBECK—Are you saying that if individuals have taken up the opportunity, that is good enough for the body as a whole?

Mr Wahlsten—No, we were invited as states to—

Senator COLBECK—That is not what I am asking. I am asking this: because you, as an individual stakeholder, have been briefed, does that cover off the requirement for the national industry body, the GCA, to undertake a briefing and question it as a national industry representative group?

Mr Wahlsten—We take on board information from all sorts of angles, including the bulk handlers and everyone else. We have information from all these people and that will be used and addressed in forming a strategic plan. We cannot just take one lot and say, 'Right, that's it.' We have had submissions from the durum wheat people and all sorts of groups. It is our task to put those together and recommend what we believe is in the best interests of the growers.

Senator COLBECK—You have made representations today that this particular piece of legislation should be dealt with now and the other issues left until later on.

Mr Wahlsten—Basically, yes.

Senator COLBECK—Are you saying that the industry is not prepared to deal with the other issues at this point in time?

Mr Wahlsten—No, we are very aware of the problems. Accenture and Kronos have identified what they consider are problems. The bulk handlers have identified to us the problems that they see. We are working immediately on this; it is currently being worked on. A couple of groups have been employed to make presentations to us for ratification at Grains Week. So there is a hell of a lot of work going on in getting a position. I believe that because we discuss all these things and argue about them, I cannot see the industry agreeing on it in one hit. There is no doubt that when this document is released, it will be up for some further discussions. That is why I queried how we could bring a final position back to this committee within a few weeks.

Senator COLBECK—You say that you have identified the issues, how are you communicating that back to the industry?

Mr Wahlsten—We will make a report at Grains Week.

Senator COLBECK—Thank you.

CHAIR—Thank you for your contribution today. Before we adjourn for morning tea, I would like to welcome the former distinguished chair of this committee, Winston Crane, who is sitting at the back of this room.

Proceedings suspended from 10.18 a.m. to 10.33 a.m.

CHAMARETTE, Mr Stephen, Secretary, Wheat Growers Association Inc.

IFFLA, Mr Robin, Chairman, Wheat Growers Association Inc.

CHAIR—Welcome. I invite you to make an opening statement.

Mr Iffla—Good morning and thank you for the opportunity to appear before the committee. I am a farmer from Newdegate and Steve Chamarette is a farmer from Trayning. In my opening address I would like to briefly detail the reasons for the formation of the Wheat Growers Association—commonly referred to as the WGA—and why the WGA perceives that a conflict of interest has developed between A and B class shareholders of AWB. I would also like to reiterate our recommendations for enhancing the Wheat Export Authority.

Firstly, the WGA is an independent, not-for-profit organisation staffed by honorary volunteers. It is funded through grower membership subscriptions only. Its aim is to promote and protect the interests of A class shareholders of AWB—that is, growers who produce in excess of 33¹/₃ tonnes of wheat per year. The WGA was incorporated on 3 December 2002 and held its first meeting on 17 December 2002. The WGA was a response to the frustration of WA growers' with the perceived inaction and slowness of GCA and the Wheat Export Authority in resolving the effects the high costs of AWBL's services were having on the viability of WA growers.

By creating an A class shareholders association, the WGA positioned itself to use the provisions of Corporations Law to put forward shareholder initiated resolutions to address the following issues: firstly, confirmation that pool returns are being maximised; secondly, perceived conflicts of interest between the structures and relationships of the boards of AWBI and AWBL; and, thirdly, transparency and the contestability of services between AWBI and AWBL and the detailing of pool costs in a disaggregated manner in a dollars per tonne format. Subsequently, the WGA forwarded resolutions for the AGM to address these issues. These resolutions were later withdrawn with a negotiated agreement.

It must be remembered that WA is export focused and has more at risk than other states. So, in July 2002, the concerns of growers with the direction and management of AWB were expressed to AWB Chairman, Brendan Stewart, at public meetings held in Lake Grace and Bruce Rock. The real catalyst for the formation of WGA was in September 2002, when growers became aware that pool costs had increased from \$2.65—exhibit 1—as reported in the 2001 annual report, to over \$6—exhibit 2—as reported in September 2002. It was not only the 50 per cent increase in costs that concerned growers but the non-transparent manner in which the figure was reported as a percentage with no details for the increase. Further, it is our opinion that the two exhibits clearly illustrate the growers' perception that the focus of AWB has now swung away from growers to investors.

Moreover, the release of the Accenture and Kronos reports claiming there was the potential to save WA growers \$8.70—exhibit 3—and \$9.33 respectively per tonne, started growers questioning whether their returns were being maximised as per the AWBI and AWBL constitutions. Further, the CBH proposal *A blueprint for success in the West*, tabled by CBH earlier today, which offers to conduct only a limited range of services, reduces growers costs by \$4 per tonne.

The WGA's principal objective is to improve wheat growers' viability by ensuring AWBI and AWBL focus on the core business of maximising the use of the single desk for the benefit of growers by achieving the best possible wheat price at the lowest possible cost. The WGA believes the AWBI, by accepting the special export rights licence, entered into a contractual obligation with the Australian government and wheat growers—A class shareholders—to maximise their returns. This obligation is detailed in the constitution of both AWBI and AWB Ltd. More importantly, we believe the Wheat Export Authority is, and should be, a contract administrator acting in the best interests of government and growers. Consequently, AWB has a contractual and moral obligation to maximise the benefits of the single desk to wheat growers and the Australian community respectively, rather than B class shareholders.

Other than a reasonable commercial rate of return, there is no stated requirement of AWB to maximise total shareholder returns. However, AWB has implemented a share incentive scheme—which, I might add, was defeated in the 2002 AGM—for the CEO, the managing director, the senior executives and the employees which is specifically designed to align their interests with those of B class shareholders by rewarding and motivating them with B class shares for corporate growth and profit. This appears to be an untenable conflict of interest. These incentive schemes appear to reinforce the focus of AWB's current management and employees on the B class share value and dividends rather than on maximising returns for A class shareholders as their priority task. Thus, in our opinion, it is not surprising that the Accenture, Kronos and CBH reports appear to have been dismissed and treated with indifference by AWB. In contrast, the service agreement, the OPI, the proposals to duplicate CBH facilities, high dividend payments, the release of 30

million B class shares to institutional investors and major shareholding investment in Futuris have been promoted, pursued and defended with much vigour at all levels within AWB.

We read with great concern and disbelief the statement by Wheat Export Authority in its submission to the Senate committee that:

... the WEA is dependent upon the provision of a range of information and data by AWBI. There is no obligation on AWBI to provide access to this information and data.

Secondly, it stated that the Wheat Export Authority is not required to publish an annual growers report, although it does so, and that it is constrained in this report by a confidentiality agreement with AWBI. If this agreement is similar to the one that was presented to the WGA, I can appreciate the inability of the Wheat Export Authority to produce a detailed, transparent report.

If these statements by the Wheat Export Authority are correct—and we have no reason to doubt their validity—growers will be alarmed and angry when these facts are made known. Most growers will want to know why they are being asked to fund a body that is not accountable to them and has limited data and analytical capability, as well as no responsibility to assist growers with information to reassure them that their returns are being maximised. To address the concerns of growers, the WGA believes that, firstly, the Wheat Export Authority needs more power and resources; secondly, AWB International must return its focus to growers and not be subservient to AWB Ltd's B class shareholder interests; thirdly, greater competition and contestability of services in the supply chain must be introduced immediately; and, finally, one of the highest levels of transparency and accountability in the management of the single desk should be acceptable to the government, the Wheat Export Authority and growers.

The Wheat Export Authority, if given appropriate powers and resources, should be able to confirm to growers that AWBI is maximising the net pool returns for growers who sell wheat into the pools run by the pool's subsidiary by securing, developing and maintaining markets for wheat and by minimising costs as far as practical. In simple language, the Wheat Export Authority needs to inform growers whether the current processes and systems of the nominated company B, AWBI, are efficient and cost effective and whether implementing better benchmarks, key performance indicators and systems can derive additional value for and/or savings to growers. Thank you again for this opportunity to address the committee. Steve and I will try and answer any questions you may have arising from the WGA submission or this statement to the best of our ability.

CHAIR—Thank you for that.

Senator O'BRIEN—Mr Iffla, you are a former GCA grains committee delegate and WAFF Grains national representative.

Mr Iffla—That is correct.

Senator O'BRIEN—Can you tell us what you know about the relationship between AWB Ltd, the GCA and funding?

Mr Iffla—There have been times when the AWB has funded the different farming organisations for specific things—that is the short answer.

Senator O'BRIEN—What about a long answer? What do you know about the suggestion that there is a carrot and stick approach being used by AWB Ltd in the funding of GCA?

Mr Iffla—The reason we have made sure that we stay completely focused and are not funded by any other organisation is that our committee believes that once you start receiving moneys from anybody—especially sizeable amounts—it tends to compromise the position. It is very easy to do—that is for sure.

Senator O'BRIEN—Are you saying that GCA is compromised by the funding by AWB? If so, in what way?

Mr Iffla—No, I would not like to say that they are compromised. Certainly a lot of people have that perception.

Senator O'BRIEN—In your submission, it is clear that you think that the Wheat Export Authority is considered to be underresourced in its skills base and regulatory powers, and is starved of information to do its job. On page 2 of your submission you say that AWB Ltd is not maximising grower returns but using the single desk to build this business and the value of B class shares. Given the role of the Wheat Export Authority in relation to AWB and its business, what should we do in relation to the Wheat Export Authority? This is a bill about funding the Wheat Export Authority to do a job. Should we be satisfied simply with passing legislation which will create the power to effectively tax growers while not attending to the issue of the authority of the Wheat Export Authority?

Mr Iffla—We agree about funding the Wheat Export Authority, but they must be able to truly get all information that is required from AWB International and AWB Ltd about their services. It is an absolute

waste of time even funding the authority if you cannot get the right information to make the decisions. I think that has been very lacking. From the Wheat Export Authority's report, I understand they have a confidentiality agreement. The AWB has some 77 different services that they have spoken about on a lot of different occasions. For us to even get a list of the names of the services without any details about them, we would have to sign a confidentiality clause—we could not even tell our wives because we would have to kill them! It is ridiculous.

CHAIR—It would be easier just to cut the tongue out!

Mr Iffla—Well, we could do that!

Senator O'BRIEN—In your submission you say that, while A class shareholders hold B class shares in AWB Ltd, the number of B shares held by A class shareholders is diminishing. What evidence do you have of that trend—can you quantify it?

Mr Iffla—In the area that we come from, the Lake Grace region—I am also zone council president of the Corrigin and Lake Grace zones so I am coming from that perspective as well—and through the work we do with the Wheat Growers Association, many growers have said to us that they only have a few shares left. They still have shares—they have kept a few B class shares—but people generally say that it is best to sell some of your shares and have a basket of shares so that you are not so reliant on the wheat industry. There are a quite a lot of brokers et cetera who suggest that. At this point, I would like to turn to Steve to answer some of these questions because he has done a lot of the work in writing this report.

Mr Chamarette—We approached AWB about giving us the actual value of shares held by growers. We were told by Michael Thomas, who is their senior investment officer, that this was not possible. The information that AWB gives is that 85 per cent of the shares are held by retail people, but they are not necessarily growers. A retail shareholder is someone who holds less than 100,000 shares—that is the cut-off.

Senator O'BRIEN—So the implication is that the other 15 per cent are institutionally held?

Mr Chamarette—That is correct—or some very large growers, of which there are some.

Senator O'BRIEN—Okay.

Mr Iffla—That really needs to be looked into, because you rarely find people who have not sold off quite a few shares. Although 85 per cent of growers may hold shares, I find it very hard to believe that 85 per cent of the value would be held by growers.

Senator O'BRIEN—Yes, it would be interesting to see that breakdown. The AWB web site says the B class shares represent the economic value of the company, so building the business is building the value of B class shares. That is how it works out, isn't it, Mr Chamarette?

Mr Chamarette—That is correct. On that basis, the actual value from an accountant's point of view is about \$2.88 per share. The rest of the value is gained through having patents, the export licence and the skills to sell the wheat overseas. So the intangibles add to that value as well.

Senator O'BRIEN—In your submission you have referred to the impact of recent droughts and financial advice, and we have just been talking about diversifying shareholdings. You suggest that there is general market advice going to growers that it is better to reduce their holdings, diversify their risk and buy other equities. Is that your understanding of the advice to growers on their holdings in AWB?

Mr Chamarette—It is the normal advice given by financial advisers, which is: 'Don't put all your eggs in one basket.' It is advice that would be given to anyone—not to hold a quantity of shares or a major part of your portfolio in one area. I do not think there is anything sinister in it. It is a fact of life: don't hold all your shares in one area.

Senator O'BRIEN—It is like growing all one crop or running a single agricultural enterprise. In the wrong season, you do not get any income.

Mr Chamarette—That is correct. You need to diversify.

CHAIR—Of the wheat growers that you know, is it their view that the Wheat Board—AWB Ltd or whoever—ought to be about selling their crop for the maximum return with the least cost? Is it as simple as that?

Mr Chamarette—That is probably a simplistic view, but that is what most people would like; that is, to have the best price at the lowest cost because that puts you in the most viable position.

CHAIR—There have been some inglorious examples of people who had a core business and decided to grow it and paid their executives a big how-do-you-do when they left after they broke the business. Do you think that people are worried that the Wheat Board might get off on other adventures that might eventually come undone?

Mr Iffla—There is absolutely no doubt that people are very concerned about that, and it is quite clear that they are not accepting the fact that the AWB is maximising returns to the growers. I guess this should also be of concern for government, because when you do have droughts and things like that, the more money that you can put away in a good season the better you will get through a poor season. When you are starting to pay managing directors' huge salaries and the staff increases that the AWB has had over the past few years—and, mind you, it is a very small crop this year but they seem to continue on with building other storage around the place and all sorts of things—that does not seem to us to be the way to go. I am starting to feel that this review with the Wheat Export Authority has to be a very vigorous and robust one. I think that the powers of the Wheat Export Authority have to be increased to make sure that we get the most robust review that we can.

Senator O'BRIEN—You touched on the AWB's move of duplicating CBH infrastructure. It is pretty clear to me that you are seeing that as building the business for B class shareholders at the expense of A class shareholders, because cost savings and, therefore, higher pool returns would be lost in that strategy—at least until CBH is no longer a force in the infrastructure chain in Western Australia.

Mr Iffla—Yes. The other side of it is the part you mentioned about CBH. We already own those buildings in CBH and we cannot see any point in duplicating those types of services, because they are being handled adequately at present. It is devaluing both sides. It is just pathetic.

Senator O'BRIEN—Have there been any opportunities for shareholders to raise those concerns?

Mr Chamarette—There certainly have. Part and parcel of our membership form is to detail the concerns of growers. The CBH duplication facility rated at 48 per cent followed by the loss of that \$9.33 as mentioned in the Kronos report. Together, those two came to 75 per cent of the five questions asked in the growers' survey.

Senator O'BRIEN—I refer to the service agreement between AWB Ltd and AWBI. You are saying that the structure of the AWB companies means that AWBI has no choice but to take services from its parent company. In your view, does that mean that the only solution would be to break the link between the two companies?

Mr Iffla—To have a completely independent AWBI and AWB Ltd, it would be a tremendously hard thing to change that constitution. We believe that a lot of these services should be contestable. We are already seeing that CBH are suggesting five services, which could save growers over here \$4 per tonne. But if we looked at a year like this, you would see that our costs would be a heck of a lot lower and we could save a lot more than \$4, because only about five million tonnes of wheat or thereabouts would go through the pools of AWB, from the figures that we have.

The service agreement is worth \$45 million. The main part of that grain is going to come from Western Australia and South Australia, so we are paying this \$45 million, which is working out to close to \$9 per tonne. Those people in the eastern states who have the opportunity to sell on the domestic market do not have to pay very much for the ongoing cost of AWB. It seems that just the people who export have to pay the lion's share of the cost. This year it has been particularly hard. We think that the OPI, the out performance indicator, is one of the worst things that could ever happen.

Senator O'BRIEN—What are the problems with it?

Mr Iffla—How it is benchmarked—by AWBL and AWBI—is a considerable concern. Once they get \$US5 a tonne above that benchmark—and we know who sets that hurdle—they get 20 per cent of that commission. It goes straight to investors. If you think that is bad, on \$280 a tonne they are allowed to take 1.5 per cent of the gross pool value, which works out to \$4.20 a tonne—just like that, provided they get to those hurdles. Another concern is the fact that the price of grain peaked in October last year. There is still a lot of grain throughout Western Australia that is in the CBH facilities—I do not know how much of it has been sold. If they have missed the market trying to extract the absolute maximum then it has probably cost us a lot more than that \$4.20. It has probably cost us quite a few dollars a tonne.

When I was on the Grains Council of Australia, I asked Trevor Flugge a question at a consultative meeting: 'As the price of wheat is going up is it better to hold back and sell the grain as the price goes up—hold back and get a better price?' He said, 'The wheat industry is such a fickle thing in a sense because a war can break out, there can be floods, there can be big rains, there can be all sorts of things and the wheat price can just go up and down. Would we really like to have another wheat stockpile like we have a wool stockpile?' I thought the answer to that question was pretty good because it indicated that you have to continue to sell and not just look at the very high price you might get because quite often you miss out.

Mr Chamarette—In addition, the equation does not take into any consideration the fact that if WA, which, unfortunately, did not have a good season this year, had had a very good season we would have found great problems unloading the wheat at the local silo. We would have lost segregations and we would have had to wait for turnaround, for trains to clear the silos. In our opinion, that has not been considered in the equation of the OPI—moving the grain when it can be moved.

Senator O'BRIEN—In another section of your submission headed 'Dividend payments' you refer to the dividend paid to AWB B class shareholders in 2002 as, reportedly, 'the highest paid by a top 200-listed company' and you point to the fact that these dividends were fully franked. You say:

The 25c dividend has again been promised to shareholders for the coming year ...

Where do we find the evidence of that promise? Who made it?

Mr Iffla—That promise was made at several grower meetings throughout Western Australia. Lake Grace was one place Andrew Lindberg said they had promised a 25c dividend. Wongan Hills was another. That seems to be so unreasonable when we are all having a drought and a lot of companies are not paying very many dividends at all. But these dividends are propped up. I guess the main aim is to keep those B class shares with a reasonable amount of value—or over a reasonable amount of value. Of course, that also encourages the company to make even higher profits if they inflate the value of those shares. If they want to make 15 per cent on, say, a \$4 share it is a lot more money than if they want to make 15 per cent on, say, a \$2.50 share.

Senator O'BRIEN—You also refer to AWB forecasts of a drop in AWB profits from \$107 million to around \$30 million. Again, where do we find that data?

Mr Chamarette—That was put up in a PowerPoint presentation at the pre-AGM conferences that were delivered about a fortnight ago by AWB.

Senator FERRIS—I apologise for being out of the room during the introductory remarks, but the area that I am interested in exploring is on page 2 of your submission and it is in relation to the new structural facilities that are being developed by AWB in a number of states in Australia. You describe that as cherry picking of rural and port sites. Have you addressed that question in your evidence so far? I will read it in the *Hansard* if you have.

Mr Iffla—Basically, we have addressed that issue. But there is grave concern about the duplication of storages. We feel that we already own the CBH assets, so why duplicate them and both devalue all the assets and disrupt the whole thing? There are much better ways than that to maximise returns to growers.

Senator FERRIS—There is the competitive aspect of it but there are also the aspects of the outlay of assets, the degree to which those assets may be required and the degree to which they may be used. This is an issue in South Australia and New South Wales. I will pick up that evidence in the *Hansard*.

Senator BUCKLAND—I want to clarify one aspect. You were talking about CBH and how you own the facilities it operates. Are you suggesting that CBH has no further role in the industry?

Mr Iffla—No, we are not suggesting that at all. I am sorry, but I have not fully grasped the question.

Senator BUCKLAND—I might have misheard you, but there was the suggestion that the growers owned and operated the facilities. I want that further explained to me.

Mr Iffla—It is a cooperative and we have paid for those facilities over many years and many generations. They are very good facilities—probably the best in the world. We do not want to see any eroding of those facilities. If they put up opposition facilities in those areas then we would not want to see the same thing happen as has happened in places like Mallala in South Australia, for instance, where they give predatory pricing to freight and all those sorts of things. From what I have read I think there is a 40 per cent difference between Mallala in South Australia, where they put their facility, and the AusBulk facility. We only need to look over the fence and see what is happening over there, and we are not impressed about it at all.

Senator BUCKLAND—That clarifies what I wanted to know.

CHAIR—Did I hear you say earlier that 15 per cent of AWB Ltd is held institutionally?

Mr Chamarette—No, that is the figure used by AWB in saying that roughly 15 per cent are institutional investors.

Senator O'BRIEN—Fifteen per cent of shareholders or 15 per cent of shareholdings?

Mr Chamarette—Fifteen per cent of the value of shares.

CHAIR—Is that limited by the constitution?

Mr Iffla—No, it is not limited by their constitution.

Mr Chamarette—No, it is not.

CHAIR—So what is to stop that being 50 per cent?

Mr Iffla—Absolutely nothing, but I really—

CHAIR—You do not have to explain it any further. If that is the case, what is to stop ConAgra buying the Wheat Board, in the fullness of time and with money speaking all languages?

Mr Iffla—Any one person is allowed to have only 10 per cent of that company. I do not know, but in terms of how companies work I suppose you can have one with 10 per cent and another one around the corner with 10 per cent.

CHAIR—Suppose five institutions bought 10 per cent.

Mr Iffla—Yes. I do not think you would even have to have 50 per cent ownership by outside investors to be in real strife, because of the voting strength.

CHAIR—Do you think that would alarm wheat growers?

Mr Iffla—I think it does. It has been a concern in Western Australia right from the word go. Western Australia wanted to have a cooperative for the AWB so that it was a non-profit organisation. If it had actually turned out to be that, we would not be sitting here today. It is as simple as that.

CHAIR—Thank you very much for your time and consideration.

Mr Iffla—I would like to make one last point. Our organisation is very strong on maximising the return from the single desk, and the growers in Western Australia predominantly still want the single desk. But where the great frustration is coming from, and the reason I got personally involved in this—because I had decided to get back out to the farm—is that quite a lot of growers around the state are saying, ‘Let’s just get rid of the single desk.’ I say, ‘Why get rid of the single desk? What is the problem?’ They say, ‘The Wheat Board is this,’ or ‘The Wheat Board is that.’ I say, ‘Let’s fix up the problems with the Wheat Board and leave that marketing tool there, because it is very important to have a good, strong marketing tool.’ I have given my commitment that I will be working along those lines to see if we can get the AWB to go back to its core business of marketing grain.

CHAIR—So, in turn, if the WEA were seen as being more gorilla-like, you think your growers would be a lot happier.

Mr Iffla—It has to be far more robust. Before I, as a grower, go out and pay some sort of levy, I want to see the report from the Wheat Export Authority. I want to see all their costings and how they are actually worked out, because, like any other business arrangement, we have to know that. I am a bit disappointed by what has happened, by the legislation up to now and by the fact that the Wheat Export Authority has spent \$6 million of growers’ funds—that was all derived from the Wheat Industry Fund—and it has been hamstrung, I believe, by a confidentiality agreement.

CHAIR—Thanks very much.

Senator O’BRIEN—Do you believe that the industry growers in particular will have confidence in any finding from the review that has been conducted by the Wheat Export Authority, given its performance over the last few years?

Mr Iffla—I think they will have very little confidence because of the confidentiality agreement, as I said before. I know from experience that it is absolutely hopeless. We could not sign that confidentiality agreement because we could not do anything; that would have been the end of our association.

Mr Chamarette—You have probably read this report. You actually have to ask for that to be issued.

CHAIR—What is the name of the report?

Mr Chamarette—This is *The growers’ report 2002* from the Wheat Export Authority. It is about 13 pages long and it raises more questions than it ever hopes to answer.

CHAIR—Thank you very much. We might take a copy of that.

[11.09 a.m.]

BRADLEY, Mr Leon John, Chairman, Western Grain Growers, Pastoralists and Graziers Association of Western Australia

CAPP, Mr Damian, Policy Director, Pastoralists and Graziers Association of Western Australia

KEAMY, Mr Richard Leslie, Vice-President, Pastoralists and Graziers Association of Western Australia

CHAIR—Welcome.

Mr Keamy—I apologise that you did not have my name beforehand but I have been called in at the last minute because of earlier presentations made about our membership and the funding of our association.

CHAIR—Are you going to make an opening statement?

Mr Keamy—Leon will do that.

Mr Bradley—Thank you very much for the opportunity to appear before you today. As an organisation, we tend to be marginalised in the wheat debate, even though we believe our members grow a considerable amount of wheat. We do not get the opportunity to influence industry structure in the way that I believe our arguments would justify. The explanatory memorandum with Mr Truss's second reading speech in introducing this bill said that wheat growers and their associated industry are the main beneficiaries of the single desk premium which may be small, in the order of \$1 a tonne. We have some problems with that statement. First of all, we doubt very much whether we are actually beneficiaries of the operations of the Wheat Export Authority. The first question that needs to be asked is: if the premium is only \$1 a tonne and it is uncertain, and the levy that is about to be imposed at 12c to 15c a tonne is certain, why would you not skip the levy and take a chance on the dollar?

The second point is that the \$1 a tonne figure came from the national competition policy review done on behalf of the government in 2000. Mr Truss failed to mention the second half of the \$1 a tonne benefit, whereby the competition policy review stated that supply chain costs are \$9 a tonne higher than they would be in the presence of competition. So, in fact, growers are \$8 a tonne in arrears. We draw the conclusion, just from the government's own work, that we are not the beneficiaries of the operation of this act. And, to a large extent, the competition policy work has been verified by the reports from Accenture and Kronos. We believe that the assertion that we are beneficiaries has no basis in fact. To the contrary, the Wheat Export Authority, in the PGA's view, sees its charter as facilitating the dominance of the wheat industry by the AWB Group for maximum financial gain and other benefits for itself and to the detriment of every other participant in the industry, including growers.

The intent of our submission, which you should have before you, is to challenge Mr Truss's claim that the Wheat Export Authority operates to the growers' advantage and to urge reforms in the operation of that authority that will facilitate a drive to lower supply chain costs, more innovation, more effective market development and more opportunity for independence for producers. In making these recommendations to reform the Wheat Export Authority and the administration of the act, we would like to apprise the committee of our view that these are only second-best measures. They are tackling the symptoms, when we think there is a cause that is perpetrating these problems.

The problem is that, while it is generally held that the AWB Group is a monopoly seller and that it can obtain prices independent of the market, the realities of commerce and economics dictate otherwise. What has been achieved in the ambition to institutionalise monopoly selling has been, instead, to impose monopoly buying. Therefore the ultimate remedy to this buying privilege, where producers are forced by government decree to surrender their export wheat to the AWB Group on terms and conditions dictated at the complete discretion of the group, would be to allow the entrance of competing buyers. In other words, wheat growing, being an innocent and productive activity, should be complemented by voluntary wheat trading.

Back to our recommendations—assuming that such a demand cannot be met—we believe that the purpose and objectives of the Wheat Export Authority should be redefined and that the interests of everybody in the industry should be equitably safeguarded. We think the Wheat Export Authority should be reconstituted and should have a board made up of qualified people with international experience. We believe that it is necessary to eliminate the requirement of the Wheat Export Authority to refer export applications to the AWB, AWBI or any other single desk licence holder. We think it is necessary to repeal the need for applications for all bags and containers. That should be free because they suffer a penalty from the costs imposed through having to containerise it. If the Wheat Board cannot compete with bulk against containers, there is something wrong with the Wheat Board's claims.

We also believe it is important, as the competition policy review recommended, to institute a system for applications and licensing for export in bulk where the AWB cannot demonstrate that it is generating price premiums from the exercise in market power. Lastly, we think that, as the government intends to restrict a farmer's commercial freedom, it would impose higher supply chain costs on producers than would apply in a competitive market and suppress market development. We should not also be expected to pay a levy to fund the operations of the Wheat Export Authority.

CHAIR—What percentage of the wheat growers do you think you represent?

Mr Keamy—I can answer that question. We have 1,958 grower members. We estimate—and this can only be an estimation—that there may be 6,000 growers in Western Australia. We assert that our membership would perhaps be in the above average category and we believe that any other assertion made by anyone else as to our membership can be only conjecture and, as such, we will not be making any—

CHAIR—How many of your grain growing members would also be members of the Western Australian Farmers Federation?

Mr Keamy—We do not ask that.

CHAIR—There is a possibility they could be—

Mr Keamy—The possibility, I would say, would be very low. We have diametrically opposed views on the future of the single desk.

CHAIR—Can you understand it from where I sit? I am just an old, worn out farmer from the Eastern States, and we used to have the graziers association and the LGPA, which combined. When you have what you have here—which is some sort of territorial jealousy, competing egos and a whole lot of other things—

Senator FERRIS—Healthy competition!

Mr Keamy—It has been very effective so far.

CHAIR—you can get caught up in sending confused signals to government.

Mr Keamy—We have had the same policy for 25 years.

CHAIR—You did say that you do not think you are included in the loop, in the consultative process, in the way you would like to be. You said earlier that you felt you were being left out of things.

Mr Bradley—That is right. I was referring there to the negotiations that went into drafting the privatisation proposal for the Wheat Board. We were expressly excluded by the Grains Council. We asked if we could join them. They said that, unless we were prepared to sign an arrangement to not contest the validity of the single desk, we could not participate. We wrote to the minister, Mr Anderson, at the time expressing our displeasure, and he said that the Grains Council were more than well qualified to represent our views without our presence.

CHAIR—So you do not think the best way to use your numbers is in their room, as it were—in other words, have one organisation?

Mr Bradley—To be a member of the Grains Council?

CHAIR—Yes.

Mr Bradley—We have diametrically opposed views, as Richard said.

CHAIR—That is not uncommon in this big, wide world. If you could come to a decision on behalf of all the growers in Western Australia in one room, rather than having two positions, it would make it easier for government to work out what to do.

Mr Bradley—It certainly would be more convenient, but in the case of there being only one policy one of them is going to lose. We think our policy is right, so we are not prepared to sacrifice it.

Mr Capp—I would like to clarify one point. The PGA was an associate member of the Grains Council of Australia in the mid-1990s. The constitution of the Grains Council of Australia at the time allowed for four votes from each of the five member states. The four votes, however, were carried by the one organisation. In the case of Western Australia, it was the WA Farmers Federation, so the only membership available to the PGA was an associate membership, which held no voting rights. By 1996, the organisation had reached the point where we realised that it was largely pointless to hold that membership. Membership was subsequently withdrawn.

Senator FERRIS—I can remember the National Farmers Federation 20 years ago having a very spirited debate between the two Western Australian farm organisations. I can see a former member and president of the Western Australia Farmers Federation, former Senator Winston Crane, agreeing with me. Richard, I am interested in exploring the statements you make on pages 2 and 3 of your submission. The third paragraph of the executive summary says:

PGA-WGG believes that the WEA ought to be disbanded along with the monopoly wheat export system.

Let us just stick with the WEA for a minute. Why do you think it should be disbanded when it has power to do all things that are necessary or convenient to be done in connection with the performance of its function—that is, the oversight of the best interests of grain growers? To me, that gives it a pretty wide charter. Why do you want it disbanded? Presumably, it is because you think it is a costly toothless tiger. It seems to me that the tiger has teeth. So where is the problem as you see it—not in the tiger but perhaps in the teeth?

Mr Keamy—We want to throw out both things; we were not looking at the Wheat Export Authority alone. But I would like to hand over to Leon to answer that.

Senator FERRIS—So the abolition of one is conditional on the abolition of the other?

Mr Keamy—Yes.

Senator FERRIS—Then why do you say on page 3, under part (b), that we should ‘reconstitute the WEA Board to ensure membership of qualified and experienced commodity and international exporters’?

Mr Bradley—I probably did not make the point very well in my opening address, but we believe that the market should be completely deregulated.

Senator FERRIS—Yes, I understand that. So what would be the role of the WEA then?

Mr Bradley—You would not need the WEA in that event. We are assuming that we are not going to get that—we have been told that that very fortuitous circumstance is not going to arise—so we have come up with a second-best recommendation.

Senator FERRIS—Oh, okay.

Mr Bradley—We believe the Wheat Export Authority, as constituted, should be disbanded, because we have studied pretty closely the Wheat Export Authority’s evidence to last year’s Senate estimates hearings and we can see that they are taking a very minimalist view of their role. They have a completely different interpretation of those provisions in the act that you just mentioned—I think you are talking about sections 5(1) and 5(2)—than we would expect them to have. Secondly, they have a role in monitoring and reporting to growers on the performance of the AWB with regard to achieving premiums. In last year’s evidence to the Senate estimates hearings their opinion was that that was a very minor role. They saw their major role as reporting to Mr Truss.

Senator FERRIS—Can I explore a bit further your statement under part (b) that you want to have a membership of qualified and experienced commodity and international exporters? We have a couple of lawyers; a civil engineer; two fourth-generation wheat growers, one of whom has been a wheat grower in Western Australia for 50 years; and a bureaucrat. If you were to reconstitute this board to ensure, presumably, a better membership, what are the qualifications that you think need to be replaced?

Mr Bradley—Clearly, from the way that the Wheat Export Authority handles applications for trade in containers and bags, they have no sensitivity to commercial realities. The compliance costs of obtaining clearance to export in containers and bags are prohibitive. Whatever figures they produce, they do not reveal the fact that many people are deterred from putting in applications and have given up.

Senator FERRIS—Do you think it is a lack of experience on their part or a lack of courage in taking on Big Brother?

Mr Bradley—I think they lack resolve, but I also think they lack appreciation of what is required in commercial terms.

Senator FERRIS—I would have thought that two fourth-generation wheat growers with 50 years in the industry would have a pretty clear idea of returns to wheat growers and what the priorities would be. I am not sure what more experience you would need to understand market realities, as you say.

Mr Bradley—I do not think being a wheat grower makes you familiar with international—

Senator FERRIS—It depends if you have lived on the income from your grain all of your life. I would have thought that, if you had, you would have a pretty good idea of what you were dealing with.

Mr Bradley—Actually, no. The experience a Western Australian wheat grower has at the moment is: ‘For 70 years we have tipped it down a hole and later on a cheque arrives.’ What experience is that?

Senator FERRIS—Lots of people think that is a good idea.

Mr Bradley—They may do.

Senator FERRIS—You do not; but lots of people do, and it has certainly been the way for many of the industries in this country over a long time.

Mr Bradley—Our point is: how can industry excel if it is held to the lowest common denominator? We think that people who have the talents, abilities and skills should be allowed to excel. They cannot excel where the requirement is to tip it down a hole and forget it.

Senator FERRIS—I would like to pursue that, but I will leave it for another time. There have been two reports: the Accenture report and the Kronos report—they have been well discussed here today and also last week in evidence in Canberra. We now discover that there is going to be another report coming out at Grains Week in three weeks' time. What view do you have of the timing of these amendments to the legislation? Do you see there being a need to move quickly to ensure that the WEA, as it is currently constituted, continues to have funding? Clearly it is an issue. Or would you prefer that we delay that, not worry about it and let them borrow against their legislation with the banks and open up this whole inquiry as a more timely exercise, taking into account whatever the Grains Week report might say?

Mr Bradley—I think there are a couple of factors impinging on that. The major one is the 2004 review, which we think should be brought forward. Also, the roles of the Wheat Export Authority and the AWB should be examined and analysed as soon as possible. That would be the most satisfactory resolution to the problem. As far as how the Wheat Export Authority expends their resources, we have made the point in our submission that they spent most of their money on supervising the container and bag trade, when it should be completely free. If that were the case, there would be no administrative costs.

Senator FERRIS—I would like your response to some other points that have been raised. Do you have a comment on the question of the enhanced infrastructure that was referred to by previous witnesses? Also—this may be irrelevant given what you have been saying—have you ever been approached by the Wheat Board and offered sponsorship for any of your functions, conferences or individual travel?

Mr Keamy—I will answer the last question first. I am partially here because I am a finance committee member of the Pastoralists and Graziers Association. We have not received any sponsorship from AWB in the last five years. We have approached them and they have declined—only to the extent of hired space at our convention. We make a big thing of the fact that we are not tied. They obviously do not see any value in funding us. There may also be intimations that we receive funding from other grain traders—we do not. We are funded entirely by our members.

Senator FERRIS—What about the comments on the infrastructure and the alleged cherry picking of port sites and so on? Do you have a view on that?

Mr Bradley—What is happening now, as has been identified and explained in the Accenture and Kronos reports, is that we are actually duplicating facilities but without any extra gains in efficiencies.

Senator FERRIS—So you are critical of that as well?

Mr Bradley—We are not critical of people investing in the supply chain; we would like to see that go ahead. But at the moment, because of the structure of the wheat industry, the Wheat Board is responding to perverse incentives and duplicating facilities to attract grain away from other sites and artificially achieving profits for its own system. Overall, that depreciates the value of the system that is already there and delivers growers nothing in efficiency.

Senator O'BRIEN—Your submission seems to be promoting, as your second option anyway, a limited single desk wheat export model—that is, where there is a demonstrated premium from a single desk system, company B, which is AWBI at the moment, should have a licence to export into that market; but where that is not the case the licence should be up for grabs. Is that correct? How would that work in practice?

Mr Bradley—Yes, that is precisely correct. The reason for that is that if the Wheat Board is not generating premiums in the way it says it does in some markets, why shouldn't it be contestable? Contestability will generate benefits all the way back to the farm gate.

Senator O'BRIEN—That is your theory, in any case.

Mr Bradley—That is our view and it is a proven view. It has been accepted by the WA government, which has recently amended its legislation in regard to canola, lupins and barley on exactly those lines. I believe the competition council also believes that that is a satisfactory way to achieve both goals at once.

CHAIR—Are you saying that a buyer—whoever the buyer is—for whom the Wheat Board did not achieve a premium price would in some other circumstances have accepted a higher price? Generally, buyers bid the seller down, not up.

Mr Bradley—We have a problem with the Wheat Board's claims that it earns premiums in the first place; we believe they are completely bogus. To claim that you can control the markets when Australia produces five per cent of the world's total supply of wheat is tantamount to saying that the Wheat Board has a good supply of fairy dust which it sprinkles on top of buyers to render them ill-informed, passive and—

CHAIR—It is not so much a question of how much you produce but how much you export.

Mr Bradley—All grain is traded, but even if you talk about tradeable grain—across borders—it is only 15 per cent of the world supply. Everybody who looks at the problem from an economic point of view is saying that it cannot be—

CHAIR—I will forget the word ‘premium’; you may choose not to. My point is that if I am a buyer somewhere who wants to buy Australian wheat and the Wheat Board says, ‘I will give it to you for \$100 a tonne,’ I am not going to say, ‘I will give you \$105,’ surely, if I am trying to get it at the right price. Are you saying that the buyer will do that?

Mr Bradley—The question you are putting to me is actually confirming our view, which is to be sceptical about it. If I can ask you a question: if the Canadian Wheat Board, which claims to generate the same premiums, goes to a buyer and gets, say, \$200 a tonne, should that buyer then offer the Wheat Board \$230 so that the Wheat Board can still be telling the truth?

CHAIR—I have no idea. All I know is that the buyer generally bids the sell down, not up.

Mr Bradley—That is right. That is why we believe we need to have provision for export in bulk to markets where the Wheat Board cannot demonstrate that it earns a premium. And, whether we believe it or not, if it can demonstrate that it does earn premiums it should be licensed.

Senator O’BRIEN—My question is: how do we determine whether it is earning a premium? How would it work in practice? For your model to work you have to be able to say, on the empirical evidence, that it achieves a premium here and not there, or not at all, or whatever the case may be. How do we do that?

Mr Bradley—The Wheat Board say they earn premiums through exercising market power. In other words, they claim that by withholding grain from market they can force the price up and generate greater revenue for less wheat, rather than selling as much wheat as they could into that market for a lower price. That is an empirical question for suitably qualified people to test.

Mr Keamy—The Wheat Export Authority has asked those questions.

CHAIR—Did you put it to the WEA that you think there is some sort of bogus price deal on?

Mr Bradley—We have found that the Wheat Export Authority does not have a lot of time for our point of view.

CHAIR—You know their phone number; you could give them a call and tell them that. They could hardly not listen to what you say. Have you done that?

Mr Bradley—People from our membership have written letters in that regard. We have seen the response of the Wheat Export Authority to the 12 questions.

CHAIR—As a body, have you written to them?

Mr Capp—Yes. In response to the different Wheat Export Authority grower reports which have come out over the past two years, I have previously written to the chief executive of the Wheat Export Authority seeking more detail and any modelling and economic analysis that is available—anything at all—to back up what the WEA have been saying. The responses that we have received are that it is commercially confidential information that growers are not able to access. So we have sought more information from the WEA and it has been denied.

CHAIR—How can you assert, as Senator O’Brien has said, that they have or have not achieved a premium?

Mr Bradley—Should the onus be on us or should it be on the Wheat Board? That is the point. If they are claiming to earn premiums, shouldn’t they have to demonstrate it?

Mr Capp—If growers are going to be asked to fund that process, we would argue very strongly that information—analysis and modelling—must be provided that shows that those restrictions on our industry are performing and producing a net public benefit.

Senator O’BRIEN—Essentially, you are arguing that it is very difficult, if not impossible, to quantify the benefits that flow from the single desk. If that is the case, what administrative arrangements do we need to put in place to identify what AWBI would get and what would go onto the market? Let us ignore your deregulated approach for a moment and take an intermediate position on that.

Mr Bradley—The Wheat Board itself claims it has the mechanism to determine that through its wheat industry benchmark.

Senator O’BRIEN—But that is not a criticism of that.

Mr Bradley—That is right. It is conceding that there are empirical ways to test that. We need the Wheat Export Authority have people or to hire people who have the capacity to test the voracity of the Wheat Board’s claims.

Senator O'BRIEN—Would our role in that involve beefing up the powers of the Wheat Export Authority and mandating certain types of action by the Wheat Export Authority?

Mr Bradley—Yes. It is our view that they should have the resources and the capability to do the analysis and the capacity—which I believe they already have under the act, as Senator Ferris pointed out earlier—to obtain the information.

Senator O'BRIEN—Their evidence is that they do not have that power and that section 5(2) of the act does not mean what everyone has assumed it means. Their legal advice is that it is a fairly ineffectual provision. Are you saying that we should beef that up to the extent it needs to be beefed up, and that we should look at other authorisations or powers or mandating provisions of the legislation which would achieve the aim that you are talking about?

Mr Bradley—We certainly believe that would be a step in the right direction.

Senator O'BRIEN—On page 3 of your submission you say that industry experience and perception suggest that the regulator, the WEA, is at the beck and call of AWBI. Can you expand on the experience to which you are referring?

Mr Bradley—Our first lead in that regard was the Wheat Export Authority's response to questions at last year's Senate estimates hearings. I think it was pretty clear there that they deferred to AWBI. We have seen the 12 questions that the Grain Growers Association put to the Wheat Export Authority, which, once again, indicated that they were totally dependent on instructions from the Wheat Board, basically. Apart from that, besides the results we are getting, I would have thought it was pretty much self-evident that the Wheat Export Authority lacks independence.

Mr Keamy—The requirement to consult is an obvious association.

Senator O'BRIEN—Indeed, if you were of that view, wouldn't you feel that the new section 5A that would be introduced in this bill would strengthen the authority of AWBI over the Wheat Export Authority? I do not know if you have looked at the bill in detail.

Mr Bradley—I have looked at the bill. Clearly, according to the Wheat Export Authority, we did not understand the first bill properly, so I do not know if we are qualified to interpret the second.

Senator O'BRIEN—Whether that is the case or not, I am asking you to have a look at the schedule 1 amendments on page 3 of the bill, where it says:

2 At the end of Division 1 of Part 2

Add:

Then it shows proposed sections 5A and 5B. Section 5A is headed 'Performance of the authority's wheat export control function'. I am not asking you to deal with it now as we do not have time for you to consider it, form a view and respond. If you would take it on notice, that would be good.

Mr Keamy—Just off the tops of our heads, we would think that would be undesirable. It should be the other way around. The onus should be on the AWBI to comply with the demands of the Wheat Export Authority.

Senator O'BRIEN—Have a look at the provision, anyway, rather than shooting from the hip today. That is probably the best policy. On page 3 of your submission you refer to areas that the Wheat Export Authority should have looked into but has not. You refer to AWB Ltd and AWBI stock swap policies. What does that mean?

Mr Bradley—If you go to the Wheat Board financials, you will find that a fair percentage of their profits are generated from grain acquisition and trading. We believe they are doing this through using information that actually belongs to the poolers. They are using that information on behalf of AWB Ltd to actually trade against producers to make very high profits. People in the grain trade say that those profits are completely unachievable without the advantages that the Wheat Board has. One of the ways they can do this is to swap stocks from region to region as they see fit. They can swap between the pool and the privately acquired stocks of AWB Ltd. AWB Ltd—or AWB Australia, the private trading arm—tips wheat into the pools. Just recently they tipped in 2½ million tonnes.

This trading between related parties is an area of great ambiguity and we believe that every transaction of that nature that takes place—the actual trading—should be made transparent and the margins that are achieved should be made transparent. We do not actually know how much the commodity and foreign exchange cover is credited to AWB Ltd that may actually quite rightly be incurred on behalf of AWBI.

Senator FERRIS—Have you raised that with the WEA and asked them to investigate it?

Mr Bradley—As we stated earlier, our communications with the WEA proved fruitless. I cannot say whether we have specifically put that question to them.

Mr Capp—No, we have not raised that specific question. It has previously been put to officers of Mr Truss's office.

Senator FERRIS—But the WEA is the body charged with the transparency there.

Mr Bradley—I think we would get the normal answer that it is commercially sensitive.

Senator O'BRIEN—Some might say that your organisation is not likely to have confidence in the body administering the single desk or with a substantial responsibility for it when you do not believe in the single desk. The issue you now raise is essentially an allegation that there is the potential for AWB Ltd to cream value from the operations of AWBI completely secretly and without the Wheat Export Authority necessarily reviewing it at all. That is what you are telling us, isn't it?

Mr Bradley—Yes. You will see that, in response to questions from the Grain Growers Association, the Wheat Export Authority have said that it is commercially sensitive information, and Mr Truss said that it is not the Wheat Export Authority's brief to review the operations of AWBL.

CHAIR—You say that they have tipped 2½ million tonnes from AWB Ltd into the pool.

Mr Bradley—Yes.

CHAIR—Was that cash-acquired wheat?

Mr Bradley—That was wheat acquired for cash and tipped straight into the pool.

CHAIR—Why do you think they did that?

Mr Bradley—Because they were on a no-brainer, that is why. When they are buying wheat they are actually buying it below export parity and that is with the information that they had about actual progress of pool sales, their hedging positions in currency and the exchanges in Chicago and so on in the US.

Senator O'BRIEN—They are all the questions I have.

CHAIR—Thank you very much.

Mr Bradley—I understand that the Wheat Board are on next or later on today.

Senator FERRIS—Later on.

CHAIR—At some stage of the game, yes.

Mr Bradley—You might ask them what the position for the 2002-03 year is in regard to their foreign exchange cover, considering that the crop was quite small. How much of that cover—which would be very much in the money—has been credited to the pool and how much is being credited to AWBL?

CHAIR—Thank you very much for that.

Mr Capp—We have some supporting documentation that I was not able to send through electronically with our original submission.

CHAIR—Thank you very much for that also.

Senator FERRIS—I will move that it be tabled.

[11.50 a.m.]

ORR, Mr John Bradley, Manager/Director, Premium Grain Handlers Pty Ltd

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Orr—We are specialised grain processors and small container parcel exporters of grain from Western Australia. We are based in Fremantle.

CHAIR—Do you wish to make an opening statement?

Mr Orr—Yes. I have a couple of points that I would like to make and I can give you a copy of those points on my departure. In doing that, I want to make it known that my interests are reasonably narrow in focus. I am interested in the activities of the Wheat Export Authority in relation to containerised wheat, so I will be concentrating on that specific area—it being the area that I have some knowledge of and industry experience in. I will read a letter that I wrote to the minister for agriculture, the Hon. Warren Truss, in April 2002, which is relevant to this exact subject, and then make some points that I have drafted for this hearing. Is that okay?

CHAIR—Yes.

Mr Orr—Thank you. The letter is dated 26 April 2002 and is addressed to the Hon. Warren Truss, the Minister for Agriculture, Fisheries and Forestry. It states:

Dear Minister,

We have been anticipating the day when the WEA called for additional funds to support their administration. We have some suggestions to assist in resolving the problem.

The WEA currently wastes an enormous amount of public resources administering and policing permits for small shipments of wheat in containers. These very shipments were previously allowed to occur without restriction by the AWB prior to the formation of the WEA. The reason is very simple, these small shipments are not able to undermine the price of bulk wheat marketed under the single desk system, and they are mostly too small in volume to be separately serviced by the AWB. These container parcels of wheat are quite often sold in conjunction with a range of other products not marketed by the AWB. The activity of servicing these small niche markets with Australian wheat is therefore a benefit to the Australian public and should be encouraged to compliment the AWB bulk activities.

Far from encouraging this niche export activity, the WEA inappropriately restricts the trade through its requirement for permit applications, delays and uncertainty in providing permits and through the imposition of expensive sampling and testing procedures on the exporter. The time involved for the WEA to administer and police these shipments which can be as small as 20 tonnes—

and in fact we have done a 2½ tonne shipment since that date—

of product is obviously an inefficient allocation of precious public resources. This inefficiency is particularly compounded by the fact that the activity is causing a negative public externality. The reason that no one wants to pay for this activity is that there are no benefits.

We urge you to act in the practical interest of the Australian public and de-regulate the export of wheat in containers. We believe that the WEA should then be able to operate on the interest revenue alone from your initial grant if you act before the capital base is further eroded.

So that was a letter that we wrote to the minister for agriculture early last year.

Senator COLBECK—Again, what was the date on that letter?

Mr Orr—It was April 2002.

Senator FERRIS—What happened after you wrote the letter?

Mr Orr—We got a fairly nebulous response saying that the Wheat Export Authority is acting in the best interests of the industry. In my mind, it certainly did not appropriately address the issues that we raised. From a practical point of view, I want to make some statements now about—again, it is a narrow focus—the fact that the Wheat Export Authority has used and is still using a lot of funds to regulate the export of wheat in containers. Firstly, I have looked at containerised and bagged wheat restrictions in terms of the benefits and costs. The benefits, as far as I can see, are firstly to the Australian Wheat Board shareholders, because as a result of the restrictions it can be shown that there is reduced competition for the acquisition of wheat. The restrictions restrict competitors who could possibly export wheat in niche parcels from competing with growers of those parcels. I can see that there could be an argument that there is a benefit to Australian Wheat Board shareholders by restricting the export of wheat in containers.

The other beneficiary, as far as I can see, is the Wheat Export Authority senior management. Obviously, the larger the size of the Wheat Export Authority, the more employees involved in reviewing permits and administering the system, the bigger the benefits for the senior managers in the Wheat Export Authority. I cannot see any other benefits. I cannot see growers benefiting, because I do not believe it can be shown that

containerised exports of wheat undermine the bulk wheat activities of the Australian Wheat Board. Containerised exports of wheat are a much higher priced item. They can only land in the marketplace at a price much higher than that of the bulk wheat that is exported, and can only find their way into the marketplace if there is a significant benefit to the consumer in terms of increased quality and reliability, or smaller parcels to finance, or service type benefits that the end user might get out of sourcing small quantities as and when they require them.

In terms of costs, I can see significant costs to growers because those exporters who would normally buy a small parcel of wheat and supply it to a small niche market are no longer in the market competing for product from growers. There are some specialised markets that I believe will go unsatisfied if market access is restricted. I can see reduced employment and processing opportunities in Australia. I can see reduced industry investment opportunities in Australia. Small organisations like us buy wheat from growers, machine clean it and drop it in 20-kilogram bags with brands on the product. We employ people to run those machines and to load and package that product into containers, and we employ extra truck drivers to cart those containers. The investment in that equipment and in those people will be discouraged if we continue to restrict the exports in containers.

In terms of reduced export revenue for the economy, it is clear to see that, when wheat is exported in a small parcel to a niche buyer at an increased price—because it will not happen if the price is not increased in order to cover the extra costs of freight et cetera involved in small niche parcels—that wheat is earning a lot more money in export revenue for this country in that form, which is small bags, 20-kilogram lots with our brand on them, than if we simply supply it in a bulk 40,000-tonne vessel. That same parcel of wheat, if we are forced to go in that direction rather than the small niche direction, is earning less revenue for this economy. There is some clear evidence to show that we are going to suffer reduced economic benefits to the country as a result—small scale, mind you, but reduced benefits all the same.

CHAIR—That is what the rice growers learnt to do well.

Mr Orr—Yes. The fact is that in the past we have been very good at bulk exports of undifferentiated products, but in the future we are going to have to be very good at small, niche, quality-specific product timely presented to discerning customers. If we restrict this small end of that activity now, the implications longer term are much bigger than we all realise, I think, at this stage.

There is the issue of increased public administration costs. There is no doubt that the costs of the Wheat Export Authority poring over every application for, in some cases, 2½ tonnes—we have done a 2½ tonne shipment of wheat—are higher than the value of the wheat itself. The idea of committing public funds—or, worse still, a specific industry's funds—to poring over something that only has a net economic disadvantage to our economy cannot be justified. It is a negative externality. How can you put public funds into that sort of end use? So those are my thoughts on the costs relative to the benefits of having restricted permit systems apply in the containerised and bagged wheat trade.

Senator FERRIS—Excuse me for interrupting. Who are the customers for the small bags you are talking about?

Mr Orr—I can give you examples.

CHAIR—Without blowing your market.

Senator FERRIS—Could you give a couple of in principle examples, because I am intrigued to know who they are.

Mr Orr—I find it a little difficult to reveal too much but, in general, we—

CHAIR—What do you do with 20 kilograms of wheat in a bag when you get it? Put it that way.

Mr Orr—You might have a very small—

CHAIR—Chook farm?

Mr Orr—This is still mainly human consumption product. You might have a very small mill that is looking for a very small quantity of a specific quality of product.

Senator FERRIS—It might be for a specialty bread?

Mr Orr—Or a very small end use—a particular destination which cannot consume a very large quantity of product.

CHAIR—We do not want to reveal your markets. Have you finished with your statement?

Mr Orr—No, I have a couple of other points. My next heading is 'Use of public resources to regulate containerised/bagged wheat'. My point is that it is inappropriate to use public resources to fund an activity that benefits only Wheat Board shareholders and Wheat Export Authority senior management and that costs

the rest of the industry and the economy. I think it is equally inappropriate to tax generally the wheat industry, or specifically wheat exporters, to benefit Wheat Board shareholders and Wheat Export Authority senior management. Whether the cost is loaded on the general economy as a public cost or whether it is loaded specifically on the wheat industry in the form of some sort of tax on that industry or the exporters, either way I cannot justify the use of public or industry funds to fund something which does not have a net benefit to that industry.

My last point is 'Impact of additional permit fee impost for containerised and bagged wheat'. Every time you raise the cost of exporting wheat for the containerised and bagged exporters, you increase the quantity that is required to produce an economic parcel. As an example, when the Wheat Board used to administer the export permit system—from about 1992 until the commencement of the Wheat Export Authority—the Wheat Board, in recognition of the fact that their benefits by restricting wheat in containers were very small, did not impose any permit fees on the industry. In fact, they did not restrict the export of wheat in containers. As long as we did not go into Japan it was generally understood—and there were guidelines issued to this effect—that wheat in containers could be exported freely. When the Wheat Board controlled that function, because the cost of restricting it was much higher than the benefits they would get by restricting it, they did not bother restricting it.

At that stage, if an organisation like ours had a request for a containerised wheat shipment of 20 tonnes we would readily supply a price and supply that market. As the costs have gone up—because now we have to apply for permits and we have uncertainty as to whether we get permits—we would not entertain a request for shipment unless it was, say, 100 tonnes. We have fixed costs involved in obtaining a permit. We have to have samples presented to an independent laboratory and sent to the Wheat Export Authority. The costs of this current permit system make it much more difficult for us to justify a small shipment. If you then load an import fee on top of all these costs for a small exporter, the number of tonnes we have to consider as our smallest parcel rises again. It completely defeats the purpose of what this is all about. If we have an inquiry for 20 tonnes of wheat we will not entertain that inquiry because our fixed costs of paying for a permit, applying for a permit, obtaining quality certificates from an independent lab and all the courier and administration costs involved in that make it uneconomic to export small parcels.

This is a disincentive to the very activity that does not compete with the Wheat Board. Small parcels are no threat to statutory and single desk marketing because they are higher priced and have no chance of undermining the price. The extra regulations and fees on containerised exports simply wipe out the small niche exports and only maintain interest in larger volume exports in container parcels. Where does that business go? It goes offshore. The Wheat Board are not going to do it—they are not going to mess around with a 2½-tonne parcel of wheat. And nor is anybody else now. So the grower loses, the economy loses, the Wheat Board do not pick up that slack—and the customers at the other end are sitting there asking: 'Why is it that every other economy encourages their exports of niche, high-value added products while Australia restricts it? We'll go elsewhere.' That is the net result.

My recommendation is to reduce the Wheat Export Authority costs before you give them a blanket increase in funding or continuation of funding. Force them to reduce their costs; force them to stop inappropriately using their resources and our resources by restricting exports of containerised and bagged wheat. Thank you.

Senator O'BRIEN—The submission from Mr Orr is very clear. The only question I have is: do you support the concept of a levy on grain exported—whether by AWBI or your organisation or anyone else—to fund the Wheat Export Authority?

Mr Orr—I have deliberately stayed away from the broader issues. I would not support that if it one cent of that money was used to restrict container exports. I cannot justify the concept of raising a public fund, whether it be from an industry or the general public, to fund an activity that does not benefit but only costs the industry. That is why no-one wants to pay it. The broader question of whether a public fund should be raised or taxed on this industry to fund bulk wheat activities and regulations is an issue I would prefer to stay out of because of my relationship with other members of the industry.

Senator COLBECK—What is the approximate turnaround time for the permit process and how does that compare with market expectations?

Mr Orr—The expectation of our customers is that we can provide an immediate price on inquiry for our products. If I get a telephone call now from a customer of mine in Dubai and they ask me for the price of oats, barley, lupins and peas and, incidentally, the cost of 20 tonnes of wheat of a specific quality, they would expect me to provide them with that price and a firm offer immediately. The idea of having to get back to somebody with a price is very similar to asking somebody to come back later and allowing them to walk out of your shop. The effect of that is significant.

The customer expectation is that I can provide an immediate price. The reality of the Wheat Export Authority permit system is that I cannot. I have to say to that customer: 'First, give me your details. Tell me what you're going to use that for, tell me whether you're an existing customer of the Wheat Board and what your expected tonnages are.' It is none of my business, incidentally, what they are using it for, but this is the information that is requested of me. I then have to supply all that information to the Wheat Export Authority, and the turnaround time depends on my timing of requesting that permit. It can be a couple of days, in which case I have probably lost the business anyway because, even if I had given the customer a price indication, my exchange rates are different by the time I get back to that customer and I am not sure whether I have got parcels of wheat still available for them by the time I get any permit response. So the point is that anything short of preknowledge, prepermits, is simply a restriction on our trade.

CHAIR—Thank you, Mr Orr, for appearing today.

Proceedings suspended from 12.12 p.m. to 12.30 p.m.

LINDBERG, Mr Andrew Alexander, Director, Australian Wheat Board International

SCALES, Ms Sarah, General Manager, National Pools, Australian Wheat Board Ltd

STEWART, Mr Brendan James, Chairman, Australian Wheat Board Ltd

CHAIR—Welcome. Would you like to make an opening statement?

Mr Stewart—Yes. We welcome the opportunity to give evidence and make a submission to this inquiry. The genesis of the amendment currently before the Senate is in the Wheat Marketing Act 1989, which formalised a structure for the AWB Ltd group and for the management of a single desk going forward. At that time, it was always envisaged there would need to be further arrangements for the continued funding of the Wheat Export Authority so that it could operate its mandate as spelled out in the legislation. I had an intimate involvement in that process—in fact, I was the then chairman of the Grains Council of Australia, and I was also the chairman of the working group set up to develop and implement the structure of the AWB Ltd group, the Wheat Marketing Act and the Wheat Export Authority. So I feel that I am quite well equipped to speak about the processes that happened at that time.

I note that the passage of the original legislation did enjoy the support of all the major parties within parliament. It enjoyed the support of the coalition, the Labor Party and the Democrats as it went through the Senate. We certainly would be encouraging the Senate to continue that more than bipartisan approach to the industry through the passage of the legislation currently before you.

I think it needs to be noted that there are a number of submissions and bits of evidence given to this inquiry which we are quite happy to answer questions about because, quite frankly, from our point of view, there are a number of factual inaccuracies in some of that evidence. We would accept the fact that that evidence may have been given in good faith.

I want to address two issues very briefly: one is the market in which we operate, because it is important that you understand the context of the international marketplace in which we operate the single desk on behalf of not only growers but all people who deliver wheat to the national pool. If you look at our major competitive base within the international community you will see that the single largest competitor making inroads into Australia is Cargill, which turns over the equivalent revenues of our national pool in about 10 days. So when you look at how AWB operates the pools on behalf of pool participants and against the sorts of competition, you need to have a clear understanding of that context to know exactly why we operate the pools and the single desk system in the way that we do.

Before asking Andrew to make some comments, I want to address the issues of transparency and accountability. If you compare the old statutory Australian Wheat Board with the process currently operated through the commercial companies AWB Ltd, AWB International and their appropriate regulatory authorities and controls, you will see that in fact we are more regulated and more transparent under the current arrangements than the old statutory authority ever was. I would like to detail that for you to put it into context.

Obviously, we operate under the mandate of the Wheat Marketing Act. Under that act there are express provisions that we must maximise net returns to growers and minimise costs as far as possible for those who participate in the national pool. The constitutions of both AWB Ltd and AWB International have mirroring obligations in their clauses that both companies—not just AWB International—have to fulfil the exact role that the legislation spells out.

We are the only company operating within Australia—in fact, we are the only grain company operating within the world environment that we can find—that has those express provisions. We also obviously have to operate as a commercial entity under the Trade Practices Act and the ACCC regulatory environment. We have been investigated three times in the last 12 months in relation to abuses of market power and have been exonerated on each of those occasions. We have the Wheat Export Authority, which is set up in the legislation. It is the only authority we can find that has the sole power of regulating a single company in its operations. We also have the Corporations Law and the ASX listing rules which we have to abide by as a listed entity. If you take all of those issues into account and compare that to when we had the old AWB, the old statutory authority, you will see that the old statutory authority was both the regulator and the regulatee and had a responsibility to report to the parliament on an annual basis through the minister.

I say to you that we take our obligations very seriously as directors of both AWB Ltd and AWB International and that the perceived conflicts are in fact just that—perceptions. We are in any way, shape or form in a process to address any perceptions, if that can add value to the national pool, which is our overriding obligation. The issue of where shareholders and pool participants sit is very clear in the minds of all the board members and the management of the AWB group. Our overriding obligation is to the pool participants. The constitution and the act lay out very clearly that they are the people who take the highest

priority. I would like to hand over to Andrew to make some very quick opening remarks and then we are happy to take any questions you may have.

Mr Lindberg—I will make a couple of points. We need to state that the single desk is a very successful system. We do not compete on a level playing field in the international market—far from it. The subsidies that our competitors in the US and Western Europe get are quite grotesque. Two-thirds of a wheat farmer's income in the USA comes from Uncle Sam. Even emerging markets like India, Pakistan and China have very significant domestic price support. Over 40 per cent of the markets that we sell into have government or quasi government involvement, such as the Iraqi grains board or the Iranian grains board. So we face a very difficult environment out there, but this industry has demonstrated great success. We have increased our production significantly in the last 10 years. Everything we have produced, we have sold. We have increased our share of world trade from nine per cent at the beginning of the 1990s to 18 per cent in 2000-01. The reputation of the Australian product and the Australian Wheat Board is second to none in the international marketplace. So our beginning premise is that this is a highly successful industry and that a highly successful system has been developed. It is a system that supports both directly and indirectly some 550,000 rural and regional Australians. In a normal year, it would account for three to four per cent of Australia's national export effort. So by any measure it is a very significant and, I would submit, highly successful industry.

As the chairman has said, AWB is quite unique. Firstly, on the question of serving two masters, we make no apologies for that, because we think it is quite appropriate that our needs as a public company to support our shareholders are balanced by our needs to protect and advance the interests of the national pool participants. The constitution is absolutely clear on this: if there is ever a conflict between looking after our shareholders and looking after the national pool participants, all of us in AWB Ltd, or AWB International for that matter, have to put the pool participants first, and we do that. That is a matter of the constitution; that is a matter of Corporations Law. I can assure you there is no evidence to suggest anywhere that we have acted in any other way than in accordance with our mandate. Secondly, as the chairman said, we are the only grain company with our own regulator. That is an important distinguishing feature of AWB and the AWB arrangements. Thirdly, our perspective on many of the issues and criticisms that are out there is that much of this is driven by commercial interests. That is understandable. We have an industry that has moved from heavy government involvement and regulation at three different tiers: the marketing tier; the distribution tier, particularly in rail transport; and the storage and handling market.

As those companies begin to privatise, they have a clear fiduciary duty to serve only their shareholders, and that is exactly what they are doing. If part of that servicing the shareholders includes taking a larger slice of the single desk benefit that currently accrues to the national pool participants, then clearly that is what they are about. I would submit that many of the debates and issues that are around in the industry are really driven by commercial self-interest, not just that of the usual suspects, like the Cargills and the international grain traders—although they are now increasingly involved in the Australian grains industry—but also that of a number of the traditionally farmer owned and controlled companies that now only have one duty: to maximise the returns to their shareholders.

There is no other grain company in Australia that has an explicit mandate to look after the farmers' interests, let alone look after them ahead of those of the shareholders. AWB is the only grain company in Australia that has that constitution and legal set of responsibilities. As the chairman said earlier, there are adequate remedies available for people who take issue with AWB. There is the Corporations Law, the ACCC and the Trade Practices Act. We are a completely accountable and transparent organisation. If people have issues, then there are clear remedies for them to follow. They have used those avenues, and each time those avenues have been utilised AWB has been found to be completely in the clear. That is all I would like to say.

CHAIR—Thank you. You say that there are adequate provisions—and I do not doubt that for a minute—in your charter to protect the interests of growers and that all your board members understand that, but I am bloody sure the growers do not understand that. You may have it clear in your own mind, but the big problem is that, out there, blokes like me who are wheat growers think there is a possibility we could get duded by the shareholders. Could I just demonstrate that. Evidence was given here earlier that 2½ million tonnes were transferred into the pool by AWB Ltd. Let us say that you purchased that. Most of those purchases, from my experience of the Junee subterminal, are by people who need the cash at harvest time. They are usually in some sort of stressed financial situation so they take advantage of a cash offer. If you bought that for \$190, put it into the pool and the pool delivers \$230, who gets the benefit of the \$40?

Mr Lindberg—Clearly the shareholders do.

CHAIR—There is no need to go any further—that is the answer I wanted. So, in a simple mind like mine, it seems to me that I cannot justify that as a grower if your main charter is to look after the interests of the pool and the growers in the pool. Why not give that benefit to the pool?

Mr Lindberg—If I could address that: the domestic market has been deregulated since 1989. No-one in the domestic market will sell AWB Ltd their grain if they think they can get a better price and better service from a competitor—so it is contestable. All grain traders are able to deliver into the national pool. Unlike some other pools, it is not limited to growers. So, whilst AWB Ltd delivered into the national pool, so did AusBulk, GrainCorp, Cargill and a number of other major players.

Supporting any trading operation requires significant capital, and that capital is at risk. We need look no further than the New South Wales Grains Board to realise that if you do not manage those risks well you can lose money. The fact is that we do have to put a lot of our capital at risk in managing significant volumes of wheat and other grains. We do take principled positions on that. We have to manage price risk, currency risk, credit risk, execution risk—all those things—in buying that grain and redelivering it into the pool, like every other trader in Australia. So we do not make any apology for the shareholders, who put their capital at risk, being able to generate a value through trading grain.

CHAIR—I just wanted to run through some ordinary old perceptions, and that was one of them. It seems to me a no-brainer that there is a conflict of interest in the seed growing operation at AWB. Why haven't you fixed that?

Mr Lindberg—Your question is a very good one. I think a lot of what has been aired is about perceptions. We do have to do more to address those perceptions because, clearly, we do not believe there is anything fundamentally wrong with the structure or with our conduct. In fact, we have moved to address the question of classification of varieties, and we have now established an industry-wide committee to do that on behalf of the industry. We recently held a major forum in Melbourne with the whole plant breeding industry together—about 60 participants over a two-day period. We shared our vision and our intelligence on the international wheat market—what varieties of wheat that we need to grow in this country that we are currently not growing.

CHAIR—Sure you can have a talk fest, but don't you think that the average Joe Bloggs would wonder about you being the grower as well as the person who decides which varieties can be used? It is one of the things that you need to clarify this afternoon.

Ms Scales—Clearly, the board of AWBI has a number of policies to protect the integrity of the national pool. Any participant that delivers into the national pool is treated equally as opposed to other pooling operations around the country where they may only receive barley or whatever it is from growers. We receive our wheat from any counterparty, and we have an obligation to those counterparties to maximise their net pool returns. Very importantly, these policies, whether they are foreign exchange, hedging policies, receival standards or ticket by ticket—there is a myriad of policies—are there to protect the value of the national pool. We obviously have been criticised. There are perceptions out there and to deal with that we came to a conclusion that we needed to run a two-day forum.

CHAIR—Was it on seeds?

Ms Scales—Yes. It did not just include plant breeders, it also included members of the milling industry in Australia. We provided a significant amount of information. Whether it was sale or trade information, it was quality information on what makes up the Australian crop profile. We do send out a crop profile report to the market as well so that we can enhance the value of the pool. There is no incentive for the national pool manager or, indeed, Ltd to have varieties or seed type that come into the pool that will devalue that. We want extensive market access.

CHAIR—Why is it that the Wheat Board, in its wisdom, is the only body in Australia that is capable of making that decision? In other words, why is it not someone else's independent, expertly driven decision? Why is it yours?

Ms Scales—We do take advice.

Mr Lindberg—I think it is part of this transition.

CHAIR—It is an untidy aspect.

Senator BUCKLAND—Ms Scales, who do you take advice from?

Ms Scales—GRDC, BRI.

Senator FERRIS—CSIRO?

Ms Scales—Yes—all the research bodies.

CHAIR—I am running through a few of the little things that have been troubling one or two people, and I do not want to take up too much time but another thing of concern is the Geneva desk. You say you consult International on any sale which is made by AWB Ltd through the Geneva desk. Do you say, 'Do you want this market or do you mind if we pinch it?' That is a vagary for a lot of people.

Ms Scales—In running the pool, I would argue that having a Geneva operation—

CHAIR—I am not saying it is not an advantage—in some circumstances.

Ms Scales—We have some serious weaknesses in market information. It is very important that the national pool clearly understands that, when any business is done by AWB Geneva or when any discussions are held with customers around the world, we actually veto any ability of theirs to transact business. In other words, first bite of the cherry goes to the national pool. If there is any risk that the national pool and the market access and so on are potentially negatively impacted, then they will not do it and business will not occur.

CHAIR—One of the difficulties is that in the pool there is presently 2½ million tonnes of wheat that belongs to the shareholders.

Ms Scales—No. What is received into the pool, whoever the counterparty is at the—

CHAIR—The beneficiaries are the shareholders of that wheat.

Ms Scales—AWB International owns the title of that wheat, which is distinct from AWBI's cash business and anyone else that delivers into the pools. Our clear objective is to maximise the returns to that title of wheat, whoever the counterpart is. They are all treated equally.

CHAIR—Through all of that, given that you can go to jail as a director if you do not do the right thing by your shareholders, how do you ensure that you are not going to go to jail for putting the shareholders' interests behind the growers' interests? In other words, why don't you simply have two completely separate boards? That would make it a lot easier for your problems out there in everyman's land.

Mr Lindberg—The structure is what we have got and I do not think there is anything fundamentally wrong with it at all. We are clear about our overriding obligation, and that is: if there is ever a conflict, we have to put the national pool participants first.

CHAIR—But in putting the shareholders second, aren't you putting yourself at risk?

Mr Stewart—No.

Mr Lindberg—No, because I think we are entitled under the constitution to make reasonable returns on the activities that we undertake to support the pool. Clearly, in our commercial ventures we aim to get an acceptable return for the capital that we put at risk. It is a fact, it is clear, and the market no doubt rates that in our price-earnings multiple and our stock. There is no doubt that our stock trades at a discount because of some of the restrictions that are placed on AWB Ltd, the company, in the way it has to conduct its business.

Mr Stewart—We received very clear advice in the setting up of the two companies. The issue is: in putting growers ahead of shareholders, do we actually breach Corporations Law? There is clear advice—it was available to the working group, so it is held not only by the AWB but by the government as well—that says because of the way the constitution was written under the Corporations Law and the Wheat Marketing Act there is absolutely no issue there, providing we follow our constitutional obligation. If we were to put our shareholders above our pool participants, then there would be an issue of legality. It would not be the AWBI directors who would be in the dock in any court; it would be the AWB Ltd directors.

CHAIR—I am aware of that. The AWB, in the past, has been an icon; the single desk is an icon. Most wheat growers just want to know that they can get decent rain, a decent harvest and maximise the price and that you blokes will sell it for the maximum with the least cost. They do not want another NRMA.

Mr Stewart—Absolutely.

CHAIR—The NRMA was designed so that if your car broke down you could call the NRMA and they would fix it. They lost sight of what they were put there for. But they do not want that to happen to wheat.

Mr Stewart—I can assure you that, with the way the board was elected, with the majority being grower elected directors—in fact, all growers at this particular stage—and also the controls in terms of maximum shareholding, we are very much aware as growers of our obligations and we take them very seriously.

CHAIR—It seems to me you have a very high-wire act.

Senator O'BRIEN—I note your comment that you know there are a number of submissions on matters that you are keen and happy to provide answers to us about. Firstly, does AWBI have legal advice that enables it to limit the material that it is required to provide to the Wheat Export Authority under the act?

Mr Stewart—We do not limit the material that is given to the Wheat Export Authority that is needed to fulfil its mandate as the oversight power. I do not deny that there have been some difficulties. In hindsight, I would say that the Wheat Export Authority should have been set up 12 months prior to the privatisation. I think we would have been in a much better position now. But hindsight is a wonderful thing. What happened was the day that the Wheat Export Authority was set up under the act was the same day that we privatised under the act. So from that day on, the Wheat Export Authority started to set up, whereas the company was already operating and running. That is not an issue for the AWB, the Grains Council or anybody else. It is an

issue that we really should have been able to foresee in the working group process. I accept that there have been issues and that it has taken a while to get it bedded down, but I think the process is working very well.

Senator O'BRIEN—Have the board of AWBI taken advice on what their obligations are with regard to the provision of, and access to, information by the Wheat Export Authority?

Mr Lindberg—Yes, we have. One of our initial concerns was obviously to ensure the confidentiality of the information that was provided. It did take some time to negotiate an appropriate set of agreements or arrangements with the Wheat Export Authority. They are now well in place and, as a matter of practice, the Wheat Export Authority has full access to all the information in the possession of AWB International.

Senator O'BRIEN—Who else has access to that information?

Mr Lindberg—It is really the Wheat Export Authority and obviously, in turn, there is a very detailed report that goes to the minister—a very extensive report that includes very sensitive commercial information about every individual sale that we make during the pooling period.

Senator O'BRIEN—Are you saying that that information only goes to members of the AWBI board, or are people within AWB Ltd in possession of that information as well?

Mr Lindberg—The way the company operates, there are clearly areas where there are potential conflicts of interest. For example, negotiating the provision of services between AWB Ltd and AWB International is done through subcommittees of the two respective boards, and the subcommittee of the AWB International board consists only of the three A-class directed 'independent' directors. So common directors, such as Brendan and I, declare a potential conflict of interest and take no part on either the board of AWB Ltd or the board of AWB International.

CHAIR—And give no advice?

Mr Lindberg—No, we give no advice.

Senator FERRIS—Wouldn't it be better to just not be there? Then there is no perception.

Mr Lindberg—There is obviously a coordination issue. The fact is that AWB International, under the Corporations Law, is a wholly owned subsidiary of AWB Ltd, and the AWB Ltd directors have the overriding responsibility to ensure that its subsidiary performs according to the mandate. So unfortunately the L directors cannot escape their final legal duty to ensure that the pools are managed properly.

Senator FERRIS—Yes, but picking up what the chair said right at the start about perception—and I think Brendan admitted to that perception—this is a very important, almost fundamental, perception that grain growers have about conflicts.

Mr Stewart—I accept that; we do as a board. Actually, both boards accept that there is a perception. We have already committed to making appropriate changes to try to address the perception issue, if we can make changes that actually add value to the pool and reduce the perception. But, with respect in particular to the constitution and the way it is structured, the process that is necessary to make those changes is modelled on the Australian Constitution—and you know how hard that is to change. We will make changes or make suggestions to industry about changes if we can see that they add value. It is as simple as that. We have not drawn a line in the sand. We are prepared to make those changes if they add value.

CHAIR—This is all pretty hard. With regard to the \$40 per tonne which the shareholders now get, which I illustrated before, in the old days the grain growers would have got it.

Mr Stewart—In fact they would not have, because it has only happened since 1989, since the deregulation of—

CHAIR—But any transfers from within the total market could only finish up with the growers or as wages in someone's pocket.

Mr Stewart—No. It actually ended up in the Wheat Industry Fund, which is now capitalised into grower shareholding in AWB, because until 1989—

CHAIR—That was the growers' money, though.

Mr Stewart—Until 1989, it happened that way. Any trades that were done were delivered to the national pool. From 1989 onwards, the capital was put at risk through the Wheat Industry Fund. The benefits of that were delivered back to the Wheat Industry Fund and is now capitalised in the share value of AWB.

CHAIR—But the Wheat Industry Fund money was grower money, wasn't it?

Mr Stewart—It was grower money, yes. The perception or assumption that is based on is that the AWB is no longer owned by growers, and by a huge majority it still is.

CHAIR—But there could come a day when it is not.

Mr Stewart—Potentially there could come a day, if growers decided to sell down their shareholding in the company over a period of time, when more of the company may be owned by non-grower people. But the reality is that, despite all the doomsday experts at the time of listing, the amount of grower sell-down has been absolutely minuscule. It is important to understand that the introduction of institutional investors was done by the board on behalf of shareholders to improve liquidity so that growers could access a fair market value for their shares.

Mr Lindberg—Could I just add something? It is really a consequence of the move away from a statutory authority to the creation of a public company, which operates on commercial principles and risks shareholders' capital to both support the operation of the national pools and engage in a fully contestable way in everything else it does in commercial markets.

CHAIR—It was always going to be hard.

Senator O'BRIEN—It is a pretty new animal, isn't it? People might have guessed how it would operate, but now we are seeing how it operates in practice.

Mr Lindberg—Yes.

Mr Stewart—Yes, we are. There is no doubt about that. From our point of view, it is operating very well. But the other important thing you need to remember is that, irrespective of who owns the equity, the growers—the A-class shareholders—will continue to control the AWB group as long as the single desk is in place.

Senator O'BRIEN—It is interesting to go back to the question I asked Mr Lindberg. When did the AWBI board seek the advice about the meaning of section 5(2) and the responsibility vis-a-vis the Wheat Export Authority's powers?

Mr Lindberg—I cannot be precise about that, Senator O'Brien, but it would have been—

Senator O'BRIEN—Early on?

Mr Lindberg—Certainly 12 months ago.

Senator O'BRIEN—Has that advice been provided to the government, the minister, the department or the Wheat Export Authority?

Mr Lindberg—I am not sure about that, but I believe not.

Senator O'BRIEN—It was suggested that we ask a question about the hedging of the expected volume of grain going into the pool. With the reduction, where will any benefit—assuming that is there is one—lie?

Mr Stewart—It was about the percentage of hedge cover and FX cover that actually goes to pool participants versus shareholders. I will let Sarah answer.

Ms Scales—It is really very simply in answer to the international board policy on our hedging protocols and processes, which we must adhere to so there are no Nick Leeson's, if you like, out there managing our FX exposure on behalf of the pool participants. That is the first thing. Any benefit or disbenefit from that hedging operation goes straight back to the national pool; nothing goes to AWB Ltd.

Senator O'BRIEN—Okay. We will not wonder about that. I thought I should ask the question rather than leave it floating in the ether. With regard to some of the major grain trading organisations, I think you mentioned Cargill. Would AWB have a trading relationship with Cargill?

Ms Scales—Yes. Overseas, we might market some wheat through Cargill if they had a greater risk appetite, credit exposure or whatever than AWB International, as long as it was in line with our overall pricing and marketing strategy within the national pool.

CHAIR—Are they a major buyer?

Ms Scales—No, they are not a major buyer.

Senator O'BRIEN—They are just part of the commercial framework.

Ms Scales—Absolutely.

Mr Stewart—We would use them where the commercial framework indicates that we are not prepared to take on the risk on behalf of the pool participants and where they may have an access into a market that we do not have.

Senator O'BRIEN—How does the company escape the obligations under the Corporations Law to put the shareholders first and instead put the pool first? Can you explain that a bit more for me?

Mr Lindberg—We do not really need to escape them. I think it is adequately provided for in the constitution and in the Corporations Law. We do act in our shareholders' interests, and we act in a manner that is consistent with our obligations to the national pool participants.

Senator O'BRIEN—Will that change if the majority of shareholders become non-growers?

Mr Lindberg—No. It would require the constitution to change, and that would require 75 percent of A-class shareholders voting to change it. That is a very difficult process.

Senator O'BRIEN—The submission we have before us appears under the heading of AWB International. We are told that AWB International does not have any staff, so who actually prepared it?

Mr Lindberg—AWB International prepared it. AWB International is a company. It has no arms and legs in that sense; it is a company with a constitution and a set of directors that have clear obligations. All the services are provided by AWB Ltd under a contract for service provision. Again, that service provision flows from the constitution, and the constitution of AWB Ltd says that AWB Ltd must provide a whole range of things to its pool subsidiary at competitive prices, and that is what we do. So there are no employees in that sense. There is a general manager, and that is Sarah. She has a group of people that work in the national pool area, and they act on behalf of AWB International in their dealings with the AWB Ltd staff that provide all the range of services that Sarah needs in order to operate the pools.

CHAIR—How do you know they are competitive prices if you do not test the marketplace?

Mr Lindberg—Quite frankly, it is not feasible or desirable to go through open contestability—and I can talk about why. We have done it through a process of benchmarking, on a bottom-up basis, looking at the individual services that are provided by Ltd to International, and benchmarking those against comparative services elsewhere. So there is, firstly, a bottom-up approach and, secondly, a top-down approach whereby International engaged a range of outside experts to advise it on the sort of performance payment arrangements—

CHAIR—But aren't you avoiding real commerciality, because someone may decide to provide that service at a loss?

Mr Lindberg—It is not just about cost—

CHAIR—The cost of telephone calls didn't come down in Australia.

Mr Lindberg—Chair, it is not just about cost. The mandate of the pool is to concern itself with the net benefit. Quite frankly, if Cargill walked in and said, 'We'll do all your international sales and marketing for you and we'll actually pay you \$US100 million to do it,' AWB International would say, 'Thanks but no thanks,' because we are not going to hand over to our major international competitor the marketing of Australian wheat.

CHAIR—You say you have set the benchmarks—and we are dealing with a commonality of directors here. The incentives payments are built on this benchmark. I understand you may be able to answer this, because I feel the growers need this answered: how the hell do you strike the benchmark when you have all of this cross-fertilisation of people from one organisation to the other? What confidence do the growers have that they are not being duded with some sort of false incentive payment?

Mr Stewart—I will make some opening comments in answering that question because it is a very technical, difficult area to understand. In relation to the actual processes, Andrew outlined earlier that there are subcommittees of both the board of AWB Ltd and the board of AWB International. They are mandated by their boards to undertake the negotiation and receive advice. In fact, on behalf of AWB International it is the three independent directors who make up the compliance committee. They receive legal and financial advice from external advisers, as does the AWB Ltd board subcommittee—it receives separate legal and financial advice. There was a very extensive process, which I will ask Sarah to outline, in terms of the formation of the remuneration model which we currently operate, which is the base fee and the outperformance incentive, which was developed over a two-year period, using external advisers. That was brought as a recommendation to the AWB International board. It was the International board that requested the change in the remuneration policy.

CHAIR—Before you go to that, does this flow on to incentive payments to staff?

Mr Stewart—No.

CHAIR—So someone in your organisation—

Mr Stewart—Except for Sarah's team, which relates to the management of the national pool—

CHAIR—So they get an incentive if they do a—

Mr Stewart—It is more appropriate that Andrew answer the question.

CHAIR—Do you disclose all of that to the poor old wheat grower?

Mr Lindberg—We do. Clearly, this is where the interests of both AWB International and AWB Ltd are aligned, because Sarah is the pool manager. Her job is to improve the outperformance of the national pool—generate more value for pool participants through our management of that. Clearly, there is a payoff for AWB

Ltd in doing that. Her incentives are based around generating outperformance for AWB International in the management of the national pools. That has a flow-on effect, obviously, to AWB Ltd in terms of sharing a small proportion of that outperformance that is generated. That, in turn, encourages AWB Ltd to continue to invest money on a commercial basis to improve the performance of the national pooling system.

CHAIR—I want to put something to you in terms of that 2½ million tonnes that got dumped into the pool from AWB Ltd, which obviously must have been purchased through a cash sale arrangement. Wouldn't you have had inside information on the market, the prices and the sales so you could say, 'We won't do this with it; we'll dump it into the pool'?

Mr Lindberg—To correct you, there is not a cash sale.

CHAIR—Wherever it came from.

Mr Lindberg—What happens is that AWB Ltd delivers the wheat into the international pools and gets the final return that all the pool participants get on that week.

Ms Scales—They are not treated any differently to any other deliverer into the pool: they have to abide by exactly the same policies.

CHAIR—But you do not have to deliver it to the pool.

Ms Scales—Absolutely not.

CHAIR—So you must have knowledge to say, 'This is the best way to go with this.'

Ms Scales—Put it this way—

CHAIR—Or do you guess that?

Mr Stewart—It is not Sarah who makes the decision to deliver the domestically acquired grain into the pool—

CHAIR—Someone—whoever makes that decision—

Mr Stewart—It would be the trading division that would make that decision.

CHAIR—Whoever.

Mr Stewart—And they do not have access to information relating to the pool.

CHAIR—I am not being name specific but I am being structurally specific. You must say, 'It is better to go there than to go to Bullamakanka with it.' On behalf of the shareholders, who are going to be the beneficiaries of this deal, aren't you using knowledge in a certain way? For all I know, you might get an incentive payment out of it; I do not know.

Ms Scales—I would like to have a shot at answering that. Firstly, we have policies to protect the integrity of the pool that any counterparty has to abide by. We have been criticised for some of those policies, and you will read about that in various submissions. That is the first thing, and no-one is treated any differently, including the AWB.

Secondly, just recently this year—I think it was a week or so ago—we closed for this season the 2002-03 pools, which were the most recent ones, and opened up secondary pools as we have an obligation to always receive wheat. We did that to protect the integrity and value in those pools so that any counterparty, whoever they may be, cannot deliver into those pools once they are closed and then devalue or potentially put at risk the value in those pools. So we do not treat anyone differently in that respect.

CHAIR—I understand that. So when did you put the 2½ million into the pools?

Ms Scales—First of all, AWB International did not put 2½ million tonnes—

CHAIR—Whoever did; AWB Ltd did.

Ms Scales—I do not know. They would have put it in over a period of time. The national pools were always open from one million or two million tonnes, and I think—

CHAIR—But if there was a declining market out there but a nice average back in the pool—

Mr Lindberg—But isn't that a—

Mr Stewart—But the line of questioning is based on the assumption that our trading division would know what decisions the pool manager and her team were actually going to make in the lead-up to that event. The answer is that they would not know; they are totally excluded. The business rules are in place—and the board ensures that they are in place—to protect the integrity of the pool.

CHAIR—And the common directors are not privy to any of this information?

Mr Stewart—As the chairman of both companies I was not privy to the closure of the pool until after it happened. I was told after the event.

Mr Lindberg—In fact, in terms of the internal protocols of the company, I am a director of AWB International and I am always welcome but never invited to the pool meetings. I think I have been to one pool meeting in the three years I have been there.

CHAIR—There is a bit of an instinct thing here. Obviously, because of what happened with the drought et cetera in Australia and the onset of the importation of wheat, there was a bit of a tip in the market. If I was sitting on 2½ million tonnes somewhere and I thought, ‘Gee, the average in the pool is going to be better than what has happened since we have started to import the wheat,’ then I would tip it over into the pool. I do not think that is a fair shot.

Mr Lindberg—But that is no different to any other trader. I think that if you look at the period—

CHAIR—But that brings us to the question of what is in the best interests of the shareholder and what is in the best interests of the poor old wheat grower.

Mr Stewart—No, it does not.

Mr Lindberg—But those issues, quite frankly—

CHAIR—Are very confusing for wheat growers.

Mr Stewart—That is right.

Mr Lindberg—I agree with that. But those issues have been extensively investigated by the ACCC and have also been superintended by the Wheat Export Authority. Again, there has been no adverse finding about any conduct on the part of the AWB.

CHAIR—Believe you me, the poor old wheat growers out there have got a big question mark.

Mr Lindberg—I understand the perception but, again, everyone has the right to deliver wheat to the national pool. The national pool cannot refuse to receive that. Traders do have to take on significant positions in accumulating wheat and they end up getting the final return that the pool delivers. There is no access to pool pricing information, to information on when pools are going to close—to a whole range of information that the national pool team holds unto itself—and it is not communicated elsewhere within the AWB group. It is absolutely not.

Senator O’BRIEN—On page 2 of your submission, you say:

Any other issues raised which do not relate directly to these objectives—

I presume you mean the imposition of the levy—

should be dealt with independently of this inquiry.

Does that mean that there are issues concerning AWBI that you consider beyond the scope of the bill but worthy of inquiry by the parliament?

Mr Stewart—What it says is that we clearly view this inquiry and the amendment that is currently before the house as relating primarily to the funding of the Wheat Export Authority. We were, I suppose, cautioning the committee and the Senate that there would be a lot of people who would want to try to broaden this inquiry to take in structural issues within the industry and pursue self-interest in that. We are suggesting to you that we should remain focused on the issue at hand, because there have been other avenues, such as the 2000 NCP review, and there will be other opportunities for those other issues to be brought forward.

Senator O’BRIEN—Let us talk about the bill. New clause 5A deals with more than the Wheat Export Authority’s funding. In your written submission you acknowledge that the bill does in fact insert a new objective clause into the Wheat Marketing Act. That objective requires the Wheat Export Authority to have regard to ‘any objective of AWBI to maximise net returns to growers selling wheat for inclusion in its pools’. I presume AWBI would simply communicate its objectives to the Wheat Export Authority for the authority to apply to its consideration of export consent orders. You say you support the amendment. The question I ask is: why?

Mr Stewart—We want to ensure that the Wheat Export Authority has all the information available to it to make the right decision. If you look at the original act, you will see that the intention was always to ensure that the consent system, the permit system, was always envisaged to be done complementary to AWBI’s activities in the international market, not to the detriment of the pool participants. It is simply an issue of information exchange.

Senator O’BRIEN—The bill says:

... the Authority must seek to complement any objective of nominated company B to maximise net returns for pools ... while at the same time seeking to facilitate the development of niche and other markets where the Authority considers that this may benefit both growers and the wider community.

Are you saying that the act was deficient in that regard?

Mr Stewart—Yes. The original act was, we believe, deficient in that regard. There are a number of examples—which we would be prepared to expand on—in the international marketplace where a containerised and permit market does actually help to develop, eventually, a bulk market which adds value to the pool participants. Sarah could expand, if you wanted it. We would be happy to provide information relating to specific customers, but we would ask that you take that in camera.

Senator O'BRIEN—It would be useful if you would supply that. There is a process to go through in terms of providing information in confidence, in camera. We can certainly explore that if it will assist us to better understand that particular amendment. I would not have thought it was a simple clarification but, rather, a specific amendment to make very clear an obligation on the authority.

Mr Lindberg—Yes. We would agree.

Senator O'BRIEN—AWBI has taken legal advice about the existing section 5(2). I must say that it is clear that a number of senators who participated in the passage of the legislation are surprised that the Wheat Export Authority has said to us that it means a lot less than senators thought it meant when the bill was passed. Aren't we equally obliged to deal with a deficiency which I believe—I cannot speak for other senators—we have identified in the powers of the Wheat Export Authority in gathering information? I understand you are saying now that there is some agreement with regard to accessing information. I do not know whether that agreement has the same force that provisions in the act would have, but I doubt it. Aren't we equally obliged when we are seeking to impose a levy on growers in some form or another to ensure that the body they are seeking to fund has the powers that it was intended to have?

Mr Lindberg—The agreement about the supply of information was not in any sense challenging the right of the Wheat Export Authority to access material; it was agreeing a framework about how that material would subsequently be disseminated. I would be surprised today if the Wheat Export Authority held the view that they do not have complete and full access to all information in our possession. It did take some time initially, there is no doubt, as they were clarifying their role, including clarifying their mandate. We were very concerned to ensure that highly sensitive commercial information was not released in any fashion. We are now through that.

Mr Stewart—It has been an issue of timing.

Mr Lindberg—Yes. Powers of compulsion or investigatory or inquisitive powers are obviously a matter for the parliament. I do note that there are many other bodies that have those powers and are adequately resourced and clothed to deal with those powers. The Wheat Export Authority is there to control exports of wheat and to monitor and report on the performance of AWB International in discharging its obligations. It is not an investigatory or inquisitorial body, and in our view it should not be.

Senator O'BRIEN—Can I follow that up? Section 57(7) of the Wheat Marketing Act 1989 specifies:

(7) Before the end of 2004, the Authority must conduct a review of ...

(a) the operation of—

the prohibition to export wheat otherwise and with consent in relation to AWBI. That is the first thing. Secondly:

(b) the conduct of nominated company B—

that is, AWBI—

in relation to:

(i) consultations for the purposes of subsection (3A); and

(ii) the granting or withholding of approvals ...

I would have thought that, in the minds of most, the powers that the authority were given under 5(2) were intended to be as broad as possible to allow them to fulfil that function. I am gathering from what you are saying and what the Wheat Export Authority has told us in evidence that that is not what 5(2) means and that you have put in place some arrangements which you believe are now satisfactory for that purpose to be attained. The problem I have is that these arrangements are not necessarily binding beyond the reporting period anyway, and the ability of the authority to have information unfettered was intended by the parliament—that is, that it would have access to the information necessary. It may be that what you should be saying now is that you believe there should be a constraint on dissemination of that information. I may be approaching it from a different point than you are approaching it from but it seems to me that there are a number of bodies connected with the department—ABARE, for example—that collect information in a completely confidential manner and have never revealed that information. Given that we have the bill before us and that we are going to make recommendations and that, unless I am mistaken, there will be some

consideration to amending 5(2) or making other amendments, I am inviting AWB International to make a submission on what they think might attend to the problem, if that is what the Senate does.

Mr Lindberg—We would be happy to come back to the committee on that point.

CHAIR—Is there a sort of obligation, given what Senator O'Brien was talking about at 5(2)—and this might have been an unfortunate choice of words for all I know—where it has the 'has the power to do all things'? That is a pretty broad scope. In answer to Senator O'Brien in an earlier estimates hearing, the WEA said that it had no specific powers to require information which is based upon AWBI activities dependent upon receipt of information. Would there not be an obligation on the Wheat Export Authority to get the information from somewhere else, using 5(2)? It is not a specific power; it is a hefty general power.

Mr Stewart—That is a question that is best addressed to them.

CHAIR—That is a gorilla provision that was left to lie in the daisy bed.

Mr Stewart—We would not disagree with that.

Senator O'BRIEN—I say it is not a gorilla provision at all; the provision is more a simian of some sort.

Mr Stewart—It is probably a matter for the Commonwealth solicitor to define for the Wheat Export Authority and not for us to answer in this inquiry.

Senator O'BRIEN—If we received it in-confidence, would the AWBI be prepared to supply us with your legal advice on the matter?

Mr Lindberg—We would be happy to do that. Again, our point is that we do not believe there is any fettering of access to information—far from it.

Senator O'BRIEN—That is a different question. Fettering and the power to obtain information may now be two different things. That certainly was not the view of the Wheat Export Authority before.

Senator FERRIS—In terms of perceptions, it certainly is an issue.

Senator O'BRIEN—Thank you for that. I cannot speak for the committee, but I do not think there would be any opposition to receiving it on that basis. In terms of the operations of the pool, apart from its dealings with AWB Ltd, what supply chain services would you make decisions on—shipping companies, which ports you use, overseas agents and those sorts of issues? Could you tell me the range of issues you would make decisions on as to which provider you would use?

Ms Scales—There are a couple of things in that. Firstly, supply chain—storage and handling, rail or whatever it is—is provided by myriad companies here in Australia. In fact, with the mandate of maximising net pool returns—as opposed to gross pool returns—we welcome competition in storage and handling, rail and so forth, because we have found that competition gives us an ability to reduce costs back to the growers and reflect that. The important thing that has been missed in a lot of the submissions is that it is, in fact, the wheat farmer delivering into the local silo who makes the decision on whether he delivers to an AusBulk ABA silo, a GrainCorp silo or, indeed, an AWB Ltd grain flow. We reflect back the cost of using those various systems. It is a 'look-through' arrangement where the wheat farmer ultimately makes the decision. Regarding agents, chartering or whatever it is, the national pool makes decisions daily on what vessels, counter-parties and markets we want to use.

Senator O'BRIEN—That is right. AWB Ltd do not run those things but they do compete in the supply chain within Australia.

Mr Stewart—AWB acts as both a provider of services to AWBI and a purchaser of services to external parties on behalf of AWBI.

Senator O'BRIEN—I am sure you have heard the submissions—or heard of them—which suggest to us that the supply chain should be fully contestable. It would be remiss of us not to seek a comment from you with regard to those submissions.

Mr Stewart—We have not put it in our submission because it is not really an issue for the legislation that is before the Senate at the moment. However, we are happy to address it. The supply chain and where the single desk starts have been issues of public debate for some time. It has obviously had more credence put on it by the release of the Accenture and Kronos reports. I would say to you quite clearly that we need to look closely at the relationship between the commissioning bodies of those reports and the commercial bodies to which they are connected. Quite frankly, most of the bodies that are advocating change are doing it so that they can take and put into the pockets of their shareholders what we believe is the very great benefit that is delivered straight back to the pool participants—in this case, the majority of growers.

Senator O'BRIEN—Like CBH?

Mr Stewart—Particularly on the east coast and in the south. CBH is obviously a different structure: it is a cooperative structure and has a different mandate to the commercial entities.

Senator O'BRIEN—You—that is, AWBL—are setting up supply chain competition with them, aren't you?

Mr Stewart—Let us address the issue of Western Australia. There were allegations made in evidence given to this inquiry this morning that we have duplicated services in Western Australia. We have not spent one cent purchasing or building sites or facilities in Western Australia. We have taken options over land that give us the ability to do so at some stage in the future. So in fact there is no basis for the argument about duplication.

Mr Lindberg—I would add that I think it is where the competition occurs. In terms of managing the system, we do not believe that you want to fragment the system and have contestability over management of the system. Where you want competition is in the provision of the various services and assets that the pool uses to manage the single desk system. That is because we have evolved from the structure where there were regional monopolies in the storage and handling system, regional monopolies in the rail system and regional monopolies in the port system. These monopolies are why, in part, Australia's infrastructure is very uncompetitive on a global scale. The wheat farmers of Australia spend \$900 million a year just to move their wheat from the silo to the port.

Compared to our major competitors, on any benchmarking that we have been able to do, we do not have an efficient national infrastructure to support our export effort. One of the ways to improve that is to provide competition at that level, and that is the level at which we are seeking to bring competition into ports, into rail and into storage and handling because, in every market that I have been associated with, when you are a consumer your best friend is competition. When you are a seller, your best friend is market power. That is what the farmers get through the single desk—market power. In relation to all their inputs, whether they are chemicals, fertiliser, finance, trading options, storage and handling, freight, port capacity or anything else, we believe their best friend is competition and that is why we are quite happy to compete if that is the only way we can see as necessary to improving the cost and service for the farmers. Doing that is part of the national pool manager's duty.

Mr Stewart—In fact, one of the key result areas of the national competition policy review and the government's response to us was that by 2004 we have to make significant inroads into supply chain costs within Australia, and we are doing that.

Senator O'BRIEN—If they are fully contestable, then competition will be maximised.

Mr Stewart—And they are fully contestable. In fact, we have been taken to the ACCC in the last 12 months by one of the providers on the east coast, who alleged that we misused our market power in setting freight rates to advantage our own sites. We have been exonerated by the ACCC.

Mr Lindberg—Again, the pool manager's obligation is to put its grain to the export position through the lowest cost-efficient pathway, and it does that irrespective of who the asset owner is. Whether it is an AusBulk site, a GrainCorp site or an AWB site, it is totally irrelevant when the pool manager determines how that export pathway should be followed.

CHAIR—Before I hand over to Senator Ferris, I have two questions. In your view, how could the Wheat Export Authority ever be satisfied—and it is their job to be satisfied—that the Chinese Walls between AWB Ltd and AWBI do not have a peephole in them? How would they ever know that? How do they know that over three glasses, three bottles or two casks of red wine nothing is ever mentioned? That leads to my other question. How would the grower who needs the cash ever know that the cash price that he is offered by the Wheat Board at the silo is the very best price possible and that there is not \$5 in it for the shareholders?

Mr Lindberg—I will answer the second question first: competition. On the east coast, there are 10 major traders. Quite often AWB is certainly not the sole bidder in the market. There are many bidders in the market seeking to buy the farmer's grain and the farmer will choose to sell it to the best price and the best contract terms on the day. So competition is the answer.

CHAIR—That in itself is a very confusing little exercise at the Junee subterminal. It is a very confusing game. Wheat farmers basically want to harvest the wheat and not get involved in the intrigue of the market. There is no way you can do that, is there?

Mr Stewart—No.

Mr Lindberg—I think it is fully contestable. In the domestic market, we post cash prices and we have contracts.

CHAIR—But when you transfer 2½ million tonnes to the pool, I take it you do it to get a better return for someone by going that way? Which begs the question: 'Hang on, was the first price the low price?'

Mr Lindberg—That is exactly the same position that every other trader in Australia is in; we are no different. Cargill delivers into the national pool and the pool manager has to maximise the value for Cargill.

CHAIR—It is just that you have this peculiar cultural problem that has been built up over many years of good service to wheat growers.

Mr Lindberg—I agree with that, and clearly there is a perception. In relation to the peephole issue, at the end of the day the ultimate protection is the legal obligation on the directors and all the staff of AWB Ltd to protect and advance the pool's interest before the shareholders' interests.

CHAIR—But that is an honour and integrity question, isn't it?

Mr Lindberg—It is a legal obligation.

Mr Stewart—It is a legal question.

Mr Lindberg—And it is a personal—

Mr Stewart—I have no great desire to front up in jail beside some undesirables.**CHAIR**—We have seen plenty of examples out there of Chinese Walls that had peepholes in them.

Mr Lindberg—It is a personal liability question as well. And the remedies are available to people.

CHAIR—How will the Wheat Export Authority ever know whether there is a peephole?

Mr Lindberg—Again, they have access to all the processes, rules and procedures that are in place. In the end, there is never a 100 per cent guarantee about anything. But there is our own regulator, the ACCC, enormous scrutiny at all levels and 40,000 pairs of growers' eyes constantly on AWB as well as a range of others.

CHAIR—It was always going to be hard.

Senator COLBECK—Have those processes ever been audited and tested?

Mr Stewart—Internal audits.

Mr Lindberg—They have. We conduct, through the use of internal and external auditors, our own internal reviews of these policies and procedures to ensure that they are in full compliance. The Wheat Export Authority has access to those reports. If the Wheat Export Authority wants to engage independent auditors to do that, we would be very relaxed about that.

Ms Scales—The Wheat Export Authority has been asking for and receiving information with respect to all our policies which apply to everyone—whether it is stock swaps, as raised earlier, foreign exchange and the receipt of wheat from various counterparties. They actually ask who has delivered wheat into the national pools, the tonnage and the timing and so on. They are very rigorous in pursuing some of the issues around our counterparties delivering into the pool and whether they are treated any differently.

Senator COLBECK—It is all very well and having the policies and processes in place is fine, but auditing them and providing the documented evidence that they are working is a totally different thing. That is what I was trying to get at.

Mr Lindberg—Yes.

Senator COLBECK—You have mentioned the ACCC a couple of times today. Was that one of the issues that they have looked at with respect to your operations?

Mr Lindberg—They have. In the inquiries they have done, they have looked extensively at the arrangements in place between AWB Ltd and AWB International, including the flow of information within the group.

Senator COLBECK—Essentially that is one of the weaknesses that you face because you are an actual player in the market as well as one who controls the market. The importance of those differentiations in the Chinese Walls, as Senator Heffernan puts them, is critical to your credibility and where you end up in the marketplace at the end of the day. So, a very plain and clear audit trail testing the processes is something that would obviously have to be extremely transparent.

Mr Stewart—That is certainly done through both our internal and external auditors as well as the Wheat Export Authority. But, as Andrew said, if the Wheat Export Authority wants to engage another layer of audit to fulfil its role, that is entirely up to them. We would be quite relaxed about it.

Senator FERRIS—A few issues have come up this morning that I would put in the box labelled 'perception'. I think we have talked about different perceptions of the Wheat Export Authority as being, as the chairman said, either a bed of pansies or a tiger with teeth. There are also perceptions about the Chinese walls which, in a way, cast some aspersions on the professionalism of the staff that I did not feel entirely comfortable with. But I accept that that is also a perception.

There are some other perceptions that I would like to explore. One of those is on corporate funding. We have heard a lot about the way in which the Wheat Board is, if you like, 'duchessing' various grower groups. I think this is an opportunity for the Wheat Board to answer those questions. You may wish to take this on

notice—can you supply us with a list of the sponsorships that you have offered for either conferences or travel for individuals? I do think that is a damaging perception for the Wheat Board, so I would like to offer you the opportunity to do that now or, if the list is extensive, you may want to supply it to us at a later time.

Also, if all is as it seems to be—and you say it is—why is it that you have recently advertised the position of grain industry ombudsman? Can you please tell me why you decided to do that; was that the result of an inquiry that was carried out? The advertisement just seemed to suddenly appear. How is it going to be funded, where will the position be based and why did you think it was necessary? Again, to me, there is a perception that that is trying to fill a hole that you have not talked about this morning. Let us deal with that one if you are going to take the corporate sponsorships on notice.

Mr Lindberg—When I was moving around and talking to a number of growers, they expressed to me that they had raised issues and they felt those issues had not been adequately addressed.

Senator FERRIS—Raised issues with whom?

Mr Lindberg—They had raised issues with our regional staff about operational problems and other issues and they had felt that those issues had not been adequately answered or addressed. I said, ‘I am not happy with that and I am sure we can improve what we do on the ground.’ I said: ‘What I’ll do is create a separate ombudsman and, if you aren’t happy that your issue has been adequately addressed through the normal channel, then you can use this person or this office. He will report directly to me and we will undertake to investigate it and satisfactorily resolve the complaint or inquiry.’

Senator FERRIS—Is that position going to be based in Melbourne within the Wheat Board?

Mr Lindberg—Yes.

Senator FERRIS—What about if that person or that industry group writes in criticising something about the structure of the board or the way in which the two companies are operating? How are you going to resolve something like that?

Mr Lindberg—I think that is getting into structural issues. The boards are well aware of these industry debates and issues. That would not be something that we would envisage the ombudsman getting directly involved in.

Senator FERRIS—I do not know what the salary is that you are planning to pay on this. Perhaps you can tell me what that is. Can you tell me what sort of salary range you are looking at here?

Mr Stewart—Can I just clarify that the ombudsman is really a position that Andrew has implemented to overcome operational difficulties—that is, things like difficulties with payments or classifications or those types of things. It is not an ombudsman position in the sense of an industry policy or structural position. For instance, if a grower has had difficulty with a payment and has not been able to get a satisfactory result or answer through a regional office then they can go to the ombudsman, who will have independence within the group to get the information to actually fix the operational issue. It is not a structural thing.

Senator FERRIS—Let us go back to the cost of it, though. I am just wondering why you do not just fix whatever the difficulty is in the regional office. I am wondering why you are putting another layer in Melbourne—and perhaps quite an expensive layer; I am waiting to hear about that—instead of just saying, ‘If there is a problem in the south west of Australia, we will fix it,’ so that that guy does not have to send emails and wait while somebody else in Melbourne, another anonymous person, deals with it. But just tell me what the cost is going to be, first.

Mr Lindberg—The cost has not been finalised, because it is still subject to negotiation depending on the sort of applicant that we get, but it will be in the range of \$100,000 to \$150,000 per annum. I think you need to see that in the context—

Senator FERRIS—I might apply.

CHAIR—So that is the salary. What about the on-costs such as the office, air travel et cetera?

Senator FERRIS—Hang on! These are my questions. This is a quarter of a million dollar job and it is another cost to growers.

Mr Lindberg—No, it would be a cost to AWB Ltd shareholders.

Senator FERRIS—Who are they?

Mr Lindberg—Well, 85 per cent of them are growers. But it is a cost to the shareholders; it is not a cost to the national pool.

Mr Stewart—But what is the relevance to the pool?

Senator FERRIS—I do not care. Wheat growers will pay the cost of it. I get really angry about these new levels of bureaucracy which keep coming into statutory authorities and commodity companies, which I

suppose is what you would now call the Wheat Board. They creep in and are seen as an assistance to growers, but in fact there will be very little change out of a quarter of a million dollars to operate this system by the time you have added up the costs of travel, on-costs, secretaries and all the rest of it. I know how they grow. It may be that that will help the guy down in the south-west but it might have been that a kick in the pants for the people who did not operate the system down there could have resulted in the same efficiency with a hell of a lot less overall cost. It is another perception that is very important for the Wheat Board.

Mr Lindberg—There are 40,000 wheat growers in the wheat belt of Australia, stretching from north of Emerald in Queensland right round to north of Geraldton in Western Australia. The revenues in 2001-02 were over \$7.2 billion if you put the combined revenues of the national pool and AWB Ltd together. We have 28 regional offices out there and we have a range of other arrangements. There is a big effort on the part of the company to improve the communications, support and the resolution of issues raised at the grassroots level in the wheat belt. Quite frankly, I make no apology about that. This is a review officer, a complaints officer or an ombudsman—call the role what you will. I think this will be an important initiative. I have to say that it has been well received as I have moved around the country over the last month and conducted some 25 meetings with farmer groups right throughout the wheat belt. It has been very well received as a positive initiative to improve the communications and services that the company provides, and also accountability.

Senator FERRIS—Do they know that this is going to cost a quarter of a million dollars?

Mr Stewart—We do not know that this is going to cost a quarter million dollars until we actually get the position in place.

Senator FERRIS—If this is a position with a \$150,000 salary then you can bet your life that that person is not going to be sticking on their own stamps or answering their own phone. You can easily say that the on-costs of that will be at least another \$50,000 to \$70,000. Be reasonable, you know that is the case.

Mr Lindberg—With respect, I believe this is a matter for the shareholders of AWB Ltd, not a Senate committee inquiring into the funding of the Wheat Export Authority. I will remain fully accountable to those shareholders.

Senator FERRIS—I agree with you, Mr Lindberg, but I am simply raising a number of issues related to perception that I think are quite damaging to the Wheat Board. A number of them have been raised this morning and last week, and I think you should have the chance to answer them.

Mr Stewart—You are the first person that we have spoken to in the 25 meetings around Australia who has actually had a negative perception of that particular position.

Senator FERRIS—That may be because I am the first one to ask the cost of it. Earlier today it was brought to our attention that you have 77 services provided by AWB Ltd to AWBI. Can you tell us what those services are?

Mr Lindberg—They cover a great range of services: international sales and marketing, position management, global supply and demand analysis, foreign exchange management, commodity exchange management, logistics management, crop forecasting, and so on and so forth.

Senator FERRIS—Is it possible to supply us with a list of them?

Mr Lindberg—Certainly.

Senator FERRIS—Would that be an extensive list? Is there any reason why there would be any confidentiality issues related to any of those?

Mr Lindberg—No.

CHAIR—Can you disaggregate the costs while you are at it?

Mr Stewart—Not across those ones.

Mr Lindberg—No.

CHAIR—I mean in confidence.

Senator FERRIS—I am not sure that you can do that.

Mr Lindberg—To the degree to which that is possible, we will be pleased to do it.

CHAIR—Do you know the answer about the disaggregated costs?

Mr Lindberg—Not by individual items.

Senator FERRIS—The reason I ask the question is that I am interested to know whether you have called tenders for the outsourcing of any of those services or whether they are all done in house or whether you have a formula by which you determine how they are carried out.

Mr Lindberg—They are done in house. Again, the starting point for this structure needs to be remembered—AWB Ltd in many ways is a captive of the national pools. The constitution of AWB Ltd says that we must provide a whole range of things to support the national pools. We have to do that on a competitive basis. The decision has been that it is not a system that is amenable to slicing and dicing like a salami and having any individual service put it out to the marketplace. It does not work like that. The process that has been followed is individual cost benchmarking against comparatives of those services—a bottom-up approach—and a top-down approach of looking at what range of fees would be appropriate for this sort of aggregation of services. Of course, many of these things are fixed cost. Whether we have a 10-million tonne export crop, as we have in a drought, or a 20-million tonne export crop, the cost of having an international sales and marketing office, for example, is not going to vary. You are not going to lose those good people. You are going to have to carry those fixed costs through the ups and downs of the various seasons. But we can certainly provide those lists of services and some disaggregation of costs.

Mr Stewart—A lot of the submissions are based on the assumption that the actual pool year and the costs that are attributed to that pool year are basically contained within a financial year analysis. The reality is far from that. In fact, at any one time, AWB, on behalf of pool participants, is managing three pools, not one. At this particular stage, we are actually managing the wind-up of the 2001-02 pool, we are managing the current pool—the 2002-03 pool—and we started some time ago to risk manage the 2003-04 pool, which is not even in the ground yet. To say that in a particular year when there is a drought you can simply wind down all the cost does not take account of the flow of information, the flow of work, across the three pools at any particular time.

Senator FERRIS—I did not ask that question.

Mr Stewart—No, but I just wanted to clarify it because there was a suggestion this morning in evidence that that was the case.

Senator FERRIS—The final point that I wanted to raise in relation to perceptions is to do with the Accenture set of questions, which they believed grain growers should have been able to get answered by the Wheat Board as a result of inquiries by the WEA. There are 12 questions in the Accenture report. I am sure you are very well aware of them. Could you look at them and perhaps make comment on the issues raised there? Again, I accept that some of them are wide of this particular inquiry in relation to the legislation, but again it is a perception which is not assisting the board in its overall corporate image.

Mr Lindberg—We are happy to provide written answers to the committee.

Senator FERRIS—Thank you.

Senator COLBECK—You said in your press release of 4 March that you are committed to working with the Grains Council of Australia to see that a lot of the perceptions that exist out there are resolved. One of the things that has been levelled against you relates to the level or breadth of consultation and discussion within the industry. Would that be affected by the fact that you would see some of the people who would be expecting to be consulted as competitors, particularly with respect to your trading arm?

Mr Stewart—No. I will just address the issue of the press release, because it is important to understand the context in which the press release was issued. As I said earlier, we are quite prepared to look at structural reform to our boards and the way that the two companies interact and operate, providing it adds value for the shareholders. The perception issue of the common directors sitting on boards for AWB Ltd and AWB International is a perception that we recognise, albeit we believe the perception has no basis. In the absence of other groups that can actually give an independent grower opinion on it, we wanted to be able to ensure that, when we do go to make any potential changes, we have the vast support of the growers across Australia.

The Grains Council, under the old statutory authority, was the body that was delegated in the legislation as the consultative body and there were funding mechanisms across under the old structure. Those funding mechanisms are not there anymore. But we still believe that the interests of the industry lie in the policies of the industries coming through an effective national body that we can consult with.

The reality for us is that, if we have to consult with every potential body—and, as you indicated, a number of bodies purport to represent grain growers, such as one in particular that gave evidence here this morning—then we would have no confidence in the dissemination of information and the confidentiality of that information in a competitive environment, so you are correct in that sense. But that does not apply to the trading division—in fact, it applies more to the pools because, as we have indicated, our obligation priority is the pools.

Senator COLBECK—I know that we have been through this before, but I just wanted to get it clear in my mind. You said earlier that you do not restrict information that the WEA requires to undertake its duties. By that, I take it—and I think it has been confirmed—that you essentially decide what information is required by

WEA based on the legal advice that you have received and you then decide what information they get, based on that advice. Is that fair?

Mr Stewart—The reality is that the Wheat Export Authority will make a request to us for information pertaining to whatever it is they are looking at at the time. We will provide to them whatever information is available in as timely a manner as we possibly can to enable them to fulfil their obligations and investigations. It is as simple as that.

Senator COLBECK—There is still that covenant on what issues you understand they are entitled to, from the advice that you have taken—and, obviously, they have taken advice on it too.

Mr Stewart—But the terms of the advice about information really relate to what is in relation to the operation of the national pool and what is the commercial business of AWB Ltd. That is the only proviso. There is a separation of the information that is AWB Ltd commercial information from what relates to the operation of the national pools. It is quite clear.

Senator COLBECK—Just going back to the ACCC investigations, can you give us an indication of what particular issues they have looked at?

Mr Lindberg—There were three separate issues or complaints that were raised. The first was that the freight rates were being manipulated by AWB to advantage AWB storage sites over competitor sites. That was extensively investigated by the ACCC and there was no case to answer. The ACCC was satisfied that the basis upon which the rates were set by the AWB International team was quite independent of who the owners and operators of the various port, rail or storage and handling assets were. The second inquiry was in relation to the ticket-by-ticket pools policy—the requirement for a ticket for every individual delivery of grain into the national pool. The third inquiry was in relation to the pool's deferred delivery policy of only allowing up to, I think, a 20,000-tonne contract to be delivered on a deferred basis into the pool. All three of those inquiries were quite extensive.

In addition to that, obviously, there was the potential purchase by AWB Milling Australia, and ACCC conducted a very extensive investigation and inquiry on that. The inquiry ultimately was not completed because the sale was transacted prior to that process being completed. Again, there was very significant interaction with the ACCC. On other commercial matters that AWB Ltd are contemplating or undertaking, we hold discussions with the ACCC on the potential trade practices issues, as other companies do.

Senator COLBECK—There has been some discussion during the day of the value of A class shares in comparison to the proportion.

Mr Stewart—Do you mean B class shares?

Senator COLBECK—It is a comparison of the proportion of ownership and the value of B class shares.

Mr Stewart—The value of the shares compared to the percentage ownership of growers?

Senator COLBECK—Yes, the value of shares versus percentage ownership of the company.

Mr Lindberg—Basically, about 85 per cent of the B class shares—if not more now, since the sale of the GrainCorp holding—are in the hands of A class shareholders or growers. So the vast majority of the script of AWB Ltd is still owned by wheat farmers. As to the value of the shares, they are traded on the Australian Stock Exchange and represent fair market value as determined by the market.

Senator COLBECK—Going back to the discussion we had before about your firewalls and your audit process, is that process reported?

Mr Lindberg—It is certainly reported to the Wheat Export Authority, it is certainly noted in the annual report of AWB Ltd, and I am sure it is mentioned in the grower report that AWB International distributes—although I cannot be sure of that.

Mr Stewart—I think it is.

Ms Scales—Yes, I think it is.

Mr Lindberg—But I am sure that, in general terms, the arrangements would be clearly outlined. There are also some information brochures and pamphlets that we have produced where we have tried to set out the structure and clearly explain, particularly for the wheat growers' benefit, just how the company operates.

Senator COLBECK—Thank you.

CHAIR—The other day—over the other side—we asked AFFA how they were going to apply this levy so that it only picked up the exporters of wheat. They did not, I have to say, give us a very clear answer. I got the distinct impression they did not know. Do you know?

Mr Lindberg—I do not know, but I would not be surprised if AWB did not have a role in collecting it.

Senator O'BRIEN—AWB International—

Mr Lindberg—Yes.

Senator O'BRIEN—which is the best place to be in the community to collect the levy—

Mr Lindberg—Yes, I think that is right.

Senator O'BRIEN—in the most cost-effective manner—unless it is to be levied across the whole of the crop, which is a proposal in one of the submissions before us today.

Mr Lindberg—I imagine that that component relating to the export effort would be coming from AWB International and then they would be collecting the permit application fee in their own right.

CHAIR—So will they just stack average the thing?

Mr Lindberg—I imagine there is a process of consultation that will be followed with the Grains Council to frame the overall budget for the period ahead. Once that has been framed and we know the export tonnage, a calculation will be done to convert that into a cent or dollar amount per tonne, and that will be appropriated.

CHAIR—So it will be an equal tonnage per grower?

Mr Lindberg—Yes.

CHAIR—I am still curious about the peepholes in these Chinese Walls. Is there any chance that you would have the courage to give us the structure of the incentive payments to your staff?

Mr Lindberg—We would not demur about that at all.

CHAIR—Thanks very much. We have all done well. Thank you very much for your attendance, and pray for rain.

[2.04 p.m.]

BURRIDGE, Mr Julian Langford (Private capacity)

CRANE, Mr Arthur Winston (Private capacity)

TALBOT, Mr Malcolm Lloyd (Private capacity)

CHAIR—The arrangement is that Mr Burridge is first. You have three minutes with no questions.

Mr Burridge—My major employment is to advise growers on price risk management. I started this some six years ago in WA and I deal with exporters of wheat. When I started my job, there were half a dozen people in WA who knew anything about pricing barley, canola and lupins. If a small minibus had gone off the wrong end of the curve, there would have been no-one in WA who knew how to price those grains. In a similar manner in Australia, we have a multibillion dollar industry in which the knowledge of pricing wheat is retained by a few people in Melbourne. To show you that this is the case, recently we had the tranche of the AWB Basis Pool—a method whereby people can use the AWB's marketing as opposed to pricing mechanism—and every single person that I know in the industry, including AWB staff, who are inducing growers to enter this contract, mispriced the premium that the AWB was getting over Chicago wheat. Instead of a premium of 30c to 50c, they got 19c. Part of this was for various reasons, but everyone got it wrong. With regard to asking growers to fund an organisation—the WEA—which knows little about marketing wheat and seems to want to know less, and in order to maintain a situation where there is a total monopoly of the knowledge of grain marketing, in what other industry in the world would a producer be involved in producing wheat, or any product, and not know in any way, shape or form how it is priced?

As an adviser to growers, six years ago I was against the AWB in terms of public policy, but I was quite happy with the people. My clients were almost, to a man, single deskers. At this present time, those clients are paranoid about the single desk and there is no method of reconciling the statements that AWB Ltd or AWB International make. There is no independent jurisdiction.

What I think is important in public policy is that it is innate in humans that they truck or treaty, or they want to barter or trade. The present Nobel prize winner in economics seems to have proved that. I do not believe that the state has a great deal of place in the production, or the restriction of production, of a legal product. The most important single customer of the AWB and especially of AWB wheat—I speak of Indonesia—has decided that it so enjoys its relationship with the AWB that it has taken five per cent out of Futuris and wishes to enter into a supply chain agreement with them for the bulk export of wheat, out of WA presumably. If this is what their customers think about them, one wonders what we should think about them.

To summarise, we need public knowledge publicly displayed. The WEA has been captured by the bureaucracy which it is meant to police. It has produced absolutely no knowledge whatsoever. I find that the present system, where growers have to fund this body which has added nothing to the knowledge of the pricing of wheat in Australia whatsoever, is against public policy.

Mr Talbot—Good afternoon. I feel a little daunted sitting in front of—

CHAIR—Do not feel daunted. Just get on with it or you will run out of time.

Mr Talbot—Okay. I am a farmer from the Upper Great Southern of Western Australia. I produce around 2,000 tonnes of grain and am within 10 kilometres of two CBH sites to which I can deliver grain. I deliver no grain to those sites. I store 2,000 tonnes on-farm. Putting in that storage has cost me around \$83 per tonne stored, sealed and gassable. My terms of trade over the last 20 years, up until 1993 when my figures conclude, have deteriorated at a rate of 16 to one, and the productivity and methodology of my practices have had to improve for me to simply stay in business.

I expect my post farm gate efficiencies to try to achieve something similar. I do not see that happening with the structure we have been given to operate in. I blame not one person involved with the Wheat Board or any of these other lobby groups; it is the structure itself that needs to change, in my opinion. There is a conflict of interest between the AWB Ltd and AWBI boards, there is a conflict of interest with WEA—there is absolutely no doubt about that, be it perceived or real—and there is a problem amongst the growers here in this country, be it perceived or real. Whether you are a Moslem, a Christian, a Hindu or whatever, our common law in this country is based on the Christian tradition. I draw your attention to St Matthew's gospel, chapter 6, verse 24, where it says, 'No man can serve two masters.'

Senator Ferris, you addressed the chairman of CBH this morning and asked, 'Have you ever challenged the WEA to provide information?' I think that is a very educative question. Have growers ever challenged any of the board members of AWB Ltd or AWBI to show cause as to why they should hold their positions? For there is, in my opinion, a conflict of interest, and I think that is the reality of their operations today. I have a quick comment on B-class shares. Drought, our deteriorating terms of trade and just good business practice with most farmers' overexposure to one industry will determine if they will sell off their B-class shares. My

experience out there in the wider community amongst my peers is that these shareholders, if they have not already sold their shares, are contemplating doing so now. So growers are divesting themselves of control of that organisation.

The single desk, in my opinion, has no future. But government must take on the role of establishing a framework of protection, like the USDA does—and I think it is a wonderful example—for the operation of WEA to be community funded in the community interest. Major changes within banking practices to supply funding are needed in this country. As far as the whole process of this committee's inquiry, time seems to have been compressed to nothing. I learnt of this inquiry yesterday morning, and I consider myself to be one of those growers who tries to stay abreast of the rapid change that is overtaking us. In closing, I would like to draw the committee's attention to the rail study by the Institution of Engineers in Melbourne, which was done over the last three or four years. Their cost benefit study states that road now competes with rail for up to 800 kilometres in travel distance. I have proven that with the storage of my grain on-farm and getting it to port at a very competitive price compared to rail.

CHAIR—Thank you very much.

Mr Crane—I am appearing as a grower in my own right. I take no official part in any industry organisation now, although I have been a member of the Farmers Federation since 1967. However, I have rejoined the Western Australian Farmers Federation Industrial Association. What I will say here today is the result of my own thoughts, what has been said here today and also the feedback, which is significant, that I get from a lot of growers. The concern out there is that Western Australia is fundamentally an exporting state. Effectively, very few of us in this state have access to any domestic market. We just live too far from the marketplace, and the costs are too high.

This bill, the Wheat Marketing Amendment Bill 2002, is essentially about funding the Wheat Export Authority. We provide about 50 per cent of the export wheat on an annual basis from this state; therefore, it is only correct to look at how the Wheat Export Authority spends that money and whether there is a better way, it can be argued, for it to operate. It is said that the WEA has too much authority, needs modifying and has created much angst.

I ask you to look at the table on page 7 of the submission by the Wheat Export Authority. It shows that in 1999-2000 tonnage approval was 1.2 million tonnes. Only 219,000 tonnes were exported. Why? In 2000-01, 1.3 million tonnes were approved but only 589,000 tonnes were exported. What is the game that is being played?

CHAIR—I will give you the answer.

Mr Crane—It is all there for you to see. I find that rather strange. The in principle and constitutional arrangements should be left as set down in the program, or that program should be revised. However, the operational side is a living thing and needs to be under constant review. This particularly applies to the Wheat Export Authority. In essence, it developed its own modus operandi, its own way of doing things. I know that, because I was in your position at the time it happened. Cross-subsidisation between the various arms of the AWB is not allowed by the act and the constitution, I believe. I ask you to please investigate the claims that have been made, here today and previously, to establish whether or not that is in fact going on. In my view, that would be in total breach of the act.

The Wheat Export Authority needs to automatically approve the export of bag and container applications, as outlined by Robert Sewell. I do not think they need to go through an approval process any longer. The Australian Wheat Board is big enough to handle it, and that regulation should be removed from the industry. Its main task should become the monitoring of the customers to ascertain that the correct quality standards are being maintained. Self-regulation should become the basis of operation. Severe penalties, including the right to export, should be required for breaches. I question the legal opinion that has been talked about here. I do not believe the act would prevent this type of operation from occurring.

I wish to make a comment on the single desk, which differs from those made by some of my colleagues. I think it is absolutely crucial to maintaining discipline and quality requirements of the Australian bulk export industry and will be for the foreseeable future because our main competitors are not other countries but the treasurers of the US and the EU. They will still use that mercilessly against us, and think what would happen to us if we did not have a disciplined approach to the marketplace. Further, if we lost the single desk then our own AWB's whole act would have to change significantly, and we would find that it would have to go and operate in the US and in the EU to buy grain at a price that would allow it to compete on international markets. I disagree with anybody who tries to convince me that that would be in the interests of Australian wheat growers.

Finally, the discussions that have been going on in Western Australia between the AWB, CBH, the Grain Pool and the developers are in the best long-term interests of Western Australian grain growers. The sooner

we forget about re-running the arguments which we all heard over four years ago—sitting here listening to day has not been very different from listening four years ago—and get on with the job of making the changes we want to the Australian Wheat Board, the sooner we as a state can make sure we have the biggest say in what happens in the export industry and the better off we will be. At the end of the day, we have the most to lose of any state, by far, as far as the export of Australian wheat is concerned.

CHAIR—On the question of the applications versus the outcomes, I think a lot of that has to do with multiple applications for the one market. Ladies and gentlemen, thank you very much for your attendance, patience and input. I declare the meeting closed.

Committee adjourned at 2.19 p.m.